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WELFARE STATE AND GLOBAL FINANCIAL CRISIS: A CASE STUDY OF SOUTH KOREA**Abstract:**

This research project examines how and to what extent the 1997 Asian financial crisis influenced the development of Korean welfare state system. Korea's success in overcoming the Asian financial crisis shows that Korea perceived and reconstructed structural problems very quickly. The national debate ignited by the crisis was not only important in restructuring of the economy but also in expansion of social policies. This counters the neo-liberal assertion that market-driven globalisation renders social policy marginal in economic development. Why Korea was able to develop a welfare state system unlike other East Asian countries, which simultaneously faced the financial crisis?

In explaining the development of welfare states in Europe, scholars assume that industrialisation, democratisation, and, in particular, growing labour movements and leftist political parties as crucial factors. In a similar vein, scholars sought to explain the reason for the slow development of social policies and limited welfare systems in East Asia in spite of rapid modernisation and democratisation. It was generally accepted that East Asian social policies were primarily driven by the dynamics of development policies and political legitimacy, particularly in Korea where the foundations of a welfare system were established under military regimes. In that case, how can the development of the welfare state system in Korea be explained?

I argue that the welfare state system in Korea is an outcome of an interaction among various factors including mainly democratisation and industrialisation as a basis to the welfare state, the Asian financial crisis as a turning point from residual to institutional welfare systems, rise of neo-liberalism as a dominant ideology, and the effects of global governance by the IMF and the World Bank. The democratic transition and intervention of the IMF and the World Bank contributed to substantial policy reforms leading to a welfare system. In addition, civic and labor movement played important roles in setting the policy agenda for the system. Due to these internal and external factors in conjunction with the Asian financial crisis, Korea developed a welfare state system unlike other countries affected by the crisis. The development of the welfare state system in Korea shows that Asian countries could respond to economic challenges and opportunities in different ways.

Keywords:

global financial crisis, welfare state, industrialisation, democratisation, labor and civic movements, neo-liberalism and South Korea

When the first modern government was established in 1948, South Korea was one of the poorest countries in the world with an unstable democracy. Nevertheless, South Korea quickly transformed itself between the 1960s and 1980s into one of the new industrialized countries, becoming an OECD member in 1996. Until the onset of the Asian financial crisis of 1997, South Korea was achieving almost full employment. Meanwhile, democracy had been developing. However, with the 1997 crisis, Korea began to face structural problems in all social, economic and political spheres. An interesting effect of the crisis was the beginning of a national debate on the establishment of a national welfare system, which set Korea on the path to a modern welfare state. Social welfare policies were expanded to unprecedented levels over the next few years under the Kim Dae-Jung government (1998-2002). In this pathway, my research question refers to how and to what extent the Asian financial crisis influenced the development of a national welfare state system in South Korea.

Economic growth is generally accepted as one of the conditions for the development of welfare states (Wilensky 1975). The growth of the welfare state could be one of the possible by-products of economic development, which increasingly needs appropriate administrative systems and welfare schemes (Huber, Ragin and Stephens 1993). South Korea, which was dubbed as a 'Miracle on the Han River', experienced rapid economic development from the 1960s to the end of the 1990s. However, unlike European welfare states, the economic development did not lead to the concurrent expansion of welfare programs. Such an expansion was rather an effect of a strong democratic movement.

However, another dominant interpretation of the development of welfare states holds that major political developments such as democratization are outcomes of the mobilization and political struggle of the working class. Democratization generally expands citizens' rights. It is associated with the accomplishment of social welfare policies. In the case of South Korea, after independence from Japanese rule and even after the establishment of a sovereign nation-state in 1948, the primary concern of governments was not the institutionalization of democracy, but it was economic development and the resolution of conflicts emanating from left versus right societal ideological polarization (Choi JJ 2001). Therefore, South Korea had difficulties to build a social and class consensus necessary the initiation and consolidation of welfare programs. Many South Korean social and political scientists assert genuine democracy in South Korea has began after the 1997 crisis, i.e. with the expansion of national welfare policies under the Kim Dae-Jung government.

In addition, another influential factor in the establishment of the welfare state is associated with labour and civic organizations (Stephens 1979). Their growth produced political consensus, and it led to the achievement of social welfare, e.g. in European welfare states. In South Korea, industrialization transformed the class structure and forces as well; and the movements for democracy resulted in the birth of new civic groups in various sectors and spheres. However, class struggle did not connect with the establishment of a labour party and the realization of welfare programs in spite of their strong organization with trade unions. Nevertheless, the working class and civic groups set up agendas for social welfare, which were realized partly under the Kim Dae-Jung government.

In the wake of the 1997 crisis, South Korea experienced unprecedented economic and social disruptions, which resulted in tremendous restructuring of not only its economic system but also its social policies, especially in the expansion of national welfare state systems. The crisis proved a watershed in the development of welfare schemes, which in South Korean society were understood actually not as a state's responsibility.

East Asian countries responded differently to the crisis in terms of economic restructuring and welfare reforms. While Singapore maintained the basic structure for the selective development of a welfare system, Korea and Taiwan expanded public policies and initiated reforms for comprehensive welfare systems (Kwon HJ 2009). Interestingly, the case of South Korea counters the neo-liberal assertion that market-driven globalization renders social policy marginal in economic development. Rather globalization influenced policy decision in favour of the expansion of national welfare systems. During the 1997 crisis, South Korea relented to the IMF's coercive demands for welfare reforms, which led to institutional welfare systems.

In conclusion, the 1997 crisis became a turning point in the development of South Korean national welfare state system. However, most studies on East Asia attempt to define the distinctive characteristics of welfare systems from Western welfare states on such grounds as cultural values of Confucianism (Johnes 1993) and political legitimacy and authoritarian power, which explained less/limited welfare state development in East Asian countries (Gough 2004; Kwon HJ 1999; Walker and Wong 2005).

In other words, unlike in the emergence of European welfare states, rapid industrialization, democratization and the accompanying labour and civic movements in South Korea were not critical in the development of welfare programs apart from laying

down a basis by producing requisite financial investment and promoting social consensus. The 1997 crisis was a critical juncture advancing the role of globalization and global institutions such as the IMF and the World Bank on policymaking process. In a nutshell, the development of South Korean national welfare state system cannot be explained using paradigms of welfare state development in Western Europe. It is rather a function of a complex interaction of internal and external political conditions. An alternative and appropriate framework for the explanation of the South Korean path is one that should primarily take into account the domestic policymaking process in relation with global developments and influences.

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