

Pension Reform in Korea: The Role of Policy Actors in the Dynamics of Policymaking

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Abstract

This study aims to understand the factors and dynamics that influenced a major social policy change. This is undertaken by unravelling the policymaking processes involved in the largest public pension scheme in Korea, the National Pension System (NPS). Changes to the NPS followed a very different direction to other expansionary welfare developments either in Korea or in similar East Asian welfare systems. This research set out to explain how and why this happened. This is examined via a case study approach with a particular focus on the role of policy actors. This provides an analysis of this single policy change across three time periods, which are characterised by different political and economic regimes: authoritarian rule; democratisation in the midst of a financial crisis; and finally a democracy in recovery from the financial crisis. Data was gained from 44 interviews with the actual policymakers and major policy actors involved, and was complemented by extensive archival data.

The findings suggest that, first, although authoritarian governments in Korea may pursue social policy to harness economic development in order to legitimise their non-democratic rule, subtle yet crucial policy competition can still exist among key policy actors. Second, democratisation does not necessarily lead to a dominant view favouring welfare system expansion. Third, new major policy actors – strengthened by a democratic, centre-left government – may not always favour an expansive welfare system. The analysis suggests that, despite the emergence of an increased range and number of policy actors as the democracy matured, there was a marked continuity in policy development in the case of the NPS. Key policy actors pursued a reform in line with liberal economic policy that had been the dominant tendency during the authoritarian era. This suggests that the major mechanism contributing to this continuity was the role of a persistent and powerful epistemic policy community, members of which continued to influence policymaking throughout its development. The conclusion points to how incremental changes in the pension system led to the path dependency of the original policy ideas. We suggest that future research could apply a similar analytical approach to understanding change processes in various policy domains and to other East Asian welfare systems.

Abbreviations

BOP	Basic Old-Age Pension
BP	Basic Pension
CCEJ	Citizens' Coalition for Economic Justice
DLP	Democratic Labor Party
EAWR	East Asian Welfare Regimes
EPB	Economic Planning Board
FKI	Federation of Korean Industries
FKTU	Federation of Korean Trade Unions
GNP	Grand National Party
HWSC	Health and Welfare Standing Committee
KCTU	Korean Confederation of Trade Unions
KDI	Korea Development Institute
KEF	Korea Employers Federation
KIHASA	Korean Institute for Health and Social Affairs
KLI	Korea Labour Institute
KorCham	Korea Chamber of Commerce and Industry
LRA	Lump-sum Retirement Allowance
MDP	Millennium Democratic Party
MOF	Ministry of Finance and Economy
MOHSA	Ministry of Health and Social Affairs
MOHW	Ministry of Health and Welfare
NHI	National Health Insurance
NKP	New Korea Party
NMDP	New Millennium Democratic Party
NMP	New Millennium Party
NPDC	National Pension Development Committee
NPF	National Pension Fund
NPRB	National Pension Reform Board
NPRI	National Pension Research Institute
NPS	National Pension System
NRP	New Reform Plan
NWP	National Welfare Pension
PSPD	People's Solidarity for Participatory Democracy
SRR	Standard Replacement Rates
SSC	Social Security Council
UP	Uri Party

*Exchange rate between the Republic of Korea Won (KRW) and the Great British Pounds (GBP): 1 KRW = 0.00058 GBP (a conversion rate as of the 23rd June 2014)

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Chapter 1 Introduction

1.1 Introduction

The growth in knowledge about social policy development has been uneven across the regions of the world, with sharp differences between advanced and developing countries. Not only is basic information about social policy in developing countries insufficient, but systematic cross-national and temporal data on the implementation and design of social policies is also incomplete (Mares and Carnes 2009). East Asia provides one example of such a region. Hence, we build on the existing literature on the East Asian welfare regimes (EAWR) by studying the reforms of the National Pension System (NPS) in Korea. In this research we examine the largest compulsory public pension scheme, from its introduction in 1986 to the latest reform of 2007, to provide a case study of the development of Korean social policy in this field. In the following sections in this chapter, we first present the rationale for this study, explaining the gap in the literature on the EAWR. In Section 1.2, we set the NPS within the broader context of the Korean welfare system and, more specifically, the old-age security system. In Section 1.3 we discuss the research methods and approach we have employed. Finally, the chapter concludes with an overview of the thesis in Section 1.4.

1.1.1 Rationale of the study and research questions

An important motivation for this study was that our understanding of the East Asian welfare regimes (EAWR) is limited when compared to those of the West, particularly in the explanation of the developmental process of a social policy. Despite a recent increase in research on the EAWR, especially since the 1990s, research findings are

inconclusive regarding the latest developments. We thus make a case study of the NPS with the aim of improving our knowledge about social policy developments in Korea (and in East Asia more broadly). This is undertaken by investigating the factors that contribute to social policy development and how they lead it in specific directions.

Social policy developments in East Asian countries have attracted scholarly attention due to their distinct origins and the later development of welfare systems when compared to their counterparts in the West. In East Asian countries, non-democratic regimes created both rapid economic growth and substantial social policy expansion with low social expenditure. They thus provide a case in which a welfare system develops without either a democratic regime or a left-wing, or a strong union-based, political party (Mares and Carnes 2009). In this region, social policy was introduced as an effective tool for economic growth and political legitimization. Welfare systems guided by such purposes are called ‘productivist’ or ‘developmental’ welfare regimes, suggesting the subordination of social policy to economic policy and economic development, an issue we discuss in more depth in Chapter 2 (Holliday 2000; H.-J. Kwon 1999b; Midgley 1986b).

The timing of social policy development in the East also differed from that of the West. In the late 1990s, when the Asian Financial Crisis hit the region, East Asian welfare systems exhibited strong resilience against the impact of the crisis, and even expanded welfare provisions and coverage to deal with its socio-economic aftermath. Their experience thus provides a counter-argument to the position that there is a negative relationship between globalisation and welfare state growth (H.-J. Kwon 2009; S. Kwon and Holliday 2006; Hye-Kyung Lee 1999b).

Furthermore, democratisation in the late 1980s fostered the arrival of diverse policy actors into the formal policymaking arena. The most notable policy actors to emerge were civil society organisations known to have led the consolidation of welfare systems in East Asia, particularly in Taiwan and Korea (Y. M. Kim 2008; H.-J. Kwon 2003; Peng and Wong 2008). With these substantial changes in social policy, scholars began to question how the productivist/developmental welfare regime in East Asia developed and whether they were now following a different path from the past (e.g. Y. J. Choi 2012; H.-J. Kwon 2009; Peng and Wong 2008). If so, to what extent have these regimes transformed, what is the trajectory of such change, and most importantly, how can this change be explained? These are the central questions to which this study aims to contribute.

One of the limitations of previous literature in this arena is that theories explaining social policy development in East Asia tend to be segmented by political and economic eras. For example, the early stages of the foundation of welfare systems in the 1970s and 1980s are explained by productivism or developmentalism with a focus on the political and economic purposes of the growth-oriented state (e.g. Holliday 2000; Johnson 1982; H.-J. Kwon 1999b; Midgley 1986b). The central interest of studies examining the EAWR, after the democratisation of the late 1980s, was the impact of democratisation on the welfare system; and since the late 1990s, this has extended into considering the impact of globalisation and economic growth (e.g. Gough 2001; H.-J. Kwon 2003; 2005a; Hye-Kyung Lee 1999b; Peng and Wong 2008). Finally, since the 2000s, research has increasingly inquired into the emerging welfare politics of these latecomer welfare systems, the diversity of welfare regimes in East Asia, and the degree of persistency in the productivist regime (e.g. Y. J. Choi 2008; 2012; Hort and Kuhnle 2000; W. S. Kim and Choi 2014; H.-J. Kwon 2009; J.-J.

Yang 2004). Different approaches have thus been adopted to explain the social policy development of distinct political and economic eras. This may be an inevitable choice because distinct political and economic circumstances constitute an important context for policy debates and decision-making. Even so, the lack of an integrated approach and an explanative narrative has impeded an adequate account of the developmental process of a social policy.

Theories on the development of the EAWR are also underdeveloped. It is widely recognised that the political and economic interests of non-democratic regimes led to the initial establishment of a welfare system during the authoritarian era, especially in Taiwan and Korea. Yet Kim (2008) questions the extent to which this argument applies exclusively to the case of East Asia, given that many advanced economies also emphasise the economic benefits of social policy. Many studies point to the democratisation process during the 1990s as a driving force for the expansion of welfare systems (as it changed the relationship between the state and civil society), but we should note that democratisation processes do not necessarily lead to welfare system expansion, nor do they entail improvements in income distribution (e.g. Croissant 2004; Shinyoung Kim 2006; Y. M. Kim 2008; Mares and Carnes 2009; Peng and Wong 2008; J.-J. Yang 2004). For example, strengthening the earnings-related element of a public pension system by increasing contribution rates would not lead to an expansion of welfare for low-income workers. This is because the decrease in disposable income may aggravate the risk of poverty for these groups. When analysing changes in the welfare system, therefore, we need to be cautious even when such changes appear at first glance to represent an expansion.

Theories concerned with the development of welfare systems as a whole, and with specific regard to the Korean welfare system, do not appear to apply to the latest development of the NPS. Since its introduction in 1986, the NPS has been reformed twice: first in 1998, and then in 2007. The first reform has been depicted as an exemplary case of the combined impact of multiple factors: a democratic regime of a centre-left government empowered welfare bureaucrats and civil society organisations in social policy, which led to the preservation of the existing pension system against neo-liberal structural reforms (that contained long-term privatisation plans) to the NPS (Y. M. Kim 2008; Y. M. Kim and Kim 2005; Peng and Wong 2008; J.-J. Yang 2004). Thus, the Korean welfare system was described as being consolidated and deepened, and, in this sense, Hort and Kuhnle (2000, 179) regarded Korea as ‘a front runner’ in welfare policy among East Asian countries that had made a big step forward since democratisation.

If we look at the subsequent reform of 2007, however, we see a completely different outcome. The centre-left government conducted a structural reform of the NPS by reducing the pensions for the current working generation by almost a third, and reducing the replacement ratio of an average income earner with 40 years’ contributions from 60% to 40%. Although it involved an introduction of a flat-rate basic pension scheme for the current elderly, the reform of the NPS itself represented a substantial change that none of the previous studies had predicted. Given that the 2007 reform took place in the wake of the economic recovery under conditions of deepening democracy, how can we reconcile such a reform with the existing theory? Why were the factors underlying the successful welfare state expansion of the preceding era, as well as in other domains of social policy (namely, the stronger influence of welfare bureaucrats and civil society organisations), not effective this

time? Given the fact that many studies saw the Korean welfare system as deeply ingrained in the society, how can such theories of the welfare system apply to the case of the NPS? Given the recognition that social policies within a welfare system are not always coherent, did the NPS follow a unique path of development because of its characteristic as a funded system or because of the distinct political process behind its reform (Kasza 2002; Mares and Carnes 2009; Streeck and Thelen 2005b, 19-20)? These are the puzzles that the current research aims to address.

The difficulty of applying the literature on the EAWR to the specific case of the NPS may be due to the uneven selection of policy domains and the limited time span of previous research. First, the literature concluding that there has been an expansionary development in Korean social policy tends to emphasise the development of health policies, and does not include the 2007 NPS reform (e.g. Shinyoung Kim 2006; Y. M. Kim 2008; Y. M. Kim and Kim 2005; H.-J. Kwon 2003; Peng and Wong 2008; J.-J. Yang 2004). When Choi (2008) compared the pension politics in Taiwan and Korea with the 2007 reform of the NPS, he suggested the possible influence of business interests on the Korean pension reform, since they benefited most. In short, the NPS, originally seen in the past as a constituent of an expansionary welfare system, is sometimes now described as an outcome of pressure from business. In a similar vein, Jung and Walker (2009) asserted that the 2007 reform of the NPS was the result of the strong neo-liberal influence of international organisations and domestic policy elites imbued with neo-liberal ideas. In fact, pension programmes have been the most vulnerable to retrenchment in many developing countries (Mares and Carnes 2009, 106); yet few studies have attempted to explain the circumstances in which public pensions are particularly susceptible to reform efforts and the implications of this for the development of the entire welfare system. We thus need more up-to-date research

that covers the recent expansive policy changes in East Asia. As Mares and Carnes (2009, 95) point out, our efforts to understand social policy developments in developing countries will eventually help us generate stronger social policy theories based on a broader scope of samples.

There is a growing corpus of research recognising that welfare systems in East Asia are neither homogenous nor fixed, but our understanding of the diversity of East Asian welfare systems remains scant. This has applied particularly to the factors that contribute to that variation and the process by which the diversity is generated. Kwon (2009) divides the types of transformation in East Asian welfare systems into two groups: those that developed a universal or inclusive welfare system (Korea and Taiwan), and those that maintained their selective characteristics (Hong Kong and Singapore). He asserts that the factors separating these two groups are the extent to which these countries were affected by the economic crisis of the late 1990s. However, Gough (2001) contends that, despite the similar, unexpected and crucial economic impact of the crisis, the social policy reactions were different in the five East Asian countries of Korea, Malaysia, Thailand, the Philippines and Indonesia, partly because of the differences in existing welfare regimes.

Research results are also divided about the persistence of the existing welfare regime. While Kwon (2009) contends that developmentalism still endures in Korea and Taiwan, Choi (2012) pinpoints the divergent routes taken by productivist welfare systems in three East Asian countries, China, Japan and Korea. This study underlines the fact that these countries are in a transitional period in which they are adapting and developing their own paths. Among the three countries, Korea was found to possess strong characteristics resembling liberal welfare regimes, mainly through its modern

welfare politics. This is seen as a notable change because whereas developmentalism emphasises the intervention of a growth-oriented state in social policy, a liberal welfare regime embodies individualism and the primacy of the market rather than the state. In liberal welfare regimes, the state encourages the operation of the market by subsidising private welfare provisions (Esping-Andersen 1990; Arts and Gelissen 2002).

Further differences appear when it comes to single policy domains. Choi (2008) has shown that the politics of public pensions in the two most similar countries in East Asia, Taiwan and Korea, have differed depending on the structure and influence of business. Estevez-Abe and Kim (2014) point to a different ‘political opportunity structure’ (defined as ‘an institutional environment that facilitates or constrains political leaders in responding to new social needs’) as a principal reason for different policy decisions in childcare and elderly care policy in Japan and Korea. They distinguish an ‘open’ institutional structure, in which political leaders are more capable of responding to new social needs, from a ‘closed’ one, and they underline the point that care policy has been able to expand rapidly in Korea but not in Japan. The Korean political opportunity structure is seen as ‘open’, meaning that the top political leader (in this case the president) has the power to appoint ministers and senior bureaucrats, set the policy agenda and control party members, whereas it is ‘closed’ in Japan. Although this provides an insightful explanation, it is unclear whether the ‘open’ structure has had a stronger effect on the direction of care policy, or on the relative rapidity or radicalness of the change (or both). Also, it is questionable whether the effect of the political opportunity structure would apply to other policy domains.

In short, whereas increasing evidence suggests the importance of domestic politics in recent policy changes and in the development of a unique path of welfare regimes in each East Asian welfare system, why a country develops a certain trajectory (and how the domestic politics play out in leading to that trajectory) is still open to question. In addition, increasing emphasis on the role of politics in recent welfare state change leads us to a question on the role of policy actors in macro-social policy change. Policy actors constitute an important factor in driving policy change, as they are the agents who pursue certain ideas and alternatives and implement political strategies to ensure success in achieving their ideas. Thus, this study aims to narrow the gap in our knowledge of social policymaking and policy development over time in Korea, with a particular focus on the role of policy actors and their ideas in the process of policy change.

This study covers the period from the initial attempt to introduce the National Welfare Pension in 1973 to the latest reform of the NPS in 2007. The varying political and economic circumstances Korea experienced during this period provide us with an opportunity to investigate the dynamics of policymaking under four different political and economic conditions. These are characterised as the authoritarian era, the democratic transition, the economic crisis and political stabilisation. Korea had an authoritarian regime until 1987, and went through a democratic transition in the late 1980s. Under the democratic government, an economic crisis hit the country in the late 1990s, which led to a political power transition from a conservative party to a centre-left party for the first time. By the late 2000s Korea had begun to experience economic recovery and political stabilisation. These experiences are not unique to Korea, and are also common in other latecomer welfare states.

Based on the rationale of the study, we aim to address the following questions:

How did the NPS evolve and develop between its introduction in 1973 and the last reform of 2007? How can we explain the policy process and the change in the NPS through policy change? What were the characteristics of the development of the NPS for each separate era of policy change? What role did policy actors play, focusing particularly on the strategies and alternative policies of the opposition?

We aim to explore these questions through the case study of the NPS, seeking to elucidate the factors responsible for the reforms of the NPS through the lens of policy actors. In doing so, we document the ways in which they manage the constraints and exploit the opportunities inherent in the policy world, defined as the following policy spheres: economic, institutional, ideological, policy sphere, and political. By doing so, this case study aim to help us cast light on the factors of policy change and policy development in a specific political economic environment (over a short time span), as well as through a developmental process (over the long term). In the next section, we present the characteristics of the NPS, which will provide the context for the research.

1.2 The National Pension System (NPS) in the Korean welfare system

In this section, we briefly present the history of the NPS, depict its principal features, analyse its characteristics, and identify major issues. We also discuss how the NPS is located within the wider frame of old-age security systems, thus presenting the reader with the context to situate the thesis topic and case study.

The history of the Korean welfare system is short compared to its counterparts in advanced economies, but that of the NPS (a public pension for private sector workers) is even shorter, which makes the changes the NPS has experienced in the past two

decades particularly notable (Y. Choi 2006; Y. J. Choi 2008). Despite its short history, it constitutes an important part of the Korean welfare system. This system was initially developed through a gradual expansion of social insurance programmes, by introducing civil servants' pensions (1960), the industrial accident compensation insurance (1964), the national health insurance (1977), the NPS (1988), unemployment insurance (1995), and (most recently) long-term care insurance (2008). These programmes initially applied to workers in large firms, but became almost universal to all workers including the self-employed (except for the work injury compensation system). They are all mandatory for employees and the self-employed (except for the work injury compensation system) and are mainly financed by contributions from employers and workers. The gradual expansion of this welfare system took place both with regard to the extent of the population covered and also to the level and scope of the benefits. This is why the development of Korean social policy, which was once based on the productivist model, now represents an expansion of universalism within East Asian welfare regimes (H.-J. Kwon 2009).

1.2.1 The development of the pension system in Korea

The old-age pension system for workers in the private sector in Korea is comprised of the National Pension System (NPS), the Occupational Pension System (OPS) and the Private Pension System (PPS). Until the NPS was introduced, the precursor of the OPS (the Lump-sum Retirement Allowance or LRA) had been the only old-age income security system for employees, and was entirely paid by employers. The PPS was introduced in 1994 as a voluntary pension system. In 2004, the LRA was converted into the Occupational Pension System (OPS) to transform the previous lump-sum payment scheme into an annuity. Finally, a Basic Old-Age Pension (BOP)

was introduced in 2008 for the elderly who did not have any pension scheme, which was an expanded form of the former ‘Senior Allowance’ for the low-income elderly. Because of this pension system structure, Bonoli and Shinkawa (2005b, 10) consider Korea as ‘a borderline member of the social insurance family.’

Although the LRA, the precursor of the OPS, was introduced as long ago as 1953 and had a far longer history than the NPS, the NPS is the more comprehensive scheme because of its wider coverage and actual function as an old-age income source (Y. Choi 2006). This is because the NPS was designed to provide old-age pensions, whereas the LRA functioned as an unemployment allowance until unemployment insurance was introduced in 1995 (Phang et al. 2000). We will discuss the development of the NPS in each era in great detail in the four subsequent empirical chapters; here, therefore, we focus on the features and major issues of the NPS, together with a brief explanation of the other complementary pension systems, including the occupational and private pensions.

1.2.2 The features of the NPS

The changes the NPS has experienced since its introduction in 1988 are distinguishable from the development of pension policies in other East Asian countries (Bonoli and Shinkawa 2005b).

The NPS was introduced in 1986 under the authoritarian government of Chun Doo Hwan (1980–1988) as a funded scheme in pursuit of the political and economic benefits it would bring about. In 1988 it began to apply mandatorily to workers aged 18 to 60 in firms with ten employees or more. It promised to provide 70% of ‘standard replacement rates (SRR)’ for the average income earners who had contributed for 40 years based on the first 3% of the contribution rates (gradually

increased to 9% by 1998), paid half and half by employees and employers. The government subsidised the contributions of the farmers and fishermen, but the total amount of subsidy was negligible. The income base for the contribution payment remained unchanged between its introduction in 1988 to June 2010, being 3.6 million won (about £2,088 GBP), about 1.63 times the average income of salary workers in 2010. It was increased to 3.98 million won in 2012.

The NPS aims to protect the insured from income loss or reduction when they are faced by various social risks such as old age, disability and death. The NPS has been reformed twice since its introduction in 1986. It was first reformed in 1998 under the first centre-left government of Kim Dae Jung (1998–2003) (a year after the economic crisis of 1997). This involved the expansion of the system to all the self-employed in urban areas (further expanded to include those in rural areas in 1995), while reducing the SRR to 60% and increasing the pensionable age gradually from 60 to 65. The subsequent centre-left government of Roh Moo Hyun (2003–2008) conducted another reform in the NPS. This involved further reducing the SRR to 40%, while introducing a flat-rate state pension (the Basic Old-Age Pension or BOP) for about 60–70% of the current elderly with lower income, providing 5% of SRR (See Table 1-1). With these changes, the once generous earnings-related NPS became a much less generous pension system.

Table 1-1 The development of NPS

Year	1986	1998	2007
Government in office	Authoritarian Chun Doo Hwan (1980–1988)	Centre-left Kim Dae Jung (1998–2003)	Centre-left Roh Moo Hyun (2003–2008)

Year	1986	1998	2007
Coverage	Employees (aged 18 to 60) at firms with ten employees or more	Expanded to all workers aged 18 to 60 (including the self-employed in urban areas, and rural areas after 1995); temporary and daily workers; and workers at small firms with fewer than five employees	The same
Contribution rates	9% (Starting from 3% in the first five years, and 6% in the following five years)	9%	9%
SRR (Standard Replacement Rate)	70%	60%	40% from NPS (Introduction of BOP for the current elderly providing 5% of SRR)

Other important changes in the benefit and contribution dimensions as a result of the 1998 reform included the weakened income-redistributive element within the benefit formula and the abolition of the conversion of the LRA to NPS. Although the financing of the NPS was funded, the benefit level was decided based on the individual member's average lifetime earnings, total contribution periods and the average earnings of the entire NPS members. The inclusion of this last feature in the benefit formula served as a means of redistributing income among the insured. Before this reform, the average earnings of all NPS members influenced the final level of pensions more than individual earnings. With the reform, the impact of the average earnings of individual insured on one's final pension became proportional to the impact of the average earnings of all NPS members. Both the benefit level and income redistributive element were decreased, but the total social insurance burden on the employers was increased because they would have to finance the LRA due to the

cancellation of the conversion process. However, the benefits from this policy only applied to a quarter of the NPS members, because only about half of the NPS insured were employees, and again only half of them were covered by the LRA in 2005 (Soowan Kim, Park, and Han 2012). The change in the income-redistributive element as a result of the 1998 reform provoked heated debate, whereas the conversion of LRA to NPS was barely discussed. We will discuss these reforms in detail in Chapter 4. A credit system for childbirth and national service was introduced as part of the 2007 reform, which acknowledged an additional contribution period for those with more than two children or who had completed national service.

The Ministry of Health and Welfare (MOHW) planned and supervised the NPS, operating it through the National Pension Service, which consisted of around 4,500 employees and 91 local branches nationwide. Until the 1998 reform of the NPS, the NPF (National Pension Fund) was managed by the Ministry of Finance and Economy. During that time, the government used the fund as its general revenue, but free from any transparent supervision or control on its usage. This issue therefore received much political attention in the late 1990s. It emerged as a key reform question, especially at the government level, because both the economic and welfare ministries wanted to take control of the pension fund.

The National Pension Service was financed, by law, from the government budget and the NPF. However, the government budget for its management has continued to decrease. It provided less than 40% of the entire administration fee after 2004, dropping further to 5% between 2008 and 2010, while relying for the rest of the costs on the NPF. Given the government's meagre financial commitment to the NPS, the

role of the government in the NPS can be seen as that of a regulator and not a financier (H.-J. Kwon 1999b; Ringen, Kwon, Yi, Kim, and Jooha 2011a).

As the NPS was designed as a funded system, the NPF continued to grow exponentially. At the time of the 2007 reform of the NPS, the NPF was the fifth biggest public pension in the world, amounting to 24.3% of GDP (C. L. Jung and Walker 2009; H. Moon and Kim 2008b). By the time the second round of reforms was underway in 2007, the NPF had grown by 35.4% every year on average since 2000, reaching 219 trillion won (about £127 billion GBP). It is thus interesting to see pension reductions at a time when the pension fund was huge and continuing to grow. Jung and Walker (2009) argue that the reform was the result of the influence of domestic neo-liberal policy elites and the influence of international governmental organisations such as the World Bank. This institution had a great influence on pension reforms in many countries, especially in locations where they had provided loans. We will explore the conflicts over the pension fund in depth in the later chapters on the process of each pension reform. In the next section, we identify some of the major issues with the NPS, which constitute an important background to the reforms.

1.2.3 Issues with the NPS

This section pinpoints major issues of the NPS with regard to its coverage, benefit, financing and fund management system. Although the NPS became a universal pension system, this did not mean that most people would be entitled to an adequate pension at retirement because of gaps in coverage. Under the current system, the most vulnerable workers – such as the low income self-employed or employees in small companies – are still excluded from the actual coverage, partly due to the incomplete

income assessment system and partly due to their low income. The proportion of the insured reached is, in theory, above 80% of the working population, but actual coverage is far lower than that (S.-S. Kim 2013). This discrepancy arises because the system officially allows some people to be exempt from the compulsory contributions, categorising them as ‘payment-exempted’. This resulted in only about a half of the economically active population actually paying contributions in the year of the latest pension reform of 2007.¹

This low contribution rate is in fact associated with the labour market situation. The purpose of the payment exemption system is to allow its members to maintain their ‘insured’ status while they are not able to pay contributions due to unemployment, business closure and so forth (NPS 2008, 125). Indeed, most of the insured who were exempted from payment were those who were in circumstances of unemployment, business closure, education or national service in 2002 (NPDC 2003, 128). In addition, a large proportion of workers at small companies were not actually covered by the NPS: this was about 61% in companies with fewer than five employees and 38% in companies with five to nine employees. As a result, the low rate of actual compulsory application of the NPS was raised as an important policy problem during the 2007 reforms, resulting in severe criticism from the media that the NPS was a ‘pension system for the half’ (NPS 2008, 124).

In terms of financing the NPS, the unbalanced structure of the contributions and benefits has been seen as a major issue in every reform. To ensure a smooth implementation of the system, the contribution rate started at 3% in the first five years,

¹ Among the NPS members with non-employee status (self-employed in rural and urban areas, workers at small companies etc.), more than half did not pay contributions from 1999 to 2004.

increased to 6% in the second five years, and finally to 9% in the following five years. Although this structure was also intended to reduce the double payment problem of the first generation of the insured, it was mainly interpreted as a by-product of the developmental state that exploited welfare state policies for economic purposes (C. L. Jung and Walker 2009; H.-J. Kwon 1999a; S.-I. Yang 1998a, 68).

The negative long-term actuarial valuation that stemmed from this unbalanced financial structure provided the impetus to bring pension reform onto the political agenda. Nevertheless, the question as to whether – or to what extent – the NPS was under significant strain may not be definitively answered scientifically in any brief discussion. Yet, given the huge size of pension fund with only a few pensioners at the time of the reform debates (11% of the elderly people aged 65 and over in 2004),² we can assume an ideological influence on the financial issues being placed on the agenda. Moreover, considering the youth of the NPS, its function as an old-age security system was weak even by the time of the second round of reform: only 19.6% of those aged 65 and over received pensions from the NPS in 2007 (KSIS). Further, about 41.2% of households with elderly heads of household were in relative poverty (below 50% of median income), which had doubled from 24.7% in 1997. This is a striking increase given that the poverty rate among the rest of households only increased from 8.5% 1997 to 10.9% during the same period (Koh 2011, 2). Thus, we will also discuss in the later chapters how financial issues of the NPS emerged despite the youth of the system and the high risk of old-age poverty.

Finally, the usage of the National Pension Fund (NPF) received great political attention because of its huge size. In the past, most of the NPF was used in the public

² The data comes from the Korean Statistical Information Service (KSIS).

sector, mainly as a way of paying back the national debt and building infrastructure (C. L. Jung and Walker 2009). This use of the funds was raised as a problem during the 1998 reform. The NPF management system was then reformed, an issue we will explain further in Chapter 4. Since the 2000s, a large proportion of the NPF began to be invested in the private sector, especially in the domestic stock market. This again led to a risk of socialising the private companies into public ones with the fund's increasing power in the market.³ Moreover, the continuous growth of the NPF was seen as potentially causing a strong fluctuation in the domestic stock market after the fund reached its peak and when the NPS matured. This was because the NPS would then need to sell its stock and other assets rapidly to pay pensions to those insured. This could create unintended financial problems by reducing the stock values significantly and influencing the behaviour of other funds and capital (C. L. Jung 2010; H. Moon and Kim 2008a, 90).

In short, although the NPS is seen as a universal scheme, it does not cover a large proportion of vulnerable and unregistered workers, while the adequacy of its benefits was substantially damaged even before the system matured. The fact that these changes took place when the pension fund was stable is a good indication of the political and ideological motives behind the reform. In the following section, we briefly introduce all other pension systems, including the occupational pension system (OPS) which was converted from the statutory severance payment; the Lump-sum Retirement Allowance (LRA); the Private Pension System (PPS); pensions for civil

³ The increased investment of the NPF in the stock market made the NPS *the largest shareholder* in four big companies in Korea (including one of the Samsung Group companies) and it has become *the second largest shareholder* in another four large companies, including Samsung Electronics and the Hyundai Motor Company, during 2013 (Y.-W. Jeong 2013).

servants; school teachers and staff and military personnel; and finally the newly-introduced Basic Old-Age Pension (BOP) of 2008.

1.2.4 Other pension systems

On top of the NPS, workers can join occupational pensions and private pensions. Civil servants, school teachers and staff and military personnel are covered by a special public pension scheme funded by employees and the government (and by schools in the case of school teachers and staff at private schools).

First, the occupational pension system (OPS) was transformed from the previous Lump-sum Retirement Allowance (LRA) in 2005 to alter the form of benefits from the lump-sum payment to annuities to strengthen its role in old-age protection. The LRA used to provide a major income security system for employees in the past because of the lack of unemployment insurance and the immaturity of the NPS. Bonoli and Shinkawa (2005b) point out that the NPS reform of 1998 was possible because the reform did not impact on the existing LRA, and thus did not involve public resistance. This LRA was converted into the OPS in 2005, requiring employers to contribute the same amount as in the LRA: 8.3% of an employee's monthly salary for the duration of their employment. This conversion to the OPS was designed to improve the old-age security function of the LRA by providing benefits to employees as an annuity rather than as a lump-sum, and by encouraging employers to fund the scheme outside the firms (which was more secure than maintaining the existing unfunded book reserve system).

Although the OPS appears to complement the NPS, its actual coverage is more limited. Inequality among the insured is even larger in the OPS than under the NPS because many companies still opt to retain lump-sum scheme and most small-sized

companies with fewer than thirty employees find the system unaffordable. Thus, the subscription rate among the companies with more than five employees (to which the OPS is mandatorily applied) reached only about 10% in 2009, and dropped further to 2.36% among the companies with fewer than ten employees (Ministry of Labor 2009). A large proportion of employees at small companies (who comprise a substantial share of workers in Korea) are therefore excluded from the benefits.

The situation of the private pension system (PPS) is not so different from the OPS in relation to its limited coverage and high pension inequality. The PPS initially started as a way to encourage domestic savings to replace the previous tax-deducted savings products, which were abolished in 1993. It also aimed to prevent any money outflow from the institutional financial sector to the informal economy with its new policy that introduced a real-name financial system for the sake of the transparency of financial transactions (S.-K. Kim 2010; Soowan Kim, Park, and Han 2012, 28). In this sense, the PPS can also be seen as a productivist/developmentalist policy. A major problem of the PPS lay in its actual functions: it was not designed as a pension system at the outset but as a tax-deducted savings product. Thus, not only do low income workers (who earn less than the taxable income) not benefit from the system, but the continuation rates of contracts are also very low: only about 33.2% of the contracts were maintained among those who joined the PPS between 1994 and 2001 (Jeon, Lim, and Lee 2006). This means that the PPS can only be a profitable saving product for more affluent people (Soowan Kim, Park, and Han 2012, 34).

Differing from the NPS, pension systems for specific public sector workers (including civil servants, school teachers and staff and military personnel) are fully mature pay-as-you go systems, financed by the contributions from the insured and by the

government subsidy. They thus have many features that contrast with the NPS, and accordingly raise different issues and different pension politics. The pension system for civil servants was the first public pension system introduced in Korea in 1960, followed by the other public sector pensions introduced between 1963 and 1975, which adopted the same regulations. Until the recent reforms in the civil servants' pensions in 2009 and 2015, all of them provided up to 76% of the average salary for the last three years before retirement for the maximum 33 years of contributions. While providing such high replacement rates, its contributions were far lower than the NPS: it started with a 2.3% contribution rate in 1960, and gradually increased this to 8.5% in 2001. This generous structure led to severe deficits in the civil service pension scheme (since 1993) and the military personnel pension scheme (since 1977). Both of these, therefore, relied heavily on government subsidies: about 28.2% of the total pension payment under both schemes came from government subsidies in 2009 (D. Kim 2014). This large proportion contrasts with the government's negligible subsidy to the NPS. In addition, due to the maturity of these systems, the insured of these pensions are strongly organised and obstructed reforms to these structures have been effectively obstructed by the insured, who wanted to maintain their vested interests. As a result, only marginal reforms were made to civil service pension schemes occurred in 2009 and 2015 to improve its financial stability, but the vested interests were largely assuaged by applying the new regulations only to new entrants (Bae 2006; C. L. Jung and Kim 2015).⁴

Another noticeable difference between the civil service pension scheme and the NPS lay in the former's high benefit level, partly due to its maturity, but also due to the

⁴ See Jung and Kim (2015) for an in-depth analysis of the 2015 reform of the civil servants' pension scheme.

generous benefit level. When the NPS became more mature in 2011, the average monthly old-age pension was no more than a fifth of those schemes. NPS pensioners received 260,000 won a month in 2012 (about £150 GBP), while the average monthly old-age pension of the civil service pension was 1.75 million won (about £1,015 GBP). Meanwhile, 2.7 million won (about £1,566 GBP) went to military personnel and 2.4 million won (about £1,392 GBP) went to school teachers and staff in 2012 (Bae 2011, 21). The pension inequality between the NPS members and the others is thus extensive.

Finally, we need to pay attention to the short history of the basic pension scheme. The Basic Old-Age Pension (BOP) came into force in 2008 as part of the 2007 reform of NPS. The process by which the BOP arrived on the agenda and finally passed through the National Assembly will be discussed in Chapters 5 and 6. This scheme initially provided a small allowance to about 60–70% of the lower-income elderly aged 65 and over, thus excluding the top 30%. The actual coverage varied depending on the financial state of the local government, because both the central and local governments financed the scheme. Although the initial goal of the system was to tackle the high poverty rate among the elderly, the total budget did not allow this to occur. The issue of expansion of the BOP came to the fore at the 2012 presidential election as a result of the campaigning of the eventual victor Park Geun Hye (2013–2018). To meet her pledge, the level of the BOP was substantially increased after 2014, but the change did not benefit poorer people because of unfair adjustments of other benefits in cases where a pensioner was eligible to benefit either from the NPS or from public assistance. The name of the policy was also changed to the Basic Pension. As the process and outcome of the 2014 BOP reform is not the main topic of

this thesis, we do not discuss it any further here;⁵ we will, however, unravel the political dynamics and process by which the BOP first came onto the agenda in later chapters (5 and 6).

In conclusion, pension rights are not prevalent in Korea, especially among the workers in the private sector. Only a small portion of workers in the public sector enjoy pensions, and only when they are entitled to it. Although there are other pension schemes to complement the NPS (including occupational pensions, private pensions and basic pensions), their coverage and benefits are also limited to certain groups of people, and most may lack an security old-age income. In the next section, we move on to explain the approach, methods and rationale behind this exploration of the research puzzle at the heart of this thesis.

1.3 Research methods and approach

This research is a qualitative case study that aims to understand the development of social policy using the National Pension System (NPS) as a case study and focusing particularly on the role of policy actors in reforms. Here we briefly present the rationale behind the study and its research design. This also includes the types of data, data collection and field research process.

1.3.1 Case study design

The research is a qualitative case study that aims to understand the development of social policy, using the case study of the National Pension System (NPS) and focusing particularly on the role of policy actors (Bennett and Checkel 2014; George and Bennett 2005). Case studies aim to provide a detailed examination of an aspect of

⁵ See Seok (2015) for the development and issues of the 2014 BOP reform.

an historical episode to develop or test historical explanations that may be generalisable to other events (George and Bennett 2005, 5). A more sophisticated case-based study can provide a retrospective view that previous studies have not considered (De Vaus 2001). This is an ‘extended case study’, according to Burawoy (2009; 2000), which aims to make a theoretical contribution to established, or existing, theories.

A case study design is particularly appropriate for addressing causal complexity and historical specificity, as well as for refining competing theories and explanations, thus contributing both to theory-building and theory-testing. Case studies have the advantage of investigating complex causality and historical specificity. On the basis of rich and in-depth data, case studies have a great potential for identifying and specifying new concepts (George and Bennett 2005, 45). These new concepts can be used to generate theoretical propositions and hypotheses for future studies (George and Bennett 2005, 17).

To examine the dynamics that led to a significant policy change, we give a detailed narrative and an analytical explanation of the policy process (George and Bennett 2005, 209–211). In so doing, careful judgement about the factors of policy change is necessary based on the triangulation of rich evidence from archival data, interviews and existing literature. Mechanisms of macro-phenomena are processes composed of multiple steps of causally linked micro-phenomena starting from the initial conditions (Mayntz 2004, 241). Therefore, a researcher can explore the dynamic process by identifying the causally linked events in detail and reconstructing the process by tracing the series of causally linked micro-phenomena (Mayntz 2004, 248). The difficulties in reconstructing these processes are associated with the nature of social

phenomena, i.e. their complexity. It is thus possible that different processes may lead to similar outcomes, and that similar processes may lead to different outcomes (George and Bennett 2005, 63). Moreover, multiple causal mechanisms could be at work behind one phenomenon's interaction with others. Thus, careful judgement is necessary based on rich and triangulated data.

1.3.2 Justification of the case

We adopted the case of the development of the NPS from the 1970s to 2000s because it allowed us to unravel the dynamics of policymaking process in four very different policy contexts. During this time, Korea went from being an authoritarian regime to undergoing a democratic transition and then experiencing an economic crisis before emerging with a comparatively stable democracy and economy. In this study, we aim to investigate how developmentalist policy survives, adapts and develops while experiencing these different political conditions and socio-economic changes. By doing so, we can comprehend how a policy develops within a single political and economic era experiencing diverse policy environments.

An in-depth historical analysis of a single policy domain can provide us with an important insight into how the fundamental characteristics and development trajectory of the Korean welfare system have changed. While the diversity of the East Asian welfare systems has been increasingly recognised, the specific pattern and the factors driving the different developments in East Asian countries are not yet sufficiently understood. Choi's (2012) latest study reveals that three countries, China, Japan and Korea, began to shape their own path of welfare state development by diverging from the previous productivist welfare systems. However, our understanding of why and how each country came to develop its own route is still insufficient. To understand the

factors of policy change not only for a single era, but also throughout the developmental process, an in-depth study of a single policy domain can be advantageous. In so doing, the selection of the NPS has additional merit because of its pivotal role within the entire welfare system: it aimed for comprehensive coverage, and the size of its pension fund was huge (about a quarter of GDP at the time of the latest reform in 2007). In addition, we pointed out in Section 1.1 that the development of the NPS has produced contrasting views. While most previous studies have focused on the expansionary development of the Korean welfare system, the reforms of the NPS have moved in the opposite direction. Thus, this case study can also help to elucidate this conflict.

The case study also offers us an opportunity to unravel the role of policy actors in social policy development in Korea. The existing literature focuses on the impact of democratisation on social policy development – a process that allowed an increasing number of diverse policy actors to take part in the policymaking process. Major policy actors in receipt of great scholarly attention include civil society organisations and welfare officials, or the ministries leading the advocacy coalition for welfare expansion (W. S. Kim and Choi 2014; Y. M. Kim 2008; Y. M. Kim and Kim 2005; H.-J. Kwon 2003; 2005b; Mares and Carnes 2009; Peng and Wong 2008). The reforms of the NPS, however, raise a question about the role of these policy actors, because its reforms went in a different direction from that present in other policy domains. By examining this case study, we can also address why the role of policy actors may vary in different policy domains. The next section briefly discusses our approach to the research and methods behind this study.

1.3.3 Data and data collection

The data for this study consists of extensive archival material and in-depth interviews with a range of key policy actors, covering the entire time scope. This section briefly presents a discussion of the data, data collection methods and the field research process. More detailed information about the data and fieldwork is also presented in Appendix 1.

During the research, extensive archival data and complemented data gained from interviews with actual policymakers and major policy actors for this period. The fieldwork took place in Seoul, Korea from the 12th September 2009 to the 24th April 2011. The preparatory work for the fieldwork had been conducted in Oxford, UK from June 2009 before leaving for the field research. Archival data was collected first; this was followed by conducting interviews and simultaneously, additional archival data. Here, we focus on the data collection method and the fieldwork process.

Documentary data and elite interviews

Extensive quantities of available documents were collected and analysed. The primary data consisted of public documents (such as government reports and press releases), policy position papers and press releases of all the key policy actors, meeting notes and materials of the NPS reform board at both the government and party level, presentation materials of public hearings, and other related data. In addition, there was some key secondary data, for example, drawn from the *Ten Years' History of the National Pension* and *Twenty Years' History of the National Pension* published by the National Pension Service (the NPS administrator). Important documents published by key policy actors were also collected.

It was also possible to access several dozen personal archive collections belonging to some of the interviewees, which mostly consisted of internal documents that were previously undisclosed to the public. These included unpublished papers and meeting notes prepared for the closed meetings of ministers in the government departments, meetings of high officials in the government, and meetings between or within political parties. They also included the meeting papers for the various government committees launched to draw up the NPS reform proposals. Using these materials, it was possible to unravel the process of actual policy discussions and the rationale behind policy positions.

Following these processes, the following were also collected: policy reports on the NPS reform published by the Office of the President, records of public speeches of former presidents on the NPS issue, various policy reports drawn up by the MOHW on the NPS, presentation papers and discussion papers from public hearings, minutes of the meetings of the Social Welfare Committee of the National Assembly, public releases of political parties and MPs, and the public press releases and position papers of civil society organisations. It was also possible to gain some internal statistical data and survey results from research institutes. The documentary data sources used for this thesis are set out in Appendix 1, and specific information about the data we used is provided in the bibliography.

More specifically, primary archival data was gathered first, building more knowledge of the events for the period covering the failed introduction of the National Welfare Pension (NWP) of 1973, the successful introduction of the National Pension System (NPS) of 1986, the first round of the NPS reform of 1998, and the latest reform of 2007 (Table 1-2).

Table 1-2 Development of the National Pension System (NPS) in Korea

No. of era	Major event	Political-economic conditions	Chapter
1	Enactment of the National Welfare Pension Act (1973)	Authoritarian regimes	3
2	Enactment of the National Pension Act (1986; implemented from 1988)		
3	Reform of the National Pension (1998)	Democratic conservative (1993–1998) and centre-left government (1998–2003); economic crisis in 1997	4
4	Reform of the National Pension and the introduction of the Basic Old-age Pension (BOP) (2007; implemented from 2008)	Centre-left government (2003–2008); recovered economy	5, 6

Alongside the archival data collection, prospective interviewees were selected by considering the role of the policy actor and the period in order to cover a range of roles and eras. Contact was then made with them for an interview. Specifically, prospective interviewees were selected who could provide information not easily sourced from the archival data, and a record was kept of the gaps that would be filled by the interviews. Once a contact with an interviewee had been initiated, the policy position of the policy actor (or organisation) of the intended interviewee was studied in depth. This information was researched from newspaper articles; from the public press releases of organisations; policy reports; presentation papers in public hearings for the pension reform; and other publications of each interviewee (or organisation) before the interview. The further collection of archival data continued to expand and deepen the scope of the interviewing phase of the study.

The major policy actors in the NPS reforms were: the government (the president, the office of the president; welfare and economic bureaucrats); expert groups

(government-funded policy advisory agencies and professors at universities serving on the government advisory boards); political parties, employers' associations; trade unions; and civil society organisations who formed advocacy coalitions. We discuss the role of these policy actors in policymaking in Korea and in the welfare state literature in Chapter 2.3 and their specific range, kinds and types in Appendix 2. In particular we examine the features of the policymaking process in each era influence the range and types of key policies adopted and, further, how the process and active policy actors vary from era to era. Thus, these characteristics will be further discussed in each chapter when dealing with each era of policymaking.

During this study, it was possible to obtain access to the major policy actors who were deeply engaged in the policymaking of the NPS both in the earlier and later eras. Despite this, it needs to be noted that the range and quantity of the archival data and elite interviews for the earlier period is more limited because the policymaking process under the authoritarian regime was simpler than today and involved fewer policy actors (H.-J. Kwon 1999b; Ringen, Kwon, Yi, Kim, and Jooha 2011a). This similarly applies to elite interviews covering earlier eras. Moreover, this data limitation is further associated with the fact that some key policy actors were not available for interviews because of their advanced age, or because they had died. In such cases, attempts were made to complement our data by collecting as much archival data as possible and seeking other key policy actors who equally engaged in the policymaking process.

There were 44 in-depth interviews conducted with various key policy actors in the form of semi-structured interviews. To fully explore the topic, a carefully designed topic guide was used on the basis of the existing theories and documentary

information on the role of each policy actor and potential factors that may have influenced their specific policy preferences (Arthur and Nazroo 2003, 115). Each interview also had extra in-depth questions depending on the period, and the type, of the interviewee's participation in the NPS reform process. Gap in the previously obtained information that only the specific interviewee would be able to fill were also considered. Those customised in-depth questions were generated from the archival research conducted before the interviews. As more interviews proceeded, the interviews became more focused on the personally customised in-depth questions. The standard topic guide that was used is presented in Appendix 3.

The interviews were conducted in four rounds. The early rounds were planned to gather as much information as possible that had not been made available in the documentary data. Interviews at later stages were more specifically designed to fill certain gaps left by both the documentary evidence and previous interviews. The list of interviewees was constructed primarily using purposive sampling, along with snowballing sampling as a secondary method, if it would provide supplementary data. The purposive sampling was based on the published list of the people named as being involved in the policymaking in the government reports. When the actual actor was not clear from the list, however, the snowballing method was used to supplement the data. In securing access to interviews, the researcher's former study in social policy in Korea and job experience as a research assistant for diverse government think tanks was advantageous. By this method, it was possible to cover as many key policy actors as possible involved during the entire period under examination.

All the interviews were recorded using a voice recorder, with the interviewees' full consent. Anonymity and confidentiality was promised, although some interviewees

made clear that they did not care if their names were published. Therefore, where necessary the names of those who agreed to have their names published are disclosed. On average, interviews took about an hour and a half, and some interviews took two or three hours depending on the circumstances under which they were conducted. All the interviews were fully transcribed, summarised and coded afterwards.

Of the 44 interviewees, many participated in the NPS reform process across several periods, sometimes on behalf of different organisations. By the pension reform period, four interviewees had participated in the first era, 12 in the second, 29 in the third and 37 in the fourth era, as shown in Table 1-3.

Table 1-3 Development of the National Pension System (NPS) in Korea

No. of era	Major event	Number of interviewees
1	Enactment of the National Welfare Pension Act (1973)	4
2	Enactment of the National Pension Act (1986; implemented from 1988)	12
3	Reform of the National Pension (1998)	29
4	Reform of the National Pension and the introduction of the Basic Old-age Pension (BOP) (2007; implemented from 2008)	37
Total		41

According to the categories of their official roles in the policy-making process, 17 interviewees were from the government, 11 from the National Assembly, two from the National Pension Service (the statutory administrator of the NPS), 12 from government-funded research institutes, three from academia (they were professors at universities), four from the labour unions, four from the employers' associations, three from civil society organisations, one from an interest group, two from the

occupational and private pension regulator and one from a private pension provider (Table 1-4).

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Table 1-4 Number of interviewees by their affiliations

Types	Organisations	Positions	Number of interviewees
Government	Ministry of Health and Welfare	Officials	7
		Ministers and aides	5
	Ministry of Labor	Officials	2
	Ministry of Finance and Economy	Officials	1
	Office of the President	Senior Secretary	1
		Social policy secretary	1
Experts	Government think tank	Korea Development Institute	7
		Korea Institute for Health and Social Affairs	2
		Korea Labor Institute	1
		National Pension Research Institute	2
	Professors of social welfare at universities		2
Civil society organisations	People’s Solidarity for Participatory Democracy		1
	The Citizens’ Coalition for Economic Justice		1
Employers’ associations	The Korea Chamber of Commerce & Industry		1
	The Federation of Korean Industries		1
	The Korea Employers Federation		2
Trade unions	Korean Confederation of Trade Unions		2
	Federation of Korean Trade Unions		2
National Assembly	MPs		5
	Social policy secretaries and aides		6
Occupational Pension Supervisor	Financial Supervisory Service		2
Private pension provider			1

Despite the limited number of interviews covering the earlier eras, attempts were made to redress the balance by finding interviewees from different organisations. For

example, social policy secretaries were met from two different large trade unions and there were attempts to interview as many major employer's associations as possible to explore a variety of experience and opinions. This likewise applied to experts and government officials: the aim was to cover not only social welfare experts but also economists, all economic, welfare and labour bureaucrats, and all conservative, centre-left and union-based political parties. As for the civil society organisations, social policy committee members were interviewed from two of the most important civil society organisations. An interview with the pensioners' association was also conducted. More specific information on who was chosen as interviewed, and their characteristics, is presented in Appendix 4. Detailed information about the interviewees, including the era in which they were engaged in the reform, the dates of the interviews, and the ID assigned to them in this thesis is presented in Appendix 5, and their specific roles in the policymaking are laid out in Appendix 6.

1.3.4 Ethical considerations

This research involved interviews with policy actors who took part in the pension reform process. During the course of this fieldwork, it was expected that various ethical issues would arise. As the researcher, I was made clearly aware of these issues, and the proposal was passed by the Central University Research Ethics Committee at the University of Oxford.

With regard to the interview procedure, interviewees were provided with the necessary information (such as explaining the purpose of research) to encourage them to participate. Continuous efforts were made to explore the interviewees' opinions as objectively as possible, and not to provoke any regionally biased attitudes.

The purpose of the research was always explained to interviewees along with why they had been selected, how the outcomes would be used, and who would have the access to the results. They were assured about their anonymity and confidentiality, and that they could withdraw their participation if they thought it might endanger their current social or political position. A voice recorder was used during interviews, but consent was always requested before the interview, and no recording was undertaken if they asked to speak 'off-the-record' at any point.

A topic guide, carefully designed for our research purpose, was used to make the interviews more flexible, while at the same time helping us adhere to the purpose of the interviews. Handwritten notes were always taken as a precaution against machine failure and also to assure our interviewees that their stories were very helpful and important to the research.

There were other cautions that were kept in mind before the research. Most of the participants in our research were males in senior position, as there is high male dominance in the senior positions in government, political parties, confederations of labour unions and even academia. Because of my role, as a female and relatively young research student, it was possible that gender bias and seniority bias might affect the interviewees in relation to the researcher. A strategy deployed was to demonstrate confidence and deal with them as a professional independent researcher.

Second, strong efforts were made to not be biased by professional, academic and personal background when people were interviewed. As a researcher with an academic background in social work and social policy, care was taken to listen to interviewees who held different views and values with different academic and professional background. To prevent any problems raised by the conflicts of views

and values, it was important for the researcher to detach herself from any biased attitudes from personal values and beliefs. All ethical issues that might arise were cleared in advance of the fieldwork. The next section provides an overview of the thesis.

1.4 Outline of the chapters

In this section, we provide the structure of the thesis, which is comprised of seven chapters. The current chapter provides an introduction to the thesis by locating the central research puzzle within the existing literature. After presenting the rationale of the study, we set out our research questions. To help the reader understand the case, we have illustrated the major features of the thesis's main case study, the National Pension System (NPS), and located it within the bigger framework of the Korean pension system. We have then explained the research approach and method, briefly explaining the characteristics of the data, data collection methods, fieldwork process and ethical considerations.

Chapter 2 introduces and discusses the relevant literature. We firstly review the theory of welfare state development. After pointing out the limitations of the literature, which is based on Western cases, we try to draw on its implications for a latecomer welfare system. We then move on to the theory of East Asian welfare regimes (EAWR), which can be more aptly applied to the Korean case. Although theories of the EAWR provide insights into the unique features of the East Asian context, the rapid and all-around political and socio-economic changes in the region restrict their application to up-to-date, contemporary policy changes. We thus review the institutionalist approach to policy change, the intellectual interest of which has in recent years centred on the explanations for institutional change. The review suggests

that previous theories imply an important role for policy actors as a factor within policy change, which could be applied to explaining the dynamics of policy change in Korea. We thus examine the literature on the role of policy actors both in the context of the welfare state in general and specifically in a Korean context. This reappraisal of the literature leads us to question the extent of the role played by policy actors in the development of social policy in Korea.

The four subsequent chapters (Chapters 3–6) unravel the dynamics of policy change in the NPS by analysing the policymaking process. They focus on the role of policy actors in Korea in different political and socio-economic circumstances. As we delineated in Table 1-2, Chapter 3 deals with the process of policymaking during the authoritarian regimes of Park Chung Hee (1962–1978) and Chun Doo Hwan (1980–1988). Chapter 4 focuses on the first round of the 1998 reform of the NPS under a democratic regime. It was a single phase of policy change, but its policymaking process contains an interesting feature: the reform was initiated by economic bureaucrats under the conservative government of Kim Young Sam (1993–1998) prior to the financial crisis of 1997. Nevertheless, the reform was actually passed under the first centre-left government of Kim Dae Jung (1998–2003) in the aftermaths of the crisis. Using this policy context, we will explore how two governments with clearly different political positions approached the issue of the NPS reform, and examine the impact of the economic crisis on that reform. This was also the era in which previous studies have highlighted the positive impact of democratisation on welfare state expansion in Korea. We will therefore scrutinise how this element actually played out in our case.

Chapters 5 and 6 provide empirical findings on the policymaking process of the latest reform of 2007. Chapter 5 focuses on the agenda-setting process, and Chapter 6 on the process of policy formulation and decision-making. The reason we devote two chapters to this reform is that it occurred under a more advanced democracy in comparison to what came before, and thus marked the onset of Korea's distinctive welfare politics. It involved the most complicated political process, with carefully calculated vote-conscious behaviour by the political parties. Not only were more diverse and increased numbers of policy actors engaged in the reform process, but it also involved salient political competition among policy actors and complicated processes of political negotiation between them. In addition, although a single reform is usually taken as one political incident, it can also illuminate the various dynamics of policymaking and the interaction of policy actors at different policy stages. This study aims to look at the factors driving a certain policy change. In such an investigation, an examination of a single reform affected by two separate policy stages can be advantageous because it allows us to disentangle the complex dynamic process of policymaking. The concluding part of this thesis, Chapter 9, provides a summary of empirical findings and their theoretical implications, before making suggestions for future research.

Chapter 2. Theories on Welfare State Development

This chapter will firstly review established theories addressing the topic of this thesis, and secondly discuss the implications and limitations of existing studies. Scholarly attention to social policy development in East Asian countries has been relatively sparse until recently, because most theories relating to welfare states were developed in the West (Mares and Carnes 2009). Although comparative studies on East Asian welfare systems began to increase from the late 1980s, there remains a gap in this area of the literature, which limits our ability to comprehend the tremendous policy changes that have taken place, as well as the dramatic political and socio-economic changes that have accompanied them (Y. J. Choi 2007). The logic of policymaking in different regions can be context-specific, and both the context and the logic can be time-specific. Moreover, the processes which influence policy change are still insufficiently understood.

The chapter starts by reviewing theories of welfare state development in the West and East, exploring the extent to which they can be applied to explain social policy development in Korea. Section 2.2 explores the institutionalist view, which has particularly contributed to our understanding of the diversity of welfare regimes. It provides a background to institutionalism, discusses the existing institutionalist studies on Korean social policy, and reviews how institutionalism developed to account for, and explain, institutional change. Section 2.3 discusses the role of policy actors, the main focus of this thesis. We examine the role of major policy actors in the welfare state literature and, specifically, in the context of Korean social policy. At the end of the section, we pose our research questions. In the course of discussing the literature, we also define key terms and concepts that have been adopted in this study.

