

EXPLAINING EARLY WELFARE POLICIES IN SOUTH KOREA: FOCUSING ON THE NEXUS BETWEEN THE STATE AND THE BUSINESS SECTOR

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This study discusses conditions that contributed to creating the coordinated market economy in South Korea, and how that affected welfare policy development as industrialization of South Korea advanced. The study shows that the group-coordinated market economy such as the Japanese or the South Korean political economy would not have been possible without a distinctive role of the state in nurturing the coordinated market economy. In contrast to the industry-coordinated market economy of Europe, the group-coordinated market economy of South Korea had nothing to do with generous welfare state development. A weak union movement and conservative politics based upon the authoritarian state's alliance with big business did not contribute to welfare state development in South Korea. Instead, the state's success in establishing a coordinated market economy through nurturing big companies and cultivating cooperative labor mobilization encouraged the development of company-based social benefits. While company-based cooperative institutions were placed in companies, various corporate benefit programs and health benefits for industrial workers in larger companies further developed. The state established the institutional frame in which employers rather willingly participated in welfare provision for industrial workers. This was accompanied by the lack of state-responsible welfare provision.

Key Words: State Action, Coordinating Economic Actors, Business Sector, Company Welfare

INTRODUCTION

South Korean social policy raises puzzling questions about the relationship between capitalism and the welfare state. The South Korean political economy was one of the most dramatic success stories of the second half of the last century. Rapid economic development since the 1960s spectacularly increased incomes, made widespread mass education possible, and significantly raised life expectancy. However, welfare policies remained very 'ungenerous' throughout this entire period. On average, South Korean social spending between 1990 and 1996 accounted for only 3.57 percent of the GDP, and 16.86 percent of public expenditure (OECD, 1999). This was much less than other industrialized countries spent. In most western soci-

eties, economic development had been intertwined with growing public spending for a comprehensive social policy that protected citizens from fluctuations of the market economy and other life risks. In South Korea, welfare state building has shown much less progress than expected, as compared to its rapid industrialization.

Above all, the role of the East Asian state in social development has received much attention. Thus far, state-centered studies on East Asian welfare policies have been effective in criticizing 'essentialism' of cultural studies and pointing out political aspects of welfare policy development (Goodman and Peng, 1996; Kwon, 1999). The main point of these studies is that ruling elites in these countries, while single-mindedly pursuing rapid economic development as the best survival strategy, had pragmatic interests in the development of social welfare programs when they needed to gain political legitimacy during political crises. This means that social welfare policies developed incrementally and haphazardly, which reflected the state's interests in the process of overall nation-building. Professional bureaucrats made major contributions in adopting foreign welfare programs in an innovative way. Other social actors like unions and business organizations did not assume a major role in this process of welfare policy development. Right-left political struggles mattered little.

Undeniably, some degree of autonomy is given to bureaucrats or policy experts in proposing policies and writing the contents. State bureaucrats and social experts played a crucial role in studying welfare programs and codifying their implementation in South Korea. It can further be seen that welfare policy development was more or less shaped by state bureaucrats' incremental and pragmatic adaptation of western programs (Goodman and Peng, 1996: 211). However, these state-centered studies need to expand their analytical perspectives. As Huber and Stephens (2001) point out, the decision of state bureaucrats or policy experts depends on *the political orientation of the government in power* that is shaped by power relations in society. Therefore, we need to elaborate on government's policy choices in a power-based perspective.

Of course, state-centered studies are particularly useful in understanding the early development of special social programs for civil servants and soldiers in South Korea.¹ As many South Korean scholars point out, the military junta in the early 1960s used "social security as an instrument for politi-

¹ Private school teachers were also relatively well protected by social security programs. The protection of teachers largely reflected the government's interests in mass education during early industrialization. Private school teachers were incorporated into South Korea's social security system in the late 1970s.

cal legitimacy” (Shin, 2003: 63). By providing higher social status, higher wages and higher social benefits, the military government wanted to secure loyalty from these groups so that they could serve the government. We can find many similar cases in Latin American authoritarian states. However, what we keep in mind is that political legitimacy mattered little to most South Koreans when democracy was repressed and subordinate groups were not well-organized. The military government used social security as an instrument of political legitimacy for only a few groups, and not for the general public or the working-class. Broad-based social programs were developed much later and began to protect a significant part of the population when social movements against the authoritarian rule became much stronger in the late 1980s.²

This study pays attention to the early development of social welfare for industrial workers, and explains the way in which social welfare for industrial workers was shaped by state actions. While the state was passive and neglectful of workers’ social benefits in the 1960s, it became more active in shaping the way in which welfare was provided to industrial workers beginning in the 1970s. To understand this, the study largely makes an effort to investigate state actions in coordinating economic actors, to use the conception of the varieties of capitalism school (Hall and Soskice, 2001). Incorporating an institutional perspective from the school of varieties of capitalism, this study simultaneously points out that the institutional approach of this school also requires a power-based perspective. State actions in coordinating economic activities and economic actors stand out in the context of South Korean development, and at the same time, such state actions in economic development are tightly related to power relations.

