The Korean Welfare State in Economic Hard Times
Democracy, Partisanship, and Social Learning

Jae-jin Yang

Abstract

This article seeks to understand social policy choices during economic hard times based on the Koran case. It analyzes social policy responses by two ideologically different governments to the same economic shocks. The main findings are twofold. First, democracy opened a new window of opportunity for pro-welfare political forces during the 1997 Asian financial crisis, which led to a rise of the Korean welfare state under center-left President Kim Dae-jung (1998-2002). Second, the conservative Lee government (2008-present) had to compromise its beliefs and continue Keynesian reflationary macroeconomic management and welfare state development in Korea, in order to provide a cushion for the political and social problems associated with the global financial crisis. The Korean case strongly suggests that democracy and social learning matter more than partisanship and ideology in economic hard times.

Key words: Korea, welfare state, economic crisis, Kim Dae-jung, Lee Myung-bak.

Although Korea is one of the smallest welfare states among Organization for Economic Co-operation and Development (OECD) countries, it is no doubt a newly rising welfare state in East Asia, second as such to Japan. Successful industrialization since the early 1960s has change Korea from an agrarian economy into a highly industrialized one. As a result, in 2011, Korea was ranked the twelfth largest economy in the world, with a per capita income of U.S. $31,714, surpassing Italy, Spain, and New Zealand.\footnote{GDP and per capita income are calculated in purchasing power parity (PPP). IMF, World Development Indicators database, http://data.worldbank.org/indicator (accessed April 18, 2012).} Moreover, since the country entered democratic transition in the mid-1980s, Korea has become a...

Jae-jin Yang is Professor and Department Chair of Public Administration at Yonsei University. <jjyang@yonsei.ac.kr>
“fully functioning modern democracy.”

Based on its economic and political resources, Korea is developing as a welfare state.

On the road to becoming a modern welfare state, Korea has experienced two economic hard times: one in 1997-1999, during the Asian financial crisis, and the other in 2008-2009, during the global financial crisis. As Peter Gourevitch pointed out, economic crisis places systems under stress. Hard times have exposed the strengths and weaknesses of the Korean welfare state, allowing new policy ideas to emerge. There have been many policy ideas to solve social problems. Previously, it was political power that made policy ideas the actual policy of governments. Hard times clearly have revealed the importance of democracy and partisanship in building a welfare state in Korea, which would have been blurred in prosperous periods. Paradoxically, however, hard times also have blurred the ideology and partisanship of the ruling elites in power, who have had to cope with emergencies. Crisis management has not permitted one to be bathed in ideology.

This essay has two goals. First, it will present and compare the policy responses of the progressive Kim Dae-jung government (1998-2002) and the conservative Lee Myung-bak government (2008-present) to the same stimulus of economic crisis. Second, it seeks to understand the policy choices of these governments, that is, why a great expansion of the social security system was made possible under President Kim and why conservative Lee also adopted an expansionary stance on social policies. The main argument is that democracy opened a new window of opportunity for pro-welfare political forces during the 1997 Asian financial crisis and that the conservative Lee government has had to compromise its beliefs to follow the merits of, and at the same time avoid the pitfalls of, the former Kim Dae-jung government. Social learning matters more than partisanship and ideology in the current economic hard times caused by the global economic crisis.

This essay consists of four parts. The first part presents a theoretical overview of the relationship between economic hard times and the welfare state. The second section describes and analyzes the Kim Dae-jung government’s social policy response to the 1997-1999 economic crisis, focusing on the rapid expansion of social insurance programs and the introduction of a new comprehensive public assistance program. The third part discusses the Lee Myung-bak government’s response to the 2008 global financial crisis, highlighting the turn in policy from an electoral pledge of “small government” to an expansionary fiscal policy and continued maintenance of the maturing Korean welfare state. The conclusion briefly summarizes the findings.

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Theoretical Context

Historically, the “golden age” of the welfare state was between 1945 and mid-1970, when most Western countries enjoyed unprecedented economic growth and prosperity. By almost any criteria, these were years when there was the introduction of new social welfare programs and rapid expansion in welfare-state provisions. There was a very broad-based political consensus in favor of a mixed economy and a welfare state. In a word, it was the heyday of the Keynesian welfare state.

