

Welfare Policy for a Sustainable Development: Korea's Productive Welfare and the National Basic Livelihood Security System¹

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I. Introduction to Korea's Economic and Social Development

Korea emerged from the devastation after the Korean War in the early 1950s to become the world's 11th largest economy and a member of the Organization for Economic Cooperation and Development (OECD) in the mid 1990's. Between the early 1960s and the 1990s, Korea's authoritarian military governments placed top priority on economic development and export-oriented industrialization. In those days, social security was subordinated to the country's pro-growth economic policy. Government spending on social security was minimal and welfare depended on economic growth, full employment, and traditional family ties.

However, when the Korean economy was affected by the East Asian financial crisis in 1997, the gains of previous decades were suddenly reversed. In 1998, GDP growth fell by 6.7% and unemployment reached an unprecedented rate of 8.6%. Many families were plunged into poverty and homelessness increased. Korea's welfare system was shaken at its roots. Without a comprehensive social security program, the rate of poverty doubled (Kim and Son, 2002; Moon et al., 1999). This situation called for an immediate response from the government. The rise in the number of the unemployed and low-income families also triggered the idea that social security should be expanded. It was in this context that Korean government formally adopted the productive welfare approach. Under the productive welfare, social security was viewed as an "investment for improved productivity, rather than as a simple transfer of income" (Office of the President, 2000).

This paper begins by providing some information about Korea and features of the country's social security program. Then it traces the emergence of the productive welfare approach and examines its impacts on Korea's social and economic development. It pays special attention to the government's self-reliance program, which is a welfare-to-work program introduced by the government under the National Basic Livelihood Security System (NBLSS) in

¹[Note] The author reorganized some of his previous researches and writings (2007,2008,2009,2013) for conference purposes.

2000. The self-reliance program is designed to help welfare recipients and the borderline poor to find jobs and to establish micro enterprises. It provides work experience which the government believes will help them achieve self-sufficiency. In this way, it is hoped that welfare recipients will enhance their capacity to function in the productive economy, become self-reliant and improve their standard of living. By facilitating economic participation through productive employment and self-employment, it is also hoped that the program also contributes to sustainable development.

Brief History of Korea

Korea, officially known as the Republic of Korea, is a country in northeastern Asia occupying the southern portion of the Korea Peninsula. The statehood of modern day Korea was established in 1948 following the partitioning of the peninsula between the occupying forces of the United States in the south and the USSR in the north.

The first president of Korea, Rhee Syng Man (1948-1960), adopted a vigorous anti-communism ideology as the main goal of his government, and the North Korean leader, Kim Il Sung, sought to unify the entire Korean Peninsula under his Communist regime. To this end, Kim Il Sung launched a full-scale military attack on the South in June 1950, which began the 1950-1953 Korean War. As is well known, the Korean War was bloody and devastated the country.

Politics and Economic Development

After the Korean War, the country's economy was critically dependent on relief funds from the United States and international aid. President Rhee adhered to a strong anticommunist ideology, which was used as an excuse against the introduction of liberal democracy (Kwon, 1999). In 1960, a blatant manipulation of the national election by the Rhee administration led to a nationwide student revolution which culminated in the President's forced resignation.

In 1961, a military coup led by Major General Park Chung Hee (the father of incumbent President Park Geun Hye) overthrew the government of Chang Myon, who assumed office after Rhee's resignation. Three months later, Park became the president. Park's era (1961-1979) was marked by extraordinary economic growth based on export-oriented industrialization. Park made economic growth the top priority of his government and in this way sought to legitimize his military rule (Amsden, 1989). A series of Five-Year Economic Plans was launched in 1962. The

Economic Planning Board, which was established in 1963, played a crucial role in the country's rapid development. It drafted a series of economic development plans and ensured that economic policy was effectively implemented. The primary focus of these plans was the development of the manufacturing sector and the export of manufactured goods. Contrary to the claim that Korea embraced a free market economy, Park's military government deliberately intervened in the market and regulated the economy by imposing strict performance standards on private industries (Amsden, 1989, Cho, 1994). To finance investment, the government adopted policies that attracted foreign capital. To repay foreign debt, the government promoted exports even further by providing preferential credits to exporters (Cho, 1994). The consequence was a dramatic spurt of industrialization and export growth, which resulted in a 13.8% GNP growth in 1969.