This study will analyze how South Korean welfare policies had a different development, as compared to those of European coordinated market economies that have been analyzed by the varieties of capitalism school. The study will show that state actions in coordinating economic actors in South Korea were crucial in making the business sector provide social benefits to industrial workers, which resulted in the lack of public welfare provision for both industrial workers and the broad population. Studies on welfare states have analyzed the various links among important welfare providers such as the state, the market (including the business sector), and the family (Esping-Andersen, 1999). The analysis of this study focuses on

² The industrial accident insurance program for a small percentage of industrial workers was implemented in the early 1960s. However, this program was not implemented as a social right given to workers, but it was rather a “state-administrated insurance for employers who were liable to the compensation of industrial accidents (Shin, 2003: 64).”

the nexus between the state and the business sector.³ The study will explain how this nexus was developed, and in what particular historical context in South Korea.

STATE, COMPANY, AND SOCIAL WELFARE POLICY

The varieties of capitalism school has been conceptually articulating the influence of specific types of coordination of economic actors on welfare state development (Hall and Soskice, 2001; Soskice, 1999). According to this view, the coordinated market economies are associated with generous welfare states, and the uncoordinated market economies with less generous welfare states. The coordinated market economies, such as Germany and Sweden, rely on non-market institutions, formal or informal, in coordinating economic actors: sharing information among firms as well as between firms and banks (or investors), building trust and reputation, co-investing in and monitoring vocational training, and building cooperation between firms and employees. Collective goods relevant to production are produced through long-term contracts between economic actors. In this institutional context, generous welfare benefits serve to keep highly-skilled labor for high-quality production, which employers strongly support. In contrast, the liberal market economies such as the UK and the United States do not have non-market coordinating institutions, and thus they rely heavily on market institutions. Competitive strategies that the liberal market economies are seeking are based upon low labor costs and highly flexible labor supported by deregulated labor market policy, which does not allow employers to be supportive of generous welfare benefits.

The linkage between 'production regime' and 'welfare regime' has also been analyzed by Huber and Stephens (2001) through the balance-of-class-power perspective. They found that the coordinated market economies cluster with the social democratic welfare regime or Christian democratic welfare regime, whereas the uncoordinated market economies cluster with the liberal welfare regime. However, while recognizing the usefulness of the varieties of capitalism approach in characterizing different production regimes and their relationships with welfare states, Huber and Stephens argue that the balance-of-class-power perspective remains vital in interpreting the relationship between the varieties of capitalism and the welfare state. They emphasize that the most important promoter of welfare state

³ The nexus between the state and the business sector has been one of the important areas of welfare state studies. See Shalev (1996).

expansion is not the rational, strategic choices of business organizations, as much of the literature of the varieties of capitalism school emphasizes, but rather partisan politics. Without strong unions and social democratic parties, coordinated market economies and generous welfare states would have not been able to be sustained together over time. This implies that as important as the employer's contribution is to welfare state development, the employer's contribution to welfare state expansion depends on the balance-of-class-power relations once again.

Interestingly, the Japanese and South Korean models are also mentioned as the coordinated market economy by the varieties of capitalism literature. It is analytically important that this model is distinguished from other coordinated market economies: the group-coordinated market economies of Japan and South Korea vs. the industry-coordinated market economies of the Nordic and Continental European countries. The difference between these two is that coordination takes place within the industrial sector or branch in the industry-coordinated market economy, whereas it takes place within the group of companies in the group-coordinated market economy.

The industry-coordinated market economy is characterized by "industry-defined unions, technology transfer and diffusion within the industry, technical norm setting within the industry, as well as by training of engineers and other high-level specialists within an industry technology framework, and industry-based development of vocational training standards" (Soskice, 1999: 106). The group-coordinated market economy is characterized by more intense coordination between companies within the group of companies, such as Japan's keiretsu and South Korea's chaebol: "[C]ompany-based unions, technology diffusion and development within the group of companies, technical standard setting within the group, and vocational training as a company-based and not an industry-based phenomenon" (Soskice, 106) are prominent characteristics of the group-coordinated market economy. However, the literature of the varieties of capitalism point out that both types share many things with each other: long-term financing of companies; cooperative industrial relations; collective efforts in developing a vocational training system, group-wide or industry-wide; and cooperative development of technology among firms (Soskice, 106-107).

