

**Understanding the Politics of Welfare Reform in  
Korea: A study of the National Health Insurance  
and National Pension Reforms, 1998-2003**

by

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## **Preface**

This dissertation is the result of my own work and includes nothing which is the outcome of work done in collaboration except where specifically indicated in the text

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## **Abstract**

This is my thesis that I explored the dynamic process and peculiarities of Korean welfare politics during the Kim Dae-Jung government of 1998-2003, which was the first administration to come to power through a peaceful turnover of political power. To this end, the research focused on the policymaking processes of National Health Insurance and National Pension reforms during that period. The thesis analysed these welfare reforms from a more rigorous theoretical framework in order to uncover the key characteristics of welfare politics in Korea. In particular, the key role played by stake-challengers including civil organisations in such policymaking process was addressed in detail because these Non-Governmental organisations emerged as an influential player against the established stakeholders representing vested economic and political interests. In contrast to the situation in many western democracies, the influence of political parties in the reform process was minimal and those parties did not play any significant part in the debates and conflicts surrounding the welfare reforms during the Kim Dae-Jung era. Interestingly, though, the National Assembly itself through democratic development did eventually emerge as a new player in this arena. This thesis also paid due regard to the role played by international agencies within the space of Korean welfare politics. It was noteworthy fact that stake-challengers coalition led by civil organisations was able to overcome stakeholder coalition's interests and objections to win the battle for health insurance integration and public pension reforms in spite of limitations.

## **Acknowledgements**

The completion of this thesis has taken me much longer than expected. There were many causes for this, both personal and professional. What started out as an up to the minute study has now become something more like contemporary history! However the core idea contained in this thesis is, I believe, still useful, meaningful and significant particularly for those with an interest in South Korean policy and politics. I combined studying for my doctorate as a PhD student in Birmingham with my job as a journalist in Korea. This proved a difficult task as the demands on my time as a journalist were very heavy. As a consequence I was unable to devote consistent amounts of time to my academic studies. However, I have now finally seen the thesis through to completion. Even though it is not the 'perfect' work I envisaged that I would write at the beginning I am now happy to submit it for examination. A number of scholars have helped me see my thesis through to completion. I am indebted first and foremost to my two supervisors Dr Robert Page, who has guided and supported me through the most difficult times of my research, and Ms Liz Ross, who has now retired. Thanks to my supervisors I have been able to complete this work. They really had to wait far too long for me to complete the thesis. I also have debts to repay to the many scholars, former civil servants, researchers and civil activists in Korea who helped me with my thesis by giving up their time to be interviewed. I am extremely grateful for their help. Finally I would like to dedicate this thesis to my mother, my wife and to my son and daughter.

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# List of Abbreviations and Organisations

CCEJ: Citizens' Coalition for Economic Justice  
CHSR: Committee of Health Security Reform  
CMR: Committee for Medical Reform  
CPT: Committee for Presidential Transition  
CSS: Committee for Social Security  
DJP: Democracy and Justice Party  
DLP: Democratic Liberal Party  
EIP: Employment Insurance Program  
EPB: Economic Planning Board  
EAHSI: Executive Agency for Health Security Integration  
FKHIS: Federation of Korean Health Insurance Societies  
FKI: Federation of Korean Industries  
FKTU: Federation of Korean Trade Unions  
FFDC: Fully Funded Defined Contribution  
FKMIS: Federation of Korean Medical Insurance Societies  
GATT: General Agreement on Tariffs and Trade  
GNP: Gross National Product  
GNP: Grand National Party  
GEPS: Government Employees Pension  
H&W: Health and Welfare  
HS: Health Solidarity  
HIRA: health Insurance Review Agency  
IACI: Industrial Accident Compensation Insurance  
ILO: International Labor Organization  
IMF: International Monetary Fund  
KCIA: Korean Central Intelligence Agency  
KCTU: Korean Confederation of Trade Unions  
KDI: Korean Development Institute  
KEF: Korea Employers Federation  
KISHA: Korea Institute of Health and Social Affairs  
KMA: Korean Medical Association  
KPA: Korean Pharmaceutical Association  
LP: Livelihood Protection  
MA: Medical Aid  
MFE: Ministry of Finance Economy  
MGA: Ministry of Government Administration  
MIP: Medical Insurance Programme  
MMPS: Military Personnel Pension Scheme  
MOF: Ministry of Finance  
MOFE: Ministry of Finance and Economy  
MOHSA: Ministry of Health and Social Affairs

MOHW: Ministry of Health and Welfare  
MOL: Ministry of Labor  
MTN: Multilateral Trade Negotiations  
MWA: Minimum Wage Act  
NBLS: National Basic Livelihood Security System  
NDFOC: National Pension Fund Operations Committee  
NDRP: New Democratic Republican Party  
NFFO: National Federation of Farmers Organization  
NHI: National Health Insurance  
NHIC: National Health Insurance Corporation  
NMIC: National Medical Insurance Corporation  
NMICC: National Medical Insurance Countermeasure Committee  
NP: National Pension  
NPC: National Pension Corporation  
NPFOC: National Pension Fund Operation Committee  
NPRB: National Pension Reform Board  
NPS: National Pension Scheme  
NSO: National Statistical Office  
NTS: National Tax Service  
NWP: National Welfare Pension  
OECD: Organization for Economic Co-operation and Development  
PD: Path Dependency  
PNP: People's New Party  
PDP: Peace Democracy Party  
PSC: Pan-national Solidarity Council for the Medical Unification and Benefit Expansion  
PSPD: People's Solidarity Participatory Democracy  
PSTPS: Pension Scheme for Private School Teachers  
PCOUR: Pan-national Committee for Opposing the UR Agreement  
PFMA: Public Fund Management Act  
PRTF: Pension Reform Task Force  
RDP: Reunification Democracy Party  
SAL: Structural Adjustment Loan  
SCNR: Supreme Council for national Reconstruction  
SMI: Standard Monthly Income  
SOC: Social Overhead Capital  
SOPS: Special Occupational Pension Schemes  
TC: Tripartite Commission  
THEHI: National Trade Union for Regional Health Insurance Societies  
TUEHI: National Trade Union of Employee Health Insurance Societies

# Chapter 1

## Introduction

### 1.1 Research Background: The New Politics of Welfare Reform in Korea

#### *The Law of Reform vs. the Law of History*

Reform is one of the most contested political issues in society. While there has been huge variation in the nature of reform, there has been one feature common to all reforms throughout history: reform is a controversial issue. There is prescient epigram on the nature of reform written by Niccolo Machiavelli in 1513:

*“There is nothing more difficult to manage, more dubious to accomplish, nor more doubtful of success...than to initiate a new order to things. The reformer has enemies in all those who profit from the old order and only lukewarm defenders in all those who would profit from the new order”.*(Fuchs, 2009, p.208)

In practice, many politicians call for reform and many people and organisations support reform. However, rhetoric and reality are rarely the same. Once reform begins to be implemented, people tend to align themselves in accordance with their particular interests. The unorganised masses who desire reform are sometimes inactive and silent, while the minority with vested interests, such as elites and large companies, utilise the mass media to tarnish or emphasise the problems of reform and thereby reconfigure the goals of the reform in their own interests. The history of reform around the world has proved this ‘law of reform’

and has demonstrated that the reality is rarely the same as the rhetoric. For example, the politics of health care reform in the United States, at least before the passage of Health Care Reform Act in 2010, demonstrates the pervasiveness of this ‘law of reform’ (Kim, Y. S. and Cho, H.J,2010;Fuchs, 2009).

However, I think that there is another law, which is the ‘law of history’. The principal point is that, as human history testified, human societies develop through reform of various kinds. Although the present-day meaning of reform has become increasingly blurred, it essentially implies improvement. In everyday language and in literature, reform implies progress or development. The concept of reform in the South Korea (hereafter Korea) political context has meant progress, improvement, or development and has sometimes been synonymous with the radicalism of the Left. In the social policy context in Korea, reform has meant an expansion of the welfare state, the introduction of new welfare programmes, and an increase in benefits or broader eligibility for them. In the past, the meaning of reform had been the same in the West.

By the early 1990s, however, welfare reform meant the opposite(Norris, F and Thompson, L, 1995). From that time forth, welfare reform meant cuts, decreasing benefits, and limiting eligibility in the advanced welfare states that had suffered financial crisis. The term reform no longer denoted improvement, progress, and development. While reform has different meaning in different countries, generally speaking, it is used to mean ‘improvement’ occurs in developing countries with rudimentary welfare states.

### ***The Politics of Welfare Reform***

No matter what the meaning of reform is, one thing that all reform has in common is that changes accompany it. The reform of government policies in particular has an influence on many people, and it inevitably has positive and negative aspects. In short, reform produces

politics. Welfare reform is a particularly sensitive issue because it is related to people's quality of life. Accordingly, since the politics of welfare reform is more controversial, more complex, and more confrontational than ordinary politics, welfare reform leads to greater levels of political debate and confrontation. Consequently, prior to any investigation of a reform, we need to have a comprehensive understanding of the type of reform that is under investigation. In addition, therefore, prior to a full investigation of welfare reform politics, we need to briefly introduce the concept of welfare politics and explore its application to Korean social policy.

Welfare politics is so broad and ambiguous a concept that is difficult to define it. For the purposes of this thesis, however, I will follow the definition of welfare politics given by Shin, K. Y (2002), which focuses on the political dynamics in the process of the formation of welfare policy. According to Shin, welfare politics refers to power dynamics among social groups regarding welfare policy at various developmental stages of welfare policies. Following on from his explanation, therefore, the groups involved in welfare politics range from the state, capital, interest groups, international organisations, civil society organisations, and trade unions, etc. The key to understanding welfare reform and its politics is ultimately the identification and comprehension of the political process within it.

### ***The Politics of Social Policy in Korea***

Welfare politics in Korea was very simple for several decades. During the period of rapid economic growth from the 1960s to the late 1980s, all important social policy decision making was dominated by the president and was in practice administered by a small number of bureaucrats with an exclusive interest in economic growth. At that time, all social policies were essentially instruments for economic growth and political legitimacy. The Korean governments before the democratisation struggle in 1987 lacked legitimacy because they

were military regimes with no electoral mandate to rule. The politics of welfare was characterised by 'the politics of legitimation' in that the military regime utilised welfare policy to strengthen its political support(Kwon,H. J,1999a).

However, since 1987 the nature of Korean politics has changed from the politics of legitimation to that of democratization(Kwon, H. J, 1999a). Along with administrative officials, who previously dominated policy making, interest groups who privately pursue profits and civil movement groups who pursue the public interest began to exert their influence on policy decision making. Changes brought about by democratisation led to an increase in the influence of hitherto excluded organisations such as trade unions and civic groups in policy decision making. Under the authoritarian regimes, interest groups were able only to ask for their private interests in policy decision making, usually by means of a 'back-scratching relationship' with civil servants or politicians. The transition to democracy transformed in part the policy-making process, making it more transparent and better reflecting public opinion. The emergence of welfare politics in Korea signified a seismic change in the dynamics of welfare policy decision making.

### ***The Welfare Politics of Democratisation***

The transition to democracy changed, in part, the policy-making process and the role of the government in this process. The transition to democracy brought about the development of civil society and increased governmental accountability considerably. The welfare policies previously implemented by the authoritarian governments had merely served their aims of economic development and securing political legitimacy. According to Shin, K. Y(2002), during the transition to democracy after the pro-democratic resistance movement of 1987, the process of policy making, which had been led mainly by those in power, faced major changes due to the development of civil society and the organisation of interest groups. The one-sided

policy-making system led by the bureaucracy gave way to a more equal and complex one that became the focus of public opinion and social pressure. Previous governments, which had dominated policy making, became the target of criticism, and collective attempts to effect policy changes emerged (Shin, K. Y, 2002). However, democracy itself did not necessarily lead to the development of welfare or welfare politics (Flora and Alber, 1981). Although the potential for the development of welfare politics in Korea was unlocked by democratisation, the actual trigger for its development was the 1997 economic crisis. In addition, it should be noted that the discourse on welfare politics in the Korean context was in complete contrast to that on welfare politics in Europe. Debate about welfare politics in Western society was centred on welfare reform as part of a wider neoliberal economic agenda (Pierson, 1994; Weir, 1998), whereas the emergence of welfare politics in Korea was the inevitable result of the economic crisis decisively and democratisation of the process of policy decision making in part.

### ***The Paradox of the Economic Crisis***

The critical juncture in the Korean context was the 1997 economic crisis. If the first opportunity for a shift in Korean welfare politics was provided by democratisation, the economic crisis was the decisive factor in the reformulation of Korea's welfare politics. This is one of the key arguments of this thesis. I term it the new politics of welfare reform in Korea. Therefore, we should now briefly examine the economic crisis in Korea in 1997 and its relationship with the development of welfare politics.

As mentioned earlier, it is widely accepted that welfare reform in Korea represents the general development of welfare programmes and the expansion of state welfare. Since the start of the twenty-first century, however, the meaning of welfare reform in Korea has become more complex and has begun to focus on more specific welfare programmes such as

pension provision, health insurance, and public assistance, like the West. The most important thing, however, is not the meaning of welfare reform itself, but the changes in the political and economic dynamics brought about by welfare reform. The reason why these changes are so important is that they are very closely interrelated with the course of development of the Korean welfare state. Since policy produces politics (Pierson, 1994), welfare reform in Korea has also produced new welfare politics, and as mentioned above, the crucial factor in the history of social policy development in Korea was the economic crisis of 1997. Since economic crisis is a major factor in initiating social policy reform (Castles, 2001; Timonen, 2003; Lee, J.H, 2007), the Korean economic crisis had an enormous impact on both politics and the economy in Korea. Korea's rate of unemployment and level of inequality rapidly increased, and the Korean government was forced to request a bailout package from the International Monetary Fund (IMF). However, unlike in the West, where there was a retrenchment in welfare spending after economic crisis, Korea's economic crisis gave rise to welfare reform. As part of the bailout package, the IMF stipulated that the Korean government implement welfare reform, including the expansion of state welfare, because the limitations of the developmental welfare state had become apparent.

### ***Emergence of New Welfare Politics***

The economic crisis brought out a new welfare discourse and paradigm. Above all, it forced welfare issues to become part of official debate. In the past, Korean governments had claimed to have established a welfare society or even a welfare state, but this had been mere political rhetoric. In actuality, most previous governments did not specifically recognise or develop welfare policies. Moreover, before the economic crisis, successive Korean governments had deemed welfare provisions for workers and citizens unimportant. The mass unemployment and increased level of poverty caused by the economic crisis, however, drew attention to the

need for and importance of state welfare and highlighted the ineffectiveness of traditional government policies. Accordingly, as part of the crisis management programme, the need for a new welfare policy and the expansion of state welfare came to the fore. Therefore, the new government that had come to power in the wake of the economic crisis extended and strengthened welfare benefits and coverage via a range of social insurance programmes. In the next section, I will briefly outline details of these developments.

In order to manage the social crisis caused by the economic crisis, a new welfare system was introduced and the existing welfare system was strengthened. For example, the Employment Insurance Program (EIP) was extended to all workplaces in 1998, although it was not strictly enforced. The National Basic Livelihood Security System (NBLSS) was introduced in 2000 based on the idea of social rights, replacing the stringently means-tested public assistance programme. In the same year, all separate health funds under the National Health Insurance (NHI) were integrated, paving the way for a financially and administratively integrated programme (Kwon, 2002, 2005b). These welfare reforms opened the way for a new welfare politics, one that would be swept along by the winds of welfare reform policies and would be varied, colourful, and dynamic. New welfare reform policies created new welfare politics. This new welfare politics has had a continuous and strong impact on the course of development of the welfare state in Korea. Accordingly, in this dissertation, I will explore the structure and peculiarities of welfare politics in Korea and the strategies and interactions of political actors within it. In so doing, it is my intention that this will provide a better understanding of and new insights into the Korean welfare state.

## **1. 2. The Scope of the research**

As stated above, this dissertation attempts to study the new politics of welfare reform after the economic crisis in Korea. Specifically, I will investigate the political dynamics of welfare reforms in Korea, which are contingent upon the political institutions, political actors' strategies, and the relationship between them.

In order to do this, however, I will not deal with the entire picture of welfare politics in Korea. The chief reason for this is that there have been several excellent earlier studies undertaken, perhaps the most notable of which is Kwon, H. J (1997, 1998, 1999a, 1999b, 2001, 2002, 2003, 2005a, 2005b)'s work. However, these studies have mainly focused on welfare politics before democratisation in Korea. My focus in this research will be limited to the period from 1997 to 2003, which coincides with the Kim Dae-jung administration in Korea. The reasons for the selection of this period are that the economic crisis, which fundamentally changed Korean society as a whole, occurred during that time, unprecedented welfare reform focusing on state welfare was implemented, and transfer of power from an authoritarian regime to a democratic regime took place. In short and comparatively speaking, a more progressive and pro-welfare government came to power. These socio-economic changes produced a new and unique politics of welfare reform. In conclusion, my research examines welfare politics in Korea during the distinctive period under the Kim Dae-jung government after the economic crisis in 1997.

In order to achieve my research aims, I will explore welfare policy reforms during this period via my theoretical framework of welfare politics. In particular, I have chosen to focus my analysis on pension and health insurance reforms during the Kim-Dae-Jung government in order to understand the variety of policymaking and political processes associated with

welfare reform. Through this exploration, I will uncover the nature and characteristics of Korean welfare politics, its dynamics, and reveal its limitations as well.

### ***Focus on pension and health insurance reforms***

As mentioned above, this research will mainly focus on pension and health insurance reforms. Why have these two policy areas been chosen? Above all, these policy areas are key pillars of a nation's welfare system. According to the ILO's method of estimated social expenditure, most European countries in the 1970s and 1980s spent more than 80% of their social expenditure on pension and health care plans (Kim, Y.M, 1998, 2001b). So, by reflecting on Europe's case, it can be noted that most of the conflicts between interest groups were caused by pension and health insurance policies. In other words, the conflict structure of these two policy areas reflects the overall structure of conflict within a welfare system. The same can be applied to Korea. Regarding national health insurance, the system is a universal social insurance system for health care with and is the largest in terms of population coverage and budget, which amounted to almost 20 billion pounds in 2010. The national pension fund amounts to over 150 billion pounds. Social conflicts took on same aspect. The most controversial and intense social conflicts were caused by the health insurance and national pension programmes during the Kim Dae-jung administration (Kim, Y.M, 2001b). In practice, the Kim Dae-jung government expanded pension programme coverage to the self-employed and those with short-term contracts in 1999 despite widespread organised resistance. By the following year, the management organisations of various NHI health funds were integrated into one single organisation. In the process of policy making for these reforms, civil movement organisations played a significant role in integrating and strengthening these programmes.

One of the main concerns of this study is to understand how the interactions between political variables have affected the development of these two welfare policies in Korea. In identifying the forces that have influenced pension and health insurance reforms in Korea from a welfare politics perspective, it will be possible to determine the array of variables that could play a prominent role in the rapid expansion of social welfare in Korea. In order to do so, I will employ a detailed analysis of reforms and the policy-making process in Korean pension and health insurance policies.

### **1.3 Aim of the research and the research questions**

This research will aim to explain the peculiarities and dynamics of Korean welfare politics since the 1997 economic crisis. Simultaneously, through this study, the driving forces of and the interactions among political and social actors in the policy-making process of welfare reforms, especially pension and health insurance reforms, will be uncovered. Specifically, through analysis of the policy-making process, I will look at the following issues:

1. Where and how are welfare reforms initiated, brought to the attention of government, propelled forward to the point of policy decision-making or blocked and quietly buried?
2. With a particular focus on pension and health insurance, how and to what extent do political and social actors influence the policy-making process of welfare reforms?
3. What are the key peculiarities of welfare politics in Korea since the economic crisis? In what way do they differ from Korea's welfare politics before the economic crisis?

In addition to these three main questions, there are also several related questions that this research will examine:

- (1) What are the underlying general processes of such changes and welfare reforms?
- (2) What are the most influential and important driving forces behind these reforms? Since social policy development can be understood in the context of power relations in society, it is necessary to examine the broader power structure and actors that permits or constrains the welfare reforms.
- (3) How do we explain the political dynamics of welfare reform with regard to the decision-making process for social policies in Korea? What cleavages appeared, and how were they 'structuralised' in regard to welfare politics in South Korea? In Korea, economic bureaucrats have customarily held considerable influence in the decision-making processes of government. I will explore how they have affected social welfare policy development and to what extent they have had the power of veto in the process of social policy decision making. This is also a very important issue in terms of welfare politics. What is the relationship between welfare development and the political system? What were the core factors that influenced welfare politics at the distinctive conjuncture of democratic transition and financial crisis?
- (4) The most important issue is the inquiry into 'how welfare politics manifested themselves in the decision-making process of the pension and health insurance welfare reforms'

#### **1.4 The Organisation of this Research**

The thesis consists of eight chapters including this Chapter 1, introduction. Chapter 2 provides an overview of the new politics of the productive welfare reforms after the economic crisis. In this chapter, I will show the new players in Korean welfare politics. Chapters 3 and 4 focus on theoretical issues. Chapter 3 reviews the literature on competing theories of welfare

politics in Western and Korean contexts. The literature on Western theories will provide important insights and a rich theoretical grounding for this research. In this chapter, I will also review how Korean scholars have applied these Western theories and have constructed their own approaches. In Chapter 4, I present a theoretical framework for analysing the political dynamics within the policy-making process of pension and health insurance reforms. My framework is based on power-centred action theories. In this chapter, I will present a new framework for analysing the policy-making process of pension and health insurance reforms and especially the political dynamics within this process. Economic and social bureaucrats, state political leaders, international economic actors such as the IMF and the World Bank, and labour unions and civic movement groups' respective roles and interplay will be discussed.

Chapter 5 and Chapter 6 contain the case studies. Chapter 5 will cover the welfare politics of health insurance reform in Korea, including an overview of health policy politics before the economic recession. Chapter 6 will deal with the welfare politics of pension reforms during the Kim Dae-jung government after the economic crisis, including an overview of the public pension system in Korea and the politics of pension policy creation and reform before the economic crisis. The last chapters are the concluding stage.

In Chapter 7, I will analyse the new pattern of Korean welfare politics, putting it into perspective. In this chapter, the common political patterns among political-social actors in the policy-making process of both pension and health insurance reforms will be identified, and the new politics of welfare reform in Korea will be illustrated. Chapter 8 draws together the conclusions of this research. In particular, it will present the theoretical and empirical implications of the political dynamics in the pension and health insurance reforms in Korea.

## **1.5 From Journalist to Social Scientist**

Moving my role from a reporter who was heavily involved in this era of change to a detached social scientist was a major challenge for me. In this section, I touch on the differences between the role of a researcher and that of a journalist including an assessment of how the roles vary, the distinct demands of academic research and how I had to adapt my approach in order to produce a social science thesis. At first glance, the work of a journalist and a researcher would seem to have some over-arching similarities of approach. Both, for example, endeavor to find facts and report them as accurately as possible. In my research I used methods which I also used routinely in my work as a journalist such as interviewing, recording the information and analyzing relevant existing data and information. However, there are some clear and significant differences in the roles of the journalist and the researcher. For the journalist the key issue is obtaining and delivering a 'lively' story as fast as possible. There is never enough time for methodical background reading, systematic review of evidence or space to consider alternative interpretations in depth. Instead the journalist has to settle for a more impressionistic evaluation in which the contemporary details of a story are relayed in as clear and as accurate a way as possible which can appear somewhat superficial to the professional social scientist. In moving to the role of a detached scholar, I had a new experience. I now had the opportunity to undertake a more reflective review of issues. I was able to collect and sift information in a systematic way having time to consider, analyse and comment on the information I discovered. This conversion of roles was far from straightforward not least because I remained as an active journalist during the time I was studying for my PhD thesis as a part-time student. I had to work hard to control my journalistic instincts so that they did not spill over into my academic enquiry. However, in the process of researching my topic I recognized that conducting research is not only about

producing 'stories' but also requires new interpretations and analysis and the need for a clear research framework to produce more reliable findings. Nevertheless, it remains the case that both the reputable journalist and the scientific researcher share a common desire to pursue the truth and to present their findings in an impartial way as is possible.

## **Chapter 2**

### **‘Productive welfare’ Reforms after the Economic Crisis (1998-2003)**

#### **Introduction**

The economic crisis in 1997 severely shook Korean society. During the 1960-1990s, Korea achieved a remarkable and rapid economic growth that is sometimes called ‘the miracle of the Han River’ (the Han is a major river in Korea, flowing through Seoul). As a result, the Kim Young-sam government joined the OECD (Organisation for Economic Co-operation and Development) in 1996. However, within one year, the economic situation had changed, and Korea suffered a foreign-exchange crisis in 1997. Korea’s international competitiveness evaporated and many companies found themselves on the brink of bankruptcy. Consequently, many companies dismissed their employees, the city parks and major train stations became full of homeless people, and day-to-day living became difficult for many people. Generally, most countries adopt fiscal constraints and cuts in welfare spending in response to economic crisis, as evidenced by the UK’s cost-cutting measures of 2010-2011. What makes the Korean case particularly interesting was that Korea reacted to its economic crisis very differently from the customary Western response to economic crises (which tends to follow a pattern of welfare spending retrenchment and the simple expansion of safety nets for the most vulnerable). Instead Korea achieved a range of remarkable welfare reforms and significantly expanded its state welfare. Like her economic growth during the 1970s and 1980s, Korea’s welfare state developments were extraordinarily rapid after the economic crisis. The then president, Kim Dae-jung, who had been elected to office in the midst of the economic crisis

and had become the first opposition party leader to assume the presidency in almost 50 years, called his new approach to welfare ‘productive welfare’. In practice, the Kim Dae-jung government’s social policies were hugely different from those of the previous government. Although the fiscal conditions were very difficult owing to the economic crisis, the government managed to expand the coverage of pensions, integrate national insurance, introduce unemployment insurance, and enact the National Basic Livelihood Security Act, among other welfare improvements.

This chapter aims to provide a general understanding of social policy developments under the Kim Dae-jung government. Specifically, I will explore what sort of welfare reforms were made, which factors influenced the reforms, which actors were the main actors in promoting welfare reforms, and the interactions among the actors in welfare politics. This chapter will serve to outline the welfare reforms under the Kim government as a prelude to examining in detail the policy making and welfare politics of pension and health insurance reforms during this period in Chapters 5 and 6. In order to do so, I will first detail what happened in 1997 in Korea in terms of the social policy arena. Next, I will review the actors’ actions and their political activities and analyse the nature of the welfare reforms.

## **2.1 Economic crisis and the crisis of the developmental welfare state**

### **2.1.1 The impact of the economic crisis**

The word ‘crisis’ is very political term and is sometimes appropriated and misused by politicians, the CEOs of companies, and those who have special interests in order to create tension and to try to draw attention away from their own difficulties and failings; even during periods of economic growth, they sometimes employ the word. However, the economic crisis

in 1997 was not a 'crisis' in this political sense; rather, it was a dreadful reality and an unprecedented event for Korea. It created panic. "In January 1998, right after the beginning of the financial crisis one newspaper in Korea succinctly described the dreadful picture of the IMF era; 'On everybody's lips is the word, layoff. The International Monetary Fund (IMF) is spelled out as I M Fired'" (Shin, K.Y,2002, p.1). As a journalist working for a Korean daily newspaper, I too wrote many articles about the situation at that time. This is part of one of my articles about the economic crisis.

*There are laid-off workers everywhere. The survivors, however, are not safe. During the last year of the IMF bailout, Korea has suffered a flood of unemployment ... some of the jobless have been forced onto the streets ... some of these were once management staff, technical experts, and even chief executive officers of small and medium-sized firms...(The Hankyoreh Daily Newspaper, 1999)*

The collapse of the economy was too sudden, unexpected, and it struck all Koreans by complete surprise because almost no country had attracted as much interest in its spectacular economic growth as Korea had until that moment.

*In a report published in 1993, the World Bank noted that eight countries in East Asia have achieved impressive economic growth rates during 1965-1990. In particular, a great deal of praise was showered upon South Korea, which had continued to record annual economic growth rates of about 9% for 30 years (IBRD 1993). Four years later, the Korean economy attracted the attention of the world once again, but for the opposite reason. What used to be the showcase of economic success was now meeting with the crisis of total insolvency(Lee, B. S, 2007).*

What had gone wrong? Although the causes of the economic crisis are still debated, the most obvious cause was insolvent companies. At that time, what was becoming increasingly

troublesome was the debt-to-equity ratio of many Korean conglomerates, which competed for sheer size, often with borrowed money (Oh, 1999) According to Oh, the average debt-to-equity ratio for the thirty largest Korean *chaebols* reached 450 per cent in 1996, while the average ratio in the United States seldom reached 150 to 200 per cent at that time. Moreover, their capital holdings were also amongst the worst in the world. Their tendency to seek short-term and high interest loans, so-called 'hot money', worsened this situation and so many big companies collapsed.

Finally, the then government announced that it would apply for a bailout from the IMF one day before the presidential election was due, and on December 3 1997, the Korean government and the IMF signed an agreement on a bailout package of \$57 billion. However, the package was not a simple loan contract. It included a range of demands such as economic restructuring and reform, corporate governance and corporate structure reform, and labour market reform. These demands were designed to open Korea to global markets. Accordingly, "further market opening and financial liberalization had to be more extensively implemented" (Woo, 2004) in the name of economic reform by the Kim Dae-jung government, which was inaugurated in January 1998. The international financial apparatus, including the IMF and the World Bank, also intervened in the economic and social policies of the incoming government as well.

The most decisive impact of the economic crisis was political change. At the onset of the economic crisis, candidates were in the midst of campaigning for the presidency" and "the country was vulnerable on both economic and political fronts (Kwon, H. J, 2003). Fortunately, however, Korean democracy did not descend into turmoil, and instead there was an astonishing transfer of power. The opposition leader, Kim Dae-jung, was elected to the presidency. This was all the more surprising since during the campaign to the onset of the economic crisis, Kim Dae-jung was struggling to mend his broken promise that he would

retire from politics after his defeat in the 1993 presidential election, and the governing candidate was leading the race (Kwon, H. J, 2003).

The economic crisis radically changed the approval ratings of the candidates. The election of Kim Dae-jung was significant for a number of reasons. Firstly, in the political context, it meant that the peaceful power shift from an entrenched ruling camp to an opposition leader was accomplished for the first time in fifty years of republican politics in Korea (Oh, 1999). Secondly, in the social policy context, it meant that a pro-welfare president was elected for the first time and there was considerable state welfare expansion. Thirdly, in the policymaking and welfare politics context, his election meant a significant change in policy paradigms at the top of the decision-making structure (Kwon, H. J, 2003). Lastly, the economic crisis and the ensuing power shift spelt trouble for the long-standing developmental welfare state. Inevitably, the combination of the economic crisis and this power shift forced the Korean developmental welfare state to undergo radical changes,

### **2.1.2 The characteristics and the crisis of welfare developmentalism**

The Korean welfare system was poorly developed by the authoritarian government, which adopted an ‘economic growth-first strategy’. Some scholars including Kwon H.J (1998, 2005a) have described its inherent characteristics as ‘the developmental welfare state’. According to Kwon (2005a), the key characteristic of the developmental welfare state was welfare developmentalism. Welfare developmentalism was the principal rationale of social policy throughout the East Asian region (Deyo, 1992; Goodman, White and Kwon, 1998; Chung, M.K, 2004; Kwon, H.J, 2005a, Lee, H.K, 2009), and its basic premise was that social policy was an instrument for economic development (Kwon, H.J, 2005a). In practice, Korean social policy had functioned both as an instrument for economic growth and as an effective

tool of legitimation for the Korean military regimes for several decades. Under this paradigm, social policy did prove to be one of the most effective policy instruments during the period of rapid economic growth in Korea (Kwon, H. J, 2002; Goodman and White 1997).

The Park regime introduced the first modern social welfare programme, the Industrial Accident Compensation Insurance scheme, in the early 1960s. Alongside this, a pilot programme for health insurance also was introduced. In 1973, the National Pension Scheme (NPS) was first considered as a means of accumulating domestic capital but was postponed owing to the international oil crisis of that year. In 1977, the National Health Insurance system was introduced for workers. These programmes were fundamentally tools for economic growth and to promote the stability of Park's authoritarian regime. During this period, Korea's economic growth was remarkable. The average annual economic growth rate from 1962 to 1987 was 8.7 per cent. After the June 1987 democratic struggle, economic growth continued, and by 1997 Korea had the world's 11<sup>th</sup> largest economy. As a result of this continued growth, NHI was extended to the entire population and the NPS was implemented in the end of 1980s. The Employment Insurance Programme (EIP) was implemented in 1995. "Consequently, until the middle of the 1990s, just before the financial crisis began in 1997, Korea operated four major social insurance programmes, implying on the verge of becoming a modern welfare state" (Chung, M.K, 2004). All these welfare developments were initiated and administrated by the Korean government, but government did not take responsibility for financing them (Kwon, H.J, 2002). Instead, the government shifted welfare responsibility onto companies and families, using their regulatory power to force the private sector to provide and finance certain types of social provision and care (Lee, J.H, 2007). Kwon has called this role of the State in financing welfare programmes that of a regulator (Kwon, H. J, 1998, 2002). Chung, M. K (2004) summarises the characteristics of

the Korean developmental welfare regime as follows. As for its ideologies and functions, Chung notes five points:

*A strong developmental ideology deeply embedded in the welfare system as well as other social and political institutions. A conservative ruling coalition between the state and business with labour excluded or incorporated. Subordination of social welfare policies to industrialization and macro-economic policies. Strong fiscal conservatism; public financing skewed to economic investment rather than welfare. Employment-related or industrial achievement model, with benefits provided through work (2004, p.161)*

Chung also describes the formal structure of the Korean welfare regime. Its key feature was that it employed “social insurance programmes as the main form of the welfare, with the state’s minimal contribution to funding”. He also describes the nature of the public assistance of this regime as “very strict provision” and emphasises the minimal development of social services. In sum, the state provided a minimum of direct provision and instead subsidised and regulated non-profit service providers, especially those working in the areas of education and health.

Lee, J.H (2007) sets out the characteristics of developmental welfarism as follows:

*(1) The state’s role as a regulator and a low social spender in combination with the prominent welfare role of the private sector (2) the privately financed social insurance principle (3) the link between work and welfare through an enterprise-and employment-centred system (4) a strong emphasis on human capital investment and self-reliance without commitment to socially guaranteed minimum standards of provision(p.21)*

However, the political and socio-economic negative effects of the developmental welfare state were tremendous. In the social policy context, the welfare state was residual and selective. In particular, the welfare state protected only a selection of the population, such as civil servants, schoolteachers, military men, and regular workers. Kwon, H.J (2002) describes the downsides of welfare developmentalism of Korea as follows:

*First, redistribution took place in such a way that the lion's share went to the high income earners, reflecting the fact that the wage earners in large-scale business and state sector employees were the first groups of people covered by the social policy programmes. Second, social policy-making was confined only to small number of top policymakers, leaving most citizens without a voice. Third, the welfare state was organized mainly for the wage and salary earners and was based on the implicit assumption that unemployment could be kept to a minimum (p.26).*

Chung conceptualises Kwon's third argument as the dualism of the Korean welfare regime(2004) and adds that the expansion of corporate welfare schemes worsened this dualism. He states that large-business labour receives more benefits from both public and private welfare programmes, but workers in small and medium-size businesses and the urban marginal sector receive less from both sides. He goes on to argue that "this dualism is a product of a Korean industrialisation strategy based on large business in the context of East Asia since World War II" (2004). This dualism has still not been resolved, although there have been some developments since the economic crisis.

The 1997 economic crisis hit the developmental welfare system hard in every regard. Fundamentally, this system did not protect the vulnerable, and the economic crisis had created hundreds of thousands of vulnerable unemployed people. Under this system, they had

to rely on their savings or private help to survive. For them, the social safety net within the welfare system was meaningless because the system was mainly for employed people, particularly those working for large businesses.

## **2.2 The reform of the developmental welfare state and the introduction of productive welfare**

### **2.2.1 The productive welfare of the Kim Dae-jung government**

#### *The IMF prescriptions and social safety net*

The impact of the economic crisis on the Korean economy was immense throughout 1998. Korea experienced a sudden fall in GDP of 5.8 per cent. Domestic consumption dropped and export industries were lifeless. As a result, per capital gross national income fell from \$10,307 in 1997 to \$6,823 in 1998. The all-round effects of the recession on the Korean economy are tabulated in Table 2-1.

**Table 2-1 The changes in the Korean economy from 1995 to 1998 (unit; per cent)**

	1995	1996	1997	1998
GDP	8.9	6.3	5.0	-5.8
Final consumption expenditure	8.2	7.2	3.2	-8.2
Exports of goods and services	24.6	11.2	21.4	13.3
Imports of goods and services	22.4	14.2	3.2	-22.0

(Source; NSO (the Statistics Korea), 1999, Shin, D. M, 2000a)

The all-round effects of the recession on the Korean economy are tabulated in Table 2-1. Although the recession stemmed from the economic crisis, the IMF demands brought about a further temporary deterioration of the economy. The IMF demands were focused on economic policy, but social policy was included as well and can be categorised into four

areas: ‘the financial sector, corporate governance, labour relations, and social welfare’ (Chung, M.K, 2001). The demands included abandoning the unsound financial institutions, corporate restructuring, internationalized domestic accounting and auditing activities, elimination of government-directed lending and non-intervention in financial activities, removal of all government assistance including tax privileges to domestic firms and rapid liberalization of the trade regime and the labour market (Lee, H. K, 2009). In light of these demands, the newly elected Kim Dae-jung government had to implement economic reform and social reform at the same time, faithfully following the IMF prescriptions. The reason why social policy was included in the IMF prescriptions was that the prescriptions were based on neo-liberalism, and accordingly, the reforms were expected to lead to mass unemployment. In practice, these economic prescriptions had a huge influence on the socially disadvantaged. The rate of unemployment skyrocketed from around 2.5 per cent in the early month of 1997 to 6.3 per cent in February 1999, the jobless total reaching 1 million (Shin, D.M, 2000). Perhaps the most noteworthy feature of this period was the collapse of the middle class. The long-standing economic growth in Korea had brought about a numerical increase in the middle class, but the financial crisis forced the numbers of middle class to fall substantially. The social policy elements of the IMF prescriptions were fundamentally geared to securing smooth economic reform.

### ***The IMF package and the notion of productive welfare***

The newly elected Kim Dae-jung government had to simultaneously implement the neo-liberal economic reforms and establish a social safety net, even before drinking a toast to its presidential victory. The welfare reform to be carried out under the Kim Dae-jung government was conceptualised as ‘productive welfare’ (or DJ welfarism). The notion of productive welfare was reportedly devised by President Kim Dae-jung himself. According to

the book of 'DJ welfarism (2000)' published by the Presidential Committee for Quality-of-life under the Office of the President in 2000, productive welfare was defined as follows;

*Productive welfare is an ideology as well as a policy that seeks to secure minimum living standards for all people, while expanding opportunities for self-support in socio-economic activities for the purpose of maintaining human dignity (2000, p.18).*

The Presidential Committee for Quality-of-life explained the three components of the concept of productive welfare as follows:

- 1) Distribution through an equitable market system*
- 2) redistribution of wealth by the government*
- 3) social investment for self-support.*

In the same vein, the Presidential Committee on Policy Planning at that time advocated three key principles:

- 1) guaranteeing a minimum standard of living for those without the ability to work*
- 2) supporting self-reliance and self-support by virtue of the centrality of work and human capital development*
- 3) a more efficient and democratic management of welfare institutions by increasing the involvement of local authorities, the private sector and the community in policy design and implementation (1999).*

Lee, H.K (2004) identifies the three notions that lay behind productive welfare. She argues that “the notion of productive welfare incorporates the ideas of, first, the basic human right to decent minimum standard of life, second, the right to work and participate, and third, welfare pluralism, with emphasis on the importance of social welfare as a human capital investment” (p.293). Lee, H. K (2004) interprets it to mean a welfare mix of ‘the components of Beveridge’s notion of national minimum, Nordic countries’ social democratic corporatism, and the neo-liberal principles of welfare-to-work and private public partnership’. Shin, K.Y(2003b) argues that “productive welfare was an outcome of complex economic, political and institutional dynamics” (p.12). He defines it as “welfare-to-work, which is similar to workfare, which has been intensively developed in the United States and later in Britain” (ibid.). Whatever the precise motivation for and interpretation of productive welfare may be, the Kim Dae-jung government implemented an audacious welfare reform package that covered many kinds of social welfare programmes.

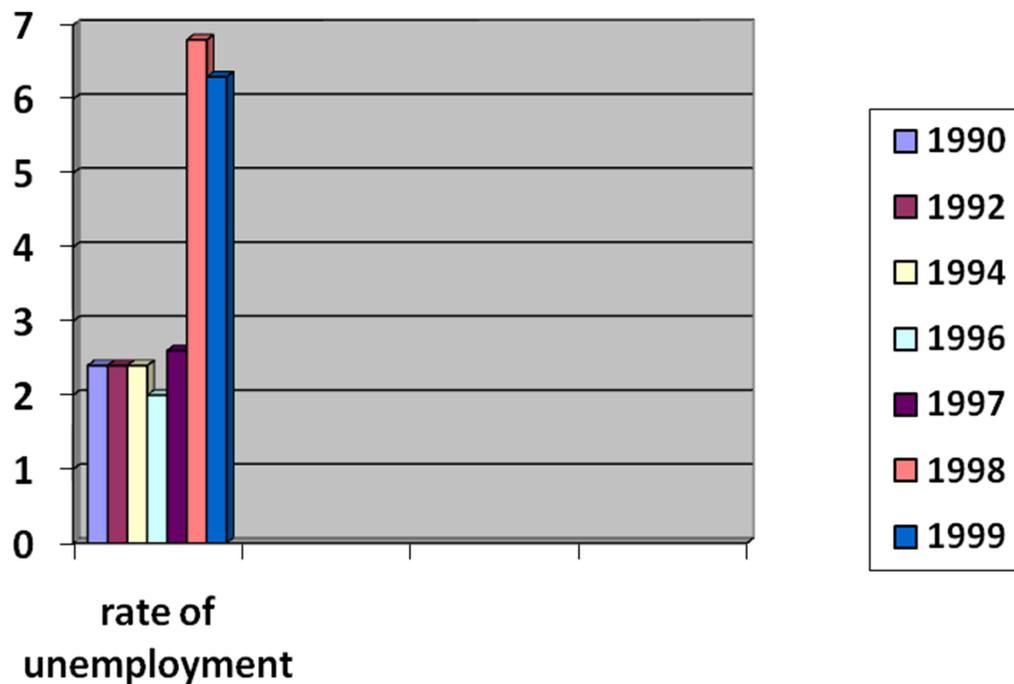
## **2.2.2 The implementation of productive welfare reform**

### ***Unemployment countermeasures***

In practice, then, what happened in the social policy context under the Kim Dae-jung government from the economic crisis in 1997? The most urgent issue was the problem of joblessness because the economic crisis and the subsequent IMF economic reform package triggered an unemployment explosion.

As can be seen in Illustration 2-1, the rate of unemployment was 2.4% in 1990, and it remained fairly consistent until 1997. By 1999, however, it stood at 6.3%, according to the ministry of Labour. According to Kwon, H. J (2001), the unemployment had three important characteristics.

**Illustration 2-1: Unemployment Trends in Korea (unit; per cent)**



(Source : the Ministry of Labour White Paper, 2000)

First, the unemployment rate among young people was very high. The number of unemployed people aged between 15/34 was about 781,000 (53.9% of all the unemployed). Second, no employment sectors were safe from job losses. Third, there was a change in the labour market structure. In other words, a bigger proportion of the older employees left their jobs while more young people tended to stick to their work instead of exploring various possibilities (Kwon, H. J, 2001).

The Kim Dae-jung government rushed in countermeasures to tackle the problem. Various measures were introduced, including temporary job creation through a large-scale public works project, job sharing, vocational training, and income support for the unemployed. Most importantly, the government expanded unemployment benefit coverage under the Employment Insurance Programme from businesses with 30 employees to those with ten, then with five, and finally in October 1998 to all employees except temporary and part-time workers. Unemployment benefit is one of the three components of the Employment Insurance

Programme (EIP). The other components are job-training grants and job security grants, as shown in Table 2-2.

**Table 2-2 The structure of the EIP (Kwon,H.J, 2001)**

Components	Sub-programme	Grants for
Unemployment benefits	Unemployment benefits Incentives for job seekers	Incentives for early job-takers Incentives for training, etc.
Job training	Incentives for employers Incentives for employees	In-house training Paid leave for training, etc. Training for the unemployed Incentives for training, etc.
Job security	Restructuring programme  Incentives for employing unemployed, women, and the elderly Subvention to the retirement funds for construction workers	Temporary closure/reduction of working hours/redeployment of workers, retraining, etc. Employment of the long-term unemployed Maternity leave Employing the elderly, etc.

(Source: Ministry of Labour, Labour White Paper, 1998)

The EIP is a social insurance programme financed by contributions from employers and employees. The government acts as a regulator and subsidises its operational costs. This means that benefits are available to those who have paid the required contributions prior to the date of unemployment. Eligibility conditions for receipt of the benefits include the following: the recipient must be actively seeking work, and there must be ‘justifiable reasons’ for their having lost their job. Alongside increasing the coverage extension of unemployment benefits, the Kim Dae-jung government also increased the level and duration of unemployment benefits and relaxed the insured period for benefits. Government expenditure on unemployment reached 2.7% of GDP in 1999. Aside from this, the Kim government made efforts to strengthen other measures for tackling unemployment, such as vocational training. However, in spite of the coverage expansion, the benefits could not be claimed by many of the unemployed and the poor. The EIP was limited only to those who had previously been in

full-time employment and was not applicable to the self-employed who had lost their jobs, temporary or part-time workers, unpaid family workers, or those people who had left their jobs voluntarily. These limitations were fundamentally related to the legacies of welfare developmentalism, but in spite of these limitations, the Kim Dae-jung government's measures against mass unemployment received attention in other countries.

### *The reform of public assistance*

The most notable welfare reform under the Kim Dae-jung government after the economic crisis was the introduction of the National Basic Livelihood Security (NBLS) system. The NBLS became a symbol of President Kim Dae-jung's welfare policy; indeed, Kim stated in an interview with the Hankyoreh daily newspaper in 2007 that his greatest achievement was the introduction of the NBLS system. President Kim's assessment was no exaggeration. Many academics regard the enactment of the NBLS as a remarkable development in the history of social policy. Moreover, the importance of the NBLS goes far beyond its function as a new form of public assistance: it was significant in terms of social policy content, policy making in the area of social policy, and welfare politics. In this section, the discussion will be confined to the importance of the NBLS's content in the public assistance context.

The NBLS system originated from the Livelihood Protection (LP) system, which was enacted in 1961 as a type of public assistance for the deserving poor. Public assistance refers to state benefits paid out of general tax revenues without contribution conditions (Hwang, 2006). When the LP was introduced, much of the Korean population was poverty-stricken. The rate of absolute poverty in 1965 was 40.9%. The LP was introduced to meet the needs of these people, but its coverage was insufficient and selective, its application was crude, and its goal was neither social security nor the guarantee of social rights but the maintenance of public order and the management of the labour market, rather than the well-being the poor (Hwang,

2006). Accordingly, its structure was based on selectivity and its principle on self-reliance. To become a beneficiary of this system, all three of the following conditions had to be met.

*First being poor, second, being economically inactive, meaning, aged 65 and over, or under 18, or handicapped, or pregnant, and the third is having no responsible family members or the responsible family member being unable to work*(Lee, H.K, 2009, p.11).

These strict conditions meant that less than one per cent of the total population received LP benefits before the economic crisis. Moreover, the number of possible recipients was limited and determined by the budget allocated to the LP system.

However, since the economic crisis forced many people from the middle class below the poverty line, “it had a significant role in provoking public awareness of the poverty problem and the necessity for reform of the existing social safety net” (Jung, 2009). Furthermore, throughout the economic crisis, income distribution became more unequal.

**Table 2-3 Income distribution in Korea (per cent)**

	1 <sup>st</sup> -3 <sup>rd</sup>	4 <sup>th</sup> -7 <sup>th</sup>	8 <sup>th</sup> -10 <sup>th</sup>	Gini coefficient
1995	14.7	35.3	49.8	0.284
1996	14.3	35.3	50.4	0.291
1997	14.6	35.8	49.7	0.283
1998	13.2	34.6	52.1	0.316
1999	13.1	34.3	52.6	0.320

(Source: NSO (2001))

As shown in Table 2-3, the income share of the 1<sup>st</sup>-3<sup>rd</sup> groups, which are the lowest of the decile groups (that is, the lowest earners), decreased to 13.1 per cent in 1999 from 14.7 per cent in 1995, whereas the 8<sup>th</sup>-10<sup>th</sup> groups (the highest earners) increased to 52.6 per cent in 1999 from 49.8 per cent in 1995. The Gini coefficient column in Table 3-3 demonstrates how income inequality increased.

It was under these circumstances that the LP Act was finally abolished and replaced by the NBLs system, which was enacted in 1999 and then implemented in October 2000. But what are the differences between the two systems? Why is the NBLs Act valued and spoken of so highly? In practice, were there significant changes?

Compared to the LP system, the NBLs system has several obvious improvements, and it is widely accepted in the academic world that by the enactment of the NBLs Act, the Korean State recognised welfare as a citizen's social right for the first time. Firstly, the LP system was established merely as a means of support, whereas the NBLs system is based on social rights. This means that a basic standard of living is to be guaranteed by the government, both as the state's responsibility and as the people's right. Secondly, the LP's age restrictions were abolished, and people aged 18-65 can be benefit recipients under the NBLs system. In addition, housing benefit was established as part of the NBLs system. Under the NBLs system, benefit recipients capable of work must seek work and are required to participate in the Self-Reliance Assistance (SRA) service. This service is aimed at preventing welfare dependency and increasing self-support. Thus, "the SRA services are provided as a welfare-to-work programme for the Active Labour Market Policy" (Jung, I. Y, 2009). In terms of its increased coverage, the practical effects of the introduction of the NBLs can be seen from the following passage by Lee, H. K (2004).

*The number of public assistance cash beneficiaries increased from 0.37 million in 1997 to 1.55 million in 2002. The poverty line, the minimum standard of living to be protected by the NBLs system, was estimated by the experts and made public each year. The budget for the NBLs rose from 900 billion Won in 1997 to 3,403 billion Won in 2002. It accounted for about half the total budget of the MOHW in 2002 (p. 294).*

In spite of these considerable improvements over the LP system, the NBS system still has some drawbacks. Although the age restrictions of the LP system were abolished, other entitlement criteria for the new benefits are based upon the older system. The most problematic issue is the family-support criteria. These criteria include the applicant's family's income and assets, which have to be below a level set by the government. Because of this, many poor people below the poverty line are not entitled to benefits under the system.

