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The Necessity of a Paradigm Shift in Korean Welfare Policy and Tasks to Be Pursued

Heesuk Yun, Fellow at Korea Development Institute

"If 'welfare through work' is to become a reality, Korea should dispense with the old method of haphazardly importing welfare programs based on one-to-one comparisons with developed countries and instead redefine the overarching goal of the welfare system by establishing a universal structure that supports employment and mobility and aligns various welfare programs as components of that system."

In the early 1990s, the influx of low-skilled labor from Eastern Europe, China, and India brought about a shift in the global labor market. The result was a phenomenon known as "the great doubling." The labor force in the global market increased from around 1.46 billion to 2.93 billion, while the capital equipment ratio (the amount of capital used per laborer) is estimated to have plummeted to about 61% (Freeman, 2008).

Even more important is the fact that such changes were not a one-time shock but are, rather, an ongoing process. As developing countries improve the education levels of their populations and make significant investments in capital, it becomes more difficult for developed countries to maintain a technological advantage. Consequently, any country that does not invest in capital and technology to increase the level of production and that does not empower its workers to adapt to the constantly changing conditions of the global economy will find that both its individual workers and its economy as a whole are in danger of being left behind.

* This article is based on the main points of a research report titled *Blueprint for a Comprehensive Income Maintenance System*, written by Heesuk Yun and published by the Korea Development Institute in May 2012.

* This is the Translate version of KDI Focus released on January 29, 2013.

Linking work and welfare does not merely mean connecting existing welfare programs with programs that help people find jobs. Rather, it means modifying existing welfare programs or considering the option of introducing new programs under the primary goal of “welfare through work”.

As a result of the growing concern, certain countries have defined the main objective of their welfare systems as implementing reforms to help individuals successfully navigate the labor market. Such countries are making an effort to modify existing welfare programs so that they do not obstruct this function. While it was common after World War II for countries to consider income assistance as the main goal of welfare, many countries today have succeeded in bringing about reform by fundamentally reorienting their systems.

Korea’s intensifying polarization and changes in the structure of its economy that are as severe as any advanced economy are leading to a new emphasis on the link between welfare and work. However, simply connecting the existing welfare system with the employment assistance system is often observed. The problem is that, since a considerable number of these welfare programs were designed in the past—that is, when the priority was placed on passive income maintenance—they actually have a negative influence on efforts to overcome the challenges currently facing the country.

The importance of this is that Korea needs to adopt a new approach to expanding welfare and avoid hurriedly adopting systems from advanced economies. These countries introduced such systems in the past, during a time of economic growth, to achieve objectives that were ostensibly appropriate at the time. Today, there is little reason to emulate welfare systems that merely increase the rigidity of the system without providing many actual benefits. Defining “welfare through work” as the overarching objective of the welfare system will mean reviewing the necessity of new programs within that context and also altering existing welfare programs so that they correspond to that primary objective.

I. The Necessity of a Paradigm Shift in Welfare Policy

A. Placing Less Importance on Income Maintenance and Moving Toward Welfare Designed to Improve the Employment Rate

In the past, the main role that welfare systems generally served was income maintenance for times when fluctuations in the economy caused unexpected hazards such as unemployment. However, as technology and industry began to change rapidly according to the circumstances of the global market, unemployment became a structural risk that manifested when workers’ skills could not easily adapt to these changes. When uncertainty increases, innovation accelerates and required skills are altered, individuals are exposed to the risk that the skills they possess become obsolete. This risk is difficult to counter on an individual level. Furthermore, the long-term trend has been for the added value of low-skilled laborers to decrease. Considering this, the primary function of the welfare system becomes using policy and programs related to the labor market to create a system in which individuals can adapt to the ever-changing world of work.

In addition, as the decreasing value of low-skilled labor makes the single breadwinner model difficult to sustain, it becomes necessary for there to be a move toward welfare programs that are designed to increase the employment rate. As women continue to participate in economic activity, it is important that social services exist that can substitute for the welfare functions that used to be provided by the family.