What is odd is that contrary to the industry-coordinated market economy, the group-coordinated market economy is not strongly associated with a generous welfare state. Instead, what is distinctive is a greater development of company-based social benefits. The loyalty of workers to their firms is gained through "generous" company welfare, as well as through life-time employment. The question is whether generous company welfare is equiva-

lent to a generous welfare state. However, generous company welfare overall protects less workers than a generous welfare state. How do we explain this?

Above all, the two types of coordinated market economies are situated in very different power relations, in the sense that the industry-coordinated market economy is based upon the strength of organized labor and a very powerful or relatively powerful social democratic party (Huber and Stephens, 2001), whereas the group-coordinated market economy has a weak labor power and the dominance of the conservative party. It is especially important to understand that the state was an active player in making the group-coordinated market economy by cultivating and nurturing the political and social arrangements favorable to this particular coordinated market economy over a long period of time. Thus, the clue to understanding the linkage between coordinated market economy and generous company welfare without the generosity of welfare state programs can be found in state actions in making the group-coordinated market economy work in a particular set of historical conditions.

Pempel (1989; 1998) elucidates the ways in which the Japanese state over time has organized and nurtured the institutional relations of economic actors favorable for the Japanese political economy, showing that the Japanese state has played a role in policy-making not in a passive way, but actively. The Japanese coordinated market economy was specifically oriented toward the goal of rapid economic growth. The goal was clearly set up by the developmental state and was backed by the conservative coalition. In Japan, business sectors (big and small business) as well as farmers have supported, as the major conservative partners, the long-term domination of the conservative Liberal Democratic Party. Business and farmers have staunchly supported low government spending and low tax rates. In contrast, organized labor was politically excluded from this broad conservative coalition in Japan (Pempel, 1998; 78-79). Politically marginalized, labor was mobilized into the long-term economic development project only as an economic actor. No political party with substantial support from organized labor entered the executive branch of government. Japanese unions were almost exclusively formed along enterprise rather than industrial lines. Thus, labor's interests could be easily identified with those of the firm, and workers' participation was largely confined to various cooperative relations with companies.

In general, cooperative industrial relations, which were "institutionally necessary" for the coordinated market economy, also contributed to a development of generous company welfare in Japan. As Shinkawa and Pempel

(1996) show, the Japanese state played a very important role in encouraging companies to create firm-specific social benefits through public policy such as tax benefits to help companies opt out of public social programs. The interesting result is that compared to the liberal market economies such as the United States, in Japan, a more systematic development of generous company welfare with life-time employment within the group of companies and also across groups took place. The Japanese state indeed coordinated companies' efforts in developing firm-specific benefits broadly, specifically across larger companies, so that defectors from the coordinating efforts could be minimized under the authority of the state.

The South Korean state also succeeded in cooperating with big companies for rapid economic growth. In fact, the cooperation between the state and private business was described as one of the essential elements in effective state intervention in the South Korean economy (Amsden, 1989; Evans, 1995; Kim, 1997; Wade, 1990). An effective form of coordination of economic actors also required the state's incorporating labor into capitalist development in South Korea, which was aimed at meeting two conditions: "effective political demobilization" and "effective economic mobilization" (Choi, 1989). The state actions in coordination of economic actors were framed based on a narrowly defined cooperation between the state and society that primarily benefited private business. The state was willing to cooperate on joint projects only with the business sector (Evans, 1995). Meanwhile, the state restrained labor's political rights by banning unions' participation in political parties and confining union activities to economic matters within their firms. Thus, enterprise unions gained strength over time and, at the same time, company-centered, non-union institutions or non-union activities for improving labor cooperation were directly encouraged by the state.

The following sections discuss how this form of coordination shaped welfare state development in South Korea in the 1970s and 1980s (before the late 1980s).⁴ The study will focus on the relationship between the state and big business, and the responses/choices of big business regarding labor relations and labor welfare. The reason is that the alliance between the state and big business was critically important in social development as well as

⁴ We need to analyze social welfare politics since the late 1980s in a different perspective, reflecting the democratic context and new political actors. We need to understand that the previous policy legacy tends to shape the politics of social welfare policy in the new socio-economic environment, as a comparative historical approach suggests (Mahoney, 2001; Rueschemeyer and Stephens, 1997). As Rueschemeyer and Stephens (1997) point out, the past persists throughout history because once social patterns are established, they are highly resistant to change. Therefore, understanding earlier welfare policies is important in analyzing welfare policies developed at a later point.

economic development. In the context of South Korean economic development, it was the growth of the big business sector that facilitated social policies suited for producing a healthy and well-trained labor force. Then, how was this necessity promoted? In South Korea, social welfare development should be understood as related to the state's efforts to make the enterprise serve as an institution for channeling state policies. Instead of public welfare programs for a broad protection of the working-class, company welfare programs for a narrow protection of the working class were earlier and better developed. On the other hand, the state's success in coordinating economic actors for rapid economic growth did not contribute much to developing broad-based social programs in South Korea.