In sum, despite the considerable improvements made to the public assistance programme, the NBS system has not escaped the policy legacies of developmental welfarism. Lee, J. H (2007) states that the NBS provides "minimal income support and a strong emphasis on self-reliance without socially guaranteed minimum standards of provision" (p.106), while Chung, M. K (2000, 2004) argues that in Korean society, policymakers and social elites tend to favour the developmentalist position, that social welfare programmes should not undermine the institutional base for economic growth.

### ***The reform of health insurance and pensions***

The health insurance and pension system have also undergone major changes since the economic crisis. In this section, I will only briefly summarise the Kim Dae-jung government's reforms and their results. The reason for this is that I examine in detail the content, the policy-making process, and the political-social interactions of the reforms to these two key welfare systems in Chapters 5 and 6.

The first challenge for the government and pro-welfare reformists was to integrate the many separate health societies into a single administrative organisation that would operate health insurance and manage its funds, something that had been a long-standing demand of civil organisations before the economic crisis. National Health Insurance (NHI) was introduced in 1977 and began to cover the entire population from 1988. During the early stages, the

management of NHI was administered separately by numerous health societies “in terms of collecting contributions and paying hospitals for treatment of their members” (Kwon, H.J, 2002, p.31). This administrative separation meant that the NHI funds were dispersed among the various health societies. According to Lee, H. K (2004), these numbered 420 in total, all with different contribution rates and independently managed funds for different workplaces and geographical areas. The problems with this diffuse system of management went beyond systemic insecurity and instability. In particular, the regional health funds for the self-employed suffered fiscal problems that created further inequalities in the system. Finally, the Kim government effected the integration of NHI, and the separate health societies were merged into a single administrative and financial system.

The Kim Dae-jung government also reformed the National Pension Scheme (NPS) in response to the crisis. However, the reform strategy taken was different from that usually adopted by the West in times of economic hardship. Rather than employing a policy of retrenchment, Kim’s government expanded pension coverage to the urban self-employed, to firms with fewer than five employees, and to temporary workers and daily workers in 1999. As a result, “9 million individuals were added to make the 16 million universal coverage of the pension system a reality by 2001” (Lee, H. K, 2004, p.295).

Regarding pension reform during the Kim Dae-jung Administration, Kwon, H. J(2002) summarises the developments as follows:

*The Kim Dae-jung government made three important policy decisions for reforming the programme. First, the level of pensions would be lowered so that expenditure in the future would be smaller. Second, the programme was to cover self-employees, farmers and urban informal sector workers, who were previously excluded. Lastly, a steering committee was set up to consult the ministers of Finance and Economy and Health and Social Welfare on*

*investment decisions. This committee included policy experts, as well as officials from the government. The new rules were implemented from December 1998. (P.40)*

The interesting point is that despite the pressure from the IMF and the World Bank for the introduction of a partially privatised pension system, the government maintained a redistributive form and a single fund system based on the principle of social solidarity. However, although there were significant developments, there were still serious problems with the new pension system, such as its financial sustainability and fund management issues. Besides these reforms, medical and pharmaceutical practices were separated, and free primary school education was implemented. In addition, the Industrial Accident Compensation Insurance scheme was expanded to all companies.

### ***Debates and reinterpretation of the welfare reforms***

The welfare reforms of the Kim Dae-jung government led to major debates among academics on the nature of welfare reform and the welfare regime under this government. In fact, this was the first time that academic debate on the nature of a Korean government's welfare reforms had taken place (Nam, C. S, 2002a). The key issues were how best to understand the nature of the Kim government's welfare reforms and how to evaluate their performance. These questions were closely related to the issue of what constitutes the nature of the Korean welfare state.

The debates on the post-economic crisis welfare reform can be broadly divided into three categories. These debates are essentially based on Gosta Esping-Andersen's (1990) typology of three welfare regimes. The first argument is that the reform was neo-liberal in nature. Cho, Y. H (2000) argues that it was explicitly so, while Chung, M. K (2000) contends that the reform was essentially neo-liberal in approach, but it was informed by the institutional

legacies of the developmental state. However, Kim, Y. M (2001) argues that there was an expansion of state welfare and a reinforcement of the state's role in welfare provision within a wider neo-liberal economic framework, which suggests that the reform was hybrid in nature. Similarly, Kim, Y. M (2001b) insists that the reform was a hybrid of liberal and conservative welfare regimes. However Nam, C.S(2000) claims that although the intentions behind the reform may not have been so, its result was a conservative welfare regime. These debates have raised fresh arguments about the Korean welfare regime's likely future direction. Here, like in the debates on its nature, scholars see different prospects for the Korean welfare regime: the emergence of a conservative welfare regime (Cho, Y.H, 2000, 2002), the continuation of a developmental regime (Chung, M.K. 2002), and the development of a hybrid form combining liberal and conservative regimes (Kim, Y.M. 2001b, 2002).

The main debates were later developed and expanded upon through two books edited by Kim, Y. M (2002) and Chung, M.K (2004), respectively. The core idea of the debates concerned the fundamental nature of the Korean welfare regime. Although scholars have each presented very different arguments, they have a common ground in one sense: the Kim Dae-jung government's creation of the basic foundations for the Korean welfare state has had a considerable influence both on its course of development and Korean welfare politics. More interestingly, most scholars at that time did not regard the Korean welfare state or its future prospects positively (Nam, C.S, 2002a, 2009; Kim, Y.M, 2001a, 2001b, 2001c; Cho, Y.H, 2000, 2001). However, I contend that despite the Korean welfare regime's many shortcomings compared to advanced welfare states, the possibilities for and the potential of the Korean welfare regime is considerable. The most important factor is that since the inception of welfare reform, the numbers of people supporting the establishment of a universal and comprehensive welfare state have continuously increased and continue to do so, as you can see Table 2-4. The pressure 'from below' in terms of welfare politics in particular

is inexorable and the creation of a new and comprehensive Korean welfare state seems almost inevitable. This pressure ‘from below’ can be confirmed through the exploration of welfare politics during the period of welfare reform under the Kim Dae-jung government after the economic crisis.

***Changes in the labour market after the economic crisis***

As Table 2-4 shows, the welfare policy performance of the Kim Dae-jung government was very different from that of previous governments.

**Table 2-4 Welfare performance before and after the economic crisis**

	Social expenditure (adjusted GDP, %)	The MOHW budget (adjusted government budget, %)	National pension participants (unit; millions)	Employment insurance participants (unit; millions)	Gini coefficient
1996	5.29	4.03	742.6	433.1	0.291
1997	6.46	4.22	735.6	428.0	0.283
1998	10.86	4.12	658.0	526.8	0.316
1999	9.77	4.97	1074.9	605.4	0.320

(Source: figures from the KIHSA, MOHW, NPS, etc.)

There was an expansion of social insurance, the enactment of the NBLIS system, an increase in social expenditure adjusted for gross domestic product (GDP), and a considerable increase in the budget of the MOHW. Although poverty and income inequality were rising (as shown by the GINI coefficient), neither was due to welfare reform (Nam, C.S. 2002). Rather, the economic crisis and the neo-liberal globalisation measures implemented by the previous government lay at the heart of problem, although it must be noted that the neo-liberal economic reforms implemented in the wake of the economic crisis also had a considerable impact in this regard. Indeed, many scholars, including Nam, C. S (2002b), Lee, H. K (2004),

and Shin, K. Y (2003) have pointed to the impact that neo-liberal economic reform had on income distribution.

According to Nam, C.S (2002b), the most influential factor was the changes in the composition of the labour market. The percentage of irregular workers rapidly reached over 50% of the entire workforce after the economic crisis, and the proportion of irregular workers reached 58.4% in 2000 (Kim, Y. S, 2001). These changes in the labour market would later have a considerable influence on the nature of the Korean welfare regime and Korean welfare politics.

## **2. 3 Changes in the policy-making process**

### **2. 3. 1 The understanding of the policy-making process**

The changes in social policy in Korea after the economic crisis were not limited to welfare reforms. More significantly, there were changes in the policy-making process itself. As was shown in Chapter 1, the policy-making power under the authoritarian governments was concentrated in the autocratic president and the bureaucracy. By and large, policy making occurred within a closed structure, and it was primarily democratisation that opened up this policy-making system in terms of the social policy arena. Eventually, the economic crisis brought about significant changes to the policy-making power structure and its process.

The social policy-making process in Korea since the economic crisis has been explored by a number of scholars, and these studies have yielded important insights. The bulk of the research has focused on individual policies such as pensions, health insurance, the separation of medical and pharmaceutical practices, and so on. In particular, the policy-making process of the NBS system has been the subject of intense study. The reason, perhaps, is that the

NBLS system policy-making process was the most dramatic and interesting. In this sense, the most notable research was Ahn, B. Y's (2000) work. He examined how democratisation and civil society had influenced the policy-making process throughout the enactment and implementation of the NBLS system. He discovered four key characteristics of the NBLS policy-making process.

*1) Civil society's role in the reform process of social policy has increased and major changes in the existing policy-making process have occurred. 2) However, decision-making remains president-centred. 3) Bureaucratic politics remain prominent 4) The economic bureaucrats with neo-liberal attitudes intervened in the detailed enactment of reforms and attempted to influence decision makers on social policy (Ahn, B, Y, 2000, p.45; from Korean, author's translation).*

In reality, the enactment of the NBLS system arose from a welfare reform movement by civil organisations, but the final design was the product of a compromise between civil organisations and the conservative bureaucracy. After Ahn's study, a number of younger scholars re-examined this process, and they came to much the same conclusions.

### **2.3. 2 Three interpretations of Korean welfare politics in terms of policy-making process**

However, comprehensive research on the policy-making process and welfare politics is still rare, and few studies have examined the major policies systematically. In light of this, there are three important researchers who have extensively investigated the nature of Korean welfare politics. The first notable study was conducted By Kwon, H.J (2002). Kwon examined "the reform policies on income maintenance programmes for the unemployed and

the poor and in the public health care system, including the reform of National Health Insurance and the policy for redefining the work of health care professionals” (p.1). He reveals the significant role played by “the advocacy coalition of the welfare-idealists who were the driving force of such reforms with the strategic edge to produce the policy outputs they wanted” (p.20). Kwon’s research provided younger scholars with a keen insight into the politics of welfare reform in Korea. In conclusion, he argued that:

*after the long period when the economic pragmatists exercised a strong influence in policy making, the advocacy coalition of the welfare idealists was able to grab the effective point of decision amid the economic crisis of 1997-1998, which had altered the course of political competition and to a great extent changed socioeconomic conditions in Korea(2003, p.71).*

The second significant body of research in terms of the policy-making process and welfare politics in Korea since the economic crisis is Shin, K. Y’s studies. In 2001, Shin published the article, ‘The Economic Crisis in Korea and Welfare Reform’. In this article, he revealed three distinctive features of the social policy-making process in Korea. The first feature that he emphasised was that “social classes did not play a significant role in shaping state policy” and that “labour unions and peasant organizations did not have political leverage to exert their influence through institutional politics” (2003, p.63). Secondly, “political parties did not properly function as a policy maker. Political parties in Korea have been dependent on regional antagonism since the 1970s, and they have not been interested in social policy making for mobilizing voters” (ibid). Thirdly, he noted that “underdevelopment of party politics has contributed to the development of the political activity of social movement organizations” (p.64).

Shin emphasised the importance of two actors in particular – the IMF and the Kim Dae-Jung government – but the most decisive actor affecting economic and social policy in Korea was the International Monetary Fund (IMF). According to Shin, in accordance with the demands of the IMF and the World Bank, the Kim Dae-jung government implemented an expansion of the social safety net. Moreover, he argued that “as the Kim government used the social policy to legitimize the neo-liberal economic reform, it wanted their involvement of various social groups that might influence public opinion”. Shin’s understanding is somewhat different from that of Kwon and other scholars, and he is acutely critical of the Kim government’s role in the reform process. In his analysis, Shin focuses on the attitude and actions of bureaucrats. He insists that they have a neo-liberal anti-welfare ideology, and while civil organisations and policy experts increased their influence on state policy, bureaucrats retained power in shaping social as well as economic policy.

The third important body of work is Kim, Y. S’s research. She has endeavoured to conceptualise welfare politics in Korea and reveal the particularities of it more theoretically. She argues that democratisation marked the turning point in Korean welfare politics and presents the four following characteristics of Korean welfare politics:

*First, Korea’s welfare issues stayed in the “realm of non-decision” (Bachrach and Baratz, 1979)... Second, the welfare consciousness of Korean seems to be alienated from their objective socio-economic status... Third, interest articulation in Korean welfare politics shows a tendency of extreme pluralism ... The last characteristic of Korean welfare politics is a critical role played by in sic civic movement groups (2007, pp.213-216).*

Her research into ‘the institutions of interest representation’ has revealed a new aspect of welfare politics: ‘the flawed interest representation has resulted from the political party

system that was alienated from civil society and also from the paralyzed social dialogue'. Her research has made an important contribution to the study of welfare politics in Korea because she has tried to discover how political institutions such as the electoral system and the structure of social pacts between the government, the labour movement, and management have affected welfare politics.

### **2.3.3 The politics of the Tripartite Commission**

Continuing in this vein, we therefore need to pay attention to the Tripartite Commission (TC) because it was the first social pact in modern Korean history. The TC, which had first been proposed by trade unions on 3 December 1997, was established from the beginning as a presidential advisory body for tackling the economic crisis. The members of the TC comprised the heads of the KCTU (the Korean Confederation of Trade Unions) and the FKTU (the Federation of Korean Trade Unions) as labour leaders, the heads of the KEF (the Korea Employers Federation) and the FKI (the Federation of Korean Industries) as representatives of business organisations, the MOFE (the Ministry of Finance and Economy) and MOL (the Ministry of Labour) ministers, and finally four political representatives, one each from the ruling party and the three opposition parties. The TC was, as it were, a four-way consultative body composed of labour, management, government, and political parties. Initially, the body was merely a consultative body without any legal basis, but the second-round commission was launched by presidential decree in 1998(Lee,J.H, 2007), formalising the association. Before the economic crisis, this type of arrangement was unimaginable. After many difficulties, the TC finally reached a historic agreement, the 'Tripartite Accord for Overcoming the Economic Crisis'. However, the accord forced the working class to accept harsher conditions in order to tackle the economic situation.

*The gist of the social pact is labour's approval of increasing labour market flexibility, especially the introduction of lay-offs for 'urgent managerial reasons' and a worker dispatch system, in return for the promotion of basic labour rights, the reform of corporate (chaebol) governance, and the enhancement of social security systems (Lee, J. H, 2007, p.120).*

For the new government, the TC was viewed as an instrument for the smooth implementation of the neo-liberal economic and labour market reforms called for by the IMF. For business and labour circles, however, the TC was seen as more problematic due to their competing interests. Talks on measures to tackle unemployment and on economic structural reform initially reached a deadlock, but an agreement was eventually reached, albeit one that favoured business interests. This agreement provided the business circle with greater powers to fire employees freely, which added to the uncertainty and misery of working people. In the end, two federations repeated joint and withdrawal continuously of this committee. Nevertheless, in the policy-making process or welfare politics context, the TC is meaningful because labour unions, management, and the government all participated together in the national public policy decision-making process.

The key arguments on welfare politics presented thus far appear to have different views on, and assessments of, the Kim Dae-jung government's welfare reforms, but nevertheless, they all have one argument in common: although the Kim government achieved meaningful welfare reform in response to the economic crisis, it did not escape the legacies of developmental welfarism or fundamentally alter the established course of welfare development in Korea. I agree with the arguments on the contents of the welfare reform. However, as regards the welfare politics and policy-making process context, I come to a different conclusion to the scholars discussed in this chapter. I contend that a new politics of welfare reform emerged, and the economic crisis was the critical juncture for welfare politics

in Korea. I will attempt to sustain my argument in Chapters 5~7 with the aid of previous research and my theoretical framework.

## **2.4 Concluding remarks**

When analysing social policy, the most important task is to examine under what conditions new social policy emerges and to discover how the accumulation of social policies affects welfare regimes. Economic crisis is a key factor in the initiation of welfare reform, and this has certainly been the case in Korea and also in other countries (Castles, 2001; Timonen, 2003; Kwon, H.J, 2003a; Lee, J.H, 2007). Korea's economic crisis brought about a completely different topography in both her economic and socio-political context. The economy was collapsed and Korea had to receive a bailout from the IMF and the World Bank. The economic crisis ultimately led to a power shift and triggered social crisis.

The newly elected Kim Dae-jung government faced demands from both external and internal forces for economic and social reform. The external forces were the IMF and the World Bank, and the internal forces were civil organisations, interest groups, the labour movement, and so on. Notably, these forces' interests sometimes converged and at other times diverged, making the policy-making process more complicated and pluralistic. With this change in the policy-making process, a new politics of welfare reform emerged.

The signs of the emergence of a new welfare politics were explored by some scholars. In this sense, some researchers have explored the NBS and the Tripartite Commission, while other researchers have conducted in-depth studies of individual policies. This in itself, however, is insufficient if we are to develop a comprehensive understanding of the policy-making process and welfare politics in Korea. I contend that by examining the *reform process* of the major

policies such as pension and health insurance programmes, a clearer appreciation of these political processes will be possible. This will be undertaken in Chapters 5, 6 and 7.

# **Chapter 3**

## **Research on Welfare Politics in Korea**

### **Introduction**

The relationship between politics and policy has been a frequent subject of debate in the academic field of Western social policy. The relationship between welfare development and welfare politics has also often been debated in social scientific research on the welfare state. These discussions originally stem from the political nature of social policy itself. Social policy historically emerged in the mid-19<sup>th</sup> century in response to conflicts of interests and confrontations between social groups, and as Pierson (1994) claims, policy has produced politics. To be more precise, the birth of social policy was the beginning of welfare politics. Many scholars have tried to discover the decisive factors, key driving forces, and core variables for the development of social policy or welfare states. They have also tried to elucidate the political dynamics of the social policy-making process and the political system's influence on changes in social policy. During the 1980s and 1990s, the origin and determinants of the welfare state became an intensively researched subject in the social policy academic world. Many excellent studies emerged in the UK, Europe and USA.

In the same vein, research on the welfare development in Korea has also increased, focusing primarily on policy changes and the characteristics of the welfare regime. In reality, Korea's welfare regime has experienced significant changes throughout democratisation and particularly since the economic crisis. Alongside these changes, new forms of welfare politics have emerged: for example, "class politics seems to have become increasingly complex while interest cleavages along other-than-class lines have increased in importance" (Ahn & Kim, 2003, p.260). To investigate the changing nature of welfare politics in Korea, the different theoretical approaches that have been developed in both domestic and foreign studies of

social policy and welfare state development need to be analysed. In general, many of these studies can be classified as having adopted a functional approach, a class-based approach, or a new institutionalism approach. However, another, more general, classification can be made. The criterion on which this general classification is based is *the cause of the policy change*. In this sense, the following question emerges: why and how did the countries adopt such social policies or such welfare development?

Welfare politics is ultimately the politics of welfare development or the welfare state. Accordingly, the theoretical literature on welfare politics, by and large, has been concerned with the logic of social policy development. Generally, studies falling within this category have posed and have endeavoured to answer the following fundamental questions:

*(1) By whom, why, and how are such welfare policies formed and changed?*

*(2) Which factors or actors have had the most influence on the social policy-making process?*

*(3) What impact did welfare politics have upon the welfare state, and what form did it take as a result?*

In this chapter, I will review a number of approaches that explore the development of social policies in terms of welfare politics.

## **3.1 Competing theories; the politics of welfare development**

### **3.1.1 The state-centred approach**

The state and welfare are inextricably linked. The state has been both the most influential actor in and regulator of welfare development. Accordingly, the emergence and development

of a theoretical state-centred approach is unsurprising, an approach that originally stems from the idea that “the state in capitalist democracies is neither a neutral referee nor a capitalist state”(Shin, D. M, 2003, p33) and “the state should be understood as an autonomous entity with its own interests and goals and with its own capacities to achieve them through a variety of policy instruments” (Shin,D. M, 2003, p.33). Scholars advocating this approach include Theda Skocpol and her colleagues (Skocpol, 1984; Skocpol and Finegold, 1982; Skocpol and Ikenbery, 1983; Skocpol and Weir, 1985). Statist theorists commonly argue that “causal factors in the formation and development of social policies are state structure and state managers within that structure” (Chung, M.K, 1992, p.18), an argument based on Skocpol’s proposition that the state is autonomous. In this regard, Skocpol has argued that “state executives and their followers will be found maneuvering to extract resources and build administrative and coercive organizations precisely at this intersection between international conditions and pressures, on the one hand, and class-structured economics and politically organized interests, on the other hand” (1979, p.32).

This state-centred approach regards welfare states as developing “primarily through the innovative role of state managers and experts, who are nevertheless constrained by state structures” (Chung, M.K, 1992, p.19). Hecló (1974) explained this approach in his book *Modern Social Policies in Britain and Sweden* in the following way: social policies are formed not by social pressures, but by senior officials and by experts on social problems. Skocpol and her colleagues also emphasise the state’s autonomy to develop social policies and its capacity to achieve goals through a variety of policy instruments (Skocpol, 1985; Orloff, 2003). Of course, most researchers recognise that the state’s autonomy and capacity are not universal or absolute characteristics and vary in accordance with a range of internal and external structural conditions.

In summary, the state-centred approach emphasises two points: first, the state is a very significant factor in welfare development and welfare politics; second, state actors such as the political leaders and bureaucrats play vital roles as decision makers in the policy-making process. In practice, political leaders, state elites and bureaucrats in a number of industrial countries, including Korea, played crucial roles in presiding over national economic development and social policies. For several decades, they controlled both the business sector and social organisations such as trade unions and interest groups in order to promote an ‘economic growth-first’ policy. In the social policy context, state actors initiated, designed, managed, changed, and even reformed key social insurance and public assistance programmes. In this view, the state

*“is seen as a group of political institutions with a life and structure of its own by adopting the Weberian notion of the state” and “as a corporate actor, a monolithic entity with its own will, isolated from society”* (Chung, M. K, 1992, p.20).

The state-centred approach has contributed greatly to a better understanding of the development of social policy and welfare politics. According to Chung, M. K (1992), the state’s centrality in much of this development has been largely disregarded by pluralistic and Marxist approaches, and the state-centred approach has brought the state back into studies of the policy-making process, making scholars more aware of “the mediating role of state institutions and state elites and the impact of the inter-state system on domestic politics” (Chung, 1992, p.20). Notably, as mentioned earlier, this approach explains the ‘economic miracle’ in East Asian countries like Korea and Taiwan well. Another of its contributions is that it has led researchers to focus on historical changes in the state’s policy-making processes.

Nevertheless, this approach also has some problems as regards its understanding of the role of the state in the policy process. Scholars have pointed out three main problems. The first is

that the state is not separate from society, but this approach makes the assumption that the state is a separate and autonomous entity (Mitchell, 1991, p.77). Evans (1995, pp.139-180) draws attention to this point as follows: state autonomy must be understood as ‘embedded autonomy’ because the state is closely connected with social actors in the policy-making process. Furthermore, even in an authoritarian regime, the state does not totally disregard society. The second problem is pointed out by Shin, D. M who notes that “public policy is hardly determined in a social vacuum and instead it is decided by reflecting upon the nature of social coalitions” (2002, p.33). The third problem that critics commonly point to, and one closely related to the first, is that “the statist perspective gives too much to the state as a shaper of the society with little reference to its relation to society” (Chung, M.K, 1992, p.20). These points lead to the conclusion that the state is never insulated from society; that is to say, the state’s autonomy is grounded in social, political, and economic conditions and is limited by the structural factors of the capitalist system.

Despite these limitations, the state-centred approach provides a very useful conceptual framework for understanding the dynamics of welfare politics, particularly in Korea, where the state played the dominant role in society. Above all, this approach is valuable in that it provides a means by which to investigate and understand the political strategies of state actors in the policy-making process. However, we need to be aware that this approach in itself is insufficient because the relationship between the state and society is not static, but varies over time in relation to changing situations.

### **3.1.2 The class-centred approach**

The second important, and most debated, approach to welfare development and welfare politics is the class-based approach. In this approach, class is regarded as the principal

cleavage in society and the driving force for the formation of and changes in both the welfare state and welfare politics. According to Ahn, B. Y (2000), the emphasis on class cleavages in the study of the welfare state is very closely related to the concept of social citizenship advanced by T. H. Marshall. Marshall stated that “citizenship is a status bestowed on those who are full members of a community.

“All who possess the status are equal with respect to the rights and duties with which the status is endowed”(Marshall, 1963, p.87). However, it is clear that these rights do not come about automatically or naturally. As Giddens (1984) points out, citizenship rights have come only through the process of social struggle, and so class conflicts have been the medium through which citizenship rights have been expanded. By the same token, scholars who advocate a class-centred approach have emphasised the role that class conflict has played in bringing about both the expansion of social citizenship and the development of social policy.

The theoreticians of power resources theory can be regarded as leading proponents of the class-centred approach (Baldwin, 1992; Esping-Andersen, 1990; Korpi, 1983 and 1989). They have paid particular attention to working-class power and pro-welfare political parties such as social democratic parties. Specifically, power resources theory argues that the power that the working class secures through the alliance of trade union organisations and leftist parties tends to lead to a social democratic welfare state, or at least more egalitarian outcomes (Korpi, 1983; Stephens, 1979), and that “the level of inequality in a society and the accompanying degree of redistribution by the state are functions of the organizational resources of the working class” (Kellermann, 2005, p.3). Power resources theory has provided influential accounts of the welfare state and the welfare politics that surround it. It is generally accepted that this theory provides a good explanation of the formation and development of social democratic welfare states, especially those that conform to the Nordic model.

However, some scholars who stress the role of class power have emphasised the need to focus attention beyond the working class and its alliances and onto the dynamic interactions among other social classes such as the capitalist classes, landed aristocracy, the professional middle class, farmers, the petite bourgeoisie, and the salaried middle class (Chung, M. K, 1992). For example, Esping-Andersen (1990, 1996,1999) demonstrated that the early class alliances of workers and peasants in Sweden proved to be an important factor in its social democratic system of governance, but the rise of middle class and professional groups more recently has had a profound effect in reducing the influence of social democratic parties in Sweden. Baldwin (1992) has argued that farmers, the middle class, and the bourgeoisie were actually more instrumental in the creation of solidaristic social policies in Scandinavian welfare states than the working class. By contrast, Mishra (1984, 1990) has stressed that the political power of the working class is a key factor in explaining the successful defence of the established welfare state against crisis. In light of Baldwin's, Mishra's, and Esping-Andersen's arguments, it seems clear that we need to consider the way in which class-based coalitions or alliances are formed during the policy-making process so as to safeguard their own interests within the capital-labour dynamics of capitalist societies. In practice, these class coalitions have been witnessed throughout the history of Western welfare states. On the one hand, pro-welfare alliances such as those between federated labour movements and pro-welfare political parties have played and continued to play an important role in the establishment and reform of social policy; on the other hand, different class-based alliances also seek to bring about changes in social policy. In this sense, this-class based approach demonstrates that "for a more accurate explanation of the development of the welfare state we should consider complex interactions among social classes and their coalitional relations" (Chung, M.K, 1992, p.15).

However, as industrial society increasingly gives way to post-industrial society, traditional class cleavages are rapidly weakening and working class power is diminishing, trends that undermine the usefulness of a class-centred approach to the study of welfare politics. Moreover, although this approach can provide *some* insight into the Korean experience of social reform and political change, it is fully not applicable to Korea and many other developing countries, particularly those that, like Korea, experienced a significant period of military rule.

### **3.1.3 The historical institutional approach**

The third important welfare development approach that cannot be overlooked in terms of welfare politics is the historical institutionalism approach. This approach was initially an offshoot of new institutionalism approaches but has recently become an established part of them. There are a variety of different strains of new institutionalism: normative, rational choice, historical, empirical, international, sociological, network, constructivist and feminist institutionalism. For the purposes of this chapter, it is not necessary to examine or elucidate all of these various forms; instead, the essential features of new institutionalism need only be outlined.

According to Lowndes (2010), they are as follows:

- (1) from a focus on organizations to a focus on rules*
- (2) from a formal to an informal conception of institutions*
- (3) from a static to a dynamic conception of institutions*
- (4) from submerged values to a value-critical stance*
- (5) from a holistic to a differentiated conception of institutions*
- (6) from independence to embeddedness.*

(From *Theory and Methods in Political Science* (Marsh and Stoker, 2010))

Given that the different forms of new institutionalism share these common characteristics, my decision to focus specifically on historical institutionalism is because it provides a better understanding of the relationship between the state and society “by focusing on the institutions that shape political strategies among contending groups in the process of politics and policy-making” (Shin, D. M, 2003, p.39).

Thelen and Steinmo contend that:

*historical institutionalists have constructed important analytical bridges: between state-centred and society-centred analyses by looking at the institutional arrangements that structure relations between state and society, and between grand theories that highlight broad cross-national regularities and level variables that illuminate sources of variation on a common theme*(1992, p.10)

Thelen and Steinmo (1992) also emphasise that historical institutionalists work with a definition of institutions that includes both formal organisations and informal rules and procedures that structure conduct. Accordingly, this approach looks at “how the institutions mediate the interests of respective actors within the large-scale and historically evolving organizational structures of state and society” (Ikenberry, 1988, p.243). That is to say, the core concern of this approach is “how institutions affect the behavior of individuals”, since “institutions have an effect on political outcomes through the actions of individuals” (Shin, D. M, 2003, p.38). Therefore, historical institutionalism is interested in political outcomes in particular. According to Shin, D. M (2003), this approach emerged during the 1980s in response to pluralism and neo-Marxism. He emphasises that historical institutionalism “initially looked more closely at the state as a complex of institutions capable of structuring the character and outcome of group conflicts” (Shin, D. M, 2003, p.37).

Historical institutionalism's other most important characteristic is that it pays attention to the interaction and dynamics between the state and society. In this perspective, the state and society do not exist independently of each other and, in particular, the state is not a planner disconnected from society and sitting at the head of the policy-making process. As a result, this approach is interested in both the state and societal institutions that shape how political actors define their interests and how they respond to each other (Steinmo, Thelen and Longstreth, 1992).

Although historical institutionalism has been seen as having advantages for understanding policy formation and the policy-making process, it has been subject to criticism. For example, rational choice theorists have argued that this approach is atheoretical, is little more than storytelling, and is overly concerned with historical narratives (Hwang, 2002). Other critics have argued that it is too political and that it neglects socio-economic structural factors. Scholars such as Pontusson (1995) recommend, therefore, that historical institutionalism needs to augment its framework with discussion of structural factors such as economic and societal variables.

In addition to the three approaches mentioned above, there are other approaches related to the policy-making process and welfare politics. However, I will not review these other approaches in this chapter. The reason for this is not because these approaches are regarded as less important than the three approaches covered above, but because they are less relevant to the Korean welfare development context. Thus far, then, I have reviewed three key general approaches to welfare politics.

In the next section, I will briefly discuss the strengths and limitations of these approaches, and I will then consider how these approaches are applicable to the Korean case.

## **3.2 Theoretical discussions and theoretical applications to Korea**

### **3.2.1 Theoretical discussions; state, class, institutions, and welfare politics**

All the approaches to welfare development and welfare politics mentioned above have their own explanatory strengths and corresponding weaknesses. The theoretical focus of each approach will now be looked at in turn in order to address these strengths and weaknesses.

#### ***State***

In highlighting the role of the state in welfare development and welfare politics, the state-centred approach addresses the fact that the state has in practice often played a significant role in economic, social, and political development. Since the welfare state was originally a product of state politics, and social policy programmes were initially developed in order to meet the state's political needs, the development of the welfare state was primarily determined through key interventions by power elites within the state system (Orloff, 2003; Hwang, 2002). Therefore, when it comes to the welfare state and welfare politics, we must investigate the strategies of powerful actors such as political leaders and high-ranking bureaucrats. However, this approach also demonstrates a weakness in that it remains largely ignorant of the role played by social forces (Almond, 1988). In democratic societies, social forces such as the trade union movement, interest groups, and social movements were often more important and were sometimes the driving force of welfare reform. Thus, in democratic politics, non-state forces cannot be ignored. In this regard, Hwang argues the following:

*Another weakness of statism is that the approach has a limited ability to generalize how welfare states develop, since statism or the Skocpolian approach stresses a specific historical analysis above and against general theory(2002,p.25)*

For example, for the East Asian countries achieved enormous economic growth under undemocratic governments, those governments also initiated, designed, and developed social policy programmes under autocratic regimes. However, after democratisation, governments could no longer monopolise social policy decision making. In other words, although the state remained an important factor in the social policy-making process, it could no longer control everything exclusively.

### ***Class***

Class also is a significant factor in politics. It has been regarded as a basis for social and political organisation. In other words, it is a source of social identity in capitalist societies. The class-based approach argues that the most significant factor in the development of social policy and the welfare state is class alliance, particularly the alliance of working class power and pro-welfare political parties such as social democratic parties. Accordingly, in this approach, the development of the welfare state is regarded as representative of the victory of working-class power over capitalist organisations and related groups. For example, George and Wilding (1994) argue that the welfare state is the outcome of a long process of struggle between the working class and its alliances and the capitalists and their alliances. However, this approach fails to explain “the continuous expansion of the welfare state and the emphasis given to the disadvantaged in society” (Hwang, 2002, p.21). In addition, this approach does not fully capture or account for the complexity of post-modern society, in which the interests of stakeholders have become more diverse, a “diversification of interests around distribution, which in turn, directs theoretical attention to other-than-class issues” (Ahn, 2000, p.16). In other words, the importance of ‘other-than-class’ cleavages in post-modern society has grown, while the significance of class has declined. It should be noted that Turner (1981) has pointed to the increased importance of social movements over traditional class politics, and Ahn, S.

H, maintains that collective action is “increasingly organized on an other-than-class basis” (Ahn, S.H, 2000, p.17). In reality, the meaning of class is now weakening and is being superseded by other concepts such as ‘citizen’, the middle class, and the ‘masses’. Finally, as has been seen in the previous chapters, this approach is not universally applicable to the circumstances of Korean welfare development and politics.

### ***Institutions***

In the simplest sense, ‘institutions’ refer to rules. Steinmo states that “institutions define the rules of the political game, and as such, they define who can play and how they can play” (2001, p.2). Kim Yeong-soon also insists that “institutions are important because they are foundations of all political behaviour. Interests and preference of social actors are shaped only institutional contexts” (2007, p.211).

The historical institutional approach, as we have seen, “represents an attempt to illuminate how political struggles are mediated by the institutional setting in which they take place” (Steinmo, Thelen, and Longstreth 1992, p.2). This approach has had greatest influence in the fields of comparative politics and comparative political economy, and it is generally most interested in the formal and informal rules, procedures, and organisations that constitute ‘institutions’ (Hall and Taylor, 1998). The crucial feature of this approach is that:

*institutions constrain and refract politics but they are never the sole cause of outcomes. Institutional analyses do not deny the broad political forces that animate various theories of politics; class structure in Marxism, group dynamics in pluralism, Instead, they point to the ways that institutions structure these battles and is so doing, influence their outcomes*(Steinmo, Thelen, and Longstreth, 1992, p.3)

This approach has become influential within social policy academic debate in recent years. However as mentioned earlier, it has also faced criticism. Shin, D. M (2002) summarises this criticism as follows:

*“First, according to the rational choice theorists, historical institutionalism suffers from a lack of universally applicable concepts based on deductive theory.....second,.....it is common place for historical institutionalism to assign analytical primacy to the political or intermediate level, and so socio-economic institutions or structural variables in capitalist society are dismissed or at best treated as given thing”*(p.39).

Shin’s criticisms point to the institutional approach being too politically focused and non-theoretical; it becomes, in effect, storytelling or the relating of historical narratives. If this is the case, then, we need to consider the limitations of this historical institutionalism approach. In sum, although the state-centred, class-centred, and historical institutionalism approaches are very useful repectively as tools in the study of welfare politics, each approach has its own limits and shortcomings.

### **3.2.2 Theoretical applications to the Korean case**

In this section, I will explore how Korean scholars have applied Western approaches, including the three approaches outlined above, to welfare development and welfare politics in Korea. However, there have been few studies conducted on the nature of welfare politics in Korea, and those that have been undertaken have produced generally similar findings. However, there have been some noteworthy studies from a welfare politics perspective.

The first noteworthy work is a socio-political analysis by Seong (1991). In this study, he reveals the relationship between the Korean political structural shift and changes in social policy by employing socio-political models. Specifically, he analyses social policies from the

First Republic(1948~1960) to the Sixth Republic (1988~present), exploring the functional relations between forms of political structure (authoritarian versus democracy), ruling alliance and resistance alliance, the influence of power and its interactional relations, and the ruling alliance's strategic choices. His research provided a greater understanding of the political nature of Korean social policies under the authoritarian regimes at a time when few studies had been undertaken in this field.

The second noteworthy work is Chung, M. K(1992)'s research. His research is largely based on a state-centred approach, but he has attempted to extend the concept of the state. Chung argues that:

*“... to reconceptualize the state, which could be useful in understanding the nature of the state as well as a structural analysis of public policy.....it is useful to visualize the state as an entity analytically separable from society, but also to bear in mind that the state in a abstract sense refers to structural relations”* (1992, p.57)

In particular, his work focuses on the correlation between state autonomy and state capacity and the patterns of social policy making. His empirical findings showed that:

*“the organizational structure of the Korean state shaped the form and content of social security programmes. This imbalance between economic and social policy apparatus in terms of organizational power and capacity, and the lack of a coherent social planning body contributed partially to the asymmetrical and limited development of the Korean social security system”* (1992, pp.37-38).

Kwon's work has made a significant contribution to the realm of social policy research by widening the horizons for the interpretation of social policy in Korea and Eastern countries (Hwang, 2002). Above all, he and his academic colleagues established that social policy was

an instrument for economic development during the period of rapid economic growth in Korea (Kwon, H. J, 1999a, 1999b; Goodman and White, 1998). These studies mentioned above first and foremost emphasise the importance of political variables in welfare development and so demonstrate the nature of welfare politics under Korea's authoritarian regimes. Later, Kwon also attempted to discover "the politics of social policy after the economic crisis of 1997-1998, focusing on the advocacy coalitions" and concluded that "welfare reform is contingent upon the political institutions and political actors' ability within them to form an effective advocacy coalition to pursue their policy agenda" (2003, p.80).

Besides Kwon's work, other important research has been conducted. A relatively recent and popular approach in terms of welfare politics is the study of the politics of policy making. This approach focuses on the process of policy making by examining welfare programmes. A variety of studies have been conducted by Korean scholars, some of which have focused on the role of the executive branches (Oh, C.S, 1987; Chun, N.J, 1981), while others have focused on the role of the National Assembly (Song, 1992) and the dynamics between political actors in the process of policy formulation (Choi, 1998) Other scholars such as Lee,H.K (1999) and Shin,D. M (2000) have been more interested in the linkages between social policy and economic policy.

Although interest in class or a class-centred approach has reduced in recent years, Shin, K. Y (2003a, 2003b, 2004) has continuously focused on class. In particular, he has studied the labour movement and capitalist power. Shin's extraordinary work on class has shown that class remains an important factor in welfare politics. Shin has also been keen to reveal both the discourse on welfare and the political terrain of welfare politics in terms of the development of progressive politics. Likewise, Hwang (2002) focuses on the "dynamics between early intentions of those promoting ideas of welfare and the actual behavior" (2002, p.47). Woo (2004) studied the politics of Korean social policy by focusing on the 'balance-

of-class-power and the state-centred theories which are better developed to show the diverse patterns of welfare state development. Kim, Y. S (2007) focused on political parties and social dialogue systems and analysed how the interest representation structure and welfare politics affected the Korean welfare state by using the concept of ‘institutions of interest representatives’. As a result of her research, she argues that:

*“Korean welfare politics has displayed the power of institutions at a high level, for the flawed institutions of interest representation relegate social issues, including welfare issues, to the realm of non-decision”* (p.186).

Another notable approach in terms of welfare politics is analysis of the policy-making process by examining individual policies such as health insurance, pension provision, and public assistance. Various scholars have performed their own research within this area.

Some have focused on actors such as members of the National Assembly, bureaucrats, government branches, and interest groups, whereas others have focused in particular on social movements, the labour movement, and the dynamics between actors. Their common interest lies in the roles of actors and their activities in the welfare policy decision-making process. The variety of research on the politics of policy decision making has contributed to a better understanding of the political aspects of welfare policy reform and welfare politics. Some of these studies were originally informed by and based on the historical institutionalism approach.

### **3.3 Concluding remarks**

On the whole, the research on welfare politics and welfare development in Korea has been dominated by the state-centred approach and the historical institutionalism approach. The

latter in particular has become more popular in recent years. These trends are closely related to Korea's unique political and economic conditions, such as the developmental state, the powerful and sometimes autocratic presidential system, the relative weakness of the labour movement, the growth-first policy climate, and so on. For example, "the president has been the most powerful and important figure in Korean politics, and ministers and policy experts have not played a significant role, unlike in other countries" (Kwon, 1999, p.17). Therefore, these unique conditions led Korean scholars to focus primarily on the role of the state, even though they did not explicitly adopt a state-centred approach.

Simultaneously, when it comes to exploring or analysing the detailed policy-making process, many scholars have tended to focus on the historical institutional approach and have made institutions and critical junctures the focus of their analysis. The class-centred approach has been largely disregarded because "class conflicts have not been a decisive factor in Korean politics in general and in social policy making in particular in the way that the class-based approach assumes" (Kwon, 1999, p.15).

However, even though two of these approaches appear to be highly applicable to the Korean case, a more comprehensive framework for understanding welfare politics in Korea is necessary. In the next chapter, I will lay the theoretical and methodological foundations for a new framework.

## **Chapter 4**

# **The Theoretical Framework and Research Methodology**

### **Introduction**

In this chapter, I will present the theoretical framework adopted for this research and report on how I designed the field research. The framework is designed to help understand welfare politics in Korea since the economic crisis during the Kim Dae-jung government. For doing this, I will first discuss some of the points to be considered in connection with the main subjects and also how some of the theoretical approaches to Korean politics will be addressed and debated in relation to this thesis. I will then describe my theoretical framework in more detail. I will also set out the research methodology, explaining why I have adopted the ‘historically-oriented interpretive’ approach and how it works for this research. Lastly, I will detail how I gathered, analysed, and presented the data.

### **4.1 The key concepts for a theoretical framework on welfare politics**

In this section of the chapter 4, the key concepts and issues related to the main subject of this thesis, welfare politics in Korea, will be presented. These concepts underpin the theoretical framework of this research.

#### **4.1.1 The policy-making process, socio-economic structure, and political variables**

According to Heywood, “politics is the activity through which people make, preserve and amend the general rules under which they live” (2002, p.4). In other words, politics is essentially the study of human beings’ actions. These actions are closely related to a range of

factors, including power and the distribution of resources. The arena of politics, therefore, is set through “a plan of action adopted by an individual, group, business or government, in a general sense” (Heywood, 2002, p. 400). Welfare politics is a form of politics that concerns the dynamics of power among social groups in regard to welfare policy. In order to better understand a country’s politics and welfare politics, we need to identify the decision makers within the policy-making process because this reveals the nature and characteristics of its politics in terms of power relations.

As a subject for academic study, exploration of the policy-making process is most evidently a part of political studies or political science (Hill, 1997a, 1997b, 2002). The reason that many scholars study the policy-making process is that it shows ‘how power is acquired and used’ and ‘who gets what, when, how’ (Lasswell, 1936). The policy-making process both illustrates and affects how policy is made (Dror, 1968, p.160) and it has characteristics of a biological system. Like a creature has a life, so policy has a life: it is born; it grows; it disappears. The most significant part of the policy-making process is the decision-making point because it reveals the dynamics of key political and social actors. Accordingly, interest in the study of the policy-making process has increased over the last few decades in both the West and Korea.

It is generally accepted that public policy making in particular “is a very complex and dynamic process whose various components make different contributions to it. It decides major guidelines for action directed at the future, mainly by governmental organs” (Dror, 1968, 1983, p.12). According to Dror (1968, 1983), policy making has the following twelve main characteristics:

*It is (1) very complex, (2) dynamic process with (3) various components (such as political institutions) that (4) make different contributions. It is (5) a species of decision-making that*

*produces (6) major guidelines (strategy) (7) for action (8) directed at the future, (9) mainly by governmental organs. It (10) formally aims at achieving (11) what is in the public interest and (12) by the best possible means* (adapted from Dror, 1983, pp.12-16).

Among these twelve characteristics, we should particularly bear points (2), (3), and (5) in our mind because “policymaking is a process, that is, a continuous activity taking place within a structure... It is a dynamic process, which changes with time” (Dror, 1983, p.12) and that “the substructures most involved in public policymaking constitute the political institutions or political system of society” (Dror, 1983, p.12-13). Dror ultimately demonstrates the implications of decision making in the social policy context. Following Dror’s line of reasoning, we need to consider a variety of extraneous variables that include very broad and macro-level political-socio-economic factors. In fact, social policy is also influenced by a number of policy environment variables.

Recently, the role of politics in the social policy context has become increasingly emphasised. While political factors are certainly very important in terms of policy and the policy-making process, social structural variables should not be overlooked. For example, the initial attempt to explain social policy development in the West was through the logic of industrialism. However, as previously noted, this is not entirely suitable to the Korean case, but such logic cannot be ignored entirely because the demand for social policy has inevitably increased with the development of industrialisation in Korea. Globalisation is another important external factor. After the 1997 Korean economic crisis, the importance of globalisation as a factor increased, and the influence of international organisations such as the IMF and the World Bank grew. For instance, the IMF demanded social policy reforms, and the Korean government had no choice but to accept the IMF demands. Furthermore, globalisation has affected social policy and welfare state development in other ways; for example, job

insecurity has increased, and state autonomy has decreased. This socio-economic environment necessarily generates social demands by the working class or interest groups. Depending on the strength of these demands, certain policies become political issues. However, there are obvious limits to this structural approach's ability to explain welfare development and reforms in terms of welfare politics. Most significantly, this approach does not explain well the political dynamics of the policy-making process or the dynamics of the policy itself because this approach does not reveal actors' interactions and their dynamics.

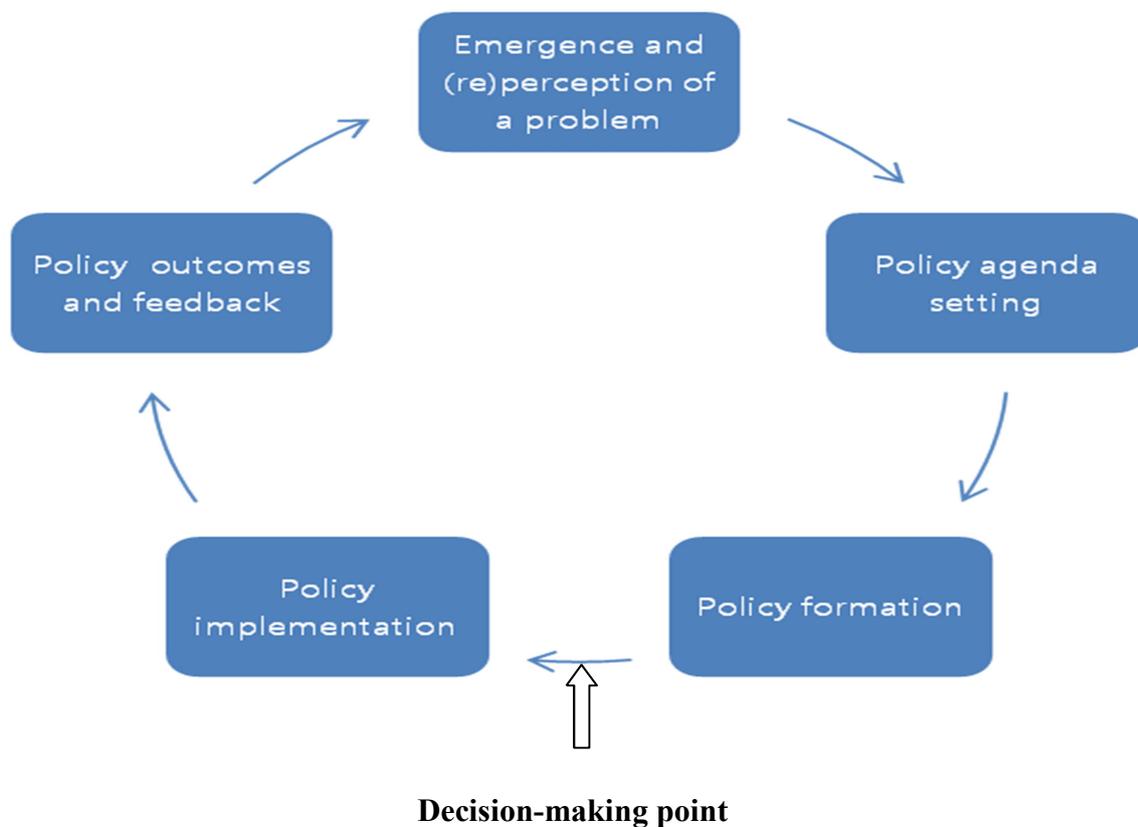
The entire policy-making process is a political process; at all times, it is certain that politics plays a crucial role in the formation of social policy. The political process and political objectives are embedded within the pension and healthcare policy reform processes in both the West and Korea. Many scholars (Kwon, 1999; Chung, 2002; Shin, 2003; Hwang, 2002) emphasise that the key aim of social policy and welfare policy in particular, is not the fulfilment of a humanitarian principle or effecting a better life for citizens, but the maintenance of social stability, social order, and social control. This view highlights the fact that the social policy-making process is imbued with political intentions. Though there may be strong demands for the development of particular social policies from elements in society, these demands can be repressed, distorted, or expanded by political variables. This perspective, which stresses the political variables in the policy-making process, makes it possible to explain the dynamics of the policy-making process. If one accentuates only the socio-economic variables, then the policy-making process becomes one of unilinear 'causation' - a socio-economic variables-centred perspective. What, then, are the political variables? They are varied and include the following: the nature of a political regime; the degree of competition between political parties; electoral politics; the government's attitude to welfare; and how, and the extent to which, veto points play a part in the policy-making process.