In the end, piggy back role of welfare programs, which helps people maintain their livelihood without participating in the labor market, becomes less necessary and less appropriate. Further, employment security no longer means keeping workers employed at a given workplace. Rather, it means helping people to remain employed as they rotate through a variety of jobs without being tied to the fate of any single company or industry. As a result, welfare programs need to move toward helping workers overcome their fear of transitions (such as losing a job and finding a new one) by enabling them to adapt to abrupt changes. This also involves offering more welfare services such as child care and elderly care to make it easier for such workers to participate in the economy.

In short, this paper advocates a work-centered welfare system. This system must also serve as the standard for modifying a variety of welfare programs and for judging the necessity of introducing additional programs. Costs must be considered along with benefits. For example, when a proposal is made to increase welfare payments to combat child poverty or to provide assistance for the unemployed, it is also necessary to consider that these payments can have a negative effect on the behavior of adults who are capable of working. Instead of haphazardly introducing programs in various sectors, Korea should start reforming programs and determining whether they are necessary in accordance with the overarching philosophy of the system.

The rapidly changing global economy strengthens the need for a paradigm shift in the welfare system. Korea should move away from protecting income and jobs and toward empowering people to stay employed as they transition from one job to another.

B. Expanding the Coverage of Welfare Policy and Strengthening the Role of Government

Welfare policy, as is being suggested in this paper, needs to take both a universal and targeted approach. One, it should be expanded to cover the entire population. Two, it is necessary for the goals of some programs to be adjusted to target marginalized groups. Helping people find jobs and improve their skills must become a universal welfare service provided regardless of income level and also a system for national innovation. However, in regard to cash payments, social services, and other welfare benefits that are provided depending upon the circumstances of the individual, it is important to break free from a welfare system that focuses on core workers. A sound welfare policy would prioritize vulnerable members of society so that the welfare system can cover sectors that are currently overlooked by social policy.

These overlooked sectors include the long-term unemployed, young people without jobs, and irregular workers whose numbers have increased because of structural changes. These represent a blind spot in social policy and constitute low-income population groups that cannot be easily be integrated into the existing worker-centered welfare system. Accordingly, a worker-centered system in which welfare support is mainly mediated by one's employer needs to be replaced or

complemented by a system in which the government expands welfare coverage to populations that have little or no link with labor market.

Importantly, active labor market policies intended to help chronically unemployed workers return to the labor market are unlikely to receive the support of those currently employed. The main reason for this opposition is that workers who already occupy stable positions in the labor market, and who want greater employment protection and wage security, have few incentives to support active labor market policies that seek to increase the supply of labor.

This may explain why progressive political parties have shown little interest in active labor market policies or in increasing the employment rate for vulnerable sectors of the population here in Korea and other countries. Rather than representing the interests of vulnerable sectors of society as a whole, progressive political party, whose political base consists of labor unions, primarily support the interests of insiders in the labor market (Rueda, 2005). Therefore, when determining the priorities of social policies, it is necessary to recognize the limitations of allowing these priorities to be determined by politicians or through trilateral discussions among labor, management, and government.

II . What Should Be Done to Achieve a Paradigm Shift in Welfare Policy

A. Establishing a Springboard System for All Koreans

In Korea, the industrial structure has changed more rapidly than in any other advanced economy. Table 1 compares the amount of change in the number of people employed in each industry between 1992 and 2006, by country. The gap between the Korean industries in which the number of employees has increased and decreased the most is significantly larger than in other advanced economies. This indicates the rapid pace at which structural changes have occurred.

The rate of increase in workers is highest in the real estate, renting and business activities sectors (220.2%), while the rate of decrease is greatest in mining (-70.9%). The gap between the two is 291.1 percentage points, which is 2.5 times the equivalent gap of 116.3 percentage points in the US.

Rapid structural changes are leading to an increase in low-income jobs. More and more of the long-term unemployed are unable to adapt to these structural changes, making poverty entrenched and chronic (Yun, 2012). However, it is very difficult for people to learn new skills and to find opportunities for upward mobility inside the labor market. Welfare services that provide training for workers are becoming more important than services that provide passive income maintenance. Vulnerable members of society are rarely able to take advantage of these services.