One thing that deserves mentioning here is that this study analyzes the health insurance program for industrial workers in the context of company welfare development. The health insurance program was developed as a social security program to be regulated and operated by the government, which was different from other voluntary company welfare. However, what is interesting is that employers agreed on the implementation of this program because they thought they could use this program as one of their welfare items. The study will show that the health insurance program was not developed as a social right given to the working class by the state, but it was initially developed as privately-provided, "paternalistic" company welfare.⁵ Therefore, the health insurance program was organized as a workplace-based health insurance society, which gave employers great discretion to operate the program and utilize the health fund. At the same time, the government minimized its regulation.⁶

CONDITIONS FOR THE COORDINATED MARKET ECONOMY: STRONG STATE AND BIG BUSINESS

One of the conditions for the coordinated market economy in South Korea was the increase in state power. The Yushin (the Revitalized Reform) Constitution of 1972 decisively reinforced the conferring of decision-making power on the president in the 1970s. The Presidential Emergency Measures

⁵ "Privately-provided" means "provided by the private business sector."

⁶ This is why at a later point employers and labor unions resisted health insurance reform and argued that the health insurance fund was in reality the private fund that had been contributed to only by employers and employees without the state's contribution. Employers' organizations and labor unions applied the same logic to the national pension fund in the process of pension reform in the 1990s. The national pension was also funded by employers and employees without the state's contribution.

under the Yushin regime basically prohibited any political activities against the government. Whenever national security, order or public welfare was perceived to be in danger by the government, restrictions upon civil rights and freedoms were justified by the Constitution (Pae, 1992: 296). Under the new Constitution, the president dissolved the National Assembly and appointed one third of the legislators (Lee, 1993: 105). The primary purpose of this action was to secure more than two-thirds of the total members of the National Assembly by combining his political party politicians with one-third of the total assembly seats of his own choice (Pae, 1992: 296). Since the National Assembly was occupied by more than a two-thirds majority of politicians favored by the president, legislators were vulnerable because they were easily expelled for any challenges to the president, who was himself protected from impeachment (Pae, 296).

The president directly used his power to influence policy-making. The Presidential Secretariat played a crucial role in the economic policy-making process. The economic secretariat was staffed by highly ranked bureaucrats — from minister to vice minister and assistant minister (Lee, 1993: 59). After the establishment of the Yushin Constitution of 1972, the Presidential Secretariat was even more strengthened, not just in economic policy-making, but also in all other policy matters. Park's personal and informal reliance on a few special assistants was of primary importance in his decision-making. President Park himself became the final decision-maker regarding all important issues (Lee, 125-127).

The center of the decision-making process remained with the president in the 1980s under the Chun Doo Hwan government, which inherited and maintained its predecessor's authoritarianism. According to Kwon (1999) and Park (1996), the Presidential Secretariat was weakened to some degree as the capabilities of the ministries were enhanced through their recruitment of professional bureaucrats and accumulated experience. The Chun regime also revised the National Assembly Election Law so that more than half the seats could be safe from any opposition parties by introducing the assignment of the seats based upon proportional representation. The winning party took two-thirds of the proportional seats, while the rest were divided among other parties (Pae, 1992: 311).

Given the centralization of state power in South Korea, the ruling party as well as opposition parties had little political leverage in the policy-making process. This had been clearly reflected in the active role of the executive body in legislation. The share of the executive-initiated bills among the total bills passed increased dramatically from about 56 percent in the 1960s to about 84.6 percent in the 1970s. The dominant position of the executive

body was most clearly seen in the fact that, of the total bills submitted by the executive, the percentage passed by the National Assembly increased from about 72 percent in the 1960s to about 96 percent in the 1970s (Park, 1996: 130). This high proportion continued in the 1980s, although it did decline somewhat to 90 percent.

This increase in state power, which became the key to the state-run coordinated market economy in South Korea, contributed to the dramatic growth of big companies, after the Third Five-Year Economic Development Plan began heavy and chemical industrialization in South Korea. The enormous growth of big companies proved a necessary condition for the coordinated economy. The most distinctive public policy important in promoting heavy and chemical industrialization was shifting the government's previous approach to its policy loans for nurturing export industries — from general policy loans, not industry- or firm-specific, within the export industries to policy loans assisting specific firms and industries. According to Woo's (1991: 166-9) study, on average, export industries always received more favorable loans than domestic industries. And most importantly, heavy industries had greater access to various kinds of loans than light industries had. Particularly, large-sized industries were favored over small businesses. It was during this same period that large businesses with investments in heavy and chemical industries grew faster than ever before. Economic power was concentrated toward large business groups, the *chaebol* (the Korean conglomerates), as opposed to small and medium enterprises. The *chaebol* established itself firmly in the South Korean economy during this period and continued to expand its dominance in the national economy. The thirty largest companies owned by the top ten largest *chaebol* as of 1986 produced total sales equivalent to more than 65 percent of South Korea's GNP of 1986 (Fields, 1995: 35).