However, by the early 1970s, the signs of economic difficulty were increasingly visible and the first oil shock that increased oil prices five times in 1973 precipitated a severe slump throughout the Western industrialized world. In 1974, the annual growth rate fell to 2 percent, and, in 1975, nine OECD economies “shrank,” sending the annual average growth rate below zero. The second oil shock in 1979 prolonged the economic difficulties. Along with the economic crisis, unemployment in the OECD countries had risen to an unprecedented fifteen million. At the same time, inflation accelerated.4

Given that the postwar development of the welfare state was predicated on national wealth generated by sustained economic growth, it is no surprise that the retrenchment of the welfare state, or welfare state crisis, has become a universal phenomenon since the mid-1970s. Against the backdrop of the failure of governments on the left in their management of their sluggish economies, conservative political forces replaced leftist governments in most OECD countries, including the United Kingdom (1979-1997), Germany (1982-1999), and even Denmark (1982-1993) and Norway (1981-1986). As Clayton and Pontusson and others have noted, while efforts to maintain full employment were abandoned and acceleration of privatization undermined public-sector employment, conservative governments pushed forward with retrenchment reforms to their welfare states.5 Although total social spending was not easily curtailed in the face of rising unemployment and expanding poverty, the effective rates of social benefits and coverage were lowered and entitlements were pegged more closely to work.

However, the impact of economic crisis can be neither uniform nor

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unidirectional. As shall be seen in the South Korean case, economic crisis revealed the weakness of the old social security system and, thus, generated a sea change in the general public’s attitude toward favoring the welfare state. Regime type also matters. In democracies, as Garrett’s work strongly implied, there is no other way for politicians but to respond to growing demands concerning social policies; indeed, electoral competition induces greater government spending to reduce crisis-generated inequalities of risk and income. These tendencies have been stronger where leftist political forces have held onto power. Actually, social democratic corporatist countries have fared better under retrenchment pressure than liberal welfare states.  

As Hall pointed out, social learning also affects government response to economic crisis. Many social learning studies discovered that policy at time-1 is influenced by policy at time-0. This strongly suggests that policy responds less directly to social and economic conditions than it does to the consequences of past policy. More importantly, it implies that consequences of past policy are more deterministic than partisanship in developing social policies in an emergency situation.

Generally speaking, the relationship between economic crisis and development of the welfare state is by nature conflictive. A worsening economic situation forces the government into a policy of retrenchment. However, governments may respond to social problems associated with economic crisis differently, according to the ruling party’s ideology and policy orientation. Leftist governments are more likely to maintain income programs, while conservative governments make more drastic reforms to existing social security systems in an effort to reduce the size of the welfare state. However, democracy and electoral competition tend to blur the conflictive relationship and ideological differences. In addition, the social learning process can make it hard to predict a unidirectional relationship between government partisanship and policy responses to economic crisis. Therefore, interpretation should be contextualized, as discussed in the following empirical sections.

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9 The following section draws on Chung-in Moon and Jae-jin Yang, “Globalization, Social Inequality, and Democratic Governance in South Korea,” in *Democratic Governance & Social Inequality*, ed. Joshep Tulchin (Boulder, CO: Lynne Rienner Publishers, 2002), and Chung-in
The Expansion of the Korean Welfare State amid the 1997-1999 Economic Crisis

**The 1997-1999 Economic Crisis and Social Consequences**

On November 21, 1997, at the height of the Asian financial crisis, the Kim Young-sam government (1993-1997) asked the IMF for stand-by loans, admitting its inability to service its debt payments. Foreign reserves held by the Central Bank had dwindled to less than eight billion dollars, and the Korean currency had rapidly depreciated from 808 won to the dollar in 1993 to a record low of 2,000 won at its nadir in late 1997. As figure 1 vividly demonstrates, the shock of this devaluation caused the economy to contract by -5.8 percent in 1998. The unemployment rate soared from a previous norm of 2 or 3 percent to a record high of over 8 percent in 1998. The government budget balance plunged to -4.4 percent of GDP in 1998 from a string of balanced budgets in previous years. In a word, the Korean economy had collapsed after a decades-long economic miracle.10

![Figure 1. GDP Growth Rate and Unemployment Rate (1970-2010)](image)