Such extraordinary economic growth and industrialization did not, however, lead to the development of democratic institutions. On the contrary, an even more 'bureaucratic-authoritarian regime' of concentrated power emerged (Im, 1987). In December 1979, General Chun Do Hwan and his military colleagues staged a coup, removing the Korean Army's chief of staff and seizing control of the government. Following a series of mass protests in 1987, President Chun promised democratic reforms, including direct presidential elections. Voters adopted a new democratic constitution in a referendum, and Roh Tae Woo, the presidential candidate from Chun's political party, was elected president in December, 1987.

In December 1992, Kim Young-Sam became Korea's first civilian president in more than three decades. President Kim adopted a New Economy Plan which resonated with the neo-liberalistic globalization scheme. The New Economy Plan emphasized a further reduction of state intervention and the liberalization of the capital market. By 1996, Korea's GNI per capita reached US \$ 12,000, almost 100 times the 1966 level. At this time Korea became the world's 11th largest economy and was admitted to the OECD. However, premature liberalization of the capital market rendered the country vulnerable to the volatility of speculative international capital flows. These factors, together with East Asia's financial crisis of 1997, led to the collapse of Korea's foreign investor credibility, triggering a massive flight of capital. The government sought help from the International Monetary Fund (IMF) in the form of an emergency loan in November 1997, and engaged in rigorous structural reforms of the financial and corporate sectors. The loan was repaid in August 2001.

The Kim Dae-Jung government, which came into office in 1998, had to confront the serious economic and social consequences of the financial crisis. The government's neo-liberal economic reforms, which were prescribed by the IMF, were accompanied by social programs conducive to country's macro-economic performance, especially job creation. It was in this context that President Kim introduced the concept of productive welfare.

II. Korea's Social Welfare Program

Korea's social security system is comprised of four social insurance programs and a social assistance program. The social insurance programs include the National Pension Scheme (NPS), the Industrial Accidents Compensation Insurance scheme (IACI), the National Health Insurance scheme (NHI), and finally the Employment Insurance (EI). In addition, the social assistance program, known as the National Basic Livelihood Security System (NBLSS), is designed to cover all eligible low-income people regardless of their work ability.

In 1986, the Chun Do Hwan government enacted the National Pension Act which was implemented in 1988 and expanded to cover the entire population in 1999. The Industrial Accidents Compensation Insurance Act was enacted in 1963 and became effective in 1964 to protect workers from industrial accidents. Coverage has been gradually expanded to cover all firms in 2000. The National Health Insurance scheme (NHI) is a comprehensive medical insurance program that covers Korea's entire population. The Medical Insurance Act was implemented in 1977, and expanded to cover the entire population in 1989. The Employment Insurance Act was legislated in 1993 under the Kim Young Sam government and implemented in 1995.

Korean social policy scholars have produced several analytical accounts of the development of the country's social security system. Some have viewed the expansion of social security as a key element in the process of legitimizing Korea's authoritarian governments (Kwon, 1999) but others view the development of social security as an adjunct to the nation's pro-growth economic policies (Hwang, 2006). Several scholars have pointed out that during the political democratization period of the late 1980s, the government expanded social security significantly in an attempt to garner political support from civil society and the working class (Ahn and Lee, 2005; Kwon, 1998; Woo, 2004). However, until the mid-1990s, economic development remained

at the top of government priorities, with social security playing only a subsidiary role to economic development.

III. Sustainable Welfare: Productive Welfare

The Productive Welfare Model

Productive welfare is Korea's new normative approach to social policy. It was formally adopted by the Kim Dae Jung administration when, in a public speech in August 1999, President Kim announced that the concept of productive welfare would serve as a basis for social security and social welfare services.

Productive welfare... addresses the need for a balance between the too often conflicting principles of the market and of welfare... welfare policies can be viewed as an investment for improved productivity, rather than as a simple transfer of income through administrative procedures (Office of the President, 2000, pp. 9-10).

The productive welfare concept was also greatly influenced by the British Third Way approach articulated by Anthony Giddens (Han, 2002; Kim, 2003; Sung, 1999). In fact, the concept of productive welfare has often been touted as Korea's Third Way (Han, 2002).