Problems such as these are also readily apparent in the ratio of people below the poverty line who have taken part in job training (see Table 2). Data from the Korea Labor and Income

<Table 1> Rate of Change in Number of Persons Engaged (Total Employment) from 1992 to 2006

(Unit: %)

Country	Range of Rate of Change	Two Industries with the Greatest Rate of Increase	Two Industries with the Greatest Rate of Decrease
Korea	291.1	Real estate, renting and business activities(220.2) Health and social work(134.8)	Mining and quarrying(-70.9) Textiles, textile products, leather and footwear(-65.5)
Canada	126.3	Real estate, renting and business activities(100.2) Mining and quarrying(52.7)	Agriculture, hunting, forestry and fishing(-26.1) Textiles, textile products, leather and footwear(-25.2)
France	117.7	Other community, social and personal services and Private households with employed persons(57.6) Real estate, renting and business activities(51.2)	Textiles, textile products, leather and footwear(-60.0) Agriculture, hunting, forestry and fishing(-26.4)
Germany	166.5	Real estate, renting and business activities(98.8) Hotels and restaurants(40.2)	Mining and quarrying(-67.7) Textiles, textile products, leather and footwear(-62.0)
Italy	115.4	Real estate, renting and business activities(81.2) Hotels and restaurants(36.4)	Agriculture, hunting, forestry and fishing(-34.2) Textiles, textile products, leather and footwear(-33.7)
Japan	142.3	Health and social work(79.6) Real estate, renting and business activities(48.3)	Textiles, textile products, leather and footwear(-62.7) Mining and quarrying(-47.8)
UK	123.6	Real estate, renting and business activities(54.9) Other community, social and personal services and Private households with employed persons(29.6)	Textiles, textile products, leather and footwear(-68.8) Electricity, gas and water supply(-41.6)
US	116.3	Construction(54.5) Real estate, renting and business activities(50.5)	Textiles, textile products, leather and footwear(-61.7) Electricity, gas and water supply(-24.6)
Sweden	103.4	Real estate, renting and business activities(65.6) Hotels and restaurants(21.6)	Agriculture, hunting, forestry and fishing(-37.8) Textiles, textile products, leather and footwear(-35.5)

Note: 1) The data was categorized into 23 industries according to subcategories in the STAN database.

2) For Sweden, the figures show the rate of change over 1993, while in France, mining is included in the manufacturing industry.

Source: OECD, "STAN Industry 2008," 2010. STAN Structural Analysis Statistics (database). (Accessed on 07 Jan. 2013)

<Table 2> Whether Poor Household Heads Have Had Job Training

	Age	Household Head	Total	Poor 1 or 2 yrs	Poor 3 or More yrs	Always Poor
Rate for Each Poverty Subgroup	Total	Received Job Training Each Year	8.1	6.1	1.9	0.2
		Did Not Receive Job Training Throughout the Period	72.7	76.0	89.9	98.5
	65 or Below	Received Job Training Each Year	9.0	6.4	2.6	0.3

Note: 1) Based on the heads of household who responded at least five times between year 3 and 11 of the Korean Labor and Income Panel Study (KLIPS).

2) The figures for "Received Job Training Each Year" were calculated by finding the average of the yearly percentage of workers who received job training from year 4 to year 11 of the labor study.

3) "Did Not Receive Job Training throughout the Period" refers to those who did not receive job training even once between year 4 and year 11 of the labor study.

Source: Data from year 4 to year 11 of the Korean Labor and Income Panel Study by the Korea Labor Institute.

Panel Study (KLIPS) was used to analyze how much job training has been received by heads of households who have been in poverty for an extended period of time. The analysis showed that 98.1% of householders 65 years and younger who had always been poor responded that they had not taken part in job training even once during the period under review (2000–2008). 86.2% of heads of household who had been poor repeatedly and at length gave the same response.

Consequently, the current task for welfare policy is adopting an active labor market policy as the overarching goal of welfare and then setting up income maintenance as a subsystem that operates in accordance with that goal. This is not a welfare system that gives money to

individuals who have been left behind in the labor market only after they have fallen into abject poverty. Rather, it is a framework that supports anyone who is able to work and needs help overcoming the problems of unemployment or inadequate skills, while also offering income maintenance to those workers who fall below the poverty line. This will mean fundamentally transforming a system to assist people struggling with structural changes in the economy by establishing a universal springboard that is available universally as a basic safety net.

