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The developmental welfare state in South Korea under globalization

O Estado de bem-estar desenvolvimentista na Coreia do Sul sob a globalização

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RESUMO: Este artigo analisa a expansão das políticas sociais na Coreia do Sul, durante o contexto da globalização, articulando duas abordagens teóricas: investimento social e Novo Estado desenvolvimentista. Por meio do método de estudo de caso, defende-se a hipótese da complementariedade entre Estado de bem-estar e estado desenvolvimentista. O artigo demonstra que, entre os anos 1990 e os anos 2010, a Coreia do Sul ampliou todos os setores das políticas sociais analisados. Para além da expansão das políticas passivas, as políticas ativas (incluindo a educação) foram reformuladas de forma articulada com a política industrial de fomento à inovação, buscando a transição para a sociedade baseada no conhecimento; além disso, a política familiar tornou-se uma das mais generosas entre os países da OCDE.
PALAVRAS-CHAVE: Estado de bem-estar; estado desenvolvimentista; estado de bem-estar desenvolvimentista; Coreia do Sul; políticas sociais; política industrial; globalização.

ABSTRACT: This paper analyzes the expansion of social policies in South Korea during the context of globalization, by linking two theoretical approaches: social investment and the New Developmental State. Applying the case study method, I endorse the hypothesis of complementarily between the welfare state and the developmental state. The article shows that between the 1990s and the 2010s, South Korea expanded all sectors of social policies analyzed. Beyond the expansion of passive policies, active policies (including education) were reshaped in an integrated manner with the industrial policy to promote innovation, pursuing the transition to the knowledge-based society; also the family policy became one of the most generous among OECD countries.
KEYWORDS: Welfare state; developmental state; developmental welfare state; South Korea; social policies; industrial policies; globalization.
JEL Classification: H51; H52; H53; H75; O15; P1.

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INTRODUCTION

In the economic development literature, the so-called New Industrialized East Asian Countries (NICs) – Hong Kong, Singapore, South Korea, and Taiwan – have been widely studied for their prominent economic performances initiated around the second half of the twentieth century. To explain the rise of these economies, heterodox accounts stress the role of the developmental state, emerged in the 1960s, which induced the productive system through protectionist measures and industrial policies (Chang, 1993; White, 1988; Haggard, 2018). However, some scholars point out that the effectiveness of the developmentalist strategy was at the expense of a narrow development of social welfare system. Managed as mechanisms to attract foreign investment, fiscal restraint and low tax burden constrained the revenue allocated to social spending in East Asian developmental states (Haggard; Kaufman, 2008). The underlying premise of this approach is that there is an opposition between the developmental state and the welfare state, which alludes to Okun's (1975) neoclassical argument that there would be a trade-off between economic efficiency and redistribution.

In contrast to this postulate, this paper provides evidence of how both state arrangements can be complementary, based on recent experience in South Korea (hereafter Korea). Since the 1990s, this country has established an institutional setting whereby a new developmentalist approach has been combined with the expansion of social policies. Some scholars called it an inclusive developmental welfare state (Kwon, 2005).

This paper examines the transformation of Korea's developmental welfare state through the lens of two theoretical frameworks: social investment (Esping-Andersen, 2002; Hemerijck, 2013) and new developmental state approaches (Medeiros, 2010, 2019; Hayashi, 2017; Haggard, 2018). Applying the within-case method, the evolution of the Korean welfare state is analyzed since its historical origins, in the authoritarian-national-developmentalist period (AND) but focusing on its recent transformation process toward an inclusive type. AND refers to the period during the authoritarian regime – under the leadership of Park Chun-Hee (1969-1981) and Choi Doo-Hwan (1981-1988) – when it was launched the developmentalist approach based on a state-led national project of industrialization. After 1989, there was political democratization and a shift from a national developmentalist project to a focus on integration into global value chains (Medeiros, 2010).

Under a multidimensional perspective of the concept of the welfare state, I look at a number of social policies: education, health, social protection, active labor market policies (ALMPs), and work-family reconciliation policies. In the literature, the most popular measure used as a proxy for social policy effort is social spending as a percentage of the GDP. More recently, this indicator has come under scrutiny for several reasons (Clasen; Siegel, 2007). Initially, the main subject of criticism was the use of aggregate indicators for not distinguishing the allocation of resources among different social policies (Esping-Andersen, 1990). This problem has become less salient given the increasing availability of disaggregated data. Second, spending as a share of GDP may be biased by cyclical economic factors such as inflation, unemployment, and economic downturns. This is especially true in the analysis of short periods, which are subject to the bias caused by abrupt shocks (Clasen; Siegel, 2007). To the extent that a given analysis is performed over the long term, as I conduct in this paper, it highlights the spending pattern over time and then mitigates this potential bias.

The most important criticism stresses that single indicators are not enough to capture multidimensional changes in social policies (Hemerijck, 2013). Hence, dealing with these issues requires, above all, analyzing supplemental data. For doing so, beyond disaggregated social spending as a share of GDP, I examine data on coverage, real spending per capita growth, or spending by the share of the population that could qualify for benefits from a particular social protection category and program – such as unemployment benefits, old age, poor people, etc.

This paper is divided into two sections. The first provides a brief review of the East Asian welfare state literature, underlining the rise of the social investment paradigm among some Asian countries. In a subsection, I discuss the new developmental state approach and how it relates to the debate over social investment. In the second section, I analyze the evolution of the above-mentioned social policies – education, health, social protection, ALMP, and work-family policies – devoting a subsection to each of them.

BRIEF LITERATURE REVIEW

Welfare states and the rise of social investment in East Asia

The core issue around which the literature on East Asian welfare states revolves lies in the gap between high economic performances and the lack of social policy development, among NICs (Jacobs, 2000; Peng; Wong, 2010). The culturalist argument explains it by emphasizing the influence of Confucianism, according to which the family should be the central institution of social provision (Goodman; White; Kwon, 1998).

