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Emergence of the Post-Developmental Welfare Regime: A Case of South Korea

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I. Introduction

More than a decade has passed since Korea was hit severely by the Asian financial-cum-economic crisis of 1997-98. During these years, Korean economy resuscitated, democracy deepened, and social welfare expanded. Takegawa(2009) contends that during these post-crisis years the Korean “welfare state” has taken off. Many academics and policy makers in Korea today are more or less in consensus that Korea has moved into the state of welfare state after the Asian crisis. What the welfare state means, of course, depends on whether one takes a minimalist or maximalist position and is also heavily dependent on how one chooses to define the welfare state. But there is no denying that post-crisis Korea has earnestly committed itself to establishing a good functioning welfare architecture, compatible with the new challenges of intensifying economic globalization and increasing pressures of post-industrial social differentiation.

Indeed, following the Asian crisis, Korea launched extensive reforms of social policies and programs to modernize public assistance programs, to consolidate the social insurance schemes, to expand social care services to the middle class, and to expand employment services as a part of the active labor market policies. These reforms resulted in a sharp increase in the social expenditure. Total social expenditure as a proportion of GDP increased from 4.9 percent in 1996 to 9.09 percent in 2005, while public social expenditure increased from 3.6 percent to 6.9 percent during the same

period.(Table 3) As a proportion of national budget, social spending rose from 17 percent in 1995 to 26 per cent in 2007(Figure 1).

How was this expansion possible in the country known for the most extensive post-crisis neo-liberal reforms? What is the nature of the emerging architecture of welfare regime in post-crisis Korea? While few in Korea disagree that Korea is an emerging welfare state, many including Iain Pirie(2008) argue that post-crisis Korea is unambiguously neo-liberal state. Then, what is the prospect for the future? Answers will be tentative at best. But this paper addresses these questions from a comparative capitalism perspective. It aims to portray the dynamics of post-crisis welfare reforms in the context of broader regime transformation: from the Authoritarian Developmental State(ADS) to the democratized Post-Developmental Welfare State(PDWS) as a capitalist regime type. For this analysis, we need an inclusive conceptual framework that can embrace varieties of capitalist regimes over time and space.

A few words on the conceptual framework of this paper seem to be in order. Researches on welfare state development abound, but most have largely stuck with rich democracies in the developed world. It is only from the early 1990s onward that various attempts began to be made to bring East Asian countries under a single regional category: the Confucian welfare states from the culturalist perspective, or developmental welfare state as an extension of the logic of the developmental state. But both are basically to explain why and how these countries remain those of low social spending. The former attributes the low social spending to the Confucian underpinnings that stress the importance of family and community based mutual support, and non-dependence on the state(Jones, 1990,1993; Chan, 1996; Sung; 2003, Peng, 2008). And the latter focuses on political institutions of the developmental state which places policy priority on economic and industrial development, relegating social policies to a subsidiary role(Johnson,1988; Amsden,1989; Wade, 1992; Haggard,1990,2008; Kwon, 2006).

Esping-Anderson's seminal work of "Three Worlds of Welfare Capitalism" was also a typology of Western advanced welfare states. While Esping-Anderson(1990) stressed that the distribution of social rights follows at least three distinct patterns: Conservative, social democratic, and liberal welfare states, Hall and Sockice(2001) highlighted two ideal typical ways to organize capitalist production: Coordinated Market Economies and Liberal Market Economies, brought the VOC school dominant and productive. Boyer(2004), for instance, proposed four regime types by highlighting how countries use a variety of regulatory institutions to deal with the instability of capitalism: State capitalism, Meso-corporatist capitalism, Social-partner capitalism, and

Market capitalism. And Amable(2003) who performed a strictly quantitative and open outcome analysis with a wide range of statistical indicators, ended up with five regime types: Liberal, Social democratic, Asian, Mediterranean, and Continental European.

The crucial point is that even though these typologies analyzed capitalist diversity from a distinct angle and distinguished a different number of regime types, they nonetheless arrived at broadly similar classifications of countries, which is compatible to the welfare typology proposed by Esping-Anderson. Recent attempts like that of Schroeder(2008) for instance, looks highly promising, to combine existing typologies on production and welfare regimes into a typology unifying the study of production and distribution in advanced capitalist countries.

Still, however, these typologies are useful more in classifying the nations and in explaining on-path change, than in explaining fundamental, radical path-off changes. In explicating the demise of the ADS regime in Korea and its transformation into the Post-Developmental Welfare State, this paper drew upon the Jessop's typology of fourfold construct of capitalist regime. Bob Jessop, having identified a tendential shift from the Keynesian Welfare State toward the Schumpeterian Workfare State in 1993, recently proposed another, the Listian Workfare State model as an ideal typical reformulation of the East Asian developmental states from his regulationist perspective(2008). Thus he has identified three types of capitalist regimes: Listian Workfare (Developmental) National State, Keynesian Welfare State, and Schumpeterian Workfare state.¹ Jessop(1993) argues that the Keynesian welfare states are in terminal decline and they are in the process being succeeded by the Schumpeterian workfare state. He also cautiously suggests the shift of the Listian Workfare State toward the Schumpeterian Workfare State(2008).

In the following section, the demise of the Korean developmental state will be shown by analyzing the changes in the four dimensions of state's involvement in capitalist formation, as adapted from Jessop's four dimensional analytic construct of regime typology. In the next section, the actual welfare reforms will be reviewed with special reference to the dynamics of welfare regime formation by the progressive governments under the pressures of intensifying global competition and post-industrial social differentiation. In the last part, the prospects and sustainability of the emerging architecture of welfare in post-crisis Korea will be discussed. The demise of the prototype developmental state and coming of the progressive governments guaranteed

¹ Jessop(2000) described Hong Kong as a “Ricardian workfare colonial regime”, and for the post-crisis Hong Kong, as a “transitional Schumpeterian workfare post-colonial regime”.

little but set out the trajectory of welfare state development in Korea. The ascension of the conservative government in 2008 will have significant impact on this trajectory, impact of which remains to be seen.

