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Introduction

The Underdeveloped Small Welfare State in South Korea

The economic and political transformation of South Korea (henceforth, Korea) is remarkable. Korea was a colony of Japan in the early twentieth century and was devastated by the Korean War (1950–1953). Today, Korea is one of the high-income democracies. Its socioeconomic achievement is highly rated. For instance, it is ranked fifteenth in the United Nations Development Programme's 2014 Human Development Index, which is higher than Japan (sixteenth), France (twentieth), and Austria (twenty-first) (UNDP, 2014). Although Korea ranks 109th in terms of territorial size, it is the 11th-largest economy and the 6th-largest exporter in the world. Its per capita income is higher than the average income of the European Union (IMF, 2013). Korea ranks highly in education as well. Sixty-four percent of twenty-five- to thirty-four-year-old Koreans hold a tertiary educational degree, the highest in the Organisation for Economic Co-operation and Development (OECD). Korea's economic and educational achievements are accompanied by political advances. Korea is a "fully functioning modern democracy" (CIA, 2010: 372).

Yet, welfare state development in Korea lags behind most of the other OECD countries. By any standards, Korea is an *underdeveloped small* welfare state. By "underdeveloped" I mean that public social welfare programs have been introduced belatedly, coverage is limited, and benefits are modest. By "small" I mean an exceptionally low public social expenditure compared both to its economic development and to other OECD countries. Korea spent only 9.7 percent of gross domestic product

(GDP) on social welfare in 2014, which was far below the OECD average of 21.1 percent. Esping-Andersen's observation in 1992 still holds true: "Korea is an extreme case of social welfare under-spending .... Korea's social security effort has fallen far behind its degree of modernization" (Esping-Andersen, 1992: 91).

Of course, this does not mean that there has been no meaningful development of the Korean welfare state. The nation's social security system, which was introduced in the form of social insurance under the authoritarian developmental state in the 1960s and 1970s, was expanded rapidly during the democratic transition in the mid-1980s. Furthermore, a power shift to progressive political forces in the aftermath of the 1997 financial crisis and their rule for ten years witnessed universalization of health care and systematization of public assistance. This led many observers to conclude that the Korean welfare state is growing rapidly and was even a model other Asian countries might emulate (Peng and Wong, 2008; Kim, Yeon Myung, 2006; Kuhnle, 2004; Ramesh, 2003; Hort and Kuhnle, 2000; Shin, 2000; Peng and Ito, 2004; 2008; Kwon, 2005). Indeed, as Korea became richer and more democratic, the government broadened the social security coverage and lifted the floor below which no one sank.

However, the development of the Korean welfare state should not be overrated. The seemingly significant expansion of the nation's social welfare system is explained by its far low starting point. As Figure 1.1 illustrates, Korea's social expenditure was only about 15 percent of the OECD average in the early 1990s. It has converged to some extent with other OECD countries afterward. But the social expenditure has never outpaced economic growth. As a result, social expenditure is currently only half of the OECD average. This pattern is quite different from the Western welfare states in the postwar period in which "sustained economic growth was coordinated with an increase in the proportion of national product directed towards social expenditure" (Pierson, 1991: 133). Therefore, despite the seemingly rapid expansion, Korea's public social benefits remain modest. Instead, private welfare such as employer-provided fringe benefits and corporate pensions is encouraged through various tax incentives and plays a significant role for the middle class. As a result, public social expenditure has not increased significantly despite the introduction of various social security programs.

The distinctive features of the Korean welfare state are not limited to the low level of social spending. As we find diversity among Western welfare states in literature on the welfare state regime (Esping-Andersen, 1990; Castles and Mitchell, 1993), the developmental trajectories, allocation

