

**PUBLIC WELFARE POLICY FOR PREPARING AGING SOCIETY: A
COMPARATIVE STUDY BETWEEN SOUTH KOREA AND SWEDEN**

By

Yeonsuk Kim

THESIS

Submitted to

KDI School of Public Policy and Management

in partial fulfillment of the requirements

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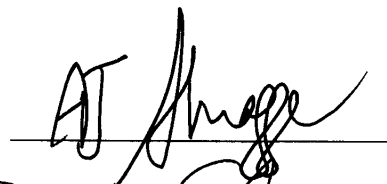
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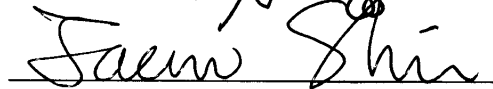
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ABSTRACTS

PUBLIC WELFARE POLICY FOR PREPARING AGING SOCIETY: A COMPARATIVE STUDY BETWEEN SOUTH KOREA AND SWEDEN

By

Yeonsuk Kim

Korea was entering the condition of Aged Society after becoming an aging society in 2000. Now Korea is one of the youngest countries but will be the second oldest one that will have about 38% of its elders over 65 by 2050 following Japan with 39%, due to rapid population aging. There have been more abundant discussions about social welfare extension during the last presidential election. The present administration promised the extension of welfare services – most pledges of President Park were related to universal and free welfare service including child-care, health-care, and old-age pension. However, the most fundamental problem is that the Korean government does not have sufficient financial resources to fulfill these pledges.

Therefore, this report will show some different welfare policies through comparative study between Korea and Sweden, because Sweden is known as a well-designed welfare model state. From the Swedish welfare model, Korea can learn some lessons. First of all, the

well-functioning Swedish Early Childhood Education and Care (ECEC) and parental leave policies will be compared to the Korean case. Secondly, the Swedish patient-oriented health-care system, Stockholm Model will be introduced. Thirdly, radical pension reform to NDC (Notional Defined Contribution) in 1999 – high contribution and high benefit -- will be explained. Fourthly, sustainable and transparent fiscal policy and a system of high taxation will be also compared to Korean fiscal and tax policies. Finally, the contribution of CSOs (Civil Society Organizations), especially Labor Unions (LO) with the Swedish Social Democratic Party (SAP) since the Second World War will be compared to the role of Korean CSOs. However, Korea should keep in mind that Sweden took a long time, over one hundred years, to form its present mature welfare system through several waves of system reform. Moreover, the Swedish government, SAP, and LO strongly contributed to form the Swedish welfare model with long-term plans and long discussions and debate.

KEYWORDS: Comparative Welfare Study, Korean Welfare Policies, Sweden Welfare Policies, Sustainable Welfare Services, Welfare Policies, Child-Care Policies, Health-Care Policies, Pension Policies, Fiscal and Tax Policies, The Role of Civil Society Organizations

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LIST OF SYMBOLS OR ABBREVIATIONS

| | |
|--------|---|
| AGDI | Asia Pacific Governance and Democracy Initiative |
| ALMP | Active Labor Market Programs |
| ALOS | Average length of stay |
| ATP | Allmän tilläggspension (general or public supplementary pension) |
| CCEJ | The Citizen's Coalition of Economic Justice |
| CSN | The National Board of Student Aid |
| CSO | Civil Society Organizations |
| CSIS | Center for Strategic and International Studies |
| DRG | Diagnosis-related Group |
| EU | European Union |
| EC | European Commission |
| ECEC | Early Childhood Education and Care Policy |
| EITC | Earned Income Tax Credit |
| GDP | Gross Domestic Product |
| HiT | The Health System in Transition |
| ILM | Levels of Labor Mobility |
| ICT | Information and Communication Technology |
| ITP | Industrins och handelns tilläggspension (negotiated pension system for certain groups of employees) |
| KERI | Korea Economic Research Institute |
| KIRI | Korea Insurance Research Institute |
| LO | The Swedish Trade Union Confederation (Landsorganisationen i Sverige, Labor Union) |
| MEST | The Ministry of Education, Science and Technology |
| MHW | The Ministry of Health and Welfare |
| NDC | Notional Defined Contribution |
| NPS | National Pension Service |
| NSIB | National Social Insurance Board |
| OECD | Organization for Economic Cooperation and Development |
| PROST | the World Bank's Pension Reform Options Software Toolkit |
| PAYG | pay-as-you-go |
| PSPD | The People's Solidarity for Participatory Democracy |
| SCHU | Soonchunhyang University |
| KOSTAT | Statistics Korea |
| KOSIS | Korean Statistical Information Service |
| KEI | Korea Economic Institute |
| RFV | National Social Insurance Board [Riksförsäkringsverket] |
| SACO | The Swedish Confederation of Professional Associations (Sveriges Akademikers Centralorganisation) |
| SAP | Swedish Social Democratic Party |
| SAF | Confederation of Swedish Enterprise |
| TCO | The Swedish Confederation of Professional Employees (Tjänstemännens Centralorganisation) |
| TI | Transparency International |