In another vein, this gap is attributed to the pressures arising from the national developmentalist project, erected by the 1960s. First, during this period, fiscal capacity for social spending was constrained by heavy investment in infrastructure and industrial policies (Haggard; Kaufman, 2008; London, 2018). Second, high public savings and low tax burden were instrumentally used to attract foreign investment (World Bank, 1993). Third, within social policies, sectors related to enhancing productivity were favored, such as education, while social rights were restricted to workers in key economic sectors, such as industry (Tang, 2000). This is why East Asian social welfare systems were often portrayed as "productivists" (Holliday, 2000; Kim, 2015).

As one can see, underlying these prospects is the assumption that the developmental state and the welfare state are irreconcilable. The axiom in mainstream economics on the trade-off between redistribution and economic efficiency traces its roots to Okun's (1975) statements. His seminal work claims that any initiative to redistribute income or wealth entails transferring from the most productive to the least productive individuals. The "big winners" are not fully rewarded for their contributions to productivity growth, discouraging them to keep improving their skills, which would lead to economic inefficiency at the aggregate level. A more recent branch of this trade-off has shifted the emphasis from productivity improvement to fiscal constraints in the face of the growing competition trigged by economic globalization. Spending on social programs would result in increasing both inflation risk and labor costs, reducing the expected return on investment, and then yielding capital flight (Hay, 2006; Rudra, 2007).

However, in recent decades neoclassical economists have revised this statement. This questioning intensified in the aftermath of the 2008 financial Crisis, what has come to be referred to as the "Post-Washington Consensus" (PWC) (Rodrik, 2007; Haggard, 2018). Although it did not imply the renunciation of the Washington Consensus principles, this shift has gradually been reflected in the focus on institutions, broad access to the labor market, education, and social assistance targeted at low-income households (Rodrik, 2007). The World Bank and International Monetary Fund (IMF) have promoted this account under the new "inclusive growth" slogan, which has different formulations while sharing the emphasis on poor relief (London, 2017).

Within developmentalist perspectives, historical analyses of the link between economic and social policy have widely been explored, mainly on the so-called "later comers", which includes Germany and Scandinavians, as well as East Asian and Latin American countries (Draibe; Riesco, 2009; Kerstenetzky, 2012). Kwon (2005) distinguishes the developmental welfare state trajectories between "selective" and "inclusive". In the former, authoritarian regimes introduced welfare policies narrowed to economic and political key sectors, such as industrial workers, public servants, and militaries. Emerging in the 20th century, developmental welfare states in Latin America and East Asia shared this crucial feature (Kwon, 2005; Draibe; Riesco, 2009). In contrast, Nordic European countries traced an inclusive trajectory, promoting universal access to social rights, under a democratic regime (Kwon, 2005; Kerstenetzky; Kerstenetzky, 2015). In fact, the social policy "productivist" approach was coined by the Swedish scholars, Gunnar and Ava Myrdal, in the 1930s. But they proposed investing in the productivity of the population, as a supplementary measure to social rights, to overcome the challenges of the Great Depression (Morel et al, 2012).

Since the 1990s, many East Asian countries have expanded their social policies, especially Japan, Taiwan, and Korea have traced an inclusive path (Haggard; Kauffman, 2008; Kim, 2015). Most scholars conceive the 1997 Asian financial crisis as a critical juncture, during which the unemployment rate peaked, increasing the demand for social welfare policies (Peng; Wong, 2010). Other scholars highlight the democratization process in the region, which took place at the end of the 1980s, arguing that the electoral competition fostered the expansion of social protection

(Haggard; Kaufman, 2008; Lee, 2018). Finally, some accounts emphasize the rise of center-left coalitions, among democracies, as promoters of social policies (Fleckenstein; Lee, 2017).

Kwon (2005, 2014) defends that, in this period, the Korean developmental welfare state was transformed from a selective type – which covered just a few social sectors – into an inclusive one. It implies that social policy and economic policy have traditionally been associated, but a shift toward universalizing social rights has been introduced since the 1990s. Furthermore, Japan and Korea have been highly influenced by the social investment paradigm (Fleckenstein; Lee, 2017; Kerstenetzky; Guedes, 2021).

Public policy scholars and policymakers have advocated for the social investment approach as a possible solution to the so-called "new social risks". Globalization, deindustrialization, aging societies, growing labor market instability, and the rise of a competitive knowledge-based economy have all prompted new demands for social protection. In response to these structural changes, the social investment approach proposes combining passive policies (unemployment insurance, health, social assistance, etc.) with the promotion of active policies that attempt to manage new social risks through supply-side measures. The focus lies on aiding labor market incorporation by fostering human capital development and facilitating the reconciliation of work and family lives (Esping-Andersen, 2002; Hemerijck, 2013, 2017).

The social investment approach is widely inspired by the Nordic model of social policy, and it has its roots in the ideas developed by Alva and Gunnar Myrdal (Morel et al., 2012). Social investment-oriented policies comprise ALMPs, family leaves, and childcare and long-term care provisions. Seeking to alleviate the risk of unemployment, ALMPs provide mechanisms to reinsert workers into the labor market. Beyond this, some ALMPs emphasize workers' capacitating to increase their chances of landing better-paying jobs in the knowledge-based economy. Parental leave and childcare services are intended to encourage women's labor-force participation as a way to promote the formation of two-earner families. These policies are protection tools against the risks of unemployment, poverty, and child poverty. Moreover, they attempt to stimulate the fertility rate by reliving unpaid domestic work socially assigned to women and by reducing the cost of motherhood for female workers in the labor market (Esping-Andersen, 2002; Hemerijck, 2013, 2017).

The New Developmental State

The concept of the "developmental state" was coined by Johnson (1982) to portray the pathway of Japanese economic development in the post-war. It refers to a type of state that plays an active role in economic development, including the conduct of national industrialization as a means of acquiring competitiveness in the international market. Afterward, in other studies, this concept was operationalized to analyze the experiences of Korea and Taiwan, which followed a developmentalist project inspired by the Japanese model (Medeiros, 2010; Ianoni, 2014).

Throughout the literature, other dimensions were added to this definition, such as the nature of the bureaucracy, organized along the lines of Weberian bureaucratic rationalization, which enables the state to achieve its goals (Evans, 1987). Besides rationalization, the bureaucracy capacity is related to the autonomy of the state from private interests. In this sense, the opposite of a developmental state is a predatory state whose bureaucratic apparatus is captured by private interests (Evans, 1995). To acquire such autonomy, it is imperative to forge a cohesive class coalition, capable of subordinating the bourgeoisie to national interests, curbing rent-seeking, and negotiating contracts with foreign investors under the condition of technology transfer (Kohli, 2004; Haggard, 2018).