II. Decline of the Authoritarian Developmental State and Coming of the Post Developmental Welfare State

One of the most striking features of contemporary Korea is its phenomenal economic growth since the early 1960s. As late as the early 1960s the country was one of the world's poorest, with a per-capita income of less than \$100. Average annual economic growth rate during 25 years from 1962 to 1987 was sustained at 8.7 percent, which is remarkable by any standard. At the heart of this dramatic emergence of the miraculous economy was the strong interventionist state which was determined to pursue export-led economic growth. It represented, as Amsden(1989) points out, a new way of industrialization that challenges assumptions long held by generations of Western economic thinkers. Chalmers Johnson(1988) called it the "Authoritarian Developmental State."

While orthodox or neo-liberal economic theories stress the economic benefits of a minimalist regulatory role of the state, Korea is one of the most successful cases of intentional economic development, orchestrated by the ubiquitous authoritarian interventionist state. And while the dependency theory warned that world trade retards and distorts the development of the Third World countries, Korea ignored these warnings and moved in to opposite direction. It sought to join the world economy by following export-led growth policies, and actually achieved a phenomenal improvement in its living standards.

By 1997, Korean economy soared from the ashes of war to the world's 11th largest economy, and joined the advanced industrial democratic nations as the 29th member of the OECD. Moreover, by 1993 when the civilian President YS Kim was elected, Korea achieved a twin miracle; economic miracle by development and political miracle by democracy. This effective model of the state-led economic development spread to the Asian countries and it acquired some recognition even within the neo-liberal institutions like the World Bank whose 1993 report credited the economic success of these countries.

But, in November 1997, the Korean economy was shattered by sudden financial crisis. The crisis, which was immediately followed by the inauguration of the President Kim Dae Jung, forced the Korean government to turn to the IMF for an emergency rescue loan. Heated debates followed suit on the cause of the crisis and the nature of the

developmental state as a model of development. But, many doubters who questioned whether the development was genuine throughout the 1980s and into the early 1990s, felt vindicated.

In the aftermath of the Asian crisis, it is widely held, Korea has undergone most radical neo-liberal reforms. And the Korean economy quickly recovered. The GDP which had dropped by 6.7 percent in 1998 bounced back to its normal growth rate of 10.7 per cent in 1999. In 2007, per capita income topped the US\$20,000 mark, and its economy was thirteenth-largest in the world. This outstanding performance has been underpinned by continuing adjustment and self renewal of institutional arrangements.

In fact, the ADS as a model of development contains the seeds of its own dismantling within itself. As it achieves its goal of economic growth, it becomes harder to maintain the initial institutional fix of the ADS. One may argue that the two major principled forces have caused the crises in and of the institutional fix of the Korean ADS. They are political democratization and economic globalization. The democratic opening of 1987 and the market liberalization since the early 1990s signified its process of self decline and self renewal. And the Asian economic crisis of 1997-98 and the transfer of power to the Progressive opposition in 1997 precipitated the demise of the Korean ADS.

Table 1 below summarizes the transformation of the Authoritarian Developmental State(ADS,1962-1987) as a four dimensional construct of capitalist regime. At the moment, the new configuration is named as the Post-Developmental Welfare State(PDWS), simply to signify the discontinuities as well as continuities. In the following paragraphs, the changes are briefed by dimension.

Table 1. Transformation of the ADS

	ADS(62-87) Park,Chun Admn	< ----- > Rho, YS Administration	PDWS(98-) DJ, MH, MB Admn.
Political System	Authoritarian	1987(Declaration of Democratization) 1993(civilian president YS elected), 1998, 2008(transfer of power)	Liberal Democracy Majoritarian, Single party government
Economic Policy	Export-led, Neo-mercantilist Catch-up	80s, market liberalization started by Chun 93. Rice Market opening 96 OECD membership	Export-led, deregulated market, global integration
Social Policy	Labor repressive, trickle-down residual,	domestic consumption rose welfare demands mounted social insurance instituted	Tripartite commission Productive welfare Social Investment
World Trade System	Bretton Woods, GATT, Embedded liberalism	1971 Gold Window disclosure 1973, 1978, Oil crises 90s, end of Cold War 95 WTO, 1997-98 Asian economic crisis	WTO, Washington Consensus Dis-embedded Liberalism

In Jessop's typology, four terms in his fourfold construct correspond to the four dimensions of the state's involvement in securing the articulation necessary for a specific accumulation regime, and each term has its distinctive features. Of these four dimensions, "national" as a primary scale for decision making is dropped,² since the alternative of 'post-national' is not deliberated in this paper. Instead, world trade system added. Changes in each dimension are sketched in the following paragraphs.

1. Economic policy

In promoting the conditions for capital's profitability, Jessop(1999) points out, economic policy of Korean ADS(1952-1987) was distinctively Listian insofar as it aimed to secure economic growth through export-led industrialization from otherwise relatively closed national economy. It eschewed ownership but exercised extensive control through the manipulation of incentives, rationing of resources and capital, cartels, and so-called administrative guidance. The Korean ADS implemented a series of five year economic development plans, and achieved remarkable economic success.³ In implementing these development plans, role of the central governments was crucial since close and continuing coordination between banking and industrial capitals was important. And the ADS intervened extensively in favor of particular industries and firms via state-owning banks, varying degrees of import protection, subsidies, restrictions on foreign investment, controls over trade unions, and spending on applied research, and industrial target setting and subsidization. Its objective was single mindedly economic growth to catch up, at all costs.