I. INTRODUCTION

In 2012 there were much more abundant discussions about social welfare in the Republic of Korea (hereafter Korea) than in past years, while Korea was having the presidential election and general election. Korea has taken about 20 years to enter the condition of Aged Society after becoming an Aging Society in 2000, while most advanced countries have spent at least over a half-century to move from Aging Society to Aged Society.¹ Due to population aging,² the social structure of Korea has, more and more, become a malformed type of pyramid. Population aging itself has generated many challenges and concerns about economic growth and welfare service such as pensions and health-care for the future.³ Thus, the Korean Government has announced several policies to enhance the birth rate and to guarantee a minimum cost of living⁴ for the poor. However, the effectiveness of these policies could not reach people's expectation, and showed limitations, while some poor people never received financial support from the Korean Government.

In 2012, the presidential election was a reflection of the interest of the public about welfare; pledges for welfare among presidential candidates were hot issues. However, the fundamental problem is that the Korean administration does not have sufficient financial resources to put its pledges into practice in the new Park Keun-Hye administration, which

¹ The United Nations classifies societies by the proportion of total population over 65 years old into three groups: if the proportion of 7-14%, it is called Aging Society; if 14-21%, called Aged Society; if 21% or more, called Hyper-Aged Society. <http://wisdom.unu.edu/en/ageing-societies/>.

² The life expectancy of human beings was longer, and the fertility rate was lower with modern medical developments, but the birth rate was becoming much lower, which was the lowest level in Korea that could not reach to the average one among OECD countries.

³ David E. Bloom, Axel Boersch-Supan, Patrick McGee and Stsushi Seike, "Population Aging: Facts, Challenges, and Responses," *PGDA Working Paper*, no. 71 (2011): 4, <http://www.hsph.harvard.edu/pgda/working.htm>.

⁴ The Minister of Health and Welfare in Korea announces that "the minimum cost of living means the lowest possible costs for people to maintain a healthy and civilized way of living. It is measured every three years." <http://english.mw.go.kr>.

took office on 25 February 2013.⁵ The new government will need at least 135 trillion won to support her welfare pledges during her 5 years administration.⁶ Therefore, this thesis will show what will be needed in Korea's Aging Society to retain stable financial resources and to set sustainable welfare services in macro-view point through the comparative study of policies between Korea and Sweden.

What problems was Korea confronting?

Korea has achieved “rapid growth during the first decade of the 21st century,” but income inequality has further increased since the 2008 Global Financial Crisis because of the globalized economy.⁷ OECD in 2011 said,

Korea is confronting a serious challenge. It has to improve income equality in the context of severe demographic transition. [Such] transition, from one of the youngest populations in the OECD at present to the second oldest by 2050, may boost the need for public spending and slow economic growth. While structural reforms are indispensable to achieve sustainable growth, Korea also has important social challenges to address. Growth is important but growth alone will not solve all problems.⁸

Therefore, not only is the necessity of extending welfare an inevitable task, but also this task needs a long-term plan – it does not finish with the current 5 years administration, because it has a more complicated intergenerational relationship – from the current generation to future generations.

⁵ Her main pledges are to support maximum 200,000 won for young children below 5 years old, to increase old-age pension amount for every elder over 65 to 2 times, maximum 200,000 won, and to offer free health-care service for people with four critical diseases including cancer and cardiac disease.

⁶ The Korea Times, “[Editorial] Tax and welfare,” Feb 19, 2013, http://koreatimes.co.kr/www/news/issues/2013/02/139_130734.html.

⁷ OECD.2011, “A framework for growth and social cohesion in Korea,” OECD Publishing, (2011):3, <http://www.oecd.org/korea/48225033.pdf>.

⁸ OECD.2011, “Growth and Social Cohesion,” (2011): 3, 5.

Sweden, known as a well-designed welfare model state, took a long time, over one hundred years, to form its present welfare model during which time has experienced many trials and errors. In contrast, Korea accelerated its economic development to reconstruct broken Korean society since the Korean War in 1950, so the Korean Government did not have enough room to consider advanced welfare service for a while.

A. Korean Governmental Policies do not have consistency

Korean politicians have misused governmental policies as a way to get more votes from the people during election campaigns, and these policies have frequently changed with each administration by its governing party. However, Sweden made a fixed foundation for welfare, while it has kept consistency of policies for over 40 years with the concept, '*the house of the people*' introduced by Per Albin Hansson,⁹ even as the Swedish governing party has changed.

1. Are current welfare policies efficient?

Korea has introduced several welfare systems from child-care and health-care to pensions, but their effectiveness is questionable. Whenever the administration has changed, the governmental policies have not continued through to the next administration. This has a direct relation with Korean political culture. Most politicians have made many pledges to obtain more votes, but most of pledges have been empty ones for several decades and these could not be achievable. The last presidential election was not exceptional. The higher the number of these empty pledges has increased, the lower Koreans' trust in lawmakers has dropped. Moreover, Korea had no proper processes or organizations to verify politicians' pledges. Thus, most pledges were made within a very short period without sufficient

⁹ Per Albin Hansson was Swedish Prime Minister (1932~46) and he made the concept "people's home."
Takayoshi Kitaoka, *복지강국 스웨덴, 경쟁력의 비밀*, trans. Choi, Ryejin, Wisdomhouse Press, (2012): 69-70.

preparation or discussion, and this finally caused the next hot debate among people or ended up wasting money.