Nevertheless, in the transition from the 1980s to the 1990s, the national developmentalist strategy was challenged in the face of the deepening of economic globalization. Protectionist policies were hampered by widespread adherence to World Trade Organization (WTO) rules (Yusuf, 2001). In addition, the Washington Consensus (1989) – whose neoliberal recommendations were greatly prescribed by International Financial Institutions (IFIs) in this period – pressed domestic macroeconomic policies against state interventionism in the market. During this process, the IFIs spurred financial deregulation that made East Asian economies more vulnerable to global market volatility (Medeiros, 2010).

Yet, in 1997, the region was hit by a financial crisis, started in Thailand, whose spillover effects spread across the region. As measures to solve the crisis, IFIs further endorsed neoliberal reforms such as privatization and labor market deregulation (Haggard et al., 2000). For all these reasons, the Asian financial crisis is often interpreted as the critical juncture of the developmental state breakdown. In this regard, Medeiros (2010) cites how financialization severely jeopardized the use of domestic credit as a funding mechanism for industrial policies. Also, national industries lost competitiveness with the development of new global production networks; thereby, they redirected their accumulation strategies toward integrating themselves into the global value chains as majority shareholders in privatization processes. In effect, the interests of national business converged with those of foreign capital, which led to the disruption of the internal class cohesion required to sustain a national developmentalist project (Medeiros, 2010).

However, several scholars argue that the developmental state did not collapse, but rather was redesigned. Haggard (2018) remarks, for instance, that the 2008 financial crisis was a turning point in the hegemony of the Washington Consensus, ushering in the "Post-Washington Consensus" in which the role of the state as an agent of economic development was rethought even by IFIs. Other scholars (Hayashi, 2017; Medeiros, 2019) argue that, rather than being abolished, the developmentalist strategy was replaced by promoting productive integration into global chains through the attraction of foreign direct investment (FDI). Currently, industrial policies focus on technological development and innovation – in the field of nanotechnology, biotechnology, information, and communication – through heavy investment in Research and Development (R&D) (Ashford; Hall, 2019 [2011]).

Following the "Flying Geese" model[1], the main aim is to move up the value chains, in order to take part in the production stages with higher added value. It must be noted that Korea sits high up in the global value chains, displaying a complex exporting matrix (Medeiros, 1997; Medeiros, 2019).

As can be seen, there is a complementary between the new developmental state model and the social investment approaches. Both focus on the transition process towards a knowledge-based economy. Above all, the proposal of the social investment approach of enhancing workers' capabilities is functional to the impetus of promoting the expansion of high-productivity sectors linked to technological innovation.

THE CHANGING IN THE KOREAN WELFARE STATE

Education

There is a consensus between orthodox and heterodox accounts that the effectiveness of education policy in South Korea was crucial to its economic success (London, 2018). Indeed, key initiatives in the development of this policy were undertaken prior to the AND period, under the Syngman Rhee rule in the 1950s. Rhee enacted the law making primary education compulsory, as well as sponsored the improvement of educational infrastructure (Tang, 2000; Haggard; Kaufman, 2008).

General Park Chung-hee led a coup in 1961 and held power until 1979, when he was assassinated by the chief of the Korean Intelligence Agency (Mcguire, 2010). It was under his leadership that the developmental state was established and a successful economic period was initiated (Evans, 1995; Kohli, 2004). In order to qualify the labor force to be incorporated into the industrialization process, Park universalized elementary schools as well as expanded secondary, technical, and vocational education. Park also launched the so-called equalization policy, which abolished entrance exams, randomly assigning students (in their respective districts) to public and private schools, as long as they passed a national qualification exam. This policy standardized the quality and content between public and private schools (Kim; Lee, 2010; London, 2018).

After democratization in 1988, the equalization policy was maintained in the secondary school, despite some changes in its implementation. More significant in this period, though, was the major reform of the higher education system. Universities gained autonomy after transitioning from a highly centralized structure subject to governmental will, particularly following the reforms initiated by the Kim Dae-Jung government (1998-2003). Although private provision accounts for 80% of all higher education institutions, the government has substantially increased subsidies in recent decades (Mok, 2006).

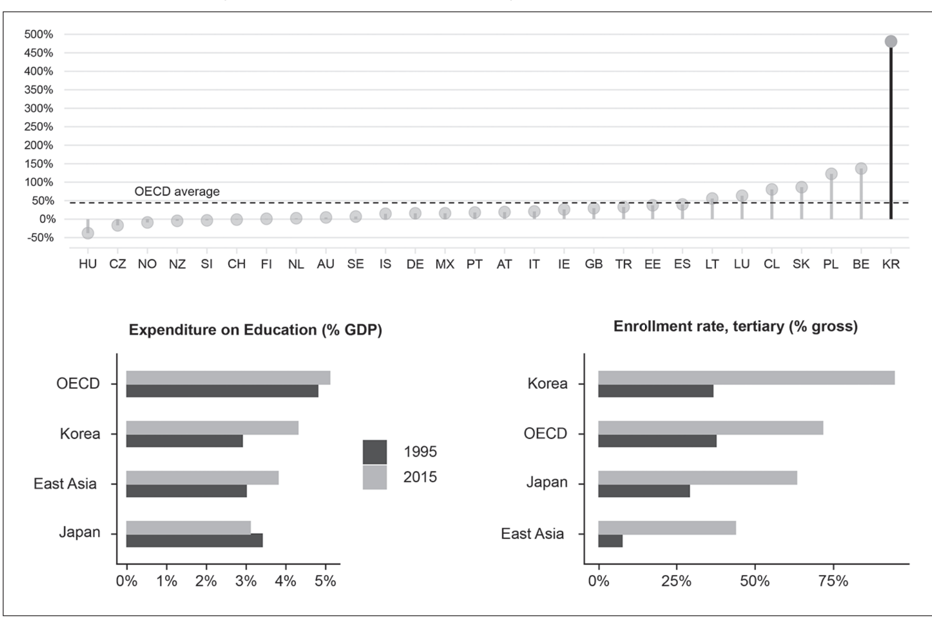
According to Yi and Lee (2005), this expansion of higher education coincides

[1] The dynamics of the "Flying Geese" consist of the constant displacement of the production stages, as soon as a certain degree of productive development has been acquired, to places where the cost is cheaper (Medeiros, 1997).

with the restructuring process of the production regime in Korea that started in the 1990s. In 1993, Kim Young-sam (1993-1998) began the New Economic Plan, through which he sought to change the approach to acquiring economic competitiveness in the face of the deepening of globalization. While the former approach was based on increasing productivity while reducing labor costs, the focus shifted to technological development to produce high-value-added goods. Since this new approach depends on the formation of a highly skilled workforce, the boost of higher education became imperative (Yi; Lee, 2005).