In the Korean case, the policy-making process has been strongly influenced by Korea's political structure and power relations, including the presidential system, the action strategies of actors, and the interaction of the actors' actions. Most notably, the presidential system has meant that the president has exercised great political power over the decision-making process. Furthermore, welfare issues were not key issues for political parties and were not a significant factor in the electoral process. I will discuss this in greater detail later. However, during the post-economic crisis period of reform political factors became increasingly important and influential. Accordingly, the politics of welfare reform during this period and in Korea's subsequent modern democratic society is highly dynamic and complex. In sum, in order to better understand the dynamics of welfare politics in Korea since the economic crisis, we need to explore and analyse the policy-making process while taking into consideration Korea's 'socio-economic structure.'

#### **4.1.2 The decision-making point, policy legacies, policy actors, and policy feedback**

The process of social policy formation is not a linear continuum (Hwang, 2002). A number of variables and actors are at work in this process, and as a result, decisions are made, and policy is formed, changed, and reformed. Many scholars have described, applied, and developed their own approaches in order to understand this policy-making process theoretically or practically (Kwon, H. J, 1999; Chung, M. K, 1992; Hwang, 2002; Lee, J. H, 2007). According to Shin, D. M, "policy formation can be said to be a dynamic and sequential process that is driven not only by changes in the international political economy but also by domestic socio-economic circumstances"(2003, p.40).In other words, policy change and reform are influenced and shaped by internal and external variables.

**Figure 4-1. A systematic process of policy formation and reform**



**(From: Hill, 2005, Hudson and Lowe, 2004)**

As seen in Figure 4-1, the policy-making process is very dynamic and takes the form of a cycle. It can be divided into several phases. The first phase is the emergence and perception of a problem, which leads to demands for public action. The second phase is agenda setting. In this phase, the emerging problems are selected and filtered, and there is likely to be a visible public response to the problems. The third phase is the formation and adoption of a policy. In this phase, suitable solutions to the problem are identified, an appropriate programme is selected, and, above all, a decision-making point for policy implementation is reached. The fourth phase is policy implementation, during which the selected solutions are applied through the action of administrative implementation agents. The fifth and final phase is policy feedback. In this phase, the effects of the policy are determined, and the extent of its

impacts, effectiveness, efficiency and relevance to the original problem are evaluated (Knoepfel, Larrue, Varone and Hill, 2007).

The decision-making point is a crucial step among these phases because at this point it becomes clear which actors hold veto points in the policy-making process, who impedes the ability of executive government to make decisions, and how the rules of the game are applied. Generally, the rules of the game are formed by political and legal rules such as constitutional and electoral rules, and .however, according to Hwang (2002), “welfare reform or social progress cannot only be explained by the decision made by decision-makers but also by conditions on which it may depend” (p.43). This means that decision making is conditioned by its past. Historical institutionalists have described these pre-existing conditions as ‘policy legacies’ (Weir and Skocpol, 1985), which include both domestic and international conditions. In practice, therefore, the policy-making process is not static and straightforward, but rather changeable and highly complex. Many variables and factors are intertwined within this process, and policy actors are one of these factors. These actors take a variety of forms and assume various roles, such as “political-administrative authorities that develop and implement policy, end beneficiaries, target groups, interest groups”, and an “epistemic community as a network of professionals” (Knoepfel, Larrue, Varoone and Hill, 2007, p.56). Depending on their interests, they ally and clash with each other. From time and to time, interest groups and advocacy coalitions are formed.

Figure 4-1 illustrates that policy outcomes and feedback constitute part of the policy-making cycle. Policy outcomes refer to the effects of a policy, which having been determined by a process of evaluation will necessarily lead to revisions in subsequent identification of problems and policy formation. Shin, D. M (2003) states that “policies, once enacted, restructure subsequent political processes” (p.46). Pierson (1993, p.599) also argues that “policies provide both incentives and resources that may facilitate or inhibit the formation or

expansion of particular groups”. In other words, social policies and reforms can be regarded as both the starting point and the end point of analysis. Furthermore, Gough’s emphasis that economic policy and social policy are actually two sides of the same coin must be borne in mind (1996). Therefore, when it comes to analysing policies, we must not disregard the importance of policy legacies, actors, and feedback.

#### **4.1.3 Critical juncture, institutions of interest representation, and political-social coalitions**

##### ***Economic crisis as a critical juncture***

It is widely accepted that economic crisis is a major factor in initiating social policy reform (Castles, 2001; Timonen, 2003). As regards this thesis, this is a key point, since an appreciation of the influence that Korea’s economic crisis had on welfare development is crucial if we are to understand the politics of welfare reform in Korea. Since the economic crisis in Korea, the contents of welfare reforms and, above all, its topography have changed significantly. I will discuss this in more detail later, but in brief, the participants in the Korean welfare policy-making process have become very diverse. For decades, the welfare policy-making system was effectively closed to all but the president and government officials, who had a monopoly over it. Since the economic crisis, these actors still exert a strong influence on the decision-making process, but a variety of new participants has emerged, and they have actively expressed their own interests. These new participants’ interests have very often been antagonistic on key welfare reform policies, and they have frequently clashed on key issues. This situation has necessarily led to the formation of political coalitions among stakeholders and their organisations. These developments will be described in detail in Chapters 5, 6 and 7.

These post-economic crisis phenomena are entirely unprecedented in Korean politics. Social policy, and welfare policy in particular, in Korea was traditionally ‘non-conflictual’, in sharp contrast to Korea’s Western counterparts, where social policy initially resulted from fundamental conflicts between different social groups. Therefore, in order to understand Korea’s new ‘conflictual’ welfare landscape and its changed welfare politics environment, a new and unique approach is required. Of course, the driving force of the policy climate change was the economic crisis in Korea, but alongside this, the new government, with its more democratic and pro-welfare public stance, led to the emergence of a new social policy environment. Almost all welfare policies implemented by the new government, including the unification of health insurance and the expansion of the public pension scheme, caused intense social conflicts among political parties, civil organisations groups, labour and capitalists, doctors and pharmacists, and so on. In brief, there was an unprecedented shift in Korea’s politico-societal structure and policy environment after the economic crisis. As Pierson (1994) famously argues, ‘policies produce politics’, and Korea’s welfare policy reforms produced new politics. The economic crisis itself marked the “critical juncture” – or the period of significant change (Collier and Collier,1991). I will employ the concept of ‘critical juncture’ to analyse the specific policy-making processes of health insurance and pension reform in Chapter 5 through to Chapter 7.

### ***Institutions of interest representation and political-social coalitions***

Unlike the West, welfare issues in Korea were marginalised for several decades and economic growth was always the overriding concern. This approach to economic and social concerns began in the early stages of the first military regime and has continued to inform almost every aspect of Korean society. As a result, I contend that this growth-first principle has been ‘a gene-like factor’ inherent in the thinking of South Koreans because they

experienced directly this growth-oriented policy and its results within their daily lives. Generally speaking, political parties in democratic countries represent the welfare issues of people, but Korea's welfare issues remained largely beyond the concern of political parties and major political actors (Bachrach and Baratz, 1962). Accordingly, socio-economic issues such as welfare or quality of life were never a priority within Korean politics.

According to Kim Y. S (2007) "welfare was not a question that distinctly and meaningfully revealed the different positions of political parties in policy competition, either in electoral or in everyday politics" (p. 214). She also notes that "it is quite a surprise that welfare has not been a priority political agenda in the debates between the ruling party and the opposition, considering that welfare is a 'real issue' ... that affects people's everyday lives and now generates serious conflicts among supporters of different policies" (ibid.). Even though income inequalities increased and the gap between rich and poor widened, these factors did not trigger the promotion of welfare interests or welfare consciousness. Accordingly, institutions of interest representation in Korean welfare politics did not exist for several decades.

However, after the democratic struggle of June 1987, the terrain of welfare politics began to change somewhat. Above all, trade unions and civil organisations became aware of issues related to improving their members' quality of life, such as health and pension policies. Various interest groups such as doctors and pharmacists also began to voice their own interests. As a result, institutions of interest representation began to emerge in Korean welfare politics, and during the process of welfare reform after the 1997 economic crisis, they began to mushroom. These social actors sometimes coalesced and pulled together, and sometimes they voiced distinctly separate and contrasting concerns. Depending on their interests and support, civil groups, interest groups, social policy academics, and even parties united and formed political coalitions. The most notable point, however, is that it was not political

parties, trade unions, or capitalists that took the initiative during the period of welfare reform, but civil organisations. It is therefore impossible to understand the framework of welfare politics in Korea without taking into account these unique characteristics.

## **4.2 Theoretical framework: the new politics of welfare reform**

The theorisation of welfare politics is an ambitious challenge for researchers in social science, especially if the theory is to be universally applicable. The most significant reason is that too many factors intervene in and influence the politics of welfare. Nevertheless, we need to try to build a universally applicable theory. In this section of this chapter, I will present a new tentative framework for investigating welfare politics in Korea. This framework originally stems from my dissatisfaction with previous approaches on welfare politics. In order to set the stage for this new framework, we first need to revisit the approaches to social policy change and the nature of welfare politics in Korea reviewed in Chapter 3. Therefore, the key approaches to exploring the connections between politics and policy will be re-examined.

### **4.2.1 Beyond institutions and path dependency**

In recent years, many studies on the changes in the Korean welfare state and welfare politics have focused particularly on institutions (Kwon, H. J, 1997; Hwang, 2002; Shin, D. M, 2003; Lee, J. H, 2007), and the institutional approach has played the leading role in analysing and discovering the nature of welfare politics in Korea.

The most noted scholar to adopt this theoretical position is Kwon, H. J. In his highly regarded book, *The Welfare State in Korea*, he depicted the welfare politics in Korea before democratisation in 1987 as ‘the politics of legitimation’ and argued that to explore the

mechanism of how politics shapes social policy, we need to examine two dimensions of politics (1999). The first dimension involves identifying the main political actors, such as political parties, trade unions, and business organisations. These actors also include the civil organisations that play a role in shaping welfare politics. These include professional organisations such as doctors, female activists, and other interest groups. In particular, Kwon emphasised the role of policy experts in the development of social policy in Korea.

Kwon's approach was notable in that it marked a paradigmatic shift in the study of Korean welfare politics and overcame the limitations of the state-centred and class-centred approaches. According to Kwon, H. J (1999), studies adopting the class-based approach have successfully identified the main political actors and assessed the power resources that political actors can mobilize to further their interests. However, policy outcomes do not automatically reflect the balance of power between political actors. Accordingly, Kwon inferred that the institutional configuration might block certain political actors but provide a strategic edge to others. This is very keen insight. From this conclusion, Kwon argued that the second dimension of politics that needs to be examined is the institutional configuration of politics. Kwon also states that a better understanding of the institutional configuration enables us to recognise "where policy making takes place beneath the formal structures of political institutions" (the effective points of decision making) and "how political actors adapt their political strategies (1999, p.15). Following the logic of this institutional approach, Kwon analysed welfare politics in Korea and defined the nature of welfare politics in Korea as the politics of legitimation (before democratisation in 1987) and the politics of democratisation (since democratisation in 1987). However, while Kwon's research has contributed to a better understanding of the characteristics of welfare politics in Korea, it is limited to Korean welfare politics before the economic crisis (1960-1992).

According to Kim, Y. S (2007), the institutional approach, and historical institutionalism in particular, produced “ample research results when applied to the welfare state studies in the 1990s”(p.211), and that the same results also were obtained from studies conducted in the early 2000s in Korea. From the perspective of historical institutionalism, she analysed “the origins of the peculiarities of welfare politics in Korea since 1987” and “the effects of those peculiarities on the development of welfare issues” (2007, p.210). Through this analysis, Kim, Y.S argues that the political parties do not represent socio-economic cleavages in civil society properly and social dialogue is paralyzed, adding that these flawed institutions hindered the development of a comprehensive welfare state and created a ‘hollow welfare state’. Kim’s contribution is important because she analysed how the interest representation structure and welfare politics affected the Korean welfare state by focusing on political parties and the system of social dialogue(Kim, Y. S, 2007).

Other scholars to have employed this institutional approach in terms of welfare politics in Korea include Hwang(2002, 2006), Lee, J. H (2007), Shin, D. M (2002), Yang, J. J (2000a) etc, with each having forwarded their own arguments. Although these studies have enriched my understanding of the nature of Korean welfare politics, I am not completely satisfied with the theoretical approach they have taken or their findings for several reasons.

Firstly, interest in welfare politics has not been as high as other aspects of research on welfare among Korean academics. In particular, research by political scientists has been limited, and publications on welfare politics in Korea remain scarce. Secondly, my dissatisfaction with these studies is more fundamental than their relative scarcity and stems from their institutions-biased explanations. I contend that although the institutional approach has “a strategic advantage over the class-based approach in the Korean case” (Kwon, H. J, 1999, p. 15), it should be noted that the institutional approach has been said to lack universally applicable concepts (Shin, D.M, 2003; Lee, J. H, 2007). In particular, rational choice theorists

have criticised this institutional approach as non-theoretical storytelling, the mere relating of historical narratives, because it simply recounts the chronological history of developments in welfare politics. Most importantly, institutional approaches have largely overlooked both human beings' independent actions outside institutional constructs and their interactions.

Thirdly, the institutional approach places considerable emphasis on the concept of 'path dependency'. The concept of path dependency holds that a path-dependent change is "one that is tied to previous decisions and existing institutions" (Wilsford, 1994, p. 251). This concept has been applied to examinations of health and pension policy reform in the West, notably in Germany, France, the UK, and in particular in the United States. According to this approach, actors are constrained by existing institutions and structures that channel them along established policy paths (Wilsford, 1994). Accordingly, in any system, big (non-incremental) change is unlikely (Wilsford, 1994).

However, in reality, abrupt or widespread major policy change occurs. Why is this? The institutionalism approach insists that "actors' actions are either heavily constrained or fully determined by institutions" (Rico and Costa-i-Font, 2003, p.2). However, organisations are simultaneously institutions and autonomous collective actors, and Rico and Costa-i-Font (2004) therefore criticise this approach for "being unable to explain institutional change" (p.2). Another criticism is that this institutional approach necessarily leads to a historical determinism.

As noted in Chapter 1, however, there is a law of history: human beings' actions shape history. Over the course of history, what ostensibly appears to be the dependent path is actually being shaped by human action. Finally, my fundamental dissatisfaction with these studies is that they do not make a comprehensive attempt to focus on welfare politics itself or frame it within the wider Korean political, economic, and social context.

#### **4.2.2 Revisiting power resources action**

##### ***My perspective on policy change***

Although institutions are highly significant factors in the process of policy change, the creator of history is the social actor and his or her actions. It must be pointed out here that my emphasis is not on actors themselves but their concrete and purposeful actions. This perspective is based on the proposition that in reality history is made, reformed, and eventually changed by actors' actions and interactions. Any current system is the result of actors' actions and interactions. While institutions mediate these actions, they can never completely determine political actions and policy choices in terms of policy making or decision making.

In this vein, while new institutional configurations are the initial spur for reform, final decisions are ultimately the actions of actors. This point is central to understanding the history of mankind. As the famous historian Arnold Toynbee (1954) declared, a civilisation grows as the result of its successful responses to challenges. In doing so, he argued for view of history not as some sort of predetermined destiny, but the result of progress by a creative minority. Accordingly, internal and external variables – such as institutions, policy legacies, and external circumstances – are core considerations when attempting to understand historical policy changes, but our efforts to better understand them should not stop there. We must be aware of social and political actors' actions, their creative strategies, and the complex interactions between institutional configurations and actors' strategic manoeuvring.

##### ***Changes in welfare politics in Korea***

The welfare politics environment in Korea has changed as a result of the process of democratisation and the economic crisis in 1997 in particular. After the democratic struggle

in 1987, new actors emerged and the nature of welfare politics changed. Kwon has defined these changes as the 'politics of democratisation'. The economic crisis was the other significant juncture. There were changes in the politico-societal structure and policy environment after the economic crisis. The economic crisis, triggered by a foreign exchange crisis in late-1997, became a structural crisis for Korea.

With the increasing number of business failures resulting in mass unemployment, a social crisis was created. This social crisis made governmental welfare intervention inevitable, and a new welfare politics emerged under the Kim Dae Jung administration. Due to the earlier political democratisation, social policies were publicly scrutinised, and as a result, welfare policy became an arena for the conflicting interests of competing social groups. Previous welfare policies, which had been implemented and overseen by bureaucrats and politicians, were no longer immune from scrutiny and criticism, and these new social groups exerted pressures and demanded specific things to them. In other words, welfare became a sphere for public discussion.

The most noteworthy point of the new Korean welfare politics after the economic crisis was that welfare reform was accomplished with the active involvement of social movements. The best example is the enactment of the NBLA law, which established a new form of social assistance in August 1999 and was implemented in October 2000. In 1999, social assistance in South Korea, which had followed an English Poor Law tradition for around forty years, was finally reformed, and a new social assistance law that protected fundamental human rights was enacted. It is regarded as a breakthrough law that marked a significant advance for Korean social welfare (Jung, I. Y, 2009). The crucial driving force for the enactment of the National Basic Livelihood Security Act was the collective action of social organisations, especially NGOs, which were able to exert sustained pressure within the new political environment. For the first time in Korean history, pro-welfare civil organisations exerted

significant influence on the policy-making process, from the formation of policy alternatives to the final enactment of social policy (Lee, J. H, 2007).

Even though the new institutional approach has been a powerful tool for describing Korean welfare politics over the years, it nevertheless has explanatory limitations in accounting for these changes in welfare politics in Korea. The most obvious limitation is that it cannot explain the remarkable and dynamic nature of the changes in welfare politics in Korea, and in particular, the strategies, collective action, and solidarity of civil organisations.

### ***Revisiting power resources action***

Therefore, when it comes to understanding welfare politics in Korea since democratisation and the economic crisis, it is essential that the notable role played by civil organisations is not overlooked. It should also be stressed that after 1997, unlike in the pre-economic crisis period, welfare policy was not formulated through a top-down process, but rather resulted from these civil organisations' pressure from below. This peculiarity of Korea's post-economic crisis welfare politics is clearly different from the Western experience, and thus in order to formulate a more comprehensive theoretical approach that is applicable to the Korean case, we need to put collective action and political processes at the centre of the theoretical framework. For this, we need to incorporate a theoretical perspective that has a more complete understanding of social and political actors' actions and interactions. Fortunately for the purposes of this thesis, there has been an increasing emphasis on political collective actions and interactions as "the main direct determinant of policy" among some researchers over the last few years (Rico, 2004, p.16).

In this regard, Rico's (2004) power-centred action theories are very useful. Rico endeavours to "elaborate a simplified model of the political determinants of policy change, which overcomes the current dominant emphasis on institutions (and history) by placing actors'

power resources (and politics) back at the centre of the stage” (Rico, 2004, p.2) and “stresses the causal role of actors and politics over institutions and history” (ibid.).

According to Rico, there are numerous social theories on the determinants of policy change, and welfare politics is closely related to the political determinants of policy change. Rico categorised these determinants in terms of their four main causes: context, actors, institutions, and action (Rico, 2003; Rico and Costa-i-Font, 2005, p.4). This categorisation is outlined in more detail in Table 4-1 below.

**Table 4-1: Theories of policy change**

Determinants of policy change	Context	Actor	Institution	Action
Theories related to the determinants of policy change	Convergence theories. Structural theories. Cultural theories	Neo-Marxist theories. State-centred theories. Political Interest group theory. Public opinion theory. Participation theory	Path dependence theory. New institutionalism theory	Political resources theory. Collective action theory. Game theory. Coalition theory. Social movements theory

(Source: tabulated from Rico’s (2004) classification)

Rico (2004) sets out to “build a synthetic explanation of welfare state change which can prove equally useful to account for the expansion phase up to 1970 as well as for the phase of resilience, retrenchment and re-structuring which started thereafter” (2004, p.2). For this, she proposes a theoretical framework based on power-centred action theory to explore the politics of state welfare expansion across the most innovative countries of Europe and North America.

According to Rico (2003, 2004), the intense competition among social and political forces is analogous to a football match. “As football, welfare politics can be best thought of as a league among several competing teams, made of a number of interconnected games which are played in different arenas; each of them focused on two rival blocks supported by powerful team organisations; surrounded by an audience and a wider socio-economic context; and which compete for victory within the framework of a given set of rules of the game”

(2004, p.4). The main collective actors in the game are the two teams, and the main institutions are the rules of the game as approved by the International Federation of Football Associations and its national equivalents. Many physical and social factors also affect a football game – the weather, the pitch conditions, and the crowd – but “within football, the main directly relevant actions are the interactions between and among teams during the match” (Rico, 2004, p.4). Besides these established actors, new actors may affect the teams and the league, such as other football clubs, football federations, judges, and the mass media.

Now let us apply the football metaphor to various theories of policy change. According to Rico, context theories might insist that the result of the game will depend on conjunctural factors, such as the weather, home advantage, the clubs’ infrastructures, and their financial resources. Actor-centred theory will focus on outstanding players, whereas “institutions-centred theories believe that the rules of the game condition the relative chances of teams” (Rico, 2004, p.5). As a result, the context, actor, and institutional theories mentioned above would not need to watch the football match at all, since they could seemingly predict the outcome beforehand with their knowledge of the context of the match, such as the teams’ resources and the rules of the game. By contrast, “action theory depends on the specific strategies chosen and on the way they are executed” (ibid.). In reality, the result of the game is not directly determined by resources and institutions; rather, it is directly dependent on on-field strategies and the interactions of players. In the same way, although power resources and institutions are important in terms of being driving forces of policy change, the most important variables are the key players’ strategic actions and the interactions among them.

This emphasis on strategies and interactions is not limited to Rico’s work. Since the mid-1990s, many theories that attempt to explain the relationship between politics and policy have emphasised political action. Within this trend, power-centred action theory’s first contribution is that, unlike actor-centred institutionalism, it regards key actors not as

individuals, but as collective actors, and it emphasises that preference and strategy does not derive from an individual's rational choice but emerges within a society that is divided by socio-economic interests (Kim, Y. S, 2010). The theory's other contribution is its emphasis on the mobilisation of public support as a key element of actors' strategies.

According to Rico, political parties, interest groups, and state actors play the same role in politics as clubs in football. The public is also considered a key political actor. The public directly participates in democratic politics through various channels, the most significant of which are "voting, which directly determines which political groups get access to formal institutional power, and tax-paying, which determines the financial resources in the hands of state authorities"(Rico, 2004,p.23). Accordingly, politicians are advised to be aware and stay abreast of the preferences and political actions of the public. In fact, politicians do pay a great deal of attention to these matters, since if they do not represent the public's interests, the public is liable to take to the streets in protest as a form of direct political participation. These social protest actions, although a relatively unorganised form of political mobilisation, have played an important role throughout the history of public policy. The genesis of numerous policy changes across Europe and North America is to be found in popular protest, sometimes expressed through voting swings against state policies. As an example, according to Jenkins and Brents (1989), the formulation and passage of the Social Security Act of the United States in the 1930s was shaped by sustained social protest, which interacted with and competed against the rival capitalist bloc. They argue that "political mobilization of the unemployed led to electoral and coalitional realignments which provided opportunities for new organized stake challengers such as a progressive liberal party and state elites, and policy experts to gain access to politics as well as influence in policy" (Rico, 2004, p.22). These trends in welfare politics have been strongly evident in Korea as well. However, social

protest has increasingly given way to formal access to party politics, but it nevertheless remains important and continues in Korea and many countries.

Power-centred theory's most significant point is its emphasis on strategic coalition or alliance, through which competing policies frame the interactions between an anti-reform coalition and a pro-reform coalition. The success or failure of reform is determined by the power relationship between the stake challengers and the stakeholders (Kim, Y. S, 2010). According to Kim, this theoretical perspective leads us to consider the range of actors including the working class emphasised by power resource theory. In addition, it enables us to see how the interests of civil organisations transform into political actions via political institutions and through the linkages that form between societal actors and political actors around interests and policy coalitions or alliances.

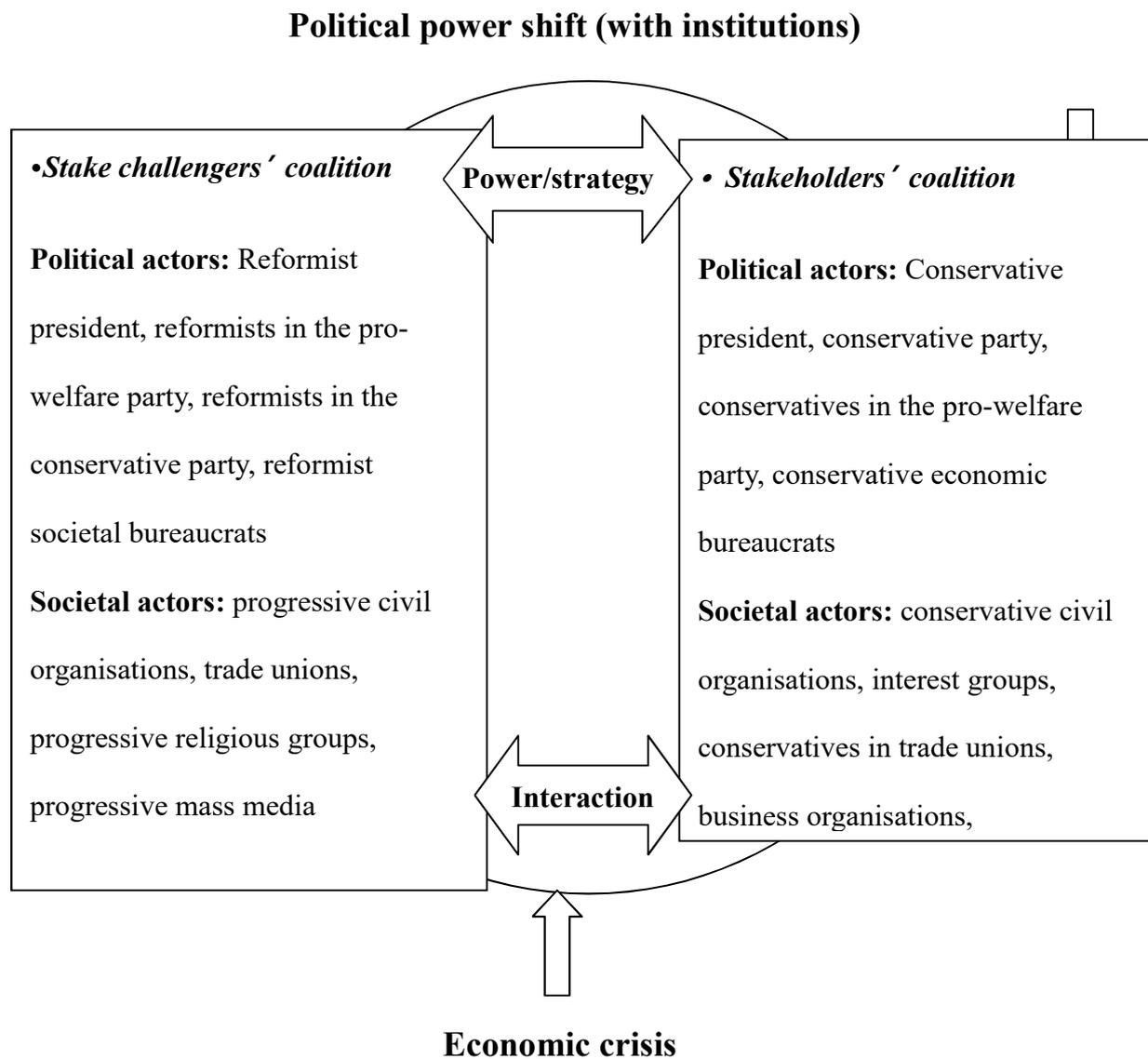
#### **4.2.3 Politics of the stakeholder and stake challenger coalitions**

In this section, I will present my framework for explaining the dynamics of welfare politics in Korea since the economic crisis. Based on the arguments presented thus far, my framework combines a revised form of Rico's power-centred action theory with aspects of Kim's (Kim Y.S, 2010) analytical framework for interpreting the politics of health care reform in the USA, which also draws on Rico's power-centred action theory.

Figure 4-2 depicts the framework for welfare politics in Korea since the economic crisis. It was created by combining the important points made by power-centred action theory with the considerations presented in the first part of this chapter. The aim of this thesis is to reveal the political dynamics of welfare reform in Korea during the period of the Kim Dae-jung government with this theoretical framework. This framework reflects the new politics of welfare reform in Korea; more theoretically, I would term this framework 'the politics of

stakeholders and stake challengers'. Stakeholders are forces with vested interests that are usually opposed to welfare expansion, while stake challengers are forces that are reform-minded or have direct interests in reform.

**Figure 4-2 The Framework of the New Politics of Welfare Reform in Korea**



Stakeholders and stake challengers may both form coalitions based on the same interests and similar political beliefs. Both coalitions contain two different forms of actors: societal actors, comprising civil organisations and organised interest groups, and political actors, which represent the societal actors' will and interests within the democratic rules of the game. These

two actors' strategies and preferences are influenced by political institutions such as the presidency, the unicameral legislature and law-making process, and the electoral system (the first-past-the post and single-member constituency system) and changes to the political system, such as a political power shift. In addition, socio-economic circumstances have an effect on their setting of strategies and preferences.

Above all, this framework focuses on stakeholders and stake challengers' strategies and interactions because the premise upon which this framework is constructed is that policy making is determined by the power relations within the complex interactions between stakeholder and stake challengers rather than the relative size of their power resources (Kim, Y. S, 2001). Although power resources are an important factor influencing policy making, the power relations between the competing actors are a more decisive factor than the power resources themselves. These power relations are grounded in both the actors' relative power resources and the interactions and strategic activities between them (Kim, Y.S and Cho, H.J, 2011). Since the power relations between actors are more dynamic and fluid than the established and relatively static power resources of the actors, they are better able to account for rapid, bottom-up changes in welfare politics and policy.

The strengths of this framework are threefold. First, it points to the importance of dynamic politics and goes beyond the exaggerated emphasis that has been placed on institutions and contexts by focusing on actors' strategic activities and interactions as the most significant variables in policy change (Kim, Y.S and Cho, H.J, 2011). Second, it does not disregard the socio-economic and political institutional contexts, unlike the pluralist perspective. Third, and most importantly, this framework reveals the stakeholder and stake challenger coalitions that emerge around a policy and shows that policy change is the result of their political struggles and the interaction of their relative power resources.

For Korea, the 1997 economic crisis was the critical conjuncture of policy and political change. Politically, it marked a critical point in the ongoing process of democratisation as the reformist leader of the opposition party came to power. Institutionally, however, the power of the president was still strong. This political legacy of the authoritarian developmental state is deeply embedded in the welfare politics of Korea. Power continued to be concentrated in the hands of the president and bureaucrats, and they retained the greatest capacity to pursue dramatic reforms (Lee, J. H, 2007). The National Assembly did not play a prominent role in policy change or policy making in Korea. Although this unicameral legislature had begun to increase its influence in policy making and the policy decision-making process after the June 1987 democratic struggle, the role of individual members of the National Assembly remained extremely limited.

In sum, the groundbreaking welfare reforms under the Kim Dae-jung government since economic crisis were a product of the interactions between stakeholder and stake challenger coalitions and the result of the stake challenger coalition's strategic success and victory. The framework of the new politics of welfare reform that I have presented is useful in that it reveals the struggles between the stakeholder coalition and the stake challenger coalition and their dynamic interactions. Above all, the framework can help us to understand how civil organisations overcame the stakeholder coalition's objections and finally won the battle for health care and public pension reform.

The applicability of this framework is not limited to Korean welfare politics during the specific period under investigation and can be applied to the welfare politics of other countries and other periods of social policy history. The history of social policy itself could perhaps be interpreted as a product of the struggles between stakeholders and stake challengers.

## **4.3 Research Methodology**

In this section of this chapter, I will explain the key research methods employed for the research, including the key focus of the data collection, and how I collected, analysed, and present the data. For this, the main research questions need to be revisited while bearing in mind the analytical framework presented above. This will show how the methodological approach that I have adopted will help me to explore these questions.

### **4.3.1 Revisiting the research questions**

The aim of this research is to understand the peculiarities and dynamics of welfare politics in Korea since the economic crisis. In order to achieve the aim of this research, I posed the three following research questions in Chapter 1.

1. Where and how are welfare reforms initiated, brought to the attention to government, propelled forward to the point of decision or blocked and quietly buried?
2. With a particular focus on pension and health insurance, how and to what extent do political and social actors influence the policy-making process of welfare reforms?
3. What are the key features of welfare politics in Korea since the economic crisis? In what way do they differ from Korea's welfare politics before the economic crisis?

To answer these questions, I adopted the theoretical framework described above and an appropriate research design and methodology.

### 4.3.2 Outline of the research design

#### *The policy-oriented and case study approach*

“Not only is policy research concerned to find answers to policy problems and improve policy action, but it is also concerned to identify the right questions to ask in the first place” (Clarke, 2001, p.38 in Becker, S, Bryman, A and Ferguson, H, 2012), and research is “a systematic investigation to find answers” (Burns, 2000, p.3 in Becker, S, Bryman, A and Ferguson, H, 2012) to those research questions. In this regard, the research methodology employed for this thesis is policy-oriented research. “The term policy-oriented research has been used to refer to research designed to inform or understand one or more aspects of the public and social policy process, including decision making and policy formulation, implementation and evaluation” (Becker, S, Bryman, A and Ferguson, H, p.15)

In order to fulfil the aims of this thesis, two major social policies were selected for investigation: pensions and health insurance. By investigating the policy-making processes of these two major social policies, it is hoped that the nature of Korean welfare politics since the economic crisis will be revealed. Pension and health insurance policies were selected because, as mentioned in Chapter 1, they are central to the Korean welfare system. The pension and health care systems account for most of Korea’s social expenditure (Kim, Y.M, 2002). Thus, most of the social conflicts between interest groups during the post-economic crisis period were caused by pension and health insurance policies. The structure of the conflict between the interest groups over these two policies is representative of the overall structure of conflict associated with the welfare system. In other words, the politics of pension and health insurance illustrates Korean welfare politics itself. Nevertheless, research in terms of the welfare politics of these two policies is scarce. These are the reasons that these two policies were selected.

As for the detailed research design, this research has the characteristics of a case study. The Dictionary of Sociology describes a case study as the detailed examination of a single example of a class of phenomena. According to Matthews and Ross (2010, p.128), “a case study includes either a single case or a small number of cases but each case is explored in detail and great depth”. Ragin (1987, p.51) argues that investigators who use case-oriented methods limit their investigations to small numbers of carefully selected cases and consider combinations or conjunctures of causal conditions. In keeping with these definitions, I have therefore focused on the political mechanisms of the policy-making processes in two specific cases, namely, the reform processes of Korea’s public pension and health insurance policies under the Kim Dae-jung administration in the aftermath of the economic crisis. Through investigating the actions of actors involved in the reform processes of these two policies for this limited period, I intend to bring to light the characteristics of Korean welfare politics. Accordingly, it is necessary to understand the history of these two policies and the dynamic process of policy change. Most importantly, the various actors’ positioning, voices, strategies, responses, and movements must be explored.

Owing to the nature of the data that needs to be collected in order to address my research questions, a qualitative approach to data collection is highly appropriate. Qualitative approaches are primarily concerned with stories and accounts including subjective understandings, feelings, opinions, and beliefs. Qualitative data is typically gathered when an interpretivist epistemological approach is taken and when the data collected is the words or expressions of the research participants themselves (Matthews and Ross, 2010). There are several reasons why a qualitative approach to data collection is most suitable for this study. Most importantly, since the core aim of this thesis is to explore the peculiarities and political dynamics of Korean welfare politics since the economic crisis through the interactions and power relations of stakeholder and stake challenger coalitions, it is important to identify

political and social actors' actions, their strategies, and interactions. For achieving the key goals of this research, the decision to adopt a qualitative research approach is natural because it is far more appropriate and useful than a quantitative approach for discovering the actions, moves, voices and interactions of actors. In the following sections, I will provide a more detailed explanation of the precise methodological approach employed for this research.

### **4.3.3 Historically oriented interpretative policy analysis**

In order to produce a more comprehensive research strategy, I adopted a historically oriented interpretative policy analysis on the basis of the historical-descriptive research strategy used for this research. For this, I conducted unstructured and semi-structured in-depth interviews. These interviews can also be considered historically oriented in the sense that they questioned people about past events and the interviewees provided their interpretations of these past events. There have been a number of major research strategies for bringing history and theoretical ideas to bear on one another (Shin, D. M, 2003). Skocpol (1984) categorises these strategies into a threefold classification as follows: (1) applying a general model to history; (2) using concepts to interpret history; and (3) analysing causal regularities in history. For my research, I adopted the second strategy because it is more useful and suitable. Skocpol terms this second strategy 'interpretive historical investigation' (1984, pp.362-386). In conclusion, I adopted a historically oriented interpretative policy analysis on the basis of the qualitative research strategy used for this study.

According to Ragin (1987), "the historically oriented interpretative research strategy is a type of empirical study in that it attempts to account for specific historical outcomes or processes chosen for study because of their significance for current institutional arrangements or for social life in general" (p.3). Lee, J.H states that "this type of interpretive historical research

strategy is grounded on the case-oriented, qualitative tradition as opposed to the variable-oriented, quantitative tradition” (2007, p.58).

My main research strategy, therefore, employs historically “interpretative case studies” in comparative politics (Lijphart, 1971, p.691). It is hoped that the interpretative case studies will bring about a better and more vivid understanding of the political dynamics of actors’ actions and interactions in welfare politics. It is also hoped that they will make a considerable contribution to the establishment of general propositions, that is to say, they will provide the basis for new theory-building for understanding welfare politics in Korea.

However, as Shin, D.M (2003) has pointed out, an interpretative historical approach also involves risks when it is applied to a case study. Researchers might fall into the trap of simply recounting historical narratives from the collected data and thus might ultimately approach their data in a non-theoretical way. Therefore, it is necessary to ensure that there is an extensive and careful ‘two-way dialogue’ between the conceptual framework and the data. Throughout this thesis, I will frequently revisit my theoretical framework and employ it in interpreting and analysing the collected data. My theoretical framework will basically function as a guide to analysing the policy-making process. My interpretive case study, therefore, will focus its attention on the policy-making processes of pension and health reform after the economic crisis by using my theoretical framework of ‘the new politics approach of welfare reform’.

In so doing, it is hoped that this research can ‘connect the dots’ and produce some significant findings about the welfare politics and social policy context of Korea. In addition, it is hoped that this research will make a considerable contribution to the “establishment of general propositions and thus to theory-building in political science” (Lijphart, 1971, p.691) and lead to a better understanding of welfare politics in general.

#### **4.3.4 Data characteristics and data collection**

For a historically oriented interpretative policy analysis, although several sources of data can be used, documentary analysis of primary and secondary sources is the most important. As for primary sources, I sourced numerous documents from government, business associations, trade unions, magazines, and newspapers. As a journalist, this proved to be a relatively simple task. However, since data collection needs to be undertaken in an efficient and systematic fashion, and since the target for data collection was a variety of documentary sources on health insurance and pension policy, it was necessary for me to understand the subject and nature of each specific piece of data and select appropriate terms of reference for the data collection.

##### ***Data collection on health insurance reform***

The first subject for policy analysis in this research is health insurance policy. The health insurance system in Korea has been gradually developed over several decades since its introduction in 1963 under the military regime. The process of development and change has been affected by various political, social, and economic factors. Moreover, the basic nature of health insurance entails political-social conflicts that centre on redistribution, ideology, and interests. According to Hacker (1998), although government-sponsored health insurance is a central pillar of the modern welfare state, its introduction and coverage extension “has been highly controversial everywhere”(Ripley and Franklin, 1976, pp.128-132). For example, whenever the introduction or coverage extension of health insurance has been discussed or implemented, there have been proponents and opponents and disputes between them. Owing to the controversial nature of health insurance policy, I selected the Korean health insurance policy-making process for analysis, with a focus on the period since the economic crisis.

**Table 4-2 The key periods of NHI in Korea**

Year	Critical juncture	Contents	Key Actors
1963	<b>Introduction</b> <b>(1963-1977)</b>	The Medical Insurance (hereafter NHI) Act passed.	<b>SCNR</b> <b>CSS</b>
1977		Compulsory NHI programme introduced for companies with more than 500 employees.	<b>President</b> <b>Bureaucrats</b> <b>FKI</b> <b>KMA</b>
1979	<b>Expansion</b> <b>(1977-1989)</b>	NHI extended to companies with more than 300 employees, public officials, and private school employees. Medical care institutions came to be compulsorily designated as medical service providers of the NHI programme.	<b>President</b> <b>Bureaucrats</b> <b>Parties</b> <b>FKI</b> <b>KMA</b> <b>Farmers and fishermen organisations</b>
1981		Companies with more than 100 employees included in the NHI programme. The first pilot programme for self-employed medical insurance started in three rural areas.	
1988-89		The rural self-employed came to be covered. Employees from companies with 5 workers or more came to be covered in 1988. The self-employed in urban areas came to be covered in 1989.	
1997-2000	<b>Integration</b> <b>(1997-2003)</b>	The NHI Act enacted (1999). All insurers integrated into a single insurer. Contract system for determining medical fees introduced. The separation of prescribing and dispensing of drugs implemented.	<b>Bureaucrats</b> <b>Parties</b> <b>FKI</b> <b>KMA</b> <b>KPA</b> <b>Trade Unions</b> <b>Civil organisations</b> <b>The insured organisations</b> <b>Policy experts</b>
2003		The separate health insurance funds between employee and self-employed insurance programmes fully merged.	

(Jo, 2008, p. 67. Key: SCNR: The supreme council for national reconstruction; CSS: The Committee for Social Security; FKI: Federation of Korean Industries, which consists of Korea's major conglomerates and associated members; KMA: Korean Medical Association; KPA: Korean Pharmaceutical Association).

For this purpose, I investigated and collected official statistics, legislation, presidential annual speeches, trade union and business associations' documents, and reports in magazines and newspapers. I then collated this information and categorised it into key periods in accordance with the concept of 'critical juncture' (Collier and Collier, pp. 27-29).

During the process of collating and categorising this information, I was particularly indebted to Jo's previous research (2008, p.67). Jo divided the history of National Health Insurance (NHI) in Korea into key periods by using the concept of 'critical juncture'. Table 4-2 follows Jo's categorisation, and I have simply modified Jo's original work. As can be seen from

Table 4-2, it was necessary to collect and examine a great deal of material in order to analyse NHI in Korea. Therefore, prior to collecting the materials, I consulted several experienced researchers on the best places from which to source the data, the easiest ways in which to access it, and so on. In this, Kang Chang-ku, one of the main activists for NHI reform and an employee of the National Health Insurance Corporation (NHIC), provided me with a great many documents. These are all primary sources on social movements for health reform and include some personal memoirs. Shin, Y. J, a professor at Hanyang University and a historian of health policy in Korea, also provided many primary source documents and also supplied other important documents such as his works about the history of health insurance integration. The data collection was first and foremost focused on the policy-making process of NHI integration before and after the economic crisis in 1997.

#### ***Data collection on public pension reform***

Public pension policy is the second target for policy analysis in this research. Like the health insurance system, pensions are one of the most important and controversial social policy issues in Korea. The National Pension Scheme (NPS) in Korea goes back nearly 40 years to 1973, when the military regime enacted the National Welfare Pension (NWP) Act. Although the implementation of this Act was postponed, it nevertheless marks the first ‘critical juncture’.

**Table 4-3 The key periods of the NPS in Korea**

Year	Critical Juncture	Contents	Key Actors
1973	<b>Formation (1973-1974)</b>	The NWP Act passed	<b>The President</b> <b>EPB/MOHS</b> <b>CSS/KDI</b>
1974		Deferral of the NWP Act's implementation	
1986	<b>Introduction and incremental expansion (1986-1995)</b>	Proclamation of the NP Act amendment	<b>The President</b> <b>EPB/MOHS</b> <b>KDI</b> <b>KEF/KCTU</b>
1988		Implementation of the NP Act	
1992-1995		Extension to firms with more than 5 employees (1992) Extension to farmers and fisherman (1995)	<b>The President</b> <b>EPB/MOHS</b> <b>KDI/KIHS</b> <b>KEF/KCTU/Farmers organisations</b>
1997-2000	<b>The era of universal pension and reform (1997-2000)</b>	The setting up of the 'NPS Improvement Planning Agency' (1997) Extension to the urban self-employed(1999) a new era of universal pensions	<b>The President</b> <b>MFE/MOHS</b> <b>KDI/MOHS</b> <b>Political parties</b> <b>FKI, KEF/Trade Unions/Farmers, NGOs</b> <b>IMF/World Bank</b>

(Yang, 2008, p. 105. Key: SCNR: The supreme council for national reconstruction; CSS: The Committee for Social Security; FKI: Federation of Korean Industries, which consists of Korea's major conglomerates and associated members; KMA: Korean Medical Associations; KPA: Korean Pharmaceutical Association; KEF: Korea Employers Federation; MFE: Ministry of Finance and Economy)

The real start of the NPS was when the National Pension (NP) scheme was implemented in 1988. After this, the coverage of NPS was incrementally extended from 1984-1995. The most important period is the time from the setting up of reformist organisations to advise on NPS reform in 1997 to the expansion of coverage to the urban self-employed in 1999. This marks the third critical juncture in the history of the NPS in Korea.

In order to examine the policy-making process of the NPS, I again investigated and collected official statistics, legislation, presidential annual speeches, trade union and business associations' documents, and reports in magazines and newspapers. As with the data that was

collected on health insurance reform, I then collated this information and categorised it into the key periods of the NPS in keeping with the concept of ‘critical juncture’, as shown in Table 4-2. I was particularly indebted to the previous work of Yang, J. J (2008, p.105). Yang divided the history of National Health Insurance (NHI) in Korea by also using the concept of ‘critical juncture’, and Table 4-3 follows Yang’s categorisation. I have simply modified simply Yang’s earlier work. Again, prior to collecting data on NHI, I consulted several experienced researchers as to where to find the data, how best to access it, and so on. In particular, Kim Yeon-myung, a pension reform activist and professor with great knowledge of the National Public Pension, provided many secondary sources such as articles. In addition, the NHIC provided some historical primary sources. Data collection was above all focused on the policy-making process of NPS reform before and after the 1997 economic crisis.

#### **4.3.5 Performing the documentary data collection**

Documentary sources are also helpful in identifying the character of each policy. Since the range of documentary materials is diverse and includes items such as diaries and memoirs of political figures, they are extremely helpful in understanding the debates and positions of policy makers.

The types of documents were categorised by source and were chiefly divided into two distinct categories: (1) internal materials and (2) external materials, namely, publications. They were then further subdivided according to the data provider: (1) the National Assembly, government, and public organisations; (2) political parties, civil organisations, trade unions, and business associations; (3) mass media (newspapers and magazines); and (4) individuals involved in policy making or the decision-making process. In order to increase the

effectiveness of the data collection, I utilised various methods of data collection depending on the type of material.

My field work for the primary sources was mainly carried out in the National Assembly Library in Seoul, which contains many of the minutes of meetings related to my research area and many reports on my research subject, that is, pension and health insurance reforms. In addition to this, database materials of key newspaper companies such as The Hankyoreh and Chosun-ilbo were collected and scrutinised. Most newspaper companies, including my newspaper company, The Hankyoreh, have their own libraries and digitised database systems, which proved very helpful. Furthermore, since I am a journalist, gaining access to these materials was straightforward. I also collected a great deal of material from government and public organisations, especially from the Ministry of Health and Welfare, the Ministry of Labour, two umbrella business organisations (the Korea Employers Federation (KEF) and the Federation of Korean Industries (FKI)), and two umbrella labour organisations (the Korean Federation of Trade Unions (KFTU) and the Federation of Korean Trade Unions (FKTU)). In addition, the field work included carefully gathering material from many internet websites, including the Korean government websites, and also a great deal of research in Birmingham University library. Secondary sources used were journals and books related to the subject area. As for journals, the DBPIA, which is a database of Korean journals and academic magazines, proved extremely useful.

**Table 4-4 The types of documents and their collection methods**

		National Assembly, government and public organisations	Political parties, civil organisations, trade unions, business associations	Mass media	Individuals
Internal resources	Type	Meetings' minutes, report materials	Meetings' handouts and minutes, report materials	Internal records, my personal coverage records as a journalist	Memoranda, individual personal records
	Collection Methods	Request for acquisition of materials, using the internet, printed copies of materials from library	Request for acquisition of materials, using the internet, copies of materials from library	Request for acquisition of materials, using the internet, copies of materials from library	Request for acquisition of materials
Publications	Type		Public statements, reports, materials for public hearings and panel discussions	Articles and editorials	Autobiographies, theses, books and journals
	Collection methods	Request for acquisition of materials, using the internet, printed copies of materials from library	Request for acquisition of materials, using the internet, printed copies of materials from library	Using the internet, micro films	

(Source: adapted from Yang, 2010; Jo, 2010)

In particular, I was indebted to the Social Science Institute of Yonsei University, which has a huge quantity of digitised primary and secondary source material. In 2008, I visited this Institute and was able to collect these digital sources, which are the work of six scholars, YangJae-jin (editor), KimYeong-soon, JoYoung-jae, KwonSoon-mee, WooMyung-sook, and JeongHeung-mo.

The collection methods employed were generally uncomplicated and included requests for the acquisition of materials, using the internet (Korean government websites were of particular use), obtaining printed copies of materials from libraries, and sometimes buying materials. The types of documents collected, their sources, and the method of collection used

are set out in Table 4-4 below. Statistics are also very useful and easily accessible. In modern societies, statistics are collected and published by a wide range of organisations, including governmental organisations. Nevertheless, it is always important to remember that “no statistics can be considered to be ‘objective facts’, since they all paid for and collected by some organization for a specific purpose” (Becker and Bryman, 2004, p.228).

#### **4.3.6 Interviews with policy change participants**

Collecting data on pension and health insurance policies, while in some ways relatively straightforward, is not without difficulties. Official documents tend to be composed in unnuanced and bureaucratic language, and the real intentions and strategies of actors can be obscured by the formal language and presentation used in official reports. In addition, some of the archived material presented little in the way of interpretative content on the policies under consideration. Accordingly, I considered “a basic appreciation of who is speaking, when they are speaking, how they are defining the problem, where they are looking for solutions in terms of placing the text and evaluating its claims” (Becker and Bryman, 2004, p.293).

##### ***The semi-structured in-depth interview***

In light of this, I also conducted supplementary interviews with people who have influenced policy making. These interviews were conducted either face-to-face, by telephone, via e-mail correspondence, or occasionally via msn messenger. Furthermore, if a question arose in the course of reading and analysing documents, I would phone and email people related to the subject that had arisen. In conducting the interviews, I sometimes employed unstructured open-ended interviews (Silverman, 1993) and sometimes semi-structured in-depth interviews.