The economic crisis not only undermined economic performance, but also was accompanied by serious consequences for social equality and welfare. Table 1 shows growing poverty and inequality. While the headcount urban poverty index rose from 9.6 in 1996 to 19.2 in 1998, overall inequality worsened. The Gini coefficient, a relatively reliable indicator of income distribution, increased from 0.291 in 1996, to 0.316 in 1998, and to 0.333 in the first quarter of 1999. Likewise, the income ratio of the top 20 percent to the bottom 20 percent rose from 4.63 in 1996, to 5.41 in 1998, and to 5.85 in the first quarter of 1999. The income share of the bottom quintile decreased from 8.2 percent in 1996, to 7.4 percent in 1998, and to 7.1 percent in the first quarter of 1999. The economic crisis also increased inequality of wealth. The asset income ratio, which is measured by dividing the highest 10 percent share by the lowest 10 percent share in earnings from interest, rent, and stock investment, shows a sharp increase from 17.1 in 1997, to 38.6 in the third quarter of 1999.11

Social Policy Responses by the Kim Dae-jung Government

Amid the mood of national despair and humiliation generated by the economic crisis, veteran democratic dissident Kim Dae-jung of the center-left party, National Congress for New Politics (NCNP), won the December 1997 presidential election. The election was more than a power shift; it was a landmark event that ushered in a new political landscape, representing the

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11 Moon and Yang, “Globalization, Social Inequality, and Democratic Governance in South Korea.”
completion of Korea’s long transition from conservative one-party dominance to a pluralist democracy. It also signified the dismantling of the developmental coalition, which had been cracking but remained intact under the conservative Kim Young-sam presidency.

The Kim Dae-jung government undertook drastic reform measures to deregulate and liberalize the economy, in accordance with the recommendations of the IMF and the World Bank. These reforms were basically threefold. First, restrictions on capital movement and foreign ownership were lifted in an effort to induce foreign investment in Korean assets. Second, the government facilitated the lay-off of workers in order to increase the flexibility of the labor market. Third, the government adopted a series of measures to make the economic system more transparent and accountable, including the introduction of consolidated financial statements and a ban on mutual payment guarantees within sister companies of the chaebols. In short, the core of these policies may be best understood as the rejuvenation of the Korean economy by means of neoliberal reforms.\textsuperscript{12}

At the same time, the center-left Kim Dae-jung government sought to complement the liberalization measures with an internal strategy to compensate the groups which were most at risk. It tightened the nation’s loose social safety net by expanding the coverage and the benefits of the four major state-administered social insurance schemes and by thoroughly overhauling the public assistance program.\textsuperscript{13}

Due to mass unemployment and related social problems, programs protecting individuals against unemployment grew at the fastest speed. The government poured more than 13.4 trillion won (equivalent to 8.6 percent of the FY 1998 and 1999 government budgets, or U.S. $12 billion) into unemployment-related emergency programs, including unemployment benefits, public works, training, employment subsidies, loans, and tuition support and food assistance for the children of the unemployed.\textsuperscript{14} Most striking was the rapid expansion of the unemployment insurance program, launched in 1995 to cover full-time workers in firms with more than thirty employees. Following the crisis, the coverage was extended in January 1998 to companies with ten or more employees; in March the same year, to workplaces with five or more workers; and finally in October, to all employees, including part-time and temporary workers. Duration of benefits also was gradually extended from two months to one year, while the qualifying period was shortened to three months.

\textsuperscript{12} Mo and Moon, “Democracy and the Origin of the 1997 Korean Economic Crisis.”


\textsuperscript{14} Office of National Budget, 1999.
from one year of work history.\footnote{This pattern was followed by injury insurance at work, which is one of the oldest and most mature social insurance schemes in Korea. Industrial accident insurance law covering 7.5 million workers in industrial firms with five or more employees was amended to include an additional 1.6 million workers in small businesses with four or fewer employees beginning in July 2000; with this amendment, small business employers also are eligible to be covered (Ministry of Planning and Budget, 1999). See also, \textit{Moon Hwa Daily}, August 20, 1999.}

The state-administered pension and health insurance schemes made another impressive expansion. The National Pension Scheme (NPS), which began by covering private-sector employees in 1988 and then expanded until it covered rural residents in 1995, was extended in April 1999 to provide financial security for old age, disability, and survivors for all urban residents aged eighteen to fifty-nine.