Productive Welfare and Welfare Reform

The most distinctive application of the notion of productive welfare was in social assistance. In 2000, the four-decade old Livelihood Protection Program was replaced with the National Basic Livelihood Security System (NBLSS). The new scheme was implemented to provide eligible low income people with cash income subsidies and to ensure that they achieved a minimum standard of living regardless of work ability. The age exclusion as well as the work ability requirement of the old Livelihood Protection Program was abolished and the Poor Law notion of serving only the 'deserving poor' was abandoned. The new scheme also established a new self-reliance program, which is Korea's unique welfare-to-work program.

Productive Welfare and Economic Development

Korea's social security policies during the period of rapid industrialization were subordinated to economic growth, served economic goals and supported the government's economic development plans. Although there was a notable expansion of social security during the political democratization period of the 1990s, the government continued to function as a regulator rather than a provider of welfare.

Because Korea's pro-growth development model was sustained by vigorous economic growth, full employment, and strong family ties, the need for extensive government welfare programs was limited. However, after the financial crisis of 1997, it became obvious that Korea's state-led pro-growth policy could not secure welfare for its people in the market globalization with its economic vicissitudes and risks. The serious economic and social consequences of the financial crisis, together with inadequate social security programs, called for a more effective response from the state. In particular, the idea that the government should adopt social security policies that promote human capital investments and economic development gained popularity.

IV. The Characteristics of the National Basic Livelihood Security System

Overview

Korea's social assistance program, the National Basic Livelihood Security System (NBLSS), provides cash benefits, and medical, housing, education, childbirth, funeral, and self-reliance benefits. The NBLSS provides supplementary benefits to ensure that recipients reached the minimum income guaranteed by the government. The official poverty line is defined in terms of the minimum cost of living. However, the NBLSS benefit structure does not allow the incremental phase-out of benefits. Instead, benefits are eliminated totally, once household income rises beyond the poverty line.

The NBLSS is a non-contributory welfare provision funded by the state from general revenues. Eligibility for the scheme is determined through a means test of the recipients and their immediate families. In 2014, the NBLSS provides benefits to 1.3 million individuals, or about 2.7% of total population.

Features of the Self-Reliance Program

The NBLSS also established a self-reliance program, which is Korea's unique welfare-to-work program for the poor with work-ability. It is designed to enhance the capacity of social assistance recipients to achieve self-sufficiency through labor market participation. In this regard, the self-reliance program is widely acknowledged as a key element in Korea's productive welfare model.

In fact, the self-reliance program stems from a community-based anti-poverty movement, which utilized local community-based organizations to encourage local people to form cooperative ventures. The government was impressed with these efforts and decided to contract with local non-profit, community based organizations to implement its self-reliance program. Under this scheme, eligible recipients of NBLSS benefits are referred to a local community based non-profit organization which is known as a self-reliance agency where they receive training and job placement. The self-reliance agencies provide marketable job training and education while their clients stay in the welfare-to-work activities. They then work with their clients until they are ready to find employment in the open market or are able to establish small businesses. In addition, recipients of the NBLSS benefits may also be referred to a local municipal government to be placed in a public workfare type program. Recently, active job placement program and Individual Developments Accounts (IDAs) were also incorporated into the self-reliance program, and the total number of participants in the self-reliance program is 110thousand as of 2013. This number includes so called the "borderline poor" -whose household incomes near the poverty threshold – who may also participate in the self-reliance program on a voluntary basis. As May 2014, there are 247 local self-reliance agencies that have contracted with the government to provide welfare-to-work services. Examples of the welfare-to-work projects include housing repairs, lunch box/catering, cleaning, recycling and nursing aid services.

V. Qualitative Research on the Effectiveness of Self-Reliance Program (Jo, 2007, 2013)

The researcher conducted a qualitative study to evaluate the effectiveness of self-reliance program and to see the possibilities of utilizing social programs to promote productive economic participation. To this end, he has conducted two waves of semi-standardized, in-depth interviews with self-reliance participants between 2006(n=22) and 2012(n=10), in six self-reliance agencies in Seoul, the capital city of Korea.