The semi-structured in-depth interview in particular was very helpful because it provided enough “freedom for the interviewees to speak freely about the topics related to their interests” (Hakim, 2000) and also assisted me “in maintaining sufficient structure to address topics relating to the research” (Bailey, 2007). With the interviewees’ permission, most interviews were recorded with an I-phone or a digital recorder, and I simultaneously took detailed notes. The list of interviewees is tabulated in Table 4-5 with the permission of the interviewees. Interviewees<sup>1</sup> provided a great deal of valuable information and insights and even supplied related documents, memoirs, and articles. At the same time, they also delivered their direct experiences, which were invaluable to this research. Most of the interviewees were people with intimate knowledge of Korean welfare reforms and welfare politics since the economic crisis. However, there are some disadvantages to this approach.

First, respondents may not always be available for interview. Second, and most importantly, one interviewee’s evidence may conflict with that of another, especially in a historically oriented study where respondents are asked to recall past events. In such cases, the researcher must determine which evidence is most likely to represent what actually took place and reconcile the differences between the information that is given and established events. In short, the researcher must act as an interpretative mediator between the information that is received and that which is ultimately presented as ‘fact’. Accordingly, I employed a kind of triangulation process (Yang, J. J, 2008) in which I cross-checked interviewees’ arguments against each other and against documentary evidence. In practice, since using the combination of the methods mentioned above was the most satisfactory data collection strategy available, I took into account four criteria suggested by Scott (1990) in assessing the quality of these materials: authenticity, credibility, representativeness, and meaning.

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<sup>1</sup>Additionally, I also interviewed so many current government workers and former government officials who asked to remain anonymous.

**Table 4-5 List of key interviewees on welfare reforms and welfare politics**

Interviewees	Status	Contents	Time
Kim, Y.I	Professor/ a commissioner of the PSC	Social Movement for NHI integration/welfare reforms	2010. 8.2 2011.1.18
Kim, Y.M	Professor/ a commissioner of the PSPD	Pension reform/health insurance integration movement/ Social movement for welfare reform	Occasionally
Kim, S.J	Professor/a Senior Presidential Secretary for National Planning	Welfare reforms under the Kim Dae-jung government after the economic crisis	2010. 5. 5 2010.8. 2 2010.9.27
Kim, J.I	Ex-Minister of the MOHSA	Health insurance/social policy and economic policy	2010. 6.4
Kang, C.K	Trade union member/ a member of the NHIC	Health insurance reform/integration movement	2008 3. 5 2010. 5. 20 2011. 1. 15
Shin, Y.J	Professor/ a member of the PSC	Health insurance reform/integration movement	Occasionally via msn messenger
Lee, S.J	ex-National Assembly man/ Executive of the NHIC	Health insurance reform/ pensions reform/ policy solidarity coalition	2008.5.10 2010. 11. 5 Occasionally
Cha, H.B	Ex-Minister of the MOHW	Pension and health insurance reform, in particular government's strategy	2010. 12 5 2011. 3.11
Song, K.Y	A priest of the Anglican church in Korea/ a commissioner of the united civil organisations for NBLs Act enactment	The enact movement of NBLs Act	Occasionally
Lee, T.S	Professor/a commissioner of social welfare in the PSPD	Social policy and Economic policy	Occasionally
Shin,K.Y	Professor	Welfare politics/ social policy	2008. 6. 7, 2010.5.4 Occasionally

(Key: PSC: Pan-national Solidarity Council for the Medical Insurance Unification and Benefit Expansion; PSPD: People's Solidarity Participatory Democracy; MOHSA, MOHW: Ministry of Health and Welfare; NBLs Act: National Basic Livelihood Security Act; NHIC: National Health Insurance Corporation).

#### **4.3.7 Data analysis**

The process of data analysis for this research involved a continuous conversation with the history of welfare development and welfare reforms in Korea. Documents are like the footprints of participants, whether positive or negative, in the process of social policy, and interviewees are their witnesses. At times, their tracks became unclear, and at other times, I enjoyed following their clear-cut paths. Regardless of its form, data analysis was a prolonged and difficult process.

For the data analysis, the data were firstly divided into the two main themes of health insurance and pensions. The respective themes were then divided again into the periods of critical juncture. Since “documents do not stand on their own, but need to be situated within a theoretical frame of reference in order that its content is understood” (Ray, 2001, p.191) and bearing my framework in mind, the data were further divided into categories related to political and social actors: governments and bureaucrats, the business circle, social movement organisation, interest groups, and so on. This data were re-examined across three dimensions; actors’ actions, actors’ strategies, and actors’ interactions. The interview data were also analysed in the same manner. In analysing the interview data, I tried to maintain a critical attitude towards interviewees’ evidence and arguments.

After the first analysis was complete, I checked documents and interviewees’ responses wherever possible. As both a researcher and a journalist, cross-checking and triangulation is a very familiar process. I checked the documents and interviews by direct participants, their opponents, and observers against each other. Since this is a difficult and time-consuming process, it was not possible to do this in every case because there is a time limit for this research. Therefore, in order to ensure the greatest level of objectivity within the given time

frame, I chose to avoid quoting directly from the respondents' interviews and primary sources as far as possible.

#### **4.3.8 Personal advantages**

Regarding the research methods, I had considerable advantages because I have been a journalist working for a Korean daily newspaper for almost 20 years. During that period, I have covered social policy issues such as health insurance, pensions, unemployment, poverty, and so on. I have specialised in welfare issues as a senior reporter or professional journalist. In the course of covering these issues, I have conducted many interviews and made the acquaintance of many of the primary sources of data for this research, including influential policymakers that I had already interviewed for newspaper articles. In addition, I had already amassed a significant amount of data and many source documents through my work as a journalist, and many of my personal documents were useful for my research. My long-standing position as a journalist also assisted me in arranging additional interviews with a number of people involved with health and welfare reforms. Finally, I also published three books bound up with my research that were of very great service in several respects.

#### **4.4 Concluding remarks**

In this chapter, I have explained how I designed my research and also how I collected and analysed the data. First, I described the design of an analytic framework to systematically understand the new politics of Korean welfare reform since the economic crisis. This so-called 'new politics of welfare reform' framework is primarily based on power-centred action theory but also recognises the contributions of historical institutionalism and state-centred

theory. The politics of stakeholders and stake challengers are the focal point of this framework, and it was briefly shown how the politics of stakeholders and stake challengers were the driving forces of health insurance and pension reform. I then described how I collected data and how I analysed and presented it. For this process, I adopted a historically oriented interpretive policy analysis and interviews as specific research methods.

The next chapters form the empirical part of this research. Chapter 5 and Chapter 6 are specific case studies of health care and pension reforms that aim to bring about a better understanding of these reforms with respect to the policy-making process and political interactions.

## Chapter 5

### The politics of health insurance reform in Korea

#### Introduction

Although Korea's health insurance system has a relatively long history compared to other major welfare state programmes, research on the political mechanisms surrounding Korea's health insurance programme is inadequate. This chapter therefore examines the changing policy-making process and politics of health insurance policy in Korea. Since the 1997 economic crisis, Korea has managed to merge more than 350 fragmented health insurance societies into a single administrative system (in 2000) and a single payer system (in 2003) in terms of financing. This achievement has come only at the end of a long and arduous road of health insurance reform in Korea and is unique in world history. This chapter will attempt to answer the following questions:

- 1) How was this healthcare reform possible under the Kim Dae-jung government while Korea was in the grip of a severe economic crisis?
- 2) Why was this reform implemented, and who prompted it?
- 3) What kinds of strategies were adopted by stakeholders and stake challengers, and to what extent did institutional and political legacies constrain such strategies?
- 4) What was the meaning and what were the limitations of this health insurance reform? The answers to these questions are directly related to the politics of health policy and the peculiarities of welfare politics in Korea.

My analytical framework will be used to explain first how the interrelationship between problems, policy, and political factors provided a window of opportunity for this healthcare

reform, and then how stake challengers overcame stakeholders' opposition and obstruction to achieve their goals. For this, the current health insurance system in Korea will first be outlined and then the origin of health insurance in Korea and the administrative arrangements of pre-reform health insurance will be described. Next, I will determine whose interest was served by these arrangements as this provides the backdrop to the politics of health insurance reform. The reforms will be considered on the basis of two perspectives – a conservative 'separatist' position and a more radical 'unitarist' position. The conflicts between actors within the time frame used for this study will also be discussed, drawing on my personal memories and notes taken as a journalist.

Through this analysis, the dynamic nature of the process of administrative and financial integration of health insurance and the key actors' strategies and political interactions within this process will be revealed. Throughout this chapter, there will be a specific focus on the political dynamics of the policy-making process rather than on the contents of the policies themselves. The remarkable activities of civil society groups such as the Coalition for the Integration of NHI will be shown to have been one of the most important factors and in health politics in Korea and civic groups.

## **5.1 Overview of the health insurance system in Korea**

The healthcare system in Korea is composed of two different programmes, namely, the National Health Insurance programme (NHI) and the Medical Aid programme (MA). NHI is designed for the population as a whole, while MA is for people with low incomes and those receiving public assistance and who are unable to pay for healthcare. MA provides the poor with healthcare services via the national budget and is one of the public assistance programmes, whereas national health insurance (NHI) is part of a social insurance system for

healthcare with universal population coverage (Kwon,S. M, 2007). It is generally accepted, therefore, that NHI, in conjunction with a pension system, is one of the core pillars of any welfare state. Most advanced nations have well-developed welfare states with their own healthcare systems, the majority of which are founded on government-sponsored health insurance. The reason for this is that the two goals of welfare states are health security and income security, and a health insurance programme is a key institution for realizing health security (Jo, 2008). As a result, changes to and reform of health insurance policy are major political issues in most countries.

### **5.1.1 A brief history of health insurance in Korea**

The first government-sponsored health insurance system in Korea was introduced alongside the Industrial Accident Compensation Insurance (IACI) Act in 1963 under the military regime of Park Chung-hee. However, unlike the IACI, this health insurance legislation did not make insurance compulsory, and it therefore had only a limited effect as a social insurance programme. In 1970, mandatory health insurance was included in health insurance law, but the law was not implemented. The government revised the health insurance law entirely in December 1976 with the new National Health Insurance Act, and a compulsory health insurance system was finally established in July 1977. According to this Act, all companies with more than 500 employees were required to provide health insurance. Over the next several years, the compulsory coverage requirement was gradually expanded to include companies with more than 300 employees, firms with 16 employees, and in 1988, all companies with at least 5 employees. From implementing the first compulsory health insurance program in 1977 to achieving universal health insurance coverage in 1989 had taken the government only 12 years.

Administrative integration of Korea’s health insurance system to provide universal coverage was finally accomplished in July 2000, an achievement that would become the cornerstone of health insurance development in the new millennium. The integration of the health insurance system and the introduction of a new contribution system – a flat rate contribution for all employees and a single contribution formula for the self-employed– would lead to an increase in social solidarity and social partnership among social classes (NHIC, 2003)

**Table 5-1 A brief history of NHI**

Year	Contents
1963	The Medical Insurance (hereafter, NHI) Act was introduced.
1977	Compulsory NHI programmes introduced for companies with more than 500 employees.
1979	NHI was extended to companies with more than 300 employees as well as to public officials and private school employees. Medical care institutions came to be compulsorily designated as service providers for the Medical Insurance programme.
1981	Companies with more than 100 employees were included in the NHI programme. The first pilot programme for self-employed medical insurance started in three rural areas.
1988-89	The self-employed in rural areas and employees from companies with 5 workers or more were included in 1988. The self-employed in urban areas were included in coverage in 1989.
2000	All insurers were integrated into a single insurer. A contract system for determining medical fees was introduced. The separation of the prescribing and dispensing of drugs was implemented.
2003	The separate health insurance funds for employees and the self-employed were fully merged.

(SCNR: The Supreme Council for National Reconstruction, CSS; The Committee for Social Security, FKI; Federation of Korean Industries, which consists of Korea's major conglomerates and associated members. KMA; Korean Medical Association, KPA; Korean Pharmaceutical Association)

### **5.1.2 A basic overview of NHI in Korea**

#### ***Population coverage***

All citizens residing in the Republic of Korea are covered by NHI, either as an insured person or as a dependent, and the system is administered by a single insurer, the NHIC (National Health Insurance Corporation). Enrolment is mandatory except for some Medical Aid beneficiaries. Those insured under the NHI programme are classified into two categories: the

employee insured and the self-employed insured. The employees covered by NHI are ordinary employees and government and private school employees.

**Table 5-2 NHI coverage, 2005** (unit: person)

Classification			Coverage	(%)	
Total			49,153,617	100	
NHI	Subtotal		47,392,052	96.4	
	NHIC	Employee Insured	27,233,298	55.4	
		Self-Employed Insured	Subtotal	20,158,754	41.0
			Rural Areas	2,135,468	4.3
			Urban Areas	18,023,286	36.7
Medical Aid			1,761,565	3.6	

(Source: NHIC, 2007)

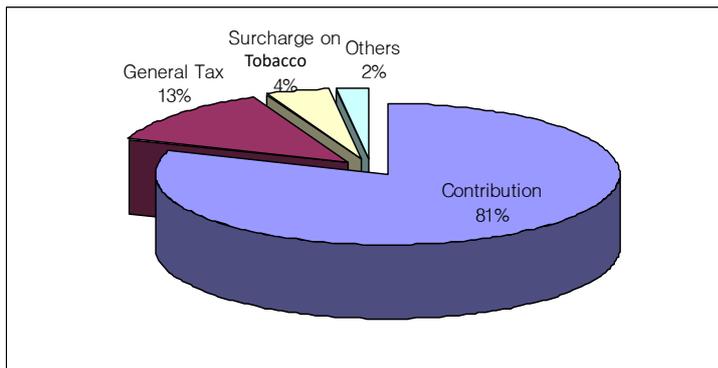
According to the NHIC (2005), the total number of persons covered by NHI is over 47 million, or about 96.4% of the total population. The remaining 3.6%, 1.7 million, who are poor or on low-incomes, are covered by the Medical Aid programme, a Korean public assistance programme. All self-employed people and their family members are considered as insured members. In the category of the employee insured, however, only the employees are insured and their family members are considered dependents. Dependents include the insured person's spouse, direct lineal descendants (including those of the spouse) and their spouses, and brothers or sisters of the insured person (NHIC, 2007).

### ***Contributions and Funding***

NHI is funded through contributions paid by the insured and their employers and government subsidies. The employee and employer contributions provide the major source of NHI

income, and their contribution rates are the same. Industrial workers and government and school employees pay contributions proportional to their income, and contributions are shared equally between the employee and employer.

**Figure 5-1 Sources of NHI revenue, 2005**



(Source: NHIC, 2007)

Prior to the merger of insurance societies in 2000, government and school employees paid an average contribution rate of 5.6% of their income, and industrial workers paid 3.75% on average. This rate ranged between 3.0% and 4.2% depending on the insurance society. As of 2006, the contribution rate across all employees was 4.48% (NHIC, 2007).

The insurance contribution of employees is borne by both employee and employer. For the ordinary employee, the employer pays 50% of the contribution and the employee pays the other 50%. For government employees, the government, as their legal employer, pays 50% of the contribution, and the employee pays the other 50%. For private school employees, the owner of the private school, as their legal employer, pays only 30% of the contribution with the government providing 20%. The employee pays the other 50%. For the self-employed insured, contribution is calculated using a formula that takes into account the insured person's properties, income, motor vehicles, age, and gender (NHIC, 2007)

**Table 5-3 Types of Insurance Benefits**

Health Insurance Benefits		Recipient
Service Benefits	Healthcare Benefits	The insured, Dependents
	Health Check-ups	The insured, Dependents
Cash Benefits	Refunding Allowance for Healthcare	The insured, Dependents
	Funeral Expenses	Insured relative of the deceased
	Compensation for Excessive Co-payment	The insured, Dependents
	Co-payment Ceiling System	The insured, Dependents
	Appliance Expenses for the Disabled	The disabled insured and disabled dependents registered in accordance with the Welfare Act for the Disabled

### ***Benefits Package***

Benefits are payable to the insured and their dependents for the treatment prevention, diagnosis, or rehabilitation of sickness and injury (NHIC, 2007). As can be seen in Table 5-3, benefits come in the forms of both cash and service benefits. Although the health insurance benefit package mainly includes treatment and rehabilitation services, it also includes biannual check-ups and vaccination services which are provided free of charge in public health centres.

### ***Healthcare delivery***

Healthcare delivery in Korea relies heavily on the private sector; only about 10% of hospitals are public (Kwon, S. M, 2009), and more than 90% of healthcare services are provided by the private sector. All pharmacies are owned and operated by individual pharmacists. For patients who are insured under the NHI scheme (or their dependents), every legal healthcare institution is authorised to provide services. In 2005, there were 61,007 healthcare institutions

supplying services under the NHI system. These included 288 general hospitals, 672 hospitals, 19,405 clinics, 137 oriental medical hospitals, 7,140 oriental herbal medical clinics, 60 dental hospitals, 10,553 dental clinics, 19,189 pharmacies, 127 midwifery clinics, and 3,436 public health centres(NHIC, 2007).

### ***Health expenditure***

In 2008, Korea spent 6.5% of its GDP on healthcare, up from 4.1% in 1985 and 4.8% in 2000 (OECD Health Data, 2006, 2010). Although this level of expenditure is still lower than the OECD average of 8–9%, Korea’s health expenditure has risen sharply since 1985, and fiscal sustainability has become a key issue for the NHI system.

**Table 5-4 Total expenditure on health as a percentage of GDP**

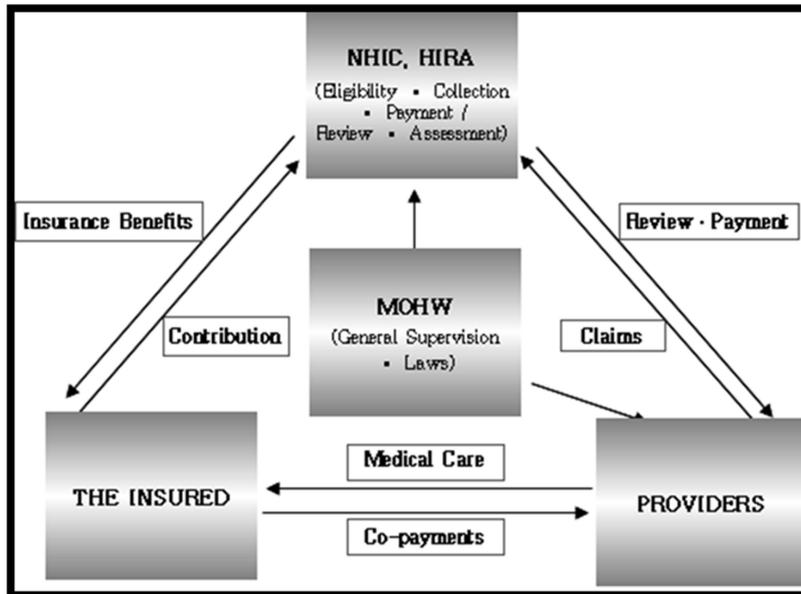
year	1985	2000	2004	2006	2008
%	4.1	4.8	5.4	6.1%	6.5

(Source; OECD Health Data, 2010)

### ***Operational Structure of NHI***

“Before the merger of all health insurance societies in 2000, there were three types of social health insurance schemes for: (1) government employees and teachers and their dependents, administrated by a single insurance society; (2) industrial workers and their dependents, with about 140 insurance societies; and (3) the self-employed and workers in firms with less than five employees, with about 230 insurance societies” (Kwon,S.M, 2009). Each insurance society was a quasi-public organisation controlled by the Ministry of Health and Welfare (MOHW).

**Figure 5-2 Relations between parties in the NHI system**



(Source; NHIC, 2007)

To guarantee impartial and efficient evaluation and review of healthcare services, the Health Insurance Review Agency (HIRA) was established as a statutory public organisation. The NHIC and HIRA are overseen by the Ministry of Health & Welfare (MOHW), which ensures that the organisations comply with the health insurance system’s regulations and approves their annual activities and budgets. These operational processes are shown in Figure 5-2.

### 5.1.3 The Origin of NHI

#### *Legacies*

It is important to discover the origin of an institution or policy, but there is scant documentary evidence about the various pre-NHI systems and little is known about their origins. In this regard, Jo (2008) emphasises that the peculiarity of health insurance in Korea is that it has no

‘social origin’. By social origin, Jo is referring to crude but similar organisations that existed in the past. In the West, there were numerous guilds, friendly societies, and sickness societies before modern health insurance systems were introduced. They guaranteed sickness or disability benefits for workers and their families. In particular, sickness insurance for workers with diseases became widespread during the 19<sup>th</sup> century. However, the Korean situation differed significantly. There were no guilds or sickness insurance societies before the introduction of national health insurance.

Although there is no evidence that a developed and far-reaching health insurance system had existed as in the West, there are a number of examples of pre-NHI healthcare insurance and provision in Korea. In this regard, Shin, Y. J and Park, S. H. (2009) have tried to uncover evidence of the existence of a health insurance programme in the pre-NHI period. He has discovered an embryonic form of social insurance existing during the Japanese colonial period: the ‘labour hospital’ created by ‘the Wonsan Labour Federation’. This organisation gave a 40 per cent discount off the price of medicine for union members. After Korea’s liberation and the foundation of the Republic of Korea, labour unions continued to develop health insurance programmes for their members. Pusan Labour Hospital, established in 1955, had almost forty thousand members and provided healthcare services for trade union members and their dependents.

### ***Introduction of NHI***

The first critical juncture for the development of health insurance in Korea was the enactment of NHI law. The military regime attempted to introduce a public health insurance system immediately after the so-called ‘5.16coup d’état’, but it was not until December 1963 that NHI became law. At the time that NHI was introduced, there were no social and industrial demands for the introduction of health insurance (Jo, 2008). Although opposition parties

were allowed under the military regime, no party openly opposed the military as they could not engage in normal activities. Moreover, labour organisations and interest groups such as medical associations could not voice their opinions. Political parties and civic groups therefore played no role in the introduction of the NHI; in fact, they did not recognise its existence. Korea's economic structure also contributed to the lack of social or political pressure for the introduction of health insurance. Korea's economy was predominantly agrarian. Sixty per cent of the population was farmers and workers in the fishing industry, while miners and industrial workers totalled just 8.7%. Accordingly, the Park regime pursued economic growth above all other aims. Under these circumstances, the fact that NHI was introduced at all in 1963 was meaningful, even though NHI had little actual effect as a social insurance programme. How and why, then, was the Health Insurance Law enacted in December 1963? To answer this question, we need to explore the policy-making process from its initial ideas to the final enactment of NHI. On 28 July 1962, the chairman of 'the Supreme Council for National Reconstruction (SCNR)', Park Chung-hee, sent the Cabinet a memorandum on 'The Establishment of Social Security Institutions'. The core contents of the memorandum (Document no 683, 28 July, 1962) were as follows:

- 1. Our ultimate goal is to increase the national income and to establish a welfare state to protect people from social risks such as unemployment, disease, and ageing.*
- 2. ...the parallel development of economic growth and permanent social security institutions ...*
- 3. ...take steps to establish comprehensive social security institutions in our country by setting up a pilot project to determine the most appropriate social insurance programme....*

Park also proclaimed his intention to establish a welfare state in a 1963 administrative policy speech, declaring that the introduction of the NHI and the IACI is part of the implementation of a series of far-reaching social insurance programmes (Jo, 2008). Many scholars have focused on this memorandum and have concluded that Park's announcement was a decisive factor in the enactment of both the NHI Act and the IACI.

It hardly needs to be said that, as an autocrat, Park was the top decision-maker, but what prompted Park to send the memorandum to the Cabinet? It is almost certain that General Park knew very little about health insurance and other social security programmes prior to his coup because he had served as a high-ranking military officer for several decades. Furthermore, it seems unlikely that the military elite in Korea would have taken much interest in this programme. If this is the case, then why did Park and the military regime resolve to introduce social insurances such as NHI and the IACI and what led him to make this decision?

Most scholars have assumed that Park and the military regime announced this programme to gain political legitimacy, which was sorely lacking owing to the regime having seized power via a military coup (Kim, Y. M., 2003a; Jo, 2008; Kwon, H. J., 1999, 2005; Kwon, S. M., 2009). Kwon, H. J. (1999), in particular, has argued that it was the military regime's desire for political legitimisation that underpinned the introduction and extension of social health insurance in Korea (Kwon, S. M., 2009). Unlike Western welfare states, class struggles and the labour movement played no role in the introduction of health insurance. "There was no labour party or social democratic party, and labour unions became active only in the late 1980s" (Kwon, S. M., 2009). This interpretation is very persuasive, and in fact, all key policies were enacted and implemented by Park. How, then, did General Park come to understand the purpose of and the components necessary for a functioning health insurance programme and bring about its introduction?

### *Policy experts as political entrepreneurs*

Another explanation for the introduction of health insurance in Korea is that it was entirely the product of a policy idea by policy experts. The first identifiable group of policy designers in Korea was (as called by its members) ‘A Research Society for the Introduction of Health Insurance Institutions’, founded in 1959 and consisting of a number of civil servants from the Ministry of Health and Social Affairs (MOHSA) and civic experts. They proposed the establishment of a new deliberating committee for social security institutions within the MOHSA and produced a number of reports on the introduction of health insurance. On 28 July 1962, this informal ‘deliberating committee for social security institutions’ “became an official government committee when the Chairman of the SCNR, Park Chung-Hee, requested the Cabinet introduce social provisions” (Hwang, 2002, pp.71–77, 2006), and The Committee for Social Security (CSS) was formed. According to Jo (2008), the members of CSS were policy experts and political entrepreneurs. The CSS would continue to provide important contributions on the institutionalisation of social welfare programmes.

In October of that year, Choi Chon-Song and his colleagues in the CSS produced the first draft of the NHI law, which imitated the Japanese Health Insurance Law. In addition, they consistently explained the necessity of social provisions to key decision-makers. In this way, members of the CSS had a significant influence on the enactment of NHI law. It should also be noted that Son Chang Dal, one of the members of the CSS, was directly involved in the drafting of Park’s memorandum to the Cabinet on establishing social welfare institutions.

However, despite their efforts, Article 8 of the draft legislation, which called for mandatory implementation of health insurance, was removed during the process of deciding which of the articles would form part of the final legislation by a standing committee of the SCNR. Son, J. K (1981) indicates that the omission of mandatory provision from the health insurance law was due to four reasons. The first reason was economic: the policy priority of the regime was

economic development, and policies in other areas were of secondary importance. The second was political: the military government feared that mandatory health insurance provision would lead to further demands by the people. The third concerned the bureaucratic policy-making structure under the regime. Its structure was too vertical and closed, with decision-making being one-sided and from above. The fourth reason was the bureaucrats' lack of resolve to introduce mandatory health insurance.(Son, J. K, 1981)

This early version of Korea's health insurance programme (then termed medical insurance) was very limited. Its lack of mandatory provision meant that viable social insurance for healthcare was not actually implemented until the mid-1970s (Kwon, S. M, 2009, p. 64). Choi Chon Song (one of the CSS members who participated in the deliberations on the original legislation) later indicated:

*I regret very much that the (draft) Health Insurance Programme did not cover the poor who needed it most. It was designed to cover only the small numbers of workers who were relatively well off. However, we had to make a safe start rather than launch an ambitious Health Insurance Programme (cited in Kwon, H. J, 1999a, p.54).*

Choi points to the original NHI law's fundamental flaw: if social insurance is not made compulsory and universal as far as possible, it can neither be redistributive nor risk-pooling. In viewpoint similar vein, Hwang (2006) points out that "abandoning the principle of universality within social insurance would inevitably undermine the distributive effect between different risk categories". In fact, for the military government, which had placed economic growth above all other public policy areas, social welfare provisions would become meaningful only if they were introduced before the transition to a semi-civilian government took place so that the regime's underlying political ends could be met (Hwang, 2006). The CSS's original proposal was revised during its reading in the SCNR to comply with the economy-first strategy of President Park and the SCNR. However, the policy

legacies resulting from this decision were to weigh heavily on the development of later health insurance programmes.

#### 5.1.4 From voluntary insurance to compulsory insurance

##### *Voluntary insurance*

Despite the NHI law's fundamental drawbacks, the MOHSA encouraged some companies to establish health insurance societies as part of a pilot project (Lee, K. C, 2009). In 1965, the first formal health insurance society was established at Honam Fertilizer Corporation (currently the Korean Synthetic Chemistry Corporation).

**Table 5-5 Health insurance societies in 1975**

Employee health insurance societies		Self-employed health insurance societies	
Name	Established	Name	Established
Honam Fertilizer Corporation.	November 1965	Pusan Blue Cross	October 1968
Bongmyung Graphite Mining Station	April 1966	Oku Blue Cross	October 1973
The Korea Oil Corporation	July 1973	Cunsung Medical Insurance	June 1974
Hyubsung Medical Insurance	May 1975	Gyoche Blue Cross	July 1974
		Backryung Blue Cross	December 1974
		Youngdong Medical Insurance	February 1975
		Gungpyungmerinol Medical Insurance	July 1975

(Source: the MOHSA)

Between then and 30 July 1975, when the second amendment to Korean health insurance law was passed, only eleven health insurance societies were in operation. The number of people eligible to receive benefits under this NHI system was 15,585 paying members and 67,486 dependents, which, amounted to a mere 0.2% of Korea's entire population. More details are given in Table 5-5. As such, the health insurance programme at this time existed only as a pilot project. The most crucial reason for this was its voluntary basis. In other words,

companies' participation in health insurance programmes was low precisely because participation was not made compulsory.

The voluntary nature of the health insurance system caused a number of problems. Since the design of social insurances such as health insurance and pension schemes is based on risk-pooling the majority of the population, the voluntary nature of the health insurance system led to low participation, and low participation brought low level risk-pooling and an extremely low level of benefits. In this regard, Hwang (2006) states:

*the principle of voluntary participation is typically seen in private insurance, which tends to rely on an actuarial basis, meaning that the insurance may not be of any help in improving horizontal efficiency (i.e., in assisting all target groups) but favours vertical efficiency.*

#### ***Attempts to amend health insurance***

On 7 August 1970 the health insurance law was amended (Law no. 02228) with the aim of setting a legal basis for the establishment of a compulsory health insurance scheme, to implement the compulsory principle within a specific category of the population (Hwang, 2006). However, this amendment was not implemented. While superficially the reason for the failure to implement the amendment may appear to have been a lack of financial resources and the burden of national defence spending, the chief reason was the attitude of President Park and high-ranking bureaucrats towards social welfare provision, which they felt was a wasteful expense and a barrier to rapid economic growth. Nevertheless, despite the increasingly authoritarian political situation in Korea – the Park regime had revised the constitution both to retain power for another decade and prohibit political activities by any opposition groups – a profound change in the official position on social welfare provision took place. In the spring of 1976, President Park announced that a new health insurance programme would be implemented the following year. On 22 December of that year, an

amendment to Korea's health insurance law established the principle of compulsory participation. The amended health insurance law was Korea's first major welfare programme to cover not only industrial workers but also other members of Korean society, including the middle class(Joo, J. H, 1999).

### ***Compulsory insurance***

A substantially amended health insurance law, which established compulsory health insurance coverage, was implemented in 1977 (Kwon, H. J, 2005a). Employees of companies with more than 500 workers were the first group covered by the new legislation (Kwon, S.M, 2009). Health insurance coverage was then extended to employees in corporations with more than 300 employees in 1979 and to workers in firms with more than 100 employees in 1981. Gradual coverage expansion continued: A Medical Aid programme started for the poor in 1977, and government employees and teachers joined the health insurance programme in 1979 (Kwon, S. M, 2009). The most interesting points for discussion here are how the compulsory health insurance programme was introduced, who played the key decision-making roles, and who influenced the decision-makers.

According to Kim Jung-ryum (1990, pp.308-309), who was the chief of the Presidential Secretariat during 1969–1979, President Park already planned to carry out both economic development and social development from 1972 through the Third Five-Year Development Plan (Kim, J. R, 1990, p.308). He also stated that as an indication of Park's commitment to social development, he had appointed the most suitable candidate, Shin Hyun Hwak, as Minister of Health and Social Affairs(Hwang,2006). Kim recounts the following:

*President Park made up his mind to reshuffle the cabinet... As in previous cases, before the reshuffle, he ordered me to make a list of candidates, asking me to pay particular attention to the Minister of the MOHSA, which faced many difficult tasks such as the implementation of*

*the medical security programme, labour problems, and the protection of worker's rights ...there was no suitable candidate except Mr. Shin ... President Park asked Minister Shin to develop a medical welfare system fit for the country's circumstances (Kim, J.R. 1990, p. 309; Joo, 1999).*

However, the MOHSA bureaucrats of the time tell a different story. Choi Soo-il, who was in charge of the government's Social Insurance Bureau, claims that the health insurance programme had a different origin:

*With a firm determination, the head of the MOHSA (Shin) made a recommendation to President Park to implement a medical insurance programme ...at that time all ministries bitterly opposed the idea, but Park decided to implement health insurance on Shin's recommendation (Jo, 2008, p. 78).*

Kim Jong Dae, who was the section chief in charge of health insurance management, recalls the following:

*In the process of the debate on the implementation of compulsory medical insurance, Shin's persuasion had a noticeable effect on Park's position. I firmly believe that the process did not involve President Park making the initial decision to introduce compulsory medical insurance and the minister merely later implementing it ... Rather, it was Shin's philosophy on social policy that persuaded Park (Jo, 2008, pp. 78–79)*

While Choi Soo-il and J.D. Kim play down the role of President Park and emphasise Shin's role, it should be stressed that they were bureaucrats within the MOHSA and therefore were unlikely to be fully aware of the political decision-making process, which was conducted behind a veil of secrecy. It should be noted, therefore, that while Shin played an important role in the introduction of the health insurance programme, he was not a key decision-maker.

Kim Jong-In, who was then a professor at Sogang University (later the MOHSA Minister and a member of the National Assembly), relayed new details regarding the decision-making process on health insurance policy in my interview with him.

*In May of 1975, Park called me regarding the establishment of a comprehensive health insurance policy for workers. I then set up an informal committee with bureaucrats and presidential secretaries. We called this organisation 'the Friday society'. At that time, I proposed the introduction of a compulsory medical insurance programme to President Park, who was determined to introduce it. There was opposition to this plan within the Cabinet, this opposition couldn't overcome the will of the top decision-maker, Park.*

In summary, both of them (Kim, J. R and Kim, J. I) stressed Park's role in the formulation and implementation of the compulsory health insurance policy, while two bureaucrats emphasised Shin's role. Regardless of what may be the truth of the matter as regards the initial formulation of the compulsory health insurance policy, the fact remains that the final decision-maker was Park, and his attitude towards health policy was the most important factor in this policy-making process. Throughout the process, no other actors played a similarly influential role, and there were no veto players. The decision to introduce compulsory health insurance was a unilateral one made by the top decision-maker and high-ranking bureaucrats within the Park administration. While some interest groups such as doctors and corporations were interested in a compulsory health insurance programme – for example, the Korean Medical Association (KMA) and The Federation of Korean Industries (KFI) had their voices heard during the policy-making process (Sohn, C. K, 1981; Hwang, 2002) – they only tried to influence the programme in ways that were favourable to their positions. In section 5.3, I will examine KFI's role in more detail.

### ***Why was the Park regime so determined to introduce compulsory health insurance?***

Why was the Park regime so determined to introduce health insurance on a compulsory basis?

While commentators have provided a variety of explanations, the majority suggest that it was a means of gaining political legitimation for the regime.

Kang Myung-se argues that the health insurance programme was akin to Otto von Bismarck's late 19<sup>th</sup> century introduction of health insurance to stave off working class resistance to his rule. Lee K. C (2009) maintains that the decision to implement a compulsory health insurance programme aimed to deal with the political crisis brought about by North Korea's threat and the side effects of the South's economic growth-first policy. Hwang summarises this as follows:

*First, opposition movements, albeit sporadic and modest, were continuously demanding democratisation. Second, the Joint Communiqué of 4 July 1972 between South and North Korea enabled the start of South-North dialogue, which eventually led to a comparison between their living conditions. It emerged that a universal healthcare service had been in operation in North Korea since 1972, and North Korea took full advantage of this fact for political propaganda (Hwang, 2006).*

In other words, the introduction of compulsory health insurance by the Park regime was an attempt to deal with complex crises in advance. It was a product of the politics of legitimation.

### ***Coverage extension***

Whatever the reasons for its introduction, the national health insurance programme implemented in 1977 under the authoritarian government was the first comprehensive social insurance introduced in Korea. As its coverage was incrementally extended, those previously left outside the scheme came to be covered (Kwon, H. J, 1999). As coverage extended to the self-employed in rural areas and employees at companies with five workers or more in 1988

and to the urban self-employed in 1989, the so-called 'era of national health insurance for the whole population' began. The significance of this development should not be underestimated, since it meant that the entire Korean population became tied into a social insurance programme that represented a form of social solidarity and provided an income redistribution function.

However, this increase in insurance coverage was also a political project for the Fifth (1980–1987) and Sixth Republics (1988–92), whose authoritarian military rule was facing sustained challenges from the middle and working classes alike (Hwang, 2009). Both the Fifth Republic under Chun and its successor under Roh were challenged by the resistance of the student and labour movements, resistance that posed a significant threat to both regimes. Accordingly, neither regime was interested in ensuring that the best health insurance system possible was developed, but rather that the expansion of coverage would serve to quell the possibility of more vehement resistance to their rule. As a result, the existing problems of the national insurance programme were retained, and no genuine attempts were made to address them.

## **5.2 The administrative arrangements of pre-reform health insurance**

When the compulsory NHI system that was implemented in Korea in 1977 had two notable peculiarities: first, NHI covered only employees in firms with more than 500 workers; second the administrative system was fragmented, with individual health societies each managing their own affairs. This operational form imitated the Japanese model (Lee, J.H,2009). In formulating Korean NHI law in 1976, the MOHSA did not consult Korean policy experts and instead looked to Japanese health insurance law for inspiration, eventually settling on a slightly revised version of the Japanese system. It was this decision to adopt a fragmented insurance system that sparked the debate that would come to consume discussion on the

structure of Korean health insurance for the next two decades. In the modern history of social policy in Korea, no other controversy generated as much debate as the issue of health insurance integration. As time went on, the debate expanded to include participants from MOHSA bureaucrats, to academic policy experts, to members of civil organisations and to interest groups, and large-scale social movements were formed. In fact, the welfare politics that emerged in the course of the debate on health insurance integration in Korea were unique, and the history of health insurance integration and the social movements that it spawned helps to reveal the relationship between democratisation in Korea and social policy and the correlation between economic upheavals such as financial crisis and welfare reform (Kim Y. M, 2000).

### **5.2.1 The arguments behind the controversy on health insurance integration**

#### ***The arguments for a fragmented healthcare system***

First, the arguments of the proponents of a fragmented healthcare system should be outlined (The Federation of Korean Health Insurance Societies or FKHIS, 1982, 1986, 1997). Their central argument against a single healthcare system was that it was inefficient. Since healthcare needs differ depending on people's income and conditions, they argued that no appropriate single assessment system for equal contributions could be devised. Furthermore, they contended that if fragmented health insurance societies were merged, this would necessarily lead to managerial inefficiency and the weakening of managers' abilities to deal with problems and an increase in the government's political and financial burdens. Besides, there was another argument that the consciousness of community by the participation of the employees and the employers would decrease (Lee, K. C, 2009). Lee Kyu-sik argued that the adoption of a competitive and fragmented healthcare system would guarantee both the satisfaction of service users and the efficient management of funds (2000, p. 53). Lee, K. C

contended that integration of health insurance societies amounted to a risky social experiment that targeted the entire population (2000, p. 66). In particular, he argued that an integrated healthcare system would lead to inequalities between employees and the self-employed (or among the self-employed) because, while the income of employees is transparent, the self-employed frequently do not report their real income, and government therefore cannot determine their precise income. Thus, if an integrated healthcare system were adopted, employees would lose out compared to the self-employed. Accordingly, he maintained that a fragmented health insurance system was preferable to an integrated system.

### ***The arguments for an integrated healthcare system***

For more than 20 years, the issue of an integrated healthcare system was consistently raised by scholars, civil activists, and labourers in Korea. What did these advocates of an integrated healthcare system mean when they called for the integration of health insurance? According to Kim Y. M (2000, pp. 100–101), health insurance integration had three meanings. The first referred to the integration of more than 300 individual funds into a single fund. The second referred to the integration of separate health insurance societies and the civil service into a single insurer at the national level, covering licence administration, assessment, and collection of contributions (premiums). The third referred to the implementation of a unified assessment system for contributions.

For its proponents, what would be the likely effects of health insurance integration? On this question, the so-called ‘unionists’ argued that the foremost effect would be equality of contributions (Kim, Y. M, 1999, 2000; Lee, K.C, 2009; in Interview with Kang, C.K, Kim, Y. I and Cha, H.B). An interesting point here is that the unionists’ reasoning in calling for an integrated system was mirrored by the so-called separatists’ reason for advocating a fragmented healthcare system that established equality of contributions. The unionists argued

that administrative simplification would lead to an improvement in services. They also insisted that the integration of health insurance societies would positively affect the public use of health insurance funds, arguing that the existing fragmented funds system hindered the appropriate use of funds because funds could be privatised by companies at their will, whereas an integrated system could prevent any privatisation of funds. The most important issue for the unionists was that they felt that an integrated system would provide better benefits, that is to say, an integrated insurance system would extend the size of funds, which could be used more effectively to extend coverage and benefits at the national level. Whose argument, then, that of the unionists or that of the separatists, is more convincing?

**Table 5-6 Comparison of fragmented and integrated healthcare systems**

	Fragmented system	Integrated system
Administration	Regional or occupational individual health societies	A National administrative organisation
Benefits	Equal statutory benefits Differing fringe benefits	Equal statutory benefits
Finance	Separate accounting system – limited risk pooling	A unified accounting system – risk pooling at the national level
Peculiarity	Selective programme	Universal programme

***The problems of a fragmented management and funding system***

The individual health insurance societies were self-regulating and autonomous insurers founded on the basis of direct payment by members. This meant that “national health insurance was not integrated in a single national health fund, but it comprised more than 300 financially and administratively separate funds that collected contributions and paid hospitals and doctors for treatment on a fee-for-services basis. People who were newly covered by national health insurance formed their own health funds, Regional Health Funds, whereas the existing members maintained their own Governmental and Industrial Health Funds” (Kwon H. J, 2002, p. 160). According to their arguments, this fragmented management system did have some strengths. For example, Kwon, H. J (2002) states that it made extending coverage

of NHI easier because “the existing members’ funds did not have to transfer financially to new ones” (ibid.).

However, “the redistribution effects of National Health Insurance were very low, as it only took place within fragmented health funds” (ibid.). Contributions were set at a rate of between 3% and 8% of monthly income and were paid directly by employees and employers, with employees paying 50% and employers the remaining 50%. When insurers experienced funding deficits, health insurance societies increased the rate of contribution (Lee, K. C, 2009). This situation led to financial inequalities between health insurance societies, that is to say, a division emerged between poorer health insurance societies and richer ones, resulting in a vicious cycle whereby the rich got richer and the poor got poorer. This financial inequality also led to an inequality of benefits for the insured. The considerable difference in the benefits paid by employee health insurance societies and self-employed health insurance societies became evident over time. Above all, the level of contributions by participants differed according to the societies to which they belonged. However, the number of participants in societies was generally too small and so the effect of risk-pooling was low. In addition, although the operating costs and 10% of the benefits paid by most societies were subsidised by the government, operating costs were high and extravagant spending was frequent (Lee, K. C, 2009). Because of these problems, some societies were unable to function properly. In advanced welfare states, health security is regarded as a social right, and the most vulnerable people receive preferential treatment in these states. In Korea, however, social insurance was implemented not for the vulnerable but for the middle and upper classes (Lee, J. H, 2009). NHI and public pension implementation in Korea was for the privileged, such as civil servants, professional soldiers, employees working for large companies, and school teachers.

### **5.2.2 The fragmented system and the interests of the ruling coalition**

The interesting point is why these problems with Korea's NHI became evident at an early stage. Lee, K. C (2009) argues that the problems with social insurance basically stemmed from the nature of the ruling coalition: the alliance between the state and subordinate capitalists. Its highest goal was retaining power, and economic growth was the means by which it aimed to achieve this end. Social policy was merely an instrument to be used towards accomplishing this goal and was therefore allowed only limited scope. Accordingly, the ruling coalition chose to implement a fragmented insurance system because it more actively served their interests. In this regard, Lee, D. H (1992) stated that the reasons for the adoption of a fragmented healthcare system by the military regime was that "the then government recognized that the fragmented system is more advantageous for incremental coverage extension and also government's finance is minimized" (1992, p.318). Lee, K. C (2009) notes that at that time, the bureaucrats of the MOHSA had authority over staffing in health insurance societies and pharmaceutical industries, leading to the creation of vested interests for MOHSA bureaucrats. Notably, CEO positions at health insurance societies were generally held by outgoing MOHSA bureaucrats. After these ex-government officials gained CEO positions in health societies, they attempted to curry favour with current MOHSA officials in order to retain their jobs.

Kim, Y. M (2000) has analysed the relationship between the integration of health insurance societies (or the fragmented health insurance system) and social actors' interests, concluding that the reason why big companies advocated a fragmented system was that it more easily allowed them to control health funds because large companies controlled the administration of their own health insurance societies. In other words, the fragmented nature of the management and funding of the NHI system was directly related to the interests of bureaucrats and capitalists. This arrangement ensured that high-earning administrative posts

went to state representatives and bureaucrats, and since many large companies owned their own medical treatment facilities aid, it enabled capitalists to use some of the insurance funds for themselves. From the outset, then, the ruling coalition preferred the fragmented management system of individual health insurance societies over that of a single insurer. These factors hindered reform of health insurance societies for more than 20 years.

### 5.3 The political dynamics of pre-reform health insurance integration

For almost 23 years – from 1980, three years after NHI was first implemented, until financial integration was completed in June 2003 – the controversy about reforming health insurance in Korea centred on the administrative management of health insurance. As mentioned above, the long and arduous road to health insurance integration was marked by continuous clashes between the opponents (stakeholders) and proponents (stake challengers) of NHI integration. To explore the history and understand the political context of the health insurance integration process, we need to identify and classify its different phases (Won, S. J, 2006). For this, I employ Won’s (2006) division. According to Won, the long history of NHI integration can be divided into four phases, details of which are given in the table below.

**Table 5-7 The four phases of the controversy on health insurance integration**

Phase	Period	Key events
Initiation	1980	The debate within the MOHSA by bureaucrats
Extension	1981–1986	The expansion of the debate to research institutes, academia, and National Assembly
Social movement	1988–1990	The widespread struggle for health reform by a variety of civil organisations
Institutional integration	1997–2003	The completion of NHI integration under the Kim Dae-Jung government

### **5.3.1 The initiation and extension phases (1980-1986); the first battle between separatists and unionists**

The first person to openly question the existing health insurance societies was Chun Myung-gi, the then Minister of the MOHSA, in 1980 (Won, S. J, 2006). He made it clear that he would pursue the integration of health insurance societies into a single insurer system immediately after his inauguration as the head of the MOHSA. How and why did Chun reach this decision? There are a number of explanations given for his decision. Won, S. J (2006) maintains that when Chun met with a Japanese counterpart from Japan's Welfare Ministry, the Japanese experience of the harmful effects of separate health insurance societies were elucidated to Chun. However, Lee, K, C (2009), a MOHSA policy expert on health insurance argues that it was he who persuaded Chun to decide to integrate health insurance societies. Whatever the reason for his decision, Chun announced 'a plan for the integration of health insurance administration' to the president and obtained presidential sanction. The key ideas contained within the report can be summarised as follows. The existing system of separate health insurance societies made national coverage extension difficult. Although there had been some expansion of coverage, many societies suffered serious financial deficits (Won, S. J, 2006). In addition, there were serious financial inequalities between the individual health societies, and health insurance funds for the self-employed in rural areas were either lacking or chronically unstable (Hwang, 2006). In order to establish an insurance system on a national scale, therefore, health societies needed to be integrated (MOHSA, 1980). Lee recounts that Chun called on all civil servants in the MOHSA to cooperate on the integration of health insurance societies.

However, Chun's policy sparked strong opposition. Firstly, the main business associations, including the FKI and the KEF (Korea Employers Federation), opposed the integration.

Business actors raised concerns about a potential increase in the financial burden of an integrated system and anticipated that if health insurance societies were integrated, they would not be able to use health insurance funds at their will (Won, S. J, 2006). The Federation of Korean Medical Insurance Societies (FKMIS), which was established as a federation of employee health insurance societies, also opposed Chun's recommendations. For the FKMIS, it was a matter of survival: integration would mean the extinction of individual employee health societies. Another opponent was the conservative media, including Chosun Ilbo, which is one of Korea's leading newspapers. In fact, there was no progressive media in Korea at the time, and press freedom was tightly restricted. The Korean Federation of Trade Unions (henceforth the KFTU), which was the only national labour organisation at the time and was in fact largely controlled by the government, initially adopted an ambiguous position, but since the trade union represented employees covered by company-run health insurance societies, it later came to oppose the integration of health societies.

An influential barrier to the efforts at integration was a minority of bureaucrats working for the presidency. Some bureaucrats in the Presidential Secretariat became a centre of opposition and in November 1980 produced a report against the integration of health insurance societies called 'An Investigative Report on the Plan for the Integration of Health Insurance Administration'. Its key content was as follows. 1) The integration of health insurance societies would shift all medical responsibility from companies onto the state or government, and this did not conform to the original aims of social security. Moreover, they raised concerns about the potential for welfare dependency. 2) If contributions and benefits were coordinated, direct conflict between government and the people was more likely. 3) An increase in expenditure was to be expected because of unnecessary medical treatment. 4) If a deficit in insurance funding occurred, central government would have to meet the shortfall. 5)

People's dissatisfaction would be likely to rise due to increased expectations. 6) A lack of consistency in management would lead to administrative chaos. (Won, S. J, 2006). The central theme of this report was its emphasis on the increased political burden that health insurance integration would bring.