Following this new guidance, Korea presents the largest positive variation in terms of total public spending on education as a fraction of the GDP, between 1995 and 2015, among the cases analyzed in Figure 1. Most of these resources have been allocated to higher education, whose share in total education spending more than doubled from 8% in 1995 to 18.9% in 2015. Even though higher education spending per student in Korea remains well below the OECD average, it experienced a huge real growth of nearly five times between 1995 and 2015; the highest variation among OECD members (Figure 1). Furthermore, the gross enrollment rate in higher education shows an intense upward trend, rising from 36.5% in 1995 to 94.3% in 2015, surpassing the OECD average of 71.5% and achieving the highest coverage among cases analyzed (see Figure 1). Hence, Korea has devoted a massive effort to expand higher education in this context, whether in terms of spending, or coverage.

Figure 1: Real growth in public expenditure on tertiary education per student (PPP constant 2011, U$), total public spending on Education (% GDP) and gross enrollment rate in tertiary education, 1995 and 2015



Source: Author's calculation based on UNESCO data for spending per student; UNESCO (enrollment rate, tertiary and expenditure on education as a share of GDP.)

In short, since the 1990s, Korea has given new impetus to its education policy. In contrast, there has been an increasing emphasis on higher education as part of a major rethinking of the development strategy under the context of globalization. This emphasis on higher education policy is linked to the goal of increasing the workforce's quality and quantity in order to drive it into sectors of technological innovation.

Health

Until the 1970s, public health provision in Korea was restricted to primary medical care, targeted at disease prevention and basic sanitation, particularly in rural areas. Private provision was predominant, and then there was a dual system that featured highly uneven access to health services. Only in 1975, Park launched the National Health Insurance (NHI) – as part of the Fourth Economic Development Program – which was one of the pillars of the Korean welfare state in the AND period (Kim, 2015; London, 2018).

Despite providing a few services and narrow coverage, the NHI became highly popular over time, as it was socially associated with a middle-class status (Kwon, 2014). In 1986, the dictator Chun Doo-Hwan announced his intention to expand not only the coverage of the NHI, but also that of the National Pension System (NPS). Nonetheless, even under strong economic activity and political hardening, the conjunction of internal conflicts among the military, strikes, and student mobilization, pressured the collapse of the regime. Those circumstances opened the way for presidential elections in 1987, which General Roh Taeh-Woo won, crowning the transition to democracy in the wake of the third wave of global democratization. Roh took over Chun's agenda of extending NHI coverage and undertook the incorporation of rural workers and the self-employed into the system (Mcguire, 2010). Even with this improvement, Kwon (2014) observes that the NHI remained fragmented with access disparities to health services.

Later, the 1997 Asian financial crisis context opened the way to reshape the NHI. Elected in this context, Kim Dae-Jung (1998-2003) replaced the old fragmented system with a new unified one, from an administrative and financial point of view, making it more equitable and hence more redistributive (Kwon, 2005, 2014). According to Mcguire (2010), approximately 370 insurance schemes were integrated into this single system.

The trajectory of public spending on health as a fraction of GDP shows the two critical junctures in this policy. First, from a stagnant level of spending around 1% of GDP, there was an upward trajectory in the transition from the 1980s to the 1990s, during both the democratization process and the expansion of the NHI after the Roh government. Second, after the 1997 Asian financial crisis, this expenditure displayed a constant growth trend, peaking at 4.3% of GDP in 2015[2].

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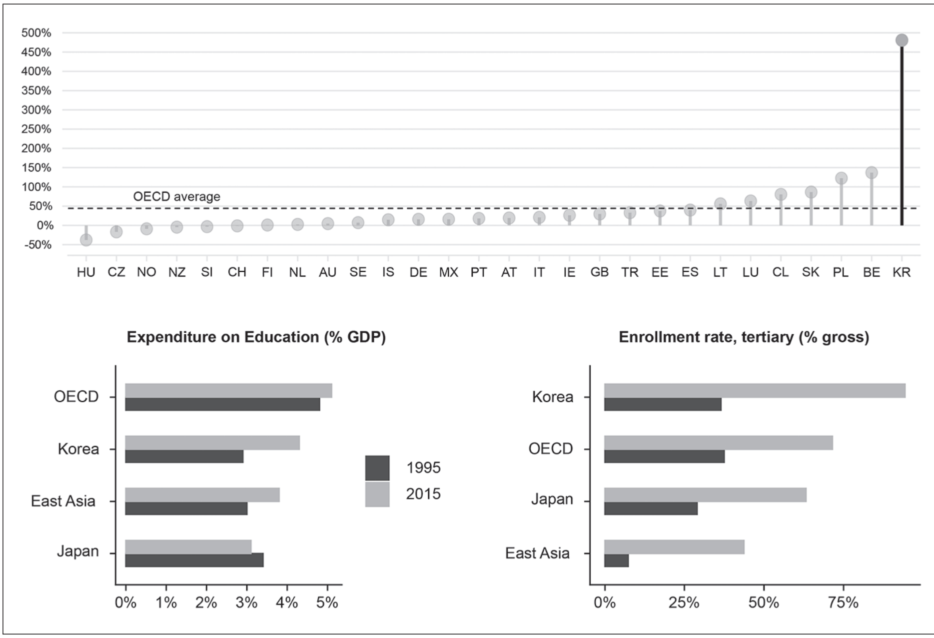
[2] Data obtained from the World Bank's website: https://data.worldbank.org.