B. Shifting from Transplanting Individual Programs to Focusing on the Entire Welfare System

The overarching goal of welfare through work conflicts with certain individual programs that have been brought to Korea without taking account of the actual situation in the country. One such program is the family care allowance program. This program, which decreases the incentive for women to find work, has been expanded despite the fact that the Korean employment ratio for women with infants and young children is hovering around 30–40%.

Korea is a latecomer in building welfare state. It has generally relied embedding what it has benchmarked from welfare systems of advanced economies. One positive result has been that Korea was able to establish a welfare system in a short period of time. Notwithstanding this positive aspect, in its rush to import programs from advanced economies, Korea has not been successful in determining what its welfare system should aim to achieve. It also failed to pay sufficient attention to the context in which programs from other countries had been designed and developed and how that context might be different from the situation in Korea.

Considering the growing consensus that the aim of a welfare system should be to provide welfare through work, it is necessary to assess the significance of each individual welfare program in light of the orientation of the system as a whole. In particular, policymakers need to reconsider the current method of deciding whether to introduce individual programs without taking into account the larger context. For programs whose implementation or expansion is currently being considered, it is necessary to pay attention to the issues discussed below.

1) Cash-for-Care

In contrast to child benefits, which is paid to families with children below a legally defined age (16–18), cash-for-care is paid to families that raise children at home instead of sending them to a child care facility. Whereas child benefits began as a subsidy for the wages provided by an employer and expanded to a number of countries during the period after World War II when many countries established large-scale welfare policies, cash-for-care is being used in a minority of countries for special purposes (Table 3). Some representative examples are Finland and other countries in Northern Europe, where this has been used to deal with problems that have appeared as a result of increased economic activity by women. In fact, the women's labor force participation rate has been seen to decrease in countries that have introduced cash-for-care. Another problem is that, the lower the income level of these families, the more likely they are to choose financial assistance over a job, thus removing them further from the labor market and reducing their employment prospects in the future.

In Korea, the employment rate among women with infants or young children remains below 40%-far lower than most OECD countries (Figure 1). Raising this rate is a policy priority both in

<Table 3> Childcare Benefits by Type in OECD Countries

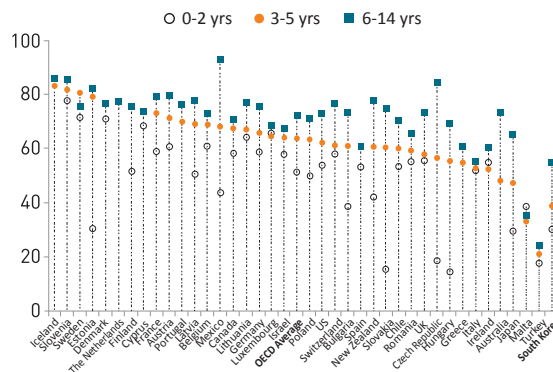
Country	Cash-for-Care	Subsidy for Use of Services	Note
Australia	-	Y	CCB (child care benefit) provided for use of approved facilities or registered care provider
Canada	Y (State)	-	When not using publicly supported facilities (province of Ontario)
Denmark	-	-	
Finland	Y	-	When not using a public child care facility
France	-	Y	When using an approved facility or hiring a care provider. According to income level.
Germany	-	-	
Iceland	-	-	
Ireland	Y	-	In the form of a tax credit
Israel	-	-	
Italy	-	-	
Japan	-	-	
The Netherlands	-	Y	Support given for use at approved service providers according to household income and cost of child care. Support limited to cases where both parents are working or are in job training.
New Zealand	-	Y	Recipients selected according to income. Support paid to service provider
Norway	Y	-	When not using publicly supported facilities
Spain	-	-	
Sweden	-	-	
Switzerland	-	-	
UK	-	Y	Tax credit for low-income working households
US	-	Y	Low-income working households

Source: OECD, Benefits and Wages: OECD Indicators, 2010..

terms of providing relief from poverty and improving human capital management. Despite this, the arguments that the same amount of money should be provided for families that provide their own child care as for those who are using child care facilities, and that cash should be used to induce families to provide their own child care and thus reduce the child care assistance budget, have been the major components in discussions of family care allowance.