In stressing this particular aspect, opponents of an integrated health insurance system tried to increase the regime's anxiety about integration and raise the spectre of a large budget deficit. Nevertheless, on the whole, public opinion was in favour of integration, and the National Assembly decided that the government should introduce health insurance integration by the end of 1982. However, the Presidential Secretariat pressured the MOHSA into not accepting the National Assembly's recommendation (Cha, H. B, 2011, Author's interview)

The final decision was ultimately in the hands of President Chun Doo-hwan. In this regard, Kim Jong-Dae, who was one of the influential separatists and an executive official at the presidential residence, recalls the following:

*At 3pm on 2 November 1982...the president held a meeting on the health insurance integration proposal....The president said that "the party that advocated the integration needed to reconsider its position, and the Blue House (the presidential residence – here it meant the opponents of integration working in the Blue House) was right" ...and so the issue was wrapped up. This decision formed a watershed. (2007.8.1, interview with Jo; Jo, 2008, P. 85; Kim, J. D, 2013 interview with author)*

Cha recalled the following in my interview with him (5, December, 2010):

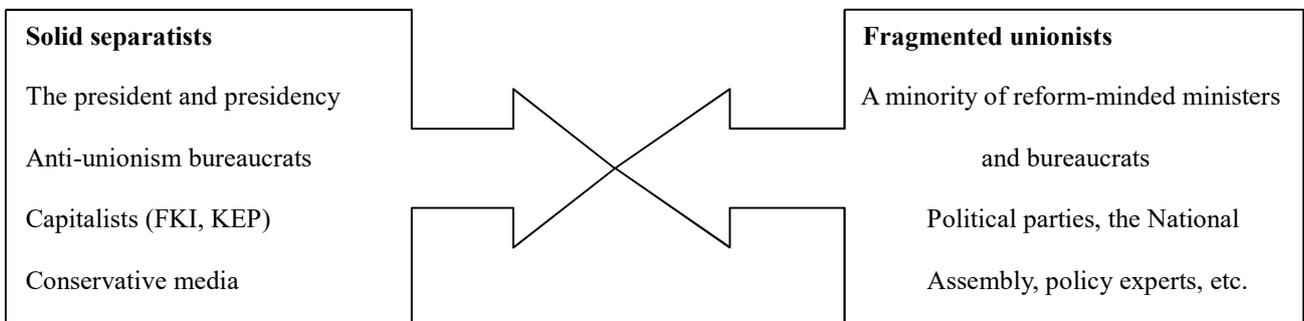
*At that time, the Minister of the MOHSA, the floor leader of the ruling party, and the chairperson of the Standing Committee for Health and Social Affairs in the National Assembly explained the need for NHI integration directly to the President and the president secretaries but also made clear that the integration would increase the state's financial burdens. Finally, President Chun decided that the integration must be deferred.*

President Chun’s decision that day ended the first battle between the separatists and unionists. However, this did not mark the end of the integrationists’ problems. Their opponents in the presidential residence now attempted to suppress unionists’ efforts through violent means in 1983. Cha, H. B (2011) witnessed the affair.

*I was taken to the secret intelligence agency, where I was accused of corruption. I was tortured in their secret building for a week (Cha, H. B, 2011, Author’s interview).*

After this, the debate on the pros and cons of integration continued in the academic arena, at research institutes, and in the National Assembly. With a few exceptions, the members of the Committee of Health and Social Affairs were in favour of integration (minutes of the National Assembly, 1981).The ruling party, the DJP (Democracy and Justice Party) also favoured integration. Research institutes, including the KDI (Korea Development Institute) and the KIHSA (Korea Institute of Health and Social Affairs), held various debates on the integration or separation of health insurance societies. Within academia, most scholars supported integration.

**Figure 5-3 The first battle between separatists (stakeholders) and unionists (stake challengers) in 1980–1986**



### **5.3.2 The social movement phase (1988–1990): the second battle and veto power**

The conflict between the separatists and unionists around health insurance management again came to the fore during the process of the inclusion of the self-employed in health insurance schemes in rural (1988) and urban areas (1989). However, the conflict now took on a new dimension. The June Democratic Struggle, the announcement of a direct presidential election system by the Chun regime, the June and August great labour struggles, the division of democratic candidates, and the election of President Chun's successor, Roh Tae-Woo, had created a new political situation in Korea. In this political climate, the opposition party at the end of 1987 proposed the extension of national health insurance to the self-employed in rural and urban areas (Hwang, 2006). Facing an imminent presidential election and a general election within months, the government extended the NHI programme to farmers and workers in the fishing industry in the first month of 1988 and raced to establish 138 health insurance societies in rural areas. 1,700,800 farmers and fishermen were forced to join these societies. However, the government's move triggered strong resistance from farmers. In February 1988, immediately after President Roh's inaugural address, 1,500 farmers came together at a square in Goesan-Gun, a small county in Chung Cheong province, to protest the government's move, calling for equality in NHI contributions and equal access to affordable medical treatment. Their discontent centred on the contribution levels that they were expected to pay. While employees met 50% of their total insurance contribution (the other 50% was met by their employers), farmers had to meet 80% of the total insurance contribution. Cha, H. B described the situation as follows:

*In January, as soon as the farmers and fishermen health insurance started, serious issues were raised throughout the country. "We can't pay the contributions", "the contributions are*

*unequal”, “there is discrimination in using medical institutions”. These complaints arose simultaneously (Cha, H. B, 1988, p.89).*

Farmers and workers in the fishing industry united with the urban poor and workers contributing to the regional health insurance societies to advocate integration. In June 1988, 40 health insurance countermeasure committees and 48 other organisations from across the country came together to form ‘the National Medical Insurance Countermeasure Committee (NMICC)’ and call for the integration of health insurance. The significance of this development was that it marked the beginning of the attempts by social movements to intervene in the government’s one-sided policy-making process on health policy.

Social movements would later play a key role in the movement for NHI integration. Meanwhile, a group of scholars joined the so-called ‘integration movement’. Scholars promoting NHI integration formed ‘a research society for social insurance’. Over the following weeks, they announced ‘a study on ways to integrate the NHI’, while other academic groups issued papers on separate NHI management in the name of ‘the whole health insurance researchers’ (Lee, H. K, 2009). Finally, the political community responded. Two opposition parties, the PDP (Peace Democracy Party) and the RDP (Reunification Democracy Party), submitted a new NHI integration law in a plenary session. The NDRP (New Democratic Republican Party) also changed their position after farmers staged a rally and occupied the headquarters of the party (Won, S. J, 2006). On 9 March 1989, an extraordinary event occurred.

The integration law, ‘the National Medical Insurance Act’, was passed in the provisional session of the National Assembly. The opposition parties’ support for integration pressured the ruling party into agreeing to support the National Medical Security Law (Woo, 2004).

**Table 5-8 The distribution of parliamentary seats in 1988**

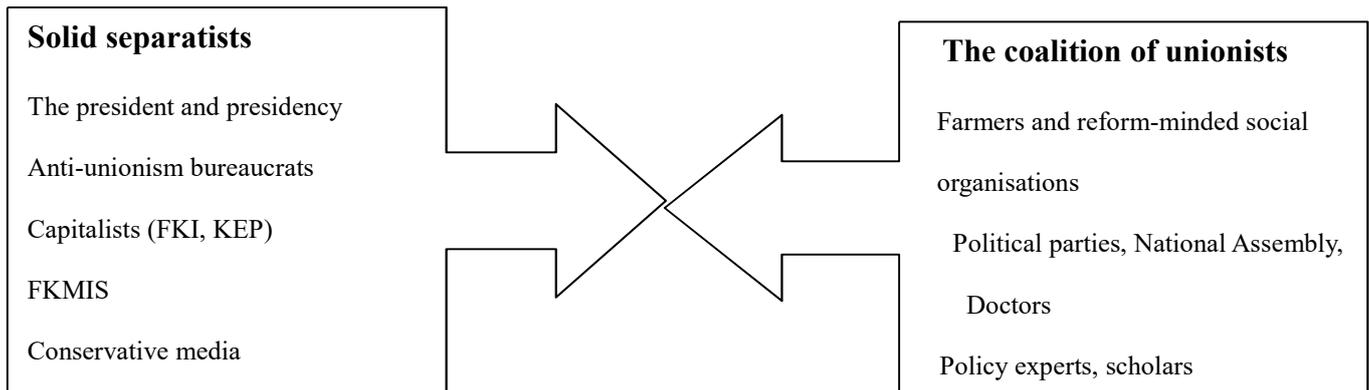
Parties	299 seats
DJP (the ruling party/Roh Tae Woo)	125 Seats
PDP (Kim Dae-jung)	70
RDP (Kim Young Sam)	59
NDRP (Kim Jong Pil)	35
Independent and others	10

This time, the conservative media emerged as the enemy of integration, arguing that if integration were achieved, the burden of contribution would increase twofold (Won, S. J, 2006). The Hankyoreh Daily Newspaper, the only progressive newspaper at that time, and The Kukmin Daily News were the only supporters of the NHI integration proposal. The crucial barrier to implementation of the new law was the veto power of President Roh. Although Roh was a ‘minority president’ in that opposition parties held the majority of seats in the National Assembly, he exercised his veto to prevent the passage of the integration law and then argued that there might be legal problems in integrating different health insurance funds and making them public because health insurance funds, considered as private property by each health insurance society, could not be transferred to public organizations (Woo, 2004).

Roh’s decision was the result of persuasion by his secretaries, vigorous lobbying by the Federation of Korean Medical Insurance Societies (FKMIS), strong resistance from business sectors, and the KFTU’s (Korean Federation of Trade Unions) reluctance to accept insurance integration and its short-sighted selfishness. This marked the end of the second battle between the separatists and the unionists. Fundamentally, it can be concluded that the power of the vested interests network lay behind Roh’s veto. The proponents and opponents in the second battle on NHI integration can be tabulated as follows.

The ‘tipping point’ leading to NHI integration will be explored next. In examining this process, the new political dynamics of health insurance reform and the impact of social movements will become clear.

**Figure 5-4 The second battle of separatists (stakeholders) and unionists (stake challengers) in 1988–1990**



### 5.3.3 The showdown between stakeholders and stake challengers

The history of health insurance integration was the history of the showdown between ‘stakeholders’ and ‘stake challengers’. This battle stemmed from the confrontation between the vested interests of separatists and the pro-reform grouping of unionists. It is necessary, therefore, to identify the participants in the respective coalitions and understand their characteristics.

#### *Separatist coalition: the vested interests network*

Stakeholders were opponents to the integration of NHI and are listed in Figure 5-3 and Figure 5-4. They were mainly welfare providers and preferred the existing fragmented healthcare management system to an integrated one because their interests lay in the existing system. For example, bureaucrats were able to achieve their own primary objective with this system,

namely securing their legitimacy by implementing NHI with the minimum use of resources. In practice, they were more interested in attaining their own political legitimacy than in ensuring health security, and they continuously pursued this goal throughout the debate between separatists and unionists. The priority of the authoritarian government was to reduce people’s demands, dissatisfaction, and resistance. Accordingly, the government did not want healthcare to become a national issue and feared that integration of the healthcare system could heighten this possibility. In addition, “the presence of multi-health insurance societies gave the military government various advantages in terms of less financial and administrative commitment. Government was less responsible, so the issue was less problematic” (Kwon, S. M, 2003, p.125). This was, then, the military government’s position. Additionally, health societies provided retirees from the ruling party, the military and the MOHSA with decent jobs with a high salary, as shown in Table 5-8.

**Table 5-9 The Former Jobs of high-level figures in health societies (1988)**

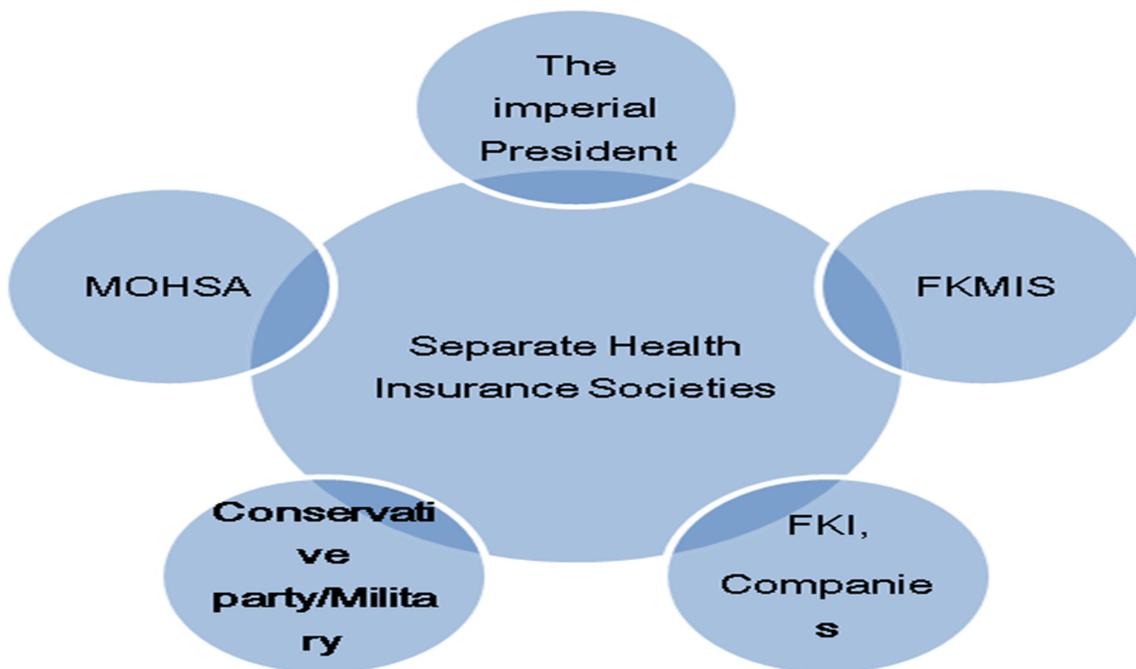
Bureaucrats	The ruling party	Military	Others (experts)	Total
144	101	69	47	361

(Sources: minutes of the Health and Social Affairs Committee in the National Assembly, 1988)

The capitalists’ attitude towards the administrative system for NHI was directly related to their continued control of the health insurance societies set up by and operating within their companies. These societies accumulated large reserves of health insurance contributions, funds that companies used as the occasion demanded. For example, many companies used these funds as deposits for loans or illegally profited from them by making multiple banking deposits, even though it was illegal for health insurance societies to deposit their funds with more than five banks. Companies also used these funds to placate labour demands. Another organisation with a close interest in the debate was the Federation of Korean Medical

Insurance Societies (FKMIS), which was established as an insurer organisation in 1976 and acted as an executive body for the separate health insurance societies and which had close ties with very influential financial and business vested interest organisations (as did most health societies). For example, the presidents of the FKMIS were, in succession, Kim Ib-sam (1977–1982), a key member of the FKI, Chang Won-chan (1983–1987), a bureaucrat, and Woo Jong-Lim (1987–1990), who was from the military. In effect, a large interest group network was formed by organisations and individuals with a vested interest in retaining the system of separate health insurance societies. This vested interests network is shown in Diagram 5-1 below.

**Illustration5-1 The key actors in the separatist vested interests network**



***Unionist coalition; the challenger network***

Even though various problems inherent in the NHI programme were revealed as it matured (Hwang, 2006), no steps were taken to tackle the problems. The chief reason for this was that although there were groups that recognised the existence of the problems, there was no strong

stake challenger organisation to address them, and these groups remained weak, separate, and isolated. The government was not strongly challenged to improve matters until 1988, when farmers raised the issue of the unequal contributions that they had to pay to health insurance societies. Ironically, the motive for this challenge sprang from the extension of NHI coverage to farmers in 1988, which, as outlined earlier, led to many farmers withholding their contributions to health insurance societies. Democratic progress in Korea over the preceding years enabled farmers and civil organisations to make their arguments more forcefully.

**Illustration5-2 The key actors in the unionist challengers' network**



With the progress of democratisation, a new political geography emerged. In the late 1980s, farmers demanded and voiced the need for reform of health insurance societies, and their demands spread to several other social groups. The opposition parties and the National Assembly did not play a crucial role in the reform of health insurance societies. The emergence and proliferation of new actors gradually opened new possibilities for unification

and solidarity among the unionists. In particular, farmers and labourers, civil activists, and reform-minded policy experts formed a new coalition for the integration of NHI organisations. This created a new politics of healthcare and welfare reform in Korea.

#### **5.3.4 The stake challengers' counterattack and strategies**

The battle between separatists and unionists on the integration of NHI organisations would change in the mid-1990s. The strongest driving force for this change was the wave of democratisation. After the June Democratic Struggle, social and labour movements campaigned continuously for social reforms. As regards health insurance integration, 11 April 1994 marked the 'tipping point'. On this day, various social movement groups came together and established a new large-scale organisation to push for the integration of health insurance societies: The Pan-national Solidarity Council for Medical Insurance Unification and Benefit Expansion (henceforth, PSC). This organisation had three main goals: 1) the unification of all NHI societies; 2) the expansion of coverage; and 3) equal contribution for all people. The PSC's activities opened a new era for both the integration movement and welfare politics in Korea. The PSC's participants can be divided into four categories: 1) health and medical organisations (progressive doctors, pharmacists, dentists, and oriental doctors); 2) trade unions; 3) the Federation of National Farmers Associations; and 4) social movement groups. While the background to the launching of the PSC originally lay in the deepening contradictions within separate health insurance societies, the key move leading to it being established was the setting up of 'the Committee of Health Security Reform' (CHSR) in 1994, a consultative body to the minister of the MOHSA, under President Kim Young Sam, the first 'bona fide' civilian president in thirty-two years. Even though this government was in many ways a successor to the previous authoritarian regime, it promoted a range of

reformist policies. These policies were later to open policy windows for the unionists. The CHSR consisted of bureaucrats and policy experts, including some progressive health insurance reformers, but due to opposition from within the MOHSA, this organisation could never actively promote NHI integration.

The PSC's first effort was focused on constructing an alternative insurance policy to that then in existence and was a response to setting up of the CHSR. The PSC issued an alternative policy for insurance integration on 20 May, one month and ten days after its formation. The CHSR also suggested an alternative policy that called for a partial extension of benefits within the existing system of separate insurance societies. The PSC's other effort was strengthening the capabilities of participant organisations.

The PSC held briefing sessions, public hearings, presentations, a petition-signing campaign, lectures, and symposiums to sway public opinion. The most noteworthy PSC activity, however, was securing the labour movement's active involvement. Kim Yong Ik, who was Professor of Seoul National University and a commissioner of the PSC, played a major role in this process.

*“ I thought that in the case of health insurance reform, the most important actor would be the labour movement, so I visited the progressive trade unions and persuaded them to join the NHI integration movement. In reality, NHI funds were labour's possession, but these funds were controlled by capitalists. I persuaded workers to realize that health insurance integration was a class issue.”(Kim, Y. I interview, 2010. 11.25)*

The PSC effort was also aimed at politicians. PSC representatives met several National Assembly members and visited the headquarters of political parties to elucidate the need for NHI integration. The interest of the mass media was aroused by these efforts, which were not antagonistic but were persistent and aimed to secure national support. The key event was the decision of the Korean Confederation of Trade Unions (KCTU) to link NHI integration and

wage negotiation. In 1995, 119 trade unions called for NHI integration in their collective bargaining efforts with management.

In the latter half of 1995, the PSC increased the pressure for integration and adopted a new strategy, calling directly for the enactment of a NHI integration law. The PSC endeavoured to make NHI integration a major political issue. In increasing its pressure, the withholding of insurance contributions in farming and fishing regions was encouraged by the PSC and a petition-signing campaign was employed. All these activities were aimed at stirring up public opinion for NHI integration.

As the general election in 1996 and presidential election in 1997 approached, the expectation of the PSC movement increased. The key members of the PSC viewed the 1997 presidential election as the best opportunity for NHI integration and concentrated on enacting a NHI integration law. They had already compiled a draft bill for the opposition party of Kim Dae-jung. Lee Sung-Jae, a robust member of Kim Dae-jung's National Congress of New Politics (NCNP, the successor to the PDP) in the National Assembly, took responsibility for the enactment of the NHI law and submitted an NHI integration bill. However, Lee's integration bill did not pass in the National Assembly. Nevertheless, to allay the rising political importance of the insurance integration issue, Hwang Sung-kyun and 30 Assembly members of the ruling party submitted 'the National Medical Insurance Law' on 30 October 1997, the key contents of which were the integration of 227 self-employed health societies and the absorption of regional health insurance societies for civil servants and private school teachers into a single body. This bill was passed by the National Assembly with the help of the opposition party. However, business sector stakeholders neglected this law, and the MOHSA bureaucrats meekly accepted it because they planned to devise alternative legislation later. Through the enactment of this law, the 'National Medical Insurance Corporation' was launched on 1 October 1998. This was a noticeable development and marked the first stage of

NHI integration, but genuine health insurance integration still lay ahead, despite all the efforts of unionist organisations.

## **5.4 The politics of health insurance since the economic crisis: the institutional integration phase (1998–2003)**

The organisational integration of NHI was finally achieved in 2000. At the time of the economic crisis in 1997, NHI was administered and financed by more than 350 health insurance societies respectively. These societies were broadly categorised into three different types by the status of the insured; 139 societies for employees, 227 societies for self-employed workers and a society for government employees and school teachers. As we have seen earlier, the 227 societies for self-employed workers and a society for government employees and school teachers were integrated in 1999. After this, the three categories of societies were integrated into a central agency in 2000. Finally, the formerly separate financial accounts for employees and self-employed workers were incorporated in 2003 (NHIC, 2005). In this section, I will explore how the stake challengers achieved NHI integration and what were the internal and external factors that led to this.

### **5.4.1 The emergence of new actors and new politics**

#### ***The stakeholders' strategic retreat***

On 18 November 1997, 'the National Medical Insurance Law' was passed in the National Assembly. As explained earlier, the key component of this law was the integration of the 227 self-employed health insurance societies and the creation of a single health insurance organisation for civil servants and private school teachers. A group of health insurance

society CEOs demonstrated at the headquarters of political parties in opposition to this law. A plenary session of the National Assembly's Standing Committee on Health and Social Affairs was postponed owing to members' absence from the session without notice.

Generally, however, stakeholders reacted to the passage of the law with a kind of strategic retreat. The business sector, especially large companies and the large-scale health societies, which had always valued personal profit over the interests of insurance contributors, looked coldly upon the passage of the law. The MOHSA bureaucrats who had formally opposed the PSC's integration bill meekly accepted the passage of the partial integration law in the belief that they could devise alternative legislation later and persuade the incoming president of its virtues. However, their plans were frustrated by unexpected events: the 1997 economic crisis and the power shift in Korean politics.

***The political and policy context of the 1997 economic crisis: the opening of a new policy window***

The 1997 economic crisis opened a new policy window for stake challengers. Above all, the economic crisis enabled the organisations calling for NHI integration to find new political and social spaces for their activities. By contrast, the economic crisis paralysed the active opposition of the stakeholding conservative bureaucrats. The power shift in 1998 from conservative government to the new progressive government was also another factor in opening up a new policy and political arena for welfare reform. It was the first time in 50 years of constitutional government that an opposition party had taken power. Perhaps most notably, Kim Dae-Jung, a long-time pro-democracy activist who had been sentenced to death under previous military governments, became the president. Throughout his presidential campaign, he had consistently promised health insurance integration, and health insurance

reform rose to the top of the political agenda. The economic crisis and the power shift in Korean politics were the decisive factors in the ultimate success of the stake challengers.

### ***A pro-welfare president and setting the health insurance integration agenda***

While the MOHSA bureaucrats continuously attempted to devise alternative regulations to defeat ‘the National Medical Insurance Law’ passed by the National Assembly on 18 November in 1997, the economic crisis and the split within the ruling party’s candidates delivered a historic victory to the opposition party’s presidential candidate, Kim Dae-Jung. “This was the first democratic transition of power from a long-entrenched, conservative ruling camp to an opposition leader” in Korea (Lee, H. K,2007, p. 39), and “it would be no exaggeration to say that a key factor in the Kim Dae-Jung victory was the indomitable man himself” (Oh, 1999, p. 232). President Kim is a key person in the history of social policy in Korea. He emphasised welfare expansion more than any other president. In a speech marking Korea’s 54<sup>th</sup> Liberation Day in August 1999, President Kim promoted the concept of productive welfare, declaring that he would implement a productive welfare policy that would maintain individual dignity and raise the living standards of all Koreans.

*President Kim said that the state’s purpose was to secure people’s happiness. He then added that people should never starve to death, should have access to good schooling regardless of their wealth, and should be able to receive proper medical treatment when they need it ... This is true nature of productive welfare (Author’s interview with Kim, S. J, 2010).*

President Kim had publicly pledged to implement health insurance integration. Accordingly, after he was elected on 18 December 1997, he pushed ahead with giving a concrete shape to the NHI integration plan. At the beginning of January 1998, the Presidential Transmission Committee announced one hundred tasks for reform, of which NHI integration was one. On

January 6, the Korea Tripartite Commission (KTC), comprising representatives of business, labour, and government, was set up as a consultative body to President Kim. The “members of this first-round commission (15 January through 9 February 1998) were the two union leaders of the KCTU and FKTU, the two business leaders of the KEF and FKI, two senior government officials from the Ministry of Finance and Economy and the Ministry of Labour, and a total of four representatives from the ruling party and the three opposition parties” (Lee, J, H, 2007, p.117).

After deliberation, the KTC collectively agreed to the integration of NHI. At the time, the KCTU supported the NHI integration proposal, but this conservative federation of labour unions later came to oppose it. The business organisations (the KEF and the FKI), which were strong opponents of NHI integration, did not dare oppose the integration proposal because the new government and President Kim had already promised it.

The economic crisis and the political power shift meant that the business sector did not actively oppose the plans to integrate NHI. However, the business community later openly came out in opposition to NHI integration, particularly the integration of funds, during the actual legislative process.

#### **5.4.2 The integration of health insurance administration**

##### ***Setting up the Executive Agency for Health Security Integration***

On 23 March 1998, almost one month after the inauguration of the Kim Dae-jung government, the Executive Agency for Health Security Integration (EAHSI) was established for the complete integration of NHI, including the integration of employee health societies. Its goal was the enactment of a comprehensive NHI integration law.

This agency consisted of representatives from various groups, including policy experts, activists from the Citizens' Coalition for Economic Justice (CCEJ) and People's Solidarity for Participatory Democracy (PSPD), members of the labour movement, and representatives from organisations for farmers, women, consumers, government employees, and the healthcare and business sectors. This organisation's role was to propose the fundamental principles of the NHI integration law and the form that it should take. The Kim Dae-Jung government also created the 'Establishment Committee of National Health Insurance Management Corporation'. Henceforth, NHI integration was not in doubt and entered a firmer phase.

### ***The stakeholders' strategy and counterattack***

On October 1 1998, the 'National Medical Insurance Corporation' was launched. As mentioned above, this was the first stage for the integration. Despite the efforts of stake-challenger organisations, however, the path to health insurance integration remained problematic. First and foremost, stakeholders rallied against NHI integration. At the centre of the stakeholder anti-integration movement was the National Trade Union of Employee Health Insurance Societies (TUEHI), which represented those working for employee health insurance societies. For TUEHI members, integration was likely to lead to the loss of their jobs. They feared that integration would bring restructuring and the sweeping dismissal of employees.

In contrast to the TUEHI, the National Trade Union for Regional Health Insurance societies (TURHI) consisted of workers for regional health insurance societies. While the TUEHI belonged to the conservative KCTU, TURHI belonged to the FKTU.

As the TUEHI emerged as the new centre of opposition to NHI integration, the KCTU's earlier ambiguous attitude towards integration turned into direct opposition. This time,

however, stakeholders had to adopt a different strategy because they no longer had the support of the top decision-maker and the bureaucrats. Unlike the previous regime, the new president supported health insurance reform. Under a system of presidential government, it is difficult for bureaucrats to openly oppose the president's will, and although the bureaucrats were traditionally strong supporters of the stakeholders, they did not raise their voices in opposition because of the president's strong 'pro-integration' attitude. Accordingly, the TUEHI launched an aggressive offensive, employing a major publicity campaign against comprehensive NHI integration, conducting walkouts, and taking the protest to the streets. Some scholars who opposed NHI integration joined this campaign. The conservative mass media including Chosun Ilbo and Donga Ilbo (daily newspapers) added their voices to the opposition and unquestioningly presented the TUEHI's arguments. The stakeholders' attack reached its peak immediately before the National Assembly's review of the NHI integration law, focusing on the argument that workers' contributions would increase sharply when NHI integration was completed. The stakeholders' stubborn opposition continued for a couple of years after the integration law was passed by the National Assembly.

### ***The stake challengers' strategy and counteroffensive***

The proponents of NHI integration actively dealt with the stakeholders' attack. As the TUEHI and the KCTU issued anti-integrationist public statements, the TURHI and the FKTU also issued public statements for integration. Before the 1997 economic crisis, workers' action for NHI integration had been limited, but now the FKTU actively supported the NHI integration movement. In the period prior to the review of the NHI integration law in the National Assembly, the battle between the two coalitions grew increasingly hostile. FKTU members in particular played a significant role in the struggle.

Similarly, the National Assembly and political parties had not played an important role in health insurance reform before the economic crisis. In the political context of a democratic society, the national legislative assembly functions in making, amending, and abolishing laws and acts. In such societies, the national assembly is the centre of politics and the crucial policy decision-maker. However, Korea's legislature was devalued for several decades because it did not have this decision-making role under the authoritarian presidential system. Instead, the most important decision-makers were the president, first, and bureaucrats, second. After democratisation, the decision-making role of the National Assembly changed, and as democratisation progressed, the influence and power of the National Assembly increased and its members rose as a new power after the economic crisis. I will discuss this issue in detail in Chapter 7.

The key members of the National Assembly in connection with the NHI integration law were Lee Seong-jae of the NCNP (the ruling party) and Hwang Seong-kyun and Kim Hong-sin from the Grand National Party (the leading opposition party). Lee, a radical progressive, was the leading proponent of NHI integration in the National Assembly. Hwang, and Kim were also strong advocates of NHI integration, even though many members of their party were opponents.

These politicians played a crucial role in the passage of the two most important integration laws in the history of health insurance integration: in the first phase, the 'National Medical Insurance Law' (the partial integration law), and in the second phase, the 'National Health Insurance Law' (the complete integration law).

In addition, Lee Seong-jae and Kim Yong-Ik, a core member of the PSC, understood each other very well, sharing a common goal and policy aim. Together they developed efficient strategies and established a covert coalition for NHI integration. Lee Seong-jae recounted the following in my interview with him (14, May, 2014, 6, January, 2011).

*During the first integration decision-making process, I met frequently with the Assemblyman Hwang Seong-kyun of the Grand National Party (GNP). We had a shared view about complete health insurance integration and promised each other that, to begin with, we would secretly work towards developing a plan of action because there was strong opposition to the integration... Hwang at first submitted a partial integration bill, and I later submitted a complete integration bill. We adopted a strategy of simulated public disagreement, and I made an artificial concession. In the end, the partial integration bill was passed by the National Assembly (2011).*

Lee, Hwang, and Kim continued with their collaboration for NHI integration until fiscal integration of NHI was achieved, and their activities transcended the scope of their respective political parties. In January 1999, the complete integration law was enacted, and in July 2000, the complete administrative integration was completed. With this, 142 health insurance societies for industrial workers and their dependents, the single health insurance society for government employees and teachers and their dependents, and 227 regional health insurance societies for the self-employed were all merged into one organisation, namely, the National Health Insurance Corporation (NHIC, 1999).

### **5.4.3 Fiscal integration**

#### ***The stake challengers' victory***

As Lee's statement shows below, the final moments before the passage of the NHI integration law in the National Assembly were very tense.

*There was last-minute tension in the National Assembly in the run up to the reading of the complete integration bill. Some members of the GNP vehemently opposed the passage of the integration law, and Choi-Kwang, who was the then minister of Health and Welfare, attempted to sabotage it altogether. Nevertheless, we were of stronger mind than our*

*opponents. Because of the extreme opposition, Hwang, Seong-kyun, Kim Hong-shin and I held a strategy meeting before a plenary session of the National Assembly. We sometimes used clever tactics. For example, when the main opponents of NHI integration were campaigning in a rural region, we held a session in the National Assembly. I remember that the opponents of NHI integration continued in their attempts to derail the passage of the integration law until the very last moment (in my interview with Lee, Seong-jae on 6 January 2010).*

A day before the Ministry of Health and Welfare (MOHW) submitted this law on 3 December 1998, Hwang Seong-kyun and twenty assembly members submitted the ‘Health Insurance Revised Bill’. Hwang’s bill included provision for the integration of the National Medical Insurance Corporation (NMIC) and health insurance societies for industrial workers. These two laws along with another two similar laws were then unified into a single law called ‘the National Health Insurance Law’, which was submitted before the National Assembly’s plenary session. Its key contents were 1) the integration of the NMIC and employee (industrial workers) health insurance societies, 2) fiscal integration would be postponed until 31 December 2001, and 3) the term ‘Medical Insurance’ would be replaced by the more comprehensive concept of ‘Health Insurance’. This law was passed on 6 January 1999, with the NHIC launched on 1 January 2000 and then fully implemented in July 2000. As a result, the NHI system in Korea finally became a single insurer system through the merging of all health insurance societies. With this development, it seemed likely that the showdown between the separatists and the unionists would end.

### ***The stakeholders’ last-ditch offensive and the fiscal integration issue***

With the completion of its mission, the PSC was dissolved at the beginning of 1999. Many scholars adjudge the PSC to have played the most crucial role in the enactment of the NHI integration law, even though its limitations as a temporary solidarity organisation were also

apparent. However, the battle between separatists and unionists was not yet over. Despite the passage of the NHI integration law, stakeholders continued to agitate against further integration, focusing their opposition on fiscal integration. The National Health Insurance Law had postponed financial integration from 2001 until 2002, and although the organisational merger of all health insurance societies had been achieved, the core issue, financial integration, was yet to be completed. For stakeholders, this represented an opportunity, and their strategy focused on retaining the existing system and preventing fiscal integration.

For both stakeholders and stake challengers, the most crucial NHI integration issue was the financial issue. As mentioned earlier, inequality in healthcare financing and the financial plight of many health insurance societies for the self-employed were major forces that drove reforms towards a single-payer system (Kwon, S. M, 2009). More specifically, before the integration, each separate health insurance society employed its own method of assessing contribution rates within legal limits. Thus, contributions for the self-employed were dependent upon people's income, property and household size, whereas the contributions for the industrial worker groups were assessed on the only basis of income. The difference in the means of assessment brought about the differences in contribution rates, with contributions differing significantly even between industrial workers' societies. This issue inevitably caused concerns about the inequitable burden of social health insurance (Kwon, S. M, 2009). Moreover, for the members of self-employed societies in poor areas, the burden of contributions as a proportion of income was much higher than for those in more affluent regions. In reality, many health insurance societies in rural areas were too small to pool the financial risks of their members efficiently. For these reasons, the reformers and proponents of NHI integration considered the integration process incomplete without fiscal integration. By contrast, opponents tried desperately to block fiscal integration, and despite the passage of the National Health Insurance Law, fiscal integration remained problematic.

The National Trade Union for Employee Health Insurance (TUEHI) and its umbrella body, the KCTU, played the key role in the stakeholders' last-ditch offensive against NHI fiscal integration. They primarily called attention to the issue of the unequal contributions of the self-employed and industrial workers and pointed out how industrial workers' wages had declined sharply due to the economic crisis. They demanded a more accurate and transparent assessment of the incomes of the self-employed and filed a lawsuit against the government's plans to reform the funding of employee health societies. In October 1999, the TUEHI and the KCTU presented a five-million-signature petition to the National Assembly calling for fiscal integration to be delayed for two years. The business sector joined this move to oppose fiscal integration. Under the title 'Opinion on the NHI Revised Law', the FKI and the KEF presented its opinion on fiscal integration to the National Assembly and the MOHW. In combination, these actions marked a serious threat to the move towards fiscal integration of NHI.

*'Opinion on the NHI Revised Law'(December 2001):The funds of the employee and the regional health insurance societies should remain separate and fiscal integration deferred until a unified payer system acceptable to people might be established.*

In this regard, Cha H, B, who was the Minister of the MOHW, witnessed the following:

*The interest groups and the stakeholders' resistance raised problems for NHI integration. In particular, the members of the TUEHI flocked to obstruct integration plans. They even demonstrated outside my house. I tried to persuade them by explaining the aim of the integration. However, their arguments did not concern the goal of the integration. Instead, they were focused only on the practical means of payment, that is, whose contribution would increase and whose might decrease (11 March 2011).*

It can be seen, therefore, that the various stakeholders opposed the NHI integration law because they believed that it would lead to the loss of their vested interests. The business sector feared losing its control over the insurance societies funds and losing the profits that it obtained from them. Many anti-reform MOHW civil servants were worried about their loss of control over the fragmented health insurance societies and funds. In addition, as mentioned earlier, some bureaucrats also profited financially from controlling health insurance societies. Others opposed the integration on grounds of genuine ideological difference. The major opposition party's (the GNP) antipathy to NHI integration had a political basis. The GNP had to represent their supporters in the business sector, the TUEHI and the KCTU, and so on. The reason that the TUEHI vehemently opposed the NHI integration law was due to their concern that NHI restructuring would lead to a loss of their jobs. The KCTU's opposition stemmed from the TUEHI's membership of the KCTU, which had no interest in losing a key client.

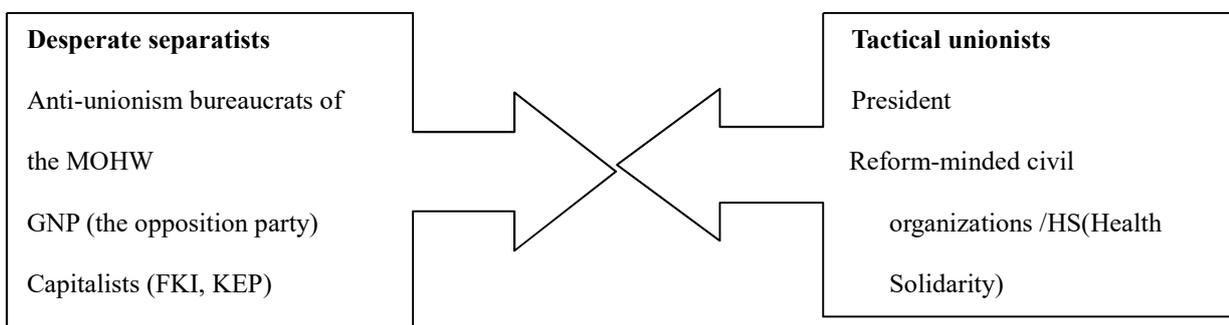
### ***The fiscal integration of the NHI***

After the dissolution of the PSC, the civil organisations and progressive health professional groups involved created a new organisation on 22 July 1999 called 'Health Solidarity' (HS), a shortened version of its more formal name, the 'Pan-National Solidarity for Securing People's Health Rights'. With the passage of the NHI integration law and the PSC's key aim having been accomplished, civil organisations needed to establish a new solidarity organisation with a more fundamental goal: securing health rights as a social right. However, until fiscal integration was completed, HS could not pursue its stated aim and instead had to continue to promote the integration movement due to the stakeholders' continued sabotaging of further reforms.

HS made steady and persistent efforts to support NHI fiscal integration. HS members issued a public statement criticising the KCTU and the TUEHI's actions and demanded that the

government press ahead with fiscal integration. Under an agreement between the ruling party and the most influential opposition party, the GNP, on 4 January 2002, the implementation of fiscal integration was suspended for a year and six months. The following day, HS released a strongly worded condemnation of this decision.

**Figure 5-5 The all-out battle between separatists (stakeholders) and unionists (stake challengers) in 1998–2003**



Ultimately, however, stakeholders could not block the move towards fiscal integration of NHI. After many difficulties, on July 1 2003, fiscal integration was achieved, and the battle between stakeholders and stake challengers finally ended with the stake challengers' continuous efforts having come to fruition.

In the wake of the economic crisis, another key health reform was implemented by the Kim Dae-jung government: the separation of medical and pharmaceutical practices. As with NHI integration, under the pro-reform government, civil organisations had a great influence in the reform of the dispensing and prescribing system (Kwon and Reich, 2005, p.107). Although there were strikes by doctors in opposition to the reforms, the Kim government implemented a new system that separated the prescription and dispensing of medication.

## 5.5 Concluding remarks

In this chapter, I have explored the health insurance reforms under the Kim Dae-jung government after the economic crisis, with a particular focus on the health insurance integration movement. As was shown, the process of health insurance reform was drawn out and was characterised by conflicts between stakeholders and stake challengers, both of whom set strategies and mobilised power. It was demonstrated that the economic crisis and the subsequent power shift was the decisive ‘tipping point’ for the attainment of health insurance integration. In addition, the chapter revealed how the interaction between the stakeholders and stake challengers brought the emergence of a new policy-making process in terms of welfare politics.

In sum, health insurance integration led social and political actors in Korea to develop a new policy-making process and a new political arena. For several decades, policy-making power was concentrated in the hands of the authoritarian president and high-ranking bureaucrats, and decision-making took place very much within a closed structure. However, in the process of democratization the economic crisis and power shift, this structure cracked, and civil organisations in particular played a pivotal role in the emergence and development of healthcare reform. On these points, a more detailed analysis will be undertaken in Chapter 7.

## Chapter 6

### The welfare politics of national pension reform in Korea

#### Introduction

This chapter explores the policy-making process and politics of the National Pension Scheme (NPS) in Korea. In 1999, Korea began a new era of universal pensions by extending pension coverage to the self-employed and to the urban workforce of small firms with fewer than four employees. With this extension of pension coverage, “most workers and self-employed persons were covered by the single unified pension scheme, except for the government employee, military personnel, and private school teachers, who were covered by the three occupational pension schemes” (Kim, Y. M, 2005, p. 208). Along with coverage extension, another reform for focusing on the long-term financial sustainability of the national pension fund was introduced. These were surprising developments considering the economic hardship of the time and the significant pressure from international economic agencies such as the IMF (International Monetary Fund) to adopt neo-liberal structural reform policies. This chapter will therefore attempt to provide answers to the following questions:

- 1) How was public pension expansion and reform possible in a severe economic crisis? How was the principle of social solidarity retained in the face of intense pressure from economic bureaucrats and international organisations for structural reform?.*
- 2) Who prompted this reform and why was its implementation cancelled?*
- 3) What kinds of strategies were adopted by stakeholders and stake challengers, and to what extent did institutional and political legacies constrain such strategies?*
- 4) What were the effects and limitations of this pension reform?*

*5) What were the key characteristics of pension politics in Korea?*

All the answers to these questions relate directly to the politics of pension policy in Korea, and they will reveal the peculiarities of Korean welfare politics. In terms of the number of participants and the size of its funds, the NPS is the largest public pension scheme in Korea. In exploring the institutional pathways to its initiation (1973), implementation (1988), and reform (1998), this chapter employs my analytical framework for the politics of welfare reform to examine how and why NPS reform was achieved under the Kim Dae-jung government after the 1997 economic crisis. This chapter will also explain how the combination of problems, policy, and political developments during the Kim Dae-jung government provided a window of opportunity for pension reform and how stake challengers overcame stakeholders' opposition and obstruction and ultimately achieved their goals.

In the same way that NHI reform was explored in Chapter 5, the current public pension system will first be outlined and then the formation and development of Korea's pension programme and its politics will be discussed. Finally, the dynamic process of pension expansion and reform and the key actors' strategies and political interactions will be explored. As in Chapter 5, this chapter will focus on the political dynamics of the process rather than the contents of the policy itself. It should be noted at this point that although research on Korea's pension system is relatively extensive and well developed, it primarily focuses on specific aspects such as institutional reform and fiscal crisis. Unlike in the West, the research on Korean pension politics is lacking in the sense that although some scholars have made attempts to address this issue, most have focused not on the dynamic strategies and interactions of actors within the wider political context of pension reform but on fragmented specific points and institutional change. I will aim, therefore, to address the absence of this

analysis in the literature and reveal the political dynamics of pension reform in terms of the actors' strategies and interactions within the policy-making process.

## 6.1 Overview of the National Pension Scheme (NPS) in Korea

Korea's social protection system for old age is composed of three types of schemes; four public pension schemes, a retirement allowance system or retirement pension for regular workers in the private sector, the basic (old age) pension for the low income elderly.

**Table6-1 The structure of the old age income security system in Korea**

Social insurance					Retirement allowance or pension
	Public pensions	MPPS	GEPS	PSTPS	NPS
Public assistance		National Basic Livelihood Security (NBLS) system		Basic Old-age Pension (Non-contributory old-age pension allowance)	

(Source; figure modified from Kim Y. M, 2005, p.210)

The four public pension schemes in Korea are the Government Employees Pension Scheme (GEPS), the Military Personnel Pension Scheme (MPPS), the Private School Teachers Pension Scheme (PSTPS), and the National Pension Scheme (henceforth, NPS). These schemes can be further divided into two groups: the first group comprises the Special Occupational Pension Schemes (SOPS) for government employees, military personnel, and private school teachers and employees, and the second is the National Pension Scheme (NPS) for the rest of the population (Kim S.K and Lee, E. N, 2004). Of these, the NPS is the single largest pension scheme in Korea.

The most advanced countries and many developing countries employ a similar system because it guarantees income security in old age. In Korea, the public pension system in Korea with health insurance is also the most important social insurance system for income

security. So it is generally accepted that the examination of a country's public pension is crucial in understanding the welfare politics of that country.

### **6.1.1 A brief history of the NPS**

The public pension scheme is 'an income maintenance program providing its members with life-time pensions as a protection against the economic and social distress caused by retirement or substantial reduction of earning from old age, disability or death'. The first public pension scheme to be introduced in Korea was GEPS, which was set up in 1960 for civil servants. In 1963, a pension scheme for military personnel (MPPS) was added, and a pension scheme for private school teachers (PSTPS) followed in 1974. Prior to the introduction of the NPS, most pensioners were financially stable and from relatively privileged groups, and they were generally loyal to the authoritarian military regimes. The history of public pensions for ordinary people dates to 1973, when President Park Chung-hee's government (1962–1979) enacted the National Welfare Pension (NWP) Act. However, it was not immediately put into effect and was postponed for political and economic reasons. After a number of revisions to the NWP over the intervening years, a universal NPS was enacted in 1986 under the autocratic government of President Chun Doo-hwan (1980–1987) with the passage of the National Pension Act, which was implemented on January 1988.

According to Kim, Y. M, "the Korean NPS started from the beginning as an integrated occupational model covering all major groups, such as white- and blue-collar workers, farmers, fishing people and the self-employed under a single umbrella" (2005a. p. 208). The reason that the NPS, unlike health insurance, began as an integrated occupational model is elucidated by Kim as follows: "there was no social basis to build up some cooperative or voluntary pension schemes by companies, labour unions or friendly societies, as the social

fabric for cooperatives and the labour union movement all but disappeared during the Korean war (1950–1953)” (2005a, p.208).

**Table 6-2 A brief history of the NPS**

year	Contents
1973	The NWP Act passed
1974	Implementation of the NWP Act is deferred
1986	NP Act amendment
1988	Implementation of the NP Act and the establishment of the NPS, the key characteristics of which were a partially funded system with a redistribute element, 70% replacement rate for an average worker with 40 years of contributions, and a 3% contribution rate
1992–1995	Extension of coverage to firms with 5 or more employees (1992). Extension of coverage to farmers and workers in the fishing industry (1995)
1997–2000	Setting up of the ‘NPS Improvement planning Agency’ (1997). Extension of coverage to the urban self-employed (1999), leading to a new era of universal pensions. Benefits down (60% replacement rate) and contribution rate up (9% of individual earnings). Coverage widened to urban self-employed persons and all employees (1999)
2003	Fiscal integration

(SCNR: The Supreme Council for National Reconstruction, CSS; The Committee for Social Security, FKI; Federation of Korean Industries, which consists of Korea's major business conglomerates and associated members. KMA; Korean Medical Associations, KPA; Korean Pharmaceutical Association/KEF; Korea Employers Federation/MFE (Ministry of Finance and Economy)

In its initial stage, the NPS covered only those employed in workplaces with ten or more full-time employees. NPS coverage was gradually extended to cover workplaces with five or more full-time employees. In 1995, the self-employed in rural areas were included. The next extension of coverage, despite the economic crisis, was to the urban self-employed and employees of small firms with fewer than five working people. In July 2003, coverage was extended to workplaces with one or more employees, thus making the National Pension Scheme a universal pension programme covering the entire general public.

In summary, almost ten years after the implementation of the NPS, a new era of universal pensions began in Korea. (Kim, Y. M, 2005). In terms of critical junctures, its origin and

development can be divided into three periods: first, the period covering the formation of the NPS in the 1970s; second, the period of implementation and gradual extension; and third, the period of partial reform and coverage extension to the self-employed in urban areas. In the following sections, the politics of the pension policy-making process will be explored through these critical periods for pension development in Korea. The chronology of the key events dealt with in this chapter is presented in Table 6-2 below.

### **6.1.2 A basic overview of the Korean NPS**

#### ***Coverage***

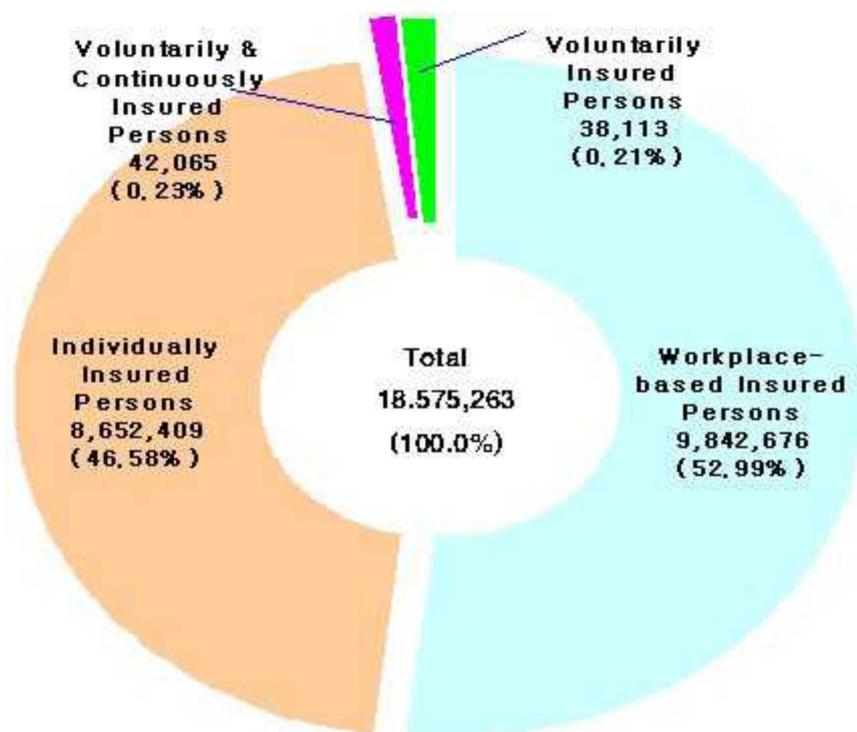
All residents in Korea aged 18 to 59, regardless of their income, are covered under the NPS. Working foreign residents aged from 18 to 59 are also subject to joining the scheme, except for a few special cases (NPC, 2010).