2. *Do the welfare pledges of the Park administration have enough foundation to fulfill extended welfare?*

The representative welfare pledges of President Park include extending child-care service for every child under 5 years, 2-times increase of pension amount (200,000 won) for everyone over 65, and free health-care for people with 4 critical diseases.¹⁰ But, experts in several industries said that the plan of President Park called for KRW 135 trillion for 5 years, she had too optimistic an outlook, and budgets for economic growth were absurdly insufficient because budgets for welfare this year were over 70% of national total budget. President Park said that some of the needed financial resources can be obtained from the underground economy, but John Power at the Korea Times said that returns from the underground economy (about 20% of GDP) were unclear:

It will be dependent upon how much efforts will be devoted by the tax administration in investigating hidden and disguised transactions and detecting the underreported and concealed tax base.¹¹

Thus, professionals claimed that a tax increase is inevitable to obtain additional money needed to fulfill these programs.

¹⁰ “Included among Park’s pledges—252 in all—are a doubling of monthly pensions to 200,000 won (\$US187) for those over 65 years old, full medical coverage for sufferers of four major medical conditions—cerebrovascular and cardiac disorders, cancer, and terminal illnesses—free day care for children under five, and expanding basic social security, which currently provides very limited financial assistance to only a fraction of those in need.” Ben McGrath, “South Korean president-elect moves to abandon welfare promises,” World Socialist Web Site, February 05, 2013, <http://www.wsws.org/en/articles/2013/02/05/kore-f05.html>.

¹¹ John Power, “[Voice] How much tax can Park squeeze out of the underground economy?,” *The Korea Herald*, January 28, 2013, <http://www.koreaherald.com/view.php?ud=20130128000918>.

3. Does the government have enough agreement from the general population to extend welfare service?

Park's pledges, especially for elders over 65, helped her win the presidential election and these also motivated voters over 50 to participate to give her a vote. The Park administration after winning announced revised welfare policies for the pension prepared by the 'Presidential Transition Team' several times. However, it brought hot debates among people because the government spurred NPS's voluntary subscribers who were mostly housewives, and fostered distrust of NPS among the general populations.¹² This is a natural result because the government did not try to get agreement from the people, over what structural reforms or policy reform -- especially NPS reform -- will be needed.

B. Koreans have lower trust in the Korean government and politics than Sweden

Swedish people have high interest in politics and the election generally shows over 80% participation. In contrast, Korean people have relatively low election participation compared to Sweden. The Presidential Committee on Social Cohesion on Feb. 2013 conducted a survey, and in this poll, the National Assembly recorded just 5.6% trust among 2,000 adults, the lowest percent among several items: Government (15.8%), Court (15.7%), Police (20%), Media (16.8%), and Financial Institutions (28.5%). It means 72.8% of respondents did not believe policymakers. This is why Korean politics has to be changed and be reformed.

1. Does the government have political will to undertake political reform?

In last general election, most candidates for National Assembly seats and parties promised that they will give up certain privileges given to policymakers and abolish 'the Act

¹² NPS (National Pension System) was introduced in 1988. <http://www.nps.or.kr/jsppage/main.jsp>.

of pension for lawmakers'.¹³ But, most policymakers belonging to the ruling party and the opposition parties passed the bill for policymakers' pension after the end of the general election. This clearly showed they have no political will to undertake political reform, because they do not want to give up their special privileges¹⁴ – about 30 special rights. These activities of lawmakers have caused Koreans to have low trust in the National Assembly and politics and there was no political improvement until now. In contrast, Swedish policymakers do not have any special privileges; they generally have civic rights and responsibilities the same as the general citizens, and they regard the position of lawmaker itself as one of the usual occupations.

2. *Is Korean politics transparent and can people access to governmental documents?*

Korea ranked 43 with a score of 5.4 on the 2011 International Corruption Perceptions Index (CPI)¹⁵ among 183 countries, while most Northern European countries ranked at top levels: Finland (3), Sweden (4), and Denmark (2).¹⁶ This index shows that Korean politics is not transparent and the Korean Government cannot get trust from the people because of corruption, for example the high bribery index. In general, ordinary people cannot access all government's public documents. But, Sweden passed a bill, the 'Public Information Act', in 1766 and this Act had "the key achievements," to abolish "political censorship" and to gain "public access to government documents."¹⁷ Thus, every Swedish citizen can access public

¹³ Tae-hwa Kang and Myo-ja Ser, "Lawmakers studied plans for sweetheart," Korea JoongAng Daily, January 11, 2013, <http://koreajoongangdaily.joinsmsn.com/news/article/article.aspx?aid=2965342>.