COORDINATION BETWEEN WORKERS AND EMPLOYERS: WORKERS' COOPERATION AND EMPLOYERS' WELFARE PROVISION

Company-Coordinated Mobilization and Company Welfare

As important as fostering big companies was in creating the South Korean model of the coordinated market economy, the authoritarian state had to develop a special form of labor mobilization so that labor could be coordinated with rapid economic growth policy and pro-*chaebol* policy. Labor mobilization in South Korea above all came with a strong repression of labor movements. Imposing more restrictions on workers' collective actions

became more apparent after 1970, along with a further weakened democracy conditioned by the new Constitution.

Given strict restrictions on collective action, labor was generally confined to administrative issues. Although policy consultant bodies were instituted with some government departments to deal with labor issues, and the Federation of Korean Trade Unions (FKTU)⁷ was increasingly invited to participate in these policy consultant bodies, the participation of the FKTU was limited generally to labor administrative issues only (Gam, 1994). Substantively repressed and politically excluded, unions and workers were incorporated into the state-led economic development in a special way: company unions and company-based labor cooperation established since the 1970s became a critical instrument to that particular labor incorporation.

The government's effort to enforce labor collaboration was accompanied specifically by the enterprise-based labor mobilization. To reinforce the enterprise-based labor mobilization, the government tried to replace unions with more cooperative institutions within the enterprise, that is, labor-management councils. The Labor-Management Council Law was legislated by the Park regime in 1963, but it was the amendment to the Labor Union Law of 1975 that required all unionized firms and encouraged non-unionized firms with more than 30 employees to establish labor-management councils (Ministry of Labor, 1983: 13; Ha, 1992: 153). The main function of the council as defined by the law was improving mutual consultations on issues such as technical education, work environment, and grievance handling, etc., through regular meetings between employers and employees (Choi, 1989: 178). Although the councils expanded significantly, the role of these councils was not clearly defined. Most employers were reluctant to meet their labor representatives, largely because they did not want to share managerial power with their employees.

Compared to this, employers were more active in complying with the Factory Saemaeul (new village) Movement during the same period (Choi, 1989: 180-1). The Factory Saemaeul Movement was more clearly defined in respect to its goals and function. The Factory Saemaeul Movement, which began as a government-led campaign for the improvement of rural regions, was extended to factories. The specific goals of this movement were the improvement of labor productivity, the reduction of the cost of production, and the creation of family-like enterprises (Lee, Shin, and Kim, 1983). Especially, work ethic was inculcated in the enterprise as the key to the sur-

⁷ The Federation of Korean Trade Unions (FKTU) was a government-sponsored centralized union at the national level, structured along industrial lines in South Korea in the 1960s and 1970s.

vival of the South Korean economy that had signaled significant deterioration, specifically after the oil shock of 1973. In each enterprise, numerous Saemaeul work teams were organized and also encouraged to work with labor-management councils. It was in this period that enterprise-based welfare programs started to develop. Labor unions were obliged to compete with these organizations, worsening an already harsh situation that unions had to deal with. Most unions had tremendous difficulties in strengthening their roles.

The Labor-Management Council Law was obligatory for unionized enterprises, but still just a recommendation for non-unionized ones until the amendment to the Labor Union Law of 1981 was written. The difference in the 1981 Law was that labor-management councils were *legally* required in both unionized sectors and non-unionized sectors with more than 100 employees. The law more clearly defined the purposes and functions of these organizations (Ministry of Labor, 1983). The law also specified the duties and powers of labor-management councils by stipulating the scope of the items that they were allowed to discuss at their regular meetings. The new Labor-Management Council Law allowed councils to discuss all matters except wages (Ha, 1992: 221; see Table 1).