The NPS excludes government employees, military personnel and private school teachers because they are covered under their own special schemes. There are two types of coverage. Since NPS insurance is compulsory for all persons engaged in paid work, the first type covers compulsorily insured persons, such as employees and the self-employed, and the other covers voluntarily insured persons (those outside the workplace), such as housewives and students.

Since the implementation of the NPS on January 1 1988, the number of insured persons has continuously increased alongside the expansion of coverage, and the NPS is now the single largest pension scheme in Korea, with the total number of insured persons having reached 21,171,389 in October 2014 (NPC, 2014).

**Figure6-1 Number of Insured Persons**

(January 2010) (Unit: persons, %)



(Source; National Pension Corporation, 2010. Individually Insured Persons = Self-employed persons and non-income earners aged 27 or older. Voluntarily Insured Persons = non-income earning spouses of those covered and students. Voluntarily and Continuously Insured Persons = an insured person of 60 years of age with an insured period of less than 20 years)

### ***Finance and contribution***

The NPS is chiefly financed through contributions paid by insured persons and their employers. According to the National Pension Corporation (2010), “the contribution of workplace-based insured persons is equally shared by the employer and the employee (the insured person), while individually insured persons, including voluntarily insured persons and voluntarily & continuously insured persons, pay the entire amount of their contributions themselves. The government's financial support is temporarily provided for some portion of contributions paid by farmers and fishermen” (NPC, p. 15). On the other hand, the government provides financial support for the administrative costs of the national pension scheme's management organisation,

the National Pension Service, and part of the contributions of farmers and workers in the fishing industry.

In order to lighten the financial burden on the insured and employers during the early stages of the scheme, the contribution rate was set at a low level for the first ten years and was increased gradually. The contribution rate for the employed and those covered by voluntary insurance increased from 3% of income in 1988 to 9% in 1998, and has remained so since. From 1988 to 1992, fifty per cent of the NPS contribution of the employed was met, by the employed person and half was met by his/her employer. From 1993 to March 1999, the employed, the employer, and the retirement payment reserve each paid a third of the contributions. From April 1999, the employed person and the employer have again each met half of the employed person's contributions. Until June 2000, the contribution rates of the self-employed, including farmers and workers in the fishing industry, and voluntarily insured persons in urban and rural areas was 3% of income, which was then increased by 1% every year from July 2000 until it reached 9% in 2005, the rate at which it remains today. While the self-employed pay their entire contributions themselves, from July 1995 to December 2004, the government subsidised 33% of the contributions of farmers and workers in the fishing industry to an amount equivalent to the lowest of the 45 Standard Monthly Income grades (NPC, 2010).

### ***Benefits***

NPS benefits are calculated by the principle of income redistribution among the social strata. The formula for the Basic Pension Amount employs a "double layer" approach that combines the average Standard Monthly Income (SMI) of all insured persons (equalized part) and the average Standard Monthly Income of an insured individual (earnings-related part). An increment of 5% is added to both parts per year in the case of excess of 20 years. Upon completion of a 40 year-term of insurance contributions, the standard level of pension is estimated at 60% of the insured person's income at retirement for those whose monthly income is within the median of the SMI

of all insured persons. Benefits range from 60% to 100% of his or her income if their monthly income at retirement is lower than this median. In cases where the insured person earns above the median SMI, they receive less than 60% of their income at retirement. The value of all pension benefits is secured through a sliding-scale cost-of-living index system. Pension benefits are divided into the Old-age Pension, Disability Pension, and Survivors' Pension. Lump-sum benefits are classified into the Lump-sum Refund and the Lump-sum Death Payment.

### ***Management and funds***

The National Pension Service is responsible for the management of the NPS. This public agency was established in September 1987. The “NPS covers various different groups of occupations of waged workers, farmers, fishing people and self-employed under a single umbrella” (Kim, Y. M, 2005, p. 211) and, unlike health insurance in Korea, was conceived from the start as an integrated occupational scheme with its funds to be managed by a single body.

As stipulated in Article 101 of the National Pension Act, the National Pension Fund serves as a reserve fund for financing the National Pension Scheme and for paying pension benefits. The fund is financed by contributions from insured persons, proceeds from fund management, and the earnings of the National Pension Service. The fund has accumulated more than 20 trillion Korean Won annually for the past five years. As of December 2009, the fund’s assets amounted to KRW 277.6 trillion (USD 238 billion), making it one of the largest pension funds in the world. Furthermore, since the NPS is continuing to grow, the fund’s assets are expected to increase significantly and peak at around USD 2 trillion in 2043. The Ministry of Health and Welfare supervises the Fund under the National Pension Act. The National Pension Fund Management Committee is the ultimate decision-making body and has the authority to approve most important matters. The National Pension Service has established a

unit, the National Pension Fund Management Centre, for professional investment management. Since its inception, the centre has gradually changed in its policies and strategy to achieve its objective more effectively.

In keeping with the three chronological periods used throughout this thesis and the notion of critical junctures employed in my analytical framework, the following sections will explore the politics of pension reform in Korea during the period of authoritarian rule in Korea, the post-democratisation period, and the post-economic crisis period. First, pension policy development and its politics under the authoritarian regimes for the period 1973-1987 will be examined.

## **6.2 Pension politics under the authoritarian regimes; the formation of the NPS**

From its inception, the NPS in Korea has been strongly affected by political and economic factors. In this section, I will explore the political and economic factors that played important roles in the formation of the NPS and reveal the actors involved in the decision-making process and how they influenced the process. The origins of the NPS reveal a good deal of its nature, showing not only how social policy decisions have been made in South Korea, but also what the goal of the programme was when it was introduced. This will also explain why the NPS took on its present form (Kwon, H. J, 1998). In examining the formation and early expansion of the NPS, this section will explore the nature of Korean pension politics under the authoritarian regime, indicate the chief characteristics of the NPS, and suggest that the NPS, like other social policy programmes, was an instrument for maintaining economic growth and securing political support.

## 6.2.1 The origin of the NPS

### *Enactment of the NWP*

Fifteen years before the NPS was implemented in 1988, the National Welfare Pension Act (NWP) was enacted in 1973. However, the NWP had no immediate effect on pension policy in Korea because its implementation was postponed by the Park government. This section explores why the then authoritarian government initially attempted to introduce this programme and why it deferred its implementation so soon after its enactment. Previous research by notable Korean scholars has attempted to address this question (Kwon, H.J, 1999a; Chung, M. K, 1992; Yang, J.J, 2008). These studies have made a major contribution to revealing the origin of the NPS and its nature. In this section, with the help of these studies, I will firstly re-examine the origin of the NPS by focusing on the key actors' actions and interactions. In general, the introduction of a national public pension programme is closely related to the issue of an ageing population, and an increase in the number of elderly people in a society inevitably forces the government to consider the elderly's income security. However, at the time that the national pension programme was enacted in Korea, the issue of an ageing population was not a pressing concern as the elderly (those aged 65 or more) accounted for only 3.3% of the population. By contrast, the most advanced countries introduced national public pensions when elderly people accounted for approximately 5% or more of the population (Yang, J. J, 2008). With this in mind, other reasons for Korea's introduction of a national pension scheme need to be sought. As seen in Chapter 3, the Park Jung-hee government, which had come to power in the 1961 military coup, began to face new challenges in the 1970s amid a growing socio-political tension due to sharply rising public demands and the emergence of economic problems such as inflation and recession. Why, then, did the Yushin Regime enact the National Welfare Pension (NWP, 1973) under these circumstances?

### *A means of mobilising domestic capital*

Most previous research has sought to find the answer to this question in terms of economic and political reasons. In tracing the economic developments of the early 1970s under the Park regime, most studies emphasise economic reasons for the introduction of the NWP. In the early 1970s, the Park regime pursued a heavy and chemical industrialisation programme in an attempt to maintain the rapid economic growth that Korea had experienced during the 1960s. From the end of 1972 to the beginning of 1973, the military government and public authorities announced a succession of plans: the Development Strategy for Shipbuilding Industry (1972. 12), the Development Programme for General Machinery Industry (1973.1), the Development Strategy for the Precision Apparatus Machine-driven Industry (1973.1), and the Plan for the Nonferrous Metal Smelting Construction Industry (1973.1) (Yang, 2008). While this economic strategy towards heavy and chemical industrialisation was encouraged by President Park himself, the enormous initial investment that would be required for manufacturing plants presented a problem. In this regard, an important witness was Oh Won-chul, who was chairman of the ‘Executive Agency for Heavy and Chemical Planning’.

*President Park questioned the cabinet on the costs of financing of the heavy and chemical industries. Nam Duk-woo, the Minister of finance, answered that “a total of 10 billion US dollars were needed in domestic and foreign capital” (Yang, J. J, 2008, p.107).*

Accordingly, the economic ministries within the Cabinet hastened to prepare a financial expansion plan. The EPB proposed the introduction of a NWP programme as one strategy for mobilising domestic capital. This proposition originated from Kim Man-je – the head of the KDI (Korean Development Institute) and later the Minister of the EPB – who had played a crucial role in setting Korea’s economic strategy for decades. Kim Man-je proposed a national pension programme which would mobilize capital as well as contribute to social

security, both of which President Park desperately needed to justify his authoritarian regime ”(Kwon, H. J, 1998). However, another witness to the events argues against the findings of scholars that ascribe the introduction of the NWP to a means of raising domestic capital. Lee Hyung-ku, the then secretary of the EPB, was also in attendance during the process of the NWP Act enactment and recounted the following in an interview with Yang, J. J (25. 05.2006).

*I don't believe that the introduction of the NWP programme was a means of mobilizing domestic capital. At that time, Korean taxation policy used general income tax and a value-added tax (VAT) as the key means for the accumulation of domestic capital ...Supporting the heavy and chemical industry through the introduction of a NWP programme was not necessary (Yang, J. J, 2008, p.117).*

However, Lee Hyung-ku's statement should be treated with caution because as a hands-on member of an economic ministry, he was unlikely to have a complete picture of the entire decision-making process. In addition, his statement that the NWP programme was not a strategy for mobilising domestic capital must be regarded primarily as an opinion rather than a fact, as he provides no evidence for this assertion.

### ***A means of mobilising political support***

Although much previous research has argued that the enactment of the NWP Act sprang from the need to mobilise domestic capital for Park's economic strategy of expanding the heavy and chemical industries, economic reasons alone do not fully explain the reasons for the introduction of the NPS. The political conditions then existing in Korea cannot be neglected, because the economic strategy of the regime was very much intertwined with its political strategy, a strategy that had its origins in the unexpected political and socio-economic

difficulties that emerged at the turn of the 1970s. Having already pressurised the National Assembly in 1969 into accepting a constitutional amendment that permitted him to stand for a third presidential term, Park then ran for president in the 1971 presidential election, winning a narrow victory. In 1972, the Park government then attempted to deal with these crises by dissolving the National Assembly on 17<sup>th</sup> October, imposing martial law, suspending existing constitution, and announcing the establishment of the authoritarian Yushin Constitution (Restoration Constitution) on 27<sup>th</sup> October. In justification for his imposition of authoritarian rule, President Park argued that constitutional revision was necessary in order to be prepared against the North Korean threat and to mobilize resources for economic development (Kwon, 1998). The Yushin regime led to the paralysis of the political environment. The regime abolished competitive presidential elections, prohibited opposition parties and political and social forces from opposing the regime's decisions, and through the 1973 amendment to the labour Dispute Adjustment Act prohibited any collective bargaining without prior Labour Committee certificate of legality (Yang, J. J, 2008). The highly oppressive political atmosphere led the Park regime to pursue economic growth as a means to legitimising its authoritarian rule. In 1972, Park declared in his beginning-of-the-year press conference that the government had begun preparation of a NPS programme for retired employees, the disabled, and their dependents. Some scholars have argued that this declaration also aimed to garner support for the ruling party at the general election that was due to held the following year and that the enactment amounted to a means of mobilising political support for the regime (Yang, J. J, 2008). As such, the enactment of the NWP Act was closely tied to the political and economic context of Korea at the time.

## 6.2.2 Bureaucratic Politics: the policy-making process of the NWP enactment

### *Another route: the CSS design for a NPS*

As has been seen, the economic bureaucrats of the EPB and the KDI experts played a crucial role in the introduction of the NWP. However, the introduction of a NWP was not solely the idea of the economic bureaucrats and KDI experts. In fact, there was another move made towards introducing a public pension programme by the CSS, which differed from the proposal of the EPB and KDI in that it did not arise from consideration of a means of mobilizing domestic capital for industrial expansion.

The members of the CSS mentioned in Chapter 5 had already developed a design for the introduction of four social insurances modelled on the social security framework in OECD countries. In October 1972, the CSS announced its ‘Long Plan for the Introduction of a NP Programme: 72–81’. According to this plan, implementation of the NPS was scheduled to begin in 1974; by 1976, the plan anticipated that 300,000 employees would have joined the scheme; and by 1976, two million workers would be part of the programme. It was also planned for the already retired elderly to receive a monthly benefit on a regular basis (NPS, 1998). The CSS plan clearly demonstrates that the idea of a national public pension programme had already been studied extensively within the Korean government for some time prior to the EPB and KDI experts’ concept of a national pension scheme as a means of mobilising domestic capital. In addition to the CSS plan, the Ministry of Health and Social Affairs declared in 1972 that the introduction of a national pension was a key policy goal. In preparing its proposal, the MOHSA called on the services of a young researcher from within the CSS, Min Jae-seong, who wrote a dissertation entitled ‘A Study on Pension and Insurance in Korea’.

The Minister of the MOHSA then presented the draft plan to the president in its 1973 new-year report (Yang, J. J, 2008). By this time, President Park had already received the EPB and the KDI programme, and the MOHSA proposal now faced competition from the EPB plan.

***The confrontation and compromise between the EPB and MOHSA***

President Park then instructed the EPB and the MOHSA to devise a new plan for implementing a NWP programme from 1974, with extensive discussion to take place between the two ministries. Accordingly, the ministries jointly formed a Working Group Committee (WGC) for the drafting of the NWP Act. The WGC was formally announced by the Prime Minister and consisted of representatives of the EPB, the MOHSA, and the MOF, the MGA (the Ministry of Government Administration), the Labour Office, and members of the CSS. Nevertheless, the main actors in developing the WGC final draft proposal were the EPB (+KDI) and the MOHSA.

**Table 6-3 The major issues for the NWP programme and the differences between the EPB/KDI and the MOHSA draft proposals**

Issue	EPB/KDI's draft	MOHSA's draft	Final decisions
The targets and scope	The firms with over 10 employees	The firms with over 30 employees (10 employees in 1977)	The firms with over 30 employees (10 employees in 1977)
Contributions (premiums)	Employees; 5%, the employers; 5%	Employees; 2%, the employers; 3%	Employees; 4%, the employers; 4%
The level of old-age pension	30% of latest 5 years average income	40% of latest 5 years average income	40% of latest 5 years average income
Administration and collection agencies	National Tax Service	Administration: MOHSA Collection: labour office	
Fund management	Fund system/ funds should be allocated for social security	Fund system/ funds should be allocated for national investment in HCI	

(Source: Yang, J. J, 2008)

The EPB/KDI and the MOHSA each prepared their own concrete schemes for NWP implementation. The MOHSA submitted its draft proposal for the NWP programme to the WGC in February 1973, with the KDI submitting its draft proposal on 2 March 1973. These individual proposals by the MOHSA and the KDI/EPB were fundamentally different in terms of their targets and their scope of eligibility, the kinds and level of benefits, their administration, and their means of determining contribution levels. The WGC then set about drafting its own proposal through a process of compromise and negotiation on the key points to be included in the NWP programme (see Table 6–3 for details of the key issues involved and the differences between the MOHSA and EPB/KDI proposals).

As can be seen from Table 6–3, there were considerable differences between the two initial proposals. The EPB/KDI's proposal was basically designed to mobilize as much savings as possible by covering more workers from the beginning with a higher contributions rate, whereas more concerned with a smooth and stable installation of a NWP scheme, the MOHSA's plan adopted a more practical approach by gradually expanding the coverage over time from workplaces with more than 999 employees at the contribution rate of 3% of salaried income (Yang, J. J, 2000). Intense debate and competition between the two ministries continued until the WGC produced its first draft NWP proposal on 18 May 1973.

This content of this draft was closer to the EPB/KDI proposal than to that of the MOHSA. The WGC then presented the draft at a ministerial meeting, but it was felt that reaching a decision on the form that the final draft would take would prove too difficult at the time, and the presidential office therefore proposed that the WGC send an inspection team to Japan and South-East Asia to investigate their pension systems. After this, a number of public hearings with scholars and journalists, employers and employees, and politicians were held. Throughout the public hearings, the conservative mass media generally criticised the introduction of the NWP as a means of mobilising domestic capital: "It is too early to

introduce NWP” (Donga Ilbo, 22 September 1973); An unreasonable demand by employees(Chosun Ilbo, 22 September 1973); A means of mobilizing domestic capital” (Donga Ilbo, 26 September 1973); and “The coercion of one-sided sacrifice (Kyunghyang shinmun, 21 September 1973). In response to these public opinions, the first draft was modified and revised.

The second draft was completed on 30 July 1973, and the government then announced the outline of the NWP to the general public. On 30 1973, the draft was presented to President Park. As soon as Park had authorised the project, progress towards the introduction of the NWP scheme was swift, and on 1 December, the NWP Act was passed in the National Assembly.

### ***The actors in the NWP policy-making process***

Due to the lack of strong stake challengers at the time, the actors who participated in the process of enacting the NWP Act were those in positions of authority: the president, bureaucrats, and a few governmental policy experts. Although the most influential decision-maker was President Park, and the decision to introduce the NWP Act was ultimately his, the NWP legislation was greatly influenced by the EPB/KDI’s proposal. Two governmental organisations were instrumental in the enactment of the NWP Act: the Presidential Secretariat, and the EPB/KDI. Although MOHSA and the CSS were to be in charge of the programme, their roles in bringing about the NWP were smaller than those of the EPB and KDI. In this way, the agenda setting and decision-making for the NWP Act was wholly undertaken by members of the government: the president, bureaucrats, and policy experts from a government agency. Neither the National Assembly nor members of the ruling party played any role in the enactment of the NWP Act. In light of this exclusion of those outside the decision-making inner circle, the opposition party expressed its suspicion about the

motivation that lay behind the introduction of the pension programme (Chung, M. K, 1992; Yang, J. J, 2000a). The enactment of the NWP Act was therefore characterised by a strict delineation between the actions of policy insiders (government actors) and a complete lack of input from those outside the process (policy outsiders: everyone else).

Interest groups, trade unions, and civil organisations also did not play an important role in enacting the NWP programme. While the FKI insisted that the contribution rate would be a heavy burden for employers that employers should be able to utilise the pension fund by retaining control over the contributions made within their own companies (Yang, J. J, 2000a), and the only labour movement organisation at the time, the FKTU, argued that it should also have a role in the management of the pension fund, both the FKI and the FKTU were firmly under the control of government in all respects. These organisations were not therefore genuine policy outsiders, their arguments were not critical to the formulation of the NWP Act, and they played no role in its enactment. The politics of policy-making existed only among bureaucrats and their subordinate agencies. The confrontation and competition between the MOHSA and the EPB/KDI over the form that the NWP should take provides a good example of where the politics of the policy-making process lay. Ultimately, the circumstances underpinning the policy-making process were fundamentally intertwined with the political and economic situation under the military regime, that is, centralised control over all aspects of the policy-making process.

### ***The sudden suspension of implementation of the NWP***

On 14 January 1974, just ten days after the NWP Act had been publicly announced, the government suddenly suspended the implementation of the NWP Act and announced the imposition of emergency powers. This suspension of the implementation was surprising given that the government had completed all its preparations for the implementation of the

NWP during 1974 by establishing the NWP Bureau within the MOHSA and the Pension Contribution Collection Bureau within the NTS (National Tax Service). Why, then, did the authoritarian government suspend the NWP Act? Previous research has generally given an economic reason for the suspension, namely, the 1973 oil crisis and the worldwide economic downturn that followed. Yang, J. J.(2008), however, argues that there were two additional reasons for the government's decision to suspend implementation of the NWP Act. He suggests that the North Korean regime's changes to its income tax laws were at least partly responsible. At a time when South Korea was facing serious competition from its northern rival, especially in terms of winning the 'propaganda war', North Korea abolished income tax, and this policy led South Korea's government to delay the implementation of the NWP Act because the South Korean population regarded NWP contributions as another form of taxation. The second reason was the Presidential Secretariat's judgement that the NWP would have little effect as a means of mobilizing domestic capital, especially when there were practical alternatives such as the introduction of VAT (Yang, J. J, 2008). Perhaps the most noteworthy aspect of the suspension of the NWP Act's implementation was that EPB, which had strongly pressed for the implementation of the NWP Act, was excluded from the decision-making on the deferment of the NWP Act's implementation. Both in the enactment and suspension of the NWP Act, the power relations that existed among the principal actors of the Fourth Republic are apparent, and these power relations were reflected in the policy-making and decision-making process for the NWP Act.

### **6.3 Implementation and expansion of the NPS before the economic crisis**

In this section, the political-economic background and the policy-making process that led to the introduction of the NPS are explored. As was seen in the first section, the NWP

programme was postponed suddenly in 1974. In 1988, the plans for a national pension were reintroduced and implemented. The aim this section is to find the answers to the following questions. What were the driving forces behind the reintroduction and implementation of a national pension scheme? Whose decisions made this implementation possible?

### **6.3.1 The policy-making process of the NPS**

#### ***Political and economic background***

After the NWP Act was deferred, almost 10 years passed. During this period, the social, economic, and political situations in Korea changed dramatically. For example, Korea experienced a rapid increase in the number of elderly people in its population, people that were directly affected by the public pension issue. The percentage of the population aged over 60 increased from 5.2% in 1973 to 6.8% in 1978 (Yang, J. J, 2008). However, the real issue for Korean policy-makers was the rate at which the elderly population was growing. This was occurring at a much faster rate than in other advanced and developing countries because of the improvements in health care and the rise of the average life span of Koreans, and policy-makers became acutely aware that Korea would have a significant proportion of its population dependent on pension payments in the future. Nevertheless, this rapid increase in the elderly population did not in itself force policy-makers to introduce a NPS. Rather, the most important factors were strong demands by social groups and the necessary political will to set up a national pension system. Under the authoritarian military regimes, there were no strong social or political actors demanding the introduction of a NPS, and the authoritarian governments were not genuinely interested in introducing such a scheme. The implementation plan was included in the government's Sixth Economic Social Development

Five-year Plan. This plan was scheduled to be implemented between 1987 and 1991. Another reason for this social and political indifference to the NPS was from ignorance of NPS itself. Nevertheless, the social and economic conditions for implementation of the NPS were ripening. As was seen in Chapter 3, the Korean economy had recovered from economic crisis by the end of the 1970s, and with the EPB's change in direction on economic policy from a focus on rapid industrialisation to stabilisation, the economy finally entered a period of stability. According to Shin, D. M (2003), the stabilisation policy was again driven by President Chun's strong push for anti-inflation. With this development, the national income rose considerably, and people's ability to meet their tax contributions improved. Accordingly, in 1984 the EPB assigned the KDI to review the original NWP scheme and to prepare for a revised pension (Yang, J. J, 2000a). By this time, the government ministry concerned with public pension programmes, the MOHSA, had also recognised the need for a national pension scheme and made preparations to implement a NWP programme. Both the EPB's directive and the MOHSA's preparations point to the fact that there had been a gradual movement within the state apparatus towards the implementation of a comprehensive pension programme (Chung, M. K, 1992). On 16 August 1984, the government set up a preparatory committee for NWP implementation. This committee consisted of the Minister of the MOHSA as chairperson, vice-ministers of the EPB, the MOF, the MND (Ministry of National Defense), the MOE (Ministry of Education), the MOL (Ministry of Labour), the MOHSA, the MGA and five representatives from the FKTU and corporations (Yang, J. J, 2008). However, this committee was a preparatory committee for the implementation of the NWP Act in little more than name, and on August 11 1986, President Chun unilaterally announced at a summer press conference that the NWP would be implemented.

### ***A double-edged strategy for concession and repression***

President Chun's declaration began a new phase of NWP (the NPS's former name) implementation. From that point forward, developments were relatively rapid. In September 1986, President Chun reconfirmed his will to implement NWP with the promulgation of three measures for the promotion of social welfare: implementation of the NWP Act, the introduction of a minimum wage system, and the implementation of national health insurance. Yang, J. J (2008) suggests two reasons for Chun's decision to introduce these measures. One is that two people close to the president, Kim Man-je, who was the Minister of the EPB, and Sa Kong-il, who was a presidential secretary for economic affairs, persuaded him. Yang's explanation is based on testimony by Min Jae-seong, who claims that these two figures were instrumental in persuading the president that Korea's continued economic development would be guaranteed only with the expansion of the social safety net and the implementation of the NWP.

**Table 6-4 Labour disputes in the 1980s**

Year	Number of unions	Number of labour disputes
1984	2365	114
1985	2534	265
1986	2658	276
1987	4086	3749
1988	6142	1827

(Source: KLI, 1993)

The second reason given by Yang is that the President's resolution was a response to increased democratic demands in the wake of the June Democracy Movement of 1987 and the emerging power of the labour movement. In reality, alongside the growing democratic movement, labour disputes increased sharply at the end of 1980s, as can be seen in Table 6-4. Chung, M. K (1992) also contends that the latter reason was instrumental in Chun's decision. He argues that Chun's action was a response to the growing power of labour and was a double-edged strategy for concession and repression in response to the radicalization of

distributional conflicts. In one sense, President Chun's resolution was a kind of Bismarckian response to the changing socio-economic-political climate in Korea. Accordingly, the National Pension Act of 1986 was criticized as a political instrument to gain votes in the presidential election of 1987 and the general election of 1988, and to mobilize domestic capital (Hwang, 2007).

### ***The second confrontation between the EPB and the MOHSA***

After the president's declaration, the process of NWP implementation progressed quite quickly. After discussions and meetings, the revised bill for the 1973 NWP Act was settled upon on 30 September. Although the basic framework of the revised bill was almost identical to the 1973 NWP Act, its key contents were slightly different. According to Yang, J. J. (2000a), the changed contents were more conservative in nature than those of its 1973 predecessor. Firstly, the name of the bill was changed from the NWP Act to the NP Act (National Pension Act), with the word 'welfare' omitted. Yang interprets this change of name to be a reflection of "the conservative approach of the EPB. The deletion of welfare signalled the minimalist role of the state in old-age security and highlighted the insurance principle of self-reliant contributors" (2000, p.20). The real issue, however, was not the changed name of the bill. The basis for the calculation of earnings-related benefits (pension) in the previous NWP Act, supported by the MOHSA at that time, was the last three years of employment, whereas the new NP Act, which was supported by the EPB, based its earnings-related calculations on the entire employment history of the insured. In addition, while the NWP Act had included subsidies for low-income workers, the new programme eliminated all state subsidies. Moreover, the new programme stipulated that "the indexation of pension benefits was applied only when the inflation rate reached more than 10% in order to lessen the financial burden of the government" (Yang, J. J., 2000a). As for the burden of contribution, the new bill made an

amendment to the NWP Act. After 1993, 2% (3% after 1998) of the total contribution would come from the retirement allowance of workers. This amendment would later lead to opposition from labour organisations. Yang, J. J maintains that the reason for these conservative changes to the NWP Act was very simple: the conservative economic bureaucrats of the EPB were the most influential in formulating the revised act. On the whole, economic bureaucrats took a senior position over their counterparts in the Ministry of Health and Social Affairs throughout the policy-making process of the national pension programme (Hwang, 2007).

Another dispute between the MOHSA and the EPB concerned the nature of the lump-sum fund. A lump-sum refund refers to the total contributions paid by the employee and his/her employer plus the fixed interest. A lump-sum refund is payable when a current or former insured person falls under one of the following categories and the refund is to be paid to him/her or his/her survivor: 1) when a person whose total insured period is under 10 years reaches the age of 60; 2) when a current or former insured person dies and a survivor pension is not paid; 3) when a person loses his/her Korean nationality or emigrates to a foreign country. The MOHSA insisted that the lump-sum fund should be restricted to paying for the insured over 60 years of age, while the EPB maintained that a lump-sum fund could be paid after his/her disqualification was passed over 1 year. Again, this dispute resulted in the acceptance of the EPB's position. One of the most controversial issues was over 'who would gain and control over the pension fund' (Yang, J. J, 2000a). The EPB contended that the Minister of the EPB should be the chairperson of the newly established National Pension Fund Operations Committee (NDFOC), whereas the MOHSA insisted that the Prime Minister should be the head of the NDFOC. Again, the EPB won the argument, and the minister of the EPB became the NDFOC chairperson.

### *Actors' actions and responses*

The revision of the NPS Act by the Chun Doo-hwan government proceeded silently without raising any significant responses from society (Chung, M. K, 1992). Neither the opposition party nor even the ruling party played a role in the policy-making process for the new NP Act and the revision of the NWP Act. While the opposition party did not truly recognise the importance and political significance of NPS implementation, the ruling party was not interested in the form and content that the NPS programme would take. The ruling party's interest lay only in the political effect of NPS implementation. This was unsurprising given that the ruling party had suffered a stunning defeat in the general election in February 1985, and the party therefore needed new policy initiatives to counter the decrease in its legitimacy and its loss of popularity. As for the opposition party (as was shown in Chapter 3), its key interest was constitutional change to establish direct presidential elections. Furthermore, in light of the growing democratic struggle after the events of June 1985, social movements were more interested in social and political issues such as constitutional amendment and social democratisation than in the enactment of a national pension system.

After the draft of the revised NWP Act was completed, the Chun government, and the MOHSA in particular, felt that soliciting the views of some social actors and other ministries would be worthwhile. The FKTU, which had a direct stake in the national pension system that was planned, offered its opinions on the revised bill and presented a report on the revisions at its national conference in February 1985. The report made the following observations:

*The financing of pensions should be principally met by three parties: employers, employees, and the government. According to world surveys, the general practice is to place the burden of contribution more on employers than on employees. Therefore, the fact that 3.3% of the*

*entire contribution towards pensions would be allocated from the retirement allowance was unfair (KCFU, 1984).*

The revised bill triggered a series of new disputes between labour and management on retirement allowances. The business community and the KEF reacted strongly against the article related to retirement allowances in the revised bill. The KEF insisted that the burden of payment for retirement allowances and contribution to the NP was a double burden on employers. Against the KEF's argument, the KCTU argued that retirement allowances were not related to social security as the deferred wage and so the two programmes should both continue to exist. The government did not welcome the KEF's argument in terms of retirement allowances, and although the final content of the new pension programme was favourable overall to capital (Chung, M. K, 1992), the policy-making process for the amendment of the NPS was ultimately a one-sided affair, with the authoritarian president and bureaucrats again in charge.

### ***The final content of the NWP amendment and its policy legacies***

The revised pension programme was enacted in December 1986. By 1988, under the Roh Tae-woo government, about 4.2 million workers were covered by the NP Act. The final form and key content of the revised bill is tabulated below in Table 6-5. Of particular note was that NP coverage was expanded from covering the employees of firms with 30 or more workers to firms with 10 or more employees. The new pension programme lowered the initial contribution rate to 3 per cent (1.5% paid by employers and 1.5% by employees) from the 4 per cent rate of the previous NWP Act (Yang, J. J, 2008), resulting in a so-called 'low contribution, high benefit structure' to the NP programme. However, the revised contribution rate was too low to meet the high benefit level of 70% of lifetime average income after 40 years of contribution (Yang, J. J, 2000a), and this too generous contribution-benefit structure

necessarily led to the programme being underfunded from the outset. However, farmers, the urban poor, the self-employed, and workers in small workplaces, who really required the income security, were excluded from the programme, although they were allowed to voluntarily participate in the programme (Chung, M.K, 1992).

**Table 6-5**The final content of the amendment to the NWP Act

Key Content	NWP Act	The revised Act
Coverage	Firms with 30 or more employees	Firms with 10 or more employees
Contribution	Employee: 2–3% employer:3–4%	Employee: 1.5% (1988–1992), 2% (1993–1997); employer:1.5% (1998–1992), 2% (1993–1997) Retirement allowance:2% (1993–1997)
Lump-sum fund	Insured persons aged 60 years or older with 10 years of contributions	Insured persons with fewer than 15 years of contributions and 1 year after disqualification

### 6.3.2 Pension expansion before the economic crisis

Similar to the development of NP systems in most countries, the coverage of Korea’s NP programme was gradually extended after its introduction. In this section, I will explore the process of partial and gradual extension of pension coverage from the Roh Tae-woo government (1988–1993) to the Kim Young-sam government (1993–1998) up to the 1997 economic crisis. During this period, the coverage of the NP scheme was extended from firms with 10 or more employees in January 1988 to firms with 5 or more employees in January 1992. In July 1995, pension coverage was extended to farmers and workers in the fishing industry. However, the urban poor remained uncovered by the NP scheme. Why, then, was NP coverage extended to people in rural and fishing areas but not to the urban poor?

#### *The expansion of coverage to rural and fishing areas*

The MOHSA anticipated the gradual extension of NPS coverage and studied ways to increase coverage. Firstly, as mentioned above, coverage was extended to firms with 5–9 employees in 1992, and as a result, most companies were included in the NPS framework. The pressing issue now was NPS coverage for the self-employed. However, expanding the NPS to include farmers, workers in the fishing industry, and the urban self-employed was difficult at that time. This was because calculating their contribution rates was almost impossible since authorities and the NPC (National Pension Corporation, formerly the NP Service) had to depend on these sectors' self-reporting of income if coverage was to be extended to them. This difficult situation was compounded by the fact that although there were high-income earners such as doctors and lawyers among the self-employed, many of the self-employed were low-income earners. The MOHSA and the NPC therefore initiated a number of projects to study how NPS coverage could be expanded to include farmers and workers in the fishing industry. In 1993, a joint working group comprising members of the MOHSA and the NPC was established, and a public hearing was held at the end of 1993. The joint working group then set up two pilot projects to study the extension of the NPS programme to farmers and workers in the fishing industry in 1994. After the amendment of the NP Act in 1995, NPS coverage was extended to rural and fishing villages in the same year (NPC, 1998; Yang, 2008)

### ***Economic and political background***

The reason that NPS coverage of the self-employed was expanded to rural and fishing areas before urban areas was closely related to the situation of Korean farmers at that time. Firstly, feelings were running high in farming areas due to the Uruguay Round drawing to a conclusion. The Uruguay Round was the 8<sup>th</sup> round of multilateral trade negotiations (MTN) on solving the problems of world trade policy existing under GATT, a multilateral trade agreement that had set out the principles of world trade from 1947. The Uruguay Round

began in September 1986 and the agreement reached came into effect on January 1 1995, transforming the GATT arrangement into an institutional body, the World Trade Organization. The primary focus of the Uruguay Round was on agriculture and trade in agricultural products. In short, the Uruguay Round Agreement on Agriculture, administered by the WTO, brought agricultural trade more fully under the trade terms agreed under GATT, whereby trade in agricultural goods was liberalised and import tariffs for particular products were removed. In other words, the Uruguay Round brought about the liberalisation of Korea's hitherto protected domestic agricultural market, and Korean farmers now had to compete against overseas farmers, including large US growers. Even prior to the Uruguay Round agreement, farmers had begun to act against moves to liberalise the agricultural produce market in Korea. In 1990, a number of farmers' organisations came together to found the National Federation of Farmers Organizations (NFFO) and later the Pan-national Committee for Opposing the UR Agreement (PCOUR). In particular, farmers strongly opposed the opening of the rice market through the lifting of the ban on the importation of rice, which the Korean and US governments had agreed to in 1993. At the end of 1993, 350,000 farmers demonstrated in opposition to the opening of the rice market, but the government and the EPB rejected the farmers' demands and continued to pursue their goal of economic gain through export-oriented industries. Nevertheless, the Korean government needed to mitigate the farmers' angry reaction to the liberalisation of trade in agricultural products. In this vein, Yang argues in his PhD thesis that the pension coverage expansion to ...rural areas in 1995 was a compensation for the opening of the Korean agricultural market due to the Uruguay Round (UR) trade negotiations(2000a). In sum, the pension expansion to the rural area was one of the main compensatory measures that the Kim Young-sam government offered to farmers and fishermen, who would suffer from income loss and increased risks associated with the opening of the agricultural market (Yang, J. J, 2000a,

Kwon, H. J, 1999). In the same sense, another explanation is that the extension of the pension programme to rural areas aimed to improve the structure of the agricultural sector.

### *Actors' strategies and responses*

Although the coverage expansion had a political and economic basis, there were also practical necessities in terms of social security. According to Min Jae-seong's report (1991), which was called 'A Plan for Introducing a Farmers' and Fishermen Pension Programme', the acceleration in the growth of the ageing population in rural areas was a pressing concern. In 1980, the percentage of persons aged 60 or over in all rural areas was 10.5%; by 1991, this figure had increased sharply to 21.7%, and the figure for fishing areas as a whole was 14.3%. Moreover, Min (1991) also noted in his report that the income of farmers was lower than that of employees in urban areas.

Due to these concerns, it was clear that pension expansion to rural areas was necessary. Without any particular complications, the NP Act was amended and the extension of the pension programme to rural and fishing areas was implemented. Unlike with health insurance, there was no strong opposition to the plan from farmers, and resistance to the plan focused on its format rather than on the plan itself. For example, the business sector submitted a proposition on the proposed plan to the government in 1994 that stressed that the contribution rates for farmers and employees should be made more equal and that supported increased contribution rates for farmers and workers in the fishing industry. Trade unions and civil organisations adopted different attitudes from the business sector and other groups. Their interest was focused on pension reform rather than the gradual extension of pension provision. For example, the two federations of trade unions, the KFTU and the KCTU, questioned the democratic management of the pension fund. Civil organisations such as People's Solidarity for Participatory Democracy (henceforth, PSPD) also raised concerns about the democratic

management of pension funds, the integration of other pension programmes, and reconciling the issue of public pensions and retirement allowances. After the introduction of national pensions for farmers and workers in the fishing industry, the voices of the stake challengers for pension reform began to grow stronger.

#### **6.4 The politics of pension reform leading up to the 1997 economic crisis and the new politics of pension reform under the Kim Dae-jung administration**

In this section, I will explore the political dynamics of pension reform since the 1997 economic crisis. Prior to the economic crisis, the Kim Young-sam government faced demands for pension reform, and debates took place on this issue within the government. As briefly mentioned earlier, trade unions and civil organisations such as the PSPD had demanded institutional improvements to the NPS, and in particular, democratic control over the national public pension fund. The MOHSA and some other bureaucrats also recognised the need for reform, especially with regard to NPS coverage expansion to the urban self-employed. Thus, considerable debate and agenda setting for pension reform took place during the Kim Young-sam government, before the economic crisis occurred. By the end of this government's term of office, detailed plans for the reform of the pension system had been made.

However, the 1997 economic crisis and the subsequent power shift towards a relatively progressive government created a fundamentally different policy environment, as was seen in the previous chapter on National Health Insurance reform. The changed economic and political environment and the emergence of new stake challengers led the new progressive government to abandon the pension reform plan made by the previous government. Instead,

the new government and civil organisations took the initiative in pension reform, pushing for the expansion of coverage to the urban self-employed and retention of the existing mono-pillar, universal coverage arrangement of the NPS. This section will explore as to why this was the case.

#### **6.4.1 The disputes about pension reform under the Kim Young-sam government**

##### ***Emerging voices for pension reform and the problems with the NPS***

By the middle of the 1990s, voices calling for pension reform, both inside and outside of government, were emerging, particularly in regards to the improvement of the institutional framework of the NPS. The calls stemmed from the increased interest of civil organisations and trade unions in public pension programmes. The two trade union federations, the FKTU and the KCTU, became increasingly interested in NPS reform, one of the key reasons for which was that retirement allowances were closely related with this system. As mentioned above, during the process of extending NPS coverage to people in rural areas, labour movement organisations showed more interest in improvements in the institutional framework of the NPS than expansion of its coverage. At the same time, civil organisations and interest groups became more conscious of the importance of welfare programmes such as NHI and NPS, with representative civil organisations such as the PSPD calling for the Kim Young government to introduce a more advanced social security system. The PSPD campaigned for the guarantee of national minimum living standards, calling for the state to set minimum standards of social security for income, health, education, housing, and employment. In addition, the PSPD and the KCTU explicitly called for the democratic management of the NPS fund. This was a significant political issue at the time because the government was empowered to spend part of the NPS fund at its disposal, justifying this

appropriation of funds as investment in Social Overhead Capital (SOC). Furthermore, critics felt that the government's control over NPS funds was increasing, and its openness about the future direction of NPS policy was lacking. From the outset, the NPS fund had suffered from the fundamental problem of financial sustainability. However, despite the low contribution rate, the government promised the same high benefit level (70% of lifetime average income at 40 years of contributions) (Yang, J. J, 2000a). This 'low contribution, high benefit system' aimed to increase participation in the NPS. Despite this financial discrepancy, the fund reserve of the NPS was originally designed to be exhausted in the early 2030s (Kim, Y. M, 2005), and the organisations calling for democratic control over the fund believed that the government would have to change the payment system or gradually increase contribution rates.

Other pro-reform voices called for NPS coverage extension to the self-employed in urban areas. As explored above, NPS coverage was gradually extended after its implementation in 1988, and after coverage was extended to farmers and workers in the fishing industry in 1995, it covered 7.25 million people.

*“Considering that some 1.29 million public sector employees were covered under the three occupational pension schemes in 1995, the total number of people covered by public pensions stood at 42 percent of the economically active population in 1995” (Ministry of Health and Welfare, 1998, cited in Kim, Y. M, 2005).*

However, the urban self-employed and people working in very small firms remained outside the scheme, and 58% of the economically active population remained uncovered by the NPS. In fact, economic and social changes in Korea already necessitated pension coverage for the entire population. According to National Statistical Office (NSO) statistics, Korea would become an ageing society as early as 2000, with people aged 65 years or older accounting for

more than 7% of the population. As shown in Table 6-6, Korea at the time was rapidly becoming an ageing society. In this sense, pension reform would necessarily entail NPS coverage expansion.

**Table 6-6 The trend of ageing in Korea (%)**

	1997	2000	2010	2020	2030	2040
People aged 65 or older as a percentage of the population	6.3	7.1	9.9	13.2	19.3	23.5
People aged 60 or older as a percentage of the population	9.9	11.0	14.2	20.1	26.5	30.2
People supporting the elderly	14.6	16.4	21.6	32.1	46.0	55.8

(People supporting the elderly = (People 60 or older/people 15–59)×100 \*Source: NPO, Estimated Future Population, 1996)

In conclusion, the NPS faced two key challenges in the 1990s: coverage extension so that it would become a universal pension and the problem of financial sustainability (Kim, Y.M, 2005). Simultaneously, new emerging actors – civil organisations and labour movement organisations – started to voice their concerns on these issues as stake challengers.

### ***Agenda setting for pension reform within the Kim Young-sam government***

The beginning of pension reform within government stemmed from President Kim Young-sam’s announcement of ‘the globalisation (segzehwa in Korean) of the quality of life’ on 23 March 1995, three months ahead of the June 27 local election and a year ahead of the April 11 general election (Yang, J. J, 2000a). In support of this declaration, the government set up the National Welfare Planning Board (NWPB), which consisted of 22 members, including the Minister of MOHW (Ministry of Health and Welfare) and policy experts from the academic field and government-run research institutes. The NWPB identified some long-term tasks and proposed the following key policies: 1) the completion of four social insurances and the extension of NPS coverage to the entire population and 2) improvements to the efficiency of the social insurance administrative system. Even though the NWPB policies were not

developed further, largely because they were lacking in specific details, they provided the basic foundations of later NPS reforms.

***The first debates on pension reform: what was to be done first?***

In June 1996, 'The Long-term Development Plan for the Public Pension System' was produced by the secretarial office for social welfare in Blue House. This plan was ordered by President Kim Young-sam because one of his presidential campaign promises was the expansion of pension coverage. Park Se-il, the senior secretary for social welfare, and a number of policy experts were responsible for the plan. Park and his colleagues investigated the existing public pension programmes and concluded that the NPS required fundamental reform before it was expanded to the urban self-employed. The reason for this conclusion was the system's financial unsustainability. They deemed that the other public pension programmes for military personnel, government employees, and schoolteachers also needed to be reformed due to similar financial problems. Their conclusion was similar to the opinion of the World Bank on public pension programmes. According to Yang, J. J (2000a), the core contents of the plan were threefold: 1) the replacement of the current NPS with a two-pillar system, namely a basic pension and an earnings-related pension; 2) reduction in the benefits paid in order to reduce the financial burden of the NPS; and 3) reform of the three other occupational pension schemes. This plan was supported by the president, the KDI, and the Ministry of Finance and Economy (MOFE). However, the bureaucrats of the MOHW and the NPC held a different opinion on the Blue House's plan, arguing that priority must be given to the expansion of NPS coverage to the urban self-employed. They reasoned that the plan's proposed changes to the pension system would be a barrier to the expansion of coverage to the entire population because its proposed reduction in benefits would lead to people's dissatisfaction with the system. They therefore contended that pension policy should follow

an ‘expansion-first and reform-later course’, unlike the Blue House’s ‘reform-first and expansion-later policy’. Debates among scholars on this issue failed to make much headway. In addition, because the Blue House plan included proposals for the reform of public pensions for the military and government employees, the Ministry of Defense, the Ministry of Government Administration, and the Ministry of Education also opposed the plan.

The confrontation between actors on the subject of public pension reform was complicated by the various interests of the competing actors. The Blue House, which had an advantageous position in terms of power relations, took the initiative and set up a task force, the National Pension Reform Board (NPRB), in June 1997 to produce a concrete pension policy. This task force then set about drawing up three alternative proposals, which would be debated and a final proposal submitted to the government. Despite this seemingly impartial and thorough approach to deciding upon a definitive proposal, the three alternative proposals for pension reform drafted by the NPRB were nevertheless similar to the Blue House’s original plan.

The Blue House’s plan for pension reform also increased the interest of the opposition political parties in the pension system, which held a seminar in the National Assembly on why improvements in the NPS were needed. Although the opposition parties expressed particular interest in reforming the way in which the NPS fund was managed, the strength of feeling among the political opposition was as yet insufficient to press for changes to the administrative system of the NPS.

### **The policy-making process of the NPRB**

The debate on pension reform was originally triggered by the Kim Young-sam government’s announcement of its plan and the schedule for its introduction, but as time progressed, the debate increasingly focused on the nature of the Blue House’s proposed reform. It was increasingly felt by opponents that the reform was essentially neo-liberal in nature, since it

proposed efficiency reforms to the pension system before coverage had been expanded to the entire population. A more detailed discussion of this issue will be presented in Chapter 7.

The National Pension Reform Board (NPRB), which was established to address the issues raised by the Blue House's plan the special committee and to devise a concrete policy, consisted of 24 members and was a kind of policy network. The majority of its members was neo-liberal economists and was inclined to favour neo-liberal pension reform, with members from the social policy and the NPS arena in a minority, although members of interest groups were represented on the committee. The nature and the direction of the debates that took place within the NPRB were heavily influenced by the neo-liberal economics-biased composition of the committee.

The most noteworthy feature of the NPRB, however, was that the KCTU and the KEF both participated in the debating process and that these two interest groups together held a seminar on the pension reform issue, the first time that a joint seminar had been held by labour and management organisations. In this seminar, the KEF stressed its support for the government's plans and the wider participation of interest groups, whereas the KCTU argued for the democratic management of the pension fund. This seminar indicated that pension reform had come to the forefront of both groups' interest.

### ***The three alternatives proposals of the NPRB and the final report***

On 5 August 1997, the NPRB released its first draft for NPS reform. As shown in Table 6-7, the draft proposal did not present a single definitive programme, but rather provided three options, each of which differed considerably.

The first alternative presented in the draft was a partial improvement of the existing system that involved reforming the levels of contribution and benefits but involved no structural change. This option was supported by working-level officials of the MOHW, trade unions,

farmers, civil activists, and the NPC (National Pension Corporation). The second alternative entailed structural reform of the pension system and proposed the introduction of a bi-pillar system, where the NPS would be split into two schemes: a basic pension scheme and an earnings-related scheme

**Table 6-7 The NPRB's three alternatives proposals for pension reform**

	The first option	The second option	The third option	Final proposal
Basic structure	Keeping the basic framework (mono-pillar)	Bi-pillar (basic pension + earnings-related pension)	Mono-pillar savings (individual account)	Bi-pillar (basic pension + earnings-related pension)
Contribution rate	3-6-9% (gradual increase)	Basic part: 0.4-4% Earnings-related part: 8%	3-6-9% (gradual increase)	9%-12.5%
Income replacement rate (at 40 years of contributions)	40-53.3% (existing system: 70%)	Basic: 0.4-6% Earnings-related: 30%	Principal + capital returns	40% (basic pension 16% + earnings-related pension 24%)
Funding system	Partial funding	Basic: PAYG Earnings-related: partial funding	Full funding	Partial funding

(Source: Yang, J. J, 2000a) (PAYG; Pay-As-You-Go)

These two schemes would place them under different financing and payment arrangements (Yang, J. J, 2000a). This alternative was supported by economists, the MOFE, and the Presidential Secretariat in the Blue House. The third option was a privatised mandatory fully funded defined contribution (FFDC) Scheme. In this option, all the insured would have an individual account. Although the NPRB proposed three alternatives, debates focused on the first and second options, with the third option being generally disregarded due to its lack of redistributive function.

After the NPRB had drafted its proposals, discussions among the committee members continued, but no consensus was reached. At the NPRB's final meeting on 27 December 1997, a vote to decide upon the form of the final proposal was held and the decision was

reported to the Prime Minister. The key contents of the final proposal are listed in the fifth column of Table 6-7 and were as follows:

1) split the present mono-pillar scheme of the NPS into a two-pillar scheme composed of a basic pension and earnings-related pension; 2) reduce the earnings-related benefits of the scheme from the current level of 70 percent to 40 percent; 3) the present contribution rate of 9 percent will be maintained until 2025 and it will be raised to 12.6 percent thereafter; 4) the legal retirement age will be raised by one year every five years starting from year 2013 so that it will be 65 by 2032; 5) strengthen the powers of the National Pension Fund Management Committee and expand the representation of farmers, unions, and NGOs; 6) extend the coverage to the urban self-employed in the second half of 1998 (Kim, Y. M, 2005).