¹⁴ 'The Act of pension for lawmakers' was first introduced to give money to retired lawmakers in 1988. At first, 200,000 won was paid to them, but the amount was increase 6 times in 2012. The problem is policymakers have no contribution, but they get monthly money for free. It became hot issue and was debating. But, Japan abolished this bill in 2006. http://article.joinsmsn.com/news/article/article.asp?total_id=10381720.

¹⁵ CPI is Corruption Perceptions Index, and is measured by TI (Transparency International). TI is one of the global civil society organizations and fights against corruption.

¹⁶ TI, "Corruption Perceptions Index 2011," Transparency International, 2011.

¹⁷ Anders Chydenius, *The World's First Freedom of Information Act*, The Anders Chydenius Foundation, (2006): 4, http://www.access-info.org/documents/Access_Docs/Thinking/Get_Connected/worlds_first_foia.pdf.

documents and have the right to ask explanation of policymakers. These are big differences between Korea and Sweden.¹⁸

3. Do Korean people have high interest in politics?

Many surveys show that Korean people have low interest in politics. Korea's average election rate was not high compared to Sweden. Many Korean politicians have abused their pledges as a political method to win an election, and they have broken promises with the people for several decades. The expectation of most Koreans about politicians has been shattered without fail because lawmakers did not keep their original pledges. These trends have pervaded Korean society for a long time. At the end of each administration, senior public servants, lawmakers or presidential relatives go to jail because of corruption caused by the cozy relations between politics and business.¹⁹ As these accumulated, the people gradually lost interest in politics.

C. Income inequality and polarization were severe, thus Korea needs social cohesion to reduce social waste and to unify people

As Korea held two elections last year, a general election and a presidential election, the people divided into two major groups, the Saenuri Party and the Democratic Party. Besides, while Korea has focused on enhancing economic growth since IMF imposed reforms in 1997-8, income inequality has become deeper due to Korea's dualistic labor market between regular and non-regular workers, and the gap between the poor and the rich has grown wider. Due to these problems, social and economic waste has generally increased, and the efficiency in public spending decreased; the social safety net cannot achieve its role, and this has

¹⁸ Kitaoka, *Welfare Country Sweden*, (2012):177.

¹⁹ From Kim Young Sam, Kim Dae Jung, and Roh Moo-Hyun administrations to Lee Myung-Bak administration.

resulted in a rising crime rate. Therefore, before extending welfare services, Korea must reduce social waste and mitigate income inequality through social cohesion.

1. What do the people want and need?

Korea's economy achieved quick recovery since the 2008 Global Financial Crisis, but discrimination against non-regular workers has kept increasing because of cost saving and companies' emphasis on employment flexibility since the 1997-8 IMF crisis. Income inequality between regular and non-regular workers has grown larger, and the unemployment rate has kept increasing: temporary jobs and polarization between the-haves and not the-haves have increased; the unemployment rate of 20-30s was bigger than other age groups because 80% of high school graduates go to college. The quality of people's life has dropped and the life after retirement could not be guaranteed, while this vicious circle keeps going. Therefore, most people want to get more stable jobs, to raise their children in a better environment, to save money for their post-retirement, to transfer to a regular job from a non-regular one, to get more welfare services for child-care, health-care, and pension from the Korean Government, and to live a happy life.

2. What resources are available to fulfill these wants and needs?

First of all, political will is very important to fulfill these needs – for instance, structural reform or policy reform. OECD recommended the importance of social cohesion in Korea several times and President Park emphasized the necessity of 'social cohesion' at her presidential inauguration. Social cohesion really requires public interest and participation. Furthermore, social cohesion needs public spending, and public spending essentially requires financial resources. Extending welfare service also needs structural reform to get more money through the increased jobs or tax increase. The presidential transition team was to set

a 'new committee on tax reform' to fund additional money before Park's inauguration, even though President Park stated her intention not to increase tax. Human resources are crucial factors for Korea's future. President Park stressed the importance of education to fulfill people's dreams and opening a new era of hope, according to the Korea Times. In general, Koreans are less interested in politics than Swedes. Enhancing the trust of the people in the government and politicians is essential to unify the Korean people and to increase financial resources in the long term: the higher trust will reduce social and economic waste and increase efficiency; ultimately, corruption committed by politicians will be diminished and social cohesion will be easily achieved. The process for social cohesion will be the foundation for Korea to form a well-functioned and sound welfare society in the long run.