Self-Reliance Program and Poverty Alleviation

The NBLSS provides supplementary cash benefits, in-kinds benefits, and self-reliance benefits to ensure that all recipients reach the minimum income guaranteed by the government. All self-reliance program participants who have been placed in welfare-to-work activities receive self-reliance benefits instead of wages. And they are also eligible for supplementary cash benefits and in-kinds benefits if their estimated household income does not reach the national minimum. Interviewees reported that the self-reliance program contributed to the alleviation of absolute poverty by providing a significant proportion of household income. However, they perceived the level of benefit was not sufficient enough to meet the developmental needs such as investment on child education, health care and housing improvement.

Self-Reliance Program and Social Investment

The self-reliance program is intended to function as a social investment program under the notion of productive welfare, which views social program as an investment for improved productivity, rather than as a simple transfer of income. The self-reliance program is concerned not only with poverty alleviation but with providing the education, skills and other investments needed to help people in poverty participate in the productive economy and become self-sufficient.

Findings from qualitative research on the effectiveness of the self-reliance program are listed below according to categories of concepts coded from in-depth interviews with self-reliance program participants. These categories are also in line with seven strategic criteria of developmental welfare (Midgley, 1995, 1999; Midgley and Sherraden, 2000; Midgley and Tang, 2001), which include [1] the cost effectiveness, [2] facilitating economic participation through productive employment and self-employment, [3] removing barriers to economic participation, [4] enhancing human capital investments, [5] promoting social capital formation and community assets, [6] developing individual assets, and [7] social climate conducive to development.

Cost-Ineffective vs. Potential Investment Program

Despite the components of social investment, self-reliance program participants perceived the program largely as cost-ineffective due to the unmarketable and unprofitable nature of the offered welfare-to-work activities in the open, competitive market. For this reason, they

preferred to remain in the welfare-to-work program for as long as possible, rather than venturing into the labor market by establishing a cooperative micro-enterprise. However, when they were optimistic about the marketability and profitability of their welfare-to-work activities, they perceived the self-reliance program as a potential investment program.

Facilitating Economic Participation vs. Welfare Trap

The self-reliance program was introduced under Korea's NBLSS program to help its recipients become self-sufficient through engaging in productive employment and self-employment. To this end, self-reliance agencies assist and strongly encourage their clients to find employment in the open job market or to establish their own businesses. Despite having the goal of self-sufficiency through economic participation, many perceived that they were trapped in the welfare system which failed to provide strong incentives for economic participation. Again, this can be explained by interviewee's concerns about the unprofitable nature of welfare-to-work activities, which made them hesitate about participating in the open market. Besides, the NBLSS' all-or-nothing benefit structure which does not allow the incremental phase-out of benefits also failed to provide work incentive for the interviewees.

Removing Personal Barriers vs. New Institutional Barrier to Economic Participation

To facilitate economic participation by welfare clients, a social investment program should remove barriers that hinder economic participation. A great majority of the interviewees reported that they had at least one personal barrier to economic participation before they began to participate in the self-reliance program. Health problems, low labor skills, dependent children and old age were the most frequently perceived personal barriers. Through the self-reliance program, those kind of personal barriers were often removed. Especially, middle aged women with dependent children appreciated the favorable working hours. Some viewed the self-reliance program as an incubator where they could resolve personal challenges and wait for new opportunities. However, others perceived that the welfare benefit structure itself was a barrier to economic participation. Due to the all-or-nothing benefit structure of the NBLSS, they were often discouraged from actively participating in the economy for fear of suddenly losing all their benefits.

Human Capital Investment

The self-reliance program is the first welfare-to-work program in Korea that emphasizes training and education to enhance the capacities of clients to participate in the productive economy. In addition to creating employment opportunities, welfare recipients with work-ability would also require skills that increased their chances of finding sustainable and productive employment. The self-reliance program was widely perceived as a human capital investment program which provided stable work experiences and training opportunities in such areas as nursing aids, seamstresses, chefs, floral arrangers and computer operators. Interviewees with children were particularly eager to invest in their own children's education and they were struggling to provide higher education for their children. When they were asked where they would spend any additional income they might earn, their top priority was to invest in their own children's education, followed by paying off debts and securing better housing.

Promoting Social Network and Relationships

The self-reliance program contributed to strengthening social networks and relationships among socially disadvantaged groups. Interviewees in the study pointed out that the self-reliance program provided them with new opportunities to participate in community activities and to make new friends and social relationships. Some had life changing experiences through the self-reliance program. They were also appreciative of cooperative work experiences with their colleagues.