2.1 Theories of welfare state development in the West and in the East

2.1.1 Welfare state development in the West

Most theories of welfare state development have focused on elucidating the factors that drive the origination and development of the welfare state in advanced industrialised countries, and the factors that generate a variety of configurations of welfare regimes in different countries (Mares and Carnes 2009). Of these theories, three major theoretical strands have, by and large, been used to explain the development of the Western welfare state.

First, the *functionalist approach* adopts the theory of industrialisation to explain the factors that have contributed to welfare state expansion (Cutright 1965; Wilensky 1975). Functionalists account for increased social expenditure by the level of economic development and demographic changes. A shortcoming of the functionalist approach has, however, been identified by a study which examined the relationship between economic conditions and welfare state development using a larger sample which included developing countries (Mares 2005). Functionalist accounts suggest the convergence of welfare states under certain social and economic conditions. They therefore cannot explain why we observe cross-national diversity in the arrangement of social programmes despite similar levels of economic growth and other social changes between countries. Further, such accounts cannot be applied to many developing countries where major welfare programmes were often introduced with the political objective of legitimising undemocratic political regimes (Mares and Carnes 2009). This was, in fact, the case in Korea, where major social insurance legislation was implemented by authoritarian governments in the 1970s and 1980s when the country was under-developed and had a relatively young population.

The *power-resources model* focuses attention on the political configuration in each welfare state and how this shapes different welfare systems. This approach attributes welfare state development to the role of political parties and labour unions in order to explain the diverse welfare state configurations in different countries. In this approach, the relative strength of social democratic parties leads to different levels of decommodification and stratification, shaping different ideal types of welfare regime (Korpi 1983; Esping-Andersen 1990). Among the political factors, the presence of a left-wing party and the power of labour unions hold great importance by influencing the nexus of government and market. This focus on the roles of policy actors such as political parties and labour unions provides a foundation for the actor-oriented approach within the political realm. This will be presented in greater detail later in this chapter.

Despite its usefulness in explaining varieties of welfare regimes, the power-resources model is difficult to apply to contexts like Korea where left-wing parties were strictly banned by early authoritarian governments (H.-J. Kwon 1999b, 56). In addition, the effects of labour-associated parties tend to be more salient in the formative stages of such parties rather than in their later stages (Rueda 2005). Despite this, Korea has a very short history of labour-associated parties. Due to the long-standing political confrontation with North Korea, which claimed to be a socialist republic, left-wing parties were prohibited in Korea after the Korean War in 1950 (H.-J. Kwon 1999b). During the authoritarian era – and even when autocracy ended – labour unions were also strongly suppressed, and this continued into the late 1990s (T.-S. Kim and Sung 2004). During this period, the government and a small group of senior economic officials dominated the policymaking process, rendering the role of political parties insignificant (H.-J. Kwon 1999b). However, the power-resources model can be useful

in considering the political dynamics of recent policy changes in Korea. The political circumstances have significantly changed since the 1990s, which has opened up opportunities for a wider range of policy actors to influence the agenda. Interest groups, including labour unions and employers' associations, now have a louder voice (Hwang 2007; H.-J. Kwon 2003; Peng and Wong 2008).

Lastly, *institutionalism* contends that distinct configurations of the welfare state can be attributed to roles of existing institutions (Heclo 1974; Immergut 1992). The institutional approach thus focuses more on factors that bring about differences among countries sharing similar levels of social and economic development, while criticising earlier research that paid little attention to roles of the state and state institutions. The development of the institutional approach was generated by the reflection that the study of state institutions had been largely neglected from the 1950s to the 1970s (Peters 2005). The salient phenomenon of 'path dependency', derived from this theory, suggests that existing institutions restrict and guide the development of welfare regimes along distinct trajectories, with today's policy decisions strongly determining those of tomorrow (Pierson 2000).

Critiques of the institutional approach challenge the assumption that the nature of an institution remains stable despite external pressures, and point to the theory's difficulty in explaining recent institutional changes. To address this limitation, recent studies have investigated the process of institutional change. Streeck and Thelen (2005a) have shown how incremental change can turn into transformative change. Although institutionalist approaches have begun to recognise the changing nature of institutions, they remain limited in their ability to explain the causes of such change. They cannot, for example, account for how a change in a specific direction links to a

specific policy design. As the main concern of this thesis is to explain policy development over time by looking at the policymaking process, theories of institutional change will be discussed in greater detail in a later section.

Due to the short history of the democratic political system in Korea, the institutionalist approach may be of most use in exploring more recent policy developments rather than the initial social policy legislation of the past. Until the late 1980s, the foundations of the Korean welfare system were built by authoritarian governments. It is thus difficult to apply the institutional approach to the development of the Korean welfare system, because policymaking processes were dominated by the government.

In summary, the theories of welfare state development discussed above are limited in their applicability to the Korean case. Scholars have, therefore, attempted to use other approaches to understand the different political and economic contexts that are found in East Asian countries, including Korea, which only began to gain scholarly attention from the late 1980s (Goodman, White, and Kwon 1998).

2.1.2 East Asian Welfare Regimes (EAWR)

There have been two major strands of argument in the development of East Asian Welfare Regimes (EAWR): the *Confucian welfare state* or *Japan-focused welfare model* (which focuses on cultural and institutional origins), and the developmental/productivist argument (which focuses on political origins). These approaches developed from an interest in distinct patterns of welfare regime development in East Asia when compared to those in the West. These models are limited in their applicability to the latest developments in the EAWR, due to dramatic changes in political and economic circumstances in the region in the past, but they

still provide important foundations for understanding the underlying ideas and origins of the EAWR. In relation to recent developments, more general theories have been applied to the EAWR, which place it in a broader context (e.g. Y. J. Choi 2008; 2012; H.-J. Kwon 2005c; Mares and Carnes 2009; Peng and Wong 2008). These will now be discussed in more detail.

The Confucian welfare state, or Japan-focused welfare model

The ‘*Confucian welfare state*’ or ‘*Japan-focused welfare model*’ emphasises the cultural and institutional similarities in welfare systems in East Asian countries. Jones (1993) points out that the strong reliance on the family and kinship for individual welfare in East Asian countries comes from Confucian culture. Western scholars found it interesting to note high levels of welfare with low government spending in East Asian countries up until the early 1990s (White and Goodman 1998). Among various factors, Confucian values embedded in these societies (such as the emphasis on self-reliance, diligence, mutual obligations, and heavy reliance on the family and informal networks) were seen as a foundation for this achievement (Yao 2000). The label ‘Japan-focused welfare model’ (Goodman and Peng 1995) is another term that refers to the Confucian influence on the EAWR. While the latter emphasises the cultural aspect of Confucian values, the former pays more attention to the influence of a Japanese welfare system infused with Confucian norms.

At the same time, critiques of the Confucian welfare state raise questions about the ambiguity of the concept of Confucianism. Confucian values such as filial piety and mutual support are not unique to East Asian countries, but exist in many other traditional societies (White and Goodman 1998). The extent to which those traditional values are sustained in contemporary society despite recent dramatic socio-economic

changes is also questionable. Furthermore, Confucian norms are not necessarily applicable to all societies across all countries, especially those which are culturally diverse: for example, it is important to consider the strong influence of Islam in Malaysia and Indonesia, and of Catholicism in the Philippines (Y. J. Choi 2007, 7-8).

Thus, some argue that Confucianism is used as political rhetoric by political leaders because it allows them to overlook the social and economic implications of industrialisation (Esping-Andersen 1997; Goodman and Peng 1996a; Walker and Wong 2005). Put differently, the strong reliance on informal welfare can be a consequence of the lack of alternatives (Jacobs 2000). In Korea, during a heated debate among domestic scholars in the early 2000s about the characteristics of the Korean welfare regime, it was concluded that the heavy reliance on welfare from the family and community was not a choice but a forced strategy due to the lack of alternatives (M.-K. Chung 2004; Hong and Song 2005). An edited volume on the EAWR concluded that ‘all of the authors in this book downplay Confucianism as a contemporary aspect of social policy in East Asia and, instead, emphasise the role of political ideology’ (Walker and Wong 2005, 213).

The Confucian welfare state argument also assumes the stability and continuity of the Japanese influence. For example, Goodman and Peng (1995), pointing to the Japanese welfare system model in other East Asian countries, concluded that the welfare system in the region would converge towards the Japanese welfare model. However, the EAWR is not in a state of continuity but in transition, as these countries are facing distinct socio-economic and political pressures (Walker and Wong 2005).

The assumption of stability is undermined by the argument that the Japanese welfare model cannot account for the increasing diversity within the EAWR stemming from

different political processes and socio-economic contexts. For instance, the National Pension System (NPS) in Korea was originally modelled on the Japanese pension system, but has now developed in a quite different direction (Hye-Kyung Lee and Takegawa 2007). In the course of the expansion of this system, Korea's NPS was enlarged by embracing the self-employed, whereas in Japan separate pension schemes were introduced for different occupational types of workers. Western scholars have tended to focus too much on the similarities, while neglecting the significant differences among East Asian countries. A case study examining the NPS can enhance our understanding of the regime by accumulating research on this topic (Goodman and Peng 1995; Walker and Wong 2005). At the same time, a cautious approach is needed when considering the distinct policy developments in different countries (Hye-Kyung Lee and Takegawa 2007).

The productivist welfare regime, or developmental state

The '*productivist welfare regime*' (Gough 2004; Holliday 2000), or '*developmental state*' (Johnson 1982), argument points mainly to the political motives underlying social policy implementation as an instrument for economic development or, sometimes, to the compensation offered to people affected by economic development. The productivist welfare capitalism is characterised by two central aspects, that is, a 'growth-oriented state and subordination of all aspects of state policy, including social policy, to economic/industrial objectives' (Holliday 2000, 709). The notion of developmental state refers to a state structure where 'elite policy makers set economic growth as the fundamental goal, pursue a coherent strategy to achieve it and use social policy as an instrument for attaining that goal' (Gough 2001). A major difference between productivism and developmentalism is that the *productivist* argument focuses

on the subordination of social policy to economic policy (Holliday 2000), while the *developmental state* argument is more interested in the role of growth-oriented state interventions that lead to social policy implementation, although its development is still subject to economic goals (Johnson 1982; H.-J. Kwon 1999b; Midgley 1986a). They both differ from the Confucian welfare state argument in that they consider the political and economic aspects underpinning the construction of the welfare system more explicitly.

Developmentalism was pursued in Korea because it was the means by which undemocratic regimes were able to legitimise their political power during the 1970s and 1980s (Haggard and Kaufman 2008, 10; H.-J. Kwon 1999b; Peng and Wong 2008, 69; Ringen, Kwon, Yi, Kim, and Jooha 2011a).⁶ During this time, therefore, state-driven developmental policies accompanied social policy implementation. For instance, Kwon (1999a) pointed to the political and economic goal of raising public funds for economic development (which underpinned the introduction of the NPS) as strong evidence of developmentalism. Up until the NPS was introduced in the late 1980s, economic growth had been an effective means of legitimising an undemocratic regime. This strategic adoption of social policy for the purposes of economic growth and political legitimacy was one of the key features shared by many East Asian countries in their developing stage (H.-J. Kwon 2003, 71-72).

Despite changes in political and economic circumstances in the EAWR, Kwon (2005c) attempts to further extend the approach to explain recent policy development. Since

⁶ The close relationship between major social policy implementation (especially social insurance programmes) and undemocratic regimes was not unique to the EAWR, but also prevailed in many other developing countries (Mares and Carnes 2009). Furthermore, in the early years of the welfare state, initiatives for a social insurance system were first made before democratisation (Esping-Andersen 1990, 15).

the 1990s, there has been a vast array of changes in both the political environment and the arrangement of social policy in the EAWR. For example, in Korea, the four major social insurance programmes – the NPS, National Health Insurance (NHI), Industrial Accident Workers' Compensation Insurance (IAWC) and Employment Insurance (EI) – were all expanded to cover the entire workforce in principle (although not completely in practice). The Long-Term Care Insurance (LTCI) and the Basic Old-age Pension (BOP), introduced in 2008, marked another milestone in the development of Korean social policy. Kwon (2005c) calls such development a trend towards 'inclusiveness' and regards it as a persistent developmentalism because of the need for structural economic reform that underpins the development.

Considering the democratisation process in the EAWR since the 1980s, however, the extent to which developmentalism continues is questionable. Under democratic regimes, policymaking processes began to open up to policy actors from a greater variety of political groups (H.-J. Kwon 2005b; Mares and Carnes 2009; Peng and Wong 2008). This actually led to many significant policy changes. In Korea, social movements organised by various non-government organisations in the late 1990s led to welfare reform that transformed a stringent social assistance programme into a more generous system that recognised the entitlement to benefits as a social right (Y. M. Kim 2008).

Further, the extent to which ideas of developmentalism persist in contemporary societies in East Asia, in a context where economic and political circumstances have changed significantly, is unclear. Economic levels and political democracy have improved significantly in East Asian countries, especially in Japan, Korea and Taiwan, where the quality of life is said to be similar to that of Western countries (Goodman

and Peng 1996a, 196). This raises the question of the extent to which productivist/developmentalist approaches differ from neo-liberal ideas (Y. M. Kim 2008). It is said that, considering welfare states everywhere aim to ‘improve productivity and contribute to economic growth by facilitating social cohesion and peaceful relationship [...] all welfare states are productivist or work-centred’ (Bonoli and Shinkawa 2005b, 21). Moreover, in a democracy, and in an advanced economic context, we can neither assume that developmentalist ideas will remain as strong as they did in the past, nor that they will lead to the same or at least similar policy choices. This is especially true when each country is faced with different socio-economic challenges. A good example of this is that during the Asian economic crisis in the late 1990s, each country responded differently in the way it addressed the consequences arising from the socio-economic conditions (H.-J. Kwon 2005c; Tang and Midgley 2002).

These weaknesses can be improved with an in-depth case study of the dynamics of social policy making processes. The need to understand the political processes and their dynamics of decision-making in East Asian countries has been largely neglected in the literature. Both Confucianism and developmentalism tend to downplay the influence of political processes on the welfare system in East Asian countries, particularly in relation to comparing the early years of welfare state formation up to more recent developments. Both arguments emphasise similar cultural and/or political economic ideational underpinnings in the EAWR, though it does not necessarily follow that policymakers in different countries would make the same decisions when developing similar welfare systems. An investigation of the political processes through which different decisions are made will thus develop our understanding of the current state of East Asian welfare systems and their future development.

In conclusion, this review of the literature both on the origins of Western welfare states and the EAWR has shown that existing theories do not provide an adequate account of the recent development of social policy in Korea, especially with regard to the NPS. It is noted that theoretical approaches to explaining the EAWR suffer some necessary fragmentation across time period of the research. Thus, theories for the early stages of the EAWR are not directly applicable to the stages of later development. We also find that few studies used an integrated framework for the whole period of time (e.g. Hwang 2007; Peng and Wong 2008). A difficulty in analysing the entire process of policy change in the Korean case arises due to the dramatic change the country experienced in a relatively short time period. In explaining policy change and diversity, especially in a single policy domain, institutionalist approaches have been most widely used. In the following section, therefore, we discuss institutional approaches in welfare state theories and how these can be used in our study.

2.2 Institutionalism in the welfare state

In the welfare state literature, studies have inquired into why efforts at welfare reform in the last two decades have resulted in varying outcomes in countries where welfare systems are pervasive (albeit to different degrees). The longstanding argument put forward by institutionalists has been that different welfare regimes will follow different reform paths, as their policy options are restricted by existing institutional arrangements (Pierson 2000; Skocpol 1992). Adopting a historical analysis, therefore, is seen as an effective means of examining the process of policy evolution over time (Hill 2005). A lot of institutional studies are thus built on welfare regime theories,

although Esping-Andersen himself was strongly influenced by the power-resources model of Korpi (1983).

Studies from an institutionalist perspective have argued that achieving pension reform is difficult because pension programmes are deeply embedded in society, as a result of which changes can face strong resistance from the public. Politicians thus would not want to risk pursuing reform, as they might be punished by their constituencies at the next election (Myles and Pierson 2001; Pierson 1994). It has also been argued that the politics of reform were heavily influenced by institutional factors such as veto points and veto players (Immergut 1990; 1992; Tsebelis 2002); constitutional structure (Bonoli 2000); blame-avoidance; and credit-claiming (Weaver 1986). These theories provide better explanations for recent policy changes, especially those taking place in mature welfare states, than those theories such as functionalism or the power-resources model. Few studies, however, examine less mature welfare states through the lens of institutionalism, including Korea and other East Asian welfare states. In the following section, we discuss how institutionalism has been applied to the case of social policy in Korea.

Continuing from the short introduction to institutionalism in the preceding section, we provide a literature review on the institutionalist studies on Korean social policy. Before moving on to the discussion, the following section presents a brief background to institutionalism, its definition and a key feature of the theory.

2.2.1 Institutionalism

Background

Institutionalism in welfare state research is also called 'New Institutionalism', distinguishing it from the 'old version'. The background of 'new institutionalism' evolved from the critique of the revolutionary development and dominance of behaviourism and rational choice approaches in political theories during much of the post-Second World War period (Peters 2005, 1). The weakness of both behaviourism and rational choice theory was their individualistic approach, as pointed out by Peters (2005, 16): 'In either theory [of behaviourism and rational choice], individuals were not seriously constrained by either formal or informal institutions, but would make their own choices, in both views, preferences are exogenous to the political process.' These approaches were too individualistic, relative, utilitarian, functional and instrumental.⁷ Critiquing them thus brought attention back to a focus on the role of state and institutions between the late 19th and the first half of the 20th centuries, which led to the development of 'new institutionalism' (Peters 2005, 6).

With this move, increased academic attention was again given to political institutions (such as the legislature, the legal system and the state) and traditional economic institutions (such as the firm) (March and Olsen 1984, 734). Although some may argue that the institutionalists' claims of 'bringing the state back in' have been exaggerated, the increased attention given to the role of state institutions has certainly enriched our understanding of social policy development (Hill 2005).

Although it is often called 'new institutionalism', March and Olsen (1984) make it clear that the ideas the theories encompass are not completely new, nor are they

⁷ With the strong influence of the two dominant theories on political economy, politics tended to be portrayed 'as a reflection of society, political phenomena as the aggregate consequences of individual behavior, action as a result of choices based on calculated self-interest, history as efficient in reaching unique and appropriate outcomes, and decision making and the allocation of resources as the central foci of political life' (March and Olsen 1984, 734).

identical. The starting point of ‘older’ versions of institutionalism was basically set out as ‘to concern the nature of the governing institutions that could structure the behaviour of individuals towards better end’ (Peters 2005, 3). It has some limitations, however. For example, it was seen that institutions spread a certain logic of appropriateness; structure determined behaviour; only the whole system of institutions was studied because of the concern with constitutions and formal structures; history was given too much emphasis; and finally, ‘a good government’ was implicitly sought (Peters 2005, 6-11). Thus, in new institutionalism, the merits of the older form of institutionalism are still investigated, but the elements of behaviourism and rational choice are combined with the traditional institutionalists’ concerns, improving both analytical and methodological aspects.

There are several kinds of institutionalism: normative, empirical, societal, historical, and rational choice (see Peters 2005). The boundaries between these are not, however, always clear-cut, and some studies combine different approaches in a single study (Peters 2005). For instance, some studies subscribing to rational choice institutionalism take account of the important influence of existing institutions as historical institutionalists do, while some historical institutional studies analyse cases using a rational choice approach (Peters 2005, 71-74). Individual studies do not always explicitly locate themselves within these strands of institutionalism.

Among many subcategories of institutionalism, the most widely used tendency in political science (and particularly in the welfare state literature) is historical institutionalism, the first version of ‘new institutionalism’ that emerged in political science (Peters 2005, 72). Its basic idea is that policy choices made in the past influence subsequent policy far into the future (Peters 2005; Skocpol 1992; Thelen

and Steinmo 1992). In welfare state literature, path dependency theory represents this approach. The next most common approach is rational choice institutionalism. As is clear from its label, it borrows much from the rational choice approach and is premised on ‘the utility-maximising decisions of individuals’ (Peters 2005, 47). The ‘Varieties of Capitalism (VoC)’ argument falls into this category, but the rational choice approach is also ‘actor-centred’ (Hall and Soskice 2001b, 6). For our purposes, the debates on the VoC are presented in Chapter 3 together with other literature on policy actors. Here, the focus is on the theories of (historical) institutionalism in welfare states.

Definitions

There are countless ways of defining institutions (Peters 2005). Just as there are a variety of ‘institutionalisms’, so too are there many definition of ‘institutions’, and each of them reflects its own perspectives. For example, March and Olsen define an institution as a formal structure, but more specifically as a set of norms, rules, understandings and routines, which relate to normative institutionalism (March and Olsen 1989, 21-26). Peter Hall (1986, 7), a leading scholar in historical institutionalism, defines institutions as ‘the formal rules, compliance procedures, and standard operating procedures that structure the relationships between people in various units of the polity and economy’.⁸ In this study, we use Hall’s (1986) definition of an institution, following the tradition of historical institutionalism. It is

⁸ Streeck and Thelen (2005, 9) provide a more detailed definition: ‘Very generally, institutions may be defined as *building-blocks of social order*: they represent socially sanctioned, that is, collectively enforced expectations with respect to the behaviour of specific categories of actors or to the performance of certain activities. Typically they involve *mutually related rights and obligations* for actors, distinguishing between appropriate and inappropriate, ‘right’ and ‘wrong’, ‘possible’ and ‘impossible’ actions and thereby organizing behaviour into predictable and reliable patterns’ [emphasis added].

most useful and suitable for the purpose of this study because the study takes a historical approach, examining the entire process of the National Pension System (NPS) reform from its first introduction to the latest stages.

In sociological institutionalist studies, there is a tendency for institutions not to be explicitly defined (Peters 2005, 97). Understanding the perspectives of sociological institutionalism is still important. This is not just because many other institutional studies have roots in the sociological analysis of institutions, but because this perspective, with an emphasis on the process of creating meaning and values, provides a useful balance to the individualistic approaches ingrained in rational choice institutionalism (Peters 2005, 97). Peters (Peters 2005, 116-117), however, points out that a problem with sociological institutionalism is that most of the literature tends to use ‘institutions’ and ‘organisations’ interchangeably (e.g. Scott 1994). This problem is not limited to the sociological version of institutionalism, as it applies to many other institutionalist studies, but this weakness is particularly evident in sociological institutionalism because of the dominance of the term ‘institution’ in organisational theory, and thus creating great confusion (Peters 2005, 98). To prevent such confusion, therefore, we distinguish institutions from individuals and organisations. With regard to the relationship between institutions and organisations, we adopt the view of Giddens (1979), who argues that institutions are plainly not institutions if they do not structure the behaviour of individuals within them.⁹ We see that some organisations, such as labour unions or political parties, can be seen as institutions or entities which are in the process of institutionalisation, if rules shape the behaviour of their members.

⁹ This is also the dominant view held in many sociological studies on institutions (Peters 2005, 107).

This approach allows us to distinguish institutions from policy actors in the discussions we present in subsequent chapters.

A key feature: in between the ‘interest-’ and ‘idea-oriented’ approaches

The significance of institutionalism is that it takes account of the influence of ideas in its analysis, distinguishing it from behaviourism and rational choice approaches (Hall 1997; Peters 2005). Hall (1997) provides a distinction between the interest-oriented and ideas-oriented models, and concludes that institutional approaches have strong potential to bring these two distinct approaches into one integrated model.

According to Hall, the interest- and idea-oriented approaches stand at two extreme ends, with the institutionalist being in a position between these two. First, the interest-oriented model is close to the positivist political economist approach, with a strong basis in rational choice theory. The unit of analysis tends to be the means of production, emphasising the role of business groups. Its weakness is that it relies too much on the influence of homogeneous median voters. On the other hand, the ideas-oriented model takes a cultural approach, emphasising the role of politics. Ideas shape the distinctive worldviews of key policy actors, who translate these into policy (Hall, 1997, 184). Using this feature, Hall claims that ‘institutions can be modelled on rational choice terms or with more emphasis on their cultural embeddedness and path-dependent origins’ (Hall 1997, 191) This highlights the flexibility of ‘new institutionalism’, as it pays greater attention to human interaction, bringing business and firms into the analysis (Hall 1997, 180-183).

2.2.2 Institutional studies of the Korean welfare system

Institutionalist studies that examine the Korean welfare system in general, and the National Pension System (NPS) (or the Korean pension system) in particular, are significantly limited. This might be partly because of the unique circumstances surrounding the Korean welfare system. Among East Asian countries, in which welfare systems (including pension systems) have a shorter history when compared to their Western counterparts, the experience of the NPS is particularly distinctive (Bonoli and Shinkawa 2005b, 19). In addition to its relatively late introduction, the NPS was reformed twice, once in each decade since its introduction in 1988. These reforms not only substantially reduced its replacement ratio by almost a third, but also transformed its structure by introducing a basic old-age pension in 2007. These dramatic changes in the NPS, together with more general societal changes in Korea, tend to make it challenging to apply institutionalism to a study of Korean social policy without some modification, because of institutionalism's inherent weakness in explaining institutional change (Peters 2005, 18).

There are thus only a few institutional studies that have examined the NPS. Among them, Hwang (2007) provides an in-depth understanding of the development of the NPS. His approach to institutionalism can be seen as classical in the sense that he emphasises the interaction of institutions with ideas and interests. The NPS reform of 1998 was seen as a continuation of the characteristics of existing policy because the element of vertical redistribution was preserved and the structural reform plan, which aimed at privatisation in the longer term, was effectively rejected (Hwang 2007). The most important factor that successfully protected the NPS from the efforts of structural reform was argued to be the change in the rules of the game. This refers to

the changes in the institutions that would decide who is represented in policymaking processes. Essentially, Hwang argues that the generous public pension system in Korea has remained stable by preserving its original form. This has occurred due to the influence of political institutions that allowed a strong power for a pro-welfare coalition in social policy development.

Peng and Wong (2008) hold a similar opinion about the development of the Korean welfare system in their comparative study of Korean and Taiwanese welfare systems. Their study examined a wide range of policies, from health care to childcare and labour market policies, spanning a period from the authoritarian era to the mid-2000s. Their analysis shows how there were changes at the level of structure of institutions and institutional purposes. They argue that the structure of institutional arrangements has continued in both countries (because they still rely heavily on social insurance programmes), but the purposes of existing institutions have changed significantly. They argue that the changes behind this continuity are intended to alter the purposes of existing institutions to meet new socio-economic objectives during different political-economic eras without restructuring the whole system. These changes, however, are seen to be innovative enough, contributing to ‘the overall deepening of the welfare state in Korea and Taiwan’ (Peng and Wong 2008, 62). The authors suggest that such transformation was achieved in the democratic era (with the inclusion of organised civil society organisations) and in the post-industrial era (with the emergence of political coalitions consisting of economic bureaucrats).

Peng and Wong’s (2008) study, however, has some limitations. First, various policy domains were analysed in their examination of different political-economic eras (divided into the ‘developmental state era’, ‘democratic era’ and ‘post-1997 era’).

However, the latest NPS reform of 2007 was not included in their analysis, probably because the reform was not completed at the time their research was underway. The extent, therefore, to which their argument can be applied to the latest reform remains open to question. Second, their conclusion that welfare states in Korea and Taiwan have been ‘deepened’ by the changes in the institutional objectives can also be questioned if we take account of the latest NPS reform, which involved a structural change in the pension system. Third, whereas Peng and Wong underlined the continuity in the structure of social policy that maintained the social insurance-based system, this does not apply to the case of NPS. The whole picture of the Korean welfare system can be viewed quite differently if the latest NPS reform of 2007 is included in the analysis. This is because that reform substantially reduced the benefit level, while introducing a tax-funded basic state pension system.

Choi’s (2008) study goes further to provide a rather sceptical view of the usefulness of institutionalism in the analysis of pension policy in Korea and Taiwan. The study sheds light on the fact that the types of pension schemes – and the politics of pension policy – appear highly different in the two countries, despite many similar political and institutional factors. An institutionalist approach to the case of pension policies in the two countries, Choi argues, is therefore ineffective. He suggests that a more fitting explanation lies in the different business structures and their influences on social policy.

As can be seen from the above discussion, institutionalist research on social policy in Korea is not only sparse but also incomplete. The short history of the Korean welfare state might be part of the reason for this underdeveloped research domain, but the inherent limitation of institutionalism in explaining change also contributes to it.

Studies thus began to criticise its assumption about the stability of institutions and began to develop institutionalist theories that could be more effective in explaining institutional change. This is discussed further in the next section.

2.2.3 Theories of institutional change

As institutionalism is premised on the stability of institutions over time, significant change is often thought to occur only at ‘critical junctures’ from the institutional perspective (D. Collier and Collier 1991; Lynch 2006; Peters 2005, 18). It is on this point that institutionalism has recently been challenged. Here we discuss how institutionalist studies have increasingly recognised various types of institutional change.

Whereas the literature used to argue that institutional inertia precludes any radical change, more recent studies have paid attention to the transformation that is underway, despite appearances of stability on the surface (Streeck and Thelen 2005). Even the large public pension schemes that Hinrichs (2000, 355) calls ‘the “grey giants” of the welfare state and, like fully grown elephants, difficult to move’ are recognised to have changed significantly: ‘the elephants have been set in motion’ (Hinrichs 2000, 355). The NPS reform presents a similar picture. The largest public pension system went through a significant change in both its parameters and its structure. We thus aim to understand why and how this happened in the Korean context.

A notable change observed in pension policy was the role of the state, which moved from being a financier of public pensions towards being a regulator coordinating public pensions with private occupational pensions (Bridgen and Meyer 2008; Rein and Schmähl 2004; Seeleib-Kaiser 2008). This was in line with the move of social policy in advanced countries towards liberalisation, as Streeck and Thelen (2005)

show. Among many studies of institutional change, the major debates tend to revolve around how significant change is possible, how it occurs and what the relationship is between incremental change and innovative or paradigmatic change.

Debates on how change takes place are not new. One of the classical views on change is the incrementalist approach, seeing change as a consequence of an accumulation of small steps. Several decades ago, however, Etzioni (1967, 387) criticised the incrementalist view of the decision-making process. He argued that although the accumulation of small changes could lead to a significant change, ‘there is nothing in this approach to guide the accumulation’. Therefore, he suggested that ‘the steps may be circular – leading back to where they started, or dispersed – leading in many directions at once but leading nowhere’ (Etzioni 1967, 387). Thus, although incremental change can lead to a significant change, the direction may not always be linear, nor might it decide its own course.

Building upon Etzioni’s ideas, Hall (1993) distinguishes ‘incremental’ from ‘paradigmatic’ change, adapting Thomas Kuhn’s theory on the development of scientific paradigms in political economy. Hall (1993) identifies three different levels of change: ‘first-order change’, when the settings of the policy are changed routinely and incrementally; ‘second-order change’, when the instruments of policy, as well as the settings, are altered; and, finally, ‘third-order change’, when the change entails a radical shift in the logic or goals of the policy. First- and second-order changes do not necessarily lead to third-order changes, such that the occurrence of fundamental change without incremental process is now well recognised (Hall 1993, 278-279).¹⁰ It

¹⁰ According to Hall (1993), the conditions under which a third-order change is likely to occur are, first, when anomalies are accumulated; second, when new forms of policy are being experimented with; and third, when existing policy fails.

is argued that paradigmatic change can arise as a result of a shift in authority, and thus a wider competition between different paradigms. The three categories provide a useful analytical tool in examining policy change.

Hall's (1993) suggestion that third-order change is likely to happen through exogenous shocks, which is in line with a typical institutionalist view on change, has been contested. It has been increasingly recognised that the causal factors of dramatic change can be embedded in institutions rather than being exogenous, and that paradigmatic change can be the outcome of accumulated effects of many incremental changes. For example, Hinrichs and Kangas' (2003) comparative study of the German and Finnish pension systems, which applied Hall's (1993) concept, concluded that both countries underwent paradigmatic changes resulting from merely incremental/parametric changes. Similarly, Palier's (2002) analysis of pension reforms also showed that paradigmatic change can emerge without distinct ideological changes. Further, Hall's (1993)'s thesis does not adequately describe the change in the NPS between 1973 and 2007. Peng and Wong (2008) point out that the structure of social policy institutions in Korea and Taiwan, despite experiencing political and economic shocks, retained their continuity, whereas their institutional purposes changed. Overall these studies imply that incremental change can lead to paradigmatic change without convulsive historical ruptures, and that an abrupt shock is thus not a sufficient condition for change. They also imply that, even if the manifestation of a policy stays the same, this does not necessarily correspond to continuity at all levels in the institutions.

How can transformative change result from incremental change? This is the question addressed by Streeck and Thelen (2005; 2010). Streeck and Thelen (2010) analyse the

patterns of institutional change based on two principal parameters: political context and institutional characteristics. These parameters constitute important aspects of institutional change because once institutions are established they become ‘distributional instruments laden with power implications’ (Streeck and Thelen 2010, 8) for policy actors, as a result of either intended or unintended consequences of action. As institutional continuity and stability are maintained when there is ongoing mobilisation of political support, conflicts over the existing allocation of resources can lead to institutional change.

Thus, the modes of change suggested by Streeck and Thelen (2010) are the result of the interaction of political context and institutional characteristics. These endogenous factors bring about four different modes of transformative change through incremental and subtle change (revised from the five modes of change detailed in Streeck and Theelen 2005). First, change through *displacement* refers to the emergence of new institutions and a gradual responsive adaptation of the system. Second, change through *layering* occurs through a mechanism of differential growth. Third, change through *drift* occurs when the policy remains unchanged even if the risk profile of the society has changed. Finally, change by *conversion* is similar to drift, in the sense that it does not necessarily involve explicit institutional change, but is distinguished by the fact that existing institutions are intentionally ‘redirected’ towards new goals. By applying these modes of change, it is well recognised that institutions are not static but pliable through a dynamic and contested political process.

Despite the development in our understanding on institutional change due to Streeck and Thelen’s work, their theory still has a weakness in explaining why a certain mode of change occurs and not another. This might be related to the fundamental limitation

of institutionalism in explaining the dynamics of change. If we look into each mechanism more closely, we can note that certain groups of policy actors – and specifically their intention and ideas – are deeply engaged in the processes of change. This therefore leads us to enquire into how policy actors come up with new ideas, promote their policy alternatives and compete to bring their policies to fruition.

2.2.4 The role of ideas in policy change

Increasing research suggests how the weakness of historical institutionalism in capturing the dynamic political process can be complemented by focusing on the role of policy actors and their ideas and political strategies. Without taking policy actors into account, it is hard to identify the actual endogenous factors that force a certain change, or the dynamic political process that finally leads to that change. Furthermore, policy actors are the agents who interpret certain issues as policy problems and transform them into political agenda. ‘Who constructs?’ is thus a common question for political economists to ask (Blyth 2002).

The enquiry into who constructs policy problems, and how they frame policy alternatives, has led to increasing attention being paid to the instrumental use of ideas. Most notably, Hall (1993) pointed out that fundamental institutional change involves change in the goals and ideas behind a certain institution. Building on Hall’s work, Blyth (2002) used the role of ideas to explain why a common political economic phenomenon (deflation) produced varying institutional responses in Japan, Italy and Sweden. He maintained that the uncertainty and complexity of the problem allowed policy actors room for constructing their response in their own distinct way. As a result, final policy choices varied between the three countries. Blyth therefore argued that ideas are crucial in understanding institutional change because they ‘allow agents

to challenge existing institutional arrangements and the patterns of distribution that they enshrine' (Blyth 2001, 4). In examining the process of policy change in this study, we will thus give particular attention to the ideas pursued by policy actors, determining which of them were successful in achieving the targeted policy change.

Like Hall and Blyth, Campbell (2002) also pointed out that scholars have paid far less attention to how ideas affect policy-making compared to the impact of interests and institutions. While differentiating the types of policy ideas into sub-categories of ideas, including cognitive paradigms, worldviews, norms, frames and policy programmes, he emphasised that researchers need to take care to unravel the causal processes through which ideas leads to policy change. In so doing, it is necessary to identify the policy actors involved in policy-making, the ideas they seek to influence, the strategies they use to achieve their policy alternatives, and the political discourse formulated by their interpretation of the problems and solutions (Campbell 2002).

Throughout this study, we define the term 'ideas' as 'claims about descriptions of the world, causal relationships, or the normative legitimacy of certain actions' (Parsons 2002, 48). We do not strictly differentiate various sub-categories of ideas, as Campbell (2002) suggested, but we adopt a broader, yet more specific concept of a 'policy idea' that refers to 'specific policy alternatives (for example, personal savings accounts) as well as the organised principles and causal beliefs in which these proposals are embedded' (Béland 2005, 2). Adopting this definition of policy ideas is advantageous in its empirical application to examining the process by which ideas affect policy-making. In the next section, we discuss how the welfare state literature has discussed the role of policy actors in the context of Korean social policy.

2.3 The role of policy actors in the welfare state

In this section, we turn to a discussion of the role of other policy actors. There are two prominent and conflicting strands of argument in this area: the power-resources approach (PRA) and the employers-oriented approach/the varieties of capitalism (VoC) argument. The PRA pays attention to the role of partisanship, emphasising the role of social democratic parties and their political support from the working class, whereas the VoC approach turns attention to the role of employers in promoting the welfare state. Despite their explanatory power, both approaches are limited by their Western bias. In the following sections, we discuss the role of political parties and trade unions, employers, bureaucrats, experts, and civil society organisations, and link them to the Korean context. At the end of the section, we pose our research questions.

2.3.1 The Power-Resources Approach: the role of political parties and trade unions

The role of political parties is most heavily emphasised in the argument of the Power-Resources Approach (PRA). From this perspective, the welfare state is the result of the ‘democratic class struggle’ that mirrors employment relations, segmentation of the labour market, and the interaction between social class and life-course risks and resources (Korpi 1983). Thus, the strong political power of trade unions and left-wing parties has been regarded as an important factor that shapes welfare state development differently. People with higher life-course risks tend to have fewer individual resources, and this tendency is regarded as creating a greater potential for mobilisation (Korpi 2006, 168). In this context, social democratic parties, which gain more of their political support from the working class, play a key role in making welfare states more universal and more redistributive.

Korpi (2006) provided a counter-argument to the VoC approach, arguing that the role of employers does not include actively expanding welfare. He suggested three categories of policy actors in the welfare state development: protagonists, antagonists, and consenters. Their roles are described as follows (Korpi 2006, 182):

- *Protagonists* initiate policies extending social citizenship rights and become agenda setters in welfare state expansion;
- *Consenters* become involved in subsequent stages of policymaking; and
- *Antagonists* persist in opposing expansion.

Based on this categorisation, Korpi underlined the point that the role of employers does not include actively expanding welfare, and he thus considered them ‘consenters’. In contrast to most other studies, which see the role of actors in a dichotomy (that is, welfare state supporters and opponents), Korpi (2006) asserted that some people, including employers, were ‘forced to agree’ with welfare state expansion (consenters) despite it not being in their best interests, and therefore they should not be seen as welfare state promoters.

Critics of the PRA claim that changes in socio-economic circumstances can undermine its propositions (Keman, van Kersbergen, and Vis 2006). The PRA is premised on the working classes uniting in pursuit of their common interest – more equal distribution and universal welfare states – but the influence of the working class has not only been in decline, but their policy preferences have also become more diversified and, at times, conflicted (Keman, van Kersbergen, and Vis 2006). The development of the welfare state has also mitigated the need for labour mobilisation, while generating popular support for the welfare state among constituencies known to punish politicians for unpopular policies (Pierson 2001).

In this study, we will explore the role of partisan politics and trade unions. The PRA as it stands cannot explain social policy development in Korea because universalistic policies were introduced without strong trade unions and left-wing parties (Mares and Carnes 2009, 105). As discussed in Section 2.1, the Korean welfare system in its early stage was established by authoritarian governments (H.-J. Kwon 1999b) and there was thus little room for engagement between political parties and trade unions. Since the democratic transition, however, the context of policymaking has changed greatly, increasing the opportunities for non-government actors to participate. In 2004, with the support of the labour unions, the Democratic Labor Party (DLP) succeeded in winning seats in the National Assembly for the first time, signifying the substantial change in politics and the increased role of political parties in policymaking.

Despite this fundamental change, few studies have researched the role of political parties in Korea and their arguments are in conflict. The increased partisanship is found in the record of the National Assembly: since the 2000s, the number of government proposals rejected by the National Assembly increased exponentially (The National Assembly 2008). This is a significant change considering that it rarely exercised vetoes on government legislation until the 1990s. Cho et al (2009) also points to the bigger influence of partisan politics in the NPS reform of 2007. However, we need to note that, in the case of the NPS, the increased influence of political parties did not lead to welfare expansion, but to a substantial reduction. Hwang (2007) has argued that the NPS reform can be explained by the change in the ‘rules of the game which determined who would be represented in the decision-making processes’ (Hwang 2007, 144). It is argued that the 1998 reform was a result of the centre-left government giving more power to the welfare ministry and organised welfare state advocates. This argument cannot, however, explain the subsequent reform of 2007

which was, in many ways, the opposite of the previous one, even though the rules of the game remained the same, with a centre-left government in office.

In examining the influence of political parties, we need a different approach from the traditional view of the PRA. We need to note that the political persuasion of political parties does not necessarily link to the party's preferences for welfare state policy. It has been suggested that in some cases left-wing parties can conduct more radical reform than their counterparts because they tend to have better communication with their constituencies (e.g. Cukierman and Tommasi 1998), which has been demonstrated in the case of pension privatisations in Latin America (Mares and Carnes 2009, 105-106). Politicians are also less restricted by public support for welfare than has been argued (Dahlström 2009, 233), and their policy preferences can change over time (Seeleib-Kaiser, Dyk, and Roggenkamp 2008); the effects of partisanship can play out differently even within an electoral cycle (H. Y. Kwon and Pontusson 2010). Nor is the influence of political parties proportional to the number of their supporters or the number of their seats in parliament, but to the relative power of other policy actors (Esping-Andersen 1990; Korpi 2006).¹¹

Little attention has been given to the influence of trade unions in Korea because of the history of suppression faced by workers during the authoritarian eras, and thus the persistently weak political power of trade unions, as assessed by low trade union density.¹² The density of trade union membership, the most widely used indicator of

¹¹ The strong influence of the Social Democrats in Sweden was due to the relative weakness of the conservative parties, which had never been tightly united (Esping-Andersen 1990). Thus, the relative power structure among the parties and the dynamics of their competition are important (Korpi 2006).

¹² The union density refers to the proportion of wage and salary earners who are trade union members among the total wage and salary earners (OECD Labour Force Statistics).

labour power, has always been low in Korea. After reaching a peak of 18.6% in 1989, it has continued to decrease, standing below 12% in 1997 and dropping further to below 10% in 2010 (OECD 2015). Due to the history of suppression on trade unions, it is problematic to test power-resources theory with the Korean case (Tang 1996, 380). Although labourers gained the right to form unions after democratisation, their role has not been very 'visible' in policymaking compared to other policy actors (W. S. Kim and Choi 2014, 266). Social policy was also not at the centre of labour unions' attention until the economic crisis in 1997 (S. Kwon and Holliday 2006, 245).

Nevertheless, the role of trade unions in social policy development is still important. Compared to other East Asian countries, Korean labour unions were most active in protesting against labour law reform that would allow lay-offs at the time of the economic crisis in 1997 (Tang and Midgley 2002, 207). They also led the reform of public assistance and health care systems, allying with other civil society groups in the early 2000s (H.-J. Kwon 2003, 78). Thus, their interest and engagement varied across policy domains. Moreover, despite the nationwide low union density, labour unions of larger firms have become stronger, and they are the largest interest group in Korea (S. Kwon and Holliday 2006). Thus, if Korean labour unions mobilise effectively to take collective action they have a strong capacity for exerting considerable influence. We will therefore explore the role of trade unions in the NPS reforms.

2.3.1 The Varieties of Capitalism argument: the role of employers

The Varieties of Capitalism (VoC) argument criticises the PRA on the grounds that it cannot explain why some countries have been able to develop an expanded welfare state without a strong centre-left party (Iversen 2005, 5), or how strong support has

been maintained in many welfare states despite the declining influence of labour unions and the working class (Iversen 2005, 6). Turning attention to the role of business groups and employers, the VoC approach asserts that the welfare state emerges when the power of employers is strong, not weak, and accuses the PRA of overlooking the proactive role of employers in the development of the welfare state (Swenson 1991). In VoC, the welfare state is a functional complement to the economic institutions that develops as an outcome of class-alliances within economic sectors rather than as emerging from class-conflicts (Iversen 2005; Korpi 2006, 169).

The VoC approach contends that different types of welfare state develop depending on the needs of employers in relation to labour management and their cost calculations (Estevez-Abe, Iversen, and Soskice 2001; Hall and Soskice 2001a; Iversen 2005; Mares 2001). Firstly, a welfare state with a social insurance system develops in coordinated market economies (CMEs) where employers are in need of company-specific skills in which rational workers are reluctant to invest because of their limited transferability, unless there is compensation for this investment in the form of other types of insurance against job loss or relative income decline. As it is not easy for firms to find reliable insurance against the risk of losing firm-specific skills in the market, employers promote job protection policies, unemployment insurance and a coordinated wage bargaining system, leading to the development of an expanded welfare state (Hall and Soskice 2001b). Secondly, liberal welfare states are accompanied by liberal market economies (LMEs) in which workers are more likely to invest in general skills and find insurance through their portability and transferability, because it is relatively easy for employers to release or hire workers in such a fluid labour market. In this situation, neither employers nor workers have a

strong interest in state provisions, leading to a welfare state with few social programmes.

A major critic of the VoC comes from Korpi (2006), who argues that employers have never been active promoters of the welfare state, but were forced to consent to social protection policies because their options were limited by the given situation. The logic of this argument is that if employers were actively initiating job protection to retain asset-specific or firm-specific skills, the unemployment insurance system should have been introduced earlier than other social insurance systems, providing more income-related benefits than benefits from other social insurance programmes (Korpi 2006). However, using historical data, Korpi claims that the policies to promote skills retention and job protection were not designed to serve such a purpose: unemployment insurance has often been introduced later than other types of insurance in most welfare states, with its benefits being less income-related (Korpi 2006). Thus, he argues, employers cannot be seen as a promoter of welfare state development, since their consent originates in their aim to maximise profitability, not from first-order policy preferences.

The assumptions of the VoC approach also raise questions. For example, how can employers in different societies have the same interests, regardless of their different social contexts, just because they are in the same economic sector or industry (H. Y. Kwon and Pontusson 2010)? To what extent can we assume that workers are rational in that they choose a job only after careful consideration of the nature of the skills in which they are investing and the level of risk those skills will entail? Even if many workers can do so, we cannot further assume that skills and job protection are always among their highest priorities when taking a job.

In the Korean context, little is known about the role of employers in welfare state development. A study that sheds light on the influence of business has been conducted by Choi (2008), who compares the politics of pension reform in Taiwan and Korea. According to Choi, differences in politics and reform outcomes in the two countries, despite very similar political and institutional factors, can be explained by the business structures and their influence on policymaking. The reform bill of 2007 in Korea was different from the proposals formulated by the government, political parties and pro-welfare civic groups, and involved a substantial reduction in pensions (Choi 2008, 132). Choi suggests that this can be attributed to the influence of business on policymaking, which was not the case in Taiwan, because the final pension reform bill was designed to serve the best interests of business groups: by only reducing the benefit level, it did not increase the employers' burden (Choi 2008, 139). His study does not, however, explain the ways in which business groups affected policy decision in the policymaking processes. It is thus possible that the reform outcome was not the result of employers' influence, or of their single influence, but that it came about through the intervention of other factors as well. We can make this clearer with our research by examining the dynamics of policy actors in the policymaking process.

Further to the aforementioned policy actors – political parties, trade unions and employers – this study considers the role of three other categories of actors who are important in social policy in Korea: bureaucrats, experts and civil society organisations.

2.3.2 Bureaucrats

Bureaucrats (members of the government administration) are important in the context of Korean social policy, including the NPS. It is noted that bureaucrats tend to develop a sense of ownership of the programmes they administer (Allison 2008, 63; Marier 2005, 524), and thus have a desire to protect their programmes by seeking larger budgets (Miller and Demir 2014, 138). Their role is important in policymaking because they have knowledge and expertise regarding the policy issue, and the public tend to trust them more than political parties, especially in Europe (Marier 2005, 523-524). Nevertheless, their role in the recent welfare reform, especially in the context of retrenchment, has received far less attention than that given to the constraints of institutions and the politics among politicians (Dahlström 2009; W. S. Kim and Choi 2014; Marier 2005).

Recently, increasing evidence has pointed to the influence of bureaucrats being significantly greater than was previously recognised (Dahlström 2009, 218; 233). Marier (2005, 523) calls for more attention to be given to their role, stating that it has been ‘virtually forgotten in current debates on Western governments’ inability to retrench the welfare state’. He has shown that bureaucrats still play an important role in the policy processes of welfare reform, both by promoting them and by slowing them down (Marier 2005). In his comparative study on France and Sweden, the influence of bureaucrats was shown to vary between the two countries. The Ministry of Finance appeared to exert greater influence, with the influence of social ministries being in decline (Marier 2005, 542). Similarly, Dahlström (2009) stresses that not only was the advice from bureaucrats important in the distribution of Swedish welfare cuts, but so was their cooperation with the political parties in leading Sweden’s

pension reform. The significance of bureaucrats is more profound in the Korean case than in Western countries because of its history: a small group of elite bureaucrats and experts dominated policy processes until the late 1980s during the authoritarian era, monopolising the knowledge and expertise on social policy (Hwang 2006; W. S. Kim and Choi 2014; H.-J. Kwon 1999b). It is not, however, clear to what extent the influence among bureaucrats is still effective; this dimension will also, therefore, be explored.

In this research, our interest lies in the role of elite bureaucrats, not the entire group of bureaucrats in all government agencies. Interestingly, not many studies clearly define the term, even if the topic of research is solely focused on bureaucrats (e.g. Eisner and Meier 1990; W. S. Kim and Choi 2014; Marier 2005; Waterman, Rouse, and Wright 1998). Dahlström (2009, 217) clarifies the nature of the bureaucrats he studies by describing them as those who are ‘centrally placed in the government offices or agencies’. Here, the situation of being ‘centrally placed’ means they have power based on their position and expertise. Although all bureaucrats have their own roles depending on their position, we can infer that the bureaucrats referred to in research on policymaking are those who hold a certain degree of power and influence which they can exert, either directly or indirectly, over a policy decision, and whose role in policymaking is relatively more salient than that of other civil servants. In fact, this group of bureaucrats is clearly distinguishable from other civil servants, especially those in the lower ranks or those working in street-level offices, whose role is to deliver policies rather than to design them. For the purposes of this study, therefore, the term ‘bureaucrats’ refers exclusively to elite policymakers.

In the context of social policy, two groups of bureaucrats play a key role: economic bureaucrats working for the finance and economic departments, and welfare bureaucrats working for the health and welfare departments. In Korea, economic bureaucrats used to dominate the policymaking processes, enjoying superior power and control until the late 1990s (Hwang 2007; H.-J. Kwon 1999b; Peng and Wong 2008).¹³ However, the role of welfare bureaucrats has increased since 1997, when the economic bureaucrats' legitimacy was diminished due to their responsibility for the economic crisis, and because of the characteristics of the new government that came into office in 1998, which pursued more 'pro-welfare' policies (Hwang 2007; H.-J. Kwon 2003; J.-J. Yang 2004). An advantage of looking at the role of bureaucrats, rather than looking at the role of the state as a whole, is that it enables us to differentiate the distinct interests and policy preferences of each bureaucrat depending on their affiliation.

In the case of the NPS reform, the role of bureaucrats is still contested, which is why we need further study in this area. For example, Joo (2010a) criticises the role of the welfare ministry during the NPS reform of 2007, accusing it of excluding civic groups from the political dialogue. She argues that the level of old-age protection set in the NPS reform was inadequate, as a result of political negotiations in closed-door meetings between the government and political parties. However, Kim and Choi (2014) see the reform as a success, contributing to the expansion of welfare by introducing the Basic Old-age Pension (BOP) (a tax-funded state pension for low-income elderly) together with the NPS reform. Focusing on the BOP, they see this policy change as a great achievement of the welfare bureaucrats who led the reform

¹³ The supremacy of elite economic bureaucrats in Korea has continued since the authoritarian era, but we need to note that their superior power is also prevalent in advanced economies, albeit to different degrees (Marier 2005, 542).

debates and process. We thus need to examine and compare the role of both economic and welfare bureaucrats, the dynamics between them and other policy actors, and how their roles have changed over time.

2.3.3 Experts

Experts constitute another salient policy actor in the Korean policy context because of the legacy of authoritarian governments that had granted exclusive power to a small group of economic experts and bureaucrats in policymaking (H.-J. Kwon 1999b). In political science, scholarly attention to the role of experts within and without the government in policymaking has significantly increased since the 1980s, marking a significant shift in focus towards the political influence of communities of experts (Baumgartner 2012, 250-251). The role of experts is particularly important in policy change because paradigmatic change can occur when there is a shift in ideas shared by experts and other policy professionals (Baumgartner 2012; Hall 1993). In pension policy, the role of experts and their ideas have been particularly salient compared to other policy areas because ideas on pension policy have been widely diffused through international organisations (Leimgruber 2012; Marier 2008b).

The influence of experts and their ideas has been researched through the use of various concepts, for example a policy community, issue network, epistemic community, and advocacy coalition framework.¹⁴ These concepts were developed to differentiate between the levels of ties among members and also other characteristics, such as the size of groups (Miller and Demir 2014). These concepts are, however, very broad and are not clear enough to be used for this study, because they not only

¹⁴ The advocacy coalition framework, developed by Paul Sabatier, gives particular attention to the belief systems shared by the members of the coalition who are struggling to change policies (Sabatier 1988; Weible and Sabatier 2014).

include experts, but also governmental actors and organised interest groups, policy lobbyists and other policy professionals (Miller and Demir 2014, 137-140). In short, experts are seen as a sub-group of a larger system, rather than as separate. This may be because they can act as part of non-government organisations or as a governmental actor, taking part in government advisory boards. In addition, it is difficult to strictly distinguish between the role of experts and bureaucrats, because some experts spend part of their career serving the government and government officials may move into academia (Stone 2014, 153). Despite the frequent use of these concepts, therefore, we consider there to be a problem with definitions and ambiguities, because there is an inevitable overlap between policy actors (Miller and Demir 2014, 139). Moreover, these concepts fail to capture the underlying interactions among members (Miller and Demir 2014, 142). In the light of these considerations, we examine the role of experts as separate policy actors rather than as a sub-group of the policy community. We will, however, investigate how they interact with other policy actors and how such policy communities or epistemic groups are developed and become effective.

In this thesis, we see experts as those who possess a certain degree of knowledge in the domain of the policy under debate, a certain level of academic background, and a position that grants them legitimacy to the extent that their expertise and political influence is typically well received by the public. Some overlaps are inevitable, as this study examines a long-term policy development. The overlaps exist not only between bureaucrats and experts, but also between experts and civil society organisations, particularly in the Korean context, because some professors are deeply engaged in civil society organisations (as explained in the following section). For example, a person who designed a policy as a bureaucrat in the early stages can take part in the subsequent policy process as an expert or as a politician. Identifying the dynamics of

the role of policy actors is also part of our task as it helps us understand the ways in which policy ideas develop through the role of policy actors.

In the NPS, the role of experts is particularly important because of the substantial technical and specialised knowledge that pension policy involves. As the influence of bureaucrats continues to some extent, that of experts also continues, as they are a source of knowledge. The ways in which they exert their influence, however, and the degree of that influence, may not be the same as before. Their influence in policymaking can also be related to the degree of power that the government intends to grant them, and the extent to which they are allowed to participate in the formal policymaking process. Thus, Kwon (1999b, 59) finds that experts with a particularly strong influence in Korea tend to have originated in government roles. Their influence can also be related to the amount of trust the public has in them.

We need to note that not all experts try to exert influence on policymaking, nor can all do so. In the case of the NPS, experts as policy actors also include researchers in well-recognised research institutes, for example the Korea Development Institute (KDI), known to have led the development policies in Korea during the 1970s and 1980s (Hwang 2006; H.-J. Kwon 1999b; Ringen, Kwon, Yi, Kim, and Jooha 2011b), and university professors in economics, sociology and social welfare. Both of these groups have a good knowledge of public pension policies. Perspectives on the NPS also appear to differ by background area. We will examine the role of experts in the domain of the NPS, and how this has changed over the past few decades, together with how the dynamics among expert groups, and between experts, and other policy actors has changed.