When the Asian crisis placed Korean economy under the stewardship of the IMF, the measures proposed for Korea largely aimed at the disorganization of the ADS. Most urgent were restructuring the financial sector and improving corporate sector efficiency, since it has to stop the vicious circle of corporate insolvency, which directly led to financial insolvency. IMF reform package included abandoning unsound financial institutions, corporate restructuring, internationalizing domestic accounting and auditing activities, elimination of government-directed lending and non-intervention in financial

² it is national in so far as economic and social policies are pursued within the historically specific matrix or national economy, a national state. This contrast with earlier colonial periods and subsequent post national period associated with the new dialectic of globalization-regionalization.

³ The first five-year economic development plan launched in 1962 resulted in an average real growth rate of 7.9%. It was followed by the second five-year plan which achieved an average growth rate of 9.6% a year. The third Five-Year Plan(1972-1976) reached 9.2%, and the Fourth(1977-1981) 5.8%, despite minus growth in 1980. The Fifth Five year Plan(1982-1986) achieved at a 9.8% average growth rate and the Sixth(1987-1991) continued the high growth rate at a 9.9% average. The per capita GNP for 1960 ws only US\$ 80, one of the lowest in the world. It rose to US\$ 252 in 1970, and to US\$3,218 in 1987.

activities, removal of all government assistance including tax privileges to domestic firms, and rapid liberalization of the trade regime and the labor market.

The Kim Dae Jung government has faithfully followed suggestions, in accordance with the belief that in order to ride out the crisis and build up medium- and long-term growth potential, market principle should be enshrine in the economy through the pursuit of market-oriented policies. They believed that the ADS contained constitutional weaknesses and it distorted market and made Asian economies vulnerable in the global market. The primary culprit in the crisis was the ADS itself. The Financial Supervisory Commission, separate from the Bank of Korea and the Ministry of Finance, was established and had 171 financial institutions (including 5 banks) closed down or suspended by April 1999. From the mid 1990s, even from the late-80s, liberalization and deregulation were the demand of the domestic capital as well as of the elite bureaucrats facing the intensifying global competition. Some argue that democratization affected the spread of ideas of liberalization in the financial sector, which eventually resulted in unregulated liberalization and the financial crisis in 1997(Lim, 2009). The crisis was a catalyst for change which was underway already.

2. Social Policy

In reproducing labor-power as a fictitious commodity, social policy Of the ADS had a distinctive workfare orientation insofar as limiting wage costs qua cost of production, promoting personal savings as a means of securing the reproduction of labor power over the life course and across generation, encouraging limited forms of occupational welfare at factory level as a means of reducing pressure on wage demands, and so forth. The prerequisite of the export oriented industrialization of the ADS was disciplined and low-cost labor. In order to maintain the competitive labor costs, the state was to play an active role in suppressing labor movements through the corporatist control of labor unions. The prerequisite of the export oriented industrialization of the ADS was disciplined and low-cost labor. In order to maintain the competitive labor costs, the state was to play an active role in suppressing labor movements through the corporatist control of labor unions. State welfare was to be kept minimal and legitimized only by the national goal of economic development, which is seen as the only ground for authoritarian rule.

The IMF reform package after the Asian economic crisis included the labor market restructuring. The newly elected President launched the Tripartite Commission in January 1998 as the first of its kind in Asia. The Commission rapidly agreed on a ‘social compromise to overcome the economic crisis’ and thereby a total of 90 agreements on

structural adjustments and burden sharing whose major items were subsequently adopted by the National Assembly. Potentially important labor law changes were made to increase flexibility in the labor market by removing barriers to large-scale layoffs. At the same time, the Labor Standard Law came to cover all workers, including those working for a firm with four or fewer employees.

As the Asian financial crisis has deepened into an economic crisis of massive proportions, the serious welfare lacuna was made itself clear. Kim Dae Jung government quickly acknowledged the need for the social safety net, and expanded it quite earnestly. Kim Dae Jung government added “Productive welfare” as the third to his twin goals of national development, market economy and democratization. Much has been achieved, and the keen overseas observer like Takewawa(2009) pronounces the take-off of Korean welfare state. Here the question is how far the solidarity principle of productive welfare could have cohabited with neo-liberal restructuring of the labor market throughout the post-crisis years. That is the question to be explored in the separate section below.

3. Political System

Chalmers Johnson(1988) pointed out that all developmental states are authoritarian, but not all authoritarian state is developmental. The ADS is an authoritarian state which is determined to pursue economic growth to catch up, insulated from the public and particularistic interests, and capable of developing and implementing the programs of comprehensive national development. Moreover, the Listian workfare strategy requires a strong developmental state as well as the close and continuing coordination between banking and industrial capitals mobilized behind the national accumulation strategy.

Notwithstanding the unprecedently ruthless political repressions, the pro-democracy movements continued from about mid-1970s in Korea. After a spell of the most turbulent eruption of popular cries for more democratization, more human rights, and social justice, the effective coalition of anti-authoritarian, pro-democracy movement succeeded in forcing the Chun Doo Whan regime(1981-1987) to make concessions in June 1987. It was a historical political watershed Korea crossed into parliamentary democracy. In 1988 Korea moved from the authoritarian military regime to the Sixth Republic, and thereby Korea has become the first new democracy in Asia that peacefully transferred power. When the Asian economic crisis broke out, Korea was held to have achieved a twin miracle: economic miracle by development and political miracle by democracy.

Post-crisis development of democracy in Korea means more than the regularization of elections. Election of Kim Dae Jung the most inveterate dissident and ardent pro-

democracy fighter, as Hahm(2008) writes, the Korean electorate showed that they could overcome conservative ideological bias and regional bigotry. Moreover, the post-crisis progressive governments pursued public sector reforms at the beginning as a part of IMF reform package, later on its own. It was to create a small and efficient government, incorporating the neo-liberal principle of competition among civil service organizations and personnel. Post-crisis public sector reforms involved reorganizing and reducing the government offices and personnel; reforming government-funded organizations; introducing innovation of government management, and privatizing state-owned enterprises. The Kim Dae Jung government aimed to reduce the size of the public sector budget from fifty to forty percent of the GDP, through corporatizing the government, restructuring government organizations, and expanding performance-based incentives into government management.