Figure 2: Real growth in public spending per capita on health
(PPP constant 2015, U$), public spending on health (% GDP), and
out-of-pocket spending (% total spending on health), between 2000 and 2015



Source: OCDEstat and World Bank Data.

Therefore, the boost in public spending on health was remarkable under democracy, particularly considering that it had not even reached 1% of GDP throughout the AND period. Between 2000 and 2015, Korea had one of the highest increases in spending as a proportion of GDP among OECD members and matched the level of expenditure on education, which was traditionally favored by Korean policymakers, as earlier mentioned. Moreover, during this period, this country performed the highest growth rate in public health spending per capita (see Figure 2), also among OECD members. Since the 2000s, public spending has surpassed private spending as a percentage of total healthcare spending. Within private expenditures, out-of-pocket payments – which refer to the charges directly paid by patients for health care services – have been reduced from 43.6% to 33.5% percent of total health care spending[3]

Despite being higher than the East Asian average, the public spending level on health in Korea remains well below that of Japan and the OECD average, as depicted for all indicators. On the other hand, it is worth considering that the institutional legacy of the Korean national health system is rather recent, having been

[3] Data extracted from World Bank Data.

created at the end of the 1980s. In contrast, the national health system in Japan was founded in the 1960s (Aspalter; Liu, 2017), while most European countries established it between the early and mid-twentieth centuries (Hicks, 1999). From this point of view, it is expected that Korea will still take some time to reach the level of public health financing found in Japan and other OECD countries. In this sense, the relative variation in these indicators is more representative of the policy effort in this country, which portrays a significant expansion of public health provision over the last two decades.

Social protection

Likewise in most East Asian countries, social welfare in Korea was predominantly provided by the market in AND context, so that it relied almost entirely on full employment, albeit with weak labor protection and low wages. Certainly, it was feasible due to the high economic growth rates achieved after the 1960s (Yi; Lee, 2005).

Only civil servants and industrial workers were covered by insurance schemes introduced in the 1960s, and even those had few risks included, such as the industrial accident protection created in 1962. Although the National Welfare Pension Act was enacted by Park in 1973, the National Pension System (NPS) was only implemented under the Chun government in 1986. Even so, coverage was not yet comprehensive; at the same time, the demand for insurance was not high, given the young population and the full employment situation that ensured the market as a stable instance of social provision (Tang, 2000; Kwon, 2014).

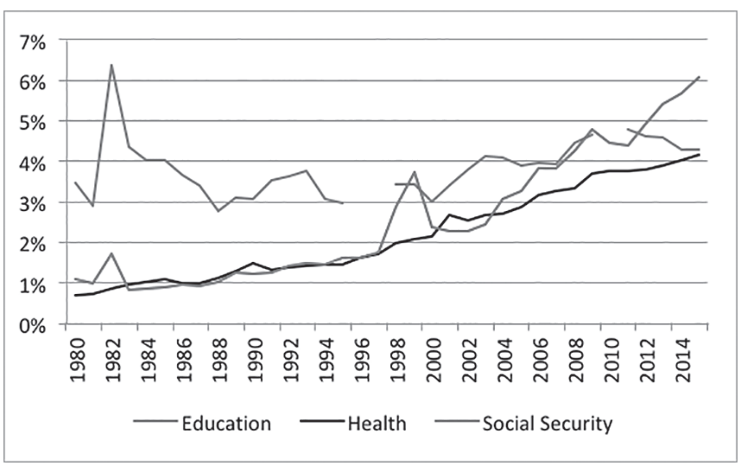
However, economic stability was undermined by the 1997 Asian financial crisis, in which Korea was among the hardest-hit countries. It caused an economic recession, falling wages, and a sharp rise in the unemployment rate (Peng; Wong, 2010). Coming from small companies, most of the unemployed were not covered by any unemployment insurance, which at the time covered only 20% of all employees (Yi; Lee, 2005). Moreover, unlike in the AND period, the proportion of elderly people in the population had risen in the 1990s, many of whom were uninsured (Yi; Lee, 2005). Consequently, a sizable portion of society was left helpless in this context.

Haggard and Kaufman (2008) point out that the political effect of the crisis was widespread, leading to the collapse of political regimes and governments throughout East Asia. When Kim Dae-Jung – the first ruler to oppose the developmentalist-military coalition, hegemonic since the 1960s – came to power in 1998, he was faced with a complex political scenario. On the one hand, the IMF, the World Bank, and businessmen were pressuring him to carry out reforms of the labor market as a resort to create jobs. On the other hand, he had to negotiate with the unions, in view of the rise in strikes. Under such circumstances, Kim Dae-Jung embraced a tripartite committee with the participation of employers, labor unions, and government representatives (Haggard et al., 2000; Kwon, 2004). Despite the conflicting deliberations, the government agreed with such entities regarding the labor market flexibilization reform, while in turn reinforcing the expenditures in the NSP (Yang, 2017).

Until the 1990s, the Korean welfare regime was similar to that of other East Asian countries, following a selective productivist structure (Kwon, 2005), with very low social security spending. This spending started increasing by 1988 but peaked in the midst of the crisis (Figure 2). After this context, Kim (2015) reports that all private sector workers and the self-employed, which accounted for almost 86% of the labor force, were incorporated into the NSP.

As a result of the economic recovery, the level of social security spending, measured as a fraction of GDP, fell in the aftermath of the peak witnessed during the crisis. However, it resumed an upward trajectory under the Roh Moo-hyun government in 2003 and has maintained so ever since. More than that, as Figure 3 shows, this spending surpasses that of education in 2012, varying by five percentage points of GDP between 1990 and 2015. Even so, Korea's spending (6%) on social protection still appears well below that of Japan (14.1%) and the OECD average (15%) in 2015[4]. Between 2007 and 2018, total public spending on social protection per head (excluding health) had a real growth of 106% (Table 1).

Figure 3: Disaggregated social public spending in Korea (% GDP), 1980 to 2015



Source: UNESCO (Education), OECDstat (Health and Social Security).

[4] Available at: http://stats.oecd.org. Accessed on: 1/3/2022.