2.3.4 Civil society organisations

The final category of policy actor is civil society organisations, and non-government and non-profit policy lobbyists.¹⁵ Many studies point to the salient role of civil society organisations in leading the expansion of welfare system from the late 1990s (e.g. Y. J. Choi 2008; Hwang 2007; H.-J. Kwon 2003). In Korea, they gain expertise from the engagement of professors in various subjects, as there are professors who make their voice heard on policy issues through the means of civil society organisations. Since the 1990s, the influence of civil society organisations has grown in ‘every issue of social policy,’ bringing both the middle class and the working class into alliance (Y. M. Kim 2008, 118). A study of policy network analysis has also shown that the central role adopted by civil society organisations was the greatest change in the policymaking process in Korea since the 1990s, along with the decrease in the influence of economic bureaucrats (Hong and Song 2005).

During the NPS reform of 1998, the influence of civil society organisations was seen as considerable to the extent that they were able to defend the system against the influence of international organisations. When Korea was advised to follow the policy recommendations on pension reform from the World Bank in 1998 as a condition of the bail-out programme of the International Monetary Fund (IMF) in 1997, these

¹⁵ The role of civil society organisations in the development of social policy has, it is argued, been prominent in Korea since the 1990s. The first time that their influence appeared in a notable and far-reaching manner was in the successful implementation of the policy ‘Real Name System for All Financial Transactions’, which forced people to use their own names in all financial accounts to improve the transparency of financial transactions. Among various civil society organisations, the Citizens’ Coalition for Economic Justice (CCEJ) claimed the credit for the initiative as it held numerous street rallies and delivered many statements. The proposal was finally introduced in 1993. The participation of various interest groups, including those so-called ‘civil society organisations’, has been formally supported and increased in the formal policymaking process, especially since President Kim Dae-Jung came into power on the platform of ‘participatory government.’

policy recommendations were not reflected in the NPS reform (J.-J. Yang 2001, 227). In this regard, studies argued that the strong political power of pro-welfare civic groups effectively defended domestic politics against the influence of the World Bank in the 1998 NPS reform (Y. J. Choi 2008, 131; Y. M. Kim 2008; Y. M. Kim and Kim 2005; J.-J. Yang 2004). As a background to understanding the prominent role of civic groups, Hwang (2007, 144) argues that the strong influence of these actors was related to the presence of the centre-left government, which led to the diffusion of ideas – most notably, an increased awareness of the right to welfare.

There is, however, disagreement about the role of civil society groups in the NPS reform. Further, since few studies cover their role during the reform of 2007, the reason for their lack of prominence at this time is not clear. Hwang (2007) points out several reasons for why the 1998 NPS reform failed to produce a transformative change (towards neo-liberalism), resulting in a parametric reform. These reasons include the strong power of pro-welfare civic groups, a widened window for participation in the policy-making process, and the centre-left political regime that was in power. Arising from these, therefore, was the increased perception of (and demand for) public welfare. However, his argument concerning the factors involved in the NPS reform of 1998 does not apply to the reform in 2007 because, even if the factors he suggested remained almost the same in the successive progressive government, the future welfare benefit was radically reduced. If their influence continued in other policy areas, how can we understand their diminished role in the NPS reform? Kim (2008) points to the failure of civil society organisations to draw up a uniform reform proposal. We thus need more research on the ways in which they exert influence, and the factors that affect their influence in policymaking. These are therefore included in what we explore in this thesis.

To summarise, we identified principal policy actors engaging in the policymaking process at different levels and in diverse ways, to be key factors in policy change. We categorised key policy actors that we will examine in this study. The number and range of major policy actors engaging in the NPS reforms may develop over time and become more diverse. Also, the types of major policy actors and the ways they play their roles in the policymaking processes can be different in each policy domain. Thus, an in-depth study of the role of policy actors in one policy domain – in this case, public pension reforms – will help to contribute to theories on policy change in Korea and the role of policy actors in such processes.

2.4 Conclusion

In this chapter we have reviewed theories concerning the development of the welfare state in the West and East, institutional theories, and the role of policy actors. An increasing number of studies now recognise that the welfare system in East Asia follows a pathway that is distinct from its Western counterparts. It is neither in continuity with Western systems, nor does it represent a singular model; rather, there appear to be a mixture of models within it. A possibility is that it might be in the process of making its own path, rather than following the historical course of western welfare states (Hort and Kuhnle 2000). While institutionalist approaches pay greater attention to the policymaking process, our current understanding of the nature and the dynamics of the welfare state change in Korea is still insufficient. It is noted that even institutionalist studies point to the salient role of political actors and the ideas behind their policy preferences.

Under democracy, governments in East Asia need to deal with increased political and social demands from multiple political actors, while competing democratically for

power. Nevertheless, most existing studies of the EAWR tend to underplay the political dynamics of the policymaking processes. For the purposes of this research, therefore, we adopt the lens of policy actors for our analytical framework, and mainly focus on the major policy actors that we discussed in this chapter: the president, the bureaucrats (and their government departments), experts, political parties, trade unions, employers' associations, and civil society organisations. In the next chapter, we investigate the role of policy actors in the first stage of the policymaking process of the National Pension System (NPS), which resulted in its introduction in the 1970s and 1980s.

Chapter 3. Policymaking in an authoritarian regime

3.1 Introduction

This chapter considers the policymaking process which took place in the developmental welfare state in Korea during the 1970s and 1980s by examining the case of the National Pension System (NPS). This period was characterised by hard authoritarianism under the governments of Park Chung Hee (1962–1979) and Chun Doo Hwan (1980–1988), who took power by military coups in 1961 and 1980 respectively. During that time, authoritarian governments pursued economic development as a means of legitimising their rule (H.-J. Kwon 2005a; 2009; Ringen, Kwon, Yi, Kim, and Lee 2011). The government implemented social policies which they thought, in return for strong political suppression, would help develop the economy and gain political popularity. This subordination of social policies to economic development is summarised by the notion of the ‘developmental/productivist welfare state’ that describes the major characteristics of East Asian welfare states, especially in their initial forms (H.-J. Kwon 2005a; White and Goodman 1998).

In this chapter we aim to explain a policy change taking place within an authoritarian era. In this case, the focus is on the introduction of the NPS. We specifically seek to identify who were the advocates of the policy; why they pursued it; how they achieved it; what was the nature of the specific settings of the policy they promoted; and why they were in favour of a particular form of policy in contrast to the alternatives. The importance of this era stems from the fact that it was the time when the underpinnings of the developmental welfare state were first established and these pillars continued to exert influence on the later development of Korea. As discussed

in Chapter 2, theories of developmental welfare states tend to focus on the political and economic motivations of the government in social policy development; that is, the legitimisation of its rule and its economic development programme (e.g. Holliday 2000; Johnson 1982; H.-J. Kwon 1999b; Midgley 1986; Peng and Wong 2008). However, we need to note that authoritarian governments still need popular support and legitimacy to rule effectively (Chisung Park, Lee, and Chung 2015). Moreover, governments in pursuit of given goals, can still make different policy choices. We should not, therefore, assume that there was no conflict over the settings, instruments and implementation of social policy during this authoritarian era. As little research has been undertaken about the dynamics of the policymaking process, especially during this era, an examination of this case will help us to explain the emergence of a developmental welfare state and its ideational foundations.

Studying this era is relevant to recent research on the latest reforms in East Asian welfare states, many of which raise questions about whether the developmental welfare state persists and how it adapts to changing political and economic environments (e.g. Jacobs 2000; Young-Hwa Kim 2003; H.-J. Kwon 2009; S. Kwon and Holliday 2006; Peng and Wong 2008). Although East Asian welfare states share many characteristics, it should be noted that the dynamics of the policymaking process in each country could be different, as policymakers might have different ideas and interests that, nevertheless, lead to similar policy outputs. Thus, this chapter aims to scrutinise why policymakers preferred certain ideas and interests, and why some of these were more resilient than others.

The time period covered by this chapter extends from the early 1970s, when the public pension system was first proposed under the government of Park Chung Hee,

up until 1988, when the NPS finally came into effect under the government of Chun Doo Hwan (at the same time as the last non-democratic regime also ended). As Korea had an authoritarian regime during this entire time, the policymaking process only involved a limited number of policy actors. The president, senior (economic) bureaucrats and advisory agencies were the main policy actors. Political parties and the National Assembly were under the control of the presidency, as the president had the right, from 1972 to 1987, to order the dissolution of the National Assembly. Their influence was thus weak during this time (Ringen, Kwon, Yi, Kim, and Jooha 2011a, 27). Due to these political and economic circumstances, archival data is neither as rich as those for more recent years, nor are policymakers from that time readily available. Many of the key actors are elderly or have passed away as it has been more than 40 years since the initial debates about public pensions. However, we were able to engage deeply with principal policy actors by interviewing those who led the policymaking process or were involved in the policy design at that time. These actors included senior bureaucrats or senior researchers at the government agency, the Korea Development Institute (KDI). In addition it was possible to draw heavily on previous studies; working papers published by the KDI and the National Pension Research Institute (NPRI); and government documents and other archival data (including past legislation) in order to triangulate the data.

In the following section (3.2), we examine the policymaking process of the National Welfare Pension (NWP) before we discuss, in Section 3.3, how the NPS was introduced in 1986. The NWP of 1973, the predecessor of the NPS, passed into legislation but was not implemented in the face of major policy constraints, most notably the economic recession caused by the first Oil Shock in 1973. This is discussed in Section 3.2. However, an examination of how the NWP was originally

conceived and promoted is essential to an understanding of the NPS developmental process, because the major policy actors remained in a powerful position and continued to exert an influence on policymaking. After briefly discussing the 1973 NWP in Section 3.2, we then focus on the process of introducing the NPS in 1986, by investigating the main advocates of the measure, why they pursued it, and how they succeeded. The chapter concludes that policy actors were susceptible to the political reaction to their policy, as they were exposed to political competition even during authoritarian eras. Further, the original ideational preference of policymakers was deeply embedded in the design of the policy.

3.2 The first attempt to introduce the National Welfare Pension (NWP) in 1973

The process of legislating for the National Welfare Pension (NWP) of 1973 is typical for a developmental welfare state. It was conceived of in the first place under the government of Park Chung Hee (1962–1979), which headed a strong state and exercised hard authoritarianism in order to mobilise domestic savings for its economic development. Its implementation of NPW was not successful because of unfavourable political and economic circumstances (Hwang 2006; Ringen, Kwon, Yi, Kim, and Jooha 2011a). In this section, we present the political and economic motivations of the developmental welfare state which lay behind the legislation of the NWP. This is followed by a discussion on the policymaking process, and concludes with an examination of the policy constraints that finally impeded its implementation.

3.2.1 Political and economic objectives of developmental welfare state

As discussed in Chapter 2, social policy development in Korea in the authoritarian era was subordinated to economic policy. Social policy was, therefore, implemented

when it was necessary for economic development and political legitimation, and the NWP provides a good example of this.

The objectives of political legitimation and economic development were interconnected. Authoritarian governments in Korea, as well as in other East Asian countries, used economic development as a means to justify their illegitimate rule (H.-J. Kwon 2005a; Mares and Carnes 2009). Park Chung Hee (1961–1979) seized power through a military coup in 1961. His government was an example of a developmental state, ‘highly interventionist with single-minded economic priorities’ (Ringen et al. 2011, 9). To justify his rule, he pursued economic development as a top priority. For effective and efficient economic development, the government intervened deeply in the market while strongly suppressing labour unions and their workers (H.-J. Kwon 1999b; Ringen, Kwon, Yi, Kim, and Joocha 2011a).

Alongside the oppression of the labour force, however, the government also implemented various social policies to gain popular support. A major social policy development under the Park government was the introduction of a social insurance system for workers in large firms who played an important part in economic development (Peng and Wong 2008). The social insurance systems the Park government introduced were financed by contributions from employers and employees. Thus, from a financial perspective, the government only regulated the system with partial payment for administration (Hwang 2006; Ringen, Kwon, Yi, Kim, and Joocha 2011a). Social policy during that era had specific political and economic purposes, and was therefore instrumental in nature: it was aimed exclusively at better-off workers and involved minimal state intervention. The NWP was one of the policies the government devised as a means to achieve its political and

economic objectives. A public pension system was a particularly powerful tool because it could accumulate domestic savings if designed as a funded system rather than as a pay-as-you-go system.

For the Park government, such a policy instrument was very useful in the early 1970s because of increasing political threats to its rule. At that time, increasing political support for the main opposition party's leader threatened to put an end to a continuation of President Park's power. In the presidential election on the 27th April 1971, the presidential candidate of the opposition party, Kim Dae Jung, emerged as a strong political rival, receiving 45.2% of the total votes although he was still defeated by President Park. On the 17th October 1972 President Park therefore reformed the constitution, introducing the so-called '*Yusin Constitution*' to strengthen his autocratic power. Officially, the government proclaimed that the Yusin Regime (1972–1979) was about 'building a welfare state for the people'. Its actual objective, however, was to draw in more political support while strengthening autocracy (H.-J. Kwon 1999b). With this reform, the direct electoral system was changed to an indirect one, and the presidential term was increased to six years, allowing the incumbent's reappointment for another term and allowing that person to enjoy a lifelong presidency (H.-J. Kwon 1999a, 31). In addition, the president was now able to appoint a third of the members of the National Assembly and also had the right to dissolve it, which further weakened the power of the assembly and the political parties (Ringgen, Kwon, Yi, Kim, and Jooha 2011a).

The political intention of the government can be seen from the name of the policy and the timing of its announcement. Firstly, by naming the policy the National 'Welfare' Pension, the government wanted to give the impression that it was pursuing a 'welfare

state’ as stated in the Yusin Constitution while continuing to rule undemocratically. Calling the policy the National ‘Welfare’ Pension was a deliberate choice that reflected this political intent (Interview nos. G3, G5, E5). Secondly, the government announced the plan for the NWP immediately before the forthcoming elections. Hence, the president’s new year’s speech on the 19th January 1973 declared that a social security system for the retired, disabled, widows and widowers was under preparation (Cho-Sun Daily 1973; NPS 2008, 39) (see Table 3-1). The government actually increased its welfare budget from 3.5% in 1972 to 4.7% in 1973 (B.-S. Seo 1997, 102; J.-J. Yang 2007, 94). This represented a 34% increase, albeit from a low level.

Table 3-1 Dates of key political events (1961–02/1973)

Dates	Event
1961	Park Chung Hee seizes power with a military coup
27 th April 1971	Presidential election: Park wins narrowly
17 th October 1972	Declaration of the ‘Yusin Constitution’, which heightens the autocratic system
19 th January 1973	Announcement of the plan for the National Welfare Pension (NWP)
2 nd February 1973	General elections

Economically, the NWP was seen as an effective tool for the government because it needed a large amount of capital to invest in the economy. In the early 1970s, the government tried to shift its economic strategy from export-orientated growth to the development of heavy industry, including the chemical industry (Hwang 2007, 136; H.-J. Kwon 1999a, 30). Previously, the government had achieved an average economic growth of 11.4% with the successful two Five-Year Economic Development Plans (EDP) (1962–1966 and 1967–1971). The core element of the

third Five-Year EDP (1972–1976) was to set up the development of heavy industry.¹⁶ To invest in such industries, the government needed to mobilise funds through domestic savings and foreign commercial loans (Koh 2008, 179–184). All the ministries thus developed a plan to raise funds. This included the Economic Planning Board (EPB, 1961–1994), an economic ministry that assumed an important mandate for planning the Five-Year Economic Development Plans alongside managing the budget. It was the EPB which proposed introducing a public pension (NPS 2008). The NWP was thus conceived as a tool for economic policy as well as for political advantage.

3.2.2 The political process of policy design

The most distinctive feature of the decision-making process in this era was the conflict between the economic and welfare ministries over the objectives of, and ideas underlying, the policy (J.-J. Yang 2007). This has been less well covered in the literature than the policy's political and economic purposes. Although economic ministries, including the EPB, were most influential, the opinions of the welfare ministry were effective in influencing the design of the policy. This was especially true when their opinions were seen as more politically popular and more appropriate for achieving the policy's objectives.

Upon the president's request that a plan be drawn up to fundraise for heavy industry, the economic and welfare ministries competed with each other to prepare their own proposals. The EPB's proposal was drafted by the top economic bureaucrats at EPB and economists at the Korea Development Institute (KDI), the specialised think-tank

¹⁶ The plan focused on the following four aspects: improvement in the living standard in rural areas; the development of heavy industry; establishing a social security system; and the improvement of working conditions (NPS 2008, 35).

for drawing up the Korean economic development plan. The plan pursued economic objectives, trying to maximise the size of the fund accumulation, because both organisations prioritised economic development (H.-J. Kwon 1999a, 23; 1999b; NPS 2008; J.-J. Yang 2007). As the policy priority of EPB focused on economic development, it designed a system that could raise as great a fund as possible by applying the system mandatorily to employees at all workplaces with 10 or more employees or self-employed people.

In contrast, the proposal of the Ministry of Health and Social Affairs (MOHSA)¹⁷ included more elements of social equity and pursued social and policy objectives. The MOHSA considered the actual affordability of the scheme for workers to be more important, so they proposed to commence by covering employees at workplaces with 30 or more employees while leaving it as a voluntary system for the self-employed (NPS 1998; J.-J. Yang 2008b). Another key difference from the EPB's plan was the lower contribution rate and the government's subsidy for low-income workers. This proposal was backed up by the MOHSA's Social Security Council (SSC)¹⁸, which played a counterpart role that was similar to the KDI's relation to the EPB (Hwang 2006; H.-J. Kwon 1999b; Ringen, Kwon, Yi, Kim, and Jooa 2011a).

After a year's discussion, the MOHSA's ideas defeated those of the EPB, resulting in the final bill including elements of social equity embedded within its proposal (J.-J. Yang 2007; 2008b). This was unusual considering the MOHSA's inferior position within the government (J.-J. Yang 2007). In fact, considering the high prevalence of poverty in society at that time, old-age income security was not an urgent social

¹⁷ It was renamed the Ministry of Health and Welfare (MOHW) in 1994.

¹⁸ Yet the SSC's expertise in policy was neither as strong nor as politically influential as the KDI (H.-J. Kwon 1999b).

problem (NPS 1998, 83–85). In addition, when the specific plan was announced, some newspaper articles attacked the plan as being designed for economic purposes, while also placing a high burden on the economy (S.-K. Kim 2010, 62; NPS 2008)(Interview no. E8). It seems that the implementation of social policy for the sake of economic development was not always welcomed. This was especially the case when the burden of the scheme would fall largely on employers and middle- and high-income workers without these groups receiving any immediate benefits.

The National Welfare Pension Act was finally passed in the National Assembly on the 1st December 1973. The final Bill was somewhat modified from the EPB's original plan, reflecting the political reaction to the policy. While Hwang (2006, 58) argues that the final NWP bill mainly followed the opinions of the EPB, Yang (2007; 2008b) and the National Pension Service (NPS 1998, 86–87) argue the opposite. They suggest that it closely followed the welfare ministry's opinion. Two elements support this. In the final proposal, the contribution rate was set at 7% – 1% lower than that of the EBP (NPS 1998, 86–87)(The National Welfare Pension Act No. 2655). Moreover, following the opinion of the welfare ministry, the contributions of low-income workers were further reduced by up to 2%, with a partial government subsidy of 1% of the contribution rate. The upper income ceiling for the contribution payment was increased, which meant that higher income earners would have to pay more. The mandatory coverage was initially limited to workers at companies with 30 or more employees, a provision which also stemmed from the welfare ministry's opinion (J.-J. Yang 2007, 96).

These changes show that the opinion of the welfare ministry had substantial influence in establishing the coverage and contribution rates, which were the two most

important areas of controversy between the economic and welfare ministries. Thus, we also support Yang (2007; 2008b) and the National Pension Service (NPS 1998, 86–87) in their argument that this shows the unusual influence of the welfare ministry in social policy. With these changes, the economic benefits were significantly mitigated, while the opinions of welfare ministry were better received (J.-J. Yang 2007, 103). Thus, the final Bill came to have more welfare elements (NPS 2008; J.-J. Yang 2008a). Yet, due to the limited data available for this era, we need to be cautious in concluding that this was the result of the active role of the welfare ministry in the policymaking process. Not only was that ministry under the control of the economic ministries, but the CSS, its advisory agency, did not have as strong an expertise in policy as its counterpart, the KDI (H.-J. Kwon 1999b).

In conclusion, the policymaking process shows that a strong authoritarian government was also susceptible to political responses to its policy, as the government was still open to political competition. It also turned out that the superior influence of the economic ministry was not always successful (Hwang 2007; H.-J. Kwon 1998). Its strong power was less effective when its pursuit of non-policy (political and economic) objectives became too accentuated. It still, however, remains questionable to what extent the economic ministry was powerless in this case because the NWP was never implemented.

3.2.3 The failure of the NWP in 1974

Despite the passage of the NWP in December 1973, the successful legislation did not lead to actual implementation. Although many studies point to the influence of the economic recession caused by the 1973 oil crisis as a major reason for this failure,

here we give attention to other influential factors that demotivated the government from proceeding with the plan.

The Park government issued Presidential Emergency Decrees on the 14th January 1974 that contained measures to deal with the recession. These included the deferral of the NWP for a year in Decree No. 3 (Minns 2007, 120). As the previous literature points out, the economic difficulties played an important role in this decision (Hwang 2006; 2007, 138; H.-J. Kwon 2005a; Hye-Kyoung Lee 2007, 34; NPS 2008; Ringen, Kwon, Yi, Kim, and Jooha 2011a). It is evident that it is difficult to mandate collections for a public pension under such economic circumstances. The Korean economy was affected by the recession more than other countries, as it relied heavily on exports. For example, consumer prices increased by 16% in Korea in the 1970s, whereas the level was only 6.5% in the United States and 5.6% in Singapore (Koh 2008, 220). On the 31st December 1974, the government dissolved the presidential emergency decree No. 3 and deferred the NWP. The NWP was postponed once again in December 1975, this time indefinitely, which ultimately meant the cancellation of the plan (NPS 1998, 93; 2008) (The National Welfare Pension Act No. 2863) (see Table 3-2).

Table 3-2 Dates of key political events (01/1973–12/1975)

Dates	Event
19 th January 1973	Announcement of the plan for the National Welfare Pension (NWP)
27 th February 1973	General elections for the 9th National Assembly (1973–1979)
October 1973–March 1974	The 1973 Oil Crisis
1 st December 1973	The National Welfare Pension Act passes the National Assembly
14 th January 1974	Presidential Emergency Decrees issued; No. 3 postpones the implementation of the NWP
31 st December 1974	Presidential Emergency Decree No. 3 dissolved
31 st December 1975	Indefinite deferral of the NWP

Although the government pointed to the economic recession as the main justification for the cancellation, this was not the only reason (Hwang 2007, 138; Hye-Kyoung Lee 2007, 34; J.-J. Yang 2008b). While dissolving all the emergency economic measures, the government resumed implementing welfare programmes when the economy began to recover. For example, a public pension system for private school teachers and staff was introduced in 1975. In addition, the Health Insurance System was also implemented in 1977. This had been a voluntary system introduced in 1963, but in 1977 it became compulsory. As the health insurance system was already providing benefits to workers, popular demands for the health insurance system were stronger than demands for a new public pension system. Thus, to better understand the failure of the NWP, we need to consider other policy constraints.

Firstly, the government's political and economic motivations were substantially diminished. As a result of final modifications to the Bill, the total estimated size of the pension fund accumulation amounted to only around a quarter of the size of the fund

that was originally estimated in the EPB's plan (J.-J. Yang 2008a, 121).¹⁹ Moreover, the final bill also required the government to subsidise contributions for low-income workers. It thus involved expansion of the welfare budget, and this conflicted with its economic policy. In addition, the government's political motivation was less strong because President Park's political party won the 9th general election held on the 27th February 1973. As the government's term ended in 1979 and the Yusin Constitution allowed for his lifelong presidency, the electoral risk of remaining in power was effectively removed. The government thus had no strong interest to proceed with the plan.²⁰

Secondly, it should be noted that the policy problem of the NWP was not a social problem, considering the socio-economic conditions in the early 1970s. At that time, Korea was one of the poorest countries in the world and had relied heavily on international aid. In 1965, about 40% of the population was living in absolute poverty (S.-M. Seo 1981, 5). Despite continuous economic growth for over a decade, in the early 1970s more than 70% of employees still lived below the minimum living standards (NPS 1998, 84). Further, the prevailing social norm by that time was that elderly parents were supported by their adult children and relatives (S.-J. Choi 1996).

¹⁹ The heavy and chemical industries in the 1970s grew significantly without any funding from the NWP. The proportion, by economic output, of heavy and chemical industry within the total industry was 37% in 1972, but it increased to 55.1% by 1982 and 59.9% by 1987 (Cha 1995, 117). In addition, the proportion of total exports heavy and chemical industry contributed to total exports was only 7.4% in 1970, but this had increased to 19.3% in 1980 (Cha 1995, 54). The Korean economy continued to grow, with an average increase in real GDP of 7.2% in the 1970s (Koh 2008, 301).

²⁰ The heavy and chemical industries in the 1970s grew significantly without any funding from the NWP. The proportion of heavy and chemical industry's contribution to economic output within the total industry was 37% in 1972, but it increased to 55.1% by 1982 and 59.9% by 1987 (Cha 1995, 117). In addition, the proportion of heavy and chemical industry in relation to total exports was only 7.4% in 1970, but this had increased to 19.3% in 1980 (Cha 1995, 54). The Korean economy continued to grow, with an average increase in real GDP of 7.2% in the 1970s (Koh 2008, 301).

Economic development was seen as the best way to increase the people's welfare rather than introducing new welfare programmes (J.-J. Yang 2011, 82). Indeed, a growing economy led to a continuing increase in *per capita* income above 7%. Wages among manufacturing workers had increased even higher and stood above 9% for more than two decades from 1966 to 1991 (J.-J. Yang 2011, 82). In this situation, it was difficult to justify the compulsory application of the public pension.

Thirdly, the government was also conscious of the unfavourable political reaction to the NWP (NPS 1998; J.-J. Yang 2008b). Since the announcement of the NWP plan, many newspaper articles alleged that its primary economic objective was the accumulation of pension funds to invest in industry (NPS 2008; J.-J. Yang 2007) (see NPS (1998, 83-85)). The opposition party was also opposed to the plan for the same reasons – it objected to the economic objective and the financial burden on workers (Cho-Sun Daily 1973). During the authoritarian eras, the mass media was also under the government's control (M.-K. Kang 2004; J. H. Lim 2002). Nevertheless, its voice was not dismissed because authoritarian regimes also needed popular support to maintain their rule (Ramesh 2004)(Interview no. E8). What is notable is that the voice from the media also reflected business interests. Although businesses, especially large companies, relied heavily on the government's market protection, their influence was growing because authoritarian regimes need economic growth to legitimise their rule (H.-J. Kwon 1999b, 43).

Finally, Yang (2007; 2008b) cautiously points to the influence of the regime's competition with North Korea in the 1970s as part of the reason for the NWP's cancellation. At that time, the economic situation in North Korea was largely better than that of the South. The North Korean government's propaganda aimed at the

South proclaimed that life in North Korea was far better than in South Korea, and included the claim that all people in the North were provided with a wide range of welfare programmes including a free health care service and universal old-age pensions (J.-J. Yang 2007). This partially motivated the Park government to decide to provide a social security system as soon as possible so as not to be defeated by the North in the regime competition (J.-J. Yang 2007; 2008b) (Interview nos. E4, G12). However, when the Park government was about to introduce the NWP, North Korea had just abolished its direct taxation and it also broadcast propaganda to the South advertising that ‘North Korea is a paradise without tax’ (J.-J. Yang 2008b, 117). Influenced by this policy change, the Park government began to lower its tax rates and raise the taxable income threshold, and the NWP was a further constraint on this round of policy competition (J.-J. Yang 2007, 101–102; 2008b, 117)(Interview no. E8).²¹

In conclusion, the strong authoritarian government was not completely free from political competition and public response. The adverse public response to the proposal of the EPB provided an opportunity for the MOHSA to infuse the final bill with their ideas. Yet their influence was limited, and the NWP was cancelled in the end. The policy process put the government in a position where it was forced to deliver a policy that was not what it had originally intended, while being unable to achieve its foremost economic purpose (J.-J. Yang 2007, 104; 2008b, 121). The coinciding economic crisis gave the government an opportunity to pause the policy process. Further, it exploited the situation by *de facto* annulling the policy, especially when its intended economic and political benefits were not guaranteed. Although the NWP

²¹ Due to the increased level of taxable income, 85% of taxpayers were exempt from the tax payment (J.-J. Yang 2008b, 117).

was abandoned, its advocates in the EPB and the KDI continued to prepare the introduction of a pension system in the next government. In the following section, we discuss how this led to the introduction of the National Pension System (NPS) in 1986.

3.3 The introduction of the NPS in 1986

The actual introduction of the National Pension System (NPS) was also decided in accordance with the political and economic objectives of the administration of Chun Doo Hwan (1980–1988), who seized power from Park Chung Hee following a military coup in 1980. Again, as in the previous era, a small circle of policymakers set up the principles, goals and specific design of the policy (Kwon, 1999). However, the policymakers' ideas about the structure of the system and their rationale behind it were more concrete and elaborate than had been the case with the 1973 NWP. In this section, we examine the goals, objectives and intentions of the government in implementing the NPS, followed by a discussion of the process through which specific policy settings were designed. We then focus on the dominant ideas involved in the rationale of the policy, which provided an important foundation for the next round of the NPS reforms.

3.3.1 The political and economic objectives of the government

The introduction of the NPS was underpinned by the political and economic motivations of the government of Chun Doo Hwan (1980–1988), as had been the case under the previous government. However, the need for social policy as a political and economic tool was stronger for Chun than it had been for Park Chung Hee. When he seized power through a military coup, he proclaimed 'building a truly democratic welfare state' to be his government's key political mission in his inaugural speech as president on the 1st September 1980 (Inaugural speech 1980). Nevertheless, his

government was not interested in expanding the welfare system until the mid-1980s. This lukewarm approach to social policy began to change when political threats to his power reached a peak.

In fact, politically, the Chun government needed a means to legitimise its rule other than through economic development, because it could not achieve rapid economic growth. The fact that Chun had come into office through a military coup made it necessary for him to legitimise his rule. Expanding the welfare system, however, was not considered an option because the government pursued strict austerity and tried to freeze the budget in early 1980 as part of its policy of economic stabilisation. From the beginning of its term, the Chun government's primary economic goal was not growth but stability because, after a decade of economic growth at a rate of 8% per year during the 1970s, the domestic economy had begun to fluctuate dramatically with a sharp increase in prices (above 20%) in the early 1980s, reaching a peak of 28.7% in 1980 (Cha 1995, 27; Hwang 2006, 60; Koh 2008; 2008, 229). The stabilisation policy led to sluggish economic growth and a consequent increase in unemployment, leading to below-zero growth in the real Gross Domestic Product (GDP) in 1981 for the first time since 1956 (Koh 2008, 233; 2008, 230; Hye-Kyoung Lee 2007, 36).²² Despite the increasing political need for social policy, therefore, fiscal policy remained orientated towards austerity until 1986 (Koh 2008, 232).

The Chun government's slogan of building a 'true' welfare state was thus, given its meagre efforts on welfare during most of its term, political rhetoric. When the government initially came into office through a military coup, it passed several major Acts on welfare to relieve political tensions. For example, the Elderly Welfare Acts

²² However, the average real GDP growth was 8.7% from 1981 to 1990 (Koh 2008, 301).

and the Disabled Welfare Acts were introduced in 1981, and the out-dated Child Welfare Act of 1961 was extensively reformed. Yet such legislation only asserted the rights of these vulnerable people and the government's responsibility to protect them but without making any actual provision for them. Only those who were seriously deprived could receive public assistance, and they were negligible in number (Hye-Kyoung Lee 2007).

The government's reluctance to expand social policy began to change in the mid-1980s because of the increasing political threat to its authoritarian power. During its term, the Chun government continued a strong political suppression of labour, lowering wage increases to the minimum level to exploit cheap labour for its economy. However, its authoritarian power was much less solid than that of its predecessor. In the mid-1980s, students, labour, religious and other civil groups became more organised and took to the streets calling for democratisation. Labour disputes also began to increase rapidly (T.-S. Kim and Sung 2004, 400-407; H.-J. Kwon 1999b; Ringen, Kwon, Yi, Kim, and Jooa 2011a; J. Wong 2005). Thus, the Chun government faced an ever-growing political call for the demise of authoritarianism (H.-K. Lee 2007, 36; Ringen et al. 2011, 13).

The opposition to the Chun government led to increasing political support for the main opposition party, especially from students and religious groups who joined democratisation movements. As a result, the ruling party barely won the general election, and only narrowly succeeded in taking the majority of seats in parliament in the general election. This narrow victory was not the result of any great political support for the ruling party, but the consequence of the opposition fragmenting into two parties. This was reflected in the election results that revealed the total votes for

the two major opposition parties in the election had exceeded the votes for the ruling party. The ruling party gained 35.2% of the total vote, 14% points less than the total votes gained by the other two major opposition parties (29.3% and 19.7% each). Later on, particularly from the mid-1980s, the political movements from below calling for democracy continued to grow (T.-S. Kim and Sung 2004, 400-407).

Increasing political contest finally resulted in the expansion of the welfare system due to electoral considerations. Conscious of the increasing popularity of the opposition party, the government announced its plan to expand social welfare, including the introduction of the NPS, just ahead of the next presidential election in 1986. It called the plan the 'Three Grand Welfare Legislations', which were to introduce the NPS, the Minimum Wage System and universal National Health Insurance (NHI). The three 'grand' welfare legislations represented a substantial development in the welfare system because the NPS, the minimum wage system, and universal health insurance would benefit a large number of people – the NPS in the long term, but the other two immediately.

The actual political goal of the government was to use these policies to prevent any political turmoil in handing over power to the succeeding presidential candidate as a result of a democratic transition (T.-S. Kim and Sung 2004, 400-407). Thus, the succeeding ruling party presidential candidate, Roh Tae Woo (1988–1993), pledged, on the 29th June 1987, to end authoritarianism and to implement all three welfare systems if he succeeded in becoming president. This strategy of exploiting the welfare system as a political tool was successful. He won the election, and was inaugurated as the thirteenth president of Korea on the 25th February 1988. As promised, the NPS

then came into force, along with the other two major welfare systems, in January 1988 (see Table 3-3).

Table 3-3 The dates of key political events (01/1973–12/1975)

Date	Event
17 th May 1980	Military coup by the General Chun Doo Hwan
1 st September 1980	Inauguration of President Chun Doo Hwan (1980–1988)
12 th February 1985	General elections (the ruling party wins narrowly)
September 1986	Announcement of the plan of the ‘Three Grand Welfare Legislations’ to introduce the NPS, the Minimum Wage System and universal National Health Insurance (NHI)
29 th June 1987	Declaration of the transition to democracy by the ruling party
16 th December 1987	First democratic presidential election held The presidential candidate from the ruling party, Roh Tae Woo, wins

In addition to political imperatives, introducing the public pension was also included in the 5th Five Year Economic and Social Development Plan of the government. In fact, the Chun government also had an economic need to introduce the NPS. In the 1980s, the high level of foreign debt had been a persistent and urgent problem threatening the national economy (Cha 1995, 22).²³ The economic bureaucrats and the KDI, the major policy actors, thus also supported the idea of the NPS because they saw it as an effective economic instrument to accumulate funds to repay increased foreign debt quickly and also to invest in economic development (C. L. Jung and Walker 2009)(Interview no. E12).

In short, the decision to introduce the NPS was made by an authoritarian government that needed a political instrument to gain political popularity to remain and succeed in

²³ For example, the total foreign debt in 1984 reached its highest level since the 1970s, amounting to 38% of the Gross National Product (GNP) (Cha 1995, 22).

power. It is noteworthy that, although the authoritarian regime finally ended, political power remained with the same ruling party despite the democratisation process and it continued to influence the later development of the NPS. In the process of designing the specific settings of the policy, economic bureaucrats and the KDI played the most important role. Although it was still an authoritarian regime, and the policy was made within a small circle of policymakers, the policymaking process involved conflicts and thus the process of persuasion, which we present in the next section.

3.3.2 Conflicts within the government over the plan for the NPS

Under Chun's authoritarian regime, the process of policymaking concerning the NPS was not as smooth as had been the case with the National Welfare Pension (NWP) of 1973. The policymaking process at that time still involved, although to a lesser degree than during the later democratic era, persuasion, negotiation and the need to court political popularity.

Although social policy was debated within a small circle of policymakers at that time, the role of policy advocates – in this case, senior economic bureaucrats at the Economic Planning Board (EPB) and its advisory agency, the Korea Development Institute (KDI) – remained important in introducing the NPS (Y. Choi 2011; Shinyoung Kim 2006; H.-J. Kwon 1999b). In fact, the advocacy group for the NPS consisted of the people who originally promoted the introduction of the NWP in 1973. Their persistent interest in the public pension system and efforts to introduce it, despite the deferral (and *de facto* cancellation) of the NWP, can be found in the fact that the plan for the NPS was included in every Five-Year Economic Development Plan (developed by the EPB and the KDI as a blueprint for economic development every five years) until its legislation in 1986.

Although senior economic bureaucrats and the KDI, their policy advisory agency, were among the most influential policy actors in the authoritarian regime, they needed to persuade other policy actors when conflicts over policies arose (Hwang 2006; H.-J. Kwon 1999b; Peng and Wong 2008). In the case of the NPS, the biggest opposition came from the president. As mentioned in the previous section, the Chun government pursued an economic austerity policy. The president therefore initially did not want to expand the welfare system. Moreover, in the early 1980s the deficit of the health insurance system (introduced in 1977) strengthened his negative view about welfare (NPS 1998, 111; 2008; J.-J. Yang 2008b)(Interview nos. E10, P2). This again confirms that the Chun government's political goal of building a welfare state was a mere political gesture. The policy's advocates thus firstly had to change the president's mind.

The president's negative view about the welfare system was based on the dominant view among policy elites at that time. In the 1980s, these elite – such as senior economic officials, economic ministers, and researchers at KDI – shared this view and were strongly influenced by Thatcherism and Reaganism (Hye-Kyoung Lee 2007, 37)(Interview nos. E10, E11). They therefore preferred a strategy of 'small government' rather than a fully-fledged welfare state (J.-J. Yang 2008a, 338). This idea was deeply embedded in the president's philosophy as can be seen from the interview with the former vice president of the KDI, who led the NPS project at that time:

With the appointment of Kim Jae Ik as Economic Secretary, the economic policy orientation was set towards stabilisation in the early 1980s. It was the time when Thatcherism and Reaganism had emerged in the West. I have no idea who reported it to the president, but somehow the president held a very negative view on welfare, which seemed firmly rooted in his mind. When I firstly reported to

him about the NPS, his response was vehement. All I heard was that ‘the Korean economy will collapse if we run these welfare systems. You brought up these plans because you don’t know about Korea as you have lived abroad too long. [...] If we introduce such a system, it will just create the “British disease” in Korea.’ As his opposition was so strong, we could not at first proceed with the plan (Interview no. E10).

However, the president’s negative view changed as a result of the increasing notion of ‘social development’ among the economic bureaucrats and the KDI. The role of two key ministers in the 1986 government who had adopted the idea was particularly important: the Presidential Secretary for the Economy, Sa Gong Il, and the new minister of the EPB/Deputy Prime Minister,²⁴ Kim Man Je (Interview nos. E12, E10). They were similarly minded former KDI members who had originally initiated the plan to introduce the NWP in 1973. In fact, Kim Man Je, the minister of the EPB, was the first president of the KDI and had led the organisation for about eleven years. His period in control lasted from the EPD’s establishment in 1971 until he was appointed Minister of Finance in 1982 before becoming minister for the EPB. At that time, although the ideas of Thatcherism and Reaganism were dominant among policy elites, the concept of ‘social development’, which emphasised the need for social policy to achieve sustainable economic development, was increasingly recognised at the KDI (Midgley and Tang 2001)(Interview nos. E10, E4, E8). Its recognition can be found in the renaming of the Five-Year Economic Development Plans as the Five-Year Economic and ‘Social Development’ Plan from 1982. The KDI’s report on the specific plan for the NPS also points to the increasing social need for public pensions in future due to the changing socio-economic structure. Thus, we can note the role of a ‘policy community’ in this process, which consisted of powerful people in

²⁴ The minister of the EPB concurrently held the post of Deputy Prime Minister for economic affairs from 1963 to 1994.

influential government positions who shared a similar set of beliefs and knowledge (Adler and Haas 1992; Marier 2008a; Stone 2014).

The economic benefit of the NPS was another important piece of ammunition for the supporters of the NPS including the minister of the EPB and the presidential economic secretary. As pointed out in Section 4.3.1, the public pension was a useful tool for accumulating capital that could be used for repaying the foreign debts. Besides, the senior economic bureaucrats including the minister of the EPB and the KDI (the key advocates of the NPS), emphasised that an early introduction of the system would include the baby boomers who would enter the labour market from the late 1980s. This would be particularly advantageous because in doing so the government would be able to maximise the size of the pension fund accumulation. The KDI's progress report on the NPS, which was made confidential until the final report was published, states:²⁵

Given the age structure of the population in employment, an early introduction of the pension system is desirable. As the baby boom generation are entering the labour market after the mid-1980s, extending their contribution periods to the maximum will be helpful to maintain the balance of the pension finance. Without its early introduction, a stable management of the pension system would become difficult because with the baby boom generation's ageing, their periods for receiving pensions would become longer compared with the period of their contributions paid, if the NPS is introduced later (S.-M. Seo et al. 1986, 12).

The NPS supporters exploited the experience of welfare states in advanced countries to persuade the president. The Presidential Secretary for the Economy, Sa Gong Il,

²⁵ Before the KDI published its final report on the NPS in 1986, a progress report had been published as an internal confidential report first-authored by Seo Sang Mok, the then vice president of the KDI, who had led the project on the NPS in that department.

and the new minister of the EPB/Deputy Prime Minister,²⁶ Kim Man Je, accompanied President Chun on his first official trip to Western Europe in 1986. On their way back to Korea, they insisted that all the advanced countries, including those countries they had just visited, were running public pension systems, and that to leap towards becoming an advanced country required a good balance between economic and social development (NPS 1998, 111). With their persuasion, the president finally changed his mind and commissioned the specific development of the pension plan from the EPB and the KDI (NPS 1998, 111). The rhetoric of ‘what advanced countries are doing’ and ‘what is necessary to become an advanced country’ were effective.

Following the trip to Europe, the research team at the KDI published a seminal report delineating the underpinnings of the system and the rationale behind the policy design, entitled ‘Basic Plans and the Socio-economic Impact of the National Pension System’ (see Min et al. 1986; NPS 1998, 111; S.-M. Seo et al. 1986). The report pointed out three socio-economic factors as a background to the NPS: the ageing of the population, the lack of public pension for private sector workers and the increased economic capacity to afford the system.

More specifically, the report firstly estimated that the proportion of elderly people aged 60 or over would increase from 6.8% in 1986 to 10.0% in 2000 and 25.0% in 2040 (Min et al. 1986, 15). It was thus argued that the NPS was necessary given the ageing of the population in future. Secondly, it was stressed that, despite demographic and other relevant social changes, only about 2.3% of the population was entitled to a public pension in 1985, including government employees and private schoolteachers

²⁶ The minister of the EPB concurrently held the post of Deputy Prime Minister for economic affairs from 1963 to 1994.

(S.-M. Seo et al. 1986, 8).²⁷ Thirdly, it was argued that the Korean economy had developed enough to afford a public pension system with the increased capability of employers and employees to pay pension contributions. Fourthly, it was pointed out that the economic fluctuations which had caused high inflation rates in the early 1980s had settled down, while the economy continued to grow (Koh 2008).²⁸ In short, the development of social and economic conditions was considered as an important reason for the NPS.

In the report, the experience of other countries was again used to support the argument about the increased affordability of the Korean economy. It was pointed out that all other countries with similar, or higher, economic levels were running a public pension system. It emphasised that all countries with a *per capita* income above \$2,000 USD in 1985 had public pension systems, except three: Korea, Oman and the United Arab Emirates (Min et al. 1986, 18). The report thus based the economic imperative for the NPS on the cases of other countries.

While establishing the plan, the KDI and the EPB faced another difficulty because they had to gain agreement from the two most important interest groups – employers' associations and trade unions – and these opposed the NPS. Kwon (1999b, 2) argues

²⁷ At that time, increasing urbanisation and the changing family structure towards a nuclear family unit had been raising the issue of the excluded elderly in rural areas, which was frequently reported in the newspapers (Interview no. G7). Although there was a mandatory Lump-sum Retirement Allowance (LRA) for old-age security, its actual function fell short of a pension because 97.6% of LRA recipients were aged 50 or less in 1984. Moreover, most of the female recipients and about a half of male recipients were aged between 18 to 29 (S.-M. Seo et al. 1986, 10); when the workers were provided LRA, it was more likely to be used as unemployment benefit or for house purchases and the education for their children (Min et al. 1986).

²⁸ As a result of the strong stabilisation policies in the early 1980s, inflation was maintained at a level below 3% from 1984 to 1986. This was a notable figure compared with the 1970s, when it averaged (for example) 18.3% from 1971–1975 and 20.9% from 1976–1980 (Koh 2008, 204). The economy had also grown by an average of 8.7% during the 1980s (Koh 2008, 301).

that, at that time, both business organisations and trade unions ‘played no part in the policy making’. Indeed, labour movements were strongly oppressed under the authoritarian regime; only government approved trade unions were allowed, but they still had no right to strike and bargain (H.-J. Kwon 1999b, 46). However, the size of trade unions grew rapidly after the 1970s, when the government began to invest massively in the heavy and chemical industries (H.-J. Kwon 1999b, 46). Also, after the experience of the failure of the NWP, policymakers were aware that adverse political response to their policies could well frustrate a plan (Interview nos. E8, E10). When the plan for the NPS was announced, both employers’ associations and trade unions were against it. The employers thought that the existing cost of welfare was already high because of the mandatory severance payment system, which they paid for in full. The trade unions were concerned that the NPS could lead to the abolition of the existing retirement allowance system, in which they had already developed a vested interest (NPS 1998)(Interview no. E10). To proceed with the plan, the Vice President of the KDI, Seo Sang Mok, who was leading the NPS project, went to the employers’ association and promised to abolish the statutory severance payment system if the employers’ associations would support the NPS. At the same time, he gained support from the trade unions and persuaded them that supporting the NPS would be beneficial for them because the severance payment system would be abolished in the future anyway (Interview no. E10). The strategy of persuading the two opposing interests using the future plan for the existing system was successful, making the rest of the policymaking process more viable.

Behind the decision to introduce the NPS, therefore, was the important role of the senior economic bureaucrats and the KDI, who constituted a leading policy

community in social policy. It was also they who drew up the specific arrangements of the NPS, which we discuss in the following section.

3.3.3 The structure of the NPS

The KDI's 1986 report on the plan for the NPS provided the underpinnings of the system. The main feature of the NPS, compared to the NWP, was that it included more electoral considerations.

The NPS was designed as a significantly more generous system than the NWP. Firstly, the coverage of the population was set to apply to those workers in companies with ten employees or more.²⁹ It began with a contribution rate of 3% of salary for the first five years, increasing to 6% from 1993 and then to 9% from 1998, which was to be paid half and half by employers and employees. Secondly, the (gross) income replacement rate for a standard pensioner was set at 70% with 40 years' contributions. The accumulated pension fund was to be managed by the EPB, and the minister for the EPB became the chair of the Committee for the National Pension Fund Management (see Table 3-4). At that time, providing benefits to the current elderly was not considered. This was partly because, up until that point, supporting older people within families had been a social norm and partly because the political and economic intentions were more dominant in the NPS than the social goal of protecting older people (H.-J. Kwon 1999a). With these regulations in place, the NPS was

²⁹ The population to be covered was far wider, compared with that of all earlier social insurance systems, such as the IACI (1964) and the NHI (1977), which had started with workers in companies with 500 employees or more. Nevertheless, the employees working in companies with ten employees or more only represented about 25.6% of the total workforce in 1984.

passed on the 17th December 1986 and set to be implemented from the 1st January 1988.

Table 3-4 The design of the NPS, as introduced in 1986

Dimension	Details
Population covered	Companies with ten employees or more
Contribution rates	1988–1992: 3% of salary 1993–1997: 6% of salary 1998–onwards: 9% of salary
Income replacement ratio	70% based on lifetime income for 40 years 35% based on lifetime income for 20 years
National Pension Fund (NPF) Management	The minister of the EPB leads the Committee for the NPF Management

The difference of the NPS from its precursor (NWP) was the higher consideration given to its political popularity. To appeal to the public, it was designed to cover more people, provide higher pensions (40% replacement in the NWP, but 70% in the NPS), with much lower contributions in the first ten years (8% in the NWP from the beginning). The contribution rate was set to increase every five years at the beginning of a new presidential term, rather than increasing a small amount every year. This also sprang from political considerations, because President Chun did not now need to worry about any political resistance to his policy, because the NPS would not start during his presidential term.

Another remarkable feature was the very high replacement ratio, particularly compared to its low contribution rate. The ‘standard (gross) replacement ratio’ for average income earners with 40 years of contributions was set at 70%. This ratio was not estimated based on any actuarial calculations. Instead, it was conceived with the political intention of making it more attractive by being similar to the civil servants’ pension system, which provided the maximum 76% of gross income replacement for

a maximum contribution period of 33 years (Interview nos. E6, E10). By doing so, it was intended to impress on the public that private sector workers would come to have benefits similar to those of civil servants, who were seen as a privileged group (Interview nos. G7, G4). Thus, the structure of the system was very politically conscious and also unrealistic as it lacked considerations of the original policy goal, namely, the need to provide stable and adequate pensions to older people.

In sum, political and economic considerations were embedded in the structure of the NPS, which was formulated within a closed circle of economic policy elites. We also noted that the key policy actors endeavoured to prevent possible political resistance, although those efforts were made behind the scenes. We found that the economic bureaucrats and the KDI – the main institution behind developing and pursuing the developmental welfare system – were the major policy actors who promoted and drew up the plan for the NPS. In the next section, we examine the rationale behind their policy position.

3.3.4 The key rationale behind the structure of the NPS

The ideas underpinning the design of the NPS are important because they were deeply embedded in the system and would continue to influence the policy debates and the people working within the system. The KDI's report on the NPS elucidates the ideas about the welfare system, and the NPS in particular, held by the economic elites who led the introduction of the NPS.

Furthermore, the subordination of social policy to economic policy was reflected in the emphasis on the financial stability of the NPS. The balance of the pension's finances had been a great concern among the economic elites. They warned that the late introduction of the NPS would increase the future financial burden by

lengthening the period in which the baby boomers would receive their pensions, compared to the duration of their contribution payments. Therefore, the financial stability of the pension fund was a more important reason for introducing the NPS than preventing old-age poverty. The need to maintain financial stability was stressed repeatedly, guiding the whole structure of the system, as shown in the following explanation:

Considering the change in the socio-economic condition, experience of advanced countries, and the affordability of our economy, the pension system in Korea needs to have the following characteristics.

- (1) Maintain the benefit level for basic living maintenance.
- (2) Develop a pension model that can achieve the long-term *stability of the pension finance*.
- (3) Enhance the pension system stably by adjusting the contributions and benefit level gradually.
- (4) Include a redistributive element for the stability of the living costs of the low-income class.
- (5) Guarantee the profitability and stability of the pension fund to the maximum and manage the pension fund for the improvement of the people's welfare by using the fund for building public housing [emphasis added] (Min et al. 1986, 20).

What is also evident in the above quotation is the preference for minimum state intervention. The government's preferred role, attentive to concerns about financial stability, was to be that of a regulator, not a financier. Thus, the name of the policy was also changed from the National 'Welfare' Pension to the National Pension, hence removing the word 'welfare' from the name. According to the former vice president of the KDI, who led the introduction of the NPS, this was to make sure that 'the first principle of the welfare system was that there is no free lunch', which was in line with the liberals' approach to welfare, whereas 'the second principle of the welfare system was to help the economic development', showing developmentalism (Interview no. E10). Thus, not only was social policy subordinate to economic policy,

but we also find a preference for liberal economic policy (Holliday 2000; Johnson 1982; H.-J. Kwon 1999b; Midgley 1986a).

In addition, this combined preference for developmentalism and liberalism was reflected in the view that welfare spending was merely a burden on the national economy. The KDI's report states that the authors were well aware of the financial impact of the NPS in the future, having learned from the experiences of advanced countries (Min et al. 1986). Public pensions were characterised as the main source of the financial deficit in those countries, impeding further economic growth (Min et al. 1986, 27). Thus, the report emphasised that 'the NPS is designed to be *financially neutral* so that it would not lead to a financial deficit.³⁰ [...] the trials and errors that the advanced countries had gone through are prevented in the proposed pension system' [emphasis added] (Min et al. 1986, 28). From the beginning, there was a great concern that the increasing welfare expenditure in the advanced welfare states should not happen in Korea – a perspective that was not counterbalanced by any attempt to address the positive social impact of those systems.

Finally, the developmentalist and liberal approach led to a preference for a minimum level of welfare. The report says the financial principles of the NPS as follows (Min et al. 1986, 28):

- (1) Government expenditure will be restricted to the payment of the *administration fees* to manage the system alone.
- (2) The pension fund will be managed to *maximise profitability* as long as stability is secured.
- (3) The level of pension benefit will be *limited to the subsistence level* so as to be able to *maintain the financial balance* for the long-term [emphasis added].

³⁰ It was not clearly stated in the report how financial neutrality could be achieved, but the first author of the report admitted that such an argument was not grounded in fact and was ambiguous.

Once again, the financial profit was emphasised here with a strictly limited role for government as a regulator that would only pay the administration fees of the NPS. To achieve financial stability, the report recommended providing only a subsistence-level pension.

Interestingly, it is noteworthy that the ideas of the welfare ministry were not so different from those of the economic elites. Under the Chun government, the welfare ministry had three basic principles with regard to welfare policy: 'First, to seek a welfare system that is appropriate to the level of national development; second, to prevent the ills of the ideology of the Western welfare states; and third, to develop a welfare policy based on the spirit of self-reliance' (D.-K. Kim 2004, 87). Thus, both the welfare and economic ministries pursued the residual welfare state by emphasising self-reliance.³¹

The emphasis on the financial stability of the pension stemmed from the view that welfare systems were causing financial problems in advanced countries. According to the report, the first key principle of the NPS design was 'to build a pension system that could avoid the problems, and trials and errors of the advanced welfare states' because 'the experience of the advanced countries shows that lax management of the public pension system became the main cause of the financial deficit that creates a burden on the national economy' (Min et al. 1986, 27). From the perspective of a developing country, especially in a context in which development was pursued above anything else, advanced countries could be regarded as a model. However, it put all the advanced countries in one category without any differentiation and simplified the problems by arguing that policy failures had put the countries under pressure. The

³¹ The view of the welfare ministry might have been influenced by the EPB, given its incomparable power within the government.

report could be the result of the influence of Thatcherism and the discourse on the ‘British ill’, as mentioned in 3.3.2. Certainly, it showed a biased view against welfare states by only focusing on the welfare state’s impact on the government spending.

The preference for the residual welfare state was justified with respect to the limited capacity of the national economy at that time. In arguing the need for the NPS, increased ‘affordability’ of the economy was an important factor (see Section 3.3.2). However, because affordability was still limited, it was said that the NPS could only provide the minimum level of benefit (Min et al. 1986, 20). It seems that the extent to which the economy could afford the welfare state was used arbitrarily, sometimes to justify the expansion of social policy, and sometimes to limit the scope of the policy.

The strong financial concern presented in this report led to continuing research on the financial aspect of the NPS, precipitating its reform in 1998. At the end of the policy design, the report suggested the need to transform it into a pay-as-you-go system in the long-term, estimating that the pension fund would only be stable for the first 50 years (Min et al. 1986).³² The projection was, surprisingly, accurate in comparison with the outcome of later calculations. In 1995, KDI released a pension fund projection suggesting that the pension fund would be in deficit by 2033, which was only five years earlier than KDI projected in 1986. This 1995 report drew political attention to the NPS, providing the background for the first round of pension reforms in 1998 (Y. Choi 2011).

³² This was one of the ways to achieve the claimed ‘financial neutrality’ of the NPS (Interview no. E10).

3.4 Conclusion

The policymaking process for the NPS during authoritarian eras clearly illustrated the characteristics of developmental welfare states (Kwon 1999; Kwon 2005, Ringen 2011, Peng and Wong 2008). In the pursuit of the authoritarian governments' ability to harness economic development for the legitimisation of their rule, the NPS provided a useful means to help the authoritarian government achieve economic development and popular support. When implementing new social policy, the purpose of nation building was generally stronger than the 'stated' objective of the policy, and this was the case for the NPS, which provided an adequate old-age income for the elderly (White and Goodman, 1998, p. 15; Gough, 2000, p. 5; Holliday, 2000). Social policy was thus considered when it was advantageous for economic development and political legitimisation, but when this was not the case, as with the NWP, the decision to implement social policy was cancelled through a strategy of indefinite deferral.