4 World Trade System

The success of the export-led industrialization of the ADS was contingent upon the favorable international trading environment. The world trade regime of the 1950s and 1960s was basically US centered and supported by the Bretton Woods agreement and GATT system which allowed for an escape clause and unilateral national protection. It was within the frame of the Cold War, and incorporated what John Ruggie(1982) called “embedded liberalism.”

However, beginning with the 1971 closure of Gold Window, the Bretton Woods agreement fell and the WTO replaced the GATT in 1995, ushering in a new era of neo-liberalism and of much more volatile financial world. The world trade regime changed drastically. From the 1980s, that the US began to place so-called market opening pressures for the promotion of her exports, and no longer tolerated protective trade policy by her former allies. With the rice market opening of 1993 as a watershed, almost all the non-commodity markets, including construction, telecommunication, sales, education were forced to be liberalized in the 1990s. Even the domestic commercial behavior deemed to be trade barriers were requested to be reformed or eliminated. The financial crises followed suit: in 1980s in Latin America, in the 1990s in Western Europe, 1994-95 in Mexico, in 1997-98 in East Asia, in 2008 in the United States. Still the global dominance of neo-liberalism is very real, even though the questions are being raised as to the dominance and (at least partial) failure of the global neo-liberal project.

Thus far, in this section, major changes in all four dimensions of institutional fix of the Korean ADS have been sketched. Few may hesitate to agree that the Korean ADS is

indeed in terminal demise. Transformation is evident and clear: from authoritarianism to democracy, from the neo-mercantilist economic intervention to neo-liberal liberalization and deregulation, from repressive welfare to productive welfare, in the context of neo-liberal globalization and post-industrial social and economic differentiation. Periodic political convulsions accompanied by massive and often violent student and worker demonstrations notwithstanding, democracy in Korea is widely held to be on a stable track. From hindsight, the post-crisis Korean state clearly made a choice to pursue neo-liberal reform. Pirie(2008) contends that neo-liberal reform of post-crisis Korea cannot be understood as something that external political agents have imposed upon reticent domestic elites. Market based reform has consistently gone beyond what the IMF initially demanded and even after the repayment of the initial IMF loans, there have been no attempt to undo previous reform.

If that is true, then what is the place for Productive Welfare? How to read the fast expansion of social protection in post-crisis Korea? How was the productive welfare affected by this commitment of the progressive governments to neo-liberal reforms? The influence of continued reforms in financial sector, corporate sector, labor market and public sector came by way of social distortions like the crisis of employment and deepening bipolarization together with the pressure of population ageing cum low fertility.

III. Post-Crisis Welfare Reforms: from Productive Welfare to Social Investment

Now, we turn to the actual welfare reforms undertaken by two progressive governments in the post-crisis years. For the first time in Korean history, welfare policies came to be appreciated as an institutional means of political significance to keep democracy and market economy sustainable. The Listian principle of “growth first, distribution later” came to be replaced by the notion of “productive welfare,” “participatory welfare,” “growth with distribution,” and “social investment.”

The notion of Productive Welfare was upheld by both Kim Dae Jung government and the Roh Moo Hyun government. It incorporated three component ideals: first, the basic human right to decent minimum standard of living (Beveridgean principle of national minimum), second, the right to work and participate with emphasis on the importance of human capital investment (social democratic principle of productivism), and third, welfare pluralism (neo-liberal principle of privatization and welfare). Insights are known to have come from Giddensean Third Way, but it was presented as a

kind of comprehensive assemblage of welfare policy ideas covering wide range of ideological inclinations. The term itself incurred much controversy but excessive resistance or radical oppositions were avoided.

As to be shown in the following pages, the DJ government focused mainly on the first component, the social right-based income maintenance programs to guarantee the national minimum, and thereby laid basic foundations of welfare architecture engraved with solidarity principle. The Roh Moo Hyun government on the other hand, moved to incorporate the second and third components of Productive Welfare, supplemented by the income maintenance programs and EITC and other services and introducing social service programs. By the end of the term of the Roh Moo Hyun government, social welfare in Korea expanded its boundary greatly to embrace the new risks and new challenges of bipolarizing neo-liberal economy.

Following paragraphs recapitulate the reforms of public assistance, reforms of four social insurance schemes, and expansion of social care services of post-crisis Korea.

1. Reform of the National Basic Livelihood Security System

For a country that thrived on expansion and growth over the previous thirty years, a contraction of the economy by 5.8 per cent in 1998, which meant an 11 per cent contraction from the positive 5.5 percent for 1997, was indeed a catastrophe. Headcount poverty rate increased from 2.4 per cent in the third quarter of 1997 to 7.8 per cent in the same period of 1998. Kim Dae Jung government quickly acknowledged the need for the social safety net, and expanded it quite earnestly. The distinct feature of the Kim Dae Jung government's welfare response was the ability to move beyond the short-term temporary measures. When the economy appeared to have turned the corner in 1999, the National Basic Livelihood Security (NBLS) Act was promulgated. It was a radical replacement of the existing pre-crisis public assistance schemes for which only the traditional "worthy" poor were eligible.⁴

The new NBLS came to be available to those who are poor and could not keep the minimum living standard as defined by the Ministry of Health and Welfare (MOHW) each year, regardless of reasons for being poor. The system of calculation of the official poverty line was brought in, and the public welfare delivery structure with qualified social workers for means test and provision of benefits was established.

⁴ According to the Livelihood Protection Act of 1963, all three conditions were to be satisfied to become a social assistance recipient: 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. The official poverty line was administratively decided depending upon the size of budget allocated. Thus, only less than 1 per cent of the total population had received livelihood benefit supplementing the basic livelihood until the eve of Financial Crisis.