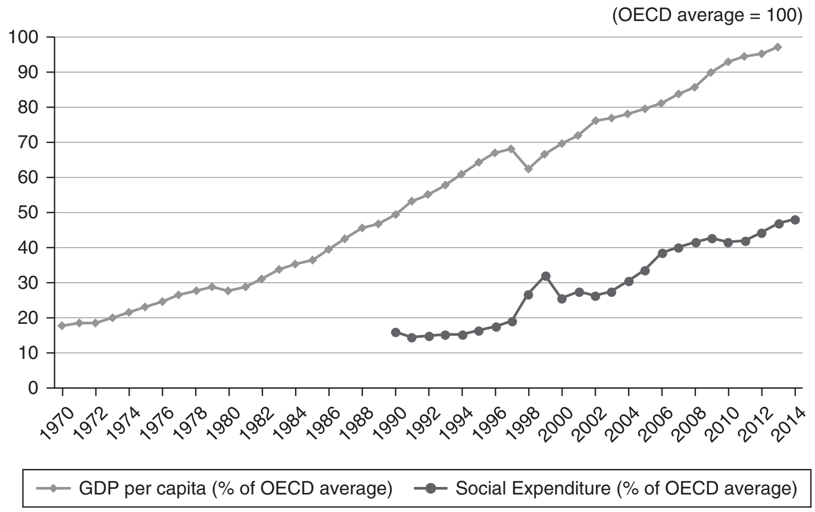

FIGURE 1.1. Korea's catching up with OECD countries in economic and social welfare development.
Source: OECD.StatExtracts (http://stats.oecd.org; accessed February 16, 2015).

of welfare functions among the state, the market and the family, and program composition of the Korean welfare state are quite unique, echoing liberal welfare states such as the United States and Japan. Similar to Japan and the early period of Western welfare states, the Korean welfare state is constructed with the male breadwinner model in mind. Prior to the late 1990s, strong employment protection and social insurance schemes favored and protected predominantly male full-time workers and their families. The state's reliance on the family has led to the underdevelopment of family support programs and public care services (Peng, 2011: 906–909). Employer-sponsored private social welfare programs developed rapidly in tandem with the growth of Korea's big exporting companies such as Samsung and Hyundai.

It is not surprising that Korea is located on the opposite end of the Scandinavian welfare states such as Sweden and Denmark in Figure 1.2. Korea's spending on social services and active labor market policies, which support a dual-income earner system and ensure flexicurity in the labor market, are among the lowest in the OECD. The benefit generosity of income maintenance programs is also the lowest. According to Comparative Welfare Entitlement Dataset (CWED, 2014), the program generosity scores of Korea for an average-income worker aged forty with a work history of twenty years is as low as 41 percent of Spain's, another

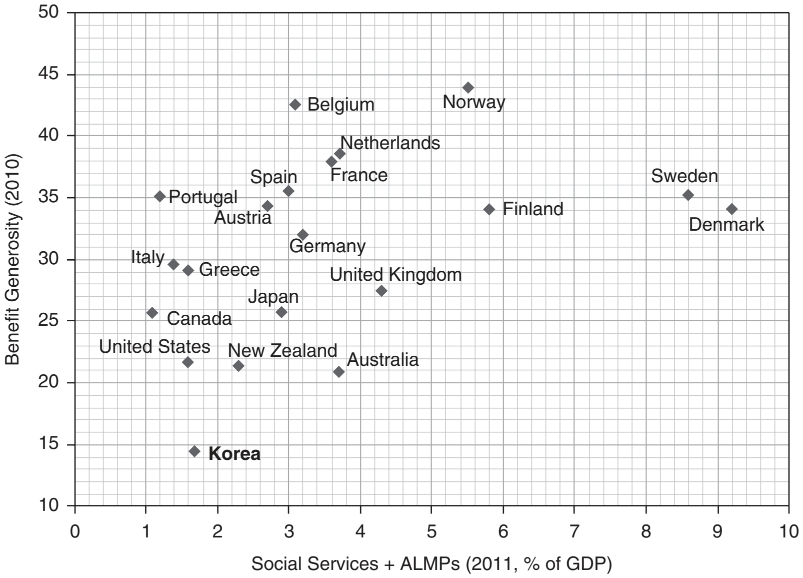

FIGURE 1.2. Korea's underdeveloped small welfare state in comparison.
Notes: Social expenditure on social services is calculated by author from OECD SOCX (January 2015). Social service expenditure = total service expenditure – health expenditure. For a disaggregated expenditure approach, refer to Castles (2008).
Source: As for benefit generosity, CWED (comparative welfare entitlement dataset/version 2014-03) is used. For social service and ALMPs, OECD SOCX for social expenditure data (www.oecd.org/statistics; accessed January 15, 2015).

late developing welfare state in Europe. Because the scores are based on the structure of benefits, not actual expenditure levels, actual spending would be much lower given the limited coverage and shorter lifetime working history due to the longest period of education and mandatory military service in Korea.[1]

Moreover, the composition of gross public and private social spending in Korea is similar to that of liberal welfare states where private social benefits play an important role. In Korea, the share of private social expenditure is 25.8 percent of total social spending, following the United

[1] The benefit generosity index is based on coverage and replacement rates that are calculated for a fictive average production worker in the manufacturing sector who is forty years old, and has been working for the twenty years preceding the loss of income or the benefit period. Replacement rates are calculated by annualizing the benefit for an initial six-month spell of unemployment, illness, or pension beneficiary (i.e., calculating the benefit for the first twenty-six weeks and multiplying this by 2) (CWED, 2014: 8–9).