We also identified the vote-consciousness of the two authoritarian leaders, Park Chung Hee in 1973 and Chun Doo Hwan in 1986. They proclaimed their intention of building a democratic welfare state, and as they had seized power illegitimately, they were constantly exposed to political challenge from the opposition. Therefore, the decision to implement a new social policy either preceded forthcoming elections or followed narrow electoral success. Adverse economic and political circumstances had led to the failure of the 1973 policy, and in 1986 the government tried to persuade its opponents before it proceeded with its plan. In both 1973 and 1986, the government announced plans for public pensions after it had barely won a general election (H.-J. Kwon 1999a; J.-J. Yang 2008b). However, these promises did not always lead to actual implementation. In the case of 1973, the predecessor of the NPS was finally

cancelled, and in the case of 1986, the government only legislated for the policy but set a start date for implementation of the system with the arrival of the next government.

In both the planning processes behind the NWP in 1973 and the NPS in 1986, the major policy actors were the economic bureaucrats at the EPB (the most influential ministry) and its policy advisory agency, the KDI (Hwang 2006; H.-J. Kwon 1999a). Previous literature has not paid much attention to conflicts over policy in the authoritarian eras, because social policy was formed within a closed circle of policy elites and the powerful people at the EPB and the KDI led the development of social policy (H.-J. Kwon 1999b; Ringen, Kwon, Yi, Kim, and Jooha 2011a). Using an in-depth case study triangulated with engagement with actual policy makers at that time (although limited in number for justifiable reasons), we found that even these powerful policy advocates faced opposition to their policies and had to deal with them in order to proceed with their plan.

The difference between the era of 1986, when the NPS was finally legislated, and that of 1973 was the emergence of economic bureaucrats and the KDI as a policy community (Adler and Haas 1992; Marier 2008a; Stone 2014). The key policy actors who developed and promoted the public pension in both eras were very similar. Most importantly, the notion of social development was increasingly recognised among leading economic bureaucrats and the KDI. In their reasons for supporting the NPS, therefore, we found an increased emphasis on the need for social policy aimed at social development.

Those who promoted social policy did not simply do so in pursuit of economic development. In the policymaking process of 1986, we found that the policy makers

had a clear policy preference for a certain type of welfare state that was embedded in the principle of the NPS. It was pointed out that the NPS would only provide minimum welfare at a subsistence level and was strictly targeted at the most deprived people. This was also consistent with the emphasis on self-reliance espoused by Park and Chun governments (Ringen, Kwon, Yi, Kim, and Lee 2011, 13). Thus, the government's welfare budgets always remained low, although these increased temporarily just before the election.

We also discussed the learning process of the policy actors engaged in policymaking. After the initial failure of the NWP, the rationale of policy advocates in the later stages of 1986 became more elaborate so as not to avoid further failures. They tried to make their plan more attractive by emphasising its great economic benefits, and by pointing out that the introduction of the NPS would enable the government to maximise the accumulation of a pension fund and to minimise future welfare expenditure. In addition, they also exploited the experience of 'advanced countries' as a political strategy to persuade their opponents. They deliberately chose the cases of other countries because their purpose was not to learn from them, but to justify their plan. Such a strategy was, however, effective in a situation in which the government was trying to catch up with advanced economies.

Chapter 4 The NPS reform of 1998: policy change after financial crisis

4.1 Introduction

This chapter investigates the first round of the National Pension System (NPS) reform process of 1998. The key feature of this era in relation to policymaking is that it was characterised as a post-democratisation and post-economic crisis. Interestingly, the first NPS reform proposal was drafted under the democratic government of Kim Young Sam (1993-1998), and the final Reform Bill was drafted in the aftermath of the financial crisis of 1997 under the Kim Dae Jung government (1998-2003). Thus, this allows us to examine the impact of those two events (democratisation and an economic crisis) separately, albeit imperfectly. In addition it will help us to not only complement the previous research on the impact of democratisation and the economic crisis, but also to understand the developmental features of the policy process. This first round represents the beginning of the politics of pension reform and is particularly important because it led to, and influenced, the later reforms (Y. J. Choi 2008).

Studies concerned with this era tend to emphasise the political impact of democratisation including the associated changes in key political actors – most notably, the emergence of civic groups that led to social policy development in East Asian countries (e.g. Y. J. Choi 2008; Y. M. Kim 2008; H.-J. Kwon 2003; Mares and Carnes 2009; Peng and Wong 2008). There is also work examining the impact of such reforms using comparative approaches to identify similar or different changes between East Asian countries, and further to examine whether these changes would

lead countries along different or similar paths (e.g. Choi 2008; Choi 2012; Kwon 2005). Other authors analyse the impact of the economic crisis and the increased demands for welfare on the expansion of the welfare system. Was the interest in, or expansion of, the welfare state prompted by the crisis (Shin 2000), or by the desire for structural readjustment that was still driven by economic motivations (H.-J. Kwon 2005c; S. Kwon and Holliday 2007)?

There have been some limitations in the previous research specifically with respect to the NPS reform in this era. For example, Kwon and Holliday (2007) took a sceptical view on the positive impact of the economic crisis on the development of the welfare system in Korea. However, they did not pay attention to the final reform bill of the NPS that followed a significantly revised form from the original more neo-liberal approach. Thus, although they were right in stating that the reform should not be seen as a by-product of the economic crisis, they did not explain why the NPS reform followed a less neo-liberal approach when compared to other examples they had analysed. While many studies point to the strong influence of civil society organisations as a driver of welfare state expansion (Y. M. Kim 2008; Mares and Carnes 2009; e.g. Peng and Wong 2008), civil society organisations in Korea did not pursue a policy that would enhance pension entitlement or the poverty risk of the elderly in the case of the NPS reform during this time. Choi (2008) shed light on business structures and influences, mainly by pointing out that the contribution rate was not increased in line with proposals from employers' associations. However, this view tends to be deterministic. With a huge, ever increasing pension fund, it was hard to justify an increase in the contribution rate. Finally, there seems to be an assumption among scholars that the process of political democratisation would automatically lead to an increased public demand for welfare provision. Democratisation is a significant

process, and indeed it has transformed many aspects of social policy in East Asian countries since the 1980s (Kwon 2005). However, democratisation alone does not explain why such transformation occurred according to a certain set of policy preference and not others.

In this chapter we aim to disentangle the dynamics of policymaking involved in the NPS reform of 1998 in order to explain how the NPS changed in a context of democracy and economic crisis, and why it followed a certain direction. We begin by examining the dominant political ideas that initiated the NPS reform. We then analyse how the NPS reform was debated and how the first reform proposal was drafted before the financial crisis. Finally, we discuss the political process in which the final Reform Bill was designed and agreed. Our aim in this chapter and throughout each section is to identify the factors affecting policy change, by investigating the role of policy actors along with their policy ideas, goals and intentions; and the political strategies adopted in the specific context of the policy development process. We also pay attention to how these factors changed during the reform process.

4.2 Ideas of residual welfare system

The NPS reform arrived on the agenda with the government's neo-liberal policy. In the beginning of the second half of the Kim Young Sam government (1993–1998), the NPS reform agenda arose as part of the government's larger reform package of *seggyehwa*: a plan that pursued neo-liberal social, economic and political reforms (Joo 2010b; S. Kwon and Holliday 2007; J.-J. Yang 2004). 'Seggyehwa' means globalisation in Korean. However, the government conceptualised the term differently by giving additional political meaning to it so that it could be used as a driver for reform. Discerning the characteristics of the globalisation policy is key to

understanding the policy direction of the NPS reform of 1998 because those ideas underpinned the first NPS reform proposal of the government. In the following section we firstly discuss the political intention of the government in advancing the globalisation policy. We then examine the ideas of the government regarding the welfare system that it favoured, and follow this by considering how the NPS reform eventually reached the agenda.

4.2.1 Creating the mood of crisis to promote reform

While globalisation generally means increasing global connectedness in many sectors of society (Gough 2001, 164), the government deliberately interpreted it, in early 1995, as a strong imperative for nationwide reform, propagating the idea that the new era had come with globalisation, and thus overarching reform was vital in order to adapt to it. The government proclaimed that without reform the country would not be able to survive in the new era, and would be likely to repeat mistakes of the past, such as the Japanese colonialism of the early 20th century (The Office of President 1995a; 1995c). The government added new meaning to globalisation, arguing that ‘globalisation is not just a phenomenon, but it is a framework of how we see the changing world, it is an objective and target that we aim towards and a strategy to achieve our purposes’ (Globalisation Propelling Commission 1995, 5). It adopted the term globalisation as a name for its reform package, using it as a key political slogan for the rest of its term in office. For the reform, the government launched the Top Policy Planning Secretariat in the Office of President in 1995 and the Globalisation

Propelling Commission under the Prime Minister's Office, of which the purpose was to co-ordinate all the ministries' policy directions, reforms and guidelines.³³

The purpose of the political interpretation of globalisation was to promote reform, as can be seen in the following article published by the President's Office:

The *seggyhwa*³⁴ policy that the Administration of President Kim Young Sam of the Republic of Korea is now pursuing represents a **national reform strategy designed to ensure that the Republic will successfully meet the challenges of globalisation.** A fundamental element of this policy is **drastically changing Korea's existing political and socio-economic institutions** to make them more compatible with today's rapidly changing world as the 21st century draws near. But perhaps more than that, it strives to have the Korean people readjust their social norms, attitudes and ways of thought [emphasis added] (The Office of President 1995c p.i-ii).

Thus, for the government, 'globalisation' was a 'national development strategy' (Seil Park 1995, 12). In that sense, the government was explicitly emphasising the prime goal of nation building to gain political support for its policy (Goodman and Peng 1996b, 211).

To urge reform, the government conceptualised globalisation as an upcoming crisis with the intention of gaining public acceptance for its reform package so that the public would both understand and follow the government's response to dealing with the crisis (Interview no. G5). The ideologue of the globalisation policy was Park Se-il, the first Senior Social Policy Secretariat of Kim's administration, who proposed the idea of using globalisation as a political strategy, conceptualised the term, and drew up the basic plan for it. He intentionally formulated the concept of globalisation as a

³³ This commission was ended on the 15th April 1998.

³⁴ From the above quotation, we can also note that the government was using 'seggyehwa', the Korean word for globalisation, even if it was published in English. This was a deliberate choice of the term, because the government was using the term for a reform package that was different from its original meaning (Interview no. G5).

serious threat that was driving the country into crisis, because it would make the reform process easier. He told me:

It is easier to conduct a reform when there is a crisis. However, at that time, even if we needed to conduct reform, there was no legitimate reason to steer it. **Thus, we invented a rationale for the reform** emphasising that the era had changed and therefore we needed to change the whole of our system to adapt to the new era [emphasis added] (Interview with Park Se-il).

With the globalisation policy, the government was in fact pursuing neo-liberal ideas together with a persistent developmentalism. In a government report, Park Se-il explained that the globalisation policy pursued four goals: productivity, flexibility, deregulation and fairness (Seil Park 1995, 13). Among these four aims, he stressed that a ‘major focus should be on the productivity of the entire national system faced by the unlimited competition of the globalisation era’ (Baum 2007; Chang, Park, and Yoo 1998; T. H. Jung 2005; Hye-Kyoung Lee 2007; D.-M. Shin 2001); the aim of this was to survive in the globalising economy, which he thought was only achievable through enhanced flexibility, deregulation and privatisation (Seil Park 1995, 11). This quote clearly demonstrates neo-liberal ideas, while its emphasis on ‘productivity’ demonstrates persistent developmentalism (J.-J. Yang 2008a, 341). Accordingly, the government promoted a wide range of neo-liberal policies, such as increasing the flexibility of the labour market, deregulating the market, and privatising public corporations. The globalisation policy included both persistent developmentalist ideas and a neo-liberal influence.

A major difference of the globalisation policy from the developmentalism of the previous regimes was its inclusiveness of all realms of policy, which led to the blueprint for the welfare system that included the NPS reform. The government paper published by the Office of the President to explain and advertise the globalisation

policy states that ‘productivity and flexibility are required in all areas of national life – politics, the economy, public administration, society, culture, and sports – if nations are to continue developing in this turbulent age of globalisation’ (The Office of President 1995a, 13). Thus, the reform in favour of globalisation was not limited to the economy and politics but included social reforms as well, initiating debates on the NPS reform.

In fact, the exploitation of the concept of globalisation as a crisis was not new. The restructuring undertaken within globalisation policy was a continuation of reforms the government had failed to accomplish in the first two years, having been faced with a ‘crisis’ and obstructed by opponents. To grasp this, it is essential to understand the nature of the political power held by the president, Kim Young Sam who came into office in 1993 under the political slogan ‘Constructing a New Korea’. He was the first civilian president and pledged to address the political and economic problems of the past, particularly those of the authoritarian regime.³⁵ The previous governments provided preferential treatment to big business, restricted competition in many sectors of the market, and allowed monopolies and oligopolies for big business (T.-S. Kim and Sung 2004; Hye-Kyoung Lee 2007; Hye-Kyung Lee 1999a). In contrast, Kim Young Sam promised to eliminate persistent protection for big business, corruption, collusion between government and business, and the non-transparent financial transactions which had allowed money laundering, corruption and collusion (Baum

³⁵ Reformism was nothing new in Korea (Mo and MOON 1999, 158). Chun Doo-Hwan (1980-1987), who came to power through a military coup, campaigned for political and economic reforms in order to legitimise his authoritarian regime. The next president Roh Tae-Woo (1988-1993) had also proposed reform plans, however, both presidents' plans did not proceed very far. Hence, the first civilian president, Kim Young Sam, tried hard to differentiate his regime (S. D. Hahm and Kim 1999; Jonsson 2014) even if his political party, following the merger process, produced the same legacy as its predecessors.

2007, 247; S. D. Hahm and Kim 1999, 478; Jonsson 2014, 33-39; Young-Hwa Kim 2003, 63; Hye-Kyung Lee 1999a, 31). In doing so, he aspired to create a 'New Korea' by introducing market principles and reducing excessive government protection and support for industries.

However, his initial reform plan faced opposition because the political strategy he had adopted to win the presidential election backfired, making him unable to pursue policies that were not in the interests of conservatives within his new party. That strategy had involved merging his centre-left party in 1990 with two others. These two were, namely, the largest conservative party, which had succeeded the political legacy of the authoritarian regime, and another opposition party called the 'Grand Conservative Coalition'. This new coalition was launched as the Democratic Liberal Party (DLP). The merger provided a way for him to gain extra political support from outside his party in order to defeat his long-time rival Kim Dae Jung in the subsequent presidential election in 1992 (T.-S. Kim and Sung 2004; Hye-Kyoung Lee 2007). Their rivalry had been longstanding as both of them were leading political figures who had fought for democracy for decades. The competition had reached a peak in the presidential election of 1987, in which the majority of votes were split between Kim Young Sam and Kim Dae Jung, who received 27.5% and 26.5% of the vote respectively. The outcome was that the presidency went to Roh Tae Woo (1988-1993) even though he only received 39.5% of the vote (Baker 2004). With the merger, the newly established DLP became the largest party, successfully giving Kim Young Sam the presidency in the subsequent election in 1992, where he defeated Kim Dae Jung (Baum 2007, 235; T.-S. Kim and Sung 2004; Hye-Kyoung Lee 2007).

Yet, the merger was double-edged: although it gave Kim Young Sam the presidency, it hampered his political goal of eliminating the institutional legacy of the authoritarian regime. This was because the target of the reform – those who were enjoying privilege and advantages from the institutions existing since the authoritarian era – came to constitute an important part of his new party, the DLP (the largest ruling party). This faction opposed the reform because their interests lay in the existing institutional arrangements (T.-S. Kim and Sung 2004; Hye-Kyoung Lee 2007; Hye-Kyung Lee 1999a). Kim Young Sam, in the first two years of his presidency, could thus not achieve the reforms for which he had campaigned (Baum 2007; Hye-Kyung Lee 1999a).

At that time, the opponents of the reform had exploited a ‘crisis’ to impede the reform progress. They propagated the idea that low productivity and high levels of strikes were signs of an economic crisis, which had created the so-called ‘Korean disease’ (T.-S. Kim and Sung 2004, 423; Hye-Kyung Lee 1999a, 30; The Office of President 1995a, 10). However, this ‘crisis’ was not real (T.-S. Kim and Sung 2004, 423; Hye-Kyung Lee 1999a, 30). The Gross Domestic Product (GDP) in Korea averaged 7.5% from 1991 to 1995³⁶ (Koh et al. 2007, 286) and apart from the deficit in the balance of trade between 1990 and 1993, there were no signs of an economic crisis (T.-S. Kim and Sung 2004, 421). These indicators imply that the conservative group deliberately exaggerated the economic circumstances in order to divert the government’s attention away from its overarching socio-economic reform and to focus it instead towards economic recovery and further growth (T.-S. Kim and Sung 2004, 423; Hye-Kyoung Lee 2007, 43). Yet, as this group constituted an important part of the DLP, the reform

³⁶ The increase in GDP reached about 6.1% in 1993 when Kim Young Sam’s government first came to office, increased to 8.5% in 1994 and grew to 9.2% in 1995, with an unemployment rate of less than 3% during that period (Koh 2008, 276).

could not proceed (Hye-Kyung Lee 1999a, 31). The rhetorical ‘crisis’ was an effective political device that succeeded in obstructing reform.

The government, with its original all-around political and economic reform package locked in stalemate, announced the globalisation plan in order to make a breakthrough. The president first talked about the globalisation plan at a press conference on the 17th November 1994, and furthered this on the 25th January 1995, when he released a globalisation plan with more specific policy ideas and direction to help construct a new Korea (The Office of President 1995a, 13). In terms of social policy, the globalisation plan contained three key concepts: building an exemplary country in terms of the environment; globalisation of quality of life; and globalisation of law and order (Hye-Kyung Lee 1999a; The Office of President 1995b; S.-I. Yang 1998b, 40). The welfare reform, which is our interest here, was included in the second part.

In sum, the government created a discourse of a crisis of globalisation in order to promote its reform plan because a mood of crisis was helpful for promoting reforms. Policies that the government pursued under the globalisation policy were neo-liberal in nature, with social policy still subsidiary to economic growth as it had been in the previous era (as elucidated in Chapter 3). We discuss the government's ideas about the welfare system within the globalisation policy in the following section.

4.2.2 Residual welfare state as an ideal

Although the Kim Young Sam administration presided over a non-military and democratic regime, developmentalist ideas continued even when the economy had grown substantially. These ideas entailed prioritising the same economic development path of the previous authoritarian governments. In addition, the government's

preference for a residual welfare state appeared more clearly. This section explains the ideas and goals the government was pursuing with regard to social welfare policy.

Behind the social policy agenda was the government's nation-building objective to manipulate political support for its globalisation plan. The government claimed that: 'the ultimate aim of the *seggyehwa* policy is to raise the country's quality of life **up to global standards of excellence**' [emphasis added] (The Office of President 1995c p.i-ii). It argued that Korea, with its globalisation policy, would become a country with an outstanding quality of life. This shows that, considering the major goal of globalisation was introducing neo-liberal policies, the government's effort was to manipulate its actual intention with nation-building objectives in social policy.

The government aimed to improve the 'quality of life' by building a residual welfare system, while it pursued economic growth before any other policies (Young-Hwa Kim 2003; Hye-Kyoung Lee 2007, 43; D.-M. Shin 2001, 99). The globalisation policy envisaged an ideal welfare system on the surface, aiming to 'elevate the quality of life and other aspects of our national life to the highest global standards' (The Office of President 1995b; S.-M. Yoon et al. 2009, 19). The specialised Task Force for the People's Welfare developed the welfare plan of the *seggyehwa* policy whose the (ideal sounding) aim was to 'conduct the groundwork for building a welfare state where growth and welfare, equity and development are well balanced' (Government Newspaper 1995). Despite these ideal goals, the ideas of the government show that it was in favour of a residual welfare state. The specific policy guidelines provided by the Task Force for the People's Welfare were in line with the ideas of a residual welfare system. It was to start providing only minimal welfare, helping only those below the minimum living standard and emphasising the individual's responsibility

(The Office of President 1995b; J.-J. Yang 2004, 197). Moreover, the major principle of financing was based mainly on the users' contributions, or a beneficiaries-paid system, rather than a tax-funded or state-subsidised one:

The state must be responsible for providing at least the basic required level of income, medical care, education and housing to those disadvantaged households whose living standards are below the national minimum. All those who are able to work, however, should in principle be basically responsible for their own well-being. The social insurance and welfare systems should be operated basically on a "beneficiary-pays-the-cost" basis, while the government will be responsible for the effective and efficient overall management of these systems (The Office of President 1995b; J.-J. Yang 2004, 197).

The guidelines also included a preference for workfare. An official document of the Office of the President that discusses its welfare plan under the globalisation policy, states that 'an appropriate policy for public welfare should emphasise increased investment in projects designed to enrich the individual citizen's intellectual assets. Such investment will prove even more effective when the beneficiaries exert more efforts to help themselves.' (Miller and Demir 2014, 138; The Office of President 1995b). It also writes that the state would only support those unable to work because this would promote family support (NPRB 1997, 32; The Office of President 1995a), which reveals the way the government justified its preference for a small welfare state. For elderly and disabled people, the government preferred increasing their work opportunities so that they would contribute to increasing national competitiveness. It proposed to only provide the minimum subsistence to those unable to work, while activating job training and subsidy for self-reliance (NPRB 1997, 33; The Office of President 1995a). From this, we can see that the government favoured social policy that could encourage workfare and promote economic growth. The preference for a

welfare system that only provides a subsistence level concurred with that of the previous authoritarian era as shown in Chapter 3.

The liberal approach to the welfare state is also reflected in the persistently low social spending during the Kim Young Sam government. The welfare budget of the government had never exceeded that of the preceding government, and even reached about 3.82% in 1995,³⁷ which was the lowest level since the late 1980s (T.-S. Kim and Sung 2004, 429). While the government achieved rapid economic growth of about 7.9% on average in the early 1990s, this did not lead to an expansion in welfare. Moreover, the public assistance system was stringent, providing only about 1% of the population with the minimum support at subsistence level in 1997 (Hye-Kyoung Lee 2007, 49).

Furthermore, the government considered the increasing demands for public welfare and better wages to be problematic. Since democratisation in 1987, labour disputes and strikes had increased exponentially, as they became free from the coercive suppression of authoritarian power. Finally, in the early 1990s, the labour movement achieved wage increases for the first time at a higher rate than production increases (T.-S. Kim and Sung 2004, 423).³⁸ It led the government to urge the public to direct their demand for wage increases to employers while holding back their demands for an expansion in welfare. This shows that democratic regimes do not automatically

³⁷ The welfare budget amounted to 4.6% of the central government budget at a time, in the first year of the presidential term, when this overall expenditure was at its highest. Nevertheless, this was still lower than that of the preceding government, which increased the total social security budget to 6.4% in 1992 (T.-S. Kim and Sung 2004, 429).

³⁸ Before this time, the government had suppressed wage increases so that its economy could benefit from cheap labour.

welcome the welfare of labour, and when they do, this can be rhetorical (T.-S. Kim and Sung 2004, 424).

To sum up, although the government claimed to devote itself to the ‘quality of life’ of the people, its actual social policy preference was towards a minimum state welfare. Policy guidelines and actual practice show that the government was in favour of a residual welfare system. In this situation, the NPS reform was not propelled onto the agenda through any particular policy or social problems. This theme is discussed in the next section.

4.2.3 Electoral competition around the NPS reform

While it was the government that first proposed the reform of the NPS under the overarching reform package of globalisation policy, political competition between political parties and the government, ahead of upcoming elections, brought the NPS onto the policy agenda. The section investigates how this happened.

Under the globalisation policy, the government proposed public pension reform encompassing the entire old-age income security system. This meant reforming public sector workers’ pensions and introducing an elderly allowance system for those without any pension plan, with the aim of attracting elderly voters at the forthcoming general election in April 1996 (Namkung 1995; S.-I. Yang 1998a, 30). The reform of these old-age security systems was a task of the second team of the Task Force for People’s Welfare, a specialised task force under the Globalisation Propelling Commission, launched on the 8th May 1995, which was ordered to draw up a plan for the development of the welfare system. The task force consisted of three teams to work on: the financing system, the social insurance system, and the welfare

programmes (Government Newspaper 1995).³⁹ In early 1996, the task force proposed overall policy measures⁴⁰ to improve the existing old-age security system.⁴¹

Among the three policy agendas – that is, introducing the elderly allowance system, reforming public sector workers' pensions and the NPS – only the reform of the NPS became a policy issue, while the other two did not. Firstly, the elderly allowance system could not emerge as a policy issue because before the general election in April 1996 the government had announced the decision to introduce the elderly allowance system called 'Senior Pension', and successfully legislated for this in July 1997 ahead of the presidential election (see Table 4-1 for the summary of these political events during the Kim Young Sam government). This elderly allowance did not involve significant debate because, for electoral reasons, all political parties were in agreement. There was no old-age security system for the current elderly and no party would take the risk of losing the elderly vote by opposing the plan (S.-I. Yang 1998a, 34). More importantly, the new system did not involve substantial tax increases because it was a slightly extended version of the existing elderly allowance that used to top up the stringent public assistance exclusively for the elderly. There was a small additional amount of money to the elderly on the near-poverty line. Further, the actual

³⁹ In order to develop the overall welfare system, the president declared 'Globalisation of the Quality of Life' on the 25th March 1995, which put a greater focus on how to develop the welfare system in the 'era of globalisation'.

⁴⁰ These included measures such as unifying the income base for the contribution payments for all the social insurance systems and improving pension portability between different occupations in the private sector and public sectors (i.e. public servants, military personnel and private school teachers/staff).

⁴¹ In December 1995 the Task Force for People's Welfare, under the Globalisation Propelling Commission, announced the 'Basic Plans for the People's Welfare for the Globalisation of Life'. This was then followed by a more specialised plan for the elderly, 'A Comprehensive Plan for the Elderly Welfare,' announced on the 28th March 1996. The plan for the elderly welfare system was further specified in the report, 'A Long-Term Development Plan of the Public Pensions' released in June 1996 (NPS 2008, 79-80).

implementation of the new system was carried over into the next government. Thus, it was the electoral interests of the government and political parties that enabled the Senior Pension to be legislated, rather than the parties' inclination for welfare expansion.

Table 4-1 List of Key Events (1993–1997)

Date	Event
25th February 1993 (- 24th February 1998)	Inauguration of the president Kim Young Sam - With political slogan: Constructing a 'New Korea'
21st January 1995	Launching the Globalisation Propelling Commission
25th January 1995	Announcement of the Globalisation Plan
23rd March 1995	Declaration of the 'Globalisation of the Quality of Life'
8th May 1995	Launching the Task Force for People's Welfare, consisting of academics, experts from government think tanks; people from media, civil society organisations, and interest groups; and government officials co-headed by the Minister of Health and Welfare
1st July 1995	Expanding the NPS to self-employed people in rural areas
28th March 1996	The plan for the Senior Pension for the current elderly announced under the Long-Term Development Plan of the Public Pension (proposed by the Task Force for People's Welfare)
11th April 1996	General Election for the 15 th National Assembly
16th May 1997	The National Pension Reform Board (NPRB) launched
July 1997	Senior Pension introduced
18th December 1997	The 15 th Presidential Election

Secondly, with regard to the reform of public sector workers' pensions, the government soon cancelled these plans even though these had been in deficit since 1993 (CSPSDC 2007, 8) because the insured were against any reform action (J.-J. Yang 2011; S.-I. Yang 1998a). As these systems were mature (introduced in 1960 to

1975) and much more generous (providing a maximum of 76% of average income over the three years before retirement based on 2.3% of contributions from workers), the insured were strongly mobilised against the reform. As a result, among the elderly welfare reform package, it was only the NPS issue that remained on the table between 1996 to 1997.

It is important to note the important role of political parties in making the NPS reform a political issue because the reason the NPS remained on the agenda was also due to the electoral interests of opposition parties. As the next presidential election was due on the 18th December 1997, the opposition parties (namely, the United Liberal Democrats and the National Congress for New Politics) made the NPS an electoral issue by criticising the government's failure to manage the system effectively (S.-I. Yang 1998a). Before the election, they held a joint policy debate at the National Assembly, with the title, 'The NPS reform, why is it necessary?' on the 12th November 1996. Both parties' leaders attended the event and gave an opening speech. At the event, the NPS management system – along with other features of the NPS – was severely criticised. As both of the leaders, including the eventual next president Kim Dae Jung, were strong presidential candidates, their presence in the debate naturally raised public interest in the NPS reform (S.-I. Yang 1998a, 36). Faced by increased political attention upon the NPS, the government launched an all-embracing commission, the National Pension Reform Board (NPRB), under the Prime Minister's Office on the 16th May 1997 to draw up a reform proposal. The NPRB consisted of all parts of society from government officials to labour unions, and from professors to civil society organisations that had been lobbying for diverse social policy issues including the NPS. This was the first time that the government set up a commission for the NPS reform.

To summarise, the democratisation process intensified the political competition among political parties. A new social policy agenda, the NPS reform in this case, arrived on the table as a result of the increased political competition among political parties which competed to appeal to elderly voters. Policy activities of the government and political parties were subject to the schedules of upcoming elections, especially in selecting and raising policy issues. Also, political parties avoided policy issues that could bring about political resistance from those groups with vested interests (i.e. civil servants' pension reform). We explain how the NPS reform was discussed and decided in the NPRB in the next section.

4.3 (Neo-) Liberal ideas prevailing in the first reform proposal

To examine the role of policy actors – including the ideas, goals and intentions underlying their policy positions – we need to investigate the process by which the reform proposal that led to the first proposal in 1997 was discussed. The agenda setting process, now under a democratic regime, was substantially affected by the electoral considerations of the political parties and the government. Also, the reform debates were open to a wider range of policy actors, including the trade unions and civil society organisations. Yet, the policy process, being under an authoritarian government, was still led by the economic ministries including officials in the Office of the President. Within the government task force for 'democratic policymaking', the influence of an economic epistemic community which shared similar views and values over economic policies was stronger than others. In this section, we analyse the issues and conflicts within the NPS reform process, and consider how the first reform proposal was selected. Finally, we discuss the influence of the ideas of policy actors.

4.3.1 Reform debates in NPRB

In discussing the policy issues, the members of NPRB were divided into two groups in support of two different reform models, which pursued different policy goals, namely, either financial stability or expansion of the NPS coverage. In this study, we call the former ‘the financial model’ and the latter ‘the social security model’. The leading policy actors at this stage were economic ministries, the Office of the President and, in contestation with them, the MOHW. This section discusses how opinions were split, examining the arguments, ideas and intentions of each side.

Financial model vs social security model

The first group, pursuing financial stability of the NPS, proposed a structural reform. This group consisted of the Office of the President; economic ministries; economists in academia government think tanks; and employers’ associations (S.-I. Yang 1998a, 34). The financial projection of the National Pension Fund (NPF) in 1997 estimated that the fund would be depleted by 2031 (NPRB 1997, 29). Based on this calculation, they argued, the system should be split into two separate tiers: one would be a state basic (flat-rate) pension and the other an earnings-related pension that could be contracted out to private pensions in the long-term (Y. M. Kim and Kim 2005; J.-J. Yang 2004; S.-I. Yang 1998b). The change was meant to reduce the income redistribution among the insured, while increasing actuarial fairness, and diminishing the role of the state in old-age pension. The key groups leading the financial reform model were economic ministries and the Office of the President. The other group, which was against the radical reform, was composed of the welfare ministry; social welfare professionals at universities and non-government organisations; and trade unions.

Another key issue was how to manage the NPF. This was controversial because of the political economic interests of government ministries. As the NPS had started as a funded pension system, by 1997 it had accumulated about 24 trillion won (equivalent to about 13.8 billion UK Pounds as of the 2nd February 2016) (NPS 1998). The size of the fund amounted to about 39% of the total annual budget in 1997. This was huge given the total health and welfare budget for the year was equivalent to only about 10% of the NPF (2.85 trillion won). Since the introduction of the NPS, the Minister of Finance and Economy had control over the NPF, using the fund as if it were a secondary budget, mainly investing in projects for economic development (Y. M. Kim 1998b; J.-J. Yang 2011).⁴² Thus, the MOHW tried to bring it under its control, claiming that the economic ministries had caused serious losses to the NPF by investing too much of the fund in the public sector without paying any interest into it for the previous ten years (Y. M. Kim 1998b). This later became a much debated issue, and drew increased political attention from civil society organisations. During the discussion about the NPF, the financial model supporters sought to manage the NPF to make more financial profits, by increasing investment in the stock market and reducing investment in social welfare; meanwhile the advocates of the social security model claimed to manage the fund for social adequacy and public interests (J.-J. Yang 2004, 197). Beneath the ideological conflict between both sides was the disagreement over which ministry would have authority over the NPF, as both economic and welfare ministries were seeking larger budgets to increase their political influence and power (Miller and Demir 2014).

⁴² In 1997, the government invested about 70% of the pension fund in the public sector, mainly in social overhead capitals (SOCs) (J.-J. Yang 2004, 197).

With regard to the adjustment of the NPS, advocates of the two models disagreed over structural reform and the integration of self-employed people because of their primary interests and ideas. Supporters of the financial model – that is, the Office of the President; economic ministries; economists in academia and government think tanks; and employers' associations – opposed the expansion because they thought it would impede the financial stability of the NPS, thus accelerating the financial deficit. With the expansion, the NPS would have a large inflow of the self-employed into a very generous benefit system. It would (provide 70% of net income replacement rate for standard pensioners with 40 years' contributions) based on very low contribution rates (9% overall contribution with half of this coming from employers and the other half from employees). It was also thought that having more people in a generous system would make future reform more difficult, as more people would have a stake in the existing system (S.-I. Yang 1998a, 40). At that time, other mature pension systems in Korea (e.g. pensions for civil servants) had already shown that there were political difficulties in reform processes, even for those systems with a large deficit. The financial model group thus argued that preventing the same problems in the NPS was necessary.

The supporters of the social security model – namely, the MOHW; social welfare professionals in academia; civil society organisations and trade unions; – insisted on expanding the NPS with only a marginal reduction in benefits, if any at all (J.-J. Yang 2004). As a welfare ministry, the MOHW favoured the expansion of welfare before any financial measures. Their concern was that benefit reductions could cause public resistance against the NPS, impeding its stable management. To support their argument, they argued for the issue concerning expansion of the NPS to be included in the presidential pledge as, due to the limited coverage, only a third of the working

population was covered in the system (about 38% in 1998) (M.-I. Kwon 1998; J.-J. Yang 2004; S.-I. Yang 1998a).⁴³ Yet, their voice was not effective because the economic ministries and the Office of the President had greater power within the government.

The disagreement over the expansion of the NPS was connected with the problem of assessing the real income of people who were self-employed. Due to administrative failures in estimating the actual income of the self-employed, the anticipated expansion of the self-employed within the current benefit system raised an issue of equity among the insured. This issue concerned the vertical income distribution element embedded in the NPS benefit formula as a coefficient,⁴⁴ which could – in effect – operate as an income redistribution mechanism from the employees to the self-employed because the reported income of the self-employed tended to be much lower than employees (NPRB 1997).⁴⁵ Considering the large number of self-employed in urban areas, the impact of this factor could not be ignored.⁴⁶ The

⁴³ The remaining approximately 8.9 million workers (who were out of the system) included employees at workplaces with less than four employees, temporary/daily/hourly workers, self-employed, employees at family-run business and so on.

⁴⁴ In the benefit formula, the average income of the entire insured people was given greater weight than the individual average income, in order to increase the vertical distributional impact.

⁴⁵ For example, in the first year of partial integration of the self-employed in the rural areas in 1995, the income of this group was only about 54.8% of employees (S.-M. Yoon et al. 2009, 19).

⁴⁶ The under-reporting problem of the self-employed did not only create the distortion in the horizontal income distribution, but it also raised a problem in the vertical distribution by affecting the pension benefit of the entire group of pensioners. The lower income level of the self-employed could affect the current pensioners' benefit level, especially those who were employees. This was because the average income level of the entire insured population was included in the NPS benefit formula as a coefficient; thus the considerably lower income of the self-employed would reduce that coefficient. Although the vertical income distribution from insured to pensioners was the intended goal, the problem was that some self-employed were unfairly gaining greater benefit than employees from the NPS's income distribution element.

supporters of the financial model further used the problem of income assessment as a reason for their opposition to expansion.

Here, we must note that not all trade unions and civil society organisations supported the expansion of the coverage. As discussed above, integrating the self-employed into the existing system was likely to lower the benefit level for pensioners. Thus, some labour unions, most notably the union of the National Pension Service but also some conservative non-government organisations, opposed the plan concerning the financial deficit (Y. M. Kim 1998a; Y. M. Kim and Kim 2005, 219).

The final decision taken within NPRB reveals an interesting point. The members of NPRB failed to reach agreement and decided to vote for a final proposal from three options. The first option was the most radical one: privatising part of the NPS. The second option involved a parametric reform plan of the MOHW: preserving the current system with a benefit reduction to a lesser degree. Option three was in between these two – radically reducing the benefit level (from 70% to 40%) instead of preserving the current system with a lesser retributive element. This was simply a modified version of the first option, replacing ‘privatisation’ with a ‘radical cutback in benefit’ because privatisation was too radical. With regard to the NPF, the Ministry of Finance and Economy maintained its control, while seeking profitability by reducing investment in the public sector and increasing investment in the stock market.

The third option could have been selected because the composition of the NPRB was out of balance: members in favour of the financial model (economic officials, economists and employers’ associations) outnumbered the others (S.-K. Kim 2010, 171; Y. M. Kim 2008; J.-J. Yang 2004). Moreover, it was not surprising considering the superior influence of economic ministries and the Office of the President (Hwang

2007; Ringen, Kwon, Yi, Kim, and Jooha 2011b). Although the MOHW was responsible for operating the NPS, their opinion was regarded as a ‘minority opinion’ in the final report of NPRB (NPS 2008).

To sum up, the entire NPS reform plan was initiated and led by the conservative group including the Office of the President, economic ministries and economists. The priority between the policy goals and ideas was not agreed in the NPRB, nevertheless, the conservative group achieved their goals and ideas. Hence, placing financial stability and management of the NPF under the control of Ministry of Finance and Economy were achieved, because they were consistent with the overarching globalisation policy.

4.3.2 Ideational influence

The pursuit of financial stability of the NPF was not new, but had been the primary concern of the conservative group since the introduction of the NPS. This was especially true among the economic ministries and economists in the government think tanks and academia. The following section discusses how their interests were met.

Firstly, financial stability had been a major concern about the NPS among the conservative economists and economic bureaucrats. Among them, the influence of the person who was leading the NPS reform was most significant. Researchers at the Korea Development Institute (KDI), the leading economic research institute, continuously published reports in the 1990s on financial aspects of the NPS and raising problems about the financial stability (e.g. K.-B. Jeong, Goh, and Kim 1991; Yong-Ha Kim, Seok, and Yoon 1995; Min et al. 1991; H. Moon 1993a; 1993b; Nam,

Min, and Jang 1990).⁴⁷ Moon Hyungpyo, who had extensively worked on the financial state of the NPS, was appointed as Social Welfare Secretary in the Office of the President. His influence was effective because he had full support from the Senior Secretary of Social Welfare, Park Seil, the ideologue of the globalisation policy who was his former senior colleague at KDI. In fact, Park Seil had recommended Hyungpyo to the position in order to ask him to lead the NPS reform (Interview nos. E7, G5). Their connection and background naturally led the focus of the NPS reform and the debates within NPRB towards financial stability.

Secondly, the ideas of the World Bank also influenced the debates within NPRB through the influence of an epistemic community. The supporters of the financial model strongly advocated the ‘multi-pillar’ pension model advanced by the World Bank since the 1990s that promoted private pensions with reduced state pensions⁴⁸ (J.-J. Yang 2004). In particular, economists and economic bureaucrats regarded the model as an ideal (Joo 2010b) (Interview nos. E3, E9) because it was in line with their preference for liberal economic policies, and would lead to the radical reform proposal of the NPRB.

⁴⁷ This strong interest in the financial aspect could be related to the funded aspect of the NPS because at the beginning of the system there were not many other issues apart from collecting the contributions and managing the fund.

⁴⁸ The proposal of NPRB was set to split the existing NPS into two pillars: the flat-rate basic pension providing a 10% income replacement ratio and the earnings-related pension providing a 30% income replacement ratio (NPRB 1997). Thus, in total, the new system was to provide a 40% income replacement ratio. This meant that the total replacement ratio for the standard pension would be reduced from 70% to 40% of lifetime income. The redistribution element in the benefit formula was going to be reduced. The basic pension was also funded by the insured and not by the government budget. After dividing the benefit into two pillars, it was intended that the pension fund would be managed separately with different priorities: the basic pension fund for both the public interest and profitability of the fund; and the earnings-related pension fund strictly for the profitability of the fund (NPRB 1997, 13-28).

When the ideas of the supporters of the financial model were conveyed in the final report, their arguments contained several flaws particularly with the argument concerning financial instability not being based on scientific evidence. The final report of the NPRB stated that the proposed reform achieved financial stability goals because the reform would, in 2050, make the total pension fund amount to 8.3 times the annual expenditure for the flat-rate part and 10.7 times for the earnings-related part thus preventing a deficit until 2080 (NPRB 1997, 20). Yet, it did not provide any explanation about why such a high level of pension fund reserve was required at the expense of a substantial reduction in pension benefit, implying that such an assertion was based on ideology rather than empirical evidence or rational reasoning.

The (neo-) liberal ideology that emerged was more salient in justifying the proposal. The report argues that the first aim of the NPRB was to ‘design an old-age income security system that would not repeat the same errors as in developed countries and would fit into the domestic circumstances’ (NPRB 1997, 32). The ‘error’ of the developed welfare states, they argued, was high social expenditure. It went on to argue that ‘advanced countries are making efforts to reduce the state intervention and the social expenditure due to the reduced productivity affected by the long-term economic stagnation and the high social expenditure’ (NPRB 1997, 31). This clearly shows the ideational inclination towards liberalism. Its second aim was ‘to ensure the actuarial fairness, adhering to the social insurance principle rather than including the elements of public assistance for the elderly considering the main problem of developed welfare states in the West being high benefit, high contribution (NPRB 1997, 33). Thus, it emphasised the need ‘to stick to the funded system, not transforming the system into pay-as-you-go, because that approach would increase the national savings and avoid an undue burden falling on future generations’ (NPRB

1997, 15). Thus, the principles show that the ‘experience of advanced countries’ was selectively chosen and biased towards the preference for liberal economic policy.

To sum up, the reform proposal of NPRB was significantly influenced by the (neo-) liberal ideas of its key members through their shared views about the ideal pension system, but the argument supporting the proposal manifested negative views about state welfare, showing strong preferences for liberalism. The role of the NPRB ended when it submitted its reform proposal to the Prime Minister on the 27th December 1997. Table 4-2 summarises the key events during 1996 to 1997 as discussed in this section. Thereafter, the policy process faced a turning point. The next section discusses the process by which the final reform bill changed significantly.

Table 4-2 List of key events (1996–1997)

Date	Event
11th April 1996	General Election for the 15th National Assembly
16th May 1997 (-27th December 1997)	Launching the National Pension Reform Board (NPRB)
1st July 1997	Legislation of the ‘Senior Pension’ to implement in July 1998
4th December 1997	The first IMF agreement signed - Stand-By Arrangement for providing in total of 21 billion US dollars
18th December 1997	The 15th Presidential Election Presidential candidate from the opposition party Kim Dae Jung (1998-2003) won the election.
27th December 1997	NPRB submitting the NPS Reform Proposal to the Prime Minister

4.4 The welfare ministry-led process shaping the final Reform Bill

Political and economic events in 1997, after the NPRB’s proposal, changed the policy environment significantly. Most importantly the Ministry of Health and Welfare

(MOHW) and centre-left civil society organisations emerged as key policy actors, whose opinions were regarded as ‘minority’ ones within the NPRB. This section explains how this was possible. We discuss how these policy actors took the opportunity to play an important role; how they achieved their ideas and goals throughout the political process of negotiating with the National Assembly; and, thus, how political negotiation among the policy actors was concluded.

4.4.1 A policy window for a ‘minority’

In this final stage of reform, the minority group who supported the social security reform model played a key role. This group were mainly the MOHW and centre-left civil society organisations, as a result of the unexpected political and economic changes. Firstly, when the NPRB submitted its reform proposal to the Prime Minister on the 27th December 1997, Korea was hit by the financial crisis. That led to the influence of economic ministries within the government becoming weaker because they were blamed for causing the crisis due to their negligence in managing external liabilities and supervising private banks (Beck 1998, 1020; Chang, Park, and Yoo 1998; J.-H. Hahm and Mishkin 2000; Hwang 2007, 141; Koh:2007vp J.-J. Yang 2004, 200).⁴⁹ Secondly, in December 1997 the ruling party lost the presidential election. Kim Dae Jung from the centre-left opposition party came into power (1998–2003). As a long-time fighter for democracy during the authoritarian era he had promoted social unity and pro-poor policies while opposing the persistent developmentalism (see Table 4-2). For example, he campaigned for the expansion of all social insurance systems to the entire working population (S.-I. Yang 1998a). Following political

⁴⁹ The crisis caused a wide range of social problems, such as high unemployment, an increasing poverty rate and family breakdowns (Hye-Kyung Lee 1999a; J. Song 2009). It was such a critical incident that it was seen as a national humiliation and the biggest national crisis since the Korean War (J. Song 2009 p.ix; J.-J. Yang 2004, 194).

persuasion, the Kim government empowered the MOHW, allowing more authority over social policy, including the reform of the NPS.

Civil society organisations also became influential policy actors, and they provided greater support for the policies of the welfare ministry over those of the economic ministries. Their increased influence was also connected with the political characteristics of the new government that had adopted a more bottom-up approach to policymaking processes, giving more power to civic groups (Y. M. Kim 2008). This was, firstly, because the president himself had a background as a political activist and was closely connected to people working in civic groups and trade unions. Secondly, without extra support from outside he could not run the government effectively because, despite his victory in the presidential election, his party was still a minority party in the National Assembly (J.-J. Yang 2004, 199). Thirdly, the MOHW intended to exploit their support as an important political resource to advance its opinion (Y. M. Kim and Kim 2005).

To sum up, the economic crisis and newly elected government changed the balance of political influence among policy actors. These events provided a policy window for those who were originally minority members of the NPRB. In this sense, they were random problem windows, ‘in which random events or crises open unpredictable windows’ (Soroka 2009, 768). The next section discusses how these newly influential policy actors put forward their proposal.

4.4.2 The argument of the welfare ministry

In early 1998, the MOHW established a set of reasons to persuade the incoming government to support its proposal. While the proposal of the MOHW was different from that of NPRB, its line of argument appeared very similar to its counterpart.

Utilising the policy window, the MOHW exploited the political influence of civil society organisations when their opinions were in favour of its policy position. This section examines the main arguments of the MOHW's proposal on four major issues: the level of benefit; the structure of the pension system; the management of the National Pension Fund (NPF); and the expansion of coverage to people who were self-employed.

The MOHW began its policy activities with the new government from the first meeting with the health and welfare committee of the presidential transition team on the 8th January 1998 (J.-J. Yang 2004, 200; S.-I. Yang 1998a, 60-68).

First, in order to mitigate the benefit reduction, the MOHW used the information about the policy paths of other countries, but with deliberately selected examples in favour of its opinion, just as the conservative group in NPRB had done. The MOHW supported only a moderate reduction in benefit. It pointed out that the NPRB's proposal, which was set to reduce the replacement rate to 40% for 40 years' contributions, failed to meet the minimum level of the Social Security (Minimum Standards) Convention of the International Labour Organisation (ILO) (ILO, Convention No.102), which required 40% replacement rates for 30 years (S.-I. Yang 1998a). It also emphasised that most of the Organisation for Economic Cooperation and Development (OECD) member countries were providing more than 60% income replacement rates (20 countries were above 60% and the rest of the nine countries were below 60%). The MOHW argued that it was desirable to make the benefit level similar to the OECD member countries, while meeting the ILO's convention level, and thus proposed to reduce the benefit level for the standard pensioner from 70% to 55%, instead of the 40% in the NPRB's proposal. In short, it supported its proposal

using the selective experience of other countries that were in agreement with its opinion.

Second, with regard to the structure of the NPS, the MOHW persuaded the government of the political ease of its reform proposal, while justifying it by arguing that it was consistent with the majority of other countries' experiences (S.-I. Yang 1998a). The MOHW criticised the failure of the NPRB's proposal in considering its political impact. It argued that the structural reform proposed by the NPRB would bring about strong resistance from those who had been protesting against the increasing privatisation of public services (S.-I. Yang 1998a). During the previous Kim Young Sam government, privatisation was an important part of the deregulation programme and was pursued in line with its globalisation policy with plans to privatise 68 public enterprises out of 138 during its term (Young-Hwa Kim 2003, 245). This plan could only be partially achieved due to resistance from the trade unions and civil society. This public resistance against privatisation still prevailed in the early Kim Dae Jung government. The welfare officials also emphasised that less than 10% of countries were running a bi-pillar pension system out of a total of 147 countries providing public pension schemes but more than 90% were maintaining a mono-pillar system (S.-I. Yang 1998a). MOHW thus used the political power of trade unions and civil society organisations as political resources.

Third, as for the NPF, the MOHW insisted on bringing the NPF under its control based on political acceptance and economic advantage. The NPF's management system NPF faced a series of problems, as discussed in Chapter 5.3.2. Thus, the MOHW argued that the government's failure to properly manage it led people to distrust the NPS, perceiving it as unstable (Y. M. Kim and Kim 2005, 215; S.-I. Yang

1998a). The MOHW estimated that the compulsory depositing of NPF resources in the Public Capital Management Fund allowed the economic ministries to use the NPF budgets. This caused an opportunity loss which reached about 865 billion won (about £502 million in UK pounds) over the ten previous years, due to the gap in the rate of return between financial investment and public investment (S.-I. Yang 1998a, 60-68). Thus, the MOHW's proposal to take over the NPF from the economic ministry was appealing, as it would improve public trust in the NPF, and allow a more transparent and effective management to pursue public interests.

Finally, in respect of the expansion of the NPS, the MOHW insisted on proceeding with the plan, emphasising the economic benefit and political advantage the expansion would achieve. At a time of economic crisis, extending the coverage to the self-employed was not easy considering the reduced affordability workers possessed. For example, the unemployment rate had soared from less than 3% before the crisis to 8.7% in 1999, while every day about one hundred companies were going bankrupt (T.-S. Kim and Sung 2004, 436). Thus, economic bureaucrats had been more sceptical about the expansion of the current system (Y. M. Kim and Kim 2005).

Nevertheless, the government decided to expand the system following the opinion of the MOHW because the political and economic benefits claimed by the MOHW appeared advantageous to the government. The MOHW emphasised the political legitimacy of the coverage expansion, asserting that it was consistent with the political orientation of the incoming government: pro-poor, pro-welfare and pro-social unity.⁵⁰ Moreover, it stressed that the extension would bring about increased

⁵⁰ The coverage expansion was seen not only in the NPS, but also in all the other social insurance systems under the Kim Dae Jung government (T.-S. Kim and Sung 2004; Hye-Kyoung Lee 2007).

political support from civil society organisations because they had demanded the universal welfare system (W. S. Kim and Choi 2013; Y. M. Kim and Kim 2005; J.-J. Yang 2004, 200). Furthermore, it emphasised the economic advantage of expansion. At that time, it was expected that many people would request reimbursement of their previous pension contributions due to mass unemployment and the lack of any strong safety net. This was because unemployment insurance was introduced with strictly limited coverage and entitlement and also public assistance was very stringent (S.-I. Yang 1998a, 63). As this was expected to affect the pension fund accumulation, the MOHW asserted that the expansion of the coverage at this point would actually *contribute* to the stability of the pension fund, rather than hampering the stability as argued by the economic bureaucrats. More specifically, the MOHW provided estimates that one year's delay in expanding the system to the self-employed would lead to a 300 billion won (about £174 million UK pounds) loss of potential income from the NPS contributions. In other words, the ministry focused on the economic *advantage* of the coverage expansion in order to relieve concerns about financial stability (S.-I. Yang 1998a, 63), while the MOHW persuaded the government with the potential economic loss of *not* expanding the coverage. Thus, this double line of argument that emphasised the political and economic benefit was similar to that shown by conservative policymakers in previous policy stages.

At that time, increasing the contribution rate was not considered an option, because there was no legitimate reason to do so. Not only were both employers' associations and trade unions against increasing contributions, but also the government could not justify it because the pension fund continued to grow, as few people were receiving a pension.

In sum, with the coming of the new government, the MOHW benefited from a policy window. The rationale that the MOHW had set up for its reform plan was not so different from that of economic bureaucrats, because it also emphasised the political and economic benefits of the plan, yet with different data and evidence. As a result, the MOHW succeeded in persuading the incoming government to support its new proposal in February 1998. This involved the expansion of the system to the self-employed, preserving the structure of the system with only a moderate benefit reduction, and putting the NPF under the control of the MOHW. While the proposal was approved within the government, it still needed to go through the political process in the National Assembly.

4.4.3 The policy process within the National Assembly

A distinct feature that differentiates democratic regimes from authoritarian regimes is the role of parliament. Once the MOHW succeeded in obtaining the government's approval for its proposal, it had to seek agreement from the National Assembly. This process involved a tug-of-war, mainly between the government and the opposition party. This section discusses how the negotiation process between the two was settled, thus shaping the final Reform Bill.

The MOHW's reform proposal embarked on the political process in the National Assembly. The MOHW submitted its reform bill to the National Assembly in May 1998 after few necessary steps, such as holding public hearings. At that point the New Korea Party (NKP), the opposition party which in November 1998 changed its name to the Grand National Party (GNP), did not want to consider the issue until the party was ready with its own reform proposal (S.-I. Yang 1998a). It was a typical strategy of opposition parties to hinder the government's policy so as to prevent it from

achieving its policy goals too easily, especially for hotly debated issues (Interview no. P7, P8). As Kim Dae Jung's party, the NKP, held the majority of seats in the National Assembly, any further process could not take place due to the delay orchestrated by the opposition party.

When the opposition NKP finally prepared its own proposals and submitted these to parliament in September 1998, the contents and the direction of its reform bill was very similar to the government's plan except for two elements. Firstly, the benefit level was more generous, being greater than in the government's Reform Bill, despite it being the proposal of the conservative party. They proposed that the replacement ratio should be decreased to only 60% for 40 years of contributions (compared to 55% in the government's proposal and 40% in the NPRB's). None of the parties intended to reduce too much of the benefit from their constituents in one go, but wanted to reduce it only marginally if necessary. Thus, political consideration of all parties increased the benefit level.

Secondly, employers' total social insurance contribution was higher. It included the abolishment of the converted contribution from Lump-sum Retirement Allowance (LRA) to the NPS in return for the benefit reduction. This conversion system began in 1993 as a means to gradually integrate the compulsory severance payment LRA (fully paid by employers) into the NPS with the aim of increasing political compliance to the NPS.⁵¹ By abolishing this policy, the gradual integration of the LRA into the NPS

⁵¹ In the NPS, a third of the total contribution rate of the employees (2%) was paid from the LRA since 1993, with the rest of the contribution rates paid by the employers (2%) and employees (2%). This converted contribution was introduced in order to reduce the overall burden on employers and employees when introducing the NPS on top of the LRA. This was because, by doing so, the contribution rate for both sides did not need to increase rapidly. The LRA was a defined benefit lump-sum retirement allowance, which was financed with 8.3% of the monthly wage of

was automatically cancelled. This change actually meant an increase in the total financial burden on employers because they now had to pay for the LRA in full, while paying half of NPS contributions. It is noteworthy that it was the conservative party that proposed the policy to increase the employers' burden, an issue which has not received much attention in previous research.

The Standing Committee for Health and Welfare discussed all the reform proposals from the opposition parties, and drew up a compromised version of the committee's own reform bill by including features of all schemes in the submitted proposals. It contained both of the above two key suggestions of the conservative party: namely, reducing the pension to only 60% and having employers pay the LRA in full.⁵² The income redistribution element of the benefit formula was also modified, but to a lesser degree than in the NPRB's proposal (NPS 2008). For long-term financial stability, the financial calculation system for the NPS was made compulsory, requiring the government to calculate the financial state of the NPS and project the long-term financial outlook every five years so as to reform the NPS accordingly. This was a notable feature because this system meant a routine policy window, 'in which institutionalized procedural events dictate predictable window openings' (Soroka 2009, 768), triggered the next round of reform, as will be discussed in the next chapter.

employees and paid solely by employers. When the partial conversion was introduced in 1993, there was a plan to gradually integrate the LRA into the NPS (see Chapter 4 for more information).