By the enactment of the NBLS Act, the number of recipients of social assistance cash benefit increased from 0.37 million in 1997 to 1.35 million in 2002, to 1.51million in 2005. The poverty line, the minimum standard of living to be protected by the NBLS system, was estimated by the estimation committee and made public each year by the Minister of MOHW. The budget for the NBLS rose from 900 billion won in 1997 to 3,403 billion won in 2002, to 5,337 billion won. It accounted for 60 percent of the total budget of the MOHW in 2006.

The NBLS Act also stipulated a conditional provision of benefit for those poor capable of work. They are required to participate the Self-Reliance Support Programs which is intended to help beneficiaries get out of poverty and to prevent unnecessary dependency of the employable poor on social assistance. The Self-Reliance programs gained a full-scale attention by the Roh Moo Hyun government when it embarked to approach the working poor. And as a means to resolve the issue of work incentive, which is inherent in the public assistance, the Rho government decided to experiment the Korean version of the EITC, whose first payment was due in 2009. Implementation of the NBLS gave births to many derivative service programs, such as those to prevent falling poor and dependent, to assist working poor to get out of poverty and remain independent, to help out the indigent burnouts from over burden of care work, and others. Debates continue as to the eligibility criteria, family responsibility, level of benefit, method of estimation of poverty line, delivery system. One of the most often cited problems that limit the optimization of the NBLS is the weak administrative infrastructure. Under staffing is serious but the principle of small but efficient government limits the apposite increase in number of public employees.

2. Consolidation of Social Insurances

By the year 2000, most of all categories of total population came to be covered by the four major social insurance schemes with the exception of the self employed, unpaid family workers, and other irregular workers.

1) In the aftermath of crisis, unemployment soared from 2.5 percent in 1997 to 8.6 percent in February 1999, and the DJ government entered into a series of commitment to expand population coverage and eligibility of the Employment Insurance System in 1998. Its coverage which began with the firms with 30 or more employees in 1995 was expanded first to firms with 10 or more, to firms with 5 or more in March, and to firms with less than 5 in October. It took three years for the Employment Insurance scheme to expand its mandatory coverage to entire employees. Same expansion of coverage was made with the Workmen's Compensation

Insurance. By 1999, its mandatory coverage expanded to the firms with less than 5 employees.

Many improvements followed but basic problem for both social insurance for the employees remains the structural exclusion of majority of irregular workers, particularly the number of the irregular workers increases.

2) National Pension Insurance which was first implemented to the employees in 1988 had its coverage extended to the urban self-employed and to the firms with less than five employees in 1998 by the Kim Dae Jung government. Thereby, 9 million individuals were added to make the 16 million's universal coverage of pension insurance a reality by 2001. In this reform process, the issue was whether to keep the redistributive and earnings-related portion of the schemes integrated or separated as the World Bank proposed. The DJ government chose the integrated redistributive pension model to maintain the solidarity principle. And the national assembly rejected the lowering of the replacement rate.

While the DJ government's pension reform maintained the solidarity principle, the pension reform of 2007 of the Roh Moo Hyun government was more comprehensive and compromising. Main concern this time was to rationalize the whole picture of income security for the elderly. First, for the sounder financial footing, the system was reformed to raise the premium and reduce the replacement rate by 20 percent from 60 percent to 40 percent. Second, this reduction of benefit level was compensated by introducing the publicly funded Basic Pension Scheme which pays 5 percent of the average income of the insured by the National Pension to the 60 percent of all elderly in 2008(and 70% in 2009). And third, the Severance Payment System, in which the employer pays one month pay or more per one year's work to the leaving employee, was transferred to the retirement pension system(since 2005). Some commentators remarked this transition was inevitable, but others viewed this change as a turning point for transforming the Korean old age income security from a pubic pension-centered to a multi-pillar one (Chung,2009). Particularly the choice of reduction of replacement rate, combined with the introduction of the basic pension whose coverage was only partial have diluted solidarity principle in National Pension Scheme.

3) Health Insurance System also underwent dramatic changes after the crisis. Before the reform, the system was composed of about 420 health insurance societies with different contribution rates and independently managed funds for different workplaces and geographical areas. These societies were incorporated into a single health insurance plan operated by the public sector, which controls the administrative

organizations of health insurance and the hundred of funds previously managed by financially independent agencies. A unified contribution standard across the nation was introduced, and thereby increased the equity of health insurance contributions. And the scope of benefits covered by health insurance was slightly extended (Kim, 2001). These reforms were pursued with the rhetoric of nation-wide solidarity and strengthening state responsibility for health security, but not without vociferous oppositions from various groups. These reforms proceeded in tandem with the separation of medical and pharmaceutical services, which resulted in a steep increase in the cost of health care.

Table 2. Changes in the population coverage of the four major social insurances

Types		1997				2000			
		EI	WCI	PI	HI	EI	WCI	PI	HI
Firm Size	<5	X	X	X	O	O	O	O	O
	5-9	X	X	O	O	O	O	O	O
	10-29	O	O	O	O	O	O	O	O
	30+	X	O	O	O	O	O	O	O
Daily Workers		X	X	X	O	△	△	O	O
Temporary Workers		X	X	X	O	△	△	O	O
Self-employed		X	X	X	O	X	O	O	O
Unpaid family workers		X	X	X	O	X	O	O	O

Universalization of the population coverage of social insurance is important task and it has been achieved by and large by 2000 by law. But no less important are the issues of perennial controversy of risk coverage, level of benefit, level of contribution, and types of administrative structure for each and all four insurance systems. They remain perennially controversial. The gap between law and practice is another dimension of problem that persists. As of 2005, the percentage of workers covered by all four social insurance schemes was about 80 percent for regular workers of conglomerates while that for regular workers in SMEs was around 20 percent. The situation of the irregular workers should be worse.