Developing Individual Assets

Asset development for the poor has been championed by welfare developmentalists. The idea of accumulating individual assets through savings accounts (Individual Development Accounts or IDAs) was inspired by the pioneering work of Michael Sherraden (1991). He points out that conventional social welfare programs have discouraged the poor from saving. However, he contends that the poor can save to achieve their developmental goals if they are provided with institutional support and particularly if their own savings are matched by the government. Like many other social assistance programs, Korea's NBLSS also does not provide its recipients with incentives to save. In fact, by enforcing asset limits, it actively discourages clients from saving. Nevertheless, it is interesting to note that most interviewees were seeking for saving opportunities,

expressing a strong desire and need to invest in their children's education, individual career, and better housing. As of 2013, Korean government introduced IDAs for the self-reliance program participants and provided a matched savings to encourage the poor to save and to find a productive employment in the market.

Welfare Climate: Conducive to Development vs. Stigmatization

When the NBLSS was established after the East Asian financial crisis, it was widely supported by Korean people for its improved notion of social right and the realization of productive welfare. However, many welfare recipients were still coping with the stigma in their daily lives. Interviewees pointed out that they had been stigmatized from the welfare office, customers at work, free medical services, and free lunch for their children at school. Despite experiencing stigma, the self-reliance program was perceived as a commendable program and a positive source of income for most interviewees.

When asked if they would recommend the program to their friends in need, a majority of interviewees responded that they would do so because the program would help them sustain a minimum livelihood. However, when asked if they would recommend the program to their young relatives, they hesitated to do so because they did not think that the program would be fit for the younger generations with greater potential for self-sufficiency.

VI. Conclusion

Korea's productive welfare model seeks to foster a proactive role for social welfare and social security in the context of economic development. Considering that Korea's social policy has been subordinated to pro-growth economic development policies during the industrialization period, the productive welfare model provides a new philosophy that links social welfare with improved productivity and economic development.

The National Basic Livelihood Security System is closely associated with the concept of productive welfare and is indeed regarded as the primary vehicle for expressing the ideals of productive welfare. By adopting the productivist approach, the NBLSS not only sought to eradicate poverty but also incorporated social investment strategies to promote self-sufficiency. However, whether the NBLSS does in fact promote economic participation of its recipients and thus comprises a productivist form of social security conducive to economic development is yet

to be determined. The question is particularly relevant with respect to the self-reliance program under the NBLSS, which was specifically designed to promote productive employment and self-employment among people with low incomes. In fact, despite the groundbreaking philosophical change, the productive welfare model accorded limited application as shown in the qualitative research outcomes.

Researches introduced in this paper also reveal that the self-reliance program functioned to some extent as a poverty alleviation program, raising the income of its clients up to the poverty line. The self-reliance program also functioned as a social investment program, but only in a limited way. Perceptions revealed in the interviews with the self-reliance program participants showed that the program couldn't be cost-effective due to the unmarketable and unprofitable nature of the welfare-to-work activities in which they were engaged. A related problem is the all-or-nothing benefit structure of the NBLSS which does not allow the incremental phase-out of benefits. This benefit structure discourages many self-reliance program participants from actively participating in the economy for fear of suddenly losing all their benefits. As such, program participants prefer not to venture into the real world of market competition but seek to remain in the program.

This problem is being reviewed by the government of President Park Geun Hye which came to office in 2013. The Park government has also explored the possibility of introducing a new NBLSS benefit structure that gradually phases out benefits and thus maintains incentives to work. This new benefit structure is now under review by Korean legislators and it is hoped that these policy innovations will more effectively address the needs of low-income people in Korea and also more effectively complement the self-support program. It is also hoped that, in this way, the government may enhance its current commitment to fostering productive forms of social security that link economic and social policies and increase the well-being of the country's citizens in the context of the country's impressive record of economic progress.

In theoretical perspective, this case study of Korea's welfare-to-work program provides the possibility of using a social program to promote productive economic participation thereby contributing to economic development under the paradigm of "productive welfare." This perspective transcends the prevailing dichotomy of welfare and economy and calls for a proactive role of social programs.

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