3. How does the country collect these resources toward fulfillment?

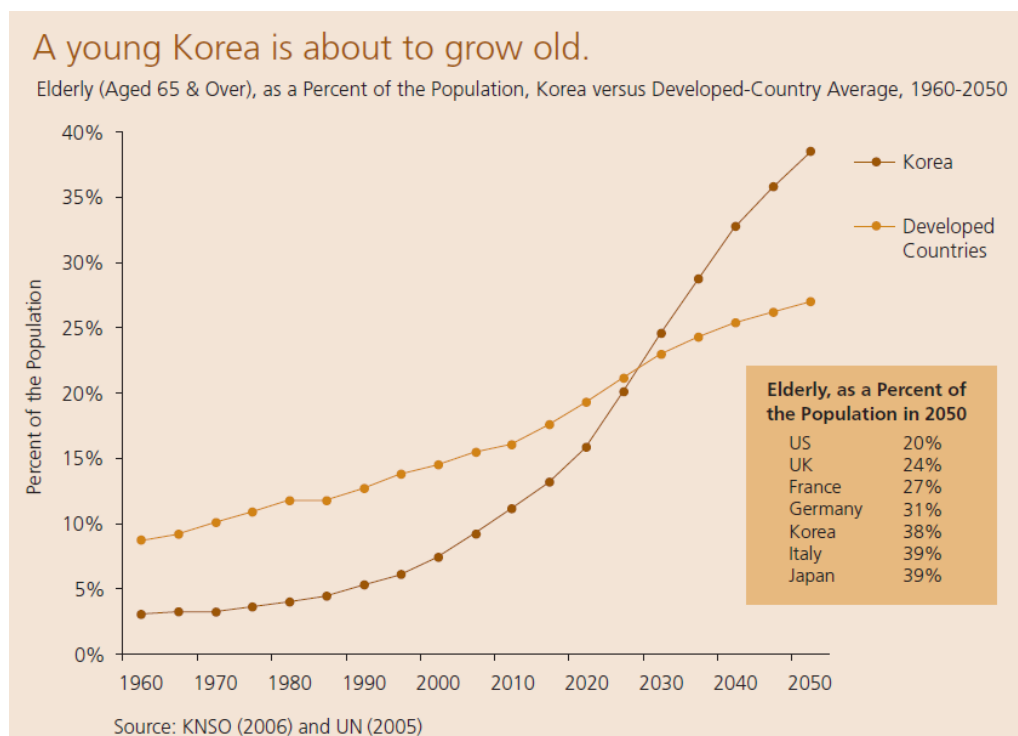
In Sweden, civil society, especially labor unions, undertook critical and diverse roles to form the present Swedish welfare model over a long time. Swedish people among European countries show high interest in politics and high election participation, over 80% on average. Sweden had achieved huge economic growth as a neutral nation during the Second World War and this became the foundation for Sweden to focus on forming its welfare system while other countries were fighting the war. Sweden has undertaken policy reforms several times in every policy arena while experiencing many trials and errors for over one hundred years. Most Swedish citizens are satisfied with their lives; high contributions and high benefits – the tax rate is close to 50%, the top level in OECD countries. In contrast, Koreans show low trust to the government, low interest in politics, and a weak role of civil society compared to Sweden. Korea can learn lessons how to fulfill several resources through in-depth analysis of Sweden welfare system.

D. Concept and Definition

1. Aging Society

The United Nations defines societies by the proportion of total population over 65 years old: if the proportion is 7-14%, it is called an “Aging society”; if 14-21%, it is called an “Aged society”; if 21% or more, it is called a “Hyper-aged-society.” Most OECD countries were already experiencing many problems caused by population aging. Korea in 2010 was one of the youthful countries, but with the rapid demographic transition, Korea will be the second oldest nation with 38% elderly following Japan (39%) in 2050, “according to the latest government projection [(Figure 1)].”²⁰

Figure 1. A Young Korea is about to grow old



Source: KNSO (2006) and UN (2005)

²⁰ Neil Howe, Richard Jackson and Keisuke Nakashima, “THE AGING OF KOREA: Demographics and Retirement Policy in the Land of the Morning Calm,” Center for Strategic and International Studies, 2007:2.

Korea's fertility rate has fallen from 6.0 in 1960 to 1.1 in 2006 since the five year economic plan due to the government's demographic policy and this is the lowest level in the world. With a continuous decline in population, Korea's workforce will keep declining in number, having peaked in 2018. Finally, "Koreans aged 20 to 64" will be 34 percent by 2050.

Modern medical advancement and nutrition improvement has also led to increased life expectancy and to a falling mortality rate. Life expectancy has sharply increased from 50 in 1955 to 79 in 2005 and this in 2005 was higher than US (77.7), UK (78.4) and Germany (78.6).²¹ "The poverty rate of the elderly is 45%, well above the OECD average of 13%."²² As the population ages, social spending for elders such as health care and lifelong care keeps increasing as in other advanced countries, but the workforce falls at the same time. In the end, "tomorrow's elders will be more in need of financial resources than today."²³ In short, now Korea is confronting many challenges due to its aging wave; early retirement age (55 at most firms), growing aging population, slow economic growth, fewer workers, declining national savings, and increasing public social spending.

2. Civil Society and Social Capital

About two decades ago, while non-governmental organizations (NGOs), civil society representatives in labor-, religion-, and other sectors "play[ed] critical and diverse roles in societal development," civil society was viewed as voluntary associations in a "third sector."²⁴ However, these days the definitions of civil society are becoming much wider, more dynamic, and vibrant, "encompassing far more than a mere 'sector,'" while the

²¹ Ibid., 9.

²² OECD.2011, "Growth and Social Cohesion," (2011):20.

²³ Howe, "The Aging of Korea," (2007):13.