⁵² Thus, the adjustment of the benefit level suggested by the NPRB (which originally proposed to reduce it from 70% to 40%) had been mitigated once by the government (proposing to reduce from 70% to 55% only), and then was slightly lessened once again by the other parties (to be reduced from 70% to 60% only).

Other changes were mixed with retrenchment and improvement. The pensionable age was increased from 60 to 65 by 2013, but it was accompanied with an improvement in eligibility, such as reducing the minimum contribution period for pensions from 15 to 10 years and introducing the divided, or independent, pension benefits for divorced wives. As for the NPF, the ministry in charge was changed from the economic ministry to the welfare ministry in order to prevent undue intervention of the economic ministries in pension fund management. The decision making process for the management of the NPF began to include representatives from the labour unions and civic groups on the NPF management committee board. The integration of the remaining self-employed in the urban areas, under the Reform Bill, was set to begin from April 1999, to enable the government to prepare for the extension. This element was passed into law on the 28th December 1998, announced on the 31st December 1998, and came into effect on the 1st January 1999. Table 4-3 shows the timeline of the major events from the presidential election to the legislation of the reform bill.

Table 4-3 List of key events (1997–1998)

Date	Event
18th December 1997	The 15th Presidential Election
27th December 1997	The NPRB's Reform Proposal submitted
8th January 1998	Welfare ministry began to appeal its reform proposal to the Presidential Transition Team from the first meeting with the health and welfare committee
22nd January 1998	Public hearing on the NPS reform
21st February 1998	Welfare ministry's NPS reform proposal was approved within the government
25th February 1998 (- 24th February 2003)	Inauguration of the president Kim Dae Jung
May 1998	The NPS Reform Bill of the government submitted to the National Assembly
31st December 1998	The Bill passed on the 28 th December 1998 made public on the 31 st December 1998 to come into effect from the 1 st January 1999
23rd August 2001	Ending the crisis management system of the IMF with early repayment of the full amount of loans from the IMF

It is noteworthy that in the reform process the direct policy influence from the international organisations was rather marginal in the case of the NPS. International government organisations, especially the World Bank, played a key role in shaping pension reforms in 51 countries between 1997 and 2004, mainly in Latin America and Eastern Europe (Deacon 2007, 35). Due to the economic crisis in 1997/8, Korea received the first bailout from the International Monetary Fund (IMF)⁵³ followed by the second structural adjustment loan (SAL) of 20 billion US dollars in March 1998. As a condition, the World Bank asked Korea to follow a list of social policy recommendations. In terms of the public pension reform, it was advised to develop

⁵³ At the first bailout received on the 3rd December 1997, the IMF made a policy intervention, mainly focused on the economic and financial policies, as a condition.

the private pension system, changing the current LRA to a fully funded occupational pension scheme, and to improve the pension fund management system (Joo 2010b, 76; Palacios 2000). However, the policy recommendations of these international organisations did not exert any notable influence on the Korean pension system in general (Y. M. Kim and Kim 2005, 220). Before these organisations began to intervene in domestic social and economic policy, the reform bill had already been approved by the government and was awaiting the final formal process. In addition, most of the other social policy recommendations of the IMF and World Bank involved expanding the existing welfare provision because the existing system was seen as being too limited and stringent (S.-K. Kim 2010; Y. M. Kim 2008). Further, as Korea paid back all the loans from the IMF in August 2001, their intervention could not continue.

The only policy area in which the World Bank's policy recommendation was reflected was the change in the NPF management system in 1999. The World Bank asked the Korean government to revise the regulations that allowed the government to use NPF budgets as if they belonged to the state (T.-S. Kim and Sung 2004, 421; Y. M. Kim and Kim 2005; NPS 2008). As this was what the MOHW and civil society organisations had demanded, the MOHW used the recommendation from the World Bank as a means to support its argument to bring the NPF under its management. The policy intervention of the World Bank with regard to the NPS during the economic crisis and thereafter, apart from the issue of the pension fund management system, did not play a significant role in policy development (Y. M. Kim and Kim 2005; Koh 2008, 276; Soroka 2009, 768), thus leaving the pension reform to be shaped by domestic politics.

In sum, during the final stage of the reform discussion, the MOHW succeeded in achieving most of its policy preferences in the final bill. It seized the opportunity when the random problem windows were open, namely, the economic crisis and the shift in political power. While the pro-welfare policy orientation of the new government helped it to achieve policy goals, the increased political influence of civil society organisations and trade unions played an important role as contributory political resources. Thus, the political stance of the government was not the sole imperative leading to the moderate reform towards a more distributive and inclusive system. Also, potential political ease and economic advantage worked in favour of the reform.

4.5 Conclusion

The process of policymaking under a democratic regime was clearly different from the previous authoritarian eras in the political dynamics, but it also revealed the continuation of dominant preferences for a residual welfare system. After democratisation, an increased range and number of policy actors took part in the policymaking while political competition among them led to the implementation of a new welfare scheme (i.e. the introduction of the Senior Pension System in 1997). However, the same embedded preference for a residual welfare state and an effective political rationale to justify a social policy change survived political and economic changes that were brought about by a financial crisis and changes in political power.

With the transition to democratic rule, the configuration of policy actors and their roles in the policy process was changed including the role of the government. As under an authoritarian regime, economic ministries and the Office of the President still held superior power within the government. However, this was weaker than

before. This was because the policy process was open to a wider range of policy actors through the window of various government advisory boards or task forces, including the trade unions; employers' associations; civil society organisations; and experts both from the fields of economics and social welfare (Mares and Carnes 2009). Nevertheless, the government still had the power to manoeuvre the opinion of those democratic policy windows by adjusting the composition of official organisations within policy discussions. Moreover, as the NPS was not mature, the interest groups had not developed their interests and thus, the policy conflicts were mainly between economic ministries and the welfare ministry (MOHW). Both were seeking larger budgets and, in the case of the NPS, trying to hold authority over the National Pension Fund (NPF) (Miller and Demir 2014, 138). Thus, while the government still held the most important role, the policy competition among different government ministries increased.

Although there was a substantial change in the political system after democratisation, the dominant ideas underlying social policy continued, showing the legacy of the developmentalism pursued by the previous non-democratic governments, and further elaborated with (neo-) liberal ideas. The government of Kim Young Sam emphasised the importance of social development, but with the main goal of nation-building in common with the previous authoritarian governments (Goodman and Peng 1996a, 213). The difference was that it further elaborated (neo-) liberal ideas about social policy, influenced by the prevalent preference for neo-liberalism among the intellectual community specialising in economics. Thus, the government clearly showed its preference for a residual welfare system, claiming that it would allow the country to avoid 'the errors of advanced countries' that suffered from political and economic difficulties due to their mature welfare systems. Moreover, the priority on

economic development was also persistent. The Kim Young Sam government simply replaced preceding governments' notions of 'economic development' with higher productivity, yet adding more neo-liberal ideas such as enhanced flexibility and competitiveness. In discussing the NPS, the preference for a residual welfare system combined with neo-liberal ideas led the reform proposal. This may account for the way in which developmentalism survived until the late 1990s while going through a process of democratisation (H.-J. Kwon 2005c). In short, the transition to democracy did not automatically change the dominant ideas about the welfare state.

Despite the strong continuity of dominant ideas, we have found that change could occur when the policy window was open to different policy actors and circumstances; in the case of the NPS, this was in the form of an economic crisis. When the first reform proposal was drafted, the country was hit by the financial crisis in late 1997. This provided a great opportunity for 'minority' policy actors – that is, the MOHW and civil society organisations who were excluded from the network of conservative economists and economic bureaucrats – to exert more political power. The crisis changed the political circumstances, which opened up another policy window. The crisis also altered public attitudes towards government policy (Hayo 2005). The political leader from the centre-left party came to take the next presidency in the aftermath of the economic crisis. This circumstance shaped the political ideas of the new government. For them to draw political support, the government empowered civil society organisations. Yet, the crisis did not automatically work as a policy window. To make the crisis an opportunity, the policy actors needed to define the policy problem and propose different solutions that could well appeal to the new government. With well-planned political strategies, the MOHW succeeded in achieving its policy

proposal. The financial crisis and the new presidency provided an effective ‘random problem window’ for the MOHW (Soroka 2009).

Chapter 5 The politics of agenda setting

5.1. Introduction

The Korean welfare state has expanded enormously since the economic crisis of the 1990s, in common with other East Asian countries, including Japan and Taiwan (Choi 2012, 275; Kwon 2009; Peng and Wong 2008). Indeed, in Korea, the welfare state has experienced a dramatic increase in the quantity and quality of welfare state provision as a result of political democratisation, the impact of the economic crisis, and increasing demands for welfare following changing socio-economic circumstances (Kwon 2005; Peng and Wong 2008). Democratisation has opened up policy opportunities for political parties; interest groups (including labour unions and employers' associations), and other social actors. Interest groups and social actors, moreover, have begun to formulate 'pro-welfare' policy coalitions and to play an important role in the expansion of the welfare state (Wong 2003; Wong 2004; Mares and Carnes 2009; Peng and Wong 2008; Kim 2008; Kim and Kim 2005; Kwon 2003). The Asian Financial Crisis in the late 1990s further increased awareness of the importance of state welfare, and this led to increasing demands for welfare provision and the winning over of more support for the 'pro-welfare' policy coalition (Kwon 2003; Hwang 2007). As a result, the formerly 'selective' welfare system has been transformed into a more inclusive one, as in other East Asian countries, in marked contrast to developments in other places where demands for austerity have conflicted with popular demands for sustained expenditure (Pierson 2001). It has thus led the academic community to consider the possibility of a substantial welfare state operating alongside developmentalist economic policies (Kwon 2005; Kwon 2009). There has, however, been little explanation of the process by which this

transformation took place, or analyses of whether it will continue in the changing socio-economic and political environment. In this chapter, therefore, we aim to fill this gap in the literature by studying the policy process of the National Pension System (NPS) reform of 2007 and also focus on the agenda-setting process. In the next chapter we will examine policy formulation and decision-making.

Despite the expansionary trend in the welfare system (Choi 2012; Kwon 2005; Peng and Wong 2008), this broader picture does not apply to the old age income security system in Korea, especially during the reform of 2007. This implies that the expansion may not necessarily have taken place at the same time across all policy areas. What happened to the old age pension system in Korea was a structural change, involving radical retrenchment of the future benefits of the NPS while introducing a small tax-funded elderly allowance. At the time of the 2007 reform, the factors that were thought to be key drivers of expansionary welfare state development still existed – such as the increased political power of the welfare ministry (Kim and Choi 2014; Hwang 2007; Cho et al 2009; Yang 2003); of ‘pro-welfare’ non-government organisations; and increased demands for welfare (Peng and Wong 2008; Kim 2008; Cho et al 2009; Kwon 2003; Kim and Kim 2005). These factors contributed to preserving the existing welfare system at the time of the previous reform, but the question remains: why were they not equally effective at the time of the 2007 reform? What makes the case of the 2007 reform most interesting is that it happened under conditions of deepening democracy in the wake of the recovery from the financial crisis of 1997. There was a general expectation that the democratic process would help drive welfare state expansion. However, in fact, the momentum for this expansion - that had been gathering strength over the past few decades - was not maintained in the case of the NPS, while development continued in other policy

domains, especially in health care and public assistance (e.g. Kwon 2003). To explain why these factors were not operative at the time of the 2007 reform, and how the reform nevertheless took place, we will investigate the policy-making process in detail.

One may argue that the reform was not significant because its impact could not be immediately felt due to the NPS still being an immature system. Further, the low contribution rate of the NPS, (which was even lower in the first decade after the system's introduction) taken together with the reduced old age benefit as a result of the reform might not be seen as too disadvantageous to pensioners given their low contribution rates. That is particularly the case when compared to the total amount of contributions paid by individuals from an actuarial perspective. One might argue that the Basic Old age Pension (BOP) – an allowance system for current elderly people, which was introduced together with the 2007 reform to protect low-income older citizens - signified an expansion of the system, and that it was following the same path as other welfare provision. If we look into the policy change in detail, however, the introduction of the BOP can neither be seen as a 'zero-sum' game, nor as complementary to the NPS reform. This is because BOP's benefit levels were too low to tackle the high poverty rates. The benefits from the BOP might help the older poor, but it could not compensate for the substantial reduction in the NPS.

This situation leads us to the question of how expansionary welfare state development in East Asia, particularly in Korea, might explain the 2007 NPS reform that was carried out with the opposite intention, namely, against an expansion of the welfare system. We need to note that the reform aimed to improve the financial stability of the National Pension Fund (NPF). In fact, the NPF had been more stable than ever,

considering the fact that it had accumulated a total pension fund equivalent to about 15% of the Gross Domestic Product (GDP), meaning that there were no urgent fiscal problems associated with the NPS. Instead, the already-high risks associated with old age poverty might be intensified because of the reform. In short, the proposed changes to the NPS would mean that it could no longer function as a means of effective prevention of poverty for the elderly. This was because the reform reduced the benefit level for all those who were insured without guaranteeing a minimum pension benefit for those with very low pensions and without subsidising those with low incomes. With the reform, therefore, neither the NPS nor the BOP would be able to provide an adequate income for all people.

Despite the gap in our understanding about recent policy changes in East Asian welfare states, especially in Korea, there is little research on the policymaking process behind these latest reforms. This is partly related to the fact that much research on East Asian welfare states tends to take a comparative approach, examining various policy domains. As a result, the NPS was not necessarily a central focus of research, but only one of many policy items in comparative studies. If these comparative studies take a historical approach, moreover, the attention given to the latest reforms inevitably becomes smaller (e.g. Kwon 2009; Peng and Wong 2008; Choi 2008; Choi 2012).

The absence of research on the policymaking process of the latest NPS reform is not limited to international journal articles published in English, but also applies to Korean social policy scholarship. Overall, there are very few studies that have investigated the policymaking process and the conclusions of those few that exist can be contested to some degree. First of all, the most notable feature of the policymaking

process of the 2007 reform appears to be the increased role of welfare officials and the welfare ministry as a whole (Kim and Choi 2014; Joo 2010). Kim and Choi (2014) and Joo (2010) agree that the key role was played by the welfare ministry, but they differ on how to evaluate the final output of the pension reform. Joo (2010) sees the influence of the welfare ministry as being negative, arguing that the welfare ministry disregarded the opinions of civil society but also other parties under their influence. In contrast, Kim and Choi (2014) tend to see the influence of the welfare ministry as a key factor in the reform's successful passing, because they give more emphasis to the fact that the 2007 reform also led to the introduction of the BOP, which they see as a significant achievement. They argue, therefore, that the accumulated political influence of the welfare ministry since the late 1990s, combined with their specialised knowledge of social policy, enabled them to lead on pension reform. In short, while both of these studies conclude that the increased role of the welfare ministry was an important change in the policymaking process steering the 2007 reform, they disagree on the outcomes stemming from the reform.

The findings arising from the NPS reform process published in Korean social policy studies are also conflicting. Cho et al (2009) argue that the role of the welfare ministry changed from being a policy initiator to that of an information provider. While seeing the role of the welfare ministry as subsidiary, Cho et al (2009) emphasise the role of party politics and interest groups (especially labour unions and non-government civil society organisations). This again conflicts with the views expressed by Joo (2010), who considers that party politics was under the influence of the welfare ministry. It is also at odds with the views of Kim (2008) and Chung (2008) who maintained that the opinions of civic groups, and even policy discussions within the NPS Reform Commission, were disregarded in the final reform Bill.

The NPS reform of 2007 saw much active involvement by policy actors. This included the complicated political process of setting up the agenda, formulating policy alternatives, and finally making a decision. In this chapter, therefore, we first examine the process of agenda setting which, like the processes of policy formulation and decision making, was not clear-cut (Fischer 2014, p.48). For analytical purposes, however, we can distinguish the process by which policy actors competed over agenda setting from the ways in which they sought alternatives, shaped solutions and negotiated the final decision. This approach is also useful because the role of policy actors may differ at various stages in policy development. We aim to find out how this seemingly unpopular reform could arrive on the formal political agenda, and question why it was pursued and how policy actors competed over the issue.

The chapter presents the policy process through a time sequence, because understanding the developmental process is essential to examining fully what happened and why. The next section investigates how this reform of an immature welfare system was established. In Section 5.3, we present the emergence of new issues that gained increased media attention and spread negative attitudes towards the existing system; and how political parties exploited these factors by transforming them into an opportunity to gain political attention. We then move on, in Section 5.4, to examine how the government reacted to this changed policy environment and succeeded in placing its reform plan on the formal political agenda. The chapter ends with a conclusion examining the changed role of the policy actors in agenda setting when compared to the previous reforms.

5.2. The futile initial attempt at reform

The key feature of the reform was its motivation. Whereas most reforms tend to be planned to address existing policy problems, the reform of the NPS was planned to prevent future problems. This preventive strategy shaped the context of a reform in which the initiative of the government was less effective because it was difficult to transform the issue into a political agenda. Thus, even if there was a policy window for the government to ease the reform, it failed to take the reform onto the formal political agenda. In this section, we investigate how the reform was first set out in 2003 and finally failed to arrive on to agenda before the incumbent parliament ended in May 2004.

5.2.1 Reform as a routine policy task: Government-led process

The reform process began as a routine policy task of the government. The Ministry of Health and Welfare (MOHW) was supposed to revisit the financial state of the NPS and to release the results in 2003. The key policy actor in the early stage of the reform, therefore, was the MOHW. However, this routine policy window itself was not strong enough to allow the reform of the NPS to reach the political agenda without support from opposition parties. This section presents the role of the government in initiating the reform.

From the beginning, the main objective of the reform was clearly defined as improving the financial stability of the system. The previous NPS reform of 1998 mandated the government to review the financial state of the NPS every five years and to adjust the system to improve it (Article No. 4, National Pension Act). This regulation was intended to facilitate future reforms as a result of the unresolved conflict following the reform of 1998 between the MOHW (which was in favour of

gradual reform) and the economic bureaucrats (who preferred more radical reform). Thus, the MOHW began the reform process without questioning the purpose of the reform. The government launched the National Pension Development Committee (NPDC), working between March 2002 and May 2003, to draw up an actuarial valuation of the National Pension Fund (NPF) and formulate appropriate reform proposals. The NPDC embraced all the concerned bodies by including government officials, employers' associations, labour unions, experts and so on.⁵⁴

We need to note that the financial concern was preventive rather than actual. The MOHW did point to the embedded over-generosity of the system and the ageing population as the main reasons for the NPS's financial instability (MOHW 2003a, 2), but the system was not creating any immediate problems, implying that the reform was driven by ideology rather than by the specific problems. With the existing system, the NPDC concluded that the NPF would fall into deficit in 2036 and be exhausted by 2047. It thus suggested that, for the sake of long-term financial stability, it would be necessary to make reductions in benefits, together with an increase in contribution rates, while introducing a more specialised pension fund management system (MOHW 2003a, 1-2; NPDC 2003). Otherwise, it warned that contribution rates would need to increase to 30.0% in 2050 and 39.1% in 2070 (NPDC 2003, 15). As the problem would only arise in the future, however, the need for reform was not urgent.

⁵⁴ This committee was composed of 20 members: four from the government; three from the government think-tank; four from the universities; two from the trade unions; two from the employers' associations; two from the interest groups; two from the Civil Society Organisations; one from the media; and a chairperson. Under this committee, two special subcommittee groups were organised, one for policy research (which had 19 members, including a chairperson); the other for the projection of the NPS finances (with 15 members including the chairman) (PCPP 2008, 24).

While the operation of the NPDC may appear to be indicative of a more democratic policymaking process, decision making within that committee was still government-dominant and failed to embrace different voices from various policy actors. Despite a year's discussion within the NPDC, the government's position remained the same as its original preference, and it failed to reach agreement with other policy actors as opinions were divided. Among three possible options that the MOHW proposed to the NPDC (as shown in Table 1), Option 3, supported by the employers' associations, which proposed the highest reduction in benefit while minimising the increase in the contributions.⁵⁵ They argued that the financial burden on the employers had already been too high, especially considering the existing compulsory severance payment, the Lump-sum Retirement Payment (LRP)⁵⁶ (H. Y. Kim 2003). The trade unions, however, opposed any change in the existing system, stressing that the LRP was a deferred wage. The government and experts supported the middle course, or Option 2 (NPDC 2003, 17) (see Table 5-1). Despite public hearings and policy meetings between April and July in 2003,⁵⁷ agreement was not reached and the government set up its reform proposal based on their original policy position, Option 2, and submitted it to the National Assembly on the 30th October 2003 (MOHW 2003b). In other words,

⁵⁵ There are four major employers' associations in Korea: the Korea Employers Federation (KEF), the Federation of Korean Industries, the Korea Chamber of Commerce and Industry and the Korea Federation of SMEs (Small and Medium Enterprises). Although each of these associations represents different groups of businesses and different sizes of firms, KEF, which specialises in policy research, speaks with a concerted voice for all the other employers' associations and on behalf of employers in general.

⁵⁶ All the employers at a workplace with more than five employees were required to pay the LRP to those employees who had worked for more than a year at their retirement or redundancy. More information is presented in Chapter 1.

⁵⁷ The government held public hearings and meetings from April to July in 2003 to discuss these options. Participating groups consisted of employers' associations; labour unions; civil society organisations; and experts such as professors in social welfare and economics, and researchers from the government think-tanks (PCPP 2008, 38).

although the government followed the necessary democratic procedure, different opinions on its proposal were not accepted.

Table 5-1 Proposed reform options of the NPDC and its supporters

Proposed changes	Total contribution rate (2010-2030)	Standard Replacement Rates (SRR)* (After 2004)	Supporting groups
Current system	9%	60%	Trade unions
Option 1	19.85%	60%	-
Option 2	15.85%	50%	Government; Experts
Option 3	11.85%	40%	Employers' associations

Note: *This is the net income replacement ratio for the median income earners among the NPS insured, who had contributed for 40 years to the NPS.

From the preference of the MOHW, we note that it wanted parametric change rather than fundamental change. As the main focus of the reform proposal was on financial stability, the key characteristics were to increase the contribution rates from 9% to 15.9% by 2030 while reducing the Standard Replacement Rates (SRR) (the average earners' net income replacement rates for 40 years' contribution) from 60% to 55% during the period from 2004 to 2007, then reduce the SSR further to 50% in SRR after 2008. With regard to the NPF management, the non-permanent pension fund management committee was to be made permanent because the fast-growing size of the NPF required more expertise in the management system (MOHW 2003a)(See Table 5-1).

Table 5-2 The key features of the first reform proposal

Element	Existing system	After reform
Standard Replacement Rates (SRR)	60%	55% by 2007 50% after 2008
Contribution rates	9%	15.9%
NPF Management Committee	Non-permanent	Permanent

Considering the immaturity of the system, the NPS could have undergone fundamental and structural changes. However, the MOHW preferred moderate change. From this, we can infer that they wanted to maintain the basic principles of the existing system. From the perspective of a system administrator, any abrupt and radical change in the future was unwelcome, hence prolonging the life of the existing system as much as possible was preferred (G1, G10), and this might serve the principle of expending the least effort as well. Using Hall's (1993) term, they wanted a first-order change (a change in the settings of the policy) to avoid a second/third order change (a change in the instrument or goal of the policy).

To summarise, the reform debate began with revisiting the financial state of the NPS, which opened up a routine policy window for the government. Most of the debate revolved around the sustainability of the NPF, which was the main objective of the financial review and, therefore, also of the government's reform plan. It is therefore noteworthy that this reform centred on the financial aspect of the NPS as it stood after the previous reform even without direct pressure from the economic ministries. Although the government effectively used the routine policy window in setting up its reform proposal, the reform did not progress any further in the face of inertia by the political parties and a failure of the plans to reach the agenda during the term of the incumbent parliament. The following section discusses why this occurred.

5.2.2 The failure to set the agenda

The initiative of the government in promoting the reform appears to have been futile from the beginning because of the reluctance of the political parties, who were conscious of any consequences that might have had negative effects upon their election hopes. This section analyses the process by which the government's efforts became ineffectual when faced by party inertia.

It may well be the lack of any need for the reform and the bad timing that prevented the reform from reaching the agenda. It was difficult for the government to urge parliament to discuss reform based solely on the argument that financial problems might occur in more than 40 years' time. When the government submitted the reform bill to the National Assembly on the 30th October 2003, moreover, the next general election was due less than six months' later on the 15th April 2003 (See Table 5-3). Ahead of the election, all the political parties intentionally avoided dealing with the reform despite the government's efforts to place it on to the agenda (Cho et al 2008). For example, the MOHW held briefing sessions on the reform for the MPs and the president Roh Moo Hyun (2003–2008) and sent 'A Letter to the National Assembly', urging parliament to process the reform. Nevertheless, all these efforts were useless until after the election had taken place as all political attention was focused on the vote (PCPP 2008, 42).⁵⁸

⁵⁸ The NPS reform first reached the agenda at the regular meetings of the Health and Welfare Standing Committee of the National Assembly between the 8th and 9th December 2003. Yet the meetings ended without dealing with the NPS (PCPP 2008). When it appeared on the agenda again at the standing committee meetings of the 17th and 27th December 2003, the situation was the same. By the stage the end of the final Regular Session of the National Assembly for the term of the 16th National Assembly (2000-2004) was approaching.

The opposition parties obstructed the reform process due to electoral considerations. The strongest reluctance came from the Grand National Party (GNP), a giant opposition party, which held the largest number of seats among all the parties (including the government); the GNP's opposition arose from negative experiences with welfare politics.⁵⁹ At the previous presidential election in 2002, Lee Hoi Chang, the party's presidential candidate, pledged that he would reduce the pension benefits to improve the country's financial stability as part of the NPS reform. The result of the election was fatal. He was narrowly defeated by a 2.3% margin, which was just over half a million votes. The campaigning on the pension reform may not have been the main reason for the failure, because the welfare system was not the key issue at the presidential election (Y. Choi 2011, 19). The GNP, however, concluded internally that his position on pension reform was a crucial factor in the defeat, and had lost a million votes from the elderly (Interview nos. E4, P1, P4, I6 and P7). Therefore, on this occasion the GNP, conscious of the possible electoral consequences for the party, was determined to not raise reform before the upcoming general election. The main opposition party thus played a key role in hindering reform by deciding 'not to decide'.

At this stage, due to the immaturity of the NPS, none of the other policy actors (including interest groups and civil society at large) were forcefully calling for reform, thus making it more difficult to reach the agenda. Employers and trade unions had their own policy positions (as shown in Table 1) but the NPS was not hotly debated in politics because it could not draw any political traction from vested interest groups as

⁵⁹ The 16th National Assembly (20th May 2000 to 29th May 2005) was composed of 154 MPs from the main opposition party the GNP; 134 from the ruling MDP; 22 from the United Liberal Democrats; three from the Democratic National Party; one from the Korea New Party; and five with no party affiliation. There were 319 MPs in total.

it was still an immature system (Interview nos. I3, I9, I6, I2). In that situation, civil society organisations that had played a key role in expanding the welfare system in Korea since the 1990s⁶⁰ could not make this an issue by themselves. This was because the lack of urgent problems, due to the immaturity of the NPS system, presented difficulties in making it a central issue. (Y. M. Kim 2008; H.-J. Kwon 2009; Peng and Wong 2008).

As a result, the first government proposal failed to reach the agenda. The first reform proposal was automatically abolished when the 16th term of the parliament ended in May 2004, without having been discussed during the parliamentary session. The policymaking process of the first reform proposal is summarised in Table 5-3.

⁶⁰ These are non-government organisations voluntarily formed out of civil society, distinct from politicians, providing expertise on social policy through their close links with professors at universities and experts in the field (Peng and Wong 2008, 77-78). They advocated help for those who were excluded from the benefits of social and economic development in society by the authoritarian developmental state (Y. M. Kim 2008). In general, these two major organisations promote more inclusive and universal social policies.

Table 5-3 The policymaking process of the first reform proposal (03/2002–05/2004)

Dates	Event	Details
March 2002-May 2003	Reform debates in the National Pension Development Committee (NPDC)	The first NPS financial calculation
April 2003-July 2003	Public hearings and meetings with experts	Conflicts between preferences continued
30th October 2003	The NPS reform bill submitted to the National Assembly	The 16th National Assembly
December 2003	NPS reform appeared on the agenda of the Health and Welfare Standing Committee in the National Assembly	The standing committee did not discuss the NPS reform
February 2004 to October 2004	Establishment of the advisory body for the welfare minister called ‘Tackling the Low-coverage of the Old-age Security System’	No notable progress was made
15th April 2004	General election for the 17th National Assembly	
29th May 2004	The 16th National Assembly ended	The reform Bill automatically abolished
30th May 2004	The 17th National Assembly began 2004-2008)	

In conclusion, having a routine policy window (Soroka 2009) helped the government to initiate the reform, but it did not guarantee success. It showed the weakening influence of the government in setting the agenda in comparison with the previous era. In a deepening democracy, political parties had learnt the possible negative effects of engaging in welfare reform through their previous experience and therefore tried to keep the reform off the agenda (Birkland 2014, 63). In this situation, the role of civil society organisations was not salient either. Soon after the failure of the first reform proposal, new policy issues in relation to the NPS were raised and these transformed the entire context of the reform. We will discuss this in the next section.

5.3. The rise of a new political issue

The reform process reached a turning point when new pension system problems began to arise after May 2004: the rise of an anti-NPS mood, a high poverty rate among the elderly and low fertility rates. These problems changed the policy environment dramatically, resulting in active political competition over the agenda between the political parties and the government. In this section we will analyse how the NPS finally came to be perceived as a problem, how this developed into political issues, and how the political parties responded to them. The time scope of this section ranges from May 2004, when the 17th National Assembly first opened, to June 2006, when the MHOW announced a ‘New Reform Plan’.

5.3.1 The effect of an unexpected event in drawing attention to the NPS

The NPS became an issue when an unexpected event spread negative attitudes towards it. The anti-NPS mood after May 2004 was sparked by the spread of the so-called ‘Eight Secrets of the NPS’ that set out some alleged problems of the NPS. These had not previously been widely known to the public (PCPP 2008, 46). The author was someone using the nickname of ‘mariavet2000’ who first posted the ‘Eight Secrets’ on the Internet on the 5th May 2004. Some of these involved administrative problems. Others included misunderstood features of the public pension system and incorrect information about it. For example, the document pointed out the problems inherent in the action of seizure for outstanding contributions to the NPS. The tight collection system raised complaints about applying seizure too strictly, especially for those who had low incomes. Based on the regulations on seizure, this posting further argued that the NPS was not a welfare system but merely a tax system because of its ‘compulsory’ application to the whole working population. Another

example of the issues raised by the document was its questioning of the top ceiling system that limited the amount of income that applied to the NPS. It emphasised that the owners of conglomerates paid the same contributions as upper- and middle-income workers, which the author claimed was unfair and unacceptable. In fact, the ceiling system was also intended to restrict the amount of pension benefits for high-income earners by limiting the scope of their pensionable income base. It was nevertheless described as if it were an unduly advantageous system for high-income earners. A further example of incorrect information was the case of elderly pensioners who were still earning low incomes from their work while receiving a pension. Even if it was completely permissible for those of pensionable age to receive their full pensions if their income was below a certain level, the document claimed that the government would never pay pensions to them for any reason. Despite the flaws of the post, it increased sceptical and negative views on the NPS and triggered growing questions about the system.

This event prompted the government to become more active in using the policy process to deal with the situation. The MOHW and the National Pension Service tried to correct errors in the document by advertising the correct information about the NPS and its benefits as a social insurance system. It used the internet and other media and handed out leaflets to individuals and organisations (NPS 2008, 219; PCPP 2008, 129). It is not definitely known who the author of the ‘Eight Secrets of NPS’ was, nor what his/her motivations were. The issue of the future financial deficit of the NPS had always been in the ‘issue-attention cycle’ in politics and academia, especially in economics (as we have argued in Chapter 4.3.1), hence the ‘Eight Secrets’ were sensational enough to diffuse negative attitudes towards the NPS rapidly because its claims were mostly based on the alleged insecurity of future benefits and the

unfairness of the collection system. Increased complaints about the NPS, due to the spread of this incorrect information, could well have been indicative of the lack of general knowledge about the NPS among the public because of the scheme's immaturity. The rapid dissemination of problematic information about the NPS, however, and the government's active response to attempt to rectify it, brought the NPS to the forefront of the debate, prompting other issues relating to the NPS to become publicly known (Joo 2010a; PCPP 2008, 47).

The issues relating to the NPS expanded into three major problems. Firstly, the government's original reform proposal was mainly aimed at dealing with financial stability. The pension fund deficit, however, would arise anyway at a later point irrespective of demographic changes (KCTU 2003). It thus led to the criticism that the reform would not ultimately be able to address the problem. Secondly, the proposed reform could aggravate poverty among the elderly, which was already high. Choi and Lyu (H. S. Choi and Lyu 2003, 157) showed that in 2000 about 28.4% of elderly people aged 65 and over were in absolute poverty and 34.2% in relative poverty, which was three times higher than child poverty. Despite the persistent high poverty rate among the elderly, there was no adequate protection for this low-income elderly group. Thirdly, in spite of the NPS being a compulsory system for the entire working population, a large proportion of self-employed and informal workers were excluded from the system due to incomplete income assessment and the deficiencies in the business registrar for small-sized companies. Critics thus often called the NPS 'a half system', meaning that the system covered only half the workers. The government's proposal to reduce the benefit level of the NPS therefore led to the concern that without any other complementary measures to compensate for the effects of benefit

reduction on low-income workers, such as a minimum pension system, the reform could drive low-income workers into pensioner poverty in retirement.

The MOHW became more active in promoting its reform plan when the problems of the NPS became an issue. Firstly, the MOHW announced the 'National Pension Development Plan' on the 3rd June 2004, promising that it would address all the problems of the NPS raised by the anti-NPS movement. On the same day, it submitted its reform proposal again to the newly set up 17th National Assembly. Soon after that, it held various meetings to explain the problems of the NPS and the government's plan to tackle them (PCPP 2008, 51). It also formed a task force to review the NPS reform plan. This consisted of the secretaries for social policy in the ruling party, the deputy directors in the Bureau of the National Pension in the MOHW and researchers in the National Pension Service (PCPP 2008, 53). All these efforts further secured a place for the NPS on the discussion table. The major activities of the government are presented in Table 5-4.

Table 5-4 Major meetings hosted by the government since the submission of the proposal (03/2004–09/2004)

Dates	Main attendees
3 rd June 2004	The NPS Reform Bill of the government submitted to the National Assembly; Announcement of the ‘National Pension Development Plan’
3 rd and 4 th June 2004	Newspaper editors and commentators
11 th June 2004	Directors of the non-governmental organisations
15 th and 16 th June 2004	Policy secretaries of the political parties
17 th June 2004	Social policy secretaries of the ruling party on the Health and Welfare Standing Committee
24 th June 2004	Social policy secretaries of the opposition parties on the Health and Welfare Standing Committee
2 nd and 27 th July, 17 August 2004	The ruling Uri Party
12 th August 10 th September 2004	MPs from both the ruling party and the opposition parties
1 st September 2004	A government task force set up for the NPS reform, consisting of the MPs from the ruling party serving in the Health and Welfare Standing Committee, the Director of the NPS in the MOHW and researchers from the National Pension Research Institute

Despite these increased policy activities, the government’s policy position was not significantly influenced by them. Instead, it is noteworthy that the government proposal submitted at this time was the same as that which had been abolished with the closure of the previous National Assembly (W. S. Kim and Choi 2014). The government’s various policy activities might have been mere political gestures rather than ways of actually taking action.

In conclusion, the rise of an unexpected incident gave political traction to the NPS but, at the same time, it weakened the influence of the government in proceeding with the reform because it also spread negative attitudes towards both the status quo and the government’s reform plan. The event provided an opportunity for the NPS to become

a political issue, prompting an active response from the government to deal with it. By virtue of the rise of strong criticisms of the deficiencies in the current old-age security system, as well as the new proposals, the major issues relating to the NPS expanded from a focus on a financial deficit to the high levels of elderly poverty and low actual coverage rates. The government, however, did not change its policy position, despite appearing to do something. This gave room for the political parties to step in. It also led to an increased participation of the political parties in the reform process, which is discussed in the following section.

5.3.2 The emergence of the Basic Pension as a result of political competition

At this stage, the role of the political parties was definitely increasing (Y. Choi 2011, 26; Y. J. Choi 2008), drawing on voices from other policy actors as well. In this section, we will examine the political dynamics of agenda setting among the political parties and the government after pension reform had become a political issue.

As the government reform plan received more political attention, the role of the political parties increased accordingly,⁶¹ and the role of the opposition party, the Grand National Party (GNP), was the most salient. Although the GNP became more active, its actual intention was to impede the reform process rather than to seize it as a vote-gathering strategy (Interview nos. P1, P7, P7, P8). To do so, the GNP adopted two strategies. Firstly, the GNP rejected any discussion of the reform proposals, arguing that it was not ready with its own proposal when the ruling Uri Party (UP) and the Democratic Labour Party (DLP) drew up and submitted their own proposals

⁶¹ They rushed to hold public debates and drew up their own reform proposals to compete with that of the government. The UP held an NPS reform debate on the 7th June 2004, the opposition GNP held meetings on the 9th June 2004 and the Democratic Labor Party (DLP hereafter) held an event on the NPS on the 17th June 2004 (PCPP 1008, 54).

on the 16th October 2004 and the 11th November 2004, respectively. Reform debates could, therefore, only begin when the GNP submitted its proposal on the 3rd December 2004. A former MP of the DLP, who was also a member of the Standing Committee of the Health and Welfare in the National Assembly, pointed out that its tactic was as follows:

The GNP rejected discussion of the NPS in the beginning to earn time to prepare their own proposal to compete with other political parties, because it was not ready with its proposal. In fact, the party deliberately impeded the process because the GNP did not want to pass any of the pending NPS bills (Interview no. P7).

Secondly, but more importantly, the GNP picked up on the problem of old-age poverty rather than financial stability and it proposed a very populist but not very feasible reform plan as a political strategy to make its proposal stand out. The proposal of the government, as discussed in the preceding section, did not change up until this point (see Table 5-2).⁶² The key conflict between the proposals from the political parties lay in the level of contribution rates and benefits, with a larger difference notable in the GNP's proposals. The ruling UP basically supported the position of the government, but with an exception to the proposal to increase the contribution rate (because of electoral considerations). Meanwhile the DLP was against any changes in the benefit and the contribution levels, but asked the government instead to subsidise the contributions of low-income workers to prevent pensioners' poverty in the future (See Table 5-5).⁶³

⁶² The government submitted the same proposal as it had submitted previously, albeit a plan which had been discarded when the Assembly's term ended in 2004 (W.S. Kim and Choi 2014).

⁶³ With regard to the pension fund management, it proposed to set up an all-embracing committee, such as a 'Committee on the Pension Reform', to discuss the fund deficit.

Unlike these proposals, which still focused on the financial stability of the pensions system, the GNP's proposal focused more on addressing poverty among the current elderly by making a fundamental change in the pension system. It proposed to introduce the Basic Pension (BP), a non-contributory universal pension system for all elderly people, providing for 20% of the median income of those insured by the NPS. It also proposed further reform in the NPS, reducing the contribution rate from 9% to 7% with a dramatic decrease in the Standard Replacement Rate (SRR) for a 40 year contribution record from 60% to 20% (NPSC 2005).⁶⁴ In fact, the idea of the BP was not new. During the previous reform debates, economic bureaucrats and experts had supported a basic pension system but they failed to achieve it partly because of its radical nature and partly because of the economic crisis and political power changes that had weakened their influence within the circle of policymakers. This time, as old-age poverty had already begun to receive public attention, the GNP effectively exploited the opportunity by deliberately designing a reform that would appeal to elderly voters. The major parameters of the NPS reform proposals are presented in Table 5-5.

Table 5-5 The policy preferences of the three major parties in the second stage

Variable	Current system	Government	Uri Party	Democratic Labour Party	Grand National Party
Contribution rate	9%	15.9% by 2030	Increase after 2008	9% with government subsidy for low-income workers	7%
SRR (Standard Replacement Rate)	60%	50% from 2008	50% from 2008	60%	40% (20% of the NPS and 20% of the Basic Pension)

⁶⁴ The benefit level of the Basic Pension was to increase gradually from 10% to 20%.

The idea of the BP ignited strong political competition, finally consolidating the issue of old-age benefits for the current elderly. Firstly, on the 12th April 2005 the ruling UP proposed the ‘Filial Piety Pension (FPP)’ ahead of the upcoming by-elections on the 30th April 2005, as an extended version of the existing Senior Pension, a means-tested allowance for the low-income elderly that was based on the Elderly Welfare Act. This was proposed by the MP of UP, Rhyu Si Min, who was later appointed a welfare minister in 2006. As a targeted programme, providing lower benefits to fewer people than the BP, the additional budget to finance the FPP was lower than that proposed by the BP. The UP’s proposal heightened the problem of whether to introduce any type of additional benefit for the current elderly and, if so, how.

Secondly, the proposal for the basic pension by the GNP made the MOHW more active in its policy activities, as the ruling party also proposed the introduction of a welfare programme for the current elderly. The government investigated whether any kind of non-contributory old-age benefit could be introduced for the current elderly by organising an advisory commission, ‘Tackling the Low-coverage of the Old-age Security System’, which was established in February 2004 to seek a way to improve the old-age security system (PCPP 2008, 64). The commission, however, failed to agree on the way to tackle old-age poverty.⁶⁵ By the end of the commission’s work in October 2005, it had only agreed on the need for the government to expand public assistance for the elderly and to improve the NPS to reduce old-age poverty in the future (PCPP 2008, 64). In the meantime, the government reviewed the feasibility of the basic pension again in May 2005 without involving any consultations. It made

⁶⁵ The purpose of the commission was to find a way to: tackle poverty among the elderly; to increase the enrolment of the self-employed in the NPS; and to examine the feasibility of the non-contributory basic pension scheme. Nevertheless, the debates in the commission were not productive and they failed to lead to any agreement on the basic pension system among the members of the commission.

projections about the expenditure on the basic pension scheme and discussed the results with other ministries. The conclusion was the same: the scheme was unaffordable (PCPP 2008, 64). Until this time, therefore, the MOHW was negative about extending the benefit system for the current elderly.

In fact, the actual intention of the GNP was to take a favourable place in the forthcoming elections by harnessing the issue of the pension system (Interview nos. P8, I3, P6). That was why the party proposed a policy that was as populist as the BP's plans. In fact, the GNP's proposal for the BP was implausible because it required too large a budget to finance the scheme. The contribution rate for the NPS, moreover, was to be decreased in order to reduce the financial burden on the insured. That meant that tax increases would be necessary to fund the BP.⁶⁶ The party had, however, always been a longstanding conservative party, whose policy position had always been pro-market and in favour of deregulating business, reducing the level of corporate tax and other liberal measures. It had never, therefore, raised the issue in the Strategy and Finance Standing Committee in the National Assembly that deals with the legislation of the tax system. The GNP nevertheless persistently opposed the government's proposal, blaming it for being unable to address the high poverty rate among the elderly, and insisted on the introduction of the BP. This was, however, merely a political gesture since it lacked any actual intention to implement the new system. In addition, proposing the BP as a new type of pension provision under the umbrella of the NPS, not as an independent benefit system, was a cunning strategy for the GNP, because by doing so it would become impossible to pass the reform of the NPS until a way to fund the BP had been agreed. At the same time, the party intended

⁶⁶ The total cost of the BP was estimated to be equivalent to the total annual budget of the MHOW. If it were adopted as proposed, it would then increase exponentially with the ageing population.

to exploit the new policy as a key part of their agenda for the upcoming by-elections in 2005, the local elections in 2006, and the presidential election in 2007 (Interview nos. I6, P1) (See Table 5-6 for the dates of key political events).

The GNP's resistance was a big hurdle for the government to overcome, especially because of the composition of the National Assembly at that time. At the beginning of the 17th National Assembly, the GNP was the largest party, outnumbering the ruling UP. Without the agreement of the GNP, therefore, the government could not pass any legislation. The government and the other political parties thus blamed the GNP for exploiting the old-age security issue for its own sake. The Social Policy Secretary of the DLP at that time stated that:

The BP proposed by the GNP required about six to nine trillion Won (about 12 to 18 billion British pounds).⁶⁷ However, the GNP did not have any solution to the question of how to finance the scheme, while simultaneously pursuing tax decreases in the tax system. Therefore, we called the Basic Pension of the GNP 'a fake pension' (Interview no. I6).

As the GNP only intended to exploit the issue of the pension system for its own political purposes, the political debates about the reform were fruitless. The reform agenda rarely came to the table of the Health and Welfare Standing Committee at the National Assembly,⁶⁸ which reviews the legislation regarding welfare policy prior to voting. To cut through the parties' reluctance, therefore, the government proposed setting up a Special Committee at the National Assembly in April 2005 to review all

⁶⁷ It was equivalent to the total annual expenditure of the MHOW in 2004, which was 0.97 trillion Won in 2004 and 0.90 trillion Won in 2005 (MOHW 2005).

⁶⁸ From the beginning of the 17th National Assembly to the end of 2005, the Health and Welfare Standing Committee held, in total, 53 meetings but the comprehensive NPS reform bills were on the agenda only seven times. The NPS was rarely dealt with in the standing committee.

the reform proposals and agree a reform plan (NPS 2008, 229-230; PCPP 2008, 72).⁶⁹ While adhering to their own proposals, the political parties did not actively engage in the reform. Conscious, however, of the upcoming local elections scheduled for the 31st May 2006, they made gestures to appear to be working on reform by setting up the Special Committee in November 2005. Conflicts over the reform among the parties continued. The Special Committee, however, without any room for negotiation, was unproductive, and only held meetings twice before it was terminated in February 2005. In short, for almost two years, the legislative process of the NPS reform did not make any progress at the parliamentary level (NPS 2008, 229-230). A former MP, who was the secretary of the Health and Welfare Standing Committee at the time, pointed out the following issues:

In fact, the Special Committee for the NPS Reform could not make any notable progress. The Special Committee was set up because of the increasing pressure from the press, blaming us (politicians) for delaying the legislation in the National Assembly. Therefore, we had to show that we were doing something. As all the parties had a clear preference, and wanted to stick to it, the remaining process could only be political negotiation. Thus, the activity of the Special Committee was in effect pointless (Interview no. P1).

During this period, interest groups and civil society also began to show increased interest, and sometimes attempted to draw up strategies, but their efforts were ineffective. The employers' associations and the trade unions maintained the same opinion on reform as before, supporting the policy direction that would benefit them most (See Table 1).⁷⁰ At that time, the trade unions and civil society groups had a

⁶⁹ Reaching agreement, however, over how to organise the special committee was not easy (PCPP 2008, 71). It even took seven months for the request to be accepted.

⁷⁰ The employers' association consistently supported the reduction in benefits without any increase in the contribution rate (D. W. Kim and Kong 2003; Park 2006). They further argued for reducing the total cost of the public pensions for the employers by integrating the statutory LRP into the NPS (Interview nos. I8, I4, I2). In the meantime, the trade unions were against any change in the existing benefits and contribution

better chance to influence policymaking. All the major civil society organisations concerned with the issues of old-age security system formed an alliance with the trade unions and the Democratic Labor Party (DLP). This party took a seat in the newly opened 17th National Assembly (2004-2008) for the first time as a union-based political party.⁷¹ The alliance was led by the People's Solidarity for Participatory Democracy (PSPD), a major civil society organisation advocating welfare issues, which possessed a high level of expertise on social policy issues. The proposal of the DLP, therefore, had the support of the trade unions, in particular the Korean Confederation of Trade Unions (Interview no. I6).⁷² The reason why their role was futile will be further discussed in Chapter 6.

In this section we have shown the process by which the reform of the NPS became an important social policy issue, and how it was replaced by the new issue of the BP from the beginning of the 17th National Assembly in 2004 to the end of 2005. This was a period in which almost no legislative progress was made. The political parties eventually did become active (Y. Choi 2011, 26; Y. J. Choi 2008) and competed with each other to appeal to voters by using the pension system as a tactic. Their vote-consciousness, however, meant that pension politics became more symbolic, especially ahead of the upcoming elections. All the time that the political parties tried to appear as if they were 'doing something', feasibility was not an issue, particularly

levels, further asking for government to subsidise the contribution rates for low-income workers to the NPS.

⁷¹ The People's Solidarity for Participatory Democracy (PSPD) provided the DLP with its expertise on both social policy and the NPS, using experts voluntarily working for the PSPD (Interview nos. E3, I6). As the PSPD did not have a window for attaining their policy goals through a formal policy making process, they formed an alliance with the Korean Confederation of Trade Unions (KCTU) and other non-government organisations to make their voice heard in the policy making process through the DLP.

⁷² The fact that the Secretary of Social Policy of the DLP had served as a Director in Social Policy in the KCTU shows their close relationship.

for the opposition parties. The role of interest groups and civil society organisations was also fruitless at this stage, which we will discuss further in Chapter 6. In the following section, we describe how the government responded to this stalemate by finally putting reform on the agenda.

Table 5-6 The dates of key political events (05/2004–05/2006)

Dates	Event
5 th May 2004	The Eight Secrets of NPS posted online
30 th May 2004	The 17th National Assembly began (2004–2008)
3 rd June 2004	The NPS Reform Bill of the government was submitted to the National Assembly
12 th April 2005	The Filial Piety Pension was proposed by Rhyu Si Min of the ruling Uri Party
30 th April 2005	By-elections
(February 2004 to) October 2005	The commission called ‘Tackling the Low-coverage of the Old-age Security System’ ended without progress
October to December 2005	All the political parties submitted their reform bills
November 2005 to February 2006	Period during which the Special Committee on the NPS Reform sat in the National Assembly
31 st May 2006	Local elections

5.4. Creating windows of opportunity: The New Reform Plan

This section presents the policy process by which the reform of the NPS finally became part of a formal political agenda. This period lasted from early 2006, when the National Assembly’s futile Special Committee was terminated, to mid-2006, when the government announced its New Reform Plan (NPR). As the reform process came to a standstill, in the face of inertia in the political parties, the government made a large shift in its policy position and crafted new reform proposals. In the following sections we will examine how these finally arrived on the formal political agenda and moved the policy process on from agenda setting and eventually, as will be discussed in Chapter 6, to policy formulation and decision-making.

With the long delay in the NPS reform discussion, the government tried to break through the inertia of the political parties. The first step was to appoint Rhyu Si Min as welfare minister on the 10th February 2006. He had strong political influence and ability, as well as special expertise and experience in pension matters. His appointment was not merely shuffling one minister for another with no power or commitment to reforms because he had the full political support of the president. His appointment therefore implied greater power and influence being given to the welfare ministry, as it had previously been an inferior post compared to the other economic ministries within the cabinet. Rhyu Si Min had been the MP in the ruling party who had proposed the ‘Filial Piety Pension (FPP).’ As discussed in Section 5.3, he planned the FPP in order to compete with the Basic Pension of the GNP in 2005 during his time as a member of the Health and Welfare Standing Committee in the 17th National Assembly and before he took the position of welfare minister. He was thus seen as ‘the right man for the NPS reform’ (Interview nos. G11, E7). He considered the NPS reform to be one of the major tasks facing the Ministry of Health and Welfare (MOHW) and aimed to pass the National Pension Reform Bill during 2006. This was because he feared that if it was left longer the political parties would obstruct the reform with an eye on the forthcoming presidential election and the general elections due in 2007 and 2008 (PCPP 2008, 76) (Interview nos. G11, P6). The high political profile of the new minister therefore reflected the fact that the reform was a significant priority on the government agenda and that the government intended to draw public attention to its continuing reform efforts.

The biggest change that the new minister brought about was the substantial revision of the original reform proposal. Once in office he held frequent ministerial meetings, seeking a way to achieve a breakthrough and move the reform forward (PCPP 2008,

77). The major conflicts with the political parties came from differences in their definitions of the problem. Hence, the parties sought to address both the long-term financial instability of the NPS and the high risk of poverty among older people, while the government - following internal discussions - finally decided to expand the scope of the reform from the former problem to both problems (PCPP 2008, 77)(Interview nos. G11, P6). This opened up the possibility of compromise with the main opposition party, the GNP, by accepting the problem definitions of that party which had first proposed the Basic Pension (BP).

Having established a different policy direction, the MOHW put forward four possible options for reform in May 2006 with the aim of drawing political attention to these issues. These options contained a combination of the government's original NPS reform proposal and four different designs for a non-contributory pension scheme (See Table 5-7). The *first option* was a combination of the original government reform plan with the 'Filial Piety Pension (FPP)', which the new minister Rhyu Si Min had proposed as an MP. As was briefly presented in Section 5.3.2, the FPP was a means-tested allowance targeted at the most needy elderly to guarantee a minimum cost of living. The *second option* was combining the original reform plan with the newly-devised Basic Old age Pension (BOP). In this option, the BOP aimed to provide a flat-rate benefit to the 45% of elderly people who were at the bottom level of income. The other *third* and *fourth* options were combinations of plans held by the GNP and the government. Yet, for the basic pension, the benefit level was further reduced than was originally intended by the GNP's plan in order to lessen the government's financial burden (the GNP's BP would provide 20% of replacement rates for all older people). The *third option* would provide 10% of the median income of the NPS insured to all elderly people aged 65 or more, whereas the *fourth option*

would provide 15%. The MOHW reported the NPR to the president on the 4th May 2006, preparing the next step of policy formulation (PCPP 2008, 79).

Table 5-7 The four options of the reform proposal

Reform Option	1	2	3	4
Benefits for the current elderly	Filial Piety Pension (FPP)	Basic Old age Pension (BOP)	Basic Pension (BP) of GNP	
			10% of median income	15% of median income
NPS reform	Government's original reform plan			

Among the above four options, the government favoured the second, consisting of combining the government's NPS reform plan with the introduction of the BOP. Although the name 'BOP' appeared similar to the GNP's Basic Pension (BP), the BOP was actually closer to the FPP. The difference between the FPP and the BP was that the FPP was a more targeted programme that provided greater adequacy of benefits to needier people, while the BOP would provide lower benefits to more people. Furthermore, the BOP cost less than the BP because it was a targeted programme while the BP was not. It was estimated that the BOP would cost about two trillion won a year, whereas the GNP's BP would cost five times more. In sum, the BOP might be less effective in tackling poverty than the FPP because it would benefit fewer people, but it was better at attracting votes and it was a more feasible policy option. As for the NPS reform, the increase in the contribution rate of the NPS was lessened to 12.9% to reduce resistance (PCPP 2008, 80). Although these changes in the reform plan appeared to be big changes, the government's preference for the second option shows that it still maintained its basic principle of reform while marginally accepting the idea of the BP. The government's policy position change was, therefore, a strategic modification rather than a fundamental change.

Table 5-8 The government's New Reform Plan

		Current system	The original reform plan	The New Reform Plan
NPS	Contributions	9%	15.9%	12.9% by 2017
	Replacement Ratio	60%	50%	50% from 2008 (Possibly to 40% from around 2030)
BOP		-	-	80,000 won a month for 45% of the low-income elderly at the bottom level

In June 2006, the MOHW announced its New Reform Plan (NRP), based on the second option outlined above. The timing of the announcement was deliberately chosen for political reasons to fall immediately after the local elections, even though it had been drafted earlier. The government wanted to prevent a situation in which the political parties could again try to keep reform off the agenda ahead of the elections. It was a useful strategy because it finally urged the political parties to engage in the reform discussion, thus helping the policy process to move from agenda setting to policy formulation (which will be discussed in Chapter 6).

Table 5-9 Key political events (02/2006–06/2006)

Dates	Event
10 th February 2006	The new Minister of Health and Welfare, Rhyu Si Min, comes into office
May 2006	Four reform options, called the New Reform Plan (NPR), set up at the Ministry of Health and Welfare (MOHW)
4 th May 2006	NPR reports to the president
31 st May 2006	Local elections
June 2006	Announcement of the government's New Reform Plan (NRP)

5.5. Conclusion

In this chapter we have investigated the agenda setting process of the NPS reform. As Choi (2011, 26; 2008) has pointed out, we have noted the increased role of political parties in agenda-setting in conditions of deepening democracy in Korea. However, we have not found that any significant role was played by civil society organisations in this process (Y. M. Kim 2008; Y. M. Kim and Kim 2005; H.-J. Kwon 2003; Mares and Carnes 2009; Peng and Wong 2008). Although the NPS was an immature system, the political parties showed strong vote-consciousness. They competitively proposed more populist new pension systems, which finally led to a new policy agenda. Increased political competition between political parties and the government finally led the government to change its policy position substantially in relation to the direction, but not the principles, of its policy. We also found that the media played an important role, by shedding light on the public's escalating negative attitudes towards the existing system, and this prompted major policy actors to respond to policy problems.

The examination of the process of agenda setting during the reform of the NPS poses challenges to the existing literature on the development of Korean social policy. The previous literature speculated that the Korean welfare system, including the public pension, would continue to expand with the democratisation process, empowered civil society organisations and an effective welfare coalition led by the welfare ministry

(Y. M. Kim 2008; Y. M. Kim and Kim 2005; H.-J. Kwon 2003; Mares and Carnes 2009; Peng and Wong 2008). However, at least during the process of agenda-setting, the role of a welfare coalition was not noticeable.