A series of National Health Insurance (NHI) reforms also contributed to the tightening of the nation’s social safety net. The NHI, which already covered the entire population in 1989, was unified into a single integrated system. Formerly, it was enforced by 142 insurance associations serving company employees and 227 regional insurance societies for general citizens, including the self-employed, not to mention separate administrations for public employees and private teachers. Along with the unification measures, the government enhanced the quality of benefits, including a gradual extension of the duration of benefits from 270 to 300 days a year in 1998, to 330 days in 1999, and then to 365 days beginning on January 1, 2000.\footnote{National Federation of Medical Insurance, 2000, and \textit{Korea Herald}, August 5, 1999.}

The four major social insurance schemes generally established the eligibility for regular contributions. The social safety nets therefore were insufficient and inefficient for people on the margins of urban and rural society, who usually did not have a contribution history. For these poor groups, the Kim Dae-jung government rejuvenated public assistance programs with fresh legislation to guarantee a minimum standard of living. Under the old scheme, the allowances were not available to households that included at least one person aged eighteen to sixty-four, deemed capable of working, even if their incomes were less than the minimum cost of living. Although the law required a strict means test and that recipients continue to seek or train for jobs, it marked a turning point from the Elizabethan Poor Law-style of public assistance, in which the state distinguished the deserving from the non-deserving poor and protected only the former.\footnote{Ministry of Planning and Budget, \textit{Narasalim 2000} (National Living 2000), 1999, http://www.mpb.go.kr/list.asp (accessed November 7, 1999).}

**Democratic Consolidation and Pro-welfare Politics**

In accord with the general relationship between economic difficulties and retrenchment of the welfare state, Korea could not afford to increase social
spending. Because of the unprecedented large negative growth, the nation’s tax revenue plunged so that the government’s budget balance recorded -4.4 percent of GDP in 1998. Moreover, in order for to governmer to repay its international debts and restart the wheels of factory machines, it had to attract foreign direct investment and portfolio inflows, and to generate a considerable trade surplus. Given that social welfare increases labor costs and aggravates the fiscal deficit, the government could not afford to opt for a high degree of welfare. High labor costs not only would reduce the international price competitiveness of Korean companies, but also discourage foreign direct investment in search of cheap labor.

In contrast to expectations, the Kim Dae-jung government made considerable strides toward a welfare state during economic hard times.\(^{18}\) Basically, the breakdown of the old social welfare paradigm and the resultant sharp change in value orientations caused the unexpected turn. The dominant social paradigm of the past, including economic growth, full employment, and self-reliance had worked well for more than three decades. During and after the economic crisis, however, mass unemployment was widespread and the old paradigm no longer seemed to work.

Against this backdrop, the immediate cause of the pro-welfare policy was the shift in power to progressive political forces for the first time in Korean history. The 1997-1998 economic crisis created a new landscape for welfare politics. Amid the mood of national despair and humiliation generated by the economic crisis, the progressive political forces of veteran democratic leader Kim Dae-jung took office. The Kim Dae-jung presidency marked a substantial power shift; it was a landmark event that ushered in a new political landscape, representing the completion of Korea’s long transition from conservative one-party dominance to a pluralist democracy. It also signified the dismantling of the developmental state coalition, which was cracking but remained intact under the Roh Tae-woo (1988-1992) and Kim Young-sam (1993-1997) presidencies after the 1987 democratic transition.

Under the auspices of the center-left presidency, progressive social forces came to the fore in social policymaking with the emergence of a pro-welfare social policy network among the center-left ruling party, civic movement groups, including the most outspoken and influential People’s Solidarity for Participatory Democracy (PSPD), and the Korean Confederation of Trade Unions (KCTU)), a prominent democratic labor organization. President Kim also introduced European-style corporatist policymaking, by establishing the Korea Tripartite Commission (KTC) in 1998. He invited two well-known labor organizations (the Federation of Korean Trade Unions [FKTU] and

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the KCTU) into the KTC, and yielded on a series of social pacts, although the commission was later boycotted by the KCTU for the reforms in labor market flexibility that were pursued by the Kim government. Core members of the social policy network shared a basic vision of social welfare and were closely interconnected through an informal web of personal ties, since they were all “comrades” in the democratization movement of the 1980s, a group collectively termed undongkwon. Of course, it should be noted that the pro-welfare policy network was neither formalized nor institutionalized. The policy network was issue-related and formed on an ad hoc basis. Moreover, the low-income classes, the target beneficiaries, were unorganized and therefore did not take part in the policy network. Nevertheless, the expansion of the Korean welfare state in economic hard times was a reflection of President Kim Dae-jung and his political coalition’s ideological and policy orientation.