²⁴ "Third Sector" means "voluntary or non-profit sector of an economy; described by Jim Joseph (President, Council On Foundations) as 'an intermediary space between business and government where private energy can be deployed for public good.'" <http://www.businessdictionary.com/definition/third-sector.html>.

boundaries between civil society sectors blur: between organized and unorganized, or between online and offline.²⁵ Online civil society activity is significantly growing thanks to information and communication technology (ICT). With the change of the external environment for civil society, the partnership between civil society groups and business, and governments have been broadened. For instance, according to the definition of civil society the World Bank, civil society is:

[T]he wide array of non-governmental and not-for-profit organizations that have a presence in public life, expressing the interests and values of their members or others, based on ethical, cultural, political, scientific, religious or philanthropic considerations. Civil society organizations therefore refer to a wide array of organizations: community groups, NGOs, labour unions, indigenous groups, charitable organizations, faith-based organizations, professional associations, and foundations.²⁶

As the recognition that every sector essentially needs cooperation with other ones to solve major societal issues is increasing, *the roles of civil society* are becoming more powerful. The engagement in partnerships between civil society and business, government, or international organizations is becoming broad and solid. Therefore, civil society has diverse roles: as a watchdog, advocate, service provider, expert, capacity builder, incubator, representative, citizenship champion, solidarity supporter, and definer of standards. Civil society actors “aim to improve social cohesion” based on *social capital*, which include social trust or faith, norms, religious cultures, social media communities and networks.²⁷

²⁵ Economic Forum, “The Future Role of Civil Society,” (2013): 5.

²⁶ World Economic Forum, “The Future Role of Civil Society,” (2013): 8.

²⁷ Ibid., 8-9.

Civil society cannot avoid touching individual matters in philosophy, culture, religion, socio-economic, and political arenas. CSOs try to improve social cohesion; mitigate poverty and inequality in gender and income, improve the social safety net and human rights, protect the environment, and provide better welfare and education services. They make an effort “to reduce societal harms and increase societal benefits.” These activities of CSOs are ultimately connected to strengthening of common good through social sympathy and regard between citizens.²⁸

²⁸ Ibid., 8.

II. LITERATURE REVIEW

Three Empirical Studies about Welfare

This report introduces three empirical studies about welfare. These studies investigate key issues Korea has confronted and present recommendations or challenges with in-depth and qualitative information. The three studies deal with several topics, including economic crisis, labor market changes, welfare issues such as child-care; health-care; and pension. Firstly, the journal article ‘*Economic Crises and the Welfare State in Korea*’ written by Kwon Hyuk-ju et al. compared the differences between applied policies during the economic crisis in Korea – 1997-8 IMF crisis and the 2008 global financial crisis. Secondly, Howe et al. in *THE AGING OF KOREA* stated that Korea was becoming an aging society and confronting many future challenges such as the retirement crisis. Lastly, Yang in his journal article, ‘*Current Issues and Political Advice of Park Keun-hye Administration: Welfare*’ stated the issues of her main welfare pledges and recommendations. In conclusion, this literature review will explain why these reports should be studied and what this paper will differ.

1. Economic Crises and the Welfare State in Korea

Kwon described in his journal article “*Economic Crises and the Welfare State in Korea*” that Korea has responded in the context of welfare policies during two times of economic crisis: the 1997-8 Asian economic crisis and the 2008 global financial crisis.²⁹ In his journal article he showed two different welfare policies during Kim Dae-Jung’s administration and Lee Myung-Bak’s government. President Kim implemented pro-welfare policies while extending and strengthening welfare services during the 1997-8 Asian economic crisis, but Lee Myung-bak’s government focused on increasing jobs in response to the 2008 subprime

²⁹ Huck-ju Kwon, Grami Dong and Hyun-gyung Moon, “Economic Crises and the Welfare State in Korea: Reforms and Future Challenges,” *The Korean Journal of Policy Studies*, 25, no. 1, (2010):175.

mortgage crisis. As Kwon notes, the IMF crisis in 1997-8 forcibly made Korea undertake economic reform and labor market reform,³⁰ and the Kim Dae-Jung administration extended social policy reform to protect the poor and the vulnerable through a “Labor-Employers-Government committee.”³¹ Thanks to his progressive welfare policies, “one public assistance program (the Minimum Living Standard Guarantee)” was introduced, and several welfare programs from insurance to pensions were extended.³² In contrast, the Lee “government has put effort into retaining existing jobs and creating new jobs in the labor market and temporary jobs through *public works*”³³ since the 2008 global financial crisis, while financially supporting SMEs (Small and Medium Enterprises) and young people.³⁴ As Kwon pointed out, social insurance spending -- Employment Insurance, Public Pension, and National Health Insurance -- was higher during the Lee government due to rising unemployment. Overall, he evaluated President Kim’s welfare policies as well-functioning because “social spending’s proportion of total government spending has remained at almost the same level as in the last ten years.”³⁵ As a result, Kwon suggested that the need for extending welfare will be higher in future because “of dramatic demographic transitions and change in family structure.” The current Korean welfare system is not sufficient to cover future “challenges for social protection and economic development.”³⁶

³⁰ Labor market policy reform was inevitable due to 1997-8 IMF crisis, and non-regular workers were increased with the reason ‘cost savings and labor flexibility.’