Table 1: Spending on social protection by social risks in Korea, 2007 and 2018

Branch	2007	2018	Variation
Social protection per head	1161	2395.4	+1234.4
Old age % GDP	1.4	2.8	+1.4
Old age % GDP/Demand[b]	0.14	0.19	+0.04
Old age (Per Recipient)	9477.9	5940.0	-3537.9
Survivors % GDP	0.3	0.3	
Survivors (Per Recipient)	9174.8	6932.7	-2242.1
Family % GDP	0.4	1.2	+0.8
Family % GDP/Demand[c]	0.3	1.2	+0.9
Family leaves (Per Recipient)	48015.4	281844.7	+233829.3
Unemployment % GDP	0.2	0.4	+0.2
Unemployment % GDP/Demand[d]	0.06	0.10	+0.04
Unemployment (Per Recipient)	13767.9	17608.6	+3840.7
ALMP % GDP	0.1	0.3	+0.2
ALMP % GDP/Demand	0.03	0.07	+0.04
ALMP (Per unemployed)	2187.6	6062.3	3874.7
Incapacity related (% GDP)	0.6	0.6	
Incapacity related (Per Recipient)	7531.3	6457.8	-1073.5
Other social policies % GDP	0.8	0.7	-0.1
Other social policies % GDP/Demand	0.47	0.58	+0.11
Other social policies (Per Recipient)[e]	3713.5	6873.8	+3160.3

Notes: [a] At constant 2015 PPP U$ and excluding health; [b] standardized by the proportion of people over 65 in the population; [c] standardized by the fertility rate; [d] standardized by the unemployment rate; [e] spending on other social policies refers mainly to social assistance and it is standardized by poverty headcount ratio at $6.85 a day (2017 PPP). Spending per recipient is calculated at the constant price (2015, PPP U$) and considers only cash benefits for which recipient data is available. There is no historical data for housing.

Source: OECDstat and ILOSTAT (for unemployment rate).

Within social protection[5], as Table 1 shows, the most remarkable efforts were in family policies, unemployment, and active labor market policies (ALMP). Public spending on these policies has increased not only in proportion to GDP but also when controlled by the level of demand for protection against these social risks –

[5] There are different classifications of social protection. I use the Classification of Functions of Government used by International Monetary Fund (COFOG), which distinguishes education and health from other types of social policies.

that is, considering the fertility rate for family policy and the unemployment level for ALMP and unemployment benefit. Moreover, spending per recipient or unemployed person also increased.

Although spending on old age as a share of GDP has notably increased, the level of expenditure per recipient has fallen. In fact, old-age pension coverage has declined in recent years, which is inherently related to the growth of non-regular workers caused by the labor market reform (Yang, 2017). It is no coincidence that poverty among the elderly has risen in the last decade. For this reason, Roh Moo-Hyun introduced the Basic Pension System for the elderly, in 2008, which provides a minimum income to workers who reach retirement age but are not covered by any pension system. While this measure is a key safeguard, it is insufficient, however, to solve the problem (Jones; Urasawa, 2014; Lee, 2015).

With respect to social assistance, Park Chung-hee had already established the Livelihood Protection Program (LPP) in 1961, but it covered a small portion of the poor population and provided low benefits. In addition, its budget was reduced over time; even in the democratic period, particularly under the Roh Tae-woo government that imposed conditionalities and tightened eligibility criteria (Yi; Lee, 2005; Kim, 2015).

It was Kim Dae-Jung who replaced the LPP with a new income support program, the Minimum Living Standard Guarantee (MLSG), through which benefits in kind were expanded, such as medical assistance, housing, funeral, and school services. Compared to the previous program, the monetary benefit was adjusted according to family size, and public subsidies for housing were added (Kwon; Holliday, 2007). Coverage was widened by abolishing eligibility criteria, such as the age requirement that had excluded the population between 18 and 65 (Yi; Lee, 2005). For Kwon (2014), this program represented the acquisition of a social right in the sense of ensuring a minimum standard of living for Koreans.

In 2015, under the Park Geun-hye government – Park Chung-he's daughter – the eligibility criteria were further relaxed, moving from being based on absolute poverty to relative poverty[6], thereby significantly enlarging the MLSG coverage. In 2018, it covered the level of 1.6 million people[7]. In sum, the Korean government has expanded the poverty policy, in terms of coverage, the amount of benefits, and the services offered (Lee, 2015; Kim, 2015). As Table 2 shows, even though social assistance spending as a fraction of GDP has slightly decreased, spending per recipient has significantly increased. This relates to the fact that the poverty rate – considering the proportion of people living on up to $6.85 a day – has fallen over the 2010s[8].

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[6] Absolute poverty is based on a minimum defined as sufficient for a livelihood, while relative poverty refers to the median income of a given society.

[7] Available at: https://kosis.kr/eng/index/index.do. Accessed on 2/11/2022.

[8] See: https://databank.worldbank.org/.

Active Labor Market Policies

As previously stated, the literature on Western welfare states has increasingly debated the challenges of social protection in the face of ongoing structural changes (Esping-Andersen, 2002). New social risks arising from this scenario are mainly related to employment provision issues, concerning its creation and quality. Globalization has intensified competition among economies, reflecting a more unstable labor market with a rising risk of unemployment and job precariousness. The shift from an industrial to a service economy entailed a lower margin of productivity gains, decreasing the capacity to generate jobs (Esping-Andersen, 1999). Finally, rapid technological advances in the productive system have led to the so-called knowledge-based economy, which favors the creation of high-skilled jobs, while excluding low-skilled workers (Hemerijck, 2013; Iversen; Soskice, 2019).

To address the new social risks, social investment proponents have emphasized the role of ALMPs. While passive policies aim to reduce the reliance of individuals on the market – e.g., pensions, social assistance, unemployment insurance, etc. –, ALMPs seek to facilitate their insertion into the labor market through training, vocational programs, and job-search assistance programs[9] (Kerstenetzky, 2012; Hemerijck, 2013).

The shift to a service economy has also occurred in the NICs and Japan. Although in Korea the share of industry in GDP (25.2%) is well above the OECD average (13.5%), the proportion of service sector jobs accounts for 70% of the total in 2019. Therefore, this sector is clearly the main provider of jobs in this country.