Important efforts also have been made to improve administrative efficiency. The initiative to separate the contribution-collection service from each insurance administration into one bureau level agency of the National Tax Office. It was expected to reduce about 5,000 redundant officers of contribution-collection. And involvement of the tax office in this universal social insurance administration was expected to enhance not only the accountability of social insurance administration (which has no expertise in identifying the income) but also in a longer term the credibility of the National Tax Office(which says they have no manpower for equitable redistributive tax service). The proposal was concluded by the Lee Myung Bak government to place the integrated collection service to the National Health Insurance Corporation.

3. Social Care Services and Employment Strategy

At least three factors worked for the commitment of the Roh government to expand social services: first was the 1.17 shock of 2003, second was the crisis of employment, and the third was the deepening social divide. In 2003, Korea's total fertility rate marked 1.17⁵, the lowest in its history and the lowest among the OECD countries. Low fertility was the other side of population ageing which was already unprecedently fast to threaten the nation's growth potential. It called for a national policy resolution. Roh Moo Hyun government instituted the Presidential Committee of Population Ageing and Future in 2003 and embarked working on preparing the comprehensive national plan for both child care and elder care.

On the other hand, the Roh Moo Hyun government was under pressure from progressives for the deepening social and economic divide. Gini coefficients kept being deteriorated and poverty rate was on the rise. The declining economic growth rate⁶ and particularly the declining rate of job increase⁷ were the major points of concern, as well. Employment coefficient⁸ declined from 70.1 persons in the 1980s to 34.5 persons in early 2000s. The jobless growth or the crisis of employment was mainly the end product of technological revolution and extensive neo-liberal reforms for global competition of labor market and at the same time exacerbated bipolarization.

Increase in labor flexibility was tantamount to the increase of irregular workers. It reached 40 percent of entire workers in 2007, and their average earnings as a ratio of the wages of the regular workers reduced from 67.1 percent in 2002 to 62.6 percent in 2005. The number of low wage earners who earn less than two thirds of an average worker's increased from 22.6 percent of all wage earners in 2001 to 26.8 percent in 2005. Bipolarization was the last phenomenon that the progressive government could pass by.

It signifies the limitation of the old development model in which jobs are expected to be created automatically when achieving economic growth, and thereby the problems of distribution and welfare are expected to be resolved accordingly. The new strategy of "growth through employment" or "growth together with employment," instead of "the growth-driven employment creation and distribution," was inevitable. It was within this new frame of broader employment strategy, that job creation in social services⁹ was

⁵ It was 4.53 in 1970, 1.65 in 1995, 1.30 in 2001.

⁶ from 8.3 percent in the 1970s, to 6.3 percent in the 1990s and to 4.1 percent in 2007.

⁷ 3.9 percent in the 1970s, 2.6 percent in the 1980s, 1.5 percent in the 1990s and 1.3 percent in 2005.

⁸ The Employment coefficient is the number of employees(number of jobs) required to produce 1 billion won in goods.

⁹ As of 2005, it is estimated that the social service sector workforce was in shortage with the demand (3.88 million jobs) surpassing the supply(3.02 million). The average employment share of the social service sector of OECD countries was 21.7% as of 2003, whereas Korea marked 12.6%, the lowest

positioned.

In 2006, the Presidential Committee on Job Strategy submitted a report to the President, titled “Creation of Good Social Service Employment Strategy,” in which the two interrelated premises were made explicitly clear. One was that the expansion of social services is premised upon the notion of market formation in social service sector, so that the providers, public and private, may compete each other for the clients. The other was that the use of voucher was highly recommended since it would activate consumption, extend consumer’s choice, and raise competitiveness of the private sector. In order to facilitate the participation of the private providers, regulations for the relevant areas will also be relieved.

Provision of child care services was considered to serve triple purposes simultaneously. First, it should be a human resource investment for the children. Second, it should facilitate women’s labor market participation. And third, it should create jobs for women. Child care was typical case of social investment, women-friendly family policy, and employment strategy.

Indeed, the budget for child daycare service increased from 246.1 billion won in 2002, to 1,336.6 billion won in 2008. It was more than the total spending of the Ministry of Health and Welfare for social welfare services all inclusive of services for the elderly, for the children(excluding day care services), for the mother-child households, and for the handicapped which amounted to 679.5 billion won in 2006.

Behind this growth of child care services was strong support from the progressive women’s groups and organizations. The Roh Moo Hyun government transferred the child care section of the Ministry of Health and Welfare to the newly born Ministry of Gender Equality. As the day care services for children came to be framed as a part of national employment strategy later in 2006, the idea of deregulation, market formation came along with budget increase, but was defeated by strong opposition from the women’s organizations which demanded more of public commitment.

As an extension of children’s day care services, the after-school child care services were also introduced for the school children. In developing these programs various stakeholders including local government and community-based CSOs, and residents and parents were encouraged to participate and innovative community-level networking and co-operations were emphasized.

For the eldercare services, an important stride was made. The Long Term Care Insurance for the Elderly was introduced to be put into effect from July 2008. The elderly 65 and over and those under 65 but suffering from dementia, paralysis and other

except for Turkey.

old age disease came to be entitled to receive relevant care services.¹⁰

The expansion of social care services of Roh government was not limited to those for children and the elderly. For those with disabilities, the Act on the Prohibition of Discrimination against the Disabled was enacted in 2007, which was a monumental achievement as the first of its kind in Asia. It was preceded by the Plan for Comprehensive Support Measures for the Disabled, prepared in 2006 as a blueprint to guarantee the basic standard of living (including income, education, housing and employment) for the disabled.

Once social services came to be officially selected and pronounced as a national strategy of job creation, all the Ministries were encouraged to participate and develop all varieties of social services with target number of job creation. Thus the jobs created included: social enterprise(Ministry of Labor), home helper services(MOWH), volunteer service coordinator(Ministry of Interior) afterschool teacher and special education school teaching aid(Ministry of Education), family services for multicultural households in rural area(Ministry of Agriculture), to name but a few. In order to facilitate the participation of the private providers, regulations were relieved. And the social enterprise project of the Ministry of Labor, for instance, came to be institutionalized. Certified social enterprises (36 as of 2007) are provided with support of participant salary, social insurance support, tax support such as reduction in corporate tax and income tax, loan support for store leasing and start up operation funds and others.