³¹ The Labor-Employers-Government Committee was established by Kim Dae-Jung government after 1997-8 economic crisis “to produce a broad-based social consensus for economic reform while strengthening the welfare state.” Kwon, “Economic Crises and the Welfare State,” (2010):180.

³² Five insurance programs were extended - IAI(Industrial Accident Insurance (introduced in 1961)), NHI(National Health Insurance (introduced in 1977)), NPP(National Pension Program (introduced in 1988)), EIP(Employment Insurance Program (introduced in 1995)), and LTC(Long-Term Care Insurance (introduced in 2008)), and pension system was categorized by people; “civil servants, private school teachers, and military personnel.” Kwon, “Economic Crises and the Welfare State,” (2010):181.

³³ Lee Myung-Bak government introduced “public works program for people just above the poverty line the Huimang (dream) project” to create temporary jobs. Kwon, “Economic Crises and the Welfare State,” (2010):184.

³⁴ Kwon, “Economic Crises and the Welfare State,” (2010):185.

³⁵ Ibid., 187.

³⁶ Ibid., 190.

2. *The Aging of Korea*

In the well-researched book *THE AGING OF KOREA*, Howe asked what solutions are needed to deal with the “age wave” in Korea. The book pointed out that Korea is facing “rapid aging and rapid development” at the same time, and NPS is so weak and unsustainable that “most dependent elders” cannot live alone. Moreover, Korea “ha[s] grown accustomed to middle-class living standards.”³⁷ Howe stated that only one Korean worker may support each retired elder by 2050, because the population rate of elderly over 65 will reach 38% -- it is the second highest level following Japan (39%) in 2050. Therefore, Howe strongly recommended that the reform of Korean retirement system is inevitable to reduce the future generation’s burden and to cover financial support of rising elders through boosting “fully funded personal retirement accounts.”³⁸ Overall, Howe made two kinds of recommendations. Most of all, this book emphasized the reform of NPS system with quantitative figures, while pointing out the inefficiency of the NPS system. Next, the realignment of “the traditional social norms” is necessary “to meet the challenges of an aging society.” These challenges referred by Howe are longer work lives for elders, keeping balance between jobs and babies for women, and care for elders.³⁹

3. *Three Welfare Policies of President Park Keun-hye*

Yang in his journal article, “Current Issues and Political Advice of Park Keun-hye Administration: Welfare,” pointed out that three main welfare pledges of the President Park have several issues. The first is the expansion of child-care service for every child under 5 years old regardless of income level. However, it could not contribute to increasing women’s labor force participation and low birth rate because her pledge did not consider double-

³⁷ Howe, “The Aging of Korea,” (2007):2-3.

³⁸ Ibid., 5, 29.

³⁹ Ibid., 35.

income families. Most Korean child-care centers prefer the child of full-time mothers who usually choose short-term child-care service. In contrast, every child of a double-income family in Sweden has priority to use public child-care services, and the children of non-working mothers are prohibited to access public child-care services. The second issue is that non-working mothers can receive full-day care subsidy for an infant aged 0, receiving about 800,000 won per month. But, in Sweden the child aged 0 cannot get public child-care service, because the baby needs its mother's care. The last issue is that parents may receive a double subsidy. He suggested reinforcement of guidelines to protect against double payment, the extension of public child-care service, and the introduction of child-care allowances.

President Park's second pledge is the extension of pension for all people over 65; it means that every person can get 200,000 won per month regardless income or property level. The first issue of pension extension is to change to universal pension for all people over 65. This is opposite the trend in Sweden, because Sweden reformed its pension from universal to a guaranteed pension system to keep sustainable welfare services for aging population. The second issue is that the amount of subsidy has to be considered because pension extension itself cannot help to poor persons. Yang claimed that pension for persons must focus on the poor and thus increase the subsidy to over 300,000 won.

The last pledge is that everyone with four critical diseases can get free health care. President Park estimated these diseases need yearly 1.5 trillion won, but the real cost will be several times more because of the increase of unexpected medical demands. Yang suggested that even someone who has a critical disease should pay at least a minimum service charge to prevent moral hazard.

4. Summary

In summary, Kwon in his journal article showed the necessity of welfare extension with a comparative study of two economic crises. Next, Howe et al. well explained many problems caused by population aging and gave recommendations to reform the NPS system. Lastly, Yang pointed out several issues of President Park's main welfare pledges and advice for policies. As these three authors stated, Korea has several unsolved tasks – child-care reform, health-care reform, pension reform, and aging issues. These have to be solved in the near future. Furthermore, Korean society should also find appropriate solutions to obtain sustainable financial resources for growing population aging. Thus, these issues will be discussed in this report below.

III. ANALYSIS: COMPARATIVE STUDIES BETWEEN KOREA AND SWEDEN

A. KOREA

1. Welfare: Child-Care

The President Park claimed universal welfare service. She extended child-care service to every child below 5 years old regardless of parents' income level. The basic concept is that the country takes care of every child to overcome low fertility rate instead of parents while introducing free-care concept and home-care allowances, but the effectiveness of this policy is questionable.