ALMPs have traditionally been used in Korea since the Park Chung-hee government, especially for direct job creation by undertaking public works projects (Yi and Lee, 2005). After democratization, a new approach was added to this policy with the launch of the Employment Insurance Program (EIP) in 1993, which comprises two faces. On the one hand, passive protection against unemployment risk is ensured through unemployment insurance insertion. On the other hand, the activation of the labor market is promoted through training policies and job-search programs, whose services are mostly provided by private companies with government subsidies. In the context of the financial crisis, Kim Dae-Jung expanded the EIP by relaxing eligibility criteria[10], enlarging the replacement rate, and lengthening the duration of benefits (Haggard; Kaufman, 2008). As shown in Table 1, Korea has substantially expanded ALMPs over time.

Within ALMP policies, the social investment perspective advocates training programs because they foster human capital development. Inspired by the Nordic model of social policy, the purpose is not only to facilitate insertion into the labor

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[9] The broad notion of active social policies also includes the so-called work-family reconciliation policies, which I will discuss in the next section.

[10] Prior to the reform, only companies with more than 30 employees were covered by the unemployment insurance system. Afterward, companies with 1 employee were included (Tang, 2000).

market, but also to boost access to highly skilled and better-paid jobs. In Korea, the largest investment within this policy still lies in the direct creation of jobs via public works, following the approach of the AND period[11].

At the same time, it can be said that the main activation mechanism in Korea is also related to human capital formation and the new developmental state approach. Since this approach emphasizes insertion into the most sophisticated productive global chains, then fostering technological development becomes a key industrial policy (Haggard, 2018; Medeiros, 2019). For this reason, Korea encourages innovation by investing heavily in Research and Development (R&D) in partnership with the private sector and higher education institutions.

Table 2: Total expenditure (public and private), tax incentive, and government expenditure on R&D, Korea, Japan,OECD and Sweden, 2015

	Total spending on R&D (% GDP)	Tax incentive (% GDP)	Government expenditure on R&D (% GDP)	Researchers in R&D (per million people)
Korea	4.0	0.18	1.13	7,013
Japan	3.3	0.11	-	5,173
OECD	2.4	0.09	0.67	3,544
Sweden	3.2	0	0.77	6,834

Source: World Bank and OECDstat.

Table 2 shows that the Korean state plays an incisive role in encouraging the technological innovation sector. This country has both the highest level of total spending (adding public and private resources) and public spending on R&D as a fraction of GDP, as well as one of the highest tax incentives for R&D among OECD members. There is a coordinated policy in order to drive technological advance toward areas of strategic interest. As Kim and Castillejos-Petalcorin (2020) underline, several studies evince that public investment induces the expansion of private investment, partly by exploring research fronts in fields where companies do not take risks, and partly by training human capital to be incorporated into private development centers. As shown in Table 2, Korea has been successful in developing human capital for incorporation into the R&D sector, with the highest ratio of researchers (per million people) among OECD countries.

In short, by combining investment in R&D with the expansion of higher education, the Korean state coordinates the supply and demand expansions necessary to create better jobs, so that it leads toward a knowledge-based economy. This

[11] In 2015, spending on direct create of job was 0.20 as share of GDP in comparison to 0.05 for training programs. Data extracted from: https://stats.oecd.org/.

implies a strategy of articulation between social policy and economic policy, which indicates that a developmental welfare state is in the making.

WORK-FAMILY RECONCILIATION POLICIES

Within the social investment literature, another central issue discussed refers to the institutional inadequacy of most Western welfare states with regard to the ongoing changes in family structures (Hemerijck, 2013). These changes are related to the demographic transition and women's increasing engagement in labor markets. Traditionally, under the patriarchal order, women have performed unpaid housework, including the care of children and the elderly. Since women's labor-force participation has increased, their working day has been divided between paid employment and family responsibilities. Facing the challenge of reconciling work and family life, they have postponed childbearing, resulting in an overall drop in fertility rates among OECD countries. Moreover, with the population aging, the demand for elder-care services has risen, which has overburdened women's domestic work in such a way as to constitute a barrier to their access to full-time and better-rewarded jobs. At the same time, given a more unstable labor market caused by the spread of deregulatory reforms, the establishment of two-earner families via female productive engagement has proven essential to prevent absolute poverty and child poverty among societies (Kerstentezky, 2012; Hemerijck, 2013). As pointed out earlier, the social investment perspective proposes the expansion of work-family reconciliation policies to address such challenges, which include parental leave, public provision of childcare, and long-term services (Kerstenetzky, 2012; Hemerijck, 2013).

In literature, East Asian welfare regimes have been described as "familist", as they traditionally assigned to women the function of caring, which is often ascribed to the Confucian culture (Goodman et al., 1998). However, the dramatic demographic transition and changing family structure in Korea have occurred at a rapid pace. Since 2000, its fertility rate is the lowest among OECD countries, resulting in an aging population. To mitigate these effects, the Kim Dae-Jung government (1998-2003) introduced measures to expand family policies, including increasing childcare facilities and lengthening the maternity leave duration from 8.5 weeks to 58.4 weeks. Fathers were allowed to take parental leave even if their partner also took leave (Fleckenstein; Lee, 2017; Lee, 2018)[12].

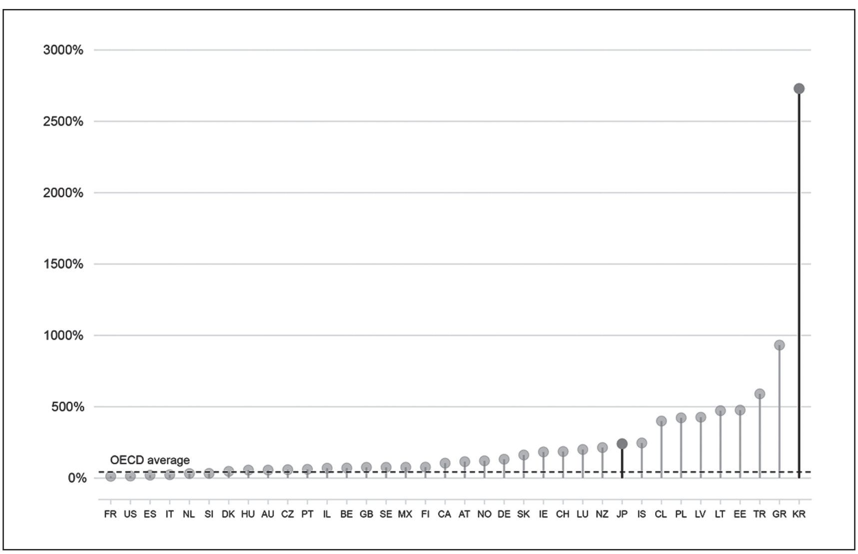
[12] Until then, they were only allowed to take parental leave if the mother did not require it.