The mobilization of labor in the enterprise was extended through the revision of other South Korean labor laws in the early 1980s. One dramatic change was the structure of labor organization: it was transformed from industrial unionism to enterprise unionism. Local unions were reorganized

TABLE 1. LABOR-MANAGEMENT COUNCIL MEETINGS AND THEIR SUBJECTS: SOUTH KOREA, 1981-1985 (NUMBER, %)

Year	Meetings (no.)	Major Subjects							Total
		Productivity	Labor welfare	Training & education	Prevention of labor disputes	Grievance handling	Safety & health	Others	
1981	37,905	16,063	26,587	5,176	2,231	21,380	7,633	20,410	99,480
1982	24,180	12,377 (18.6)	19,924 (29.3)	2,900 (4.5)	1,622 (2.4)	9,882 (14.8)	5,199 (7.8)	5,199 (21.9)	66,600 (100.0)
1983	23,786	14,473 (22.8)	19,192 (29.4)	3,067 (4.7)	1,314 (2.0)	7,714 (11.8)	6,572 (10.1)	12,990 (19.9)	65,322 (100.0)
1984	24,960	14,628 (21.1)	17,959 (25.9)	4,440 (6.4)	1,629 (2.4)	8,933 (12.9)	7,445 (10.8)	14,182 (20.5)	69,216 (100.0)
1985	21,631	9,231 (15.2)	18,927 (31.2)	2,757 (4.5)	1,682 (2.8)	4,247 (7.0)	6,269 (10.3)	17,514 (28.9)	60,627 (100.0)

Source: KEF (1986: 69).

along the enterprise line and they were given the right to bargain collectively, if only at the enterprise level. In addition to this change, potentially damaging the organizational power of the working class, organization of unions was made more difficult by the new requirement of a minimum number of workers for union registration (O'Neill, 1991: 387). Furthermore, the Law of the Prohibition of Third Parties forbade the national labor organization, FKTU to intervene in any enterprise-level collective bargaining (Ha, 1992: 217-8; O'Neill, 1991: 387). The FKTU was further weakened by this amendment.

While the unionization level declined in the early 1980s, labor-management councils grew fast and were established in all targeted companies (KEF, 1986: 68-9). The absolute number of union members decreased from 1,088,000 in 1979 to 948,000 in 1980. It was not until the mid-1980s that the number of union members returned to the number of 1979 (1,036,000 in 1986) (National Statistical Office, 1998). Union density - union members as a proportion of the total number of employed workers - also declined from 16.8 percent in 1979 to 13.2 percent in 1984 (Koo, 1993: 149). On the other hand, labor-management councils increased from 4,720 in 1981 to 5,627 in 1985 (KEF, 1986: 68-9).

Employers' organizations participated more actively in the establishment of the councils in the 1980s, which was in contrast to the previous attitude of employers under the Park Chung Hee government. Unionized sectors and non-unionized sectors had almost the same number of the councils in 1986 (*ibid.*: 69). The absolute number of councils was smaller compared to the 1970s due to the reduction of the targeted companies (from companies with over 30 employees to ones with over 100 employees), but the specified roles defined by the binding regulation helped to actualize the operations of the councils. The most important issues discussed by the councils were productivity and labor welfare expansion (Ministry of Labor, 1987; see Table 1).

Employers, particularly, showed their willingness to work with these councils. According to the annual report from the Korea Employers' Federation (1982), employers by themselves participated in 91 percent of the regular meetings held by councils in 1981. A weakened union function and a placement of company unions/non-union activities in companies helped to create cooperative labor mobilization in South Korea. Labor productivity was the priority of all these activities, and many labor welfare issues had been discussed as an incentive to labor cooperation.

A mandatory retirement benefit program was the single most important company welfare provided by employers. The retirement program accounted for the largest proportion of non-wage labor costs, according to reports

from the Ministry of Labor (*Survey Reports on Labor Cost of Enterprises*, various years). However, mandatory retirement benefits did not function so much as an income support for the old-aged as it did as an unemployment benefit that would be given to workers leaving companies after at least a one-year service.⁸ Other programs included various projects to meet employees' basic needs such as mess hall, dispensaries, and the operation of a company cooperative. More important were housing loans and scholarship programs (Song, 1995).

Over time, employers developed a positive attitude toward company welfare expansion, although they had a variety of motivations and these motivations changed over time. Not only "improvement of labor productivity" but also "recruitment of labor force," "preventing labor disputes," and "promoting firm-attached values and attitudes" were reported by employers as good reasons to be positive about company welfare expansion (see Table 2). Overall, employers' interests in company welfare indicate that employers sought to gain direct benefits for themselves from the programs. Their responses show their honest interests in such programs.

In sum, the government made enormous efforts to improve labor productivity by establishing labor-management councils and company unions. This form of enterprise-based labor mobilization was closely related to the

TABLE 2. EMPLOYERS' OBJECTIVES OF COMPANY WELFARE PROGRAMS: SOUTH KOREA (%)

Objective	Year		
	1977	1986	1988
• Improvement of labor productivity	40.1	19.9	21.2
• Recruitment of labor force	8.5	59.5	9.9
• Preventing labor disputes		11.3	30.2
• Promoting firm-attached values & attitudes	5.8	9.3	38.7
• Helping with stabilization of livelihood for employees	32.2		
• Supplement to social security	4.1		
• Improvement of human relations	4.1		
• Indirect wage increases			
• Etc	4.9		

Source: Choi (1992: 58).