The Korean Welfare State amid the 2008 Global Financial Crisis

The 2008 Global Economic Crisis and Social Consequences

The 2008 global financial crisis was a case of déja vu for Koreans, who had experienced the worst economic difficulties during the 1997-1999 Asian financial crisis. Due to the Korean economy’s high dependence on foreign trade, the recent global economic crisis had a direct impact on the Korean economy and labor market. Soon after the demise of Lehman Brothers, the Korean economy followed the same trajectories seen during the 1997-1999 economic crisis. First, the Korean currency rapidly depreciated from 930 won to the dollar in February 2008 to over 1,500 won in November 2008, recalling the 66 percent drop between the third quarter of 1997 and the first quarter of 1998. Second, output collapsed by 7.8 percent (quarter-on-quarter) in the first quarter of 1998, its largest fall since the beginning of Korea’s national accounting statistics in 1970. As a result, the GDP growth rate dropped from 3.1 percent in the third quarter to -3.4 percent in the fourth quarter of 2008, and fell further to -4.2 percent in the second quarter of 2009.

Surprisingly, however, the impact of the recent economic crisis on the

nation’s labor market was relatively minor. The unemployment rate in the first half of 2009 was 3.8 percent, despite the negative GDP growth rate of -4.2 percent, while the unemployment rate in 1998 was over 8 percent, with the GDP growth rate of -5.8 percent. In June 2009, the unemployment rate reached its peak at 3.9 percent, which was only slightly higher than 3.1 percent in November 2008, when the global financial crisis erupted. Accordingly, there was no significant deterioration of income distribution during the recent economic crisis, as seen in the 1997-1999 economic crisis (figure 2).

Figure 2. Trend of Income Distribution

Note: Gini for urban household with at least two family members. Relative poverty rate refers to the share of people whose income is less than 50 percent of the median income.

Since the 2008 global financial crisis was initiated by the United States, and all of the advanced economies were in deep recession comparable to the Great Depression, this economic crisis drew more concern than the 1998 Asian financial crisis. However, as mentioned above, Korea successfully avoided the potential social difficulties stemming from the economic crisis. Why is that?

Policy Responses by the Lee Myung-bak Government
The Lee Myung-bak government (2008-present) has put up a real fight to overcome economic hard times, as did the Kim Dae-jung government in the late 1990s. Yet, the ideology and policy orientation of Lee, who represents

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Ibid., 13-14.
conservative forces in Korea, is opposite to that of the former progressive presidents, Kim Dae-jung (1998-2002) and Roh Moo-hyun (2003-2007). During the presidential campaign, Lee marketed himself as the “economy president” and promised a “small government.” The ensuing landslide victory of the GNP in the general election of April 2008 gave the Lee government the nation’s largest legislative majority since Korea’s democratic opening in 1987.\(^{25}\) The dominance of conservative forces in the administration and the National Assembly enabled President Lee to carry out his neoliberal economic and social-welfare reforms. However, the Lee government had to save the sinking Korean economy with Keynesian counter-cyclical emergency measures. Government action was swift and timely.

As the OECD\(^{26}\) has pointed out, the Lee government seemed to know how to respond to the present type of external financial shock, so that its responses were more appropriate and timely than in the 1997-1999 crisis. During the Asian financial crisis over a decade ago, the Bank of Korea raised its policy rate as high as 30 percent in an attempt to reverse the won’s depreciation, leading to a sharp spike in short-term rates. The impact of such high rates on a highly leveraged economy was devastating, resulting in the bankruptcy of fifty-eight large corporations in 1997 alone. In contrast, in 2008, the Central Bank responded to the global financial crisis by cutting its policy rate to a record low of 2 percent. There also was a major difference in the fiscal policy response. In 1997, the government initially cut spending and raised taxes in a misguided attempt to balance the budget that was reversed only once the severity of the downturn had become evident. In 2008, the government responded promptly with a fiscal stimulus package of 6.1 percent of GDP, the largest among the twenty-six OECD countries adopting explicit crisis-driven stimulus programs.\(^{27}\) The stimulus was almost evenly divided between additional expenditure (3.2 percent of GDP) and tax cuts (2.8 percent).