Table 3: Proportion of children aged 0 to 2 years enrolled in childcare or pre-school, length of paid maternity leave, length of paid parental leave, and paternity leave for fathers, Korea and selected OECD countries, 2018

	Children aged 0 to 2 years enrolled in childcare or pre-school	Length of paid maternity leave (Weeks)	Paid parental leave and paternity leave for fathers (Weeks)	Spending on family services (% GDP)[a]
Korea	62.7	64.9	54.0	1.0 (0.23)[b]
Japan	32.6	58	52.0	0.9 (0.22)[b]
France	57.5	42	28.0	1.5 (0.25)[b]
Sweden	46.3	55.7	14.3	2.2 (0.36)[b]
Germany	37.7	58	8.7	1.2 (0.26)[b]
OECD	27.1	51.8	9.3	1.0 (0.16)[b]

Notes: a It includes the direct financing or subsidization of childcare and early childhood education facilities, public childcare support through earmarked payments to parents, public spending on assistance for young people and residential facilities, and public spending on family services, including centre-based facilities and home help services for families in need.
b Standardized by the percentage of children under 5 years in the total population.
Source: OECDstat.

Figure 3: Real growth in spending (U$ Constant 2015, PPP) on family policies per child under 5 years, OECD members



Source: Author's calculation based on OECDstat dataset.

According to Fleckenstein and Lee (2017), the government under Roh Moo-Hyun (2003-2008) explicitly embraced social investment as a framework for social welfare reform. In 2008, the parental leave duration for mothers was extended to 64.9 weeks, while for fathers it was extended to 52 weeks. It is the longest parental leave for fathers among OECD members (Table 3). In contrast to the previous approach, which targeted the poor, access to childcare centers was universalized, thereby including the middle class (Lee, 2018; Hong, 2019).

This policy was further enlarged during the conservative governments of Lee Myung-Bak and Park Geun-Hye, between 2008 and 2015: childcare provision access became free for all families; and the eligibility criteria were relaxed, covering children aged up to 6 years (Fleckenstein; Lee; 2017; Lee, 2018). The shared parental system was implemented in 2014 as a mechanism to encourage fathers to use parental leave. Encouraged by the social investment approach, this is a model that provides a shared leave entitlement among parents, rather than one taken separately, and attempts to relieve the caring function assigned to the mother (Hong, 2019). It is worth remembering that family policy now ranks as the second largest expense within Korean social protection (i.e., excluding education and health) (recall Table 2). Between 2000 and 2017, Korea had the highest real growth rate among OECD countries for public spending on family policies per child under the age of five (Figure 3). Following the Nordic model, the major family policy effort is driven toward service provisions (benefits in kind), especially early childhood education and childcare (ECEC), whose per capita spending (2015 constant, PPP U$) per child aged under 5[13] ranks among the top 10 in the OECD. Moreover, Korea has the higher net enrollment rate in ECEC for children aged 0 to 2 years – when they most need care – than countries like Sweden and France, whose work-family reconciliation arrangements are regarded as the most comprehensive in Europe (Table 3).

Hence, there has been growing state support for the caring function in Korea, breaking with the "familist" profile. However, these measures have not been reflected in significant growth of labor market participation of women, and the fertility rate remained declining during the 2010s[14]. One of the reasons for this, according to Hong (2019), is that childcare services do not fully meet the long working hours of parents.

CONCLUSION

The case study of Korea provides a counterpoint to the perspectives that set a trade-off between redistribution and economic efficiency, or between the developmental state and the welfare state. As presented in this paper, since the 1990s, this country has redesigned its industrial policy to manage the new economic challenges arising from globalization, while at the same time expanding its social welfare system.

[13] It is a more accurate measure than spending per capita, since it focus on the intended beneficiary group, the age of which demands more care.

[14] See: https://data.worldbank.org/.

Moreover, both dimensions have been linked, which is why it can be said that such a country has matured into an inclusive developmental welfare state type.

In this sense, this paper indicates the expansion of investment and coverage in almost all sectors of social policies analyzed. Beyond the steady growth of social spending in total terms, its structure has also changed. Notably, the investment in social protection moves from a residual stage to surpass that of education, a sector that had been traditionally favored in the AND period. Furthermore, in the last two decades, the growth of social spending in Korea, under different metrics, stood out among OECD countries, especially in health, higher education, family policies, and ALMPs.

In fact, in absolute terms, there is a gap between social spending in Korea compared to the OECD average and Japan. Still, one has to take into account the substantive differences among their institutional legacies: the development of the welfare state in Korea was quite late compared to Western standards or even Japan (Kwon, 2005; Kim, 2015). Nevertheless, even though such social welfare system has advanced in recent years, the labor market reform in 1998 triggered new social problems, given the rise of non-regular workers who are not covered by any social insurance (Yang, 2017). These new problems require a further expansion of social protection, which Korea has attempted to handle through the introduction of minimum pensions and the extension of social assistance.

Besides the expansion of passive social policies, Korea has also greatly fostered active policies. As some works had already pointed out (Fleckenstein; Lee, 2017; Kerstentzky; Guedes, 2021), Korea has followed the social investment approach, mainly based on the Nordic social policy, by expanding work-family reconciliation policies and ALMPs. Above all, it is noteworthy the impulse of work-family reconciliation policies whose scope, from different points of view, reaches a more comprehensive provision than that of the European countries.

Furthermore, Korea has articulated social investment with new developmentalist approaches. In order to move up the global value chains, Korea has heavily invested in technological innovation, while training highly skilled labor. In other words, the demand and supply necessary to create more and better jobs have been jointly promoted, conducting the transition to a knowledge-based service.

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