Whereas the welfare ministry continuously promoted an expansion in health care policy (H.-J. Kwon 2003), their policy preference with regard to the NPS was not for expansion, but marginal adaptation through first order change, by altering the settings of the policy. Kim and Choi (2014) also highlighted the effective role of welfare bureaucrats who led the 2007 reform process using their accumulated knowledge, expertise and institutional positioning. Nevertheless, we found that welfare officials were reluctant to expand pension provisions further to those who had not contributed to the system. In other words, their support for an improved inclusiveness of the old-age pension was bounded by the affordability of the beneficiaries. Their persistent opposition to the idea of basic pension scheme, up until the new minister came into office and transformed the entire reform package, reveals their fundamental conservative approach to an inclusive and universal welfare system. Given the fact that welfare officials promoted an expansion in other welfare policies including health care and public assistance policies, their policy preference during the agenda setting process of the NPS shows that the role of welfare officials may vary in various policy domains.

What we also found was increased political competition between the government and political parties, which finally led to the transformation of the government's reform proposal. Previous studies did not pay much attention to the role of partisan politics in Korean social policy because of a short history of democracy, lack of left-wing parties and, yet, a notable civil society organisations' role in expanding the welfare system. However, we clearly noticed the process by which the political competition between political parties and the government led to a successful agenda setting of the NPS reform and to a further radical change in the reform proposal. In doing so, we also found the media played a salient role, as Hall (1993) suggested, in altering the major

ideas and paradigms of reform during the agenda setting process. The media played a key role in shifting the major policy issue from the financial stability of the NPS to diverse problems of the existing pension system, and thus, in placing the NPS on the agenda. The media did this by shedding light on the rapidly spreading negative attitudes towards maintenance of the status quo. While Joo (2010) asserted that the role of political parties was under the control of the welfare ministry, we found that this was not the case at least in relation to agenda setting of the NPS. Rather, the welfare ministry was a passive and responsive actor, while political parties were more proactive in raising the issue, even if their actions were mere political gestures lacking in political will to realise them. In the next chapter, we will further unravel how the reform process of the NPS continued in formulating the alternative policy and making the final decision.

Chapter 6 Policy Formulation and the Decision-Making Process of the NPS reform

6.1 Introduction

The previous chapter examined how the agenda-setting process of the National Pension System (NPS) reform led to an increase in the number of issues to be addressed, with the Basic Old-age Pension (BOP) being added to the agenda. In this chapter we focus on the process of policy formulation and decision-making behind both the NPS and the BOP, because the BOP came to constitute an important part of the NPS reform. We also continue to question the role of policy actors in determining policy change (as in Chapter 5). We thus try to explain why policy actors pursued this reform, to what extent they achieved their goals and objectives, and how they attained them.

As pointed out in Chapter 5, the 2007 reform of the NPS contrasted with the general expansionary development of the Korean welfare system. As this was the last reform carried out under conditions of deepening democracy, we pay attention to how policy actors negotiated and finally agreed on the end result. Studying the political dynamics of policy discussions, negotiations and bargaining at this stage can aid our understanding of why some policy areas do not develop consistently with other parallel policy developments. We will therefore also examine the ideas underlying the position taken by policy actors, the strategies they adopted, and the resources they mobilised within the given political, socio-economic and institutional constraints. In this way, we can improve our understanding of the process by which welfare state retrenchment takes place in the context of a less mature welfare system.

Estevez-Abe and Kim (2014) compare recent childcare policy reforms in Korea and Japan to help explain why welfare state development followed different trajectories by focusing on differences in the institutional structures of the two countries. They found that bolder and faster expansion was more achievable in Korea than in Japan because of the institutional context surrounding the top leader, the president in Korea, which they conceptualise as an ‘open political opportunity structure’. They argue that this enabled the president to set the agenda and appoint or dismiss ministers and senior bureaucrats, with a guarantee of support from the ruling party. They maintain that this institutional characteristic made Korea’s president more responsive to new social demands (Estevez-Abe and Kim 2014, 67). Does this theory apply in the case of the NPS reform of 2007? During the agenda-setting process, old age poverty emerged as a new social problem. Estevez-Abe and Kim’s (2014) argument thus calls into question why policy responses for the NPS did not follow the same direction as taken for childcare policy during Roh Moo Hyun’s (2003–2008) administration. It similarly questions whether the theory can only be applied to the case of welfare expansion, and whether (and why) the same political opportunity structure worked similarly or differently in distinctive policy domains.

In addition to our focus on the role of policy actors, a discussion on the nature of this reform is equally important, because otherwise we cannot adequately analyse what the policy preferences of policy actors actually were. The NPS reform of 2007 involved a substantial reduction in the NPS with the introduction of the Basic Old-age Pension (BOP), which was a non-contributory means-tested welfare benefit for the elderly. Kim and Choi (2014) describe the reform as a triumph for the welfare bureaucrats, who succeeded in introducing a non-contributory (albeit means-tested) pension scheme. It is, however, doubtful whether the BOP represents a ‘success’,

given its meagre benefit at the cost of a substantial reduction in the NPS. Moreover, considering its inadequacy in addressing the high poverty rates among the elderly, one can argue that the welfare bureaucrats failed to address the problem properly. In other words, their policy promotion was not simply a thrust for welfare expansion, but may have been the result of a more complicated calculation to promote their own interests.

If we apply Hall's (1993) theory of policy change, the 2007 reform was more substantial than the first-order change. However, it was only that first-order change that the Ministry of Health and Welfare (MOHW) originally promoted. Thus, in this chapter, we seek to explain why the original policy preference of the MOHW was changed. In Chapter 2, third-order change was discussed as representing a paradigmatic change that shifts first-order change (the fundamental goals of a policy) and second-order change (the settings and instruments of the policy) (Hall 1993). Hall (1993) points to the dominance of politicians' roles – rather than those of experts or the influence of embedded ideas – as noticeable elements in third-order changes, in contrast with occurrences in first- or second-order changes. In addition, the policy process behind third-order change is not state-centric, but involves a diverse range of policy actors, including the media. He also stresses that politicians, during the policy process, try to make their policy solutions appear more persuasive and effective by redefining policy problems to persist with their original policy preferences. As Hall (1993) emphasises, the media can make certain opinions more prominent than others, thus influencing the public and politics. Our analytical lens on policy actors thus allows us to investigate how these effects played out in the case of the 2007 NPS reform.

Hall (1993) points out that third-order change is likely to be the result of an accumulation of anomalies within existing policy. Considering the immaturity of the NPS, however, we can raise the question of how anomalies develop in immature policy and how policy actors deal with them. In mature systems, transformative change is less likely (Pierson 1993; 2000). Nevertheless, Streeck and Thelen (2005b) find that transformative changes do happen in advanced economies, albeit less visibly, because they tend to appear on the surface as a gradual change. As discussed in Chapter 2, Streeck and Thelen (2005) delineate five different modes of transformative change arising through gradual processes of: displacement, layering, drift, conversion, and exhaustion. Their theory does not, however, explain why a certain mode of change was chosen in some cases and not in others. In addition, Streeck and Thelen do not take into account the possibility of a multi-dimensional interpretation of one policy change. For example, a policy change can take different modes of change depending on the level of manifestation, purposes and functions, estimated outcomes, and ideas of policy. We observed in Chapter 2 that Streeck and Thelen's five modes of change also pointed to important roles played by policy actors to a varying degree in their five modes of change. We thus aim to elaborate their theory further by focusing on the role of policy actors in bringing about seemingly transformative policy change, particularly in a less mature welfare system.

The period covered by this chapter is from June 2006, when the government's New Reform Plan (NRP) was announced, to July 2007, when the reform was finally passed at the National Assembly. Throughout the chapter, we focus on the role of policy actors, their goals and objectives, constraints on policy actors and how they overcame or exploited them, tactical strategies that policy actors deployed, and changes in the reform proposal as a result of political debates.

The following section (6.2) first examines the process of policy formulation by analysing reform debates at the parliamentary level and the role of non-government policy actors. In Section 6.3 we review structural constraints that restricted policy actors to a certain set of policy options, bringing the reform process to a halt. Section 6.4 then discusses how policy actors overcame these limitations and succeeded in reaching an agreement. In examining processes of policy formulation and decision-making in Sections 6.2 and 6.4, we focus on the role of policy actors by explaining who did what and why. In Section 6.5, we go on to investigate ideational influences on the reform, analysing the extent to which the ideas of dominant policymakers changed or remained constant compared with previous reforms. The chapter concludes by arguing that the final reform was a result of a compromise made to satisfy the common political interests of major policy actors, rather than an attempt to find the best way of addressing the policy problems. We further argue that, while the result was expansionary reform on the surface it may, in effect, have exacerbated income inequality among the elderly.

6.2 The process of policy formulation

When the NPS finally reached the agenda, it was accompanied by the Basic Old-age Pension (BOP). During the reform debates, therefore, the NPS and BOP were always discussed together. In Section 6.2.1 we present, firstly, the government's intention in proposing the BOP as part of the NPS reform, and how this new proposal influenced the policy positions of political parties. Section 6.2.2 examines how these new bills were processed, by early 2007, in the National Assembly. Finally, Section 6.2.3 analyses the role of non-government policy actors in the reform debates and why their role was not effective.

6.2.1 The impact of the New Reform Plan (NRP) on partisan politics

As discussed in Chapter 5.4, the government's announcement of its New Reform Plan (NRP) entailed the reform of the NPS reaching the agenda together with the BOP. The government deliberately designed the NRP to be comprised of reforms to both the BOP and the NPS, in order to facilitate reforms to that latter scheme. The strategy was successful because the NRP's announcement led to active policy activities among political parties, resulting in an attempt at legislation at the National Assembly.

The reason that the new welfare minister, Ryu Si Min, sought to address reforms to NPS within the 'new' reform plan was, firstly, to place it on the agenda and, secondly, to make the bills more agreeable to both the ruling and opposition parties. Originally, the government had no intention of introducing any kind of non-contributory basic pension system, while the opposition, the Grand National Party (GNP), had insisted on establishing its Basic Pension (BP) to support the current elderly population. Nevertheless, the welfare minister decided to accept the GNP's idea of a basic pension, not because he agreed with that party's proposal, but because he wanted to recover control of the policy agenda to advance the NPS reform.

Repackaging the reform plan was particularly necessary for the government because it first needed to gain support from the ruling party. While Estevez-Abe and Kim (2014, 673) pointed to the role of the president's political party as a secure supporter of the government's new agenda, this was not the case in the 2007 reform of the NPS. The administration of Roh Moo Hyun (2003–2008) failed to gain full support from the ruling Uri Party (UP) because the UP was concerned about the reform's possible negative impact on their future electoral results. The government thus first tried to persuade the UP. This was particularly necessary because the government could not

submit another reform bill while its original bill was still pending in the National Assembly. It therefore had to ask the UP to propose the New Reform Plan as the UP's own bill.

The initial opposition to the government's reforms by the UP originated from its conflict of interests. The UP did not want to increase the contribution rate, as the party was conscious of its negative electoral impact. Nevertheless, it could not disagree with the government's plan on the basis of the need to reform the NPS, because it shared responsibility for completing policy goals which, in this case, was the reform of the NPS during its term. At the same time, the UP could not agree with the GNP on the introduction of the Basic Pension (BP), even though this might have helped them attract more elderly voters, because that pension was widely regarded as being a GNP measure. The BP had first been raised by the GNP to create the impression that the UP had already lost the initiative over the BP's agenda. From the perspective of the UP, agreeing to the BP might be thought to represent the act of giving more political support to its opponent, the GNP. At the same time, introducing the basic pension was also a problem for the UP because it would inevitably require an increase in taxation. During the policy debates and negotiation, therefore, the UP focused on criticising the GNP proposal's lack of feasibility in terms of financing (Interviews Nos. P7, P6).

The government's redesigning of its reform plan as a package containing the NPS and the BOP (different from the GNP's BP) was thus effective in securing the agreement of the UP. There was an important difference between the government's BOP and the GNP's BP. In short, the former (BOP) was a *separate* pension system from the NPS. The latter entailed integrating a type of benefit (the BP) *within* the NPS. As explained in Chapter 5.3.2, the GNP deliberately insisted on adding this new benefit to the

existing system to obstruct further reform by proposing something more difficult to agree on. Thus, the new minister strategically proposed it as an *independent system*, but nevertheless put the NPS reform and the basic pension system *into one package of reform*. By so doing, the minister aimed to promote the NPS reform by exploiting the support of both political parties and of the elderly voters alike for the basic pension system. He revealed his intention in his autobiography:

As soon as I was appointed, I proposed to the Prime Minister using the Filial Piety Pension Act *as a tugboat to haul the NPS reform bill*. My idea was that if we introduce an elderly allowance for the current elderly, and put it in one package with the NPS reform, the elderly voters who would be interested in the elderly allowance would support the NPS reform as well as the elderly allowance. The Prime Minister agreed with my idea. [...] Based on the Filial Piety Pension Act that I submitted to the National Assembly [before my appointment as minister], we developed a system that would cost about two trillion won a year, and the Prime Minister promised to finance the system (S. Ryu 2009, 276).

We need to note that the minister deliberately named the new system the Basic Old-age Pension (BOP), making it appear very similar to its opponent's Basic Pension (BP). This strategy was intended to gain support from political parties. By simply adding 'old-age' to the original name of the GNP's Basic Pension (BP), the government wanted to give the impression that it accepted the GNP's scheme. This would therefore remove any good reason for the GNP's opposition to the government's reform plan. However, the government's scheme with a new (albeit very similar) name meant the government could make the BOP stand out as a distinctive system, allowing the government and the ruling party to claim the new welfare benefit proposals as their own political achievement (Interview nos. P1, P4). In short, the BOP was included in the New Reform Plan not simply as a way to expand welfare, but also to promote the reform of the existing NPS. In addition, the

government also intended to show its opponents that it was open to negotiation by accepting the major reason of conflict between the opposition and the government.

The result of the strategy was successful. Following negotiations, the UP finally agreed to support the government's New Reform Plan if there were changes to three elements that would make it more popular than the existing plan. First, there would be no increase in the contribution rate of the NPS (whereas the original NPR was set to increase this from 9% to 12.9%). Second, there would be extended coverage of the BOP (from 45% of low-income elderly in the original NRP to 60%). Third, there would be a more generous benefit (from 80,000 won a month to between 70,000 to 100,000 won, or around £40-£58 GBP). In short, the BOP would become more generous, while the NPS would have less of a detrimental impact on the insured (see Table 6.1). This bill was submitted to the National Assembly on the 19th September 2006 (PCPP 2008, 88).

The New Reform Plan agreed between the government and UP influenced opposition parties to actively modify their own reform proposals and make them as attractive as possible, while making them more reasonable than their previous proposals.

First, the Democratic Labor Party (DLP) altered their basic pension to become more generous and inclusive than that of the UP, although less so than the GNP's proposal. It proposed a basic pension scheme that would cover 80% of the elderly, excluding the most affluent 20%. It would start from 5% of median income but would gradually increase to 15% of that sum. The DLP called this scheme the 'Economic Basic Pension', emphasising that it would cost less than the GNP's BP. At the same time, the DLP proposed to reform the NPS more gradually than either the GNP or the UP, although to a lesser extent. It would reduce the benefit by 5% every five years so that,

ultimately, the replacement rate would change from the existing 60% to 40% by 2023. The DLP's bill on the BOP was submitted on the 31st October 2006 and its proposals for the NPS on the 14th November 2006 (see Table 6-1).

Second, the GNP also modified its reform plan. The BP's benefit level was reduced to start from 5% at the outset, and to gradually increase to 20%. This was to make it more realistic, because the biggest criticism of its reform plan was lack of financial affordability (while maintaining its generosity so as to appeal to voters). The coverage was also made more reasonable: it would start with coverage of 60% of the low-income elderly, which would be extended to 80% in the future (see Table 6.1). This new reform bill was submitted on the 30th November 2006.

Table 6-1 Comparison of the policy positions following the New Reform Proposal

		Current	New Reform Proposal	UP	GNP	DLP
NPS	Contributions	9%	12.9% by 2017	No increase	7%	9%
	Replacement Ratio	60%	50% from 2008 (possibly to 40% from around 2030)	50% from 2008 (possibly to 40% from around 2030)	20%	40% by 2023
BP/ BOP	Coverage	-	The bottom 45% of low-income elderly	60%	80%, starting from 60% initially	80%
	Benefit	-	80,000 won a month	70,000–100,000 won a month	20% of the median income (starting from 5%)	5%, to be increased to 15% by 2028

We can notice the vote-consciousness of political parties from the changes they made in the reform bills. The modified bills went through a series of negotiations between the government and other parties, yet these policy activities remained symbolic

because they did not lead to any development in the legislation. This is further discussed in the next section.

6.2.2 The first attempt at legislation by the National Assembly

The process at the Health and Welfare Standing Committee (HWSC)

The parliamentary situation during the 17th National Assembly (2004–2008) substantially constrained the legislative capacity of the government. Firstly, the ruling party did not hold a majority. The number of MPs from the ruling UP dramatically decreased in the later stages of the reform due to the mass defection of many of its members to other parties. The opposition GNP therefore became the largest party. Secondly, within the Health and Welfare Standing Committee in parliament tasked with reviewing new legislation on health and welfare, the casting vote was held by two small parties: the Democratic Labor Party (DLP) and the New Millennium Party (NMP). To compete with the GNP, therefore, it was essential for the government to make an agreement with those small parties to put forward its reform bill. For the government, the DLP was more difficult to persuade than the NMP. This was because the DLP was a party based on trade union support that possessed a different political stance from the UP. The NMP, in contrast, was similar in political persuasion to the UP (as it had only split from the party in November 2006).⁷³ Although the DLP and

⁷³ The DLP was a negotiating party. Although it was the smallest party having only taken 3.3% of the total seats, it was the third largest party (following the ruling UP and the giant opposition GNP). There were 299 MPs in total in the 17th National Assembly (30th May 2004 to 29th May 2008), composed of 152 MPs from the UP (Uri Party), 121 from the GNP (Grand National Party), ten from the DLP, nine from the Millennium Democratic Party (MDP), four from the United Liberal Democrats, one from the National Party and three from the others. The Health and Welfare Committee consisted of representatives from the UP, GNP, DLP and MDP. However, as the UP was a party which had separated from the MDP, their policy positions were

NMP had one vote each in the HWSC, agreement with the government's opponents was necessary for it to proceed with the reform.

Since November 2006 the government had been trying to negotiate with the DLP and NMP to pass the reform without votes from the GNP at the HWSC.⁷⁴ On the 30th November 2006, the government's NPS reform bill (which the UP submitted on behalf of the government) was finally – but barely – passed in the HWSC, gaining 11 votes out of 20. The ten votes for the UP's reform bill were all cast by MPs from the UP, while the remaining vote came from the NMP. In addition, it was the only bill that passed the committee out of a total of 33 NPS reform bills pending in the National Assembly. The GNP's reform bill was not passed, winning only eight votes from its representatives. The government's bill on the BOP was passed later on the 7th December 2006 with 11 votes.

The bills that passed the HWSC became more generous as a result of political negotiation. The replacement rate of the NPS was reduced to only 50% from 2008, while the contribution rate would be increased to 2.9% by 2018. The government further changed the BOP by partially accepting the opinion of the DLP.⁷⁵ The benefit level was changed to 5% of the median income of the NPS insured, rather than setting it as a fixed amount of 80,000 won a month (£46). The beneficiaries of the BOP were expanded to the bottom 60% of the elderly, while increasing the age entitlement condition to 70 years and older from originally being 65. Setting the benefit level to a

not distinctively different, and in many ways could be seen as the same (Interview no. P8). There were, therefore, three main reform bills that were competing at this stage.

⁷⁴ The passage through the relevant standing committee is a legislative prerequisite for any bill to be examined and voted on in the Plenary Session. It is thus a vital stage in the process for a proposed bill to become a new piece of legislation.

⁷⁵ The DLP had long demanded a remedy for the old-age poverty problem by providing almost all elderly people with a more adequate level of pension.

certain *rate* rather than a specific *amount* of money was one of the DLP's key arguments. This was because they suspected that the benefit, if set to a certain amount of money, would automatically decrease unless there was an additional measure of indexation to price increases, thus causing a change in value through drift (Streeck and Thelen 2005b). The major features of the bills are summarised in Table 6-2.

Table 6-2 Features of the bills passed by the HWSC in 2006

NPS	BOP
• Passed on 30th November 2006 • Contributions increased to 12.0% by 2018 • Old-age pensions reduced to 50% of the net replacement ratio for standard pensioners from 2008	• Passed on 7th December 2006 • Coverage: 60% of the elderly aged 70 and over from January 2008, extended to 65 and over from July 2008. • Benefit: 5% of the median income of the NPS insured

Although the bill was passed, it was difficult to see this as a result of political agreement. In fact, on the day of voting at HWSC, all the MPs from the GNP in the standing committee left the meeting room and refused to vote and, therefore, only 12 out of 20 MPs were left in the committee (PCPP 2008, 98). Among them, the MP from the DLP was still against the bill, while the rest of the MPs from the UP and NMP were in favour, making the bill successful. The reform plan, without agreement from the opposition parties, thus came to a standstill until March 2007 (PCPP 2008, 103).

The process of first voting at the Plenary Session

The vote-consciousness of political parties became stronger when the NPS and BOP reform bills reached the plenary session for the final vote. At this stage, the role of opposition parties became ever more active. They continued to modify their own

reform proposals to compete with the bills that passed the Health and Welfare Standing Committee (HWSC). These were under legal examination before being handed over to final voting in the Plenary Session on the 2nd April 2007. In so doing, opposition parties even formed unusual political alliances to compete with the government's reform proposal.

The GNP modified its previous reform bill again to make it more attractive to voters and resubmitted it to the National Assembly. Its new reform bill was passed based on an unusual compromise between the GNP and DLP parties, which occupied opposite ends of the political spectrum. The GNP had been the most conservative party, carrying on the legacy of the authoritarian regime. In contrast, the DLP's support was based on organised labour, particularly the Korean Confederation of Trade Unions (KCTU). The GNP could not pass its reform bill without the support of the DLP because the number of GNP seats in the HWSC did not provide a majority, and therefore it was unable to pass its bills unaided. At the same time, the DLP needed help from a larger party to pursue its own policy preferences because the party was so small, possessing only one seat in the standing committee. Although the DLP had a casting vote, this was useless on its own (Interview nos. I3, P8). Thus, it was a strategic alliance for mutual benefit regardless of the political values of each party.

The new reform bill agreed between the GNP and DLP, the outcome of their compromise, took a most populist approach than the other proposals. It set out to decrease the income replacement ratio to 40% without increasing the current contribution rate. The Basic Pension (BP) was integrated into the existing NPS, covering 80% of the elderly aged 65 and over; it would start by paying 5% of the median income and this proportion would be increased to 10% by 2018 (PCPP 2008,

105)(see Table 6-3). The BP was thus definitely more generous than the BOP.⁷⁶ The only conservative approach in this proposal was the elimination of the income redistribution element in the benefit system of the NPS. This bill was directly submitted to the Plenary Session of the National Assembly on the 2nd April 2007 for voting – the first ever vote during the 17th National Assembly since the beginning of the reform debates in 2003.

Table 6-3 Comparison of the reform bills of the UP and GNP allied with the DLP

		Current	UP and the government	GNP and DLP
NPS	Contribution rates	9%	12.9%	9%
	Replacement Ratio	60%	50% from 2008	50% from 2008, 40% from 2018
BP/ BOP	Coverage	-	60%	80%
	Replacement Ratio	-	5%	5%, gradually to 10%
Type of legislation		NPS	BOP as separate legislation	Basic Pension integrated in NPS

The strong vote-consciousness of political parties led to an ironic result: the success of the proposal for the BOP alone, accompanied by the failure of all other NPS reform bills.⁷⁷ This result opened a new chapter in the reform process: it propelled the government towards becoming even more active in negotiating with opposition parties to gain a successful reform. This is examined briefly in Section 6.4. Before moving on, however, the next section will investigate why the reform debates were mainly held among political parties and the government, without notable engagement from non-government policy actors.

⁷⁶ Although the BP was more generous than the BOP, the introduction of the BP entailed a long-term further decrease in the NPS benefit level, which would offset the BP's relative generosity.

⁷⁷ The BOP was the only bill that passed the final vote, by 254 in favour, with nine against and two abstentions out of in total 265 votes. Only nine MPs were against the BOP with two abstentions.

6.2.3 The role of non-government policy actors

During the reform debates at the National Assembly, the role of non-government policy actors – considered to be the key drivers of welfare expansion in Korea since the late 1990s – was not significant (Y. M. Kim 2008; H.-J. Kwon 2003; Peng and Wong 2008). These actors – including trade unions, employers' associations and civil society organisations – took part in the policymaking process of the NPS and BOP as members of the reform committee and as invitees to the public hearings. Their voices were, however, ineffective during this reform due to the characteristics of the NPS as an immature system, and the politics within each organisation.

If we look at each player in turn, the policy preference of the employers' associations had been always the same: they were against any increase in the contribution rates. They did not need to exert much effort to advance this position, because all political parties were opposed to increasing contribution rates. From the perspective of the employers' associations, the specific design of the NPS, or the basic pension, was not an important issue. The only important issue for them was to maintain the existing level of employers' contributions, regardless of the changes in provisions for their employees (Interview nos. I4, I8). To oppose any attempt by the government to increase the contribution rate, they argued that the existing level of contributions from employers to the social insurance programmes was already too high, and became higher still when taking into consideration the mandatory severance payment system.

Likewise, although the trade unions took part in the reform process, neither the NPS nor the BOP was an important issue for them. This was because union members did not have a vested interest and therefore the public pensions were not an important political issue to battle within the union. The trade unions came to have a formal

window for making their voice heard through the Democratic Labor Party (DLP) for the first time in the history of Korea's democracy. Officially, the Democratic Labour Party and the Korean Confederation of Trade Unions (KCTU) strongly supported the introduction of the basic pension. However, this voice only arose from the leadership of KCTU because the old-age pension was neither an important issue for the members nor the leadership of trade unions. The members of trade unions were not interested in the NPS because, as it was still immature, they did not understand what it was for, or how it would work for them later (Interview nos. I1, I6, I9). Only the concerned staff of the unions thus took part in the reform debates. In fact, those policy staff supported the government's proposal of increasing the contribution rate, regardless of the actual policy preference of their members, because they preferred to secure as high a benefit level as possible. They could not, however, publicly support the increase in contribution rates because they had already set out their policy preference (i.e. opposition to the government's reform) and could not easily change their position (Interview nos. I1, I6, I9).

The immaturity of the NPS and the nature of trade unions in Korea further influenced the unions' policy position of indifference to the public pension. The majority of trade unions represented a relatively privileged working class (e.g. workers employed in large firms with stable incomes). Therefore, union members' need for the public pension was not very significant. Moreover, they were enjoying the statutory Lump-sum Retirement Allowance (LRA), which was a more mature system than the NPS that had existed since 1961 and been converted to the occupational pension scheme in 2004. Therefore, their preferences were for securing their LRA and for wage increases, rather than for gaining the NPS benefits (Interview nos. I1, I6, I9). Hence, wage bargaining and obtaining more company welfare provisions were more

important to unions in sustaining their popularity with members, along with raising hopes that they might win the next leadership election, which was more important for the leaders of trade unions than securing public pensions. Further, enlarging the size of the union was more critical than engaging in reform debates because any efforts towards the latter would not help them to remain in leadership.

In addition, the characteristics of the NPS as a funded system influenced both the trade unions and employers' associations less than other forms of social insurance such as the National Health Insurance, Employment Insurance and the Industrial Accident Compensation Insurance. This can be partly attributed to the difference in their experience of the system, as most workers had benefited from some of those social insurances. Moreover, as the NPS had not changed as often as other social insurances, it was more difficult to gain the attention or interest of employers and union members. Due to the immaturity of the NPS, any changes in the system were not going to immediately impact the workers and employers unless the contribution rates of the NPS increased (Interview nos. I3, I8, I1, I9). Thus, neither trade unions nor employers' associations were genuinely interested in the public pension reform debates.

While the increasing influence of civil society organisations has often been mentioned as a key factor contributing to the expansion of the welfare state after the Financial Crisis in 1997, their role was not effective in the 2007 NPS reform debates. Those organisations failed to establish a firm and concerted voice because, at that time, opinion about the NPS reforms was severely divided. This was true even among pro-welfare civil society organisations and broader pro-welfare coalitions that involved trade unions and the union-based DLP. While the DLP and trade unions were opposed

to the decrease in the NPS and not genuinely interested in public pension reform, civil society organisations had longed for the expansion of the Korean welfare state, especially since the introduction of the BOP. The 2007 reform was thus a great opportunity for civil society organisations to pursue the introduction of the basic pension, thanks to the GNP's successful agenda setting (Interviews no. E3, I3).

When the political process came to the point of policy bargaining, however, it only involved the government and parliament and was closed to the public. The reason the government did not listen to the voice of civil society organisations might be because those organisations' policy position was not in agreement with the government's reform plan. The government thus preferred to restrict discussion on reforms to the parliamentary level.

Finally, the associations of the elderly did not have any voice in the NPS reform because few of the current elderly were receiving the NPS pension. After the basic pension arrived on the policy agenda, however, they showed an increasing interest in the basic pension. Those interests did not arise naturally within the organisations, but were mobilised by the MOHW, which is discussed further in Section 6.4.4.

During the reform debates, neither elderly people nor the NPS-insured had a vested interest in the system, due to the NPS' immaturity. Thus, it was only non-government policy actors who could take part in the reform process on behalf of older people and the insured. Both trade unions and civil society organisations, however, failed to protect the existing NPS because they could not mobilise public interest. In addition, political circumstances constrained the involvement of non-government actors. Hence, government was not receptive to ideas of civil society organisations that differed from

the official position. This was even true under the centre-left government that had previously been sympathetic to such groups.

The reform was debated at a time when vested interests were not yet entrenched, either among the current elderly or the NPS members, because the NPS was still a young system. Although trade unions and civil society organisations tried to raise their voices, this was not effective because a strong concerted policy alternative was lacking and there was a failure to mobilise public interest in support of their policy activity.

In conclusion, political parties and the government dominated the process of policy formulation without the active engagement of non-government policy actors. We found strong political competition among political parties and the government that halted further development in the policymaking process. Political parties constantly changed their policy position whenever their opponents modified their reform proposals and sought to offer a proposal that was more populist than that of their rivals. From the result of the first voting process at the National Assembly, we observed the emergence of the politics of welfare. This was because all political parties passed the BOP (that would expand welfare for current voters), whereas they rejected the NPS (that could negatively affect future elections). We also found the role of welfare coalitions (composed of trade unions and civil societies) ineffective, while previous literature has pointed to their crucial role in expansionary welfare reforms in Korea (Y. M. Kim 2008; H.-J. Kwon 2003; Mares and Carnes 2009; Peng and Wong 2008). Organisational politics and the political relevance of the policy area influenced the extent to which non-government actors engaged in the reform discussion. Before moving on to a discussion of the final negotiation and decision-

making processes in Section 6.4, in the next section we examine the factors that halted the reform process and restricted policy actors to a certain set of reform options.

6.3 Structural constraints on the pension system

In the previous section we showed that policy actors were focused on discussing the extent of the generosity of reform, not the reasons for reform or its ideal direction. Political parties were also very reluctant to reform the NPS, although they welcomed the BOP. These characteristics are typical of welfare politics, in that political parties agree on the expansion of welfare but disagree with welfare retrenchment. However, to fully understand the role of policy actors and the remaining process of decision-making, we need to explicate the circumstances that limited the reform options available. These include demographic change, socio-economic change and strong public distrust in the existing system.

6.3.1 Need for the reform of the NPS: high poverty among the elderly and the low fertility rate

There were several societal and political factors that placed pressure on the NPS.

The fertility rate in Korea dropped dramatically, most notably in the early 2000s, putting the NPS under unforeseen financial pressure. The total fertility rate had fallen to one of the lowest levels among the countries of the Organisation for Economic Co-operation and Development (OECD) by 2002 and remained very low, ranging between 1.08 and 1.25 in the period between 2002 and 2010. This became one of the major factors challenging the NPS, as future generations would have to deal with an unprecedented burden to support the elderly. The finances of the NPS were not sustainable in the long term without reform, particularly because of its benefit

structure. When the government first proposed the NPS reform plan in 2003, therefore, they emphasised the financial danger to the NPS as a result of its so-called ‘low contributions, high benefit’ aspect. The existing contribution rate was too low to finance the promised benefit level, especially without a government subsidy. This was because the NPS started with very low contribution rates and therefore it was a very generous system for the insured, including those with high incomes.

The problem of the low fertility rate in Korea was coupled with a speedy growth of the elderly population. The age dependency ratio – the proportion of people aged 65 and over in relation to the working age population (those aged 15 to 64) – was forecast to rocket in the future. At the time of the reform debate in 2000, the age dependency ratio was only around 11.4%, much lower than the average of the OECD countries at that time (which stood at 27.6% if Korea was not included). However, the dependency ratio was expected to increase rapidly to 14.7% in 2010, 23.1% in 2020, 38.5% in 2040 and 55.7% in 2040, which would make that ratio one of the highest among OECD countries (S.-M. Yoon 2007, 112). In line with this forecast, the proportion of elderly people aged 65 and over reached 7% in 2000, which meant that the population in Korea was relatively young compared with other advanced economies. However, the elderly were forecast to represent 14% of the total population in 2017 and 20% in 2026, which would mean Korea would have one of the fastest changing proportions of ageing people in the world (see Table 6-4). As the system was solely funded by the contributions of the insured, the system was not sustainable in providing the promised pension benefits without increasing the contribution rates. Thus, an adjustment to the existing system would at some point have been necessary, and the government effectively exploited low fertility rates as its strong policy driver during the reform process, as is discussed further in Section 6.4.

Table 6-4 The speed of population ageing in some countries

Countries	Proportion of older population aged 65 and over/year			Number of years taken for the change to occur	
	7%	14%	20%	7% to 14%	14% to 20%
Korea	2000	2017	2026	17	9
UK	1929	1976	2021	47	45
France	1864	1979	2018	115	39
Germany	1932	1972	2009	40	37
Italy	1927	1988	2006	61	18
US	1942	2015	2036	73	21
Japan	1970	1994	2006	24	12

Source: Statistics Korea (kostat.go.kr)

While low fertility rates put a pressure on the finances of the NPS, the poverty rate among the elderly also soared. In the mid-2000s, persistent and prevalent poverty among older people emerged as an important social problem. Thus, political debate about introducing a new welfare provision for the existing elderly was much needed. At the time of reform debates, the relative poverty rate among those aged 65 and over in Korea (measured as the proportion of people with less than 50% of median income) reached 45.1% in the mid-2000s, which was the highest among the OECD countries (OECD 2009) and three times higher than the average poverty rate of OECD member states. At that time, only around 12.4% of elderly people aged 65 and over received pensions in 2005. Even when taking into account the 8.4% of the elderly receiving public assistance (with 5.7% receiving the elderly allowance and 2.8% receiving the public servants' pensions), about 70.7% of the elderly still had no entitlement to any public pension provision (S.-M. Yoon 2007, 80). When considering the high poverty rates alongside the absence of adequate public income support for those within that category, therefore, introducing a non-contributory benefit for the current elderly was

seen as an effective way of dealing with the problem. The government could not therefore completely ignore the GNP's idea of introducing a basic pension. This left open questions concerning the degree of coverage and the level of benefit that would be required.

6.3.2 Socio-economic constraints on the increase in the contribution rate

Raising the contribution rates of the NPS was not an easy option for policymakers. At the time of the reform debate, the total National Pension Fund (NPF) amounted to about 20% of GDP. It was, therefore, difficult for policymakers to persuade people to contribute more for an already high pension fund. While both ruling and opposition parties were opposed to the increase in contributions due to concerns about the possible impact on their electoral prospects, we here discuss other constraints that were placed on policymakers. These include the structure and characteristics of the labour; the existing problems of the NPS coupled with the labour market conditions; and, finally, negative public attitudes towards the NPS.

Firstly, since the financial crisis in the late 1990s, increasing numbers of workers did not have a secure job, which substantially weakened the affordability of the NPS. This could partly be related to the high proportion of self-employed workers in Korea (around 28% in 2000s) (See Table 6-5). For the self-employed, income from business tends to be affected by economic fluctuations and many other factors. The high proportion of the self-employed among the workforce thus led to under-reported contributions among the self-employed, and the total collection rates of the NPS therefore became lower. In addition, among the employees, the proportion of those working in companies with fewer than five employees amounted to 39.8% in 2010 (Koh et al. 2012, 27). The income gap between small and large companies had also

increased. In the early 1980s, the average wage of the companies with between 10–29 employees was not so different to that of companies with 500 or more employees. However, to date, the average income of the former tends to be about 60% of the latter (Koh et al. 2012, 26). This large proportion of low-income workers, coupled with and workers in insecure jobs, indicates that maintaining and expanding the existing earnings-related NPS was becoming more difficult. In the past more workers had secure jobs and were thus capable of paying contributions into their public pensions. It was not, therefore, easy for policymakers to persuade the public to contribute more towards their future, particularly when the labour market and economy were not favourable.

Secondly, high insecurity in the labour market led to a low collection rate of contributions. This was because there were only a limited number of stable workers with a contract of a year or more. In Korea, at the time of the 2007 reform debate, the proportion of employees among the entire working population ranged from 66.4% in 2005 to 68.2% in 2007, while the proportion of self-employed was above a quarter of the working population (see Table 6-5). Among the employees, about two thirds (65.4% in 2005 and 63.5% in 2007) worked with less than a one-year contract, which meant that many might not contribute continuously to the NPS.

Table 6-5 Proportion of workers by employment type (in %)

Year	In Employment	Employees				Self- employ- ed	Unpaid family workers
		Total	Under contract				
			of a year or more	between 1 to 12 months	less than a month		
1990	100.0	60.5 (100)	(54.2)	(29.0)	(16.8)	28.0	11.4
2000	100.0	63.1 (100)	(47.9)	(34.5)	(17.6)	27.7	9.1
2005	100.0	66.4 (100)	(52.1)	(33.3)	(14.6)	27.0	6.6
2006	100.0	67.2 (100)	(52.8)	(33.1)	(14.2)	26.5	6.3
2007	100.0	68.2 (100)	(54.0)	(32.4)	(13.6)	25.8	6.0

Source: 2007 Social Indicator in Korea

The high proportion of self-employed indicate similar difficulties. Many of those registered as self-employed in Korea are in fact low-income self-employed or low-income employees in small companies with fewer than five employees, and their employers tend to not provide social insurance, even if it is compulsory to do so (Koh et al. 2012). Koh et al. (2012, 40) show that in 2010 more than half of employees at companies with fewer than ten employees were excluded from all compulsory social insurance, including the NPS, the, National Health Insurance and the Employment Insurance.⁷⁸

If employers did not properly register them as their employees, those with contracts of less than a year (especially those working at small firms) tended to join the NPS as a self-employed member, categorised as ‘regional members’ in the NPS. This led to a high proportion of regional members in the NPS. This refers to all the members who are not employees, including the self-employed and voluntarily subscribed members such as housewives. The incomes of these members tended to be under-reported

⁷⁸ The rate of exclusion in the work injury insurance was not counted here because it applies to all employees, even if their employers did not provide it in advance, once any work related injury or illness occurs.

compared with formal employees. During the period 2003–2007, there were between 45.8% and 56.4% of regional members who reported that they had no income. This group was therefore exempted from the NPS contribution payment. In that same period, even among those who reported their income, only 75.1% to 79.4% actually paid their contributions, while payments from the remaining quarter were overdue. This contrasts with the case of ‘occupational members’, of whom over 99% had their contributions collected in the same period. The low collection rates of regional members had been a persistent problem in the NPS, raising the issue of the system’s fairness between formal employees and the others.

A further dilemma was that the low collection rates of the regional members were in fact the result, albeit partially, of the increase in income inequality and labour market segmentation. While the middle class had been shrinking, income inequality had increased: the Gini coefficient jumped from 0.254 in 1992 to 0.320 by 2009. Relative poverty, even among households with workers, also increased from 6.5% in 1996 to 8.4% in 2006, and then further to 8.5% in 2011, as a result of the continuous increase in low-income jobs and a decrease in secure manufacturing jobs (H. S. Yoon 2012, 135). It was thus a fundamental and problematic characteristic of the existing NPS that, although in principle it was a compulsory and universal social insurance system, many people were actually excluded for the above reasons. This again led to highly negative attitudes towards the existing NPS, making it even more difficult for policymakers to persuade the public to support an increase in the NPS contribution rates.

6.3.3 Prevalent negative attitudes towards NPS

During the reform discussion, strong unfavourable public opinions about the existing system constrained progress. The strong reluctance of political parties to increase the contribution rate was not a mere act of welfare politics, but the result of a consideration of public opinion about the existing system. Both ruling and opposition parties preferred a reduction in the benefit level rather than an increase in the pension contribution because of the strong, long-standing resistance to the NPS.

The National Pension Service, an independent administrative body responsible for operating the NPS, conducted a survey of pensioners and people insured by NPS, which asked about beneficiaries' trust in the NPS scheme. The survey showed that only about a quarter of the NPS-insured had trust in the system. The results also showed that around half of the NPS-insured between 2004 and 2005 were either 'moderately' or 'very' dissatisfied with it (see Table 6-6) (Y. Lee and Kang 2005, 46).⁷⁹ In addition, only about a quarter of respondents answered that they trusted/were satisfied with the NPS during the same period. The distrust in the NPS had been somewhat mitigated in 2006 compared to the past. In 2004, for example, the distrust level was about 51.2%, but this had reduced to 39.1% by 2006. This trend was not, however, maintained during 2007, as the distrust level went up again to 52.8% in August of that year (Back 2008, 33). Current pensioners represented the only group whose dissatisfaction level was low. Among this group, only one out of ten were dissatisfied; yet their opinions were not prominent because their numbers were still

⁷⁹ The National Pension Service started surveying trust in the NPS in each quarter of the year from 2004, although the survey was conducted only three times in 2004 and twice in 2005. As the data has been closed to the public so far, only the data contained in some of the reports published by the National Pension Service were available. Therefore, the data presented here is not comprehensive.

small due to the immaturity of the system. To sum up, the overall distrust levels had been very high, especially among those who had been contributing to the system, although not among pensioners

Table 6-6 Level of trust in the NPS (in %)

		Total	Insured	(Occupational)	(Regional)	Pensioners
Trust	December 2004	22.2	19.0	15.4	22.0	57.6
	June 2005	19.0	15.2	13.6	16.6	71.6
	December 2005	16.3	13.0	9.8	15.6	63.8
	June 2006	26.7	17.6	15.6	19.2	64.6
Distrust	December 2004	51.2	54.1	50.8	56.8	19.6
	June 2005	50.1	53	55.2	51.3	9.90
	December 2005	46.5	49.1	48.6	49.4	11.2
	June 2006	39.1	45.7	49.2	42.6	11.5

Note:

1. The questions were ‘to what extent do you trust the NPS as an income security system?’ in December 2004, ‘To what extent are you satisfied with the NPS in general?’ in June and December 2005 and ‘To what extent do you trust the NPS?’ in June 2006.
2. Percentages in the ‘trust’ category combine the answers for ‘very satisfied (or trust)’ and ‘moderately satisfied (or trust)’.
3. Percentages in the ‘distrust’ category are composed of the answers for ‘very dissatisfied (or distrust)’ and ‘moderately dissatisfied (or distrust)’.

Source: (Sungho Kang 2006) (The author restructured and recalculated them into two categories to compare the proportion between ‘trust’ and ‘distrust’ by taking out the people who answered ‘neither good or bad’)

In contrast to high distrust in the NPS, public attitudes to personal savings or private pensions were much more positive. In the second survey of the National Pension Service in 2005, most people responded by saying personal savings were the most advantageous way to prepare for their retirement (71.8%), followed by private pensions (58.4%), NPS (32.7%), Lump-sum Retirement Allowance (LRA) (18.6%) and income from their adult children (5.5%) (see Table 6-7).⁸⁰ As most people thought that private pensions were more favourable when compared to the NPS, the

⁸⁰ These results were based on multiple choice.

preference for personal savings and private pensions was much higher than the preference for the NPS. In short, the low level of trust in the NPS led to a strong preference for private pensions. In the following section, we discuss the factors underlying the strong adverse attitudes towards the NPS.

Table 6-7 Opinions about useful retirement income resources

Personal savings	Private pensions	NPS	LRA	Support from children	Real estates	Insurance	Others
71.8%	58.4%	32.7%	18.6%	5.5%	2.1%	1.2%	0.9%

Source: (Y. Lee and Kang 2005), restructured by the author.

Reasons for high distrust in the NPS:

(i) Low level of knowledge about the NPS

The low level of trust in the NPS among the NPS-insured could be related to the short history of the scheme. From the beginning, the NPS was designed as a funded pension system to raise a large fund to use for developing the national economy while extending the welfare system without increasing tax rates. For the first two decades, the NPS had been perceived as a pseudo-tax, rather than a welfare system, because most of workers had to pay contributions without knowing how they would benefit from the system. In other words, while the system was maturing, most current workers did not have an opportunity to experience any benefits from the system unless they were entitled to the widows/widowers' pensions or disability pensions. Even in such cases, the short history of the NPS led to a low level of benefit. Moreover, the current working population were under a dual burden; they had to support their own elderly parents (due to the lack of existing old-age income security

for the current older people) whilst joining the compulsory pension system for their own retirement. As a result, it may well be the case that the low level of trust in the NPS resulted from the lack of experience of any benefits from it, because insured people's only experience of the scheme up until that date was paying contributions.

The relatively low level of trust in the NPS and the relatively high trust in private pensions might be due to a lack of a proper understanding of the existing system. This is well revealed in surveys. Back (2008) showed that the low general level of trust in the government and in the NPS was related to the lack of information about the NPS. Many people considered the NPS to be a savings product, partly because the government had advertised it as a form of profitable saving product (Jung and Walker 2009). Moreover, a survey conducted by Kim et al. (2008) showed that only 1.6% of the NPS pensioners and 16% of the NPS participants were correctly aware of the state of the National Pension Fund (NPF) (J. Kim, Lee, and Ahn 2008).

The survey conducted by the National Pension Service in 2005 shows that both the insured and the pensioners of the NPS did not know much about the scheme at the time of reform (Y. Lee and Kang 2005). For example, the NPS was designed to be more favourable to low-income workers and also more generous than private pensions due to its income redistribution element, thus providing a higher income replacement ratio for lower income earners. Only about a fifth of contributors, however, were aware of these features (see Table 6-8). Moreover, the system had a very generous benefit system, providing median income earners with pensions at a 1.6 to 1.9 profit ratio, meaning that the insured would receive pensions equivalent to about 1.6 or 1.9 times their lifetime contributions to the scheme (H. Moon 2008, 8). Due to the lower contribution rates in the first ten years and the low level of the top ceiling for the base

income of the NPS contributions, the profit ratio for the higher income earners was also above a rate of 1.5. Despite this generous benefit system for all generations at all income levels, only about one-fifth thought that the NPS was more advantageous than private pensions. In short, eight out of ten people did not know enough about some of the fundamental characteristics of the NPS at the time of the survey.

Table 6-8 Understanding of the NPS in 2005

Questions	1st survey	2nd survey
NPS is more favourable to the low-income workers	21.3%	21.7%
NPS is more advantageous than individual pensions	23.8%	21.8%
Compulsory participation is necessary	36.0%	39.6%
NPS is a necessary insurance system	32.3%	38.1%
I am sure that I will receive an NPS pension	47.7%	47.4%
I think the NPF is managed stably	14.2%	14.7%

Source: (Y. Lee and Kang 2005), restructured by the author.

Lacking basic knowledge about the NPS, fewer than 40% of respondents thought it was a necessary system, even if it was the only public pension system that covered private sector workers. Moreover, in spite of the fact that the NPS was a public pension system, more than half of the insured did not think they would receive benefits from the scheme. The opinion about the NPF was the most negative of all: fewer than 15% of the insured agreed that the NPS was stably managed. This reflected the degree to which the public's perception of the NPF was incorrect. The total accumulated fund of the NPS had been growing at the rate of 35.4% every year from 2000 until the end of 2007 when the reform was completed (H. Moon and Kim 2008b, 18). The rate of return of the NPF was 14.4% in 1998, 12.8% in 1999, 4.7% in 2000, 9.0% in 2001, and 7.7% in 2002 (H. Moon and Kim 2008b, 18). Although there were some fluctuations in the profits, the performance of the NPF was very good

considering the negative impact of the 1997 Asian Financial Crisis. All in all, the level of knowledge about the NPS among the insured was very low, leading to a negatively biased view about its necessity.

Both the public and the insured had an incorrect perception of the NPS, particularly regarding the overall state of the scheme. When the government first raised its NPS reform proposal in 2003, the NPF was still growing (NPDC 2003). The NPF had been very stable, amounting to 19.0% of the national Gross Domestic Product (GDP) in 2005 and increasing to 24.3% in 2007 (NPRI 2009 v.34). Nevertheless, when asked if they knew that there was a NPF pot amounting to 150 trillion won by 2005, only 30.1% of the insured knew that the NPF was so large (Y. Lee and Kang 2005). Among those who did not know about the NPF, it was found that almost half thought the fund was either already in deficit (12.7%) or almost in deficit (33.1%) (Y. Lee and Kang 2005). About one-quarter did not know that the NPF was as large as it was, while the 9.4% that did appreciate how large the pension fund was did not know its actual size (see Table 6-9). In short, most people were not well informed about the state of the NPF even though the government had, since 2003, been trying to reform the fund.

Table 6-9 Perception of the state of the NPF

Answers	%
I did not know the size of NPF properly	9.4
I did not know that NPF was as big as it was	25.8
I thought that NPF was almost in deficit	33.1
I thought that NPF had already been in deficit	12.7
I have no idea	19.0
Total	100.0

Source: (Y. Lee and Kang 2005)

The level of trust influenced how people perceived the characteristics of the NPS. According to Kang (2006), those who had a greater understanding of the key features

of the NPS were more likely to trust it. His analysis, based on a survey conducted in 2006, showed that the more people thought the NPS was necessary for old-age income security – and that joining the NPS was more profitable than private pensions, and that the pension fund was stable – the more they trusted the scheme. In addition, when the level of trust was compared between groups with three different levels of understanding (high–medium–low), those who had the most knowledge about the NPS showed substantially more trust (92.0%) than those who had the least knowledge (13.8%). Another analysis of the survey data from the National Pension Service study in 2007 also confirmed that a good understanding of the NPS was related to greater trust in the system (Back 2008).

In fact, public perceptions about the state of the NPF were quite different from the actual situation. Although many people thought the NPF was not stable, it was not only large in size, but had also been achieving high rates of profit. Even after the 1997 Asian Financial Crisis, the NPF achieved an average profit rate of 9.7% through the fund management during the period 1998–2002. In addition, since the reform debate had started in 2003, the average profit rate had been maintained an average annual level of 6.7% from 2003 to 2007 (see Table 6-10). Even when compared to the occupational pension schemes abroad, the performance of the NPF had been relatively good (C. L. Jung and Walker 2009, 437). In addition, the NPF was ranked as the fifth largest public pension fund in the world in 2007 (Back 2008). From the total income of the NPF, about 38% was composed of profits from the NPF management, whereas about 61% came from the contributions of the insured (H. Moon and Kim 2008b, 18).

Table 6-10 Profit rates of the NPF management (Unit: %)

Years	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Profit rates	14.41	12.80	4.69	9.01	7.67	7.03	8.07	5.61	5.77	7.05
Average	9.72					6.71				

Source: The second calculation of the National Pension (H. Moon and Kim 2008b)

In fact, there was actually a pension deficit in the public pensions for public servants and military personnel. Those pension schemes had been hugely subsidised by the government, receiving more than 2.6 trillion won from 1999 to 2003, and more than 1.6 trillion won in a single year in 2005. In contrast, the total government subsidy for the NPS was less than about 188 billion won in 2005. It was therefore argued that some of the false perceptions about the state of the NPF had resulted from confusion with other pension schemes that were in great deficit (Sangho Kim 2005, 18). This incorrect understanding about the NPS allowed policymakers to exaggerate the circumstance of the scheme as a means of promoting their reform proposals, as is discussed further in Section 6.4.

(ii) Problems with the government's management of the NPS

The misperception about the NPF was not entirely due to the press coverage about the pension fund deficit. Although Jung and Walker (2009) explained the high public interest in the NPF as being a result of the longstanding discourse on the pension fund crisis put forward by the economic and financial elites, some responsibility actually fell on the government for failing to build up public trust in its NPF management. As frequently reported by the press, there *were* some government failures in managing the NPF, which could have given the impression to the public that the government might have consumed the NPF completely. As shown in Chapter 3, the NPS was introduced with the economic interest of using the pension fund for economic policy

reasons. The funded element of the system allowed the government to use the accumulated pension fund to bolster its economic policy. Until the 1998 reform, the NPF was under the control of the Ministry of Finance and Economy. During the 1998 reform debate, it became widely known that the surplus funds were being used by the government for economic policy purposes by means of the Public Capital Management Act, which required all the surplus of the NPF to be deposited into the public fund. Most of the NPF was used for building railways, public housing and other social infrastructure (Hyunsuk Lee, Kang, and Kim 2004, 16).

Using the NPF for economic policy was not the essence of the criticism *per se* but, rather, the loose process of regulating the spending/investing of the fund. Until the Public Capital Management Act was reformed in 1999, in the face of mounting criticism about the pension fund usage, the Economic ministry had simply written certificates detailing the amount of money to be spent from the fund and where it would be used (Interview no. E3). There was neither a strict process to examine the appropriateness of the usage, nor any proper regulation to monitor the spending. Moreover, it was not clear how the borrowed money would be paid back and under what conditions.

The loose regulations used by the NPF management drew a lot of criticism because the government had promoted the NPS since its introduction by advertising it as a ‘very profitable public savings product’ (C. L. Jung and Walker 2009). The reality was that the pension fund had been used by the government with no guarantee of the interest rates on the government’s borrowing from the fund.

The increasing criticism about NPF management led to a change in the governing authority for the fund from the Ministry of Finance and Economy to the Ministry of

Health and Welfare (MOHW) at the point of the 1998 NPS reform. In the following year, regulation of the compulsory deposit of the NPF into the public fund was abolished with the reform of the Public Capital Management Act.⁸¹

In sum, the funded design of the NPS led, in the beginning, to an accumulation in the pension fund, allowing the government to use it for economic development. However, the practice of the pension fund management, at a time when almost no insured groups were receiving benefit, backfired on the legitimacy of the NPS. In this situation, the performance of the pension fund management had been at the heart of political and economic attention a long time before the NPS could mature as an established old-age security system for the majority of older people. These factors led to a greater reliance on private income sources, with more trust in private pensions, while making it difficult to raise contributions for the NPS.

(iii) The influence of the media

The incorrect perceptions about the pension fund were related to the frequent mass media coverage of the forecasts relating to the pension fund's exhaustion in the future. Jung and Walker (2009) argued that the negative forecasts for the pension fund, which these authors called the 'discourse on the pension fund crisis', had been very dominant in Korea. As a result, there was no strong resistance – from the current working population – to a significant benefit reduction, in the lead up to the passage of the reform bill in 2007. These authors saw those who focused particularly on the pension fund stability, such as economic elites and stakeholders of financial market,

⁸¹ The law was reformed in 1999, but the change in the regulation came into effect from 2001. De-regulating the management of the NPF was included in the policy recommendation of the World Bank as a condition for the structural adjustment loan during the 1997 financial crisis.

as exercising ‘neo-liberal power’. This was because these elites promoted the increased investment of NPF reserves into the market so as to expand the stock exchange and financial market. They deliberately constructed a discourse on the pension fund crisis to influence the approach to the management of the NPF in a more market-friendly direction. From their point of view, it was the best way to maximise the profit rates of the NPF, to postpone the timing of the pension fund exhaustion, and to prevent an increase in the contribution rates of the NPS.

The argument of these critics maintained that this neo-liberal power was led by the economic and financial elites but was also closely linked with the mass media, which continuously tried to make the earnings rate of the NPF stand out above and beyond any other issues. In particular, the power of neo-liberal thinking can be seen in the way that NPF earnings rates were compared with foreign occupational pension funds. In fact, although occupational pensions have different functions from public pensions like the NPS, but this neo-liberal approach promoted the comparison of the NPS with occupational pensions in other countries to reinforce a more profit-oriented approach (C. L. Jung and Walker 2009). This entailed increasing the amount of investment from the NPF into the financial market. Moreover, although the long-term earnings rate of the NPF was higher than any other pension fund to which it was compared, only short-term comparisons – which made the earnings rate of the NPF appear inferior to others – were deliberately used, leading to questions about the current NPF management system. Thus, these authors argued, as the ‘pension fund crisis’ discourse dominated the pension reform debates, tackling the future pension fund crisis was made to seem a desirable policy objective, although it involved a significant reduction in the pension level.