States (39.3 percent) and Switzerland (30.8 percent) (Adema, Fron, and Ladaique, 2011: 24). It might be too early to forecast the future image of the Korean welfare state. But given the effect of path dependency, we could expect that Korea's small welfare state is more likely to mimic the liberal welfare state model than big welfare states in Europe (Yang and Choi, 2014).

Why is the welfare state in Korea so small? Why was the nation's successful industrialization and democratization not accompanied by European-style welfare state building? Why is Korea expected to follow the path low-spending liberal welfare states have chosen? These are the questions that this book seeks to answer.

Existing Regionally Specific Explanations and Unsolved Questions

The research puzzle of the underdeveloped small welfare state is not new in Asia. Japan, Taiwan, Singapore, and Hong Kong have received similar attention. The first wave of explanations for this phenomenon relied heavily on Asian culture, especially Confucianism and strong familism (Jones, 1993; Shin and Shaw, 2003; Rose and Shiratori, 1986; Hong, 1999; Goodman and Peng, 1996). Indeed, Confucianism is a unique cultural trait that has significant influence on the Asian way of life. Compared to European welfare states, a higher proportion of the elderly are cared for by their grown-up children, and more welfare services for the aged, children, and patients are provided by the family (especially by mothers and housewives). The firm, as an extended form of the family, is also a source of welfare. Thus, it has been argued that Korea did not need to develop a European-style "big" welfare state (Lew and Wang, 2006; Hong, 1999).

However, the Confucian effect as an independent variable should not be overstated. The relatively high level of welfare provision provided by the family may be an outcome of the underdevelopment of public welfare, rather than a cause of it. As Esping-Andersen (1997: 185–186) rightly points out, the stylized portrait of the "Confucian" welfare state sketched above holds for the past of all advanced welfare states as well. The proportion of elderly people living with their children was once very high in the Western countries. In the 1950s, it was about 44 percent in Norway, 55 percent in Finland, and more than 40 percent in Britain. As the welfare state began to provide pension and care services, the family's care obligations declined. As Takegawa (2009: 89) argued, it may be misleading to correlate Japan's inability to expand the scale of the welfare state with the role of the family and of companies.

Put differently, it is the small welfare state that makes Confucian norms linger on as a means of relieving the vagaries of capitalist industrialization. Moreover, there is some doubt about whether Confucian ethics are in fact robust in Korea. More than 40 percent of people aged sixty-five and more live in poverty and the suicide rate is more than thirty times higher than the OECD average for older than seventy-five years old (OECD, 2009a). Also, it should be noted that lifetime employment and generous corporate welfare associated with the Confucian model are not universal. As will be discussed in Chapter 6, only a small segment of core workers in big companies enjoy them. In short, some other factors beyond Confucianism are needed to explain the small welfare state in Korea.

The second wave of explanations was based on the thesis of "productivism" or "developmentalism" (Holliday, 2000; 2005; Kwon and Holliday, 2007; Gough, 2004; Chung, 2006). The productivists argued that Asian "tiger" economies such as Korea, Taiwan, Singapore, and, to a lesser extent, Japan, sacrificed welfare state building for rapid economic development by subordinating social policy to economic objectives. Minimal social rights linked to productive activity, relatively high investment in public education and health, and heavy reliance on private-sector delivery are regarded as resulting institutional characteristics of the welfare states in Asia (Holliday, 2000). Productivists contributed to the theorization of the East Asian welfare model in the sense that they direct scholarly attention away from culture to unique features of the production system in East Asia.

Yet, a fundamental problem in the logic of productivism is its functionalism. Almost everything unique in the welfare states in Asian "tiger" economies is simply reduced to the functional demands of economic development. In this regard, what is problematic is that the logic of productivism cannot explain why Korea has not opted for other forms of "productivism," namely the celebrated Swedish productivism, which has generated a big welfare state (Andersson, 2006; Esping-Andersen: 1994). As Esping-Andersen points out, the Swedish welfare state invests in optimizing people's capacity to be productive citizens in the concept of "productivist social justice" (Esping-Andersen, 1994: 722). The Swedish state intervened in the market as specified in the Rehn-Meidner model to ensure de facto "forced structural adjustment" and "more work by more people" through active labor market policies.[2]

[2] Even Vartiainen argues that the European corporatist state was by nature as interventionist as the Korean developmental state in the use of fiscal, monetary, and currency policy (Vartianinen, 1999).