Because using cash-for-care to alleviate the budget pressure contradicts the overarching goal of increasing the female employment rate, this can be seen as the result of a failure to harmonize child care subsidy policy with the larger goal of work-oriented welfare. The direct cause of the budget burden is the fact that the all-day standard is used in providing facility child care support both for working moms and non-working moms. This should be changed by differentiating the amount of time that families are allowed to use facilities according to whether or not the mother is employed and by reorienting associated policies toward the goal of increasing the employment rate for women.

[Figure 1] Female Employment Rate According to the Age of the Youngest Child



Source: Kim (2012).

2) Earned Income Tax Credit

An earned income tax credit (EITC) system can be expected to have two basic effects: 1) an increase in labor supply and 2) a reduction in the poverty level. There are three types of EITC systems. The US type provides assistance based on the earned income per household. The UK system is also based on households but only applies when working hours exceed a certain level. The Continental countries provide support to individuals. Although providing support per household can actually serve as a disincentive for a second wage

earner to work, the US EITC was designed to help female-headed households, thereby both increasing employment and reducing poverty.

In Korea, since the main policy objective of the EITC system was not clearly defined when it was introduced, it has been difficult to establish the direction for subsequent expansion of the program. If the primary objective of the program is income maintenance for the poor, policymakers need to carefully review whether people below the poverty line are the primary recipients of the program. If, on the other hand, the objective is promoting employment, they should focus on the effect it has had on the labor market.

The very task of assessing the results of the program and establishing a plan for improvement has been difficult, because there are not clearly determined goals. To clarify the aim of the program, it should be noted that there has been a severe decline in the incentive to work, with the labor force participation rate of men with little education dropping nearly 10% since 1995. Consequently, it is necessary to specify that the goal of the program is to increase the employment rate for the low-income sector and establish a performance assessment system in line with this.

There are also concerns about the relationship between the EITC program and other income assistance programs. That is to say, the EITC takes into account the number of children in determining how much money a family is provided, effectively covering the cost of raising children. At the same time, the cash-for-care has been continually increased separately from this. There is no need, of course, to preclude the possibility that multiple programs could be operated to assist families with the cost of raising children. Nevertheless, there is no coordination mechanism in place to deal with the redundancy of roles between the two programs and to adjust the level of support they offer. This is a clear illustration of the problems with the welfare system in Korea. Programs need to be implemented considering whether there are overlaps between sectors or how a given program relates to some overarching goal.

3) Housing Assistance

Housing assistance programs in the West are the legacy of specific historical phenomena (e.g., the urban slums that appeared during the age of industrialization, the insufficient supply of housing resulting from the interruption of residential construction, the bombing of cities during the two world wars). There has been a shift away from the massive public housing projects that were carried out at this time—which led to problems including class segregation, poor maintenance, market distortion, and reduced worker mobility—to user-side assistance such as housing allowances. However, the various housing assistance methods that have existed since the days of industrialization are still being used, and debate continues about the relative usefulness of each method and the contextual conditions that are appropriate for each.

Since Korea did not experience the unique historical circumstances of Western countries, housing assistance programs should be based on an empirical analysis of its own unique circumstances. It is also important to determine whether direct housing supply, indirect market intervention, or cash payments are the most useful method. This can be determined by considering supply and demand in the housing market, the flexibility of housing supply, the assessment of public housing and its current maintenance, along with the advantages and disadvantages of each method.

For now, not only are there insufficient empirical grounds for making these decisions, but the current housing assistance system is divided into two approaches. One is a program at the Ministry of Land, Infrastructure and Transport that provides residential space directly, while the other is a cash subsidy program at the Ministry of Health and Welfare that covers the cost of housing. It should be determined at some higher level what the objective of residential assistance should be. Policymakers also need to think carefully about recipients' incentive to work.