Jung and Walker (2009) argued that the discourse about the pension fund deficit was strengthened by the mass media. Indeed, the survey results of the National Pension Service show that most people with negative views about the NPF reported that they attributed their opinions to the exposure of the pensions issue in press coverage. When asked about the reasons why they thought the NPF was in deficit in the same survey, about 46.0% pointed out the 'press coverage about the NPF deficit', followed by 'press coverage about the government's failures in managing NPF' (25.5%). About 19.5% thought that the government had exhausted the NPF completely, thus causing the deficit (Y. Lee and Kang 2005). In other words, with the influence of the mass media, many people thought that the NPF was very unstable due to government misuse and mismanagement. A Deputy Head of Department commented in a major newspaper that the high distrust in the NPF could be partly attributed to the mass media's prevailing reports about the future deficit of the fund (S. Shin 2005, 29). It was pointed out that most of the newspapers' headlines were of the nature 'NPF in deficit in 2044', particularly during the time of the reform debates. The point of such newspaper articles was to stress that the pension fund would be in deficit if not reformed urgently, misleading people into thinking that they might not be able to receive their pensions in the future.

The financial issue was the most salient concern related to the NPS in the media and, not surprisingly, people seemed to be influenced by the media reportage. According to a study that analysed the topics of newspaper articles on the NPS from 2004 to 2005, almost two-thirds of the articles focused on systematic problems (63.8%), while around one-third focused on the external challenges (33.6%) (Sungho Kang 2006). In contrast, only 2.6% of articles reported on the functions of the NPS as a social security system. Among the articles on the systematic problems of the NPS, most

concentrated on financial aspects (86.0%). Although the study examined the period after the anti-NPS movements began to spread widely in 2004, the attention paid to the financial issues appeared to be excessive. This is particularly the case when considering the fact that the anti-NPS movements pointed out the problems of NPS rather comprehensively, ranging from its imperfect functions in relation to supporting the elderly as well as to failures of NPF management.

In short, lack of widespread experience of the NPS, little understanding about the characteristics of the NPS, and the problems of the government in properly managing the existing system resulted in weak support for the scheme. This led to a low degree of public trust. In this process, we found that the media exaggerated the risk and problems associated with the NPS, which was even more effective because few people knew about the actual state of the NPS. This in turn shaped the interest of policy actors towards a reform approach that gave greater emphasis to a financial orientation, while allowing them to exploit the adverse mood towards the NPS in pursuing their reform goals, as we show in the following section.

6.4 The process of final negotiation and decision-making

During the final negotiation and decision-making process, the policy positions of political parties did not change much despite the government's effort to persuade and negotiate with them. In this section, we aim to spell out the role of policy actors in negotiating the final reform bill and making the final decision. Little advance in the reform process was made until the first vote at the National Assembly, so at this stage the government became more proactive by setting up tactical strategies to persuade its opponents. As in previous sections, our analysis here also centres on the role of policy actors and their goals and intent within the policymaking process. This period ran

from the first voting on the reform bills in the Plenary Session at the National Assembly on the 2nd April 2007 to the final passage of the reform bill on the 3rd July 2007.

As we have seen in Section 6.2, the contents of the reform were not of great interest for the parties during the reform process because the key problem with the NPS had already been constructed as a ‘fiscal problem.’ None of the policy actors contested the necessity that NPS reform held for future financial stability. Thus, the reason all the NPS reform bills were defeated in the National Assembly and only the BOP was passed was both ideological and political. The next section (6.4.1) focuses on the political factors, followed in Section 6.4.2 by a consideration of the influence of dominant ideas among policymakers. Finally, Section 6.4.3 elucidates the tactical strategies of the government that helped successfully persuade its opponents by effectively mobilising political resources.

6.4.1 The political dynamics of final negotiation and decision-making

From the process of the reform debates presented above, we noted that major conflicts centred on the degree of reform rather than the goals and objectives of reform. The process of partisan politics leading up to the first vote on the NPS and BOP on the 2nd April 2007 revealed the vote-consciousness of political parties: only the legislation on the BOP passed, but it was accompanied by a failure of all other NPS reform bills in the first voting in the Plenary Session at the National Assembly. This result changed the mood of the reform and led to strong criticism, particularly towards the opposition parties.

Before discussing the process of final negotiation, we need to note the two political reasons for the government’s persisting with its reform plan. Firstly, the government

wanted to reform the NPS no later than 2006 for political convenience. In a report that Minister Ryu Si Min had published, under his name in late 2006 calling for the NPS reform during his term, he pointed out the implicit debt of the NPS and the unbearable future burden on the younger generation. What he also emphasised, however, was the political timeliness of the reform. He underlined the fact that the NPS reform should be accomplished before 2008. This was, first, because otherwise the financial burden would be further aggravated and, second, because the forthcoming electoral schedules were very likely to hamper the reform debate further. By 2008, many of the insured had a contribution record of twenty years dating back to the start of the NPS in 1988. This meant that the first cohort of people would start to receive their old-age pensions in 2008. The government thus urged a reform of the system before 2008 to prevent more people from qualifying for the generous replacement rates under the current system. In fact, the political advantage of reforming the NPS before it matured would benefit all political parties. This was because reforming it later, when vested interest groups were entrenched, could punish any future government's attempt to reform pensions. Further, this was not a new argument. In the previous 1998 NPS reform the MOHW had pointed to the same reasons for reform (see S.-I. Yang 1998a, 61). Thus, given the forthcoming elections – the presidential election was due in 2007 and the general election in 2008 – the government wanted to complete the reform as soon as possible (S. Ryu 2006b, 17).

Secondly, the government wanted to prove its political competence. The government of Roh Moo Hyun (2003–2008) was determined to complete the reform of the NPS within its presidential term. This would free the government from the long-standing criticism of not being able to conduct reforms, including the NPS, especially as their political slogan claimed they would be 'a reform government'. At the later stage of

the reform, therefore, Mr Ryu Simin, the Health and Welfare Minister, announced that he would conduct the reform by any means:

For the government, passing the NPS reform was the top priority in the later stage of its term because it had been criticised for being incompetent in government administration and management. In fact, although they advertised themselves as a 'reform government', they were seen to have no capability to conduct a reform. Thus, they needed to get rid of the kind of negative impression that followed them. (Interview no. P7)

The passage of the BOP at the first vote of the National Assembly led to criticism toward opposition parties for using political considerations to court greater popularity because they rejected reform to the NPS, which had been the original purpose of the whole reform (AP News 2007; K. Cho 2007; K. Lim 2007). Confronted by such criticism, political parties began to make further changes and continued to negotiate on their reform bills. The opposition (the GNP) once again modified its reform bill. As the GNP changed its policy position, the UP also made changes to its own bill. This action and reaction was typical of the politics at the previous stage of policy formulation, as explicated in Section 6.2. The same pattern continued to the end of the decision-making process, without significant change in the vote-conscious behaviour of the political parties.

Thus, despite changes to the political parties' (new) bills as submitted on the 17th April 2007, none of them made substantial changes to their previous proposals, apart from the UP's NPS reform bill. The UP withdrew its original plan to increase the contribution rate, and instead opted for decreasing the NPS benefit even further to 45% by 2018 (see Table 6-11). These two final plans remained on the table for negotiation between the government and its opponents.

Table 6-11 Final reform proposals of the UP and GNP/DLP by the 17th April 2007

		UP/Government	GNP/DLP
NPS	Contribution rates	9%	9%
	Replacement Ratio	50% from 2008, 45% from 2018	50% from 2008, 40% from 2018
BOP	Coverage	60%	80%
	Replacement Ratio	5%	10% from 2018, gradually increasing from 5% in 2008
Type of legislation		BOP as separate legislation	Integrated Basic Pension

The most persistent feature of the political parties' policy preferences was the insistent rejection of an increase in the contribution rate. In fact, political parties did agree on adjusting the NPS for financial stability reasons (Interview nos. P1, P4, P8). They were also united against an increase in the contribution rate, although purely for political reasons:

Paying more contributions was a change that would happen now, whereas a reduction in benefit was a change that would not occur for 20 years; therefore, reducing the benefit was a much easier way to solve the resistance to reform (Interview no. P5).

As all the parties were conscious of the electoral consequences that the reform could bring about, they did not want to proceed with any reform that might hinder them (Interview no. P1).

The reluctance of opposition parties to support the government's reform did not solely originate from their reluctance to reduce the existing pension system, but from their concern that a successful reduction in the NPS might allow the government to claim a great political achievement in the development of the welfare system. It may sound ironic that a reduction in the existing pension system could be regarded as a political feat, but this was the case in the context of the Korean pension system. As the major

problem of the NPS had already been established to be the financial instability of the pension fund, both political parties and the government considered achieving any reform – even by reducing the benefit of the NPS – to be a great political accomplishment. In fact, political parties did not have a strong confrontation over NPS reform or about the BOP in relation to the direction of the reform (Interview nos. P1, P5). However, opposition parties rejected reforms on the basis of not allowing their rivals to gain more political popularity. They did not wish to allow the government and the ruling party to claim that they had solved the problem of the ‘financial stability of the NPF’. The following quotation reveals the situation succinctly:

If the NPS reform was passed regardless of the specific settings of the NPS, the GNP, as the major opposition party, had a political reason for not passing the NPS, because the successful passage of the legislation would be credited to the government and the ruling party. (Interview no. P5)

In a situation in which the government and the ruling party were competing with the giant opposition, the GNP, the casting vote of the Democratic Labor Party (DLP) would be ineffectual. The DLP was the third largest party, but holding the casting vote in a parliamentary context in which the similarly large ruling UP and the opposition GNP confronted each other posed difficulties. It would be difficult for the DLP to support either the UP or the GNP.

Although the DLP claimed to be the ‘progressive’ party, representing the rights of the working class, they had lost the initiative of the progressive policy agenda on the basic pension to the GNP (Interviews no. P8). The DLP had longed to introduce a universal welfare system like the basic pension scheme of the GNP. However, as the GNP was a party at the opposite political extreme, the DLP had to find a way to

propose something that was similar to the GNP's BP, but which yet appeared unique. This was because they did not want to give the impression that they were in favour of the policy agenda of their longstanding political opponents (Interview no. P8). This difficult situation for the DLP, combined with its limitations as a small party which only took eight seats in the National Assembly (about 3.3% of the total seats), led the government to agree a deal with the largest opposition GNP instead, effectively excluding the DLP.

Finally, the UP and the GNP came to a compromise, producing one unified reform bill on the 26th April 2007 (PCPP 2008, 110). In the compromise version of the bill, following the GNP/DLP's proposal, the NPS replacement rate was to decrease to 50% in 2008, and then further to 40% in 2028. Instead of accepting the benefit level of the GNP, the speed of the reform was to become slower, gradually reducing the benefit level to 40% by 2028 rather than by 2018. In terms of the BOP, the benefit was to begin at 5% of the median income but to be increased to 10% by 2028 (Table 6-12). With the new bills, the Council on the National Pension Development was to be launched by law to design a specific plan to co-ordinate the BOP with the NPS. The BOP was to be introduced in a separate law following the views of the UP and the government, while the coverage and benefit was further compromised between the UP and GNP/DLP.

The ongoing process for the passage of the reform bill, however, came to a standstill again until June 2006. The main reason for this was conflict over other legislation, and was not due to further dispute over the NPS and BOP (PCPP 2008, 110). Due to the continuing delay in reforming those two pieces of legislation, therefore, the government and the ruling party increased their criticism of the GNP's reluctance to

reform. The president Rho Moo Hyun, in his ‘President’s Letter to the People’ on the 27th June 2007, publicly criticised the GNP for deliberate delaying tactics on many key pieces of legislation (PCPP 2008, 117). On the 22nd June 2007 the UP published a position paper, ‘The Grand National Party: Make Your Promise to Pass the National Pension Amendment,’ asking for the GNP’s positive and sincere participation in the reform process. The criticism reached its peak with the announcement on the 18th June 2007 by KCTU and all the allied labour and civil movement organisations, declaring that they would take action to urge reforms to make the public pension system function properly in the light of the fact that the government and political parties were no longer reliable (Association for the Normalisation of the Pension System 2007; PCPP 2008, 113).

Table 6-12 The final reform bill in comparison with the final compromise bill

		The compromise bill between UP and GNP	The final reform output
NPS	Contribution rates	9%	Unchanged
	Replacement Ratio	50% from 2008, 40% from 2028	Unchanged
BOP	Coverage	70%	60% in 2008, 70% from 2008
	Replacement Ratio	5% in 2008, to be increased to 10% in 2028	Unchanged
Type of legislation		BOP as separate legislation	Unchanged
Other		-	Introduce an NPS Reform Committee to co-ordinate the BOP with the NPS in the future

As a result of pressure from the government, the ruling party and the media, the compromise NPS reform bill drawn up by the UP and GNP passed the Health and Welfare Standing Committee on the 29th June 2007. This was followed by agreement

in the Plenary Session on the 3rd July 2007 with 154 votes in favour, five against and 12 abstentions out of 171 in total. The final BOP bill (the amendment of the version that was passed on the 2nd April 2007) was also passed, setting the coverage to 60% of the elderly aged 65 and above in 2008, with an extension to cover 70% from 2009 (PCPP 2008, 118). After the long process of the reform debates and many compromises, the NPS reform was finally accompanied by the introduction of the elderly allowance, the BOP. Instead of introducing a new benefit, the NPS was significantly reduced to 40% of the net lifelong income when there had been a contribution of 40 years. Without any other measure to guarantee the minimum level of pension, one consequence of these developments was that the reform might lead to a high poverty rate among pensioners in the future.

To sum up, the policymaking process at this stage was both complicated and more active compared to the previous stages of agenda setting and policy formulation. Political parties used typical symbolic tactics by changing their bills constantly if their rivals changed theirs. At this stage, the most important issue in the reform debates was not financial stability, but the scope of the coverage and the benefit level of the non-contributory pension scheme. We explain, in the next section, why the fundamental goals and direction of the reform were not the issues of conflict.

6.4.2 The role of ideas

The increased role of the Ministry of Health and Welfare (MOHW) and the passage of the NPS reform did not immediately lead to the expansion of welfare provision. Although the range of older people who were able to receive the elderly allowance became wider than before the introduction of the BOP, it still resulted in a substantial reduction in the replacement ratio of pension benefit for the current working

generation. Despite conflicts over the reform plan between the government and political parties, the financial stability of the NPS was not debated. Seeking financial stability of the welfare system was not something new but was, rather, a long-standing idea that had been pursued by the economic elites and experts. Thus, the reform goal of the MOHW to achieve the financial stability of the NPS was a continuation of the economic idea inherited from the economic elites. During the reform debate, the need to secure the stability of the National Pension Fund (NPF) was not questioned by any policy actors because there was a general consensus on the need for it. We examine here the rationale of the reform shared by major policy actors was able to continue to influence.

The economic perspective of the welfare ministry

Although the MOHW played a key role in the NPS reform process, the underlying idea that it pursued was not so different from that of the economic elites. As shown both in this chapter and in Chapter 5, the MOHW was the most proactive actor involved in drawing up the final reform bill, mediating the conflict of opinions between political parties, and finally succeeding in coming to an agreement with the opposition parties. The MOHW's expertise in matters relating to the NPS was actually gained from economists who took part in the NPS reform advisory board. From the beginning of the reform process, the voice of economic experts, especially those who had seen financial stability as the most important issue, received most attention in the policymaking process (Interviews no. E7, E2, E9). In 2002 experts had led research into the first NPS financial projections, which provided the basic data for the reform plan. Although some raised the criticism that the NPS' financial valuation closely followed the method of the private pension system (thus

undermining the characteristics of the public pension system), there was no alternative available to counter this idea because of the lack of experts in social insurance systems (Interview no. E3). Regardless of the field, most of the academic experts capable of advising the government were in favour of the prevailing multi-pillar pension model, which had been promoted by the World Bank since the late 1990s (Interview no. E2).

In negotiating the final design of the BOP, moreover, budget availability was the most important factor for the MOHW. The decision on the benefit level of the BOP and the population it would cover was thus not based on any consideration of making the system more effective or efficient; instead, the specific features of the BOP were determined based on restrictions in budget availability. When designing the BOP, the government had a clear goal to minimise the cost of the programme (Interview no. P7). Half of the expenditure was to be provided by adjusting other public expenditure, whereas the remaining half was to be financed by the savings arising from reducing the tax or tax-exempt items.⁸² To minimise the cost increase, the existing elderly allowance system for low-income elderly households and the transportation subsidy for the elderly for non-public assistance-recipients were to be abolished and absorbed into the budget of the BOP. In other words, the benefit level and the coverage were relatively more negotiable, whereas the budget was not.

The MOHW accepted the idea of the GNP and devised a basic pension scheme but it amounted, in fact, to extended public assistance for older people, rather than a universal welfare provision for all the elderly, which the GNP had originally proposed.

⁸² Information from the disclosed ministerial meeting material for the 20th October 2006, prepared by the Ministry of Health and Welfare, 'The Plan to Introduce the Basic Old-age Pension' (p.9).

The system that the MOHW proposed cost only 2.4 trillion won, whereas the GNP's Basic Pension (BP) was estimated to cost about 9.3 trillion won.⁸³ This was why the GNP's idea was criticised as lacking feasibility: their proposal required a 4% increase in income tax rates if it was to be solely financed by tax.⁸⁴ Thus, the BOP was a system that would cost much less than any other basic pensions that were being considered in the National Assembly.

The idea of reducing the replacement ratio of the NPS from 60% to 40% was also proposed by the MOHW. Although it was to be reduced gradually over a 20-year period, the adequacy of the benefit was significantly impaired. This was because, whereas one should contribute for 40 years to receive the reformed 40% replacement ratio, the pension board estimated that the average contribution period by 2010 would be around 15 years, increasing only to 21.7 years by 2070 (NPDC 2003, 105). As a result of this change, and because the NPS did not have any minimum pension guarantee, there would be a rising number of workers likely to receive pensions below the subsistence level. Meanwhile, the minimum income level for mandatory participation in the NPS was set very low at only 30.0% of the minimum living cost for a household with two people in 2007. Therefore, even if the net income replacement ratio for those low-income workers was much higher than others (because of the income redistribution effect of the NPF benefit formula) people's old-age pensions would not reach the subsistence level. This would be despite low-income workers' full contributions to the NPS over their entire working life. In short,

⁸³ Undisclosed document 'Plan to response to the GNP's new NPS reform bill', undisclosed document published by the Uri Party on the 12th March 2007.

⁸⁴ Ryu Si Min, 'Debate over Right and Wrong' at Seoul Broadcasting Service on the 10th November 2006.

those who were on the lowest minimum income level could not avoid receiving very low pensions.

The economic approach of the MOHW can also be seen through the policy position it put forward, insofar as it was not very different from the proposals that economic elites had promoted in the past. The MOHW was opposed to the introduction of the non-contributory state pension system until the government set out a New Reform Plan (NRP) in mid-2006, because it would cost too much and would burden the national economy. According to a confidential report of the MOHW published on the 2nd June 2006, the basic state pension scheme was seen as indefensible due to the rapid increase in the financial burden that was anticipated.

With the introduction of the basic pension, the total pension expenditure including both the basic pension and earnings-related pension would amount to more than 10% of GNP by 2050, thus becoming a grave burden on the national economy. The major OECD countries spent about 7.2% of GNP on the public old-age pension in 2000, which is expected to increase to 10.1% by 2050. Thus, most countries have reformed, or are reforming, their public pension system in order to alleviate the financial burden. As a late-comer to the pension system, introducing a costly basic pension system in Korea is setting itself against the trend of pension reform in the advanced countries, which would eventually lead to the creation of a great obstacle to the operation of the national economy (MOHW 2006).

From the report, we note that the MOHW's initial plan was set against the basic pension system, for the same reason advanced by the economic elites in the past: *too high a burden would be placed on the economy*. In addition, the emphasis on what advanced countries were doing followed the same rhetoric as that of the economic elites during the developmental era.

The MOHW's economic approach can also be understood through an examination of its pension fund management. In another undisclosed report concerning the NPF

management system, the MOHW emphasised that ‘it managed the NPF from a strict economic perspective’, achieving, on average, a 10.2% profit rate for 19 years prior to the reform. This underlined the contention that it was a comparable achievement to pension funds in other countries, such as the California Public Employees’ Retirement System (CalPERS).⁸⁵ Given that the CalPERS is an occupational pension system, its purpose and role are completely different from a public pension like the NPS; nevertheless, the MOHW compared its management of the NPF to that occupational pension system. In this regard, Jung and Walker (2009) argued that the existence of the huge pension fund led to great attention being given to its profit and an interest in its governance system. Making high returns from the pension fund was thus regarded as the best way to prevent a rapid increase in contribution rates and an exhaustion of the pension fund. We need to note, however, that those who viewed the NPF in this way (whose approach was termed ‘neo-liberal power’ by Jung and Walker) were not limited to those related to the economic ministries or financial market. The MOHW also favoured expanding the investment of the NPF on the stock market, although the MOHW showed some caution towards the increasing size of the NPF’s share. In fact, a cautious approach was necessary because the huge pension fund could socialise the market economy. With the continuing growth, the NPF was estimated to hold above 10–20% of the share of every company registered on the stock market.⁸⁶

The policy direction towards achieving financial stability was not limited to the arena of the NPS reform, but was also part of the general fiscal policy of Roh Moo Hyun’s government (2003–2008). In a booklet setting out his policy pledge at the presidential

⁸⁵ Undisclosed document of MOHW: A response to the argument of the economic ministries on the NPF governance in 2007. Confidential material obtained from an interviewee (Interview no. P7).

⁸⁶ A confidential report for the Chairman of the Policy Planning Committee, reported on the 2nd June 2006 by MOHW.

election, maintaining sound national finance was one of three key strategies of his fiscal policy. The other two were described as ‘low tax rates, wide tax base’ and ‘fiscal management with no misuse’ (NMDP 2002, 64). As for specific policy tasks, it was planned to reduce the national debt through continuous economic growth and fiscal reform to improve financial efficiency. The aim was also to prevent any increase in national debt by means of systematic management of liabilities, including the pension fund, to avoid an increase in debt in the future (NMDP 2002, 68). It needs to be noted that the presidential election took place only five years after the 1997 Asian Financial Crisis had hit Korea. A conservative approach to fiscal management was therefore to be pursued, with the aim of helping the economy recover in the aftermath of the economic crisis.

However, the rather stringent approach towards the welfare state that we see in the presidential pledge of the Roh Moo Hyun government indicates that the fundamental policy direction set before his inauguration was not oriented towards an extended welfare state. It was, rather, targeted at a work-related welfare system. While developing a universal welfare system was the aim, the specific policy task was to extend social services by only a slight degree beyond the existing entitlement available only to low-income families (NMDP 2002, 167). Reforming the NPS to improve financial stability was also included in the pledge. Other policies cited included extending some public assistance to those very close to the poverty line, while strengthening workfare for the recipients. In terms of elderly welfare, increasing job opportunities for the elderly was promoted, together with a plan to extend, to some degree, the elderly allowance existing at that time. This allowance would provide a small monthly amount based on stringent entitlement conditions. In other words, the allowance was to be small and restricted to public assistance recipients.

Although the presidential pledge did not set out every single policy that the candidate intended to deploy, the policy direction and underlying ideas can be clearly inferred from these representative parts of the pledge.

The continuing influence of the ideas of economic elites

As shown in Chapters 3 and 4, the government's economic approach to the welfare system was closely linked to the long-standing logic of the economic elites in Korea. Economic perspectives, known as 'developmental ideas', on the development of welfare had been important considerations at the start of the NPS and during its later development. Some scholars, including Kim and Choi (2014) and Hwang (2007), pointed out that the influence of the economic ministries and bureaucrats in social policymaking decreased following the 1997 Financial Crisis. This was attributed to the blame they received for the failure of economic policy. Others postulate that their influence may persist, pointing out that the idea promoted by the economic elites still fuelled the rationale behind the NPS reform. As the Korean economy recovered from the financial crisis quite quickly, the influence of the economic bureaucrats and elites began to revive as well:

When the government of Rho Moo Hyun (2003–2008) came into office in 2003, the government had to implement social policies in a constant battle with the economic elites who had recovered their power. Those economic elites stayed quiet, because of their culpability in bringing about the economic crisis during the government of Kim Dae Jung (1998–2003), but only temporarily. [...] Thus, the government of Rho Moo Hyun had to fight continuously with the resurgent economic elites to implement welfare policies (Interview no. P7).

From this, we can see evidence that economic growth was persistently prioritised over social policy and the welfare state during the authoritarian eras until the financial crisis of 1997. From the view of the economic elites and bureaucrats, the welfare

system was still a burden on the economy and could bring about economic turmoil, as the following quote illustrates:

A group of economic elites in Korea, the so-called ‘MOFIA’ (referring to economic elites from the Ministry of Finance and Economy and compounded with the word ‘mafia’), are firmly rooted and are composed of a large network. They believe in the numbers. Based on the classical economic theory, they actually have a strong belief that social policy would ruin the economy. They are the source of the hegemony in the government, constantly reproducing the dominant ideas and making up one united voice. [...]. All the ministries do not share equal power, but the weight of the Ministry of Finance and Economy is much stronger than that of any of the other ministries, and therefore, their influence reaches into social welfare policy as well, actively and persistently (Interview no. P7).

The ideas and beliefs promoted by the economic elites were clear:

Korea’s economy needs to develop more before expanding its welfare. The dominant idea among the leading group in our society is that we need more economic growth, as our economy is still behind the level of advanced countries. There is still a long way to go before we start discussing welfare. There are still many things that we have to do to develop our economy. That is the intellectual mentality of the leading group of our society, which one might call a ‘developmental mentality’ (Interview no. G5).

From here, we can still find the long-standing developmentalism that led and dominated social policy development in Korea, especially during the authoritarian eras.

The fundamental underlying influence of the economic elites might not have been overt, but it could be seen indirectly in the reform debate. The role of scholars, especially those specialising in finance, was important in both the 1998 and 2007 reforms, as they were core members of pension reform boards. They focused on preventing the financial difficulties that the NPS could bring about in the future (Interview nos. E2, E9). Even immediately after the 1998 reform, the academic financial experts called for subsequent development as they saw the 1998 changes as

insufficient to prevent the problem. They could effectively influence the MOHW by participating in the government advisory board drawing up the reform proposal, and their ideas were strengthened during the course of the reform debate. Actuarial fairness and the stability of the NPF were seen as the most important factors of that debate, while more fundamental issues such as the adequacy of the pension benefit were left out of the discussion (Interview no. E9). The figures to be set for the replacement ratio were at the centre of the debate, along with a concern for the numbers included within the coverage and, finally, the benefit level of the BOP.

The economic-oriented ideas of those who participated in the government boards were in line with the dominant idea of a wider group of experts in Korea. According to unpublished survey data conducted by the Korea Development Institute (KDI) in 2011, the opinions of the economic experts concerning the government's welfare expenditure were more negative than those of the public. Among 269 economic experts (including professors of economics, economic researchers, entrepreneurs and financial investment analysts), only 24.3% thought that social welfare expenditure definitely needed to be increased, compared with 48.2% of the public. Meanwhile, 8.2% of the experts thought that welfare expenditure needed to be reduced from the current level, compared with only 5.5% of the public. A gap between the view of experts and that of the general public also appeared in another area: 25.1% of experts agreed that current welfare expenditure was adequate, whereas only 19.2% of the general public concurred with this statement. These differences in opinion between the two groups were statistically significant (Pearson Chi-Square 52.441, $p\text{-value} < 0.05$).⁸⁷ Economic

⁸⁷ The survey was conducted by a research team at the Korea Development Institute (KDI) in September 2011. It examined the relationship between public opinion and policy for 269 economic experts and 1,000 members of the general public. Some of

experts thus showed more conservative attitudes to the expansion of public welfare expenditure when compared to other constituencies.

In short, the underlying rationale of the NPS reform together with the BOP was strongly derived from a perspective arising out of an economic orientation, rather than from considerations about the social functions of the pension system. The idea the MOHW used to convince the public was not so very different to what would have been argued by the economic elites of the developmental era. Both the MOHW and economic elites exploited the (selectively chosen) experiences of advanced countries in justifying their argument. They were more focused on the political and financial impact of the pension system than the social impact an adequate pension could bring about. Due to the fact that such a reform was not politically popular, the government could not implement it without careful planning. In the following section, the discussion moves on to consider what kind of strategies the government utilised to lead successful negotiations with the opposition parties to pass its reform bill.

6.4.3 The government's effective strategies

The reform of both the NPS and the BOP was the result of political negotiation between political parties and the government to satisfy their common interest, rather than the result of a process of seeking better solutions to policy problems. The government's tactical strategies to persuade its opponents were most prominent in the success of the reform, which it implemented irrespective of the impact it would have on the people's welfare.

Keeping the agenda on the table

the results from the survey of the public were published in Ryu Kyung Jun et al. (2012), but the results concerning the economic experts were not published.

The strategy included how to approach the plenary session in the National Assembly. Before the first vote on the NPS and the BOP at the plenary session in the National Assembly, the government knew that support for the government's NPS reform bill was not likely to be sufficient to pass it. Nevertheless, the minister decided to proceed with the voting process. This was based on two considerations. First, the minister thought that the failure of the government's NPS reform bill would be a better result than leaving it pending in the National Assembly any longer. This was because such a failure would enable the NPS reform issue to remain on the agenda. The minister's concern was that, if the bill had not been voted on at this stage, the reform issue would disappear from the agenda, and the government's reform efforts would have been in vain (S. Ryu 2009, 282). Second, if the BOP passed without the NPS's successful passage, all the blame could be placed upon the GNP, whose resistance to the NPS reform could then be portrayed as a selfish, vote-conscious act. In that case, the MOHW planned to use the president's right of veto to impede the sole introduction of the BOP without an accompanying reform of the NPS. The passage of the BOP alone was thus far from the worst scenario the government would face.

At the actual time of voting, the result was as expected (S. Ryu 2009, 284): the BOP was passed and the NPS failed. Ryu Si Min asked the president to dismiss him from his ministerial office as a punishment for the failure of the NPS reform project. At the same time, the Prime Minister announced that the president was considering his right to veto the BOP (K.-E. Kim 2007). The blame for the failure was thus, as deliberately planned by the MOHW, placed on the GNP, whose opposition to the NPS reform bill had resulted in only the passage of the BOP project only. The GNP could now be presented as the party that intended only to attract the elderly voters while neglecting

the original subject of the reform – the NPS (e.g. J. M. Ryu 2007). The minister explained the underlying intention of his resignation from the ministry as follows:

I directly asked the president to replace me with a new minister for the failure of the NPS reform, because I thought it was the only way to force the NPS reform to continue and to prevent it from fading away. However, the president did not think that a dismissal from office was appropriate, and instead decided to accept my sense of responsibility and my will to resign from the ministry. The negotiation of the NPS reform was resumed, and my resignation was accepted after one and a half months. Thereafter, the NPS reform bill, which involved a decrease in benefit rather than simply not increasing the contribution rates, was passed on the 2nd July (S. Ryu 2009, 283).

In short, the success of the NPS reform, especially, the role of the MOHW in achieving it, was not simply to do with policy expertise or public support. The MOHW devised a set of deliberate strategies to turn public opinion in favour of its plan, while remaining open to negotiations with the opposition parties by adjusting specific aspects of the system. Despite these efforts, the NPS reform bill was rejected in the National Assembly, but the new minister had anticipated this situation and he employed a contingency plan.

Exploiting the influence of the media

The Ministry announced several public press releases about the result of the NPS reform, claiming that it was rejected due to the GNP's reluctance to address the financial problems of the NPF. At the same time, they highlighted the issue that all the parties had only accepted the BOP to win over elderly voters, thus neglecting the future problems of the NPF. They also announced that the BOP could be cancelled by the veto of the president if not accompanied by the reform of the NPS. This was because the introduction of the BOP was considered as only a part of solving the NPS's problems and not as separate legislation (according to undisclosed documents

from political parties). This was stressed again in the president's speech in parliament. To deliberately heighten the political criticism toward the political parties' vote-conscious acts, the welfare minister decided to resign and left office (S. Ryu 2009, 284).

The minister who had frequently appeared in the mass media as well as the vice minister and senior-level officials of MOHW, as part of the ministry's strategy to advertise the new reform plan widely. This strategy was extremely detailed and organised on a daily basis. It had been initiated after the local election (due on the 2nd June 2013) so that the news about the NPS and BOP would not be overshadowed by the news about the upcoming election. All the undisclosed survey data about public opinion on the NPS reform was also scheduled for release after the local election, when the results would attract more public and political attention (MOHW 2005).

Another important strategy of the MOHW was to influence public opinion to be more favourable to the government's reform plan. Ryu Si Min frequently appeared in the media to advertise the government's new plan, criticise the problems of the existing system and promote ways in which the new reform bill could address those problems. His key argument was that, if the NPS was not to be reformed, the burden upon the nation's children would become unbearable. For example, he spoke on a television programme which provided a policy debate on this theme as follows:

Under the current system, employees would receive twice what they had paid in. The profit needs to come from the returns of the NPF (National Pension Fund) management and the contributions of your sons and daughters. This is not a fair system, leaving the current elderly as they are while imposing the whole burden on future generations. This is not the right system and is negligent for our children (S. Ryu 2006a)

Creating a mood of the 'crisis' of an ageing society

As previously highlighted, the foremost goal of the reform was to achieve the financial stability of the NPS and to deal with the rapidly ageing population. To achieve this, the government deliberately used the argument of demographic change, particularly the low fertility rate, as a strong reform driver. The government did not interpret the low fertility rate as a serious problem at an overall policy level, for at least for a decade or more. As can be seen in Table 6-13, the fertility rates in Korea had stayed below the replacement fertility rates (2.1) for over 10 years (since 1983). Moreover, even when the fertility rates were between 1.6 and 1.56, a strong childbirth control policy was maintained right up until 1996. Until then, the government still subsidised those families with only one child, providing free contraceptives for married couples. When the government was preparing the NPS reform in 2002 and conducting the first five-year pension fund projection, its general childbirth policy was not changed apart from ending the subsidy for small families. The general policy direction was to maintain the existing fertility rate rather than promoting it, given the fact that the government's support for contraceptives continued, especially for low-income families and couples with disabilities, until the late 1990s (Ha and Moon 2007, 95). In short, although fertility rates had been low for a long time, the government made it a prominent issue in the NPS reform debate.

Table 6-13 Total Fertility Rates (TFR) in Korea, 1960–2009

Year	1960	1970	1975	1980	1981	1982	1983
TFR	6.00	4.53	3.47	2.83	2.66	2.42	2.08
Year	1984	1985	1986	1987	1988	1989	1990
TFR	1.76	1.67	1.60	1.55	1.56	1.58	1.59
Year	1991	1993	1996	1999	2000	2001	2002
TFR	1.74	1.67	1.58	1.42	1.47	1.30	1.17
Year	2003	2004	2005	2006	2007	2008	2009
TFR	1.19	1.16	1.08	1.12	1.25	1.19	1.15

Source: Statistics Korea (kostat.go.kr)

Note: The TFR represents the number of children that would be born to a woman if she were to live to the end of her childbearing years and bear children in accordance with current age-specific fertility rates.

Demographic change became an important social issue at a governmental level only when the fertility rate reached the lowest among the OECD countries. This was also used strategically for political purposes. The government set up a presidential advisory board to deal with the issue for the first time in 2004. Coincidentally, the MOHW had already begun the NPS reform process and, therefore, could make use of the social and political attention that was given to the low fertility rate to justify its NPS reform task. The former director of the National Pension Policy in the MOHW pointed precisely to the advantage of the low fertility rate in pursuing the NPS reform:

When the NPS reform proposal was first drawn up and submitted to the National Assembly in 2003, the low fertility rate was not considered important. The low fertility rate was used as an important policy background when the government submitted the NPS reform bill again in 2004 after the failure of the 2003 one. ...[It] was a time when the fertility rate became 1.08 or 1.09, the lowest fertility rate in the world. That was such a great argument to drive the NPS reform with some vehemence, by using the fertility rate as a strong policy driver (Interview no. G11).

Although the low fertility rate was a factual social phenomenon, therefore, there was a deliberate intention to make use of it as a policy driver to exaggerate the crisis that might come about without reform.

Constructing the economic and political urgency for reform

The discourse surrounding the crisis of an ageing society led to the rhetoric of political and economic disaster. A foreword in the welfare minister's report to the public on the NPS reform provides a good example of the exaggerated view of the dangers of the pension fund issue that prevailed in the reform debates (C. L. Jung and Walker 2009, 435).. The minister asserted that 'an appalling social disaster would come about after 40 years without pension reform (S. Ryu 2006b, 1).' The logic of this was well presented in the welfare minister's report, as the following extract shows:

The accumulated NPF amounts to about 180 trillion won (about 100 billion UK pounds), adding 30 trillion won a year. [...] However, if we do not take action now, it will become too late. [...] If we don't reform the NPS now, our daughters and sons will have to pay 30% of their income to pay pensions for us. [...] Although it would not happen until 40 years had passed, we would not be able to deal with it then, if we don't deal with it right now. [...] That is because although the problem will only come about by 2047, the trigger for the problem is at this present moment. Due to the gap between the low contribution rates and high replacement ratio, implicit debt liabilities have been accumulating even at the current time. As the cause exists right now, we cannot tackle it in 2047. As time goes by, it becomes more difficult to take action. About 80 billion won of implicit liability is accumulating every day; 30 trillion won every year; and 80 billion won in NPS liabilities is accumulating today, and every future day too [emphasis added] (S. Ryu 2006b).

The above quotation shows the government's underlying rationale in relation to the NPS very clearly. What was emphasised most was the increasing amount of implicit liabilities of the NPS and the necessary contribution rates to finance the system in the future. The 'likely' crisis was presented with extreme numbers: 80 billion won of

implicit debt every day, amounting to 30 trillion won debt a year, with people paying 30% of their net income solely for NPS contributions.

In emphasising the pension fund crisis, we again see the logic of ‘advanced countries’ that appeared in the previous eras (as shown in Chapters 3 and 4). The government pointed out that it had learned from the experiences of the mature welfare states that any attempt to retrench the pension benefit usually faced strong resistance from those constituencies who were in favour of the status quo. The concern was that, once the NPS started paying old-age pensions to increasing numbers of insured people, the political difficulty of reforming the system would increase accordingly, together with an increasing reluctance of politicians to undertake such a reform. Minister Ryu Si Min emphasised the point in his public report in the following way:

The problem of the pension reform is not limited to our country. All **the advanced countries suffered**, or have been suffering, with the problem of how to deal with the public pension. [...] So, the pension reform is not at all easy in Korea, just as it was not straightforward in advanced countries. There are many countries that have gone through great difficulties by postponing pension reform, even if they knew that the ageing population was leading to problems in the financing of pensions. A representative case of the kind was Italy. [...] Italy failed to reduce the high benefit level, due to public resistance, in spite of an ageing demography. As a result, **its national economy fell into difficulty** and, in addition **its political stability was destroyed due to the pressure from pension expenditure**. Fortunately, **we have some time. If we reform the system before 20 years have elapsed, when the demographics of the old-age pensioners would begin to become manifest, we can prevent the dreadful experiences that several advanced countries have gone through** [emphasis added] (S. Ryu 2006b, 16-17).

It was implied that a failure in the pension reform would be a cause of economic difficulty and political instability. Thus, the reform was called for not only to solve current problems, but also to prevent difficulties that could occur in the future. It is noteworthy that both the socio-economic and political impact of the pension reform

were considered as important. This argument emphasising the preventive nature of the reform process was top-down, with a strong initiative coming from the government.

Emphasising the complimentary role of other pension systems

The reason why the MOHW proposed reducing the replacement rate further, down to 40% in the long-term, was that by the time most current workers reached retirement they would also be expecting to gain income from various other retirement income sources as well, such as occupational pensions and private pensions (S. Ryu 2006b). The assumption was that even if the replacement ratio of the NPS had reduced over the following two decades, the total retirement income would not be affected because, for the time being, workers could save part of their income in the occupational pension or private pension in addition to the compulsory saving in the NPS. In other words, the retrenchment of the NPS was justified by the assumption that income for the elderly could well be replaced by other income sources.

However, the extent to which the reduced role of the NPS would be sufficiently compensated for by retirement income saved in other pension systems was questionable. In fact, only a third of employees under contract for a year or longer had provision from occupational pensions, while only 11% of employees paid into individual pensions in the late 2000s. In addition, employees under contract for a year or longer made up only 64% of the total number of employees. Thus, the proportion of those contributing to occupational pensions was estimated to be about 22.2% of total employees in 2011. The average participation period for old-age pensions, according to the first NPS financial projection conducted in 2003, was assumed to be 15 years in 2010, increasing to 21.7 years by 2070 according to the first NPS financial projection conducted in 2003 (NPDC 2003, 105). In a subsequent projection

undertaken in 2008, the average contribution period for old-age pensioners was expected to increase to 23.5 years in 2075, yet this would still be a very short period in which to gain entitlement to a decent pension (H. Moon and Kim 2008b, 31). These assumptions imply that 40% of the net replacement ratio for median income workers (who had contributed for 40 years) would be very hard to obtain. In fact, according to the government's assumptions, contributing for this number of years would be unimaginable for many workers. The argument that other pensions, such as occupational and individual pensions, would sufficiently compensate for the decreased role of the NPS in the future (as these other systems would have matured during the intervening years) thus provided an illusionary picture of the old-age security system in the future. Nevertheless, such an argument was used to justify the reduction in the replacement ratio of the NPS.

Mobilising political resources

Finally, the welfare ministry exploited various locations to build up and organise support for its reform plan. Firstly, the ministry used the 91 local branches of the National Pension Service to reach out to local MPs more effectively. The ministry allocated each executive officer of the MOHW to an individual MP to convince them to agree with the government's plan.⁸⁸ Secondly, the MOHW asked the local branches of the Korean Senior Citizens Association to contact their local MPs to urge them to support the reform. Finally, the MOHW arranged for about 140 members of the association to attend the voting on the NPS and BOP on the 2nd April 2007.⁸⁹ The ministry also started a rumour that if the NPS reform was not passed, the BOP would

⁸⁸ Data from the undisclosed meeting material of the MOHW released on the 31st March 2007.

⁸⁹ Data from the undisclosed meeting material of the MOHW released on the 31st March 2007.

not be introduced (S. Ryu 2009, 278) In this last point, there was some truth to this, because there was a plan to deploy the president's veto if the BOP passed without the NPS.⁹⁰

Elderly people, as a part of the public, played a prominent role in the reform process, particularly during the passage of the BOP in April 2007. Many older people, especially the members of the Korean Elderly Association, attended the Plenary Session as members of the audience and observed the voting process (Interview nos. E7, P1, P5). Their presence exerted pressure on those MPs voting on the reform bills. The result was the passage of the BOP only, with the failure of all the other NPS reform bills. The influence of the elderly group was not limited to the BOP, because the passage of that bill allowed the government to blame the GNP for delaying the NPS reform and enabled it to call on the GNP for a compromise. Although the role of the elderly group was significant, it had not arisen voluntarily. The government was orchestrating their attendance at the parliamentary session by advertising the voting schedule and urging the elderly associations to come to the National Assembly on the day of the voting (Interview no. P6). The government and the three major parties (the UP, the GNP and the DLP) thus played the most important role in the bill's passage.

In conclusion, the policymaking process during the democratic era clearly showed the prominent role of the welfare ministry, whose influence had, during the authoritarian eras, been inferior to that of the economic ministry (W. S. Kim and Choi 2014; H.-J. Kwon 1999b; Ringen, Kwon, Yi, Kim, and Lee 2011). The welfare officials played a key role in mediating the conflicts with political parties and were involved in bargaining for the final design and passage of the reform, yet our examination of the

⁹⁰ Data from the undisclosed document on 'Plan to response to the GNP's new NPS reform bill' published on the 2nd April 2007.

ideas pursued by the welfare ministry revealed its conservative approach to the development of the pension system. The welfare ministry decided to reduce the NPS substantially and transform it from a more to a far less generous earnings-related pension system to prevent the future risk of being unable to maintain it. Despite severe political contestation between the government and its opponents, the range of reform options was not diverse because the ideas the government pursued were not so different from those of the opposition. In this situation, the government's role in devising and deploying tactical strategies was most important in ensuring the success of the reform. The government's most notable tactic was the government's clever manoeuvring of the factors open to debate, presenting them as if they were imperatives for reform. In so doing, the media was also used as a political resource to exert influence on public opinion. The characteristics of the final reform bill raise a question about the extent to which the leading role of the welfare ministry contributed to an expansionary development of the existing system.

6.5 Conclusion

This chapter has examined the processes of policy formulation and decision-making in the pension reform of 2007. By analysing the policy process through the lens of policy actors, we have demonstrated the prominence of welfare politics in the reform process, particularly in the case of the government and political parties. Both these political bodies sought to achieve a reform which was in their own best interests, with an eye to political positioning in the future as well as the present. This led to a complicated political negotiation at the final decision-making stage of pension reform.

If we apply Streeck and Thelen's (2005) five modes of policy change as discussed in Chapter 2.2.3, the changes introduced by the reform of 2007 were obtained through

‘layering’. It was ‘layering’ because the reform involved a differential growth in the existing system of the NPS, or ‘layering’ in Streeck and Thelen’s term. At the same time, we noted that the change in the NPS also involved the mode of ‘drift’ and ‘conversion’. It was change through ‘drift’ in the sense that the reform would significantly reduce the role of the NPS in the public pension system because of the increasing mismatch between the need for an adequate pension and what the NPS would actually provide in future. It also involved change through ‘conversion’ because it would transform the purposes of the existing policy (the mode of conversion) from providing a very generous earnings-related retirement income to a new structure that has a far less generous earnings-related pension complemented by a means-tested basic pension.

The findings of this chapter demonstrate that we can better explain the nature of policy change and its characteristics by applying Streeck and Thelen’s (2005b) mode of change in multiple dimensions. For example, the NPS reform of 2007 can be seen as a parametric reform in itself, because it only reduced the benefit level of the NPS, as did the 1998 NPS reform. However, it was transformative change through ‘conversion’ because the original goal of the NPS (an earnings-related pension system) was modified to become a less generous pension complemented by a means-tested basic pension. Considering the high possibility of policy ‘drift’ in future as a result of a growing mismatch between policy aims (old-age income security) and actually achievements (failure to provide adequate pensions), this can be portrayed as a transformation. Nevertheless, from the perspective of the insured, the reform may not make much of a difference to their actual old-age income because the reform took place before the system had matured. From their perspective, therefore, the change may be marginal. Finally, the reform was not a big change when it is considered that

the key principles and embedded ideas were almost the same as before: pursuing financial stability remained the highest priority (see Table 6-14). If we analyse the change in the BOP using the same approach, we see an incremental change in the settings of the policy. However, it involved a transformative change in terms of its goals: it was the first tax-funded non-contributory allowance. Although it was means-tested, its large scope of coverage (60-70% of the older people aged over 65) involved a substantial change. Despite this, the strict budget limitations involved in designing the BOP ensured that the key principles and ideas did not change much. These analyses help us to better understand the complexity of policy change.

Table 6-14 The levels of change of the NPS and the BOP

Levels		NPS	BOP
Manifestation of policy	Settings of policy	Gradual	Gradual
	Policy goals and functions	Transformative (Third-order change)	Transformative (Third-order change)
Impact on the insured/beneficiaries	Short-term	Marginal	Marginal
	Long-term	Marginal	Transformative
Impact on financing	Short-term	Marginal	Marginal
	Long-term	Marginal	Transformative
Embedded ideas/principles of policy		Continuous	Continuous

Korean pension reform also points to the limited explication of Hall's (1993) theory of policy change. Hall (1993) categorised policy change into three levels: first-order (settings of policy), second-order (instrument of policy) and third-order (goals of policy change). The case of the NPS showed that the level of policy change may not be consistent with what the policy change would actually achieve, especially when the change occurs in an immature policy. The 2007 reform was a third-order change

because it changed both the settings and the goals of the policy and its instrument. Nevertheless, this third-order change appears unlikely to result in paradigmatic change in future because it occurred before the system was mature and therefore it would not have the same impact as it might have achieved on a mature system. As the NPS was immature, it did not have strong vested-interest groups. Moreover, the reform would further preclude people from establishing vested interest. The third-order change of the NPS might therefore well consolidate the existing weak role of the state in the NPS. When we examined the political debates about reform, we further found that policy actors actually pursued change in the goals of the system to exploit the situation in which there was no strong vested-interest group, because they were clearly aware of the political ease of reforming an immature pension system. When we analyse policy change, therefore, the ‘maturity’ of a system is an important factor to consider.

It is noticeable that whereas Hall (1993) argues that a change in the locus of authority over policy (and thus in the ideas behind policy) is key to paradigmatic change. What we found here was that even a substantial change in this authority does not necessarily lead to a paradigmatic change in policy ideas. Our case showed that key policy actors pursued a third-order change to promote the existing dominant ideas underlying the existing policy. Kim and Choi (2014) focus on the leading role of the welfare bureaucrats in bringing about the final reform, which was greater than in previous NPS reforms. Our findings also confirm that the role of welfare bureaucrats (especially in the policy formulation and decision-making process) had grown in comparison with previous agenda-setting processes. However, we also found that their dominant role did not necessarily lead to the promotion of a more expansionary/larger welfare system. Nevertheless, the fact that policy actors actively

pursued reform to maintain the existing ideas underlying the policy tends to support Hall's (1993) argument about the strong power of ideas in policy change. Further, we found this tendency was not just restricted to third-order changes.

Estevez-Abe and Kim (2014) highlight the greater political power that the top leader, the president, can exercise in Korea in comparison to Japan, using the example of a more radical expansion of childcare policy. The policy process of the NPS reform of 2007, however, showed that the political capacity of the top leader was in fact substantially reduced in comparison with previous eras, mainly because of the strong vote-conscious politics of political parties. Estevez-Abe and Kim assume the president in Korea can easily draw on support from the ruling party for the agenda she/he sets. However, in this case the welfare minister and the president struggled to gain support from the ruling party because it was a policy change that might bring about a negative impact at election time. In this situation, it was more important for politicians and senior bureaucrats to devise better plans to achieve their goals. Hall (1993) highlights that in paradigmatic change key policy actors struggle not only to gain political power but also face difficulties in seeking better solutions to policy problems. However, we found that they also needed strong strategic tactics to achieve their goals. The welfare minister's strategy was to design the BOP as a separate system to gain political credit for the ruling party, and to exploit the influence of the media and elderly groups. These were critical in achieving the reform. Three other strategies were utilised. These included, first, redefining the policy problems in a way that might make the government's reform proposal appear more adequate. Second, the government justified the reform by comparing it selectively with the experience of other deliberately-chosen countries. Third, there was a trading of policy agendas with

political parties (even between irrelevant policy domains) as a means of achieving their reform goals.

Chapter 7 Conclusion

7.1 Introduction

The aim of this thesis was to explore the dynamics of social policy change in the context of Korea. This was undertaken by presenting the process of policy change and examining the factors that contributed to the direction of that change. The research focused on the role of policy actors, including bureaucrats, politicians and civil society organisations. The latter are considered to be emergent and influential policy actors in East Asia, particularly in Taiwan and Korea where they have contributed to the expansion in welfare since the countries' democratisation processes began. Thus, we aimed to elucidate the role of policy actors by investigating the policymaking process with reference to recent reforms and the introduction of welfare systems under an authoritarian era.

The National Pension System (NPS) was selected as a case study because it offered certain research advantages. Its development allowed us to explore within a single case how a macro-level social policy change occurred under the influence of a political and economic regime within an East Asian country that has been known to be an exemplary case in the region (Hort and Kuhnle 2000). The NPS is the only comprehensive compulsory public pension for private sector workers in Korea. It underwent repeated reforms in several different policymaking contexts: under authoritarian regimes pursuing economic development and subordinating social policy to economic expedience; during the democratisation process; in the midst of an economic crisis; and in a stable democratic regime recovering from that economic crisis. Given this, we aimed to investigate how social policy evolves, develops and adapts under different political and economic conditions. To achieve this, we

conducted a qualitative case study of the NPS in Korea and analysed extensive archival documents as well as interviewing key policymakers and other policy actors.

In important respects our research builds on, and challenges, the existing literature concerning both the role of policy actors and the path of East Asian welfare state development. Considering the distinct policymaking environments as delineated above, the existing literature would argue that a growing economy, the democratisation process and increased social risks would lead to the continuous expansion of a welfare system (Hort and Kuhnle 2000; Y. M. Kim 2008; Y. M. Kim and Kim 2005; H.-J. Kwon 2009; Peng and Wong 2008). Yet what we observed in the case of the NPS was rather different: the system underwent a continuous reduction in terms of benefits (the latest 2007 reform was especially radical in this respect) and only a partial expansion. We thus tried to elucidate: the process by which these reforms occurred; why and how a certain policy direction was shaped; and the role of policy actors in that process. The next section summarises each chapter, and then moves on, in Section 7.3, to discuss the main findings of the thesis. The chapter concludes, in Section 7.4, by setting out the theoretical contributions, the limitations of the research, and suggestions for future research.

7.2 Summary of the thesis

We began the thesis, in Chapter 1, by setting out the rationale for the research and the puzzles this study examined. That chapter also set out the context of the research by depicting and analysing the NPS against the backdrop of the Korean pension system. It also presented the rationale behind the research methods, data and the data collection process. Chapter 2 located our research puzzles and questions within the existing literature. We examined the existing research on the development of welfare

states in general, and in East Asian countries in particular, as well as the role of institutions and policy actors in welfare state developments and (especially) policy changes. In these first two chapters, we pointed out that theories that explain the development of welfare systems in East Asia tend to be fragmented by distinct political and socio-economic eras. Further, despite dramatic recent policy changes, the factors underlying such shifts were either contested or not sufficiently understood, especially the role of policy actors.

The presentation, analysis and discussion of the empirical data, are set out in Chapters 3–6. Chapter 3 dealt with the era in which the NPS was introduced, during the 1970s and 1980s, under the authoritarian government. In Chapter 4 the focus was on the process of the first reform of the NPS in 1998. This second era encompassed a democratic regime and a financial crisis. The reform was discussed prior to the economic crisis but it was finally agreed under the first centre-left government, which replaced the previous regime that had been blamed for the crisis. This allowed us to examine the impact of the crisis on the reform debates and on the final decision-making process. The most recent reform studied, that of 2007, was presented separately in the last two chapters (Chapters 5 and 6) as it involved the most complex and dynamic policymaking process. This process represented the beginning of widespread, serious and distinct welfare politics in a Korean context. In the next section we present and discuss the main research findings.

7.3 Discussion of research findings

This research examined how the NPS developed up until the 2007 reform. Here we summarise our major findings concerning the process of policymaking and its dynamics and characteristics. We then discuss the role of policy actors under, first, an

authoritarian regime, second, a democratic regime in the midst of economic crisis and third, under conditions of deepening democracy in the wake of recovery from that crisis.

The following table shows the factors of policy change in the development of the NPS. A detailed discussion of the policy process in each era is offered in the later subsections. From the table, we note that the NPS changed incrementally after its introduction in 1986, which can be seen as a transformative change. There were many changes in key policy actors, policy ideas, and—more importantly—political contexts (the regime went from authoritarian to democratic in nature). Nevertheless, the overall policy change throughout the four eras can be seen as path-dependent because the change in the policy paradigm from developmentalism to (neo-) liberalism did not involve change in the fundamental goals of the policy (Hall 1993). This could be a result of the long-lasting, powerful impact of the experts who formulated an influential epistemic community in Korea.

Despite substantial changes in various policy factors, as can be seen from Table 7.1, we note that the role of state was still restricted to regulating the welfare system, rather than providing welfare. In particular, critical junctures such as economic crises and democratic transition did not necessarily lead to transformative policy change, especially when paradigmatic ideas of the policy did not much change. This is in line with the existing literature that emphasises the crucial role of ideas pursued by agents in promoting policy changes (Campbell 2002; Blyth 2002).

The role of policy actors was particularly important, because (as, for example, in the case of deflation: Blyth 2002) the impact of reforming the immature NPS also involved political uncertainty: firstly, because people were not fully aware of the

impact of the reform; secondly, because the pension system itself was complex due to its technicality; and thirdly, policy makers accordingly had greater scope for constructing the possible impact of the reform in their own interest. Relatedly, as the political context changed from an authoritarian to a democratic regime, the process of policy change increased in complexity. Thus, policy actors needed better strategies for promoting and achieving their policy goals because, although ‘ideas matter’ in institutional change, the successful framing of policy ideas and their alternatives is necessary for their promotion (Béland 2005; Blyth 2002; Campbell 2002).