Moreover, public expenditure on education, which is the trademark of productivist welfare capitalism, is highest in Sweden, almost double the fiscal commitment by the Korea government.[3] Sweden is no less productivist than Asian tigers in that its social policies are designed to form a virtuous circle with economy.

On second thought, however, the "productivist" elements that productivists highlight as features of East Asian welfare states are simply "liberal" elements. The productivist argument cannot distinguish productive elements from liberal ones. For instance, the emphasis on workfare, weak social rights, and modest welfare benefits; cost-containment measures; and reliance on private delivery systems are also witnessed in many other liberal welfare states that did not pursue such productivist development strategies (Choi, 2013: 219). The logic of productivism is an unverified functionalist argument with little explanatory power.

In a similar vein to the logic of productivism, "developmental welfarism" has been proposed to understand the welfare states in East Asia in general and Korea in particular (Chung, 2006; Choi, 2013; Kwon, 2005). The proponents of developmental welfarism emphasize the role of the authoritarian developmental state during industrialization period. The authoritarian state mobilized people and channeled most of the available capital into export-oriented industrialization. To maintain the price competitiveness in the international market, the state and business tried to keep the labor cost low by suppressing the labor movement, postponing the introduction of social security programs, and limiting the coverage and benefit level to the minimum when they had to be introduced. The authoritarian state controlled the administration of social insurance schemes but injected no state subsidies. It also stressed self-reliance and work incentives in designing social welfare programs (Park, 1979: Chapters 3 and 4).[4]

As such, developmentalists attributed the small welfare state in Korea to the developmental state's policy orientation. It is truly a more correct explanation of the major features of the Korean welfare state than the functionalist account of productivism. But it has been almost thirty years since the eclipse of the developmental state in the 1980s. Simply linking developmentalism in the 1960s and 1970s to the Korean welfare state of

[3] In 2004, Sweden's public expenditure on education as percent of GDP was 7.4, Denmark 8.4, and Finland 6.4, while Korea stayed at 4.6 (OECD, 2007).

[4] Roh (2013) points out that the generation-long emphasis of self-reliance or self-help became a norm to foster antiwelfare sentiments among the general public in Korea.

the twenty-first century is theoretically problematic (Dostal, 2010: 167). We need to elaborate causal chains between the past and the present.

It is certain that the continuity of "smallness" has been evident even after the eclipse of the developmental state by the democratization of the mid-1980s and finally by the comprehensive economic reform during the Asian financial crisis in 1997–1998 (Park, 2011). Despite outspoken reform efforts by the center-left Kim Dae Jung and Roh Moo Hyun governments (1998–2007), modest social benefits and large loopholes, low social spending, limited redistribution, and reliance on private delivery systems, which constitute the core characteristics of the underdeveloped small welfare state in Korea, remain largely intact (refer to Chapter 2). Even some features have been reinforced despite the expansion of social insurance programs to the entire nation and increased social spending during the two center-left governments.

Then, how can we properly explain the persistence of the small welfare state in Korea? We need to integrate Korea-specific factors into general theories of welfare state development such as the logic of industrialism, democracy and electoral politics, a power-resources model, and statism. Just like other countries in Europe, Korea is highly industrialized and democratized. The Korean working class enjoys basic labor rights and unions are notorious for their militancy. Moreover, the meritocracy of the centralized Korean state continues to be an influential actor in policy making. But here the question is why the formative factors of welfare state building stylized by general theories have not led to a European-style welfare state in Korea? Why are general theories of the welfare state development not applicable to Korea? This book seeks to provide answers by exploring the way the industrial and political legacies of the Korean developmental state constrained the formative factors of welfare state building, delimited expansion, and pushed it along liberal lines.