Also, the ultimate goal of housing assistance is not simply providing housing to population groups that have been socially marginalized because of a lack of stable housing. Rather, the goal is to integrate them into the labor market and into society at large. Considering this, these housing assistance programs should be harmonized and also linked with other social policies. In consideration of these points, it is fair to say that, at present, it is necessary to reach a consensus about what the goal of housing assistance should be and discuss which programs should be used to pursue this goal in the long term.

Two different government agencies are handling housing assistance, and they have expanded this assistance without coordinating their efforts. It remains unclear what overarching goal can be used to harmonize them.

C. Prioritizing Vulnerable Populations and Strengthening the Role of Government

Coverage of social programs should be expanded for all vulnerable populations narrowing blind areas that are being neglected under the current welfare system. This has important implications for social policy partnerships. When the labor market was centered on manufacturing, a substantial portion of the working-age population could be classified as

<Table4> Labor Union Membership Rate and Average Wage by Scale of Company (As of August 2012)

(Unit: 10,000 people, %, million won)

	Size of Company (# of Employees)						
	Total	1-4	5-9	10-29	30-99	100-299	300+
Wage workers	1,773.4	339.8	305.4	404.1	342.4	173.4	208.2
%	100.0	19.2	17.2	22.8	19.3	9.8	11.7
Labor union membership rate at these companies	11.5	0.7	2.3	7.3	13.4	25.7	36.0
% of all union members	100.0	1.1	3.4	14.4	22.4	21.8	36.7
Average wage	2.104	1.259	1.676	2.033	2.359	2.598	3.419

Note: 1) 2,039,000 people are enrolled in labor unions.

2) The labor union membership rate is the ratio of the number of people enrolled in labor unions to the number of wage workers.

Source: Statistics Korea, August 2012, Survey of the Economically Active Population, Supplementary Study by Type of Work.

The most vulnerable group is households in which no one is employed. With less than 1% of workers at small companies (those with less than five employees) enrolled in labor unions, social policy debate has become inflexible as the focus remains on unions. There is a need for the government to assume a greater role in directing social policy.

workers with an average level of training and their families. But now that the labor market has changed, the status that labor unions formerly enjoyed in a workplace-centered welfare system is changing as well.

In Korea today, the union membership rate is high in large companies that pay high wages, and a large percentage of the total labor union members are employed at such companies. On the other hand, workers at comparatively smaller companies are effectively disconnected from the influence of labor unions. Around 6.45 million people, or 36.4% of the total paid workforce, are working at companies with less than 10 employees. Their union membership rate is 0.7% ~ 2.3%. (Table 4).

This means that, since the interests and influence of labor unions are limited to issues related to big companies, their importance must not be exaggerated when it comes to establishing general social policy. This is also directly connected to determining the priorities of social policy. Because labor unions are major stakeholders that have a significant influence on politics, attention tends to focus on issues related to the employees of big companies and on the problem of irregular workers—issues that are closely related to labor unions. This political reality makes it all too easy for the priorities of social policy to be distorted. The problem is that it is difficult to demonstrate the importance of helping the unemployed and intermittent workers who are only tenuously part of the labor market achieve integration in the labor market. In fact, these are the most vulnerable groups in terms of poverty policy.

The second area in which the government's role should be strengthened is the expansion of policy infrastructure. In order to provide assistance to vulnerable groups, it is necessary to determine the income of those for whom the policy is designed. This will act as the minimum standard for ensuring the effectiveness of the system. At the moment, one of the major obstacles to expanding welfare is the system's inability to identify and access household income.

That is, in addition to the task of converting the welfare system into one that can help individuals adapt to changes in their economic circumstances, there is a second challenge: expanding policy infrastructure to address areas that welfare policy has overlooked. This

represents the uniqueness of challenges the Korean welfare policy faces. In order to improve policy infrastructure, it is imperative that Korea 1) improve tax administration 2) implement policy feedback processes 3) establish channels for information collaboration between government ministries and various agencies including social insurance organizations. Furthermore, it is also urgent to create a feedback system that can reduce the likelihood that proposed program expansions will be approved with excessive haste. ■

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