Expansion of social services was the strategic choice of the progressive government facing the deepening social and economic divide. Expansion of social services meant the investment to the human capital as well as social capital for the future. Services for the children are the investment to the citizens of tomorrow of information society. Socializing the elder care meant helping out the young families to be more productive. Same is true with the services for the handicapped. It was more attuned to the term of social investment, though the notion of productive welfare was inclusive of social investment. By the end of the President Roh's term, the term social investment was explicitly far more preferred to that of productive welfare by the Roh government people.

4. Growth in Social Expenditure

¹⁰ Its administration is incorporated to the health insurance system. If they pay 200-3000won per month, 80% of the cost will be born by the government and 20% is born by the insured for the usage of care facilities and thus will significantly reduce the burden of elderly care.

As a result of expansion of policies and programs shown thus far, the total social expenditure as a proportion of GDP increased from 4.91 per cent in 1996 to 9.09 percent in 2005. This growth is impressive. As the table 3 shows, right after the crisis, it increased to 9.99 per cent in 1998, but as the economy bounced it decreased to 7.31 per cent in 2002, and since the Roh Moo Hyun government came into the office in 2003, it increased again. The table 3 provides two different sets of figures for social expenditure as a proportion of GDP to show the discrepancy stemming from the shift of method of GDP accounting in Korea since 2004.

Table 3. Social Expenditure as a proportion of GDP

	1992	1994	1996	1998	2000	2001	2002	2003	2004	2005
Old GDP Base	4.39	4.68	5.29	10.89	9.18	8.78	8.38	9.29	-	-
New GDP Base	4.16	4.44	4.91	9.99	8.28	7.78	7.31	7.90	8.71	9.09
Pub.Soc.Exp.(New)	2.99	3.20	3.62	5.50	5.11	5.50	5.41	5.72	6.40	6.90

Koh,KW (2009:108).

About one fourth of social expenditure have been born by private sector, mostly in the form of lump sum cash benefit of severance allowance. When the lump sum severance payment shift to the occupational pension as mentioned already, this proportion will change. In 2005, private social expenditure accounted for 24.1 percent of the total social expenditure while 75.9 percent of the same were public. Public social expenditure alone grew from 3.6 percent of GDP in 1996 to 6.9 percent in 2005, as shown in the Table 3. The amount of public social expenditure more than tripled from 16,232 billion won in 1996 to 55,704 billion won in 2005. It was reflected by the changing composition of national budget which the chart below shows.

The proportion of the national budget allocated to the social policy category increased from 14.3% in 1987 lowest among the four, to 27.9% in 2006 highest among the four categories of budget. This increase contrasts to the decline of the budget for economic development which has been highest from the early 1990s through to 2004.

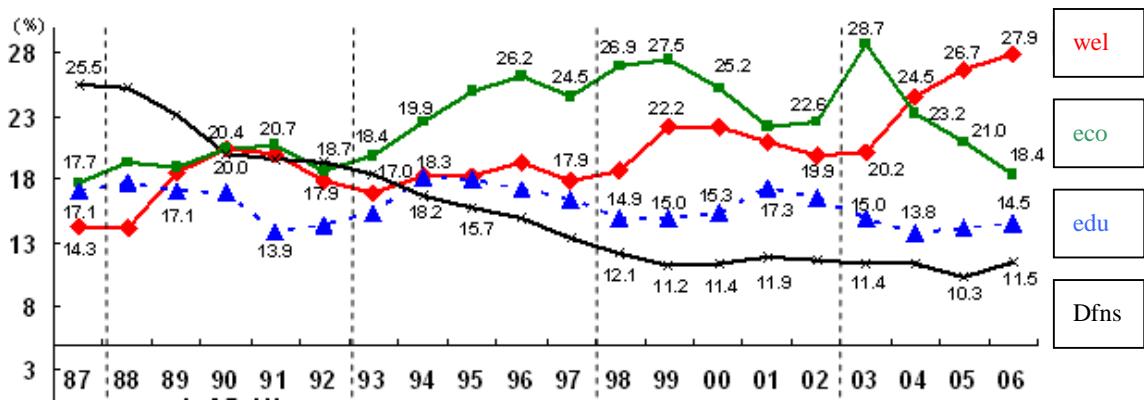


Figure 1. Trend in Budget Allocation

This growth of public social expenditure since 2003 was phenomenal. But when to compare with other advanced countries, as the Table 4 shows, the level of Korean public social expenditure remains lower than half of that of the US and one third of that of OECD 30 countries. And even though the progressive Roh Moo Hyun government expanded social services greatly, it is not expected that the basic structure of public social expenditure of 2001 as shown in the table 4 could have changed greatly.

Table 4. Composition of Public Social Expenditure(2001)

	Public Soc. Expenditure	In Cash Provision		In Service Provision		ALMP
		Elderly	Working Age	Health	Social Service	
Korea	6.1	1.3	1.0	3.2	0.3	0.3
Sweden	28.9	7.4	7.0	7.4	5.8	1.4
France	28.5	11.9	5.0	7.2	2.0	1.3
Germany	27.4	11.2	4.5	8.0	2.6	1.1
UK	21.8	8.3	5.9	6.1	1.2	0.3
USA	14.8	6.1	1.8	6.2	0.5	0.2
Japan	16.9	7.6	1.5	6.3	1.3	0.3
OECD-30	20.9	8.0	4.8	5.8	1.7	0.6

http://stats.oecd.org/wbos/Index.aspx/datasetcode=SOCX_AGG

IV. Prospects and Implications

Now we came to gain some grasp of post-crisis formation of welfare regime in Korea. After all, during the decade following the Asian crisis of 1997-98, Korea achieved a significant catch up in the sector which has been long neglected and therefore lagged behind. In the midst of extensive neo-liberal restructuring, a new

architecture of productive welfare was constructed and social expenditure rose steeply. The premise was vindicated that Korea is the case defying the neo-liberal argument that globalization is not viable with the welfare state. At closer examination, however, the notion of productive welfare is that of great versatility embracing a wide range of ideological norms of welfare.