Stabilizing the labor market was one of the key components of the spending side of the stimulus package. Well aware of the negative impact of mass unemployment that swept Korean society during the 1997-1999 crisis, the Lee government quickly responded with more specific and targeted labor-market policies than the Kim government in the late 1990s.\(^{28}\) The labor-market


\(^{27}\) The stimulus was implemented in a timely manner. Additional expenditure was included in a September 2008 supplementary budget and in the 2009 budget, along with temporary tax cuts. Another supplementary budget followed in April 2009. See OECD, OECD Economic Surveys: Korea (Paris: OECD, 2010), 50.

### Table 2. Composition of Fiscal Packages in the Major Countries Announced or Implemented over the Period 2008-2010 as a Share of 2008 GDP

<table>
<thead>
<tr>
<th>Net Effect</th>
<th>Tax Measures</th>
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<th></th>
<th>Spending Measures</th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Individuals</td>
<td>Firms</td>
<td>Consumption</td>
<td>Social contributions</td>
<td>Total</td>
<td>Final consumption</td>
<td>Investment</td>
<td>Transfer to households</td>
<td>Transfers to firms</td>
</tr>
<tr>
<td>Canada</td>
<td>-4.1</td>
<td>-2.4</td>
<td>-0.8</td>
<td>-0.3</td>
<td>-1.1</td>
<td>-0.1</td>
<td>1.7</td>
<td>0.1</td>
<td>1.3</td>
<td>0.3</td>
</tr>
<tr>
<td>France</td>
<td>-0.7</td>
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<td>-0.1</td>
<td>-0.1</td>
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<td>0.0</td>
<td>0.6</td>
<td>0.0</td>
<td>0.2</td>
<td>0.3</td>
</tr>
<tr>
<td>Germany</td>
<td>-3.2</td>
<td>-1.6</td>
<td>-0.6</td>
<td>-0.3</td>
<td>0.0</td>
<td>-0.7</td>
<td>1.6</td>
<td>0.0</td>
<td>0.8</td>
<td>0.3</td>
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<tr>
<td>Italy</td>
<td>0.0</td>
<td>0.3</td>
<td>0.0</td>
<td>0.0</td>
<td>0.1</td>
<td>0.0</td>
<td>0.3</td>
<td>0.3</td>
<td>0.0</td>
<td>0.2</td>
</tr>
<tr>
<td>Japan</td>
<td>-4.7</td>
<td>-0.5</td>
<td>-0.1</td>
<td>-0.1</td>
<td>-0.1</td>
<td>-0.2</td>
<td>4.2</td>
<td>0.2</td>
<td>1.2</td>
<td>0.6</td>
</tr>
<tr>
<td>Korea</td>
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<td>-1.1</td>
<td>-0.2</td>
<td>0.0</td>
<td>3.2</td>
<td>0.0</td>
<td>1.2</td>
<td>0.7</td>
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<tr>
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</tr>
<tr>
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<td>2.4</td>
<td>0.7</td>
<td>0.3</td>
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<tr>
<td>OECD2</td>
<td>-3.9</td>
<td>-1.9</td>
<td>-</td>
<td>-</td>
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<td>-</td>
<td>-2.1</td>
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**Note 1:** The amounts shown in the total columns do not always match the sum of the columns shown because some components either have not been clearly specified or not classified in this breakdown.

**Note 2:** Weighted average of OECD countries that adopted positive stimulus programs.
Table 3. Comparison of Major Labor Policies between the 1998 and 2008 Economic Crises

<table>
<thead>
<tr>
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<tbody>
<tr>
<td><strong>Job Creation</strong></td>
<td><strong>Job Creation</strong></td>
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<tr>
<td><strong>Job Sharing and Maintenance</strong></td>
<td><strong>Job Sharing and Maintenance</strong></td>
</tr>
<tr>
<td>Avoidance of Lay-Off Effort Assistance, Job Maintenance and Re-employment Assistance</td>
<td>Expansion of Employment Maintenance Program* (Closed Business Assistance, On-Leave without Pay Assistance, Shift-system Change Assistance)</td>
</tr>
<tr>
<td><strong>Providing Education and Training Programs</strong></td>
<td><strong>Providing Education and Training Programs</strong></td>
</tr>
<tr>
<td><strong>Livelihood Support and Employment Promotion</strong></td>
<td><strong>Livelihood Support and Employment Promotion</strong></td>
</tr>
<tr>
<td>Expansion of Unemployment Benefits,* Assistance of Livelihood Support for the Poor, Provision of Loans for the Unemployed</td>
<td>Expansion of Unemployment Benefits,* Expansion of New Employment Assistance,* Provision of Vacant Job Allowance, Assistance of Regional Employment Promotion</td>
</tr>
<tr>
<td><strong>Miscellaneous</strong></td>
<td><strong>Miscellaneous</strong></td>
</tr>
<tr>
<td>Building Employment Service Network, Construction of Labor Market Information System</td>
<td></td>
</tr>
</tbody>
</table>

policies ranged from simple expansion of unemployment benefits, to a targeted job-creation program for youth and the elderly, assistance for workers on leave without pay, creation of temporary employment in social services, and so on.