⁸ In addition, a lump-sum retirement payment could not really play a role as a long-term income support for the elderly. As of 1983, 99.9 percent of the retirement beneficiaries were those under age 50. Only 0.1 percent were those over age 60 (Korea Development Institute, 1986).

expansion of company welfare (Choi, 1989). We can argue that retirement wage compensation and various other social benefits provided by companies were a compensation to labor for accepting the state-led coordination of the economy under the authoritarian regimes in the 1970s and the 1980s.

Health Insurance

Interestingly, the health insurance benefit, finally implemented in 1977 and gradually expanded in the 1980s, well exemplifies employers' active role in establishing the coordination of workers and employers during this period. Even though health insurance was not a private corporate benefit by definition, it was developed along corporate lines. I argue that indeed, the development of health insurance can be explained by the very factor that accounted for company welfare development: cooperative labor mobilization along enterprise lines.

Although the Health Insurance Act of 1963 required companies to establish voluntary health insurance programs, it did not succeed in increasing coverage until the mid-1970s. Some experimental health insurance projects covered only a small percentage of the population (Kwon, 1999: 89). Despite a low percentage of health insurance coverage and poor quality of public health delivery, during the Third Five-Year Economic Development Plan (1972-1976), the implementation of national health insurance was not seriously considered by the government. Development of health insurance based upon the 1963 law had been continuing within the government agency, but without the president's approval it was impossible for bureaucrats to push the health insurance plan forward.

The influence of North Korea has been suggested as one of the major factors in explaining why Park suddenly engaged in health insurance development. After the historical dialogue between North Korea and South Korea took place in 1972, Park became more sensitive to the North Korean propaganda proclaiming the superiority of the North Korean social security system, especially free access to health care (Lee, 1993). The inter-state competition was an important factor in pushing Park to take a close look at the feasibility of a broad-based health insurance system. Surprisingly, Park declared at his New Year's news conference of 1976 that during the Fourth Five-Year Economic Development Plan (1977-1981), the entire population would have access to medical benefits (Cha, 1992: 264-5).

To explain the development of health insurance in this period requires more than pointing to Park's fear of losing his legitimacy. Even after his public announcement, Park was hesitant in pursuing national health insur-

ance because he did not want to increase the government's financial burden. He intended to introduce medical assistance programs only for the poor. In fact, during his annual visit to the Ministry of Health and Social Affairs, Park stressed the urgency and importance of health care programs for low-income families rather than universal health insurance. Extending health benefits to public employees and even private school teachers was investigated with the possibility of the government's financial contributions during the same period. In contrast, the government did not consider its financial contributions to national health insurance for the broader population.

A factor that eventually changed the direction of the president from assisting only the poor to insuring the broader working population was business organizations' positive responses to a health insurance plan (FKMIS, 1997). The Federation of Korean Industries (FKI, representing big companies, typically the chaebol) expressed interest in the government's health insurance plan. Although the health insurance plan regained attention as an urgent issue for political reasons, it was not a new issue to large companies, which had already provided their employees with some form of medical benefits such as financial assistance for employees' medical treatment. The backdrop for these changes was a remarkable period of growth in the industrial sector and in big companies in particular. The government's policy loans favorable to big business for promoting heavy and chemical industries contributed to the expansion of big business since the early 1970s. By 1977, the labor force in industry increased up to 25.1 percent of the whole from 9 percent in 1960 and 17 percent in 1970 (World Bank, 1984). The Ministry of Labor also reported that as of 1980, big companies with 300 or more employees surveyed (across all industries) employed 42.4 percent of the total labor force (Ministry of Labor, 1990). In reference to health insurance, employers increasingly viewed it as another benefit provided to employees. The FKI agreed to the basic ideas of the national health plan and tried to put its own demands on the final health bill.

The ten-year health plan to be included in the Fourth Five-Year Economic Development Plan specified two types of health insurance programs: (1) compulsory insurance for industrial workers in businesses with 500 or more employees and (2) voluntary insurance for all others, except for those qualified for the medical assistance program (Park, 1977: 39). Employers and employees made the same contribution to the health insurance, while the self-employed were supposed to pay a certain fixed amount (FKMIS, 1997: 84). The health insurance program was organized to maximize the autonomy of each unit of operation and to minimize public regulation. A health insurance society (unit) was to be established at each enterprise or industrial

park. Each society was an autonomous institution that would operate the health program under the supervision of the Ministry of Health and Social Affairs (Park, 1977: 39). It was important to employers to have autonomy of workplace-based health insurance societies that would allow employers to put leverage on the use of health insurance as a corporate benefit to their employees. This did not favor the interest of unions, because only employers as insurers were allowed to establish workplace-based health societies and to write the articles of the society without consultation with unions. There was no significant role assigned to unions in representing workers' interests in running health insurance (FKTU, 1977).