### ***Actors' reactions to the final report on NPS reform under the Kim Young-sam government***

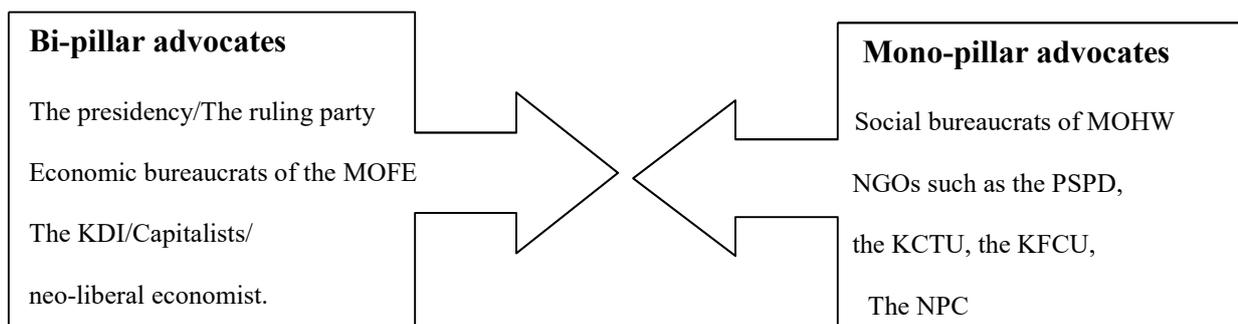
This final proposal was announced immediately. The reactions to it, however, were highly negative both inside and outside of government. First and foremost, the MOHW, which was responsible for overseeing and implementing changes to the existing system, was pessimistic. As mentioned above, the MOHW was concerned that this final proposal would make the extension of coverage to the urban self-employed in 1998 extremely difficult. Civil organisations and trade unions also strongly opposed the proposal. On 30 December, the PSPD issued the following public statement:

*The life of people has been hugely affected due to the IMF crisis, etc. In this situation, the plan for the improvement of the NPS, which concerns the entire population's life in old age, was made without the consensus of the nation, but any decision so made in this way will be absolutely unworkable. Improvements can only be achieved through the comprehensive*

*reform of social security and its framework. Therefore, attempts at improving the NPS must be made much more carefully under future governments (30 December 1997, PSPD).*

In summary, under the Kim Young-sam government, the contents and direction of pension reform was decided by the logic of the neo-liberal approach rather than by the principle of redistribution of income and solidarity. The focus of reform was financial sustainability rather the security in old age. These competing ideological positions informed the policy-making process of pension reform and led to the confrontation between actors. Advocates of the former position were the members of the Presidential Office, the bureaucrats of the MOFE, and economists within the policy community and business, whereas adherents of the latter position were the social bureaucrats of the MOHW, reform-minded and progressive civil organisations, trade unions, and some progressive academics. The competing actors are broadly categorised in Figure 6-2. The noteworthy aspect of this policy-making process and the disputes about NPS reform was that civil organisations and trade unions were no longer passive actors. Along with social bureaucrats, they actively voiced their views, an expression of their beliefs and interests that would soon be revealed not to have been wasted, for the following year, everything was to change under the situation brought about by the economic crisis and the political power shift.

**Figure 6–2 The battle between mono-pillar advocates and bi-pillar advocates before the economic crisis**



## **6.4.2 The policy-making process of pension reform under the Kim Dae-jung government**

### ***The economic crisis, political power shift, and pension reform***

Korea experienced an historic upheaval during the closing years of the last millennium. The country became a member of the OECD in 1996, joining the club of advanced countries. However, the following year, Korea was engulfed by an unprecedented economic crisis, followed by a large bailout loan from the IMF. Subsequently, there was another historic event. For the first time in modern Korean history, a candidate from the opposition party won the presidential election. Moreover, the elected president, Kim Dae-jung, was relatively progressive and pro-welfare.

As explored in Chapter 3, these rapid changes in terms of the economic and political environment had a tremendous effect on the entire social policy arena, and pension policy and reform was influenced by these sudden changes as well. As we have seen in the previous section, the Kim Young-sam government and the Presidential Office had, with the assistance of neo-liberal economists, established a neoliberal blueprint for pension reform, despite resistance from NGOs and the MOHW.

Now, faced with the economic crisis at the end of 1997 and the political power shift in 1998, an alternative blueprint rapidly emerged. In response to the changed economic and political situation in Korea, the Kim Dae-jung government opted for the active expansion of the national pension programme and the retention of a redistributive principle, an approach that was directly in contrast to the previous government's neo-liberal approach to pension reform. As mentioned earlier, this approach also differed historically from that pursued by the advanced countries when confronted with economic crises. In this section, I will trace the

process of pension reform and expansion, in particular focusing on actors' activities and their interactions.

It should be noted at this point that during the period in which this welfare reform took place, I was a journalist specialising in social welfare issues and the MOHW's policies, and I followed, covered, and wrote many articles on these developments and the issues surrounding them. My exploration and investigation of pension reform in this section draws heavily upon my notes taken at the time.

### ***Changes in the policy-making veto power of economic ministries***

It is generally recognised that the economic ministries enjoyed an overwhelmingly dominant position over social ministries within the government in terms of policy-making and decision-making. This was also the case in social policy decision-making. However, after the economic crisis and the political power shift, this trend changed. The senior officials of the MOHW took advantage of the economic crisis and the period of power transition. On 21 November 1997 at the height of the Asian financial crisis, the Kim Young-sam government asked the IMF (International Monetary Fund) for stand-by loans, admitting its inability to serve its debt payments by its own means (Yang, J. J, 2000a) and losing the presidential election held on 18 December 1997. The economic crisis led the economic bureaucrats to lose their previous veto power temporarily and superiority over social bureaucrats in social policy-making, and the political power shift provided a window of opportunity for social bureaucrats to oppose the NPRB's final pension reform proposal.

On 31 December 1997, one day after the PSPD had made a public statement opposing the NPRB proposal, the MOHW briefed the chairman of the policy committee of the NCNP (the incoming governing party) on the NPRB proposal and the current tasks facing the MOHW. The MOHW subsequently delivered two reports on the proposal to the Committee for

Presidential Transition (CPT) of the new government, one on 10 January 1998 and the other on the 18<sup>th</sup> of the same month. During this process of briefing and reporting to the new government team, the MOHW expressed its opinion on the NPRB proposal and its problems. The gist of the MOHW's argument was as follows: 1) a change in the basic structure of the national pension scheme from the existing mono-pillar system to a bi-pillar system was unlikely to yield any profit to the new government and the incoming ruling party politically, and a bi-pillar system was less capable of achieving social integration and having a redistributive effect; 2) the proposed reduction in benefits would trigger resistance from the insured, leading the government to lose popular support, and it would be more difficult to accomplish the scheduled coverage expansion to the urban self-employed; and 3) as regards the management of the NPS fund, the MOHW proposed that the National Pension Fund Operation Committee (NPFOC) should have authority over pension fund deposits. At the time, government could forcibly borrow pension funds under the Public Fund Management Act (PFMA), and NGOs and trade unions therefore questioned the government's continued management of the public pension fund.

The MOHW's reports and comments to the CPT had a strong influence on the Kim Dae-jung government's attitude towards the direction that pension reform should take. The MOHW emphasised that there was a lack of public confidence in the NPS owing to the financial unsoundness of the existing pension system, its 'low-contribution, high-benefit' formula, the low rate of return on public investment, and the long-term schedule for and the lack of progress towards coverage expansion to the urban self-employed. The CPT largely accepted the MOHW's position and plan. However, the CPT's acceptance was not merely the result of the MOHW's persuasive briefing, but also the strong voices of civil organisations and the labour unions, which were supporters of the Kim Dae-jung government (Yang, J. J, 2008).

### *The actors' positions and debates on pension reform in transition politics*

On 22 January 1998, the MOHW and the Korea Institute of Health and Affairs (KHISA) held a public hearing in order to gather public opinion on the issue of pension reform. Various actors participated in this event and argued for and against the NPRB's proposed reforms. The key issues raised were the level of benefits, the financial stability of the pension system, coverage expansion, its basic structure and the function of redistribution, and improving the management of the NPS fund. Of these, the most controversial issues were the level of pension benefits and the financial problems of the system.

The FKTU, which had a direct stake in pension reform, raised its voice most strongly on the level of pension benefits, arguing that raising the age for receipt of old-age pensions was not a viable option and that contribution rates should be equal between workers and management. The FKTU above all emphasised that NPS benefits should amount to over 60% of a person's final salary. Civil organisations also voiced concerns over the drastic reduction in benefits that would result from the implementation of the NPRB proposal, arguing that "the basic NPS benefits ...should be kept at the current level to ensure income redistribution" (Yang, 2000). As regards coverage expansion, Kim Yeon-myung, a PSPD representative and a professor at Chung-Ang University, stated that coverage expansion must not be deferred on account of the problem of ascertaining the incomes of the self-employed. Kim Sang-kyun, a social policy expert and a professor at Seoul National University, also argued for the expansion of coverage. The existing system's management of the public pension fund was also a contentious issue, but most of the actors reached an agreement on the improvements that were required. Labour and management representatives both argued that Article 5 of the PFMA should be abolished and also insisted that the chairman of the NPFOC should be the Minister of the MOHW. Kim Yeon-myung of the PSPD argued that members from the NPFOC must be included in the management arrangement to secure the participation of the

insured. These arguments by civil organisations, policy experts and trade unions were later to be reflected in the final pension reform decision-making process.

### ***The MOHW's 1998 revised pension reform bill***

As mentioned above, the MOHW succeeded in persuading the new government to accept its views on pension reform. The MOHW's core interests were accomplishing pension coverage expansion in as timely and straightforward a manner as possible and securing its position as the ministry in charge of pension policies. In this regard, the MOHW's strategies and activities were wholly successful. However, as will be discussed it in more detail later, its ability to ensure that the policy performed well was less so. After discussion and debates, the Minister of the MOHW signed the National Pension Amendment Bill on 21 January 1998, and on the same day, the revised bill was sent to the National Assembly under the approval of the incoming Kim Dae-jung government, which started its term four days later (Yang, J. J, 2000a). The key contents of the revised bill differed from the NPRB proposal as follows (the differences between the revised bill and the NPRB's final proposal can be seen in Table 6-8):

- The NPS would not be split into a bi-pillar scheme of a basic pension and an earnings-related pension.
- The target replacement rate (for workers with a 40-year contribution record) would be reduced from the existing 70 per cent to 55 per cent.
- The contribution rate of 9 per cent would be maintained up to 2009 and would gradually be raised thereafter.

**Table 6-8 The NPS Act as revised by the MOHW**

	The MOHW's final revised bill for pension reform	The NPRB's final proposal for pension reform
Basic structure	Retention of the mono-pillar system	New bi-pillar system
Contribution rate	9%–19.1%	9%–12.5%
Income replacement rate	55%	40%
Retirement age	65 in 2033 (61 in 2013)	65 in 2033 (61 in 2013)

(Source: Yang, J. J, 2000a)

In addition, the Minister of the MOF was replaced as the chair of the NDFOC by the Minister of the MOHW. However, the MOHW was unable to abolish Article 5 of the PFMA, which civil organisations, trade unions, and the business community all demanded, due to strong resistance from the MOF, and a compromise was struck between the two ministries to pay equal interest to average market returns.

### ***The modification of the Act and the role of the National Assembly***

The revised NPS bill submitted by the MOHW was a partial reform that aimed to stave off the exhaustion of NPS funds and extend the period for which the pension system would remain financially viable. As mentioned above, its key features were a cut in benefits and an increase in the retirement age, measures that were expected to prolong the financial viability of the NPS from 2031 – the anticipated date at which the fund would be exhausted – to the 2050s. However, for their own respective reasons, social actors were not satisfied with this revision, and during the process of deliberation in the National Assembly, civil organisations and labour unions argued against the bill's imposition of a drastic reduction in pension benefits. They emphasised that the aim of a public pension programme should be to guarantee satisfactory incomes for ageing people and that reform should be focused on this goal rather than on fears of depletion of the pension fund. As for the FKTU, it continuously demanded improvements to the revised bill and stated its opinion in a report as follows:

*-presently, most workers and other people are suspicious about the NPS and more and more people distrust the NPS*

*- in particular, in the current situation of mass unemployment, high prices, and low wages owing to the economic crisis and the IMF bailout, people are responding negatively to the proposed increase in contribution rates, the reduction in benefits, and the increase of retirement age.*

*-as regards the direction that a revised bill should take: 1) at least the current income replacement rate should be maintained; 2) labour and management should pay a contribution rate of 6%, respectively; and 3) the retirement age should not be increased... (from the FKTU's 1998 divisional report).*

Business groups also condemned the bill, arguing that the proposed increase in the contribution rate would increase their financial burden. In their report on the revised bill, entitled 'The Opinion of the Business World', they argued that the increase in the contribution rate would further negatively affect businesses, which were already suffering difficulties due to the economic crisis. A common issue raised by civil organisations, the labour unions, and the business sector was that the revised bill did not deal with the mismanagement of the public pension fund. The KCTU, in particular, strongly voiced its support for the abolition of Article 5 of the PFMA and its opposition to benefit reductions.

In response to these concerns, the ruling party and the opposition party in the end agreed to limit the reduction in the replacement rate to 60 per cent of average earnings instead of 55 per cent as proposed by the government. Although the contribution rate was kept at 9 per cent, the contribution burden of labour and management shifted. The National Assembly reversed the controversial decision to take a 3 per cent share from the retirement allowance and forced employees and the employers to pay an equal share of NPS contributions. Accordingly, the contribution rate for employees was raised from 3% to 4.5%, with an identical increase for employers. No actor had demanded this change in the contribution rate, neither the MOHW, trade unions, civil organisations, the mass media, nor the business community and although it met with resistance from employers, the changes to the contribution rate were retained. This decision marked the start of a new role for the National Assembly in terms of pension reform. In the past, the deliberation of bills in the National Assembly had been little more than a meaningless formality, with all decision-making power in the hands of the president, the Blue

House, and senior bureaucrats. With the progress of democratisation and the revitalisation of parliamentary politics in Korea, the role of the National Assembly in terms of policy-making was finally beginning to mature. In December 1998, the final revised NPS bill was passed in the National Assembly.

### **6.4.3 The pressure of the World Bank and the Kim Dae-jung government's and the MOHW's responses**

#### *International organisations as a new player in policy-making*

Although the revised pension reform bill was passed in the National Assembly in December 1998, the disputes and controversies about pension reform continued. Most fundamentally, the high-benefit low-contribution NPS system had not changed and the issue of the NPS's financial sustainability had not been solved. Accordingly, as was noted earlier, labour unions, civil organisations, and management together demanded the abolition of the PFMA (Public Fund Management Act). Notably, the tripartite commission, a Labour-Management-Government Tripartite Apparatus for overcoming the economic crisis (Lee, J. H, 2007) established on the suggestion of the KCTU, also demanded its abolition. Nevertheless, the Ministry of Finance (MOF) remained immovable in its opposition to the repeal of this article. Surprisingly, it was an international financial institution, the World Bank, which was pivotal in forcing the MOF to change its position. At that time, both the World Bank and the IMF called for the phased reduction in forced government appropriation and revision to the PFMA as a condition for the \$2.0 billion Structural Adjustment Loan (SAL) I and II (Yang, 2000). The loan was agreed in March under the Kim Dae-jung government. In concrete terms, the World Bank demanded that the government implement the following policy measures in terms of the NPF (National Pension Fund) in SAL I:

*agreement to gradually phase out government borrowing from pension fund reserves in the form of direct credits and to gradually phase in government borrowing from pension fund reserves in the form of sale of marketable government bonds so as to improve the transparency and efficiency of pension fund management (World Bank, 1998).*

The World Bank also called for the government to:

*adopt and announce a timetable for implementation of the reduction in forced government appropriation of the flow of NPF surpluses as follows: 65% of the NPS surplus flow in 1999, 40% in 2000, 20% in 2001 and 0% in 2002 ... implement the phased reduction of forced government appropriations from NPF agreed with the Bank, through adoption of legislation satisfactory to the Bank, including necessary revisions to the Public Fund Management Act (World Bank, 1998).*

Due to this pressure by the World Bank, the MOF changed its adamant attitude towards exercising control over the NPF, and Article 5 of the PFMA was ultimately abolished. However, the World Bank and the IMF did not merely demand that the management of the NPF be reformed through the revision or abolition of Section 5 of the PFMA, but insisted that fundamental changes be made to the structure of Korea's public pension system, with the World Bank favouring replacing the existing NPS arrangement with a multi-pillar pension system (Yang, J. J, 2008; Kim, Y. M, 2005a). One of the World Bank's more detailed demands was that the Korean government should delay coverage expansion of the NPS until preparation for a more fundamental structural reform of the pension system had been undertaken. For this, it called for the Korean government to set up a Pension Reform Task Force by October 1998 to complete a draft White Paper no later than November 1999 (with background papers completed by June 1999) on an integration pension reform package combining public/private and mandatory/voluntary pensions pillars (SAL II, World Bank, 1998). Following the World Bank's demands, the Kim Dae-jung government established the

Pension Reform Task Force (PRTF) in December 1998 to review four alternative public pension schemes. As will now be explored, the Korean government settled on a partial acceptance of the Bank's demands, establishing the PRTF and taking steps to improve the management of NPS reserves, but also pursued its own agenda, refusing to delay coverage expansion and rejecting the implementation of a multi-pillar pension system.

### ***The strategies of the World Bank and the MOHW and pension reform alternatives***

The World Bank's intervention continued. The Bank sponsored a PRTF research trip to countries with privatized pensions such as Chile, Argentina, and Australia in the summer of 1999 and twice presented its reform proposal before the PRTF (Yang, J. J, 2000a). The World Bank's message and its strategy were clear: structural reform and the establishment of a more privatised pension system. In fact, the World Bank had consistently pursued a pension reform strategy based on its advocacy of multi-pillar pension systems since 1994 and had met with considerable success in its efforts in South America and Eastern Europe, with ten South American countries and five Eastern European countries having introduced private pension systems.

The World Bank pressed for the staged introduction of a similar system in Korea, and the NPRB proposal outlined in the earlier section was strongly influenced by the Bank's conviction that all four public pension schemes then existing in Korea could be united into a single bi-pillar pension system containing a basic component and an earnings-related element. The Bank's strategies were clearly revealed in its report published in May 2000 on the Korean pension system, entitled 'the Korean Pension System at a Crossroads'. In the conclusion of this report, the Bank's experts recommended systematic reform of Korea's pension system:

*A systematic reform would also go further than partial reforms in addressing the key question of fund management. Even if the goals of prefunding were not threatened by the government's tendency to increase its own consumption and finance it with NPS surpluses, the concentration of assets in one institution is inherently susceptible to political interference; nor is it conducive to efficient allocation of capital in the economy ... The Korean system is at a crossroad... A shift to a system less dependent on the state and on high payroll taxes on future generations can still be made comfortably. This means setting the public pension promise to an affordable level and securing a strong private pension system (World Bank, 2000).*

Meanwhile, the MOHW responded deftly to the Bank's pressure. In pursuing its own aims, the MOHW sometimes bowed to the Bank's pressure and sometimes did not. The MOHW also made its own strategic moves with the stated aims of the president and the ruling party in mind. As Yang (2000) explains, the MOHW's strategy towards the Bank was a typical case of non decision-making", and "the MOHW made strenuous efforts to suffocate a decision that would be a latent or manifest challenge to the values or interests of the MOHW (2000). The same strategy was applied to the composition of the PRTF. The majority of this body's 21 members were anti-structural reform MOHW representatives, and only eight members were economic bureaucrats and economists with pro-structural reform views. The dominance of MOHW members in the PRTF ultimately allowed the MOHW to control the content of the PRTF's final proposal on pension reform, which, as shown in Table 6-9, set out four alternatives, including the World Bank's multi-pillar pension proposal. This situation allowed the government to push ahead with pension reform (Yang, J. J, 2008)

**Table 6-9 The four alternative pension systems contained in the PRTF proposal**

	The 1 <sup>st</sup> alternative	The 2 <sup>nd</sup> alternative	The 3 <sup>rd</sup> alternative	The 4 <sup>th</sup> alternative
The basic structure	A multi-pillar system with separation of public and private pensions	A multi-pillar system with unification of public and private pensions	A multi-pillar system with separation of public and private pensions	A multi-pillar system with the unification of public and private pensions
The income replacement rate	60% (special occupational scheme 80%)	45% –65%	60%	60%
The management of the pension fund	Public management (occupational and individual pension: private management)	Public management (individual pension: private management)	Public management	Public management (occupational and individual pension: private management)

### ***Coverage expansion to the urban self-employed***

While facing the most severe economic crisis in Korean history and under pressure from the World Bank and economist groups for neo-liberal structural reform, the Kim Dae-jung government promoted partial pension reform. The government and the MOHW carried out the plan to extend pension coverage to the urban self-employed by revising the National Pension Law. After the new legislation came into effect on April 1 1999, the number of insured increased hugely to reach almost 17 million people.

They included an additional 10 million urban informal sector workers and the self-employed from the previous 7 million company employees, farmers, and fishermen (Yang, J. J, 2000a). With this revision to pension law, Korea finally entered an era of universal national pension provision, with almost all Koreans covered by the public pension system. This marks a pivotal point in the history of social policy in Korea. Perhaps the most surprising aspect of this achievement is that it was implemented during the worst economic crisis in Korean history. Although the extension of pension coverage to almost all of the population was a significant achievement by the Kim Dae-jung government, the practical process of implementing the new legislation triggered strong resistance. Due to mismanagement and a lack of preparation, dissatisfied voices were raised against both the NPC and the MOHW and their handling of the coverage extension. A deluge of complaints ensued, and the

implementation became a considerable political burden for the government. The issue that raised the most dissatisfaction was the problematic calculation of the income of the self-employed. Ascertaining the actual incomes of this group was difficult because it relied on the self-reporting of income by the self-employed, many non-self-employed people did not believe that the figures reported by the self-employed were accurate reflections of their incomes. Furthermore, since the pension system was fundamentally a redistributive system and pension contributions and benefits were calculated according to income, those people already covered by the previous system were concerned that as the average reported income of the urban self-employed was so low, pension benefits for those whose NPS contribution was deducted from their income at source would be significantly reduced (Yang, J. J, 2000a). These dissatisfactions led some civil organisations and labour unions to oppose the extension of pension coverage, although other labour unions and NGOs supported it. The most noteworthy thing about this development was that the pro-welfare alliance that had existed between the MOHW, civil organisations, and labour unions on the 1999 pension reform fell apart, with some members of this partnership fiercely opposing any potential reduction in benefits. In addition, the dissatisfaction brought about a deeper scepticism towards the NPS, which would prove to be an obstacle to later pension reform.

## **6. 5 Concluding remarks**

The history of Korean pension developments was remarkable in that it took only eleven years from its introduction in 1988 for the NPS to cover almost every person in Korea. The NPS was introduced as a mono-pillar system with a strong redistributive element and began as a low-contribution, high-benefit scheme. These unique characteristics of the Korean pension system meant that it had strengths in terms of redistribution but weaknesses as regards its

financial sustainability. As the pension system developed over time, it triggered conflicts and disputes among social and political actors, and the scheme was one of the most controversial political issues in Korea.

It seems clear, however, that the NPS was originally introduced as a means of gaining political legitimacy for the authoritarian regime and ensuring capital accumulation, an argument borne out by the fact that its implementation was immediately deferred. From the outset, the creation of the NPS was a political and economic matter. As for the politics of policy-making, the president had absolute supremacy over decision-making on NPS policy during its early stages, but with the advance of democratisation, a number of different actors – political, economic, and social – became increasingly influential in terms of policy-making. With the increasingly number of influential actors, pension politics became increasingly complex and pension reform became more difficult.

Like the politics of health insurance, Korean pension politics became increasingly dynamic and was significantly different from that of the advanced countries. In short, pension politics in Korea was unique in that it exhibited the articulation of the interests of actors within an arena of struggle between pro-welfare actors and anti-welfare actors, neo-liberalists and anti-neo-liberalists, partial reformists and structural reformists, and a national institution, the MOHW, and international financial institutions. In the next chapter, I will discuss pension politics in more detail.

## **Chapter 7**

### **New politics of welfare reform in Korea: Analysis and Discussion**

#### **Introduction**

In this chapter, the nature and peculiarities of welfare politics in Korea, as revealed through the two case studies presented in Chapter 5 and Chapter 6, will be discussed. As mentioned earlier, Korean welfare politics were dominated by dynamic political battles between stakeholders and the stake-challenger coalition throughout the policy-making processes of both health insurance and pension reform. From this observation, I have developed a theoretical framework for ‘the new politics of welfare reform in Korea’, namely, ‘the politics of conflict between stakeholders and the stake-challenger coalition’. This framework focuses on the strategies and interactions of political and social actors in the policy-making processes of health insurance integration and pension reform since the economic crisis and the political power shift in Korea. Using this theoretical framework, I will endeavour in this conclusion to point out the implications of the actors’ strategies and interactions in terms of welfare politics.

#### **7.1 The new politics of health insurance reform since the economic crisis and their meaning**

Under the Kim Dae-Jung government after the 1997 economic crisis, the health care field underwent rapid changes and entered a period of unprecedented turbulence. Among other health reforms, health insurance integration was implemented, NHI was launched, and medical and pharmaceutical practices were separated during this period. In the course of these reforms, however, intense resistance emerged and unintended side effects such as delays to the introduction of programmes occurred. One such instance of resistance and

unexpected developments during the reform process was explored in Chapter 5, that of health insurance integration. In this section, based on the findings in Chapter 5, I will discuss the contents and meaning of health insurance integration in the wider context of health insurance reform.

### **7.1.1 The characteristics of pre-reform health insurance before the economic crisis**

According to Kim, Y. M (2000), Korea's national health insurance (NHI) system before the integration (1998–2002) implemented by Kim Dae-jung government can be summarised as having three main characteristics:

First, NHI was based on the principle of social insurance and was specifically a contributory social insurance provision where health service provision was conditional upon contribution. This compulsory social insurance programme was introduced in 1977, and while initially only for employees at large companies, its coverage was extended to the whole nation in 1989 (Hwang, 2006). The Korean NHI's most distinctive characteristic was its management and funding system. Unlike the pension system of the time, NHI was managed and funded by numerous separate health societies from its inception. This fragmented NHI consisted of over 400 health societies, which each set different contribution and benefit levels and managed funds independently. Second, NHI in Korea was characterised by its relatively strong market dependence. Since Korea's NHI was predicated upon a low contribution system, its scope of coverage was very limited. This so-called 'low contribution, low benefit' system meant that the security provided by NHI was sufficiently low to be able to be guaranteed. Moreover, the proportion of the public covered by NHI was very low, and most medical provision was provided by the private sector (Kim, Y. M, 2000). Third, health services were not directly supplied by the insurer, but were indirectly supplied by third parties (mostly private hospitals and clinics that made contact with the insurer).

The health insurance reforms carried out under the Kim Dae-Jung government were concentrated on the first of these problematic characteristics, and as a result, health insurance integration was the first reform to be implemented.

### **7.1.2 Health insurance reform and its meaning under the Kim Dae-Jung government (1998–2003) after the economic crisis**

The core outcome of health insurance reform after the economic crisis was the complete integration of NHI. The numerous health societies were unified into a single insurer, and funds were managed by respective health societies on a self-paying basis. The meaning of NHI integration is enormous. Kim, Y. M. (2000) contends that NHI integration had five main positive outcomes: 1) the guarantee of equity in terms of contribution; 2) efficiency improvements in the management of the system; 3) increased convenience for the insured; 4) reinforcement of the argument for the public management of funds; and 5) the possibility of transforming the system from one of low benefits to one of moderate benefits.

Prior to NHI integration, members of health insurance societies in urban areas had a lower contribution burden than the members of health societies in rural areas, but because they lived in cities, they had greater benefits than their counterparts in rural areas, and the management of funds by urban health societies was more transparent and systematic. First and foremost, NHI integration led to changes in the pattern of social solidarity in Korea. After NHI integration, social solidarity on the issue of health insurance shifted from being concentrated at the local level to the national level, and there was increased solidarity between employees and the self-employed on the subject of health insurance. Nevertheless, although NHI integration had a considerable effect in terms of increasing the Korean population's awareness of and solidarity on the issues related to health insurance, it did not improve the NHI system's most fundamental problem, namely, 'the low-benefit system'.

### **7.1.3 The changes in policy-making in health insurance reform and health politics**

Even though the conflict that emerged between the advocates and opponents of NHI integration had its origins within a state body, the Ministry of Health and Social Affairs (MOHSA; formerly the MOHW), the NHI integration process brought about changes to Korea's long-standing health insurance policy-making process. In particular, the process of gradual democratisation in Korea led social and political actors to become more involved in the conflict and to pursue their own interests more actively. As democratisation progressed, the number of actors involved multiplied, the conflict over NHI integration became increasingly complicated, and influential civil activists and policy experts gradually became involved in the policy-making process. For example, in 1998 when the Executive Agency for Health Security Integration (EAHSI) which was one of the apparatus of government was established for the purpose of complete NHI integration, this agency consisted of representatives from various circles, including policy experts, civil activists from the Citizens' Coalition for Economic Justice (CCEJ) and the People's Solidarity for Participatory Democracy (PSPD), representatives of the health care and business sectors, and members of labour, farmer, women, and consumer organisations. The multilateral constitution of the EAHSI and the form of policy-making that this produced was significantly different from that which had preceded it. From this time forward, the presence of civic groups in the government's policy-making process (or sometimes the partnership between these groups and the government) was institutionalised, although the role of civic groups was sometimes limited to 'rubber-stamping' government policies. In effect, later NHI integration law was a government-sponsored reform. While civic groups often clashed with government on various issues, it is clear that they had a stronger voice and sometimes played a crucial role in the process of reform. In particular, they were a key driving force for welfare reform under the

Kim Dae-jung government. In the following section, I will analyse in greater detail the role played by civic organisations as the driving force for health insurance reform.

## **7.2 The new policy-making of public pension reform and its meaning since the economic crisis**

Under the Kim Dae-Jung government after the 1997 economic crisis, there were unprecedented calls and even international pressure for pension reform. As a result, pension reform was undertaken, the practical content of which was coverage expansion to the entire nation in spite of the most severe economic crisis in Korean history, which was a fundamentally different approach to reform than that taken by other advanced countries during periods of economic crisis. As seen in Chapter 6, there was conflict among social and political actors in the process of this reform. In this section, based on the findings of Chapter 6, I will discuss the content and meaning of pension reform in terms of welfare politics.

### **7.2.1 Characteristics of the pre-reform NPS before the economic crisis**

In order to establish the position that the Kim Dae-jung government took towards pension reform, the characteristics and principles of the NPS before reforms were implemented need to be considered. As regards its institutional characteristics, there were four key features. Firstly, the structure of the NPS was a mono-pillar system in which the basic pension and earnings-related pension were integrated into a single system. Secondly, this structure was designed include two elements: an income redistribution function and an earnings related function. In fact, the original design of the NPS was intended to promote income redistribution and social solidarity. As Kim, Y. M (2005a) state, the NPS was designed to provide higher income replacement rates for lower income earners and to provide lower income replacement rate for higher income earners.

Thirdly, the most important characteristic of the NPS was that it provided coverage regardless of occupation, sex, geographical location (rural or urban), or age. To this day, this characteristic has been retained, and so NPS coverage applies equally to employees, farmers and workers in the fishing industry, and the self-employed under a single umbrella. The only exception to this coverage was for civil servants, members of the military and private teachers. The reason that the NPS was originally designed as a strong integrated occupational scheme' was because the principle on which the NPS was founded was a "strong sense of social solidarity and the idea that risk diffusion is spread to the national scale. Accordingly, unlike health insurance or pension sustainability in the West, the integration of pension schemes for employees and the self-employed was not an issue in Korea. Fourthly, as regards the management of the NPF, the low contribution, high benefit system employed by the NPS mean that it was not fully funded, and the accumulated fund reserves of the NPS would inevitably be exhausted in the future. This meant that contribution rates would have to be increased at some stage and resulted in the basic form of financing being changed to a pay-as-you-go funding system.

### **7.2.2 Pension reform, its meaning, and pension politics under the Kim Dae-Jung government (1998–2003) after the economic crisis**

Generally speaking, public pension reform during economic crises has resulted in the drastic reduction of benefits and changes to the structure of pensions in many countries. However, as explored in Chapter 6, the Korean case was entirely different. Pension coverage was expanded under the Kim Dae-jung government, and the basic structure of the NPS was not changed, even though there was strong pressure from both internal and external actors to do so.

The reform was initiated in 1997 by the Kim Young-sam administration, which called for the National Pension Reform Board (NPRB) to draft a number of pension reform alternatives and to agree on a final proposal. The key content of the NPRB's final draft scheme involved splitting the existing mono-pillar scheme into a two-pillar scheme comprising a basic pension and an earnings-related pension and reducing the income replacement rate from 70 per cent to 40 per cent. However, this proposal was deemed unacceptable by the Kim Dae-jung administration, which pursued a totally different path to pension reform due to its orientation towards maintenance of the solidaristic principle of the NPS rather than towards neo-liberal pension reforms. Despite the considerable pressure applied by proponents of neo-liberal pension reform, the government refused to countenance changes to the integrated occupational structure of the NPS, which provided coverage for all job sectors in one system. In early 1999, the process of national pension expansion to the self-employed in urban areas encountered problems when it came to establishing the actual income of the self-employed. As a result, some policy advisors strongly suggested that the national pension be divided into two schemes, one for the employed and one for the self-employed, but the Kim Dae-jung administration refused to accept this and made a commitment to preserving the existing system. In addition, the government stated its commitment to retaining fixed benefits, the mono-pillar system, the principle of social solidarity between generations and income brackets, and the existing funding system. Nevertheless, the NPS system did undergo partial reform, with the income replacement rate changing from 70% to 60% and the pension age increasing from 60 to 65. Generally, however, pension reform under the Kim Dae-jung administration adhered to the principle of social solidarity inherent in Korea's national pension system, although this commitment caused many problems during the process of pension coverage extension to the self-employed in urban areas (Kim, Y. M and Kim, K. S, 2005).

### **7.2.3 Changes in the policy-making process in pension reform**

In the process of pension reform, like that of health insurance reform, changes in the nature of the Korean policy-making process are evident. The most significant change was the increase in the number and variety of players. Under the authoritarian regimes, such as the governments of President Park Jung-hee and President Chun Doo-hwan, Korean policy-making was strictly hierarchical and linear. At the apex of the power hierarchy was the president, who exercised ultimate decision-making power within the presidential system. Even after democratisation, this remained the case in terms of policy-making. The second rank of policy-making power was wielded by bureaucrats. In terms of social policy, although social bureaucrats were nominally in charge, policy-making hegemony belonged to economic bureaucrats. However, with the progress of democratisation, the characteristics of Korean policy-making shifted. As was seen with regard to policy-making on NHI, the course of democratisation led social and political actors to become increasingly active in asserting their own interests in conflicts about policy. Accordingly, the numbers of actors involved in the policy-making process mounted, and the process itself and the conflicts involved became more complicated. The decision-making power and policy-making influence of social bureaucrats and economic bureaucrats changed, with economic bureaucrats losing their previous dominance and a more even distribution of power between these rival groups becoming evident. Within government, the phenomenon of bureaucratic politics emerged. The most noteworthy change in policy-making under the Kim Dae-jung government after the economic crisis was that it was civil organisations and labour unions that set the agenda for pension reform, the most prominent of which were the civil activists of People's Solidarity for Participatory Democracy (PSPD) and members of the KCTU. In addition, the international financial apparatus (the World Bank and the IMF) emerged as a new player in Korean policy-making. After the economic crisis and the subsequent political power shift, pension politics

became even more complicated and an arena in which stakeholders and stake challengers battled for supremacy.

### **7.3 The new politics of welfare reform in Korea since the economic crisis**

#### ***Welfare politics still matter***

The establishment of the welfare state and social (welfare) policies such as health insurance and pension programmes should not be regarded simply as an altruistic response to particular needs. While they might be based on the spirit of charity and philanthropy, the welfare state and social policies are from their inception a product of the state and politics and require substantial political planning to achieve their goals. Since they involve the redistribution of resources, they provoke social and political conflicts, and tensions and struggles between the haves and the have-nots inevitably occur. This very nature of the welfare state and social welfare policies has been played out throughout the history of social policy. The redistribution of resources that the welfare state represents and the conflicts that this engenders led Briggs (1961) to assert that the welfare state is “the deliberate use of politics and administration to modify the play of market forces”. In a similar vein, Kim, Y.S (2007) states the following:

*“Unlike market changes, welfare programmes are designed by laws and government policies, inevitably producing winners and losers. Social groups in democratic capitalism naturally intervene in the making of the operational principles and the methods of the welfare state in order to benefit themselves. Therefore, the interests and political capabilities of social actors, as well as power relations among them, are critical in shaping the characteristics of a welfare state.”(p.23)*

From this viewpoint of welfare politics, therefore, welfare politics can be defined as the conflicts between political forces or actors around the formation, establishment, and restructuring of a welfare regime or welfare state.

Welfare politics in Korea has developed and changed in its own particular way since modern welfare programmes were firstly introduced in Korea in the 1960s. However, as you see in Chapter 3, Korean welfare politics before democratisation was not welfare politics in any meaningful sense, because all decision-making was unilaterally undertaken by the military government. However, progress in the activities of actors and the interactions among them during the policy-making processes for health insurance and public pension reform illustrate the changes that occurred in Korean welfare politics after democratisation. In particular, this new wave of welfare politics after democratisation ignited a fire for welfare reform that continued to blaze after the economic crisis and the political power shift. I witnessed this spectacle at first hand as a journalist and have described it in Chapters 5 and 6 in detail. In section 7.1~7.2, the meaning of the pension and health insurance reforms was explored. In this section, the key actors' activities, strategies, and interactions in the process of the reforms will be analysed.

### **7.3.1 The strategic actions and interactions of key actors in the policy-making processes of health insurance and pension reforms**

#### ***Civil organisations as an influential stake challenger***

The most obvious characteristic of welfare politics since the economic crisis in 1997 and the subsequent political power shift was the key role played by civil organisations or 'the citizen's movement', as they were otherwise known. This citizen's movement refers to the new type of social movement that emerged in Korea in the late 1980s as an alternative "to a radical and militant people's movement that had radical goals" (Shin, K.Y.,2006) and was

clearly different from the past social movements calling for democratisation, which had concentrated on direct opposition to the military regime and were very defiant and militant. However, after the Roh government's capitulation to the demands of the June Democracy Movement in 1987 and the announcement on 29 June of that year that constitutional changes would be made to initiate democratic reforms, a new type of social movement emerged and grew in strength as democratisation progressed. "The new type of social movement organizations were comprehensive social organizations that dealt with a variety of issues such as political corruption, housing, transportation, human rights, legal justice, economic justice, and environmental protection" (Shin, K.Y, 2006. p.5).

Social welfare development was among the issues that these organisations were founded to address. This new movement was widely supported by the public in the 1990s and was particularly popular with the urban middle class. Although some radicals railed against this new movement, calling it reformist or opportunist, it fundamentally changed the character of social movements in Korea from one of violent street protests against the authoritarian state to one of peaceful movements focusing on the concerns of ordinary citizens. The two most notable groups in this new movement were the Citizens' Coalition for Economic Justice (CCEJ), established by relatively liberal activists in 1989, and the People's Solidarity for People's Democracy (PSPD), founded by a relatively progressive group in 1994. According to Shin, K. Y (2006), as political parties failed to represent the demands and interests of the people, civil organisations replaced the role of the political party in submitting new bills and policy proposals (pp.5-34), becoming in effect quasi-legislative organisations.

In practice, as was shown in Chapters 5 and 6, civil organisations along with progressive trade unions and the farmers' movement were the driving force for welfare reform under the Kim Dae-jung government. The success of this government's health insurance reforms after the 1997 economic crisis was due to the long and continuous demands and actions of stake

challengers, who were civic groups, labour, farmers, and strong-willed policy experts. As Lee, K.C (2009) argues, the core driving force behind the completion of NHI integration was the unprecedented solidarity network and large-scale alliance that was forged between farmers, civil organisations, technocrats, and some assemblymen. The civil movement was central to this network. During the process of pension reform, the same phenomenon is evident. Civil organisations and the labour movement powerfully expressed their views and exerted considerable pressure on the government, with the result that pension reforms such as the improvement of the NPF, coverage expansion to the self-employed in urban areas, and, above all, the retention of the redistributive principles of the NPS were made possible.

For both health insurance and pension reforms, it was the civil organisations' capacity to organise a far-reaching solidarity with and among other groups that was critical to the success of the reforms. This coalition network of civil society organisations, farmers, unions, technocrats, and political representatives collectively made them more powerful than if these groups had acted independently and had remained fractured. If this had not been the case, it is likely that the Kim Dae-jung government would have found it very difficult to defend its position and its reforms against the attack of stakeholders.

Throughout the reform process under the Kim Dae-jung government, civil organisations were sometimes a countervailing power against vested stakeholders and sometimes political entrepreneurs.

### ***Labour unions as a pro-welfare reform actor and the split between the FKTU and the KCTU***

Historically, the development of the welfare state and social policy has been closely associated with the labour movement. While the labour movement has been the central force behind the development of the welfare state, the reverse has also been the case, with the

establishment of the welfare state and the evolution of social policy being a key driving force in the development of the labour movement. However, this logic has not applied equally to all welfare states. The influence of the labour movement on the development of the welfare state and social (welfare) policy has varied under conservative and liberal regimes. According to Kim Yeon-myung (1998), the Korean labour movement's interest in social welfare issues began in the middle of the twentieth century. Representatives of the Korean labour movement, such as the FKTU, formed in 1961, and its counterpart, the KCTU (established in 1995), began to recognise the importance of social reform and gradually became highly vocal proponents of welfare reform. In practice, in the process of pension reform, the labour movement played an important role, making a significant contribution to the abolition of Article 5 of the PFMA, which had granted the government the power to forcibly borrow from the NPF. The labour movement's most noteworthy contribution, however, was made in achieving NHI integration. As was seen in Chapter 5, according to Kim Yong-ik (in the author's interview), the vigorous support of parts of the labour movement, and especially that of the KCTU, was critical to the success of NHI integration. By comparison, however, the FKTU was relatively passive on this issue. For example, while the KCTU enthusiastically supported NHI integration as a reflection of the principle of social solidarity and as a means of increasing it, the conservative FKTU supported the integration in principle but in reality adopted a more passive position, fearing that integration would lead to a decrease in NP reserves and an increase in contributions for its members. Moreover, in the case of NHI fiscal integration, the KFTU along with the opposition party, the GNP, continuously tried to postpone its introduction. In the case of NPS reform, a similar scene emerged. The FKTU called for separated management of the NPF, whereas the KCTU supported the government's plan for integrated management.

In fact, the 1997 economic crisis was a turning point for the Korean labour movement in terms of welfare politics. Before the economic crisis, the labour movement had largely been a policy outsider demanding welfare reform, but after the economic crisis, the labour movement became an important partner of the government and, crucially, a participant in the policy-making process. A good example of this new role for the labour movement was its participation in the Tripartite Commission, which was established in 1997 to seek ways to overcome the economic crisis and was composed of representatives of the government, the business community (the KEF (Korea Employers Federation) and the KFI (Federation of Korean Industries)), and the two main labour union confederations (the FKTU and the KCTU). These partners signed the ‘Tripartite Accord for Overcoming the Economic Crisis’ in February of the following year, otherwise known as the ‘February 6 Agreement’. As was seen in Chapter 5, this agreement was a historic event because it marked “Korea’s first attempt to overcome an economic crisis by dividing the burden among major actors in the labour market, and it was an attempt to grant full industrial citizenship to workers by extending them the right to organise labour unions. In addition, for the first time in Korean history, welfare as a social wage became leverage for compromise among workers, employers, and government” (Kim, Y. S, 2007) However, this experiment in creating a form of social pact politics through establishing the Korean Tripartite Commission was ultimately to result in failure. The business community’s attitude (as represented by the KEF and the KFI) towards welfare reform remained fundamentally conservative, and it did not regard labour as a genuine partner, while the labour movement quickly split into participants and non-participants in the Commission, with the KCTU leaving on 24 February 1999 and the FKTU remaining part of it. The government then used the Commission as a means to obtaining legitimacy for economic reforms such as large-scale layoffs. In this regard, the destabilization of the Tripartite Commission seemed to have made a considerable impact on

welfare politics in Korea(Kim, Y. S, 2007). For example, after leaving the commission, the KCTU began to focus on more company level issues such as wage increases and occupational welfare than social level issues such as welfare reforms and the social wage.

### ***The business community as a leading stakeholder***

In the policy-making process of welfare reforms immediately before and after the economic crisis, the business community was an active stakeholder, playing a vigorous role in articulating its own interests in regard to health insurance integration and pension reform. The main representatives of the business community were the KEF (Korea Employers Federation) and the FKI (Federation of Korean Industries). As was seen in Chapter 6, the FKI represented the conglomerate, large enterprises, and capitalists.

According to Kim Y. M (1996, 2005a), the Korean capitalists' opposition to social insurance reforms was founded on three concerns: 1) increases in their contribution rates; 2) increases in labour costs; and 3) potential weakening of their competitiveness. From the outset, the business community displayed a general opposition to social insurance programmes, and the KEF and the FKI maintained their negative stance on issues regarding the NHI and the NPS. They thought that NHI integration and the expansion of NPS coverage would increase their contribution burden, and they therefore opposed both reforms. Moreover, in the case of health insurance, they had a direct interest because NHI funds were administered by numerous individual health societies controlled by the companies themselves. While small companies combined to set up health societies that were controlled by health society executives, large companies ran their own health societies, with the funds of these health societies directly under their control. These administrative differences between the two types of health society led to them adopting slightly different responses to reform. The health societies run by large companies actively opposed the integration of health societies, whereas those set up by small

companies were relatively passive by comparison (Kim, Y. M, 2005a). Inevitably, the expansion of public health insurance coverage and the development of public pensions were intimately related to the interests of private insurance companies. For example, insurance companies would necessarily be concerned about sales of their individual pension and life insurance schemes if a national pension system was equally available to all citizens. Owing to the business circle's stakes and interests, therefore, capitalists played a major role in opposing NHI integration and the expansion of national pension coverage. However, their efforts to oppose the reforms were ultimately unsuccessful due to the strength of the challenges made by stake-challengers against these vested interests.

### ***The president as the supreme decision-maker***

Although Korea's governmental system is in principle divided into legislative, judicial, and public administration components, the president has held supreme power and has been an absolute decision-maker for much of modern Korean history, exerting overwhelming power over the legislative and even the judicial. Under the military regimes, the president held almost autocratic power and had absolute control over social policy developments. The introduction and implementation of health insurance and national pension policy was entirely at the behest of the president. In the case of the NWP, for example, President Park introduced and then suspended implementation through his declaration of emergency measures. Alongside this, until the late 1980s, the ruling party was always the majority party in the National Assembly and was subordinate to the president and Blue House administration. After democratisation, Korea's presidents continued to hold a concentration of power, but changes to this political system began to appear after the economic crisis and the political power shift in 1997–1998.

Although the power of the president remained dominant after democratisation, it was inevitably somewhat weakened in comparison to the dominance it had enjoyed under the authoritarian regimes from 1961 to 1987. As a result, other political and social actors began more fully to express their opinions publicly, and the policy-making process of pension and health insurance reforms became more dynamic. Nevertheless, during this period, the relative pro-welfare or anti-welfare stance of the president continued to influence the course that welfare reform took. Kim Dae-jung's victory in the presidential election had a huge influence on the policy-making process. As mentioned earlier, President Kim Dae-jung's victory marked the first time in the fifty years since the beginning of constitutional government in Korea that an opposition candidate had come to power and heralded a qualitative shift in political power away from the established order. After the economic crisis (in 1997) and this political power shift (in 1998), the most important factor in making welfare reforms possible was, in fact, Kim Dae-jung himself. Many of the demands of civil organisations and labour unions, which had supported Kim Dae-jung in the election and his political life, were accepted by the pro-welfare president. Accordingly, "it would be no exaggeration to say that a key factor in the Kim Dae-jung victory was the indomitable man himself" (Oh, 1999). In support of the assertion that Kim Dae-jung's election victory and his pro-welfare stance were crucial to the success of welfare reform in the post-economic crisis environment, Kim Yong-ik, a professor at Seoul National University and the leader of a civil organisation for NHI integration, stated the following in my interview with him (08 January 2008):

*"The first factor in the success of NHI integration was that we established 'the Pan-national Solidarity Council for Medical Insurance Unification and Benefit Expansion' (henceforth, PSC). The second factor was our presentation of a very plausible logic for NHI integration,*

*and we made all the progressive actors rally behind this logic. And then the pro-welfare president Kim Dae-jung came to power. With Kim's rise to power, the policy window opened."*

In practice, it was President Kim Dae-jung's direct support for NHI integration and revision of the pension system that led to the implementation of these reforms. The Kim Young-sam government's structural reform proposal for the national pension system was abolished, and NPS coverage expansion was implemented thanks to President Kim Dae-jung's ascent to power. It should be noted that Kim Dae-jung's commitment to welfare policy reform was not limited to the implementation of NHI integration and NPS expansion, and as was seen in Chapter 5, Kim Dae-jung's presidency oversaw other significant achievements in social policy, such as the enactment of the NBLIS (National Basic Livelihood Security System). The very fact that further welfare reforms were undertaken under the Kim Dae-jung presidency is indicative of Kim Dae-jung's commitment to a pro-welfare agenda.

### ***The still influential public administration and bureaucrats***

Although bureaucrats are formally controlled by the supreme executive body, such as the president, the prime minister, or the king in some countries, they have played a practical role in the policy-making process through their autonomous actions for many decades, and this situation continues today. Generally speaking, the level of autonomy enjoyed by bureaucrats in the policy-making process has differed according to the nature of the regime, the characteristics of government, and sometimes distinctive socio-economic situations. From Korea's formative period as a modern nation, the public administration in Korea has been central to both the direction that public policy has taken and the policy-making process itself, and a key actor within the policy-making process has been the bureaucracy. For example, under the authoritarian governments of Park and Chun, the policy-making process centred on

the president and bureaucrats, who in combination practically monopolised policy-making. In Korea, a core group of bureaucrats have exercised huge influence in deciding key public policies. As regards social policies, the MOHW and the Finance Ministry have played the key roles in the policy-making process within the state apparatus. As regards the policy areas specifically explored in this thesis, the MOHW was in charge of health insurance and pension policies and therefore had a direct interest in both policies. However, the MOHW social policy bureaucrats displayed significantly different attitudes towards and undertook different courses of action in regard to each of these policy areas.