The Lee government’s preventive measures against mass unemployment went beyond the area of policy. The government encouraged business and labor to cooperate to avoid layoffs, which culminated in a new social pact, the Social Pact to Overcome the Global Economic Crisis, on February 23, 2009. In contrast to the historic 1998 social pact, the Social Pact to Overcome the Economic Crisis, which permitted layoffs to facilitate the restructuring of debt-ridden companies, the gist of the latest social pact was to secure employment.29 Big business employers were cooperative. They lowered labor costs by various means other than layoffs, including mandatory use of additional leave without pay, reduction of overtime work, reduction of the number of regular working hours, and introduction of reduced wage (often called peak wage) for near-retirees.30 Organized labor agreed on wage restraint, including reduced starting salaries for newly hired job seekers in return for expanding job openings.

In order to facilitate the social pact, the government provided a variety of avenues for financial support beginning with the outbreak of the economic crisis. As a result, the number of recipients of Employment Maintenance Assistance in 2008 increased 147.7 percent over the previous year and the relevant benefits increased 118.9 percent. In the case of the Childcare Leave Allowance, recipients soared 551.4 percent and the related benefits increased 608.1 percent. The beneficiaries of Peak-wage Preservation Allowance also jumped 485.7 percent, while those receiving Shift-work Change Allowance increased 380.1 percent.31 The Lee government’s effort to stabilize employment was reflected in a rapid rise in government spending on labor-market measures, which tripled to 1.53 percent of GDP in 2009 from 0.53 percent in 2007.32

On the tax side of the stimulus package, about half of the cuts were targeted at households. Most of the tax reductions were temporary measures for low-income households and cuts in housing-related taxes. On the business side, tax reductions were aimed at boosting R&D and investment. Finally, consumption

30 The massive layoffs during the 1998 crisis caused many workers to lose confidence in their firms. When the economy rebounded, it was hard for employers to hire qualified candidates and retain them. Realizing this, many companies took advantage of flexible work hours and wage reduction instead of layoffs. See Kim, “Korea’s Unemployment Insurance in the 1998 Asian Financial Crisis and Adjustments in the 2008 Global Financial Crisis,” 18.
taxes were lowered, including those on fuel and cars, thus helping to boost car sales in Korea by 20 percent in 2009. In addition to these temporary measures, there were permanent cuts in income tax and corporate tax rates. However, for fear of fiscal imbalance, the cut in the top income tax rate of 35 percent was delayed until 2012, and finally scraped.

The underlying causes of the two economic crises in Korea were different. The 1997 crisis was traceable to the internal weakness of the nation’s corporate and financial sectors, while the 2008 crisis was triggered mainly by the collapse of the external financial market. Since the Korean corporate and financial sectors were in far better shape by the time of the 2008 crisis, they could afford to retain employment. Nevertheless, without the Lee government’s swift and massive reflationary policies tailored to boost employment, the social impact would have been as large as during the 1997 crisis.

Democracy, Social Learning, and the Korean Welfare State under the Conservative Lee Government

As discussed above, the progressive center-left Kim Dae-jung government and its allied social forces pushed forward with long-awaited pro-welfare reforms during the 1997-1999 economic crisis, when there was popular discontent with the nation’s old social security system that was built on the premise of full employment and continuous increase in income. The next president, Roh Moo-hyun (2003-2007), was also progressive and his government introduced many new social-welfare programs such as long-term care, earned income tax credit (EITC), and a basic elderly pension. Although benefits of those new programs were meager and eligibility criteria were strict, this series of pro-welfare reforms following the Kim Dae-jung presidency ignited a tax debate with the opposition Grand National Party (GNP), which drummed up support for tax-cuts prior to the presidential election in 2007. Lee Myung-bak of the conservative GNP won a landslide victory and he was inaugurated on the electoral promise of “tax cuts” and “small government.”