When the DJ government instituted the Tripartite Commission and introduced the LBLS, universalized population coverage of social insurance schemes, rejecting the World Bank proposal of three-pillar pension reform, the principle of solidarity was upheld. When the Roh Moo Hyun government expanded social services as national employment strategy and when it introduced EITC, multi-pillar pension reform, and vouchers, the principle solidarity was much compromised. The ideas of competition, incentives, and market formation were explicitly incorporated into the welfare regime.

By the time when the terms of office of the second progressive government came close to the end, “social investment” was the catchwords much preferred by the government and apposite to the regime. By then, the competitiveness of the Korean economy was being bought at the expense of deepening bipolarization. To keep the growth momentum and to improve international competitiveness, labor flexibility(the right of the capital to dismiss workers and use irregular workers) was to be enshrined. Social services expanded as a way to create jobs, to overcome the employment crisis, and to provide services to the vulnerable. It was a marriage of workfare and solidarity.

This move toward the more of market principles as incorporated into the welfare regime beget the concerns about the future of welfare regime in Korea and at the same time it excites the thoughts on its theoretical interpretation and implication.

From a theoretical perspective, addition of neo-liberal color to the welfare regime in late Roh Moo Hyun years deserves further discussion. In the earlier stage of welfare reforms of the Kim Dae Jung government, young scholars including Kim Yeon Myung(2002) indicated that the welfare reforms of post-crisis Korea were independent of all the neo-liberal economic restructurings. But, as time wore on and as the neo-liberal restructuring cumulated, welfare policy was being apparently more closely interwoven with the spell of the neo-liberal economic order. As Katzenstein(1985) points out, economic policy for economic flexibility and social welfare policy for political stability are not independent of each other. Much have been discussed among the scholars of comparative political economy as to the mutual interdependencies that exist between welfare regime and production regime, to affect both economic performance and the vulnerability of a given welfare state. Particularly, (uncoordinated) liberal market economies are often claimed to have tendencies to go hand in hand with

“liberal” welfare states and low social expenditure (Ebbinghaus and Manow, 2001).

This sort of institutional complementarity argument brings back the Jessop’s typology of capitalist regimes of this paper. The great affinities are found between the PDWS and SWS as shown in the Table 5. It signifies that the “Post-developmental welfare(welfare) state” can be overlapped by the SWS. In fact, Jessop(2000) acknowledges the possibility of appearance of the SWS without presence of crisis prone KWS. Considering that the contexts in which both SWNS and PDWS are considered a coming to replace the previous regimes are the same changes of accumulation regime/economic globalization, the more careful study of the variety of ADS and the paths they follow in response to economic globalization will shed much light on more inclusive theory of capitalism.

Table 5. Characteristics of Various Capitalist Regimes

Dimensions	ADS	PDWS	KWNS	SWNS
Political System	Authoritarian	Democracy	Mature Democracy	Mature Democracy
Economic Policy	Catch-up economy neo-mercantilism	Still catch up De-regulation global integration	Mixed economy Demand management	Innovation, Global integration thru competition
Social Policy	Growth first Wage/Labor cost Workfare	Productive welfare Social investment Workfare	Social rights state compensates	Workfare, Social Investment
World Trade	Cold War Frame	Washington Consensus	Cold War frame	Washington Consensus
Regime Composites	Authoritarian Developmental Workfare State	Democratic Post-developmental Welfare(?)State	Democratic-Welfare-Capitalist State	Schumpeterian Workfare Post-national Regime

* Adapted from Jessop except PDWS.

As for the future of the Korean welfare regime, it is hard to predict, but the drastic curtailment will not be the choice of the new government, because of the slugging economy and apparent deterioration of distribution. Serious overhaul and restructuring had been expected, of welfare regime which was shaped during the years of the progressive governments, but the priority placed on social policy reforms seems to have been lower than expected. In December 2007, the people of Korea chose Lee Myung Bak, the former conglomerate executive, as their next president. It has brought to an end a decade of rule by progressives and brought the conservatives back. In the National Assembly election on April 2008, the ruling conservative party gave the president a majority in the legislature with which to push through his national agenda. If one counts the splinter far-right party as well as those conservative members who won as

independents, the conservative majority in the legislature becomes overwhelming.

With this favorable legislative environment, the new government promised tax cuts and further liberalization, deregulation, and free trade agreements to improve the global competitiveness of the nation. There seems to be two types of globalists in Korea. One is that of ardent bona fide believers in market principles. The other is that of those asking what viable alternatives actually exists. Many think that the only real alternative to engineering a program of neo-liberal restructuring is to accept the long-term decline of Korea as a site of accumulation in the global economy. For the former, in particular, as Pirie(2008) pointed out, the crisis created the political space necessary for reformist elites to carry the project that they had initiated well over a decade earlier. For the latter, often times including the progressives, the choices were cruel. The Roh Moo Hyun government's policy of proactive integration to the global market was underpinned by the seemingly contradictory emphasis and expansion of progressive ideals such as social integration. So was the controversial initiative of the Roh Moo Hyun government of the Free Trade Agreement with the United States.

At the moment, as Hahm(2004) points out, the Korean conservatives adopted market economy principles (Hahm, 2004). But, one may wonder to what extent Korean conservatives who have been benefited from the ADS of the past have been earnest in their newfound adherence to market principles. Conservative values usually contradict with, for instance, the US brand of capitalism, but have affinity with social protection. The choice of welfare regime by the conservatives in Korea may vary, and more importantly, they will have to interact with other strands of social policy ideas. So the future of the welfare regime in Korea is still open.

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