Legacies of the Developmental State and General Theories Revisited in the Korean Context

We need to start by exploring the impact of the Korean developmental state on the early stage of welfare state building. The *developmental state* is a term often used to describe an interventionist state that led economic development in East Asia following a seminal work, *MITI and the Japanese Miracle* (Johnson, 1982). The developmental state created a Weberian professional bureaucracy led by economic technocrats (Kim, Byung-Kook, 2011; Kim, Hyung-A, 2011), established a taxation system suited for a small government and supply-side economics (Yang and Min, 2013), and structured industrial relations to give capitalists the upper hand over labor (Deyo, 1989; Yang, 2010). Presidentialism was firmly rooted in this developmental period, centralizing political power in the Blue House (or the Office of President). Two-party competition nurtured by plurality electoral rules became a norm. The state made a strong partnership with *chaebols* through state-sponsored heavy-chemical industrialization, which led to a *chaebol*-dominated economy.[5] It has been almost thirty years since the authoritarian developmental state collapsed by democratization in 1987. Nevertheless, the legacies of the developmental state period have significant influences on subsequent welfare state building in Korea. Against the backdrop of the developmental state we can reexamine four major theories of the welfare state development and show how they operated in the Korean context.

First, according to the *logic of industrialism*, the welfare state is a product of both the new needs against social risks (e.g., retirement or unemployment) associated with industrialization and the new resources generated by industrialization itself (Wilensky, 1975; Cutright, 1965). Under this theory, Korea should have been a fertile ground for development of the welfare state. Rapid industrialization since the early 1960s has transformed Korea from an agrarian economy to a highly industrialized one. The manufacturing sector, which constitutes the core of the Korean economy, accounts for 49 percent of total output in 2010, far higher than the OECD average of 26.2 percent (Bank of Korea, 2014: 12). As a result of successful industrialization, the Korean economy prospers, generating ample resources that could have been used for social welfare. Nevertheless, in the 1960s and 1970s, the state's developmental strategy – export-oriented industrialization (EOI) – was adverse for welfare state building. Concern for price competitiveness in the international market made employers and state elites very sensitive about labor costs. Wages were under tight control, social insurance incurring increases in indirect labor cost were postponed as long as possible, and taxes remained at a minimum level; tax cuts were even widely used from the early 1970s to compensate for low wages and meager welfare benefits. Although the cause was different, "Reaganomics before Reagan" was practiced in Korea when the Keynesian welfare state was in its heyday in the West.

[5] The *chaebol* is a term used to denote family-owned conglomerates in Korea.

Because labor was politically excluded under the EOI, a political coalition among state elites, employers, and industrial workers was inconceivable unlike Latin American Import Substitution Industrialization (ISI) countries. In Latin America, it was politically and economically reasonable to form a "populist" coalition and introduce income maintenance programs for the urban industrial workers earlier than its stage of modernity to sustain demand in the domestic market (Wibbels and Ahlquist, 2007; Kim, Dong Sung, 1996; Haggard, 1990; Haggard and Kaufman 2008). In contrast, the EOI in Korea did not permit the prowelfare politics of "tax and spend" of the Keynesian welfare state. As a result, Korea's particular pattern of industrial development did not result in welfare state expansion, ending up in a low baseline from which it took off after the 1987 democratization. Some would expect a rapid catching up of welfare state development since the eclipse of the developmental state. Yet, institutional legacies of the developmental state period have constrained welfare state building in Korea as we will see in the following critical discussions.

Second, the thesis of *democracy and electoral competition* would expect rapid growth of the welfare state in Korea after its full democratization in the mid-1980s. As Aristotle pointed out, democracy is the rule to the advantage of the poor. Indeed, modern history of democracy tells that universal suffrage and competitive elections yield prowelfare politics, leading to higher growth rate of social spending than economic growth until it reaches a certain peak at about 20 to 30 percent of GDP in the early 1980s (Wilensky, 2002: 213; Schneider and Ingraham, 1984; Pampel and Williamson, 1989).

Although authoritarian dictatorships dampened welfare politics, elections for the National Assembly and Presidency continued during the authoritarian regime in Korea, except for direct presidential elections banned from 1972 to 1986. Since 1987, when the democratic movement toppled the authoritarian regime, Korea has had seven democratically elected governments and nine general elections, successfully developing into a consolidated democracy. Yet, as Yeong-Soon Kim (2010: 159) pointed out, "the interest articulation and aggregation of welfare issues have been severely limited since political parties do not represent socioeconomic interests in civil society appropriately." This contrasts sharply with experiences of new democracies in Southern Europe such as Spain, Portugal, and Greece in which "return of democracy played a major role in reorienting the political agenda: building a modern welfare state, aligned with EU standards, became a national goal" (Ferrera, 2005: 11–12).