However, the Lee government changed its policy stance soon after the outbreak of the 2008 global economic crisis. The conservative government

33 First, the three lower personal income tax rates were reduced in 2009-2010 by two percentage points from a range of 8-26 percent to 6-24 percent. Second, the corporate income tax rate (national and local) was cut from 25 percent to 22 percent in 2009, pushing it well below the OECD average of 28 percent. The planned reduction to 20 percent was delayed until 2012. Third, the corporate income tax rate for SMEs was reduced from 11 percent in 2008 to 10 percent in 2010. See OECD, OECD Economic Surveys: Korea (Paris: OECD, 2010), 52.
35 For example, the EITC was introduced on a very limited scale to salaried workers with two or more children, who did not own a home and had assets of less than 100 million won (about U.S. $100,000). The EITC provided 10 percent of earnings up to an annual income of 8 million won (that is, 0.8 million won, or U.S. $800 a year), to be phased out beginning at 12 million won. OECD, Economic Surveys: Korea (Paris: OECD, 2008), 70.
embraced Keynesian reflationary intervention, swiftly deployed countermeasures, and increased social spending. This contrasted with the previous conservative government’s orthodox neoliberal and firm monetarist policy responses during the 1979-1981 economic crisis under the authoritarian developmental state. Although the then Chun Doo-hwan government provided emergency relief for the needy, including two hundred billion won (2.5 percent of the national budget), there was no noticeable program development. Moreover, the acute necessity of economic stabilization and fiscal austerity reinforced the state elites’ fiscal conservatism regarding social expenditures. Thus, this period is often called the “off-season” of welfare-state development in Korea.

The Lee government has never been as proactive as the former Kim and Roh governments in welfare-state building. Nevertheless, conservative politicians have been well aware of the political cost of mass unemployment and associated income deterioration in a democratic setting. Although there was no significant development in the social security system, during the height of the crisis, the Lee government did not hesitate to employ Keynesian reflationary policies, strengthen social safety nets, and introduce employment support measures.

Social learning helped the Lee government’s swift policy turn, since policymakers were better able to assimilate new information and devise and apply anti-crisis measures based on the experience of just a decade before. Moreover, they enjoyed a larger reservoir of policy tools such as the Employment Insurance Scheme, which had expanded rapidly under Kim Dae-jung’s presidency. If they had not been confident in their policy responses, the ideology and policy belief of governing groups might have had more profound influence on policymaking.

**Conclusion**

This essay analyzed social policy responses by two ideologically different governments to the same type of economic shocks. As progressive Kim

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36 In 1979, Korea experienced the first economic crisis since its state-led industrialization. After a relatively long period of sustained economic growth, the Korean economy began to falter in 1979. Growth rates averaging 9.9 percent during 1962-1978 fell to 2.2 percent in 1979-1981. Even in 1980, the Korean economy experienced the first GDP contraction by 3.3 percent. Inflation soared to 26.4 percent from an annual average 16.1 percent from 1962-1978. The Korean government pushed forward with neoconservative reforms of relentless stabilization and structural adjustment.


came to power in 1998, pro-welfare forces used the newly opened window of opportunity to push forward with significant welfare reforms. In fact, these reforms went beyond functional necessities to compensate the victims of neoliberal economic and labor-market reforms. Agenda for welfare reform were originally articulated during and after the transition to democracy. They were reenergized by the new social policy networks that emerged during the Kim Dae-jung years and finally introduced into the policy-making process. In short, democracy and partisanship helped to expand the Korean welfare state in economic hard times.

It was expected that the incoming conservative Lee Myung-bak government would halt welfare-state development in Korea. However, it has turned out that the Korean welfare state has continued to grow.\textsuperscript{39} Democracy and social learning have mitigated the ideology and partisanship of the Lee government, which continues to strive to overcome the current global economic crisis.

\textsuperscript{39} Nevertheless, it should be noted that Korea is still a small welfare state and its social spending is inadequate to stop the deterioration in income distribution. Gross public social expenditure in Korea is the second lowest among the OECD countries, and, in the wake of the 2008 global financial crisis, the nation’s gross public social spending is estimated to have increased by 1.4 percentage points to 9.0 percent of GDP in 2010, compared to a 3.0 percentage-point rise in the OECD average to 22.2 percent. OECD, \textit{Economic Surveys: Korea} (Paris: OECD, 2012), 115.