In the final stage of implementation, the FKI played a crucial role in establishing health insurance societies at workplaces and in coordinating the newly established societies. The FKI arranged for the preparation committee to form the Medical Insurance Association in December 1976 under the authority of the Ministry of Health and Social Affairs. The association was initially created as a private organization to promote and manage a national health insurance project, and it functioned within the FKI (FKMIS, 1997: 111-112). On July 1, 1977, 486 health insurance societies were established at workplaces. All insurance societies joined the National Association of Medical Insurance Societies, developed from the Medical Insurance Association.

Without doubt, the role of the employers, especially of big companies, was critical in extending health insurance to a broader population. Organized labor did not have a chance to participate in the decision-making, since organized labor was politically excluded and organizationally disempowered. Such an active role by the employer may seem surprising. However, this can be accounted for by the same factor that contributed to company welfare development. Although the North Korean advanced welfare system was a triggering factor to the extent that Park ordered bureaucrats to develop something appropriate for political reasons, the process of health insurance development in the late 1970s shows that health insurance benefits, similar to various company benefits, were developed to support a broader system of cooperative labor mobilization, which in turn served to sustain the state-led coordination of the economy. Employers perceived health insurance as something that was good for them in sustaining labor cooperation.

Beginning with companies with more than 500 employees, the health insurance program gradually expanded in the 1980s. Health insurance benefits in workplaces were expanded to companies with 100 workers or more in 1981, and again to companies with 16 workers or more in 1983 (FKMIS,

1997). Interestingly, after larger companies first accepted the health insurance program, a significant number of smaller companies voluntarily participated in the program before it became a mandatory program. The Ministry of Health and Social Affairs reported in 1982 that about 78 percent of companies with between 16 and 100 workers already provided employees with health insurance benefits, even when the coverage was voluntary (*ibid.*: 274-275). This suggests that smaller companies also implemented the health insurance benefit as one of their voluntarily provided corporate benefits.

While the coverage expansion of health insurance benefited the working population, it had limits to expand and resulted in inequality among the population. As of 1983, national health insurance covered about 40 percent of the population (Shin, 2003: 91).⁹ Most of the urban self-employed and farmers did not have health coverage. The coverage expansion did not continue to include the broader population until the late 1980s, when social movements emerging in the process of democratization in South Korea pushed the government to reform the health insurance scheme for universal coverage. Political legitimacy finally mattered to the broad population when broad-based social movements organized themselves against the authoritarian regime and voiced their own demands.

CONCLUSION

The analysis of the impact of the mode of economic coordination on social welfare policy in South Korea provides very interesting findings. The European coordinated market economy and the South Korean coordinated market economy have opposite consequences in welfare state development. This can be explained by the power-based perspective and particularly the state's role in the market economy and social welfare policies. The balance of power favorable to organized labor in the European coordinated market economy, with a strong labor movement and pro-labor or social democratic parties, was crucial to the development of a comprehensive welfare state. In contrast, the balance of power unfavorable to organized labor in the South Korean political economy explains South Korea's ungenerous development of welfare policies.

In South Korea, compared to a weak development of public social welfare, company welfare gradually expanded as an important social protection for industrial workers. This form of social protection was initially shaped by

⁹ The medical assistance program covered 9.3 percent of the population as of 1983 (Shin, 2003: 91).

neither democratization nor a stronger labor movement. A more repressive state and a weakening of the labor movement were prominent among the causal factors explaining this improvement of social protection for industrial workers. The state's goal of rapid economic growth was realized through a coordinated market economy, nurturing big companies and enhancing cooperative labor mobilization. The state established the institutional frame in which the private business sector rather willingly participated in welfare provision. Employers provided social protection, including publicly authorized health insurance benefits, to their employees as one of the critical means of sustaining cooperative labor mobilization.

Company-centered provision of social protection for industrial workers, however, had a negative impact on welfare state development for the broader working class. We witnessed that the weak labor movement did not have a chance to mobilize the working class for broad social protection. The authoritarian state and big capital were not motivated to develop such broad social protection. The authoritarian state had its economic power base predominantly in big companies. The state encouraged a narrow social protection that would benefit big companies. Big companies were led to get involved in company welfare expansion. On the other hand, the state did not promote broad social protection at all under the authoritarian regimes in the 1970s and 1980s. The state never proclaimed itself as a welfare provider. Rather, it focused on expanding social benefits to those who were already beneficiaries, such as government employees, soldiers, and schoolteachers. The South Korean welfare system had existed to transfer resources to those who were better off at the expense of persons who were economically worst off during early welfare policy development. Without a strong and broad-based union movement, social protection for the working class had remained residual.

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