Table 7.1 Factors of policy change in the NPS

	1973	1986	1998	2007
Policy change	Failure in implementing the NWP	Successful implantation of the NPS	Reform of the NPS	Reform of the NPS; introduction of the BOP
Continuity of policy	No change	Transformative change	Incremental change	Incremental change
Key Actors	Economic bureaucrats and experts	Economic bureaucrats and experts	Welfare officials and experts	Welfare officials and experts
Ideas	Fully-funded pension scheme	Partially-funded, generous pension scheme that does not burden the economy	Universal pension scheme	Non-contributory pension scheme for the current older generation; reform for financial stability
Political resources	Authoritarian power		Civil society organisations; socioeconomic factors	Interest groups, including older people; socioeconomic factors
Political tools	Constitutional reform	Constitutional reform	Constructing the impact of reform; exploiting the crisis	Mobilising interest groups; exploiting the role of media
Political context	Authoritarian regime		Democracy; centre-left government in office	
Policy paradigm	Developmentalism		(Neo-) Liberalism	

	1973	1986	1998	2007
Goals	Political legitimization		Extending welfare to increase the budget of the welfare ministry; continuing to raise pension fund for economic recovery	Curbing future welfare expenditure; implementing a politically popular pension scheme
	Raising capital for economic development	Raising domestic savings to invest in building infrastructure		
Political resources	Authoritarian power		Civil society organisations; socioeconomic factors	Interest groups, including older people; socioeconomic factors

7.3.1 Policymaking in authoritarian regimes from the 1970s to the late 1980s

During the authoritarian era in Korea, social policy was considered to be a means to achieve the economic and political objectives of the government. The government pursued economic growth as a means to legitimise non-democratic political rule and to gain popular support for the government by implementing social policy that could benefit more privileged workers. This is represented by the notion of developmentalism and productivism (Holliday 2000; Johnson 1982; H.-J. Kwon 1999b; Ringen, Kwon, Yi, Kim, and Jooha 2011a). Such features underlay the introduction of the NPS. However, this research also found more elaborate policymaking dynamics in the context of an authoritarian government, by elucidating the vote-conscious and agile policy process of the authoritarian government and the role and characteristics of an ‘policy community’ (Hill 2011; Miller and Demir 2014; Stone 2014).

As shown in Chapter 3, the authoritarian government exploited both the NPS (1986) and its precursor the National Welfare Pension (NWP; 1973) as a means to gain political popularity. Both systems were proposed immediately before the upcoming elections and, notably, when the government could not ensure its next victory. In contrast to the widely held belief that policymaking in an authoritarian regime is straightforward and directive, the processes of both the NWP and NPS involved policy competition among policy actors.

With regard to the introduction of the NWP, it was noteworthy that the final drafting was modified at the suggestion of the welfare ministry, particularly in terms of the coverage and the contribution rates. During the authoritarian era, economic ministries were more powerful than other ministries (including the welfare ministry) and played a dominant role even in social policy because this was subservient to economic policy. Yet, in the case of the NPW, Yang (2007) argues that the welfare ministry's influence on social policymaking was comparable to that of the economic ministry. During the policy discussions at the government level, the welfare ministry's suggestion to subsidise the contributions of low-income workers were accepted in the final drafting. The decision to subsidise public pensions for this group of workers involved an unusual commitment by the government as a financier given that the developmental state persisted in its role as a regulator in the welfare system than a financier (H.-J. Kwon 1999b; Ringen, Kwon, Yi, Kim, and Jooha 2011a).

Although the final Bill did contain the welfare ministry's suggestion to subsidise low-income workers, we should be cautious of interpreting it as proof of the influence of the welfare ministry. Indeed, the welfare ministry did influence the final drafting, and required the government's role as a financier. Yet the extent to which the government

was actually committed to the NWP remains questionable, since the NWP was not implemented, arguably, due to the economic recession caused by the Oil Shock in 1973. If we note that the NWP was cancelled soon after the government achieved its political objective by winning the election, the question remains to what extent the cancellation was attributed to the economic downturn. It is possible that the government exploited the economic downturn to justify the decision not to implement the policy. In addition, as described in Chapter 3, the government did not have a strong motivation to implement the system as the population's demands for public pensions during that time had not yet emerged. Meanwhile, implementing pensions involved political risk by levying pension contributions upon people.

The decision of the government – at least in theory – to support low-income workers and postpone the levy of pension contributions in the economic downturn can be seen as a vote-conscious act on the part of the authoritarian government. It tried to respond to the unfavourable reaction from the political parties and the public concerning its plan for the NWP, although perhaps to a lesser degree than would have been the case in a democratic regime. An authoritarian government needs popular support to maintain its rule (Chisung Park, Lee, and Chung 2015; Ramesh 2004), and it may well need to be vote-conscious and responsive to the reactions of its opponents and the public to be able to continue its non-democratic rule.

In our analysis, senior economic bureaucrats and experts at the government think tank, the Korea Development Institute (KDI), emerged as an active ‘policy community’ of actors in the process (Hill 2011, 69-70; Miller and Demir 2014). ‘Policy community’ is a term that refers to the role of a group engaged in the policy process who share a certain set of beliefs and values in pursuit of similar normative outcomes. It may

comprise policy analysts, influential politicians, bureaucratic officials and journalists (Miller and Demir 2014). Policy communities may be thought of as stronger versions of issue networks, with the concept of ‘community’ denoting strong and close relationships among its members. Those who proposed and designed the NPS in the mid-1980s included those who initiated the NWP in the earlier era. At a later stage, in 1986, the economic bureaucrat who pursued the NWP in 1973 took a more senior and influential position in the government (i.e. as the Vice Minister/Minister of Economic Planning Board). He was also more closely connected with other powerful bureaucrats and experts, including the Economic Secretary to the President and the KDI. They all supported the idea of social development and that social policy is needed for sustainable economic growth (Tang and Midgley 2002). They pursued a residual welfare system that entailed a minimal financial burden on the government and provided the minimum welfare provisions to strictly targeted beneficiaries. In this sense, they can be seen as an early policy community within Korea. They had a clear idea that the social policies that had been established in the advanced economies were also needed in Korea, but only in a form that would not burden the economy. This was also the underlying idea of welfare productivism.

Interestingly we found that the ‘fingerprints’ of this policy community were clear and specific and deeply embedded in the principles of the NPS. The proponents of the NPS emphasised that its timely introduction would lead to the maximum accumulation of pension funds that could be effectively used for economic development. The proponents had to adopt a strong emphasis on such an economic benefit to counter opposition from those who disputed the necessity of social policy and who were concerned that any form of social policy would bring about an unbearable financial burden on future governments. This again shows the dynamic

process of policymaking even in an authoritarian government. It also points to how the proponents can be represented as a policy community because, although they shared united values, they were not the only policy group and their influence was not always guaranteed.

The policy community's pursuit of a residual welfare system was based on their former training in economics and placing priority on economic growth. In addition the members of the policy community that initiated and designed the NPS were clearly aware of the debates about welfare reform in the West from the mid-1980s. They thus stressed the increasing financial burden in a stagnating economy. Moreover, the community aspired to avoid any increase in social expenditure, which they defined as an 'error' on the part of the welfare states. They believed that loose management of the welfare system caused such high social expenditure, and that strict targeting combined with subsistence-level welfare provisions would enable the government to avoid such an error. Although the actual design of the NPS was very generous, promising to provide 70% of the replacement rate to the average earners who contributed for 40 years, this was not what the proponents of the NPS (who designed the system) intended to achieve.

In short, even in an authoritarian government, ideas about welfare systems among key policy actors were not unified but rather were in conflict. Thus, the proponents of a certain policy needed to compete with their opponents and provide an effective rationale to justify the policy direction. The most dominant idea that was successfully and deeply embedded in the NPS was the inclination towards a residual and targeted welfare system. The introduction of the NPS has been regarded as a policy outcome driven by developmentalism or productivism. Nevertheless, it should be noted that a

policy community consisting of senior economic bureaucrats and economic experts in KDI played a key role in pursuing the NPS in a specific form. They shared clear ideas about an ideal welfare state, that is, a strictly targeted residual welfare system.

It was for political reasons – namely a desire to make the system more attractive to the public and to build support for the authoritarian regime – that the NPS was designed to be very generous in relation to the low contributions. It was therefore at odds with the core values of the policy community who pursued the NPS. This inherent contradiction might be one reason why the first NPS reform debates emerged less than ten years after its introduction. We discuss the findings on the 1998 NPS reform debates and process in the next section.

7.3.2 Policymaking in democracy in the midst of an economic crisis

We examined the role of policy actors in the 1998 NPS reform in Chapter 4. Most research on social policy development in East Asian welfare states during this era has tended to focus on the impact of the democratisation process, linking it to the expansion of the welfare system. As discussed in Chapters 2 and 4, social policy expansion in East Asian countries – especially amidst the Asian financial crisis of 1997 – directly challenged the globalisation argument that insisted upon a negative relationship between globalisation and welfare states (H.-J. Kwon 2009; S. Kwon and Holliday 2007; Hye-Kyung Lee 1999a). In particular, studies have found that the civil society organisations seeking expansionary welfare development in the two most similar East Asian countries, Taiwan and Korea, were particularly strengthened following democratisation (Y. M. Kim 2008; H.-J. Kwon 2009; Mares and Carnes 2009; Peng and Wong 2008).

The 1998 NPS reform was also shown to be a product of democratic politics. Civil society organisations gained a growing influence particularly when the welfare ministry formed an advocacy coalition seeking a larger welfare system. The changed ‘rules of the game’ under a democratic regime, especially under the centre-left Kim Dae Jung government (1998-2003), facilitated their influential role in social policymaking (Hwang 2007; H.-J. Kwon 2003; J.-J. Yang 2004). Up until the mid-2000s, studies speculated that this expansionary development would persist and continue, consolidating the welfare state in East Asia. The NPS case was also used as an example in some studies, but research tended to focus instead on the expansion of the health care system, unemployment insurance and public assistance in order to highlight welfare state expansion. In studies that examined the NPS, the expansion in the coverage and maintenance of the existing pension system (with only a marginal reduction in the benefit system) was seen as an equivalent expansion of welfare. In other words, it represented a success for the pro-welfare coalition. However, we questioned in Chapter 4 whether that change could be taken as a success and in what sense, and if not, why not.

Turning now to the role of policy actors, we found that the financial crisis of 1997 – and the change in political power from conservative to centre-left government in the wake of that crisis – provided welfare officials with a convenient policy window to pursue their ideas. When the reform discussion was first initiated by the previous government of Kim Young Sam (1993–1998), economic bureaucrats and experts led the reform debates, and the voices of officials from the welfare ministry were not listened to, despite being in charge of the NPS’s administration. However, the economic crisis and the political agenda of the incoming centre-left government (that opposed the authoritarian and developmental legacy followed by the previous

government) weakened the power of economic bureaucrats while empowering the welfare ministry (Hwang 2007). At the welfare ministry's suggestion, the government decided to expand coverage of the NPS to the entire population to include the self-employed in urban areas, while partially curtailing the reduction in the NPS (from 70% to 55% rather than to 40% as originally proposed). In addition, the National Pension Fund (NPF), which had previously been managed by economic ministries as a complementary budget for economic development, came under the control of the welfare ministry. It is for these reasons that the existing literature regarded the reform as expansionary social policy, despite the benefit reduction (e.g. Y. M. Kim 2008; Y. M. Kim and Kim 2005; H.-J. Kwon 2005c; Peng and Wong 2008; J.-J. Yang 2004).

There were notable changes in the reform process. These included, first, a shift in the key policy actor, towards welfare ministry officials, and, second, in the political stance of the incumbent government, which moved to a centre-left and pro-welfare position. We found that the policy rationale proposed by officials from the welfare ministry was not significantly different from the earlier developmentalist ideas. In persuading the government to expand the NPS to include the self-employed, the welfare ministry emphasised the economic benefit of the expansion, with increased contributions to the pension fund that would effectively raise more money for government to use in the difficult economic circumstances of the day. In addition, they attacked the original reform proposal of a long-term plan to privatise the NPS on the grounds that it was more politically controversial and could generate strong public resistance. This political consideration was important because at the time of the crisis privatisation had been taking place in many areas, causing conflicts with trade unions and civil society organisations.

Thus, both economic advantage and political expedience were important factors in deciding the design of the final reform. As Kim (2008) has pointed out, such policymaking considerations apply not just to East Asian developmental states but to governments in the West. The political and economic rationale of welfare officials also calls into question the common assumption that welfare officials pursue a larger welfare state.

Welfare officials' developmentalist/productivist rationale showed continuity with the past. Nevertheless, there was a visible change as they adopted a proactive role in the policymaking process. It was welfare officials who created the policy window that emerged through the economic crisis and the ascendancy of the centre-left government. As shown in Chapter 4, they recognised such political and economic changes as a great opportunity for them to take a leading role in the reform process, and thus they built a strong and convincing rationale that was the least likely to fail. In the initial reform debates (prior to the economic crisis), the economic bureaucrats had supported a radical reform with a privatisation plan exploiting the authority of an international organisation, the World Bank, that advocated a multi-pillar pension system as a sustainable and ideal model. This reform would see the state providing only a minimum basic pension, with the private sector supplying earnings-related occupational pensions). Likewise, but using a different voice of authority, the welfare officials impressed upon the new government the fact that only a few member countries of the Organisation for Economic Co-operation and Development (OECD) ran a separate state basic and earnings-related pensions. In addition, they argued, the reform plan would meet the policy recommendations of the International Labour Organisation as well as matching the average replacement rate of OECD countries. As in the previous authoritarian era, the experience from other examples was still an

effective rationale. It was exploited not only by economic but also by welfare officials and appealed both to authoritarian and democratic governments.

We also need to note that the change in the key policy actor did not necessarily lead to shifts in the fundamental goal of the reform, that is, pursuing pension fund sustainability. At the final policy formulation stage, the power of economic bureaucrats was weakened and the welfare officials took the initiating role. Although the welfare officials proposed a different policy from that favoured by the economic officials, they pursued the same goal of improved financial stability. The principal difference was that the welfare officials wanted radical less radical benefit reduction, and to prioritise expansion of the system to the remaining population. They therefore proposed reducing the replacement rate to 55% rather than 60%, as in the final Bill. This is interesting because it suggests that, even after the democratisation process, previously dominant policy goals and ideas survived. Given that a transition to democracy is such a big event, and is often seen as a critical juncture that may inspire path-deviating policy change, the continuation of this dominant policy idea is noteworthy.

One reason that the goal of reform was maintained was that same policy community remained influential following the economic crisis and democratisation. The policy actors who originally initiated the 1998 reform and played a leading role in the reform process were closely connected to the policy community who first designed the NPS in 1986. They appear to belong to the same policy community in sharing similar ideas, values and policy as well as possessing similar academic training. They also shared similar professional experiences (having worked at the same government think tank before serving as senior civil servants). Despite the change in the political regime, the

influence of the policy community did not fade but persisted due to their influential positions in the government, expertise in policy, specialised knowledge of (mainly) economics, and personal connections.

In addition, the continuation of the same policy goal could have been due to the powerful influence of policy ideas and principles deeply embedded in the existing system. A change to policy goals is rare, typically requiring a change in the entire paradigm of the policy – what Hall (1993) calls ‘paradigmatic change’. Our case shows that a policy goal that is established at the initial stage of the policy can be incredibly resistant to change, even surviving such profound political and economic developments as democratisation and economic crises. In the Korean case, this seems to be because the dominant policy community continued to influence policymaking through various mechanisms.

We noticed an increased role for political parties in the 1998 reform process. The influence of political parties was very weak in the authoritarian era. This was not given much focus in the literature even after democratisation and especially up until the late 1990s. This could be because of other factors affecting social policy development, including the civil society organisations, international governmental organisations, a centre-left government and the role of welfare officials. Yet, as we showed in Chapter 4, it was the political parties that opposed the reduction in the NPS replacement rate to 55% and that mitigated the degree of reduction, raising the final replacement rate to 60%. In addition, the existing lump-sum retirement allowance was to be completely, yet gradually, integrated into the NPS, leading to a substantial decrease in the total statutory retirement income. This was also revised during the process of legislating the final Bill in the National Assembly by cancelling the plan

for integration. As a result, the total benefit for workers was further increased. This reform can be seen as a product of vote-conscious behaviour by political parties, undertaken even though the pension system was not mature and the electoral impact of the reform was therefore uncertain. Thus, even in an immature pension system, policy actors may play politics to seek to maintain or gain more votes.

Finally, we did not notice any strong influence from civil society organisations during the process of the 1998 reform, especially with regard to the reduction in the replacement rate. This might be because of the characteristics of the NPS. It is a funded system possessing a huge pension fund with a negligible number of pensioners at the time of the reform. In fact, the biggest conflict between the economic and welfare ministries in the reform also involved the issue of which ministry would assume responsibility for pension fund management. As the fund was huge, the government's lax regulations on managing the fund (that allowed the government to use it for the sake of economic development without a transparent decision-making process) drew more attention than other issues. Accordingly, civil society organisations were also more interested in attacking that problem of changing the governance system of the pension fund, as it was the more politically important issue at that time. This shows that civil society organisations do not always support welfare expansion and oppose its reduction, in this case because they were more interested in other politically controversial issues.

To sum up, while the policy environment and major policy actors were very different by the time of the 1998 reform, the major goal and rationale for the policy showed marked similarity with that of the previous era (1986). This continuity was largely the result of a dominant epistemic policy community whose members continued to be

actively engaged in the policy process and who further consolidated the deeply embedded policy principles and ideas. The next section discusses the major findings of the most recent reform in 2007

7.3.3 Policymaking under democracy after the recovery from the economic crisis

In Chapters 5 and 6 we have shown, with a focus on the role of policy actors, how the 2007 reform took place. The most important feature in the policymaking during this era was the distinctive policy dynamics that an immature pension system created in a democratic regime. However, we also showed that there was a strong continuation of the major goal of reform, which had been pursued in the previous eras under different political economic regimes. It should be noted that the previous reform process had also taken place under a centre-left government (led by Kim Dae Jung; 1998–2003). The 2007 reform, however, occurred amid a deepening democracy after the recovery from the immediate impact of economic crisis. It also involved very complicated reform debates and a dynamic negotiation process, especially among the government and political parties. When we investigated agenda setting (Chapter 5) and policy formulation and decision-making stages (Chapter 6), we found different policy actors playing a key role in distinct stages. They adopted tactical and expedient strategies to maximise their political interests. The two chapters demonstrated how policy actors behave; interact with each other; promote their policy positions; and finally reach agreement in a democratic regime with a recovering economy.

It is worth reiterating that the key policy actors who were most active in the reform process were political parties (in the agenda setting) and the government (in particular the welfare ministry, in the policy formulation and decision-making process). While those key policy actors disagreed most of the time during the debates, they finally

concurred with the reform because passing it before the system matured was judged more politically advantageous to each. The biggest concern of these two key actors was the political risk if the reform failed. Failure here would mean having to raise pension contributions or tax to finance the existing generous pension promises, or strong political opposition from the interest groups who by that time would have developed entrenched interests in the existing arrangements of the system. In the worst case of failure they might face both of these scenarios. Thus, modifying the arrangement of the NPS to postpone its future financial deficit was beneficial not only to the incumbent government (by removing its future political risk), it was also useful to opposition parties (by preventing future political risk in case they were in power in the next government). In this sense, the reform was preventive in nature.

This preventive feature indicates that the reform occurred without an urgent socio-economic imperative for reform. Peng and Wong (2008) pointed to the changing socio-economic circumstances that called for these welfare reforms in Korea. However, we have shown that - at least in the case of the 2007 NPS reform - the major socio-economic change (namely, low fertility rates in the early 2000s), was real but it represented a politically constructed policy problem. Policy actors, particularly the welfare ministry, deliberately exploited the international data released by the OECD as a convenient reform driver to justify its reform plan. The attack on the problem of the financial stability of the NPF, in a situation where the NPF was continuing to grow above 20% of the GDP (Gross Domestic Product) during the reform period does not appear to be credible.

Nevertheless, linking the reform to financial stability was possible because there was a consensus view among the key policy actors. They considered that achieving

stability by delaying the pension fund exhaustion up to the year 2070 was more critical than providing adequate pension provisions for the current working generation. Delaying pension fund exhaustion was politically advantageous for the government and political parties. More interesting is that this view was actively promoted by other key policy actors, including well-known welfare state advocates - namely, welfare officials - who had been involved in social policy development since democratisation. Our empirical data showed that, especially during the policy formulation and decision-making processes, welfare officials were very active in promoting the reduction in the replacement rate of the NPS.

The case of the 2007 reform also showed that the influence of civil society organisations cannot be guaranteed in all policy domains. These organisations have been important policy actors and contributed to social policy development in Korea. However, in the 2007 reform, they did not oppose the NPS reform with any strength for two reasons. First, they were more interested in supporting the new policy agenda, the introduction of the Basic Old-Age Pension (BOP). Second, they were simply excluded from the political negotiation process. This shows that the influence of civil society organisations does not necessarily grow as democracy becomes entrenched and cannot be guaranteed in all policy domains, even under a centre-left government favourable to such groups.

In regard to this reform, we also found a striking and insistent continuation of the developmental or productivist rationale of the policy established under the authoritarian regime. This factor continued to have an effective influence. More interesting is that the channel of such continuation was not now the economic ministry but the welfare ministry. The welfare ministry's influence had grown as it

accumulated social policy experience and knowledge, and it was further empowered by the appointment of a powerful politician as welfare minister (W. S. Kim and Choi 2014). The welfare ministry also exaggerated the consequence of the failure of the reform, arguing that it would bring about total political and economic disaster to the country.

Kim and Choi (2014) considers the 2007 reform as a great achievement of welfare bureaucrats as they played a crucial role in implementing the first non-contributory (albeit means-tested) welfare provision. However, we highlighted that the welfare officials persistently opposed the introduction of the BOP until a new minister, who had originally promoted a state basic pension, came into office and succeeded in persuading the president. Further, the basic principle behind the design of the system was to establish it within a strictly limited budget that would not require any tax increase. This led to continuous negotiation among the political parties and the government over the population to be covered and the level of benefits. In that process, they sought to design a system that would be as popular as possible with a budget as small as feasible. Although the BOP did involve an expansion of welfare for the current elderly, the substantial reduction in the NPS could not be compensated for by the benefits from the BOP, given the BOP's low benefit levels. In addition, it was the welfare ministry that suggested further reducing the replacement rate of the NPS to 40% in return for the introduction of the BOP. Thus, while we agree that the welfare ministry played a key role in implementing the reform, their clear reluctance to extend the pension system is a significant factor that should not be disregarded.

One notable difference in the reform process of 2007 compared to 1998 was the increased engagement of political parties in policymaking. This led to active political

competition between government and opposition parties, and motivated them to devise ever more expedient political strategies to achieve their goals. In this process, they fought to take control of the agenda so as to have the leading role in the policy process, to gain popular support from the public, and finally to achieve political credit. For example, the initial suggestion of the main opposition party (Grand National Party; GNP) to introduce a state basic pension system was a political strategy that lacked any genuine political will to actually implement the system.

The impact of introducing a new policy agenda (basic pension) into the policymaking process was profound, however, because it put the NPS reform on the agenda and, finally, completely changed the government's reform plan. In addition, from the government side, the decision to finally introduce the BOP was devised not only as a policy solution to address the prevalent high poverty rate among the elderly, but also as a tactical strategy to mobilise older people who did not have a vested interest in the NPS. This group of elderly were excluded from the system from the beginning but would be interested in the implementation of a non-contributory state pension that would provide them with immediate pensions. This new agenda was a useful tool to urge political parties to pass the NPS reform. We can again see that the welfare ministry does not always pursue an expansion in social policy.

Finally, it was found that the relative youthfulness of the pension system played an important role. It aided the policy actors' pursuit of financial stability rather than the need for an adequate pension. As we pointed out, the immaturity of the NPS at the time of the reform debates meant that few people already received pensions from it. Thus, the public had not yet developed entrenched interests in the existing

arrangements of the system. This led to low expectations on the role of the state in old-age income and concerning lack of awareness and understanding of the NPS.

The government's poor operation of the system (e.g. a failure in assessing accurate self-employed people's income based on which pension contributions are collected), coupled with the fact that it was still fledgling, was also responsible for lowering public expectations on public pensions. This made the NPS more vulnerable to the attempts at retrenchment. Putting these factors together, as shown in Chapter 6, enabled key policy actors to deal with the NPS simply as a political negotiation rather than a genuine policy problem. Hence, debates concerning the NPS were not framed around achieving the policy goal of providing a secure and adequate old-age pension.

In short, the process of the 2007 reform shows that there is nothing that intrinsically drives welfare state expansion in a maturing democracy. This may be the case even when significant policy windows exist for various interest groups; or when there is a centre-left government in power; or when a government empowers the welfare ministry and civil society organisations. Rather, it appears that the deeply embedded rationale of the policy – along with the political impact of changing or maintaining the existing arrangements of policy – may retain a stronger influence in the end over the direction of reform.

7.4 Conclusion and future research

We have examined the dynamic process of the development of the NPS in Korea in very different political and economic circumstances from the early 1970s to the late 2000s. The aim has been to narrow the gap in our knowledge concerning social policymaking and policy development over time in the Korean context in the case of the NPS. Set against the expansionary welfare system development, the NPS reflected

a different approach, raising the question of why. There may, therefore, be a need to modify the existing dominant view on social policy development in Korea and possibly in East Asia. By unravelling the complex dynamic policy process in each phase of major reform, we sought to improve our understanding of the Korean welfare system and of East Asian welfare systems more generally.

Our case study showed that the factors regarded as strongly associated with welfare state expansion – especially in East Asian welfare systems – (i.e. democratisation; the emergence of new influential policy actors including civil society organisations, interest groups and officials from the welfare ministry; the impact of an economic crisis; socio-economic changes, etc.) might not work in the expected way in all policy domains. This was the case with the NPS because the original arrangements of the policy (namely that it was set up as a funded scheme) shaped the interests of the government and political parties more towards pension fund stability than towards fulfilling the goal of adequate pension provision. The policy process of the NPS reforms pointed to the importance of tactical plans of the government, and in this case, the welfare ministry, to achieve a given actor's policy goals. This was especially so when the reform involved only a limited range of policy actors (due here to the immaturity of the system) and when the decision was more an issue of political compromise at the governmental and parliamentary levels.

Despite great change and discontinuity in the transition from authoritarianism to democratisation – including a financial crisis and the emergence of a centre-left government – the rationale of the key policy actors was found to be more powerful than previously thought. The principal mechanism by which this continuity was

sustained was the successful dominance of the epistemic policy community, which had originally established the system and continued to influence policymaking.

A number of aspects of the policy change warrant mention. First, in the existing arrangements of the system, the NPS was significantly changed by the shifting of its overt objective from a more to less generous earnings-related pension scheme. A system that began with a promise to provide a 70% replacement rate for an average income earner with a contribution of 40 years became a system that would only provide a 40% replacement rate for a member with the same history. This is a significant change because it can no longer be seen as an earnings-related system, and is likely to create poverty among pensioners because of the lack of a minimum pension system. The risk of pensioner poverty can further rise given the prevailing short average contribution period of the NPS members, which due to the severely insecure labour market in Korea, the government estimated that it would persist in being short in the future (H. Moon and Kim 2008a; 2008b)..

Second, with regard to the role of the government as a regulator not financier of the welfare system, the NPS reform involved little change. As the NPS reforms occurred before it matured, the change in the impact on its members was not immediately visible. Indeed, this might not be noticed even in the future because the reform was designed to come into effect before the benefits of the pre-existing policy became publicly apparent. Given that fiercely restricting the role of the government strictly to that of a regulator was one of the important reasons for the reform, the NPS reforms were changes intended to *prevent* change.

Third, the reform was large enough to merit calling for a revision of the characteristics of the Korean welfare system as a whole. Until the mid-2000s, Korea

was seen as a ‘borderline member of the social insurance family’ (Bonoli and Shinkawa 2005a, 10). Although the NPS was not fully fulfilling its promise, the existing arrangement of the NPS was considered a building block for such a social insurance-oriented welfare system. However, we may now reconsider the characteristics of the Korean welfare system. This is not only because of the change in the NPS but also because of the implementation of the Basic Old-Age Pension (BOP) that accompanied the 2007 NPS reform.

Finally, the BOP can change the future landscape of Korean pension system substantially. As Kim and Choi (2014) pointed out, the BOP was the first non-contributory cash allowance scheme in Korea. In this sense, this policy change was transformative, as it required the government to actually finance the state pension for all the elderly. As it began by providing a meagre amount to around 60% of elderly persons (based on a means test), it was not able to fully complement the substantial reduction in the NPS. Nevertheless, the BOP was a significant change that constructed a building block for a non-contributory welfare system, leading to widespread political debates on the need for the introduction of universal welfare measures including free school meals and a universal health-care system. Indeed, it could contribute towards modifying the future role of government, to that of financier rather than regulator, if the introduction of the BOP brings about increasing political demands for further extension of non-contributory welfare schemes. Yet, actual change in the role of the state in welfare provision would definitely need strong support from the public being willing to pay more tax.

By unravelling the dynamic process of policymaking, we have analysed the nature of policy change in various dimensions. The focus on the role of policy actors allowed

us to differentiate the actual policy change from those shifts that appears to be great initially but are not in practice. It helped us to better discern the nature of the change. We found that the description of expansionary development in social policy in East Asia, particularly in Korea, did not apply to the case of the NPS. We found instead strong evidence that Korea is moving towards the liberal welfare state, conforming with Choi's (2012) argument on the transformation of productivism in China, Japan and Korea. He suggested that all three countries are in a transitional period and the direction for the Korean pension system is towards the liberal welfare system. While his study is based on an analysis of the changes in specific policies, our research builds on his work through a thorough analysis of the policymaking process and the actual intentions and goals of policy actors. Yet, given the persistent rationale that the key policy actors have shared and promoted since the early era of the welfare system to the recent reform, the change may not be a profound transformation but more a return to the aims of original objectives. In this sense, it can be seen as the path dependency of the original policy ideas that resulted from incremental changes.

There are some limitations to this research. In the empirical chapters, we noted the role of the media, which played a particularly important part in putting the NPS on the political agenda. Its role was crucial not only in making the NPS a subject for debate but also in influencing public attitudes towards the existing arrangement of the system and the proposed policy changes. In addition, policy actors (the welfare ministry in this case) were found to exploit the influence of the media to justify their chosen policy. Yet our study did not examine in depth the process by which the media became so influential and how it engaged with policy actors.

Although we pointed out that indifferent public opinion towards the issue of the NPS was associated with the youth of the system and the lack of adequate knowledge of the existing pension system, further in-depth analysis of public perception of pension reform would be helpful in complementing our understanding of the role of policy actors and the dynamics of the policymaking process. Finally, our interviews for the early era of the NPS development, especially with those who participated in policymaking in 1973, are comparatively restricted despite the effort to recruit more interviewees. This was mainly due to the inevitable situation of such interviewees (i.e. their senior age or even their death).

We need to note that the research findings are based on the development of the NPS. As we set out in Chapter 1, the development of the NPS showed a clear difference from that of policy in the care sector. Estevez-Abe and Kim's (2014) argument was that the distinct structure of decision making enabled the rapid and fast expansion of care policy in Korea. While such inconsistent development across various policy domains may be due to the distinct features of each policy domain, it is also possible it was in fact the result of the application of inconsistent analytical tools. Thus, an examination of the role of policy actors in other policy areas would also help us improve our understanding of welfare systems in Korea, and East Asia more generally. Further, we noted a strong influence and continuity of the dominant policy community. However, it would be important to study whether the members of the dominant epistemic policy community recognise themselves as such, to what extent their influence is effective in other policy domains. Furthermore, it would be important to understand whether there are similar groups in other East Asian countries and, if so, how and when the influence of those community increases.

Finally, in Chapters 5 and 6, we observed that the politics of the BOP was clearly different from that surrounding the NPS. This was because the electoral impact that the BOP would bring about was expected to be more crucial than that of the NPS. This was because the BOP was designed to benefit the current elderly immediately. Indeed, after the BOP was introduced, debates about further expanded welfare emerged as a key political issue at the presidential election. This arose as political parties began to competitively propose a further increase in the benefit level of the BOP, shifting the existing health insurance system into a tax-based national health system and introducing a free school meal for all pupils. In short, further research would be needed to understand how the BOP has changed the politics of social policy.

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Appendix 1. Data, data collection and the process of fieldwork

The fieldwork took place in Seoul, Korea between the 12th September 2009 and the 24th April 2011. Preparatory work was conducted in Oxford, UK, from June 2009 before leaving for the field research. We collected archival data first, and then proceeded with interviews and archival data simultaneously.

The primary archival data was collected with a view towards building our knowledge of the events since its inception of the NPS in 1973 to the most recent reform of 2007. In due course, we selected those prospective interviewees who could provide the information that we could not find from the archival data, while making a list of the gaps that we needed to fill with the interviews. Once we initiated an interview contact, we studied the policy position of the policy actor (or organisation) that we were planning to meet in depth. We researched this information before the interview from newspaper articles, public press releases of organisations, policy reports, presentation papers in public hearings for the pension reform, and other publications of each interviewee (and organisation). Archival data collection was continued to expand the scope and increase the depth of our research during the interviewing phase of the study (see Table A.15).

More information about the process of conducting elite interviews

In this research, in-depth interviews with 44 interviewees were conducted. The interviews were conducted in four rounds. The first round consisted mainly of interviews with experts, because access was relatively easy and they could provide us with information and contact details for our other prospective interviewees. In the second round, we tried to meet the policy actors who had played a role in the NPS reform, including those who participated in its initial enactment in 1973 and 1986. We diversified the range of actors so that we could match the interviews with archival data and build up knowledge from the field research. The information collected from both archival and interview data during the first and second rounds clarified the next stage.

The third round of interviews covered most of the categories of policy actors involved in the 2007 reform. The final round consisted of interviewing those to whom we failed to get access for several reasons, but whom we had to meet to fill the critical research gaps. When the right person was not available to be interviewed, despite making an interview request, we tried to find an alternative person who would be able to provide some key information. For example, as we could not gain an interview with the former Minister of Health and Welfare who initiated the latest pension reform of 2007, so we interviewed the secretary of social policy who worked for him before he was appointed as a minister.

Table A.1. Types of archival data by policy actors/organisations

Actors	Organisations	Types of data
Government	Ministry of Health and Welfare Ministry of Finance and Strategy Ministry of Employment and Labor Office of President NPS reform board at various level	Annual reports White Papers Government reports Public releases Public hearings
National Assembly	National Assembly Health and Welfare Committee	Reform proposals Public hearings Meeting minutes
Government think-tanks	Korea Institute for Health and Social Affairs Korea Development Institute Korea Labor Institute	Working papers Periodical magazines
Political parties	The Grand National Party The Uri Party The Democratic Party (the former Millennium Democratic Party) The Democratic Labor Party	Public releases Official publications Working papers Press briefings
Independent National Pension Administrator	National Pension Service National Pension Research Institute	Public releases Research reports Official publications Periodicals Annual reports
Confederations of labour unions	Federation of Korean Trade Unions Korean Confederation of Trade Unions	Periodicals Position papers Press briefings Public releases Working papers Conference papers Other official documents
Employers' organisations	Korea Employers Federation Federation of Korean Industries Korea Federation of Small and Medium Business Korea Chamber of Commerce and Industry	
Policy lobbyist groups and NGOs	Citizens' Coalition for Economic Justice (CCEJ) People's Solidarity for Participatory Democracy (PSPD)	
	Korean Association of Retired Persons The Korean Senior Citizens Association	
Media	Newspaper articles	

We used many ways to find the contact details for potential interviewees. As most of them held public positions, it was relatively easy to find their email address on the Internet. When people had retired from the position they had held at the time of NPS reform, we tried to find their contact details using our other interviewees or our

informal network in Korea. With our background as a researcher in academic and work settings before beginning the DPhil, it was not hard to make contact with most of our interviewees.

Interviews with current MPs were most difficult, as they were extremely busy. We had to interview one MP in his car accompanying him on his way from his office to the government ministry where he had a meeting. As it was not possible to complete our interview during the travel time, we waited until his meeting was finished and then continued our interview in his car again on his way to another place. In some other cases, we had to meet with the secretary of social policy or meet with a secretary of social policy in a political party instead of directly meeting with MPs. It was relatively easy to meet with a former MP who, although he was not serving a current term, had played a crucial role in the NPS reforms at various levels. By doing so, we could cover all the political parties' perspectives and experiences.

Most of the time initial contact was made via email. We attached a formal letter explaining the purpose of the research and what the interview would be about, and briefly introducing myself as the researcher. Usually, we received a reply with their contact details or suggestions for an interview appointment. When we did not receive a reply we either called their office or their mobile phone if we had managed to obtain their number through a previous interviewee or through another network. We explained the purpose of the research to them again, reminding them that we had already emailed them about an interview. Some interviewees wanted to know the questions beforehand, in which case we sent them a general topic guide.

Appendix 2. The categories of policy actors in the context of the National Pension System

The policy actors in the government were primarily the officials in the Department of National Pension Policy at the Ministry of Health and Welfare (MOHW). While the MOHW holds primary responsibility for the NPS administration, other government organisations can also play an important role in NPS policymaking. Once the NPS undergoes the policy-making process within the MOHW, it needs to obtain the approval of the President and the cooperation of the other ministries, particularly that of the Ministry of Strategy and Finance, which is in charge of the general budget of the country as well as of framing all the economic policies. Therefore, although the involvement of the President, the Office of the President, and the Ministry of Strategy and Finance may be peripheral, they can be as important as - or more important than - that of the MOHW, because they exert greater power at higher levels of the policymaking process.

Also, experts from government think-tanks also act as policy actors as they work closely with the relevant government ministries. In particular, the Korea Development Institute (KDI), which actually drafted almost all the economic and social policies during the authoritarian era, has been a very important policy actor in the past. Today, however, professors at universities and experts in such social policy think-tanks participate in the policy making process as individuals with their own specialities. Also, research and policy studies for the government have been more diversified and make use of various research institutes. Regarding the NPS policies, the Korea Institute for Health and Social Affairs (KIHASA) and Korea Labour Institute (KLI) conduct relevant research together with the KDI. As the government partner of each research institute varies (The KDI working with economic ministries, the KIHASA with the MOHW and KLI with the Ministry of Labor), the research perspectives and directions also vary depending on their specialities. There is another important research institute with relevance for the NPS. The National Pension Research Institute, which is affiliated to the National Pension Service, conducts various important studies using their privileged position as an affiliated research institute of the NPS administration. Thus, they conduct a vast range of research on the NPS using raw data and their easy access to the insured citizens. During the previous NPS reforms, experts from these research institutes were involved in the policymaking process as government advisors or committee members of the reform at various levels.

In terms of political parties, the incumbent MPs during the term of the 17th National Assembly (2004–2008) and their parties were the key actors. In the 17th National Assembly, the main political parties consisted of the ruling Uri Party (UP), the main opposition Grand National Party (GNP), the Democratic Party (DP) and the Democratic Labor Party (DLP). In the National Assembly, the Health and Welfare

Committee (composed of 20 MPs out of a total of 299 MPs) examines all the bills and petitions relating to health and welfare issues. Therefore, the legislation process of the 2007 reform had to pass the examination of the Health and Welfare Committee for a vote to be held in the plenary session of the parliament. Thus, the MPs in the Health and Welfare Committee were highly involved policy actors in the parliament, and converted the parties' policy positions into actual legislation.

The third group of policy actors is the employers' associations. There are four major employers' associations in Korea: the Federation of Korean Industries (FKI), the Korea Employers Federation (KEF), the Korea Chamber of Commerce and Industry (KorCham), and the Korea Federation of Small and Medium Businesses (KBiz). Although each of these associations represents different groups of businesses and companies, they tend to speak with a concerted voice on the majority of business and industrial policies often through the voice of the KEF. The KEF plays an official voice on behalf of all the four major associations, specialising in social and industrial policy research. Thus, regarding the NPS reform, the KEF shows a relatively stronger presence in the policymaking process with a more active involvement compared to the other employers' associations.

As a counterpart of the employers' associations, the labour unions would be other key actors in the NPS reform. This fourth group is two large labour confederations of unions that exist in Korea: the Federation of Korean Trade Unions (FKTU) and the Korean Confederation of Trade Unions (KCTU). The FKTU was initially established under the authoritarian government, partly to relieve the increasing unrest of the labour movement by setting up a government-initiated labour organisation.

In contrast to the FKTU, the KCTU was established voluntarily with the aim of achieving the freedom of the labour movement, particularly to free it from the influence of the government. Partly related to the different origin of these two confederations, the composition of their member unions also varies: the FKTU consists of members from predominantly small-and medium-sized companies, whereas the KCTU comprises of members from large-sized companies. The two labour confederations thus sometimes demonstrate different interests and policy preferences on some issues.

Although these two confederations are the biggest groups representing employees in companies, it should also be noted that they may not represent the entire working class in Korea. This is because a significant number of the work force in Korea is self-employed (about 30% until the mid-2000s), and a large number of employees in precarious jobs are excluded from the actual coverage.

Although a significant number of workers may not have an established way of making their voices public, there are expert groups and various non-government organisations

(often called ‘civil society organisations’) that represent the fifth key players in this study. They primarily advocate for the expansion of state welfare provision. At the individual level, they are composed of some social activists and experts in social policy and economics who try to advocate social policy issues, for example by producing working papers and press releases on social issues or by organising campaigns aimed at tackling various social problems.

Among those civil society organisations that tend to influence social policy issues, two major groups are most actively engaged in welfare policy issues: the People’s Solidarity for Participatory Democracy (PSPD) and the Citizens’ Coalition for Economic Justice (CCEJ). These two organisations publicly aim to promote social movements from below, especially by providing policy recommendations. Some experts work closely with these civil society organisations, helping these organisations to draw up policy recommendations on various issues. These organisations and expert groups do not work exclusively for a specific constituency of people. Instead, they are more interested in the improvement of inequality and in social protection in general. This group of organisations and experts can therefore be regarded as a ‘social policy lobby’, as they aim to promote the interests of vulnerable people, such as the elderly, the poor and the disabled, as well as low-income self-employed people and other workers in precarious jobs.

With regard to advocacy groups for older people more specifically, there are organisations specifically working for their rights, for example the Korean Association of Retired Persons (KARP) and the Korean Senior Citizens Association (KSCA).

Appendix 3. Interview Topic Guide

About yourself:

1. What was your position/post when you were dealing with the pension reform?

About the official's personal position and opinions about the pension (and its reform):

1. What was the official position of the organisation that you represent(ed)?
2. What do you think of the background to the reform in the year it was discussed from the point of view of
 - a. your organisation
 - b. the Government Committee
 - c. or public opinion
3. Why did you (your organisation) take the position you mentioned?

About the reform process:

4. What was the plan that you (or your organisation) “devised” or “supported” before the consultation with other actors?
5. How do you assess the consultation process?
 - a. In your view, what caused agreement and disagreement in the Committees?
 - i. Was there any different opinion among the Government Ministries?
 - ii. Was there any different opinion among the parties?
 - iii. Was there any different opinion among the civil society organisations?
 - iv. How was the “agenda” set?
 - b. Were there any “fundamental” disagreements when your organisations did not want to yield to others?
 - c. How (or in what way) did you pursue your (or your organisation's) position?

About the actual policy outcome and beyond:

6. Were you satisfied with the end product?
 - a. What were you not satisfied with?
 - b. What were you satisfied with?
7. What areas do you think still require improvement in the pension system?
8. Do you have any final remarks?

Appendix 4. The range of interviewees

Policy actors who were the highest ranking officers were included in the interview schedules. More specifically, four former Ministers of Health and Welfare were interviewed (one of them had endorsed the final National Pension Act reform proposal of the government in 1998) and one former Vice Minister of Health and Welfare was interviewed. As for the other government officials, three former officials in the Office of the President were interviewed. Two officials from the Ministry of Employment and Labor were also interviewed regarding the policy change of converting the Statutory Severance Payment into the Occupational Pension System (OPS). One former Chairman of the National Pension Service during the previous reform of 1998 was also interviewed.

In order to conduct research into the dynamics occurring during the pension reforms in the National Assembly, six former and/or current MPs were also interviewed. Four of them were among the most active policy players from each party in the 2007 reform as members of the Health and Welfare Committee in the National Assembly. In particular, in the Health and Welfare Committee, one member from the Democratic Party and one member from the Democratic Labor Party were those who had made the casting vote. This was due to the fact that the other two parties (the Uri Party and the Grand National Party) shared the rest of the votes equally. In addition to the MPs, three aides of the MPs, especially those who had worked for the National Pension reform in 2007 and who normally worked on social welfare policies for the MPs, were also interviewed. Finally, two policy specialists from each party during the reform of 2007 were interviewed.

With respect to the introduction of the National Pension system, two government officials were interviewed who actually designed the first pension scheme for private workers in 1973. For the actual enactment of the National Pension Act in 1986, which led to the introduction of the National Pension system in 1988, I interviewed three of those who created the system for the government and who were affiliated to the Korea Development Institute during the period. One interviewee of these three was a person who had been in charge of the whole project of introducing the National Pension system. His work had included the task of negotiating and persuading both sides, i.e. the employers' associations and the labour unions.

In relation to the employers' associations and the labour unions, the interviews covered not only their own organisations but also their opinions about various other organisations that were involved in the policy making process. This related especially to the period following the formal participation of the labour unions in the policy-making process – an involvement which had been taking place from the 1990s.

Three interviews from civil society organisations were conducted. These included professors who had participated in the various phases of government policy making as expert; as a representative of a civil society organisation; or as an official adviser to the Ministers of Health and Welfare.

To include an interest group, the President of the Korean Association of Retired Persons (KARP) was interviewed.

In order to investigate the relationship between NPS reform and the introduction of occupational pensions and private/individual pensions, three interviews were conducted. Two were from the Financial Supervisory Service (FSS), which regulates the occupational and individual pension market. The third interviewee was from the private pension provider who had worked for the introduction of the individual pension scheme in 1994 as a Deputy Director at the Ministry of Finance and who had worked for the FSS before moving to a private pension company.

Appendix 5. Interviewees by the periods during which they participated in the policy-making process of NP and NP reform

Appendix 7 presents a summary of the information about our interviewees arranged by their category as policy actors and by their respective periods. To present the information about the interviewees and their roles more efficiently, we have ordered each period in numerical order in the following table.

Table A.2. A category of the period of National Pension reform in Korea

Era	Major action	Chapter in the thesis
1	Enactment of National Welfare Pension Act in 1973	3
2	Enactment of National Pension Act in 1986	3
3	The National Pension Reform of 1998	4
4	The National Pension Reform of 2007	5, 6

Table A.3. List of interviewees and their major role in National Pension Reform

Stage	ID	Date of interview	Category ¹	Period			
				1	2	3	4
First Round	G1	3 rd August 2009	Government (MOHW)				
	E5	1 st October 2009	Expert (Professor), Civil Society Organizations (CCEJ)				
	E1	8 th October 2009	Expert (KDI)				
	E7	14 th October 2009	Expert (KDI), The Office of the President				
	G3	26 th October 2009	Government (Ministry of Labor)				
	I3	13 th November 2009	Civil Society Organizations (CCEJ)				
	E9	19 th November 2009	Expert (KLI)				
	G4	20 th November 2009	Government (MOHW)				
	E8	24 th November 2009	Government (MOHW), Expert (KDI)				
	I4	25 th November 2009	Employers' Associations (KEF)				
	E3	8 th December 2009	Expert (Professor), Civil Society Organizations (PSPD)				
Second Round	I9	18 th March 2010	Labour unions (FKTU)				
	I8	22 nd March 2010	Employers' Associations (KEF)				
	G11	25 th March 2010	Government (MOHW)				

	E6	3 rd April 2010	President of NPRI, Expert (KDI, KIHASA)				
	E2	5 th April 2010	Expert (NPRI)				
	I6	7 th April 2010	Labour unions (KCTU), National Assembly (DLP)				
	E12	12 th April 2010	Expert (KDI)				
Third Round	E11	8 th November 2010	Expert (KDI), Former President of KIHASA				
	G7	10 th November 2010	Government (MOHW)				
	I1	11 th November 2010	Labour unions (FKTU)				
	P4	16 th November 2010	National Assembly (GNP)				
	I7	16 th November 2010	Labour unions, Former President of NPS Trade Union				
	G1	6 th January 2011	Government (MOHW)				
	G13	10 th January 2011	Former Minister of Health and Social Welfare				
	G8	12 th January 2011	Government (MOHW)				
	P5	17 th January 2011	National Assembly (UP)				
	E10	17 th January 2011	Expert (KDI), Former Vice President of KDI, Former Minister of Health and Social Welfare, Former MP (GNP)				
	G10	18 th January 2011	Government (MOL)				
	G6	27 th January 2011	Government (MOF) Financial Supervisory Service (FSS) Private Pension Provider				
	I2	28 th January 2011	Employers' Associations (FKI)				
	G14	31 st January 2011	FSS				
	G9	31 st January 2011	FSS				
	P2	1 st February 2011	National Assembly, Former Minister of Health and Social Welfare				
	G12	7 th February 2011	Office of the President Former Minister of Health and Social Welfare, Chairman of NPS				
	P3	8 th February 2011	National Assembly (DLP)				
	I5	10 th February 2011	Employers' Associations (KCCI)				

	P8	22 nd February 2011	National Assembly (DLP)				
	P1	24 th February 2011	National Assembly (GNP)				
Fourth Round	G5	11 th April 2011	The Office of the President, Expert (Professor)				
	P7	13 th April 2011	National Assembly (DP), Expert (DP)				
	I10	13 th April 2011	Chairman of KARP				
	E4	21 st April 2011	Expert (Professor), Former President of KIHASA				
	P6	25 th April 2011	Government (MOHW), National Assembly (UP)				

Note 1: Interviewees are categorized based on their roles during the respective pension reforms

Appendix 6. Positions held by interviewees during the National Pension Reform

Table A.4. Professional positions and backgrounds of interviewees

ID	Date	Duration	Category	Positions held during the National Pension Reform
G1	3 rd August 2009	0:20	Government (MOHW)	Former Director of Pension Policy, Ministry of Health and Welfare (MOHW)
E5	1 st October 2009	1:25	Expert, Civil Society Organizations (CCEJ)	Professor; Social Welfare Committee, Citizens' Coalition for Economic Justice (CCEJ); Member of several MOHW Pensions Committees for pension reform
E1	8 th October 2009	1:11	Expert (KDI)	Former General Director, Office of Research Planning & Coordination, Korea Development Institute (KDI); Member of several MOHW Pensions Committees for pension reform
E7	14 th October 2009	1:49	Expert (KDI), The Office of the President	Director, KDI; Former Official in Social Policy, Office of the President; Member of several MOHW Pensions Committees for pension reform;
G3	26 th October 2009	1:09	Government (MOL)	Former Director, Ministry of Labor; Member of several MOHW Pensions Committees
I3	13 th November 2009	1:58	Civil Society Organizations (CCEJ)	Director, Citizens' Coalition for Economic Justice (CCEJ)
E9	19 th November 2009	1:50	Expert (KLI)	Senior Research Fellow, Korea Labor Institute (KLI); Member of several MOHW Pensions Committees for pension reform; Committee for National Pension Policy Improvement;
G4	20 th November 2009	1:27	Government (MOHW) Vice Minister of Health and Social Welfare President of KIHASA	Former Vice Minister of Health and Welfare; Former Deputy Director in Pension Policy; Former President of Korea Institute for Health and Social Affairs

E8	24 th November 2009	1:21	Government, Expert	Research Fellow, Committee for Social Security, MOHW; Senior Research Fellow, KDI
I4	25 th November 2009	0:24	Employers' Associations (KEF)	Former Head of Labor and Management Reemployment Service Center (An organization run by the KEF [Korea Employers' Federation] and the FKTU [Federation of Korean Trade Unions], funded by the MOL); Former Director, Economic Research & Social Policy Former committee member for the Government on public and private pension reform
E3	8 th December 2009	1:28	Expert, Civil Society Organizations	Professor; Former Chairman of the Committee of Social Welfare, People's Solidarity for Participatory Democracy (PSPD); Member of several MOHW Pensions Committees for pension reform
I9	18 th March 2010	1:13	Labour unions	Former Senior Research Fellow, FKTU; Former Director, Department of Policy, FKTU; Member of several MOHW Pensions Committees
I8	22 nd March 2010	1:39	Employers' Associations	Current Executive Director, Economic Research & Social Policy, at the Korea Employers Federation (KEF); Former Director for Economic Research & Social Policy at KEF;
G11	25 th March 2010	0:59	Government	Director, Department of Pension Policy at the Ministry of Health and Welfare (MOHW)
E6	3 rd April 2010	1:43	President of NPRI, Expert	Former President of the National Pension Research Institute (NPRI); Former Senior Research Fellow, Korea Institute for Health and Social Affairs (KIHASA); Former Research Officer at KDI
E2	5 th April 2010	1:33	Expert (NPRI)	Member of several MOHW Pensions Committees for pension reform;
I6	7 th April 2010	1:29	Labour unions, National Assembly	Public Policy Institute for People; Former Director of Social Policy at the Korean Confederation of Trade Unions (KCTU); Former Senior Policy Specialist for Social Policy at the Democratic Labor Party (DLP)
E12	12 th April 2010	1:22	Expert	Professor; Former Senior Research Fellow at the Korea Development Institute (KDI)

E11	8 th November 2010	1:31	Expert	Former Senior Research Fellow at KDI; Former Vice President of KDI; Former President of Korea Institute for Health and Social Affairs (KIHASA)
G7	10 th November 2010	3:13	Government (MOHW)	Former Director of MOHW; Participated in the enactment of the National Welfare Pension Act in 1973
I1	11 th November 2010	1:20	Labour unions (FKTU)	Former Director, Department of Policy, FKTU; Committee member for a Government Committee for the Improvement of Old-Age Income Security
P4	16 th November 2010	1:47	National Assembly	Former Secretary of Social Policy and the former National Assembly member, the Grand National Party (GNP)
I7	16 th November 2010	2:15	Labour unions, President of NPS Trade Union	Former President of the National Pension Service Trade Union (NPSTU); Worked for the National Pension Service (NPS)
G1	6 th January 2011	0:41	Government	Former Director of Pension Policy, MOHW
G13	10 th January 2011	2:08	Minister of Health and Social Welfare	Former Minister of Health and Welfare
G8	12 th January 2011	1:24	Government	Former Director General of Pension Policy at MOHW; Former Director of the Team for the National Pension Expansion to the Self-Employed in Urban Areas
P5	17 th January 2011	1:03	National Assembly (UP) for 8 years	Former MP, Uri Party; Member of the Health and Welfare Standing Committee during the 17 th National Assembly
E10	17 th January 2011	1:16	Expert, National Assembly	Former Minister of Health and Welfare; Former MP; Former Vice President of KDI
G10	18 th January	1:11	Government	Current Deputy Director in the Wage and Welfare Division at the Ministry of

	2011			Employment and Labor
G6	27 th January 2011	1:47	Government Financial Supervisory Service (FSS) Private Pension Provider	Former Head of R&D of Products, Samsung Fire & Marine Insurance; Former Deputy Director at the Ministry of Finance (MOF); Pension Team, Derivatives, Trusts, Structured Products and Pensions Department, Financial Supervisory Service
I2	28 th January 2011	1:09	Employers' Associations	Deputy Senior Manager at the Economic Education Team/Social Affairs Division, the Federation of Korean Industries; Member of the National Pension Fund Management Committee
G14	31 st January 2011	0:57	FSS (Occupational pension)	Head of Pension Team at the Department of Derivatives, Trusts, Structured Products and Pensions Department
G9	31 st January 2011	0:57	FSS (Occupational pension)	Associate/CPA Actuary for the Pension Team at the Derivatives, Trusts, Structured Products and Pensions Department, Financial Supervisory Service
P2	1 st February 2011	1:23	National Assembly, Minister of Health and Social Welfare	Former MP Former Minister of Health and Welfare; Former Member of the Committee of the Five Years Economic Development Plans
G12	7 th February 2011	2:02	Government	Former Minister of Health and Welfare; Former Chairman of the National Pension Service; Former Director of Ministry of Health and Welfare; Former Official at the Office of the President
P3	8 th February 2011	1:08	National Assembly	Former Policy Specialist for Health and Welfare, Democratic Labor Party
I5	10 th February 2011	0:58	Employers' Associations	Director, Korea Chamber of Commerce & Industry
P8	22 nd February 2011	1:43	National Assembly	MP, Democratic Labor Party
P1	24 th February 2011	1:01	National Assembly	MP, the Grand National Party

G5	11 th April 2011	1:14	The Office of the President, Expert	Former Senior Secretary, Office of the President
P7	13 th April 2011	1:22	National Assembly, Expert	Senior Policy Specialist for Health & Welfare, Democratic Party, National Assembly
I10	13 th April 2011	1:55	KARP	Chairman, Korean Association of Retired Persons (KARP)
E4	21 st April 2011	1:19	Expert	KIHASA; Policy adviser at the Task-Force Team of the National Pension Reform, GNP
P6	25 th April 2011	0:47	Government, National Assembly	Aide to the former Minister of Health and Welfare