In regard to health insurance reform, as was seen in Chapter 6, MOHW bureaucrats were generally solid stakeholders in health insurance policy, many having vested interests as executives of health societies, although some MOHW bureaucrats did believe in NHI integration. They formed part of the anti-integration network along with The Federation of *Korean* Medical Insurance Societies (FKMIS) and the business community because the proposed integration would lead to the loss of their vested interests. Of particular note was their strategy of aligning with the members of the Presidential Secretariat under the authoritarian Roh regime to persuade the president to veto NHI integration. In sum, while MOHW bureaucrats lay at the heart of the strong anti-NHI-integration stakeholder network, the emergence and rise of a strong pro-integration solidarity network and the election of a new pro-integration president led to the erosion of their influence over the NHI integration policy-making process, and the stake-challenger alliance seized the initiative.

In the case of pension reform, as was shown in Chapter 6, MOHW bureaucrats took a different approach in that they adopted the same position as civil organisations and the labour movement. From the economic crisis onward, one of the main driving forces for the expansion of pension coverage was the MOHW. While it might be argued that it is the role of

bureaucracies to execute and enforce the laws and policies of the legislature and the president's will and philosophy, the MOHW bureaucrats' attitude towards pension reform went beyond mere acceptance of the policy and its implementation. Instead, the MOHW was very active in and contributed directly to setting up the new government's policy on pension reform. The contrasting stances of MOHW bureaucrats during the policy-making processes for pension and health insurance reform were fundamentally related to whether they had vested interests in the reform or not.

Throughout the policy-making processes of welfare reform in Korea, economic bureaucrats would continuously be a crucial player in welfare politics. It is generally accepted that economic bureaucrats had greater decision-making power than social and other bureaucrats for a long time in Korea because economic growth was the focus of successive governments. The EPB was therefore the agenda-setter during Korea's economic development. In practice, the EPB played a crucial role in setting up the NWP Law. Although its relation to health insurance policy was indirect in that it was an economic rather than a social ministry, the EPB nevertheless exerted considerable influence over health insurance policy because this ministry supported the operating expenses of health societies. In contrast to the MOHW, however, the economic policy bureaucrats of the EPB did not have vested interests in the separate health societies that then existed and were primarily interested in budget efficiency because the operating costs of health societies were supported by their ministry and central government. Therefore, while they supported the integration of the separate health societies in principle, their focus on budgetary concerns and their position as neither stakeholders nor stake-challengers meant that, unlike civil organisations and labour unions, their encouragement of the government to embrace an integrationist policy on health insurance was founded not on the principle of social rights, but one of efficiency (Kim, Y. M, 2002).

However, it is also accepted that the EPB's economic bureaucrats were generally opposed to the expansion of social welfare programmes. They tended to regard social policy as subordinate to and an instrument of economic policy or a necessary evil. Nevertheless, their views had a consistently strong influence on the development of social policy in Korea. However, during the economic crisis and the political power shift, they temporarily lost some of their power and their dominance over policy-making. Facing sustained criticism about their responsibility for the economic crisis and preoccupied with devising strategies to tackle it, they were unable to concentrate their forces and exert their influence over social welfare policy as a veto player. This situation made it possible for the MOHW to push ahead with the expansion of NPS coverage to the self-employed and to retain the mono-pillar structure of the pension system.

### ***Political parties' inactivity and changes in the role of the National Assembly***

In the West, political parties have been central to the development of welfare states, and it is impossible to separate the welfare state and welfare development from the formation and growth of social democratic parties. In Korea's case, however, there is no evidence that political parties played any significant role in social policy developments from the 1960s onwards. Before democratisation, political parties played no significant role in Korean politics, and after democratisation, this situation remained largely unchanged. In fact, almost all enactments of social welfare laws were the direct result of successive government leaderships, and political parties were unable to oppose, reject, or amend the laws submitted by governments before or after the economic crisis and political power shift. Furthermore, there is no indication that political parties were able to modify the key contents of social welfare laws. This situation also prevailed in the deliberation of the national budget. As was seen in Chapter 5 and Chapter 6, political parties, whether ruling or in opposition, played no

significant part in the policy-making process of pension and health insurance reform prior to 1998, and indeed they displayed little interest in these reforms. Above all, unlike in the West, political parties had no capacity for formulating policy alternatives (or the will to do so) because they were either firmly under the control of the authoritarian president, in the case of the ruling party, or dominated by their influential leader, in the case of opposition parties. For the most part, the members of the National Assembly were primarily interested in preserving their political careers, and they therefore had little inclination to challenge or develop policies unrelated to this end.

Political parties did not play any role in the debates and conflicts on health insurance integration and pension reform under the Kim Young-sam government (1993–1998) or produce their own policies, and their role was effectively limited to rubber-stamping the government's policies. Political parties failed to show an independent role in policy making or come up with any new proposals. Even in the more democratic situation existing after the economic crisis and the political power shift, the new ruling party unreservedly accepted Kim Dae-jung's election pledges to introduce NHI integration and expand national pension coverage to the urban self-employed, as had been called for by civil organisations and progressive labour unions, which were influential supporters of the new president. Although the opposition party at this time, the Grand National Party (GNP), went against the president's line and argued for the fiscal separation of NHI, this position merely mirrored that of one of their chief supporters, the KFTU (Kim, Y. M, 2005b), and political parties simply did not develop their own strategies on welfare reforms at that time. In sum, although political parties became more actively involved in debates about welfare reform after 1998, their positions tended to mirror those of their main supporters and they did not develop their own strategies or policies on welfare reforms.

The National Assembly also did not play a major role in the policy-making process of pension and health insurance reforms before 1998. In general, national assemblies draft, debate, and enact legislation, and Heywood (2002) points out their five principal functions: legislation, representation, scrutiny, political recruitment, and legitimacy. Korea, however, was under direct military rule from 1961 to 1988, and although Roh Tae-woo (president from 1988-1992) narrowly won a popular presidential election in 1988 and initiated constitutional reforms that resulted in the Sixth Republic, he was part of the military establishment, and his rule guaranteed the continuity of military involvement in Korean politics that had persisted since Park's coup in 1961. During this period, the National Assembly was unable to carry out its principal functions, and it was ignored and devalued. However, as democratisation progressed, the role played by the National Assembly in the policy-making process began to expand. As was seen in Chapter 6, after the economic crisis and the political power shift in particular, the National Assembly under the Kim Dae-jung administration began to become more involved in the conflict surrounding national health insurance integration and pension expansion. Civil organisations, labour unions, and interest groups lobbied individual members of the National Assembly and put pressure on political parties. The mass media too began to focus more attention on events and developments in the National Assembly. These developments were an entirely new phenomenon in the history of social policy developments in Korea, and extraordinarily, an agreement struck between the ruling party and the opposition party led to the postponement of the president's NHI fiscal integration plan for a year and a half. After the economic crisis and the political power shift, the National Assembly emerged as a new strong player in welfare politics in Korea. Simultaneously, however, concerns arose that the National Assembly could be influenced more by external factors such as lobbying by interest groups and popular sentiment than the common good.

### *Interest groups as self-interested actors*

Interest groups can be defined as collective bodies that attempt to influence government policy in accordance with their special interests or vested rights. In this sense, some scholars emphasise that social policies are the products of conflicts between interest groups. As was seen earlier, however, the influence of interest groups in Korea was very limited during the long period of military rule, but as democratisation progressed, their activities and influence increased. In terms of social policy, their increasing influence is most clearly revealed during the policy-making process of health insurance and pension reforms. In the history of health policy in the West, and the UK in particular, doctors and their organisations have been the strongest interest group actors. While doctors had no special interest in pension reforms and therefore did not strongly voice their views on these reforms, The Korean Medical Association made its own views clear throughout the policy-making process for health insurance reform, but bureaucrats heeded their arguments only when their own interests were not affected. As regards the management of NHI, doctors expressed concerns about the late disbursement of medical bills under the system of independent health societies and thus supported NHI integration. Nevertheless, their position on this issue was largely based on the principle of social rights, and their own interests were unaffected. As a result, “there was no particularly meaningful and influential intervention from medical professionals throughout this process” (Hwang, 2006). However, their reaction to the proposed separation of medical and pharmaceutical practices was fundamentally different, and doctors were much more actively engaged in this issue. The Pharmaceutical Affairs Amendment Act of 1994 had set July 1999 as the date for the separation of medical and pharmaceutical practices, but “both the KMA and the KPA (Korean Pharmaceutical Association) found the proposal unsatisfactory and themselves still unprepared” for the change (Hwang, 2006). The conflicts that erupted between the two groups led the government to increase the overall burden of the

public. In the history of social policy, this result was rare example in the modern history of social policy. In the meantime, in the case of the KPA, they did not care too much about the integration of health insurance but generally supported it. As democratic advances in Korea became more durable, so interest groups became increasingly outspoken and their activities more assertive. They used the mass media and lobbied the members of the National Assembly. As was seen in Chapter 5, the most noteworthy development during the policy-making process for NHI integration was the emergence of coalitions of interest groups.

### *The international financial apparatus as a new external player*

At the end of 1996, Korea became a member of the OECD, but within one year, she experienced the most severe economic crisis in her history. As a result of the crisis, the IMF and the World Bank began to exert considerable influence in Korea's economic and social policy-making. The IMF demanded both economic and social reform and on 13 April 1998 called for the Kim Dae-jung government to expand the social safety net so as to ensure the success of economic reform. The World Bank also demanded welfare reform, most notably in the area of pension reform. As was seen in Chapter 6, the World Bank intervened in the pension reform process and set as a condition for the delivery of the \$2 billion Structural Adjustment Loan (SAL) the revision of the PFMA (Public Fund Management Act) in order to end the government's ability to forcibly appropriate pension funds. In addition, in early 1998, the Bank attempted to influence the plans for structural pension reform in Korea by recommending deferral of the expansion of pension coverage to the urban self-employed. In late 1998, the Bank again actively intervened in the pension reform process by sponsoring a Pension Reform Task Force (PRTK) research visit to countries that had implemented the pension reforms favoured by the Bank and by proposing alternatives to the reforms that were then being considered by the Korean authorities (Yang, J. J, 2000). The Bank's aim was that

Korea would accept its favoured pension system, that is to say, a multi-pillar and more privatised system. As was shown in Chapter 6, however, the Kim Dae-jung government and the MOHW ultimately did not follow the Bank's recommendations and employed a 'non-decision-making strategy' in dealing with the sustained pressure from the World Bank. The most important thing to consider here, however, is the fact that international financial institutions intervened in Korean domestic policies, and depending on whether these interventions were in line with the government's and bureaucrats' aims, the external actors' interventions were sometimes accepted and sometimes rejected. This points to the fact that, despite the economic crisis, the domestic political interests and power structure in determining the direction of social policy (Yang, J. J, 2000b) took precedence over the intervention by the international financial apparatus.

### ***Policy experts as policy entrepreneurs***

In the process of national health insurance integration and national pension reform, the roles played by policy experts, usually professors, researchers, and activists in related fields should not be overlooked. As was seen in Chapter 5, they sometimes played a central role in decision-making and the policy-making process. For example, Lee Kwang-chan, a researcher and policy expert on the Committee for Social Security (CSS), played a crucial role in constructing a convincing rationale for NHI integration and disseminating it both within and outside government circles. Through his dedicated efforts, many bureaucrats came to adopt a pro-NHI integration position. In this regard, Kim Yong-Ik, an executive commissioner of the PSC and a professor at Seoul National University, also played a key role in bringing about NHI integration. He developed the argument that NHI integration should take place on the basis of not only a commitment to the principle of social solidarity but also the expansion of benefit coverage and the practical benefit of working people.

The result of Kim Yong-Ik's promotion of this argument was that the trade unions adopted NHI integration as a core policy. Kim Yeon-myung – in the case of pension reform – and Moon Jin-young and Kim Mi-gon – in the enactment of the NBLS – played practical roles in agenda setting and establishing the logic of welfare reforms. Besides these people, many policy experts made significant contributions to NHI integration and pension reform, and their ideas, arguments, and actions had significant influences on the policy-making process. These experts organised research teams and studied welfare reform alternatives. A good example of such activities is provided by the closed-door consultative body 'Health and Welfare' (H&W) that was established by Lee Seong-jae (a member of the National Assembly) and included Kim Yong-ik (a professor at Seoul National University), Kim Yeon-myung (a professor at Chung-Ang University and chairman of the social welfare special committee of the PSPD), Moon Jin-young (a professor at Sokang University), and Kim Mi-gon (who was a researcher at the Korea Institute of Health and Social Affairs).

This body had a major influence on the position that civil organisations and the labour movement took on welfare reforms and even influenced the government's policies. H&W continued to influence policy-making from the start of the Kim Dae-jung government (1998-2003) to the early years of the Roh Moo-hyun government (2003–2008), and some of its members served in the Roh government.

### **7.3.2 The rediscovery and the potential of Korean welfare politics in the process of health insurance and pension reform**

It is argued that policies produce politics (Pierson, 1985) and that politics produces policies. In this way, policies and politics interact. Since welfare politics is the politics of welfare development and reform, welfare politics denotes the strategic confrontations and power

conflicts that take place between actors on the issue of access to and control of social and economic resources. Whether these actors are pursuing the common good or private interests, they fiercely struggle for their own goals, and in the process of this struggle, they forge alliances and experience splits. In essence, welfare politics is a dynamic political process that takes place between stakeholders and stake challengers. The significance of welfare politics is this: welfare is the central issue for politics and the state in modern societies.

### ***The welfare politics of exclusion before the economic crisis***

As each country has a different history and culture, so each country has its own unique welfare politics, and Korea is no exception. In particular, Korean welfare politics is unique in that Korea experienced a long period of 'welfare absence'. Likewise, welfare politics was absent in Korea, at least from the perspective that regards politics as the interaction of actors. For much of the time after Korea's liberation from Japanese rule in 1945, Koreans did not benefit from any welfare state system. All government policy focused on national security and economic growth. Economic growth provides the foundation for welfare policy development, and even though Korea experienced enormous economic growth from the 1960s onwards, welfare policy did not follow in its wake, and welfare in Korea was not conceived as a social right based on citizenship but as a sort of dispensation from the state and a means of achieving legitimacy for the authoritarian regimes that lasted from 1961 to 1987. After democratisation, welfare development began to come to the fore as a political issue. Nevertheless, prior to the economic crisis, Korean welfare politics was characterised by the 'politics of exclusion', a term coined by Kim, Y. M (2005a), a professor of Social Policy at Chung-Ang University. He argues that social policy programmes in Korea were formed, administered, and revised purely by the state, and there was no input from social welfare organisations external to the state. Accordingly, this arrangement led the government and

bureaucrats to exclude social and political actors such as political parties, the working class, farmers, doctors, and other interest groups in the formation of social welfare.

***From the 'welfare politics of exclusion' to the 'welfare politics of inclusion'***

The characteristics of Korean welfare politics before the economic crisis forced welfare programmes and welfare policies to the margins of the political agenda. While there were pro-welfare voices inside and outside government during this period, and Korea's autocratic presidents made pro-welfare statements, much of this pro-welfare discourse amounted to little more than rhetoric, and it was only when Korea faced impending economic doom in 1997 that welfare programmes and welfare policies came to the forefront of the public's attention and the political agenda (Shin, K. Y, 2003). The economic crisis brought mass unemployment and widespread poverty to Korea, and this unprecedented situation drew attention to the need to develop a Korean welfare state. The welfare health insurance and pension reforms implemented in the wake of the economic crisis triggered a new welfare politics in Korea, and it is no exaggeration to state that the emergence of Korea's new welfare politics was the direct result of the economic crisis. Nevertheless, the first signs of the new welfare politics in Korea began to emerge after democratisation in 1987. With the advent of democratisation, the one-sided system of policy-making by government and bureaucrats changed. However, democratisation itself did not directly lead to the development of welfare programmes or welfare politics, but rather the explosion of participants in the new welfare politics triggered by the economic crisis led to the development of welfare programmes. Those people and organisations previously excluded by the bureaucracy and the authoritarian governments emerged as strong players in Korea's new welfare politics.

### ***The advent of the new welfare politics 1: the politics of civil organisations***

As was seen in Chapters 5, 6, and the section above, the most notable of these new players in welfare politics were civil activists and civil organisations, which led calls for welfare reforms and actively participated in the policy-making process. According to Lee, J. H, “the role of civil organizations in the politics of decision-making may be portrayed as one of ‘policy entrepreneurs’. The entrepreneurial role of civil organizations in developing new policy initiatives is to mobilize new social movements and challenge powerful entrenched forces on behalf of those who would not otherwise act collectively” (2007, p240 ). These civil organisations represented the interests of the underprivileged, such as farmers, the urban poor, and irregular workers, and after the democratic struggle in 1987, they became increasingly active. In general, they pressurised the government by influencing public opinion through their use of the mass media, but their activities extended to include interest aggregation and coordination, and even designing social policies(Kim, Y. S, 2007). The governments of the time also needed the participation of civil organisations in the policy-making arena as it lent political legitimacy to the government’s economic and social policies. By 1997, however, government policies (and economic policies in particular) had brought about mass unemployment and social problems, and with the political opposition set to gain power, the way was open for civil organisations to play a more central role in policy-making. As mentioned earlier, Korea’s experience of the role played by civil organisations in the development of a new welfare politics was so remarkable that it is hard to find a comparable experience in any other country.

### ***The advent of the new welfare politics 2: the politics of interest groups***

Another characteristic of welfare politics in Korea after the economic crisis was the widespread emergence of interest groups. Of course, before the economic crisis, interest

groups took action in defence of their interests, but most of their activities were limited to exerting pressure on the government.

However, as has been shown, during the process of health insurance and pension reforms since the economic crisis, political conflicts and confrontations between actors fighting in defence of their own vested interests emerged. In addition, various interest groups became more involved and influential participants in the government's decision-making on policies, including international financial organisations such as the IMF and the World Bank. Even though the government and bureaucrats almost certainly saw these participants as a means to legitimise and 'rubber stamp' the decisions reached, it is quite clear that these participants were in no way negligible factors in the decision-making process, and the social policy arena was characterised by political and social power conflicts among various actors (Shin, K. Y, 2003).

Interest groups politics within the social policy arena sometimes provided some positive function for the normal operation of democracy, but sometimes showed an extreme pluralist tendency in which excessive demands and intense conflicts among fragmented interest groups created a crisis of governability or a systematic overload. (Kim, Y.S, 2007)

### ***The advent of the new welfare politics 3: the coalition politics of stakeholders and stake challengers***

The third main characteristic of welfare politics in Korea after the economic crisis was the emergence of the coalition politics of stakeholders and stake challengers. As was seen in Chapters 5 and 6, disputes arose and battles were fought between two different coalitions during the health insurance and pension reform processes: the stakeholder coalition and the stake-challenger coalition. This characteristic of the post-economic crisis welfare politics in Korea has also been noted by Kwon, H. J of Seoul National University. He argues that the

politics of social policy in Korea after the 1997 economic crisis is characterised by the emergence and growing influence of ‘advocacy coalitions’, a concept first conceived by Sabatier (1986) and defined as a group of actors from various public and private organisations who share a set of beliefs and who seek to realise their common goals over time. Kwon, H. J revealed this characteristic of welfare politics in Korea by exploring the dynamics of policy-making in the enactment of the National Livelihood Life Security (NBLIS) system, arguing that the pro-welfare coalition was able to succeed in introducing the NBLIS system by seizing control of strategic points of decision-making in Korea. Ahn, S. H and Kim, S. K (2003) also explain the development of the Korean welfare state by using the concept of ‘welfare alliance’, which refers to the formation of political alliances on welfare politics. In conclusion, they argue that the effective mobilization of a challenging alliance was a main driving force behind the initial development of modern Korean welfare programmes.

This characteristic of welfare politics in Korea since the economic crisis was clearly shown in the case studies in Chapters 5 and 6. For example, in the case of national health insurance integration, there was a long history of simmering conflict between the stakeholder coalition and the stake challenger coalition, which gave way to an all-out battle after the economic crisis. The stakeholder coalition opposed NHI integration and was composed of anti-integrationist MOHSA bureaucrats, the Grand National Party (the opposition party after Kim Dae-jung’s presidential election victory), representatives of capitalists (the FKI and the KEP), the FKTU, and the conservative media. The stake challenger coalition supported NHI integration and comprised President Kim Dae-jung, pro-reform civil organisations, the ruling party, the KCTU, and progressive policy experts. These groups sometimes established formal coalition organisations and sometimes informally banded together. Fundamentally, the history of social policy development in Korea was the history of struggle between the anti-

welfare stakeholder coalition and the pro-welfare stake challenger coalition, and this welfare politics phenomenon continued throughout the process of later social policy developments.

***The fundamental issue of welfare politics 4: no decisive role for class or party***

The final characteristic of Korean welfare politics that I contend is unlike that found in the West is the limited role played by the working class and political parties in the process of social policy development and welfare reforms. Since social policy issues such as unemployment, industrial incidents, pensions, health insurance, and childcare are closely related to the quality of working class life, the working class and trade unions have traditionally fought for welfare expansion and development. In the advanced welfare states of the West, welfare politics originated from initiatives by the trade union movement and political parties representing working class interests. However, the basic structure of welfare politics in Korea was fundamentally different from that found in the West, and social policy development occurred in Korea largely in the absence of traditional labour welfare politics.

As was demonstrated in the previous two chapters, while the two main Korean trade union federations were involved in the process of NHI and NPS reforms, they were not the main actors. They were, on the whole, relatively passive players in the policy-making process, although on occasion they played more active roles. The reason for this is that, like other social classes in Korea at the time, the knowledge of the working class about welfare reform was rudimentary, and, in general, its attitude towards the need for reform was characterised by indifference. The reality in Korea is that many researches on welfare consciousness deny the explanatory power of socio-economic status in interpreting welfare consciousness. Trade unions members do not generally support the extension of public welfare more than non-union members. And workers who have participated in strikes do not support the extension of public welfare more than workers who have not. In other words, there was little difference in

the welfare consciousness of different social classes either before or after the economic crisis, indicating that the roots of welfare discourse and welfare ideology in Korea was not (and is still not) to be found in socio-economic class. Fundamentally, this peculiarity of welfare politics in Korea has not changed even since the economic crisis. There are numerous reasons for this, the most important of which is the distinctive structure of trade unions in Korea, which are primarily constituted not at the industry level but at the individual company level. This union structure forced workers to have more interest in improving wages and working conditions at the individual company level than in social and collective issues such as welfare and social wages. In other words, while the trade union federations themselves were interested in national issues such as welfare provision, their membership and the ordinary working class were not.

A similar story exists for the role played by political parties in the development of the welfare system in Korea. Throughout the history of welfare development in the West, political parties have been one of the main actors, and often both the ruling and opposition parties have had a shared concept of social security and some commitment to social welfare provision. However, according to Kwon, H. J (1997), in Korea, the core driving forces which influenced the evolution of Western welfare systems such as labour unions and social democratic parties did not have a significant influence on the making of social policy (Lee, J. H, 2007). Moreover, the first priority of political parties was maintaining their political power, and their policy priority was always economic growth, an attitude that persisted until the 1997 economic crisis. In summary, welfare politics in Korea was not primarily based on class cleavages and class-based political parties, and as a result, it was civil organisations and interest groups that took the place of the labour movement and political parties on welfare issues.

## 7.4 Concluding remarks

In this chapter, I have analysed and discussed the characteristics of the new politics of welfare reform in Korea that emerged after the economic crisis and the election of President Kim Dae-jung. First, both the new policy-making process for health insurance and pension reforms during the Kim Dae-jung government and its meaning were summarised. Throughout the discussion, the key characteristics of the welfare politics operating in the course of these reforms were revealed based on my analytical framework. Changes in the strategies of actors were reviewed and analyzed, with a specific focus on their strategic actions and interactions in the policy-making processes of the two welfare reforms analysed in this thesis.

From this analysis, civil organisations emerged as the most important pro-welfare actors within the new welfare politics in Korea as they were the most influential stake challenger during the welfare reforms process. The next most important pro-welfare actors were labour unions, again as stake challengers. However, their actions, while sometimes committed and effective, were not as strong as those of civil organisations, their influence in the policy-making process was considerably less than civil organisations, and compared to their counterparts in the West, their role in the welfare reforms process was limited. The leading stakeholders in the welfare reform policy-making process immediately before and after the economic crisis were the business community, and they made a strong stand against the stake challengers. The main representatives of this circle were the KEF (Korea Employers Federation) and the FKI (Federation of Korean Industries), which played a vigorous role in articulating the interests of the business community as regards health insurance integration and pension reform. The role of political parties, however, was weak throughout the reform process, and it was only when stake challengers and stakeholders began to lobby parliamentarians that they began to play any role in welfare reform. Welfare politics in Korea,

therefore, was not grounded in class party politics. Although the traditionally strong actors in Korean policy-making – the president, as the absolute decision-maker, and the still-influential bureaucrats – remained as the strongest policy decision-makers, a new welfare politics emerged in Korea after the economic crisis, one in which the civil organisations movement, the politics of interest groups, and the coalition politics of stakeholders and stake challengers increasingly came to the fore. It was this new form of welfare politics that led to the post-economic welfare reforms in Korea, a form unique to Korea and one not founded on the traditional class cleavages and class party politics of other advanced countries.

# Chapter 8

## Conclusion

### Introduction

This research has aimed to explain the peculiarities and dynamics of Korean welfare politics since the 1997 economic crisis, focusing especially on welfare reform during the Kim Dae-jung government, the accession of which marked the peaceful turnover of political power from authoritarian regimes to a democratic administration. It has uncovered the driving forces and the interactions among political actors in the welfare reform policy-making process, especially as regards pension and health insurance reforms. To this end, I looked at four key questions:

- 1) Where and how are welfare reforms initiated, brought to the attention of government, propelled forward to the point of decision or blocked and quietly buried? 2) With a particular focus on Korea's pension and health insurance reforms, how and to what extent did political and social actors influence the decision-making process? 3) What have been the key peculiarities of welfare politics in Korea since the economic crisis, and 4) in what way do they differ from Korea's welfare politics before the economic crisis?

I also asked several additional questions:

What were the underlying dynamics of the changes in Korea's welfare politics and welfare reforms? What were the most influential and important driving forces behind these reforms? How do we explain the political dynamics of welfare reform in regards to the decision-making process for social policies in Korea? How has welfare politics manifested itself in the decision-making process of the pension and health insurance welfare reforms? How and to

what extent did the social policy welfare reforms affect the emergence and development of the welfare state in Korea?

Over the chapters that make up this thesis, I have attempted to unearth the answers to these questions. Chapters 3 and 4 focused on theoretical issues. Chapter 3 reviewed the literature on the competing theories of welfare politics in the Western and Korean contexts. In Chapter 4, I presented a theoretical framework for analysing the political dynamics within the policy-making process of pension reform and health insurance integration. Chapter 5 and Chapter 6, respectively, dealt with the welfare politics of health insurance and pension reform as meaningful case studies. In Chapter 7, I analysed the new pattern of Korean welfare politics that has emerged and put it into perspective. Although I have not found perfectly satisfactory answers to all these questions, I believe that my investigation has revealed that a new and unique pattern of Korean welfare politics has emerged since the 1997 economic crisis. While many studies on Korean welfare policy have been published, most of them have concentrated on broad case studies detailing the National Basic Living Security Act, the separation of medicine dispensary from medical services, pension reform and so on. The innovation in this study is its explicit and in-depth focus on two fundamental areas of welfare policy: pension and medical insurance reform. Through this effort, which is the first of its kind, this thesis has shed light on the changes, the unique characteristics, and the universality of welfare politics in Korea. In summary, I have revealed the peculiarities and universality of Korean welfare politics by exploring the health insurance and pension reform process and its underlying welfare politics. In this concluding chapter, therefore, I will firstly summarise my research findings, and secondly, I will show the implications and limitations of the new welfare politics in Korea since the economic crisis in 1997. Thirdly, I will offer some final reflections on the theoretical framework I have used. Might there be some missing dimensions? In particular, might I have understated the importance of ideas in the developments of social policy? For example, social

democratic ideas were deemed to be of importance in relation to welfare state developments in Western Europe from 1945 to the mid-1970s. Subsequently, neo-liberal ideas came to the fore. Such ideas also might have influenced the social policy changes in Korea more than I recognised. I will also consider, with the benefit of hindsight, whether I might have approached the topic in a slightly different way. Finally, I will consider how further research on this topic might be undertaken in the future and make some concluding remarks. Finally, suggestions for further study will be presented and concluding remarks made.

### **8.1. Summary of research findings**

Several meaningful findings were uncovered as a result of exploring the welfare reforms conducted under the Kim Dae-jung government after the 1997 economic crisis. As mentioned above, these findings were revealed by focusing on actors' actions, strategies, and interactions during the process of health insurance and pension reform and viewing them through the lens of the welfare politics framework adopted for this research. In this section, I will summarise the findings described in detail in chapters 5 through 7. I will then go on to point out the meaning of these welfare reforms, the structure of Korea's new welfare politics and the implications and limitations of this new form of welfare politics.

#### **Health insurance politics in Korea**

In Chapter 5 and Chapter 7, I examined and discussed why and how the health insurance reform was achieved by the Kim Dae-jung government in the wake of the 1997 economic crisis. This discussion revealed how the combination of problem, policy, and political orientation during the Kim Dae-jung government provided a window of opportunity for

health insurance integration and how stake challengers overcame stakeholders' efforts to block reform and ultimately achieved their objectives. These specific conditions enabled health insurance integration to take place and led social and political actors in Korea to develop a new policy-making process and create a new political arena. For a long time, policy-making power had been concentrated in the hands of high-ranking bureaucrats within the Korean state, and decision making took place very much within a closed structure. However, as democratisation progressed and the economic crisis surfaced, new actors such as civil activists and policy experts gradually became involved in the policy-making process for national health insurance integration. They were a key driving force for health insurance reform.

### **Pension politics in Korea**

In Chapter 6 and Chapter 7, I explored why and how pension reform was achieved under the Kim Dae-jung government. Again, the combination of problem, policy, and the political direction taken by the Kim Dae-jung government provided a window of opportunity for pension expansion. Stake challengers once again overcame stakeholders' blocking attempts and achieved their reform objectives. Pension expansion led social bureaucrats, civil organisation activists, and trade unions to develop a new policy-making process and establish a new political arena. As with the case of health insurance, policy-making power over pension reform had traditionally been wielded by high-ranking members of the presidential office and by economic bureaucrats, and the decision-making process was very much closed to external influences. Again, with the political shift towards democratisation and as the severity of the economic crisis became apparent, new actors such as social bureaucrats, civil activists and policy experts became increasingly involved in the pension expansion policy-

making process. These new actors, as with the case of health insurance reform, were key players in Korea's pension reform process.

### **New politics of welfare reform in Korea**

As can be seen, Korean welfare politics were dominated by dynamic political battles between stakeholders and the stake-challenger coalition throughout the policy-making processes of both the pension and health insurance reforms. For this study, therefore, I have developed a theoretical framework for the new politics of welfare reform in Korea, namely 'the politics of conflict between stakeholders and the stake-challenger coalition'. By using this framework to explore Korea's health insurance and pension reforms, new findings in terms of the welfare politics of welfare reform have been brought to light.

The most obvious characteristic of Korea's new welfare politics since the economic crisis in 1997 and the subsequent political power shift was the key role played by civil organisations, which emerged as an influential stake challenger against stakeholders. The coalition formed by these civil organisations consisted of a large network of different organisations, including NGOs, interest groups, policy experts and labour unions. The voice of interest groups and policy experts grew as democratisation progressed, and their influence on and their role in the decision-making processes for the reforms should not be overlooked or underestimated. Despite the undoubted contributions of these other civil organisation actors, the role played by the Korean labour union movement as a pro-welfare reform actor is of particular note. Generally speaking, while welfare development and reform have been closely associated with national labour movements, the actual influence that labour organisations have had on the development of welfare states has varied in different countries. In the Korean context, the 1997 economic crisis in fact marked a turning point for the Korean labour movement and its

influence on the direction of social policy. Before the economic crisis, Korean trade unions had largely been policy outsiders, but after the economic crisis, the labour movement became an important actor and partner of the government in the welfare reform decision-making process.

Nevertheless, the traditional actors in the Korean policy and politics context continued to play prominent roles in the post-economic crisis social reforms. The business community remained a leading stakeholder and played a significant role in opposing health insurance integration and pension coverage expansion. Despite the economic crisis and the political shift from an authoritarian presidential system of government, the president remained the supreme decision maker in terms of both economic and social policy. Public administrators and bureaucrats also continued to be influential actors. Although the monopolistic control of economic bureaucrats over all aspects of policy was weakened, the policy preferences of economic bureaucrats continued to retain a degree of precedence over those of non-economic bureaucrats. It should be borne in mind that the role that political parties in Korea have played in social policy reform has been very different from that played by political parties in the West. While political parties were prominent players in the development of the Western welfare states, their influence was marginal in Korea. Before the 1997 economic crisis, Korean political parties did not engage in the debates and conflicts on health insurance integration and pension reform. Even after the economic crisis and the political shift towards democratisation, the individual political parties failed to produce their own strategies or policies on welfare reforms, although the National Assembly gradually emerged as a new strong player in welfare politics in Korea.

Last but not least, the international financial apparatus emerged as an external and significant player in Korean welfare politics. Even though Korea's domestic political interests and power structure ultimately took precedence over the interests of the international financial apparatus

in determining the direction of social policy, the influence of the IMF and the World Bank on the eventual course of action taken by the Korean authorities can in no way be considered negligible.

## **8.2 New changes: Implications and limitations of Korean welfare politics**

In the seventeen years since the 1997 economic crisis, welfare politics in Korea has undergone fundamental change and is now a dynamic process. The issue of social welfare in Korea has become a subject integral to everyday discussion on Korean society. However, this is a result of a relatively recent trend. As noted earlier in this thesis, Korea experienced a long period in which there was an almost complete absence of welfare. In other words, Korea's circumstances and the characteristics of the Korean welfare system before the economic crisis forced welfare reform programmes and welfare politics to the margins of the political agenda. In this thesis, I have termed the situation that resulted in the absence of welfare as 'the welfare politics of exclusion'. With the arrival of the economic crisis and the political transition to democratisation, the window to the new Korean welfare politics was opened. Since then, welfare politics in Korea, like that in the West, has been a dynamic process that has taken place between stakeholders and stake challengers. As was shown in chapters 5, 6 and 7, the characteristics and structure of Korean welfare politics since the economic crisis in 1997 has changed from the welfare politics of exclusion to the welfare politics of inclusion. What, then, is the crucial difference between the former and the latter, and what is the key driving force behind this change?

I have argued in this thesis that the health insurance and pension reforms implemented in the

wake of the economic crisis triggered a new welfare politics in Korea. It is not an exaggeration to state that the emergence of Korea's new welfare politics was a direct result of the economic crisis. Here, I need to address one important point. As described in Chapter 8, democratisation itself did not directly lead to the development of welfare programmes or the advent of a new form of welfare politics. Rather, it was the explosion of participants in welfare politics triggered by the economic crisis that led to the development of welfare programmes.

In this thesis, I have argued that the new form of Korean welfare politics that emerged during the administration of the Kim Dae-jung government had four main features. The first of these was the emergence of civil organisations as a political force. According to Lee Joo-ha (2007), the main role of civil organisation groups in developing new policy initiatives is to mobilise new social movements on behalf of the socially unprivileged and to challenge those groups that have a strong vested interest in the preservation of the status quo. The chief characteristic of the politics of Korean civil organisations in the immediate aftermath of the 1997 economic crisis was broadly populist way in that it aimed both to reflect and to guide public opinion of the time. While this characteristic continues to underpin the politics of many civil organisations in Korea to this day, and while these organisations have continued to play an important role in Korean welfare politics, their voice is certainly less prominent than it was during the period of Kim Dae-jung's government. The second feature of the new Korean welfare politics that emerged after the economic crisis was the rise of interest groups as political players, with various interest groups becoming more involved in the welfare reform decision-making process. Although their participation in decision-making or advisory bodies sometimes served only as a 'rubber stamp' to legitimate decisions that had already been reached by bureaucrats, over time their voice and lobbying practices gradually became more sophisticated, and they increasingly came to influence and participate in policy decisions

directly. The third key feature of welfare politics in Korea after the economic crisis was the emergence and intensification of the coalition politics of stakeholders and stake challengers. There emerged a kind of 'advocacy coalition' (Kwon, H. J, 2003) or 'welfare alliance' (Ahn, S. H, 2003). Chapter 5 and Chapter 6 showed how this characteristic of Korean welfare politics was clearly in evidence in the health insurance and pension reform processes. The last key feature of the new form of Korean welfare politics that emerged during Kim Dae-jung's government was the fact that party politics did not make a major contribution to the process of welfare reform. For example, political party members did not exhibit greater support for the extension of public welfare than non-party members. Unlike in the West, political parties also did not play a key role in the welfare reforms undertaken during the Kim Dae-jung government, a fact that is relevant given that the Kim Dae-jung government was the first truly democratic government in Korean history. It appears that the first priority of the various party leaderships was simply to maintain their political power.

In the years after the Kim Dae-jung government, these features of Korean welfare politics continued to influence the course of welfare expansion in Korea. However, this new form of Korean welfare politics had a fundamental limitation in that the welfare politics formed during the Kim Dae-jung administration were neither the result of party politics nor had a genuine socio-economic foundation, but rather were the result of the instrumental role played by civil society. As a result, there were no openly progressive pro-welfare political parties or persistently influential pro-welfare social forces within Korea's new welfare politics. Ultimately, this limitation has had a negative effect on the development of the Korean welfare state. The lack of a consistent driving force for further welfare reform and expansion of welfare provision has meant that the neoliberal-driven economic reforms that were enacted in the wake of the 1997 economic crisis have given birth to the problem of social polarisation in Korea. While on the one hand these neoliberal reforms brought much needed reforms to

Korea's financial institutional structure, at the same time, labour flexibility increased significantly, thus increasing the number of non-regular workers and giving birth to polarisation. Since then, the polarisation between workers in small and large businesses, domestic companies and export companies, and in other industries has grown significantly. The majority view states that although there was an expansion of social insurance and social welfare in general in this period, the combination of Korea's birth rate drop and rapid ageing population made it impossible to overcome the social polarisation. The Roh Moo-hyun administration, which succeeded the Kim Dae-jung government, tried to confront these issues by making the tackling of the issue of polarisation a priority, but the government was ultimately unable to achieve its vision. However, recent developments are beginning to lead towards a change in this dynamics. Firstly, the issue of the provision of free school meals became one of the main political issues in Korea's most recent local elections. Secondly, welfare-friendly expert associations have raised the profile of discussion on the welfare state. For example, the Society for the Welfare State, which has modelled itself on the Fabian Society of the United Kingdom, has been instrumental in the discussion on social welfare issues and the drive to create a movement for a fully functioning welfare state in Korea. The author himself has actively participated in think-tank group composed of social policy scholars who have conducted research in the field of welfare and who have consistently promoted the welfare agenda. The efforts of such groups, which can be regarded as civil society organisations, have caused both political circles and civil society to pay greater attention to the welfare state and the issue of welfare itself. As a result of such efforts, both the progressive Democratic Party and the Conservative Saenuri Party have shown increased interest in the welfare agenda, leading the parties to make competing welfare pledges to the public during both the general election and the presidential election in 2012. The most distinctive characteristic of welfare politics since 2008, however, has been how the campaign

for welfare reform has shifted from being one driven by the civil society movement's and interest groups' appeals to the public to one driven by political elections and the press (Shin, K. Y, 2012).

### **8. 3 Overall reflections on the theoretical framework**

In this section, I will reflect on the implications and limitations of the theoretical framework I have used in this thesis. As I noted in Chapter4, the theorisation of welfare politics proved to be a considerable challenge for me as it is for other social scientists. I set up my framework entitled the 'new politics of welfare reform in Korea' or, more specifically, the 'politics of stakeholders and stake challengers'. It was found that this framework was both applicable and very useful for understanding the political mechanisms of welfare reforms in Korea.

By focusing on various actors' strategic activities and interactions, this thesis revealed actors' identities, characteristics and political procedures in terms of Korean welfare politics. This framework was also persuasive in capturing the changes in Korean social policy caused by the dynamic and confrontational struggles between the stakeholder coalition and the stake challenger coalition In Korea. This framework might also have wider applicability. A future study could explore whether this framework could be applied to the social policy changes of advanced countries (Taylor-Gooby, 2005; Van Kersbergen and Kis, 2014).

I am confident that my theoretical framework and my research findings on the Korean case in terms of welfare politics will contribute to a better understanding of the characteristics of welfare politics and policy changes including, possibly, welfare reforms in other countries. In particular, the model of stake holders and stake challengers would be a useful one to explore

the dramatic policy changes and welfare reforms particularly in countries where there are ongoing debates between different groups about the direction of welfare reform.

My framework does, however, have some limitations. As has been noted, the framework can reveal the role of policy actors, the interests they serve or represent and the strategic interactions. From this perspective, welfare politics is viewed as a struggle between coalitions and alliances of policy actors for or against a direction of welfare reform. Although this framework has considerable strength, it tends to understate the role of ideas and discourses in welfare reform. For example, Haggard (1990a) suggests “that the plausibility of ideological arguments for policy choice increases with the degree of autonomy of political elites from societal or international constraints” (p.47). Hwang (2002) also argues that “by focusing on the role of ideas, we may better understand how policy changes occur and how decision-makers come to recognize interest under conditions of uncertainty”(p.4). In my thesis, I touch on this point in relation to the development of NHI integration (see p.246) but I could have considered this in greater depth. However, the role of ideas was alluded to rather than analysed in relation to the proponents of reform. Certainly, it would be worthwhile to explore the part that ideas and discourses might have played in the reforms of health insurance and pension in more detail and then incorporate this into a revised theoretical framework. Finally, I revealed the role of various actors and their characteristics but in a rather individual way. Their dynamic and collective dimensions could have been considered.

The issue of welfare has generated animated discussion in Korea in recent years. Various discourses on welfare have emerged, and the arena of debate has moved beyond the academic world, with debates and disputes taking place in both political circles and in civil society. It is notable that this trend is considerably stronger during local, general, and presidential elections, and this strongly suggests that public pressure for welfare reform has become a significant political issue. For example, in the 2010 local elections, which were held in the

aftermath of the second major economic crisis in modern Korean history (that is, the global financial crisis of 2008), the most controversial issue was the provision of free school meals. However, the debates and disputes were not confined to single welfare issues. The debates moved on from individual welfare issues such as provision of free school meals to discourses on ways to build upon and improve Korea's welfare state system. The very fact that related discussion of welfare policy was central to the politics of these elections and that these debates and disputes were addressed by a large number of politicians was an unprecedented phenomenon in the history of modern Korean politics. It was felt that if politicians failed to address the welfare and social policy concerns of the electorate, it was likely to prove difficult for them to obtain popular support (Shin, K.Y, 2012). With these developments, The realm of decision makers such as bureaucrats, activists within Korean welfare politics could not be exclusive and instead, interest groups and experts and has become an integral part of everyday politics and ordinary life.

It is widely accepted within the academic world that the economic crises of 1997 and 2008 were closely related to the changes in approach to welfare policy by both political actors and civil society and that they were instrumental in triggering discourse on welfare reform and welfare state reform. Even though the circumstances and the political and economic fundamentals of the two economic crises were significantly different, the common outcome was the emergence of a 'new welfare politics'. This is a crucial point to make as the changes in Korean welfare politics post-2008 ultimately stem from and build upon the situation that existed in the wake of the 1997 economic crisis and are intimately related to the changes that have occurred since that time. Since the 1997 economic crisis, people's attitude towards welfare and welfare politics in Korea has shifted fundamentally, and welfare issues and welfare politics have gradually advanced towards the centre of the debate on the future of

Korea.<sup>2</sup> Perhaps the most important aspect of these developments in Korean welfare politics was that the calls for welfare reform and welfare state development were led by a combination of civic groups and progressive policy experts and that the demands, strategies and participation of these political and social actors greatly influenced the decision-making process. Thus, it was the combination of economic crisis and political democratisation that acted as the driving force for social policy reform and the emergence of a new form of welfare politics in Korea.

As this dissertation has not dealt with all the changes in Korean welfare politics during the period under discussion, it is necessary to mention the areas that still need to be addressed in future studies. Firstly, as a result of the conservative Grand National Party's (since 2012, the Saenuri Party) victory in the 2007 presidential election, the Lee Myung-bak administration took office the following year. In early stages of Lee's administration, welfare politics weakened in Korea (Shin, K.Y, 2012). The conservative administration tried to emphasise the difference between itself and the previous progressive government by promoting an ideology of 'active welfare' and by enacting wide-ranging neoliberal economic policies. Temporarily, welfare politics once again came to be seen as the preserve of elite bureaucrats (as it had been during the 1997 financial crisis and the democratisation of 1987) because civil organisations, which are the main actors in welfare politics, were ignored by the administration. During the 2009 educational superintendent election, the 2010 local elections and the 2012 presidential election, the role of civil organisations as a participant in the decision-making process disappeared almost entirely, even though there were clearly civil society bodies that sought to stimulate alternative discourse on welfare policy and reform. Above all, the most notable feature of these elections was the emergence of political parties as the main actor in the

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<sup>2</sup>While some scholars argue that the democratisation of 1987 and the period after it is the turning point in terms of welfare politics, I maintain that the economic crisis is in actuality the turning and tipping point for changes in terms of both welfare reform and welfare politics.

debate on welfare. As welfare became the political focal point of these elections, the role of welfare politics increased in the political parties' election strategies, and the influence of parliament over welfare policy direction thus grew. In this way, welfare politics in Korea became increasingly institutionalised, with active debate on alternative visions of the welfare state and alternative welfare policies taking place among welfare politics actors and policy insiders. This phenomenon was amplified when the then presidential candidate Park Geun-hye (now the president) highlighted welfare in her manifesto. While the single issue of free school meals was the initial catalyst for the advent of this new form of welfare politics, the current welfare debate has expanded to discussion of diverse welfare reforms, including pension reform, free medical care and other issues. In light of the emergence of welfare reform both as a political issue and an election strategy, and with the rise of new debate on welfare policy within both political circles and wider society, there is a need to conduct an in-depth investigation into how Korean welfare politics is changing under the influence of these new variables.

Finally, I believe that detailed mention should be made of the strengths of the theory of welfare politics that has been employed in this thesis. The theory of welfare politics is based on the thesis that every welfare policy and each decision-making process is political (Kim, Y.S., 2007). In the case of Korea, however, there was a period before the financial crisis, and especially before democratisation, in which the concept of welfare politics did not exist. After the 1997 financial crisis and the swearing in of Kim Dae-jung's democratic government, welfare politics gained greater attention. These changes boosted Korean academics' interest in welfare politics, and while there has not been extensive research conducted on Korean welfare politics thus far, a number of pioneering scholars have led efforts to conceptualise and study welfare politics in the Korean context. To date, research has drawn upon the Western theory of welfare politics and has centred on class, beneficiaries,

rules and sources of power. Kim, Y. S. (2007) maintains that these studies can broadly be distinguished by the two differing approaches that they take to the research area: one focuses on structure and context, and the other on the interaction among the main actors. For this dissertation, I drew upon an approach from the second category, that is, power-centred action theory, which was then modified and developed into a particular framework through which I could explore the changes within Korean welfare policy via case studies of pension reform and the integration of medical insurance. As noted in Chapter 4, the most significant point of power-centred action theory is its emphasis on strategic coalition or alliance through which competing policies frame the interactions between an anti-reform coalition and a pro-reform coalition.

Thus, the success or failure of reform is ultimately determined by the power relationship between stake challengers and the stakeholders (Kim, Y.S, 2007). This theoretical perspective led me to consider the range of actors (including the working class) emphasised by power resource theory. It also showed how the interests of civil organisations transform into political actions via political institutions and through the linkages that form between societal actors and political actors around interests and policy coalitions or alliances.

In conclusion, welfare reforms under the Kim Dae-jung government were products of the interactions between stakeholder and stake challenger coalitions and the result of the stake challenger coalition's strategic victory. In this thesis, I have defined this framework as the new politics of welfare reform, and it has demonstrated its utility by revealing the struggles between the stakeholder coalition and the stake challenger coalition and their dynamic interactions. The framework has served to illustrate how civil organisations overcame the stakeholder coalition's objections and finally won the battle for health care and public pension reform.

Given that the history of social policy itself could perhaps be interpreted as a product of the struggles between stakeholders and stake challengers, the strength of the theoretical framework adopted in this thesis might have applicability beyond the Korean case.

## Appendices

### Appendix 1. The Process of Health Insurance Expansion in South Korea

Year	Expansion of Health Insurance	Percentage of Insured Citizens
1977	Implementation of the National Health Insurance (NHI) (firms with 500 or more workers) and the National Health Assistant Program	8.8
1979	Expansion of the NHI coverage to civil servants, private school teachers, and firms with 300 or more workers	21.2
1981	Expansion of the NHI coverage to firms with 100 or more workers	28.7
1988	Implementation of NHI coverage to farmers and fisherman and firms with 5 or more workers	69.5
1989	Expansion of the NHI coverage to the urban self-employed	94.2
1999	Integration of the NHI scheme with the revised NHI Act in 1999	
2003	Complete integration of the Health Insurance Fund	

### Appendix 2. The Process of National Pension Expansion in South Korea

Year	Expansion of National Pension
1973	Enactment of National Welfare Pension (NWP) Act
1974	Suspension of Implementing NWP Act
1988	Implementation of National Pension (NP) Act
1992	Expansion of NP application to firms with 5 or more workers
1995	Expansion of NP application to farmers and fisherman
1999	Expansion of NP application to the urban self-employed

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The Hankyoreh (Korean daily newspaper)  
HankookIlbo(Korean daily newspaper)  
KyunghyangShinmun(Korean daily newspaper)  
SegyeIlbo(Korean daily newspaper)  
SeoulShinmun (Korean daily newspaper)  
KookminIlbo(Korean daily newspaper)  
Korea Herald (English), Korea Times (English).  
The Hankyoreh 21 (Korean weekly magazine)  
Hankook Kyungjae (Korea Economic Daily)  
Maeil Kyungjae(Maeil Business Newspaper)  
Seoul Kyungjae(Seoul Economic Daily)  
Ohmynews (On line daily newspaper)