No careful consideration for Double-Income Families

Yang claimed that the government could not carefully consider double-income families, the core of the policy. They have been discriminated against, and this policy cannot contribute to increasing women participation in labor force and improving the low birth rate. Working mothers should have high priority to get public child-care service when we consider the limited resources in Korea. Moreover, most Korean day-care centers prefer full-time mothers because they usually use short-term child-care services. Thus, working mothers cannot get service of public day-care centers due to the lack of public facilities. In contrast, full-time mothers in Sweden, in the early days following childbirth, cannot have benefit of public child-care service, but recently they can use only 14 hours per week.

Wrong policies for infants aged 0, forcibly sending them to Day-care Centers

Yang pointed out that the government invests monthly 800,000 won to parents or day-care centers to take care of infant aged less than 12 months. In Sweden, the baby aged 0 is not the candidate of public day-care. The Swedish government considers that every infant needs

to be raised by parents. Swedish parents are entitled to 480 days per child as maternity leave or parental leave, and they receive paid leave as a subsidy. The reason is that toddlerhood is very important to get mother's care and love in Sweden.

No System and Guideline to verify dual payment of Child-care Subsidy

In Korea, a mother who gets maternity leave can apply for public child-care service, Yang said. This means that a mother with a new-born baby can get 2 types of subsidy; one from workplace as paid leave, the other from the government as child-care subsidy or home-care allowances. Dual payment is fundamentally prohibited in Sweden, but Korea tried to do, so even with insufficient government funding. Additionally, the parents with a child below 5 years old can also get an income deduction in a year-end tax adjustment.

Lacking Facilities and low quality of Child-care

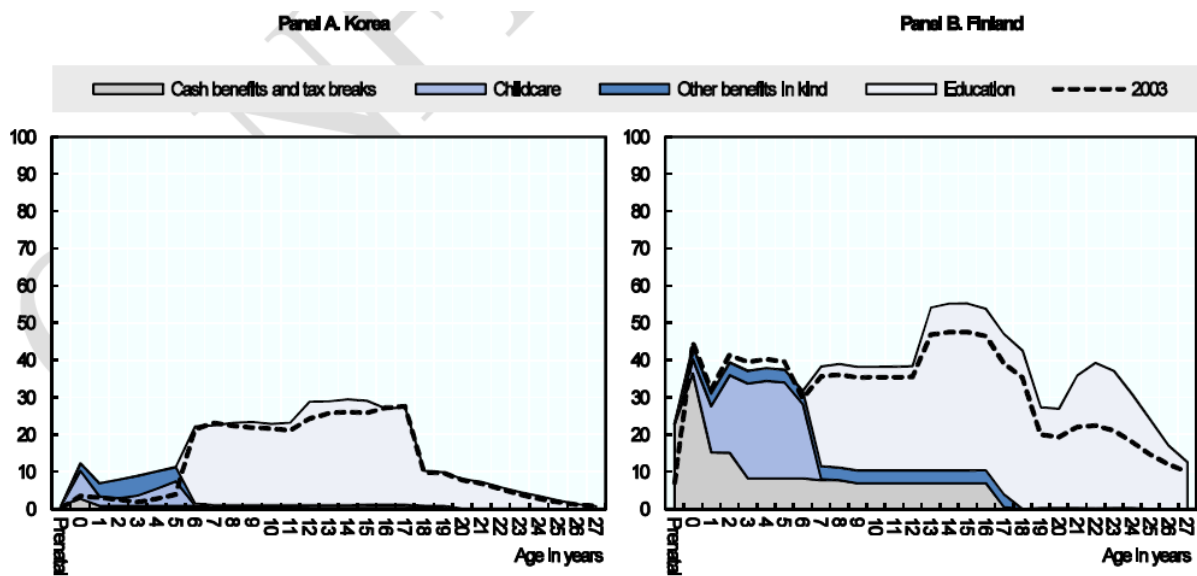
“Although Korea's spending on ECEC per child significantly increased from 2003 to 2007, the international comparison highlights that it is still far below Nordic countries focus public spending in early years of childhood [(Figure 2, Panel B)].”⁴⁰ In pre-primary education, Korea shows the highest expenditure (52.7%) in private educational institutions while OECD average is 18.3%. Moreover, the public spending in Korea is less than 50%: the lowest at 42.6% (Figure 3). Thus, most working mothers cannot find relevant child-care centers and they also have a higher financial burden.

OECD stated that the responsibilities of ECEC in Korea “are split between two ministries: kindergarten is administered by the Ministry of Education, Science and

⁴⁰ OECD.2013a, “Strengthen Social Cohesion in Korea,” OECD Publishing, (2013):200.

Technology (MEST) and child care by the Ministry of Health and Welfare (MHW).⁴¹ Therefore, the regulation and curricula including different standards for the staff at child-care centers and kindergarten are not same because of two different Ministries. “The split administrative system further hinders the transparency of ECEC in Korea.”⁴²

Figure 2. Average social expenditure by child by intervention as a proportion of median working-age household income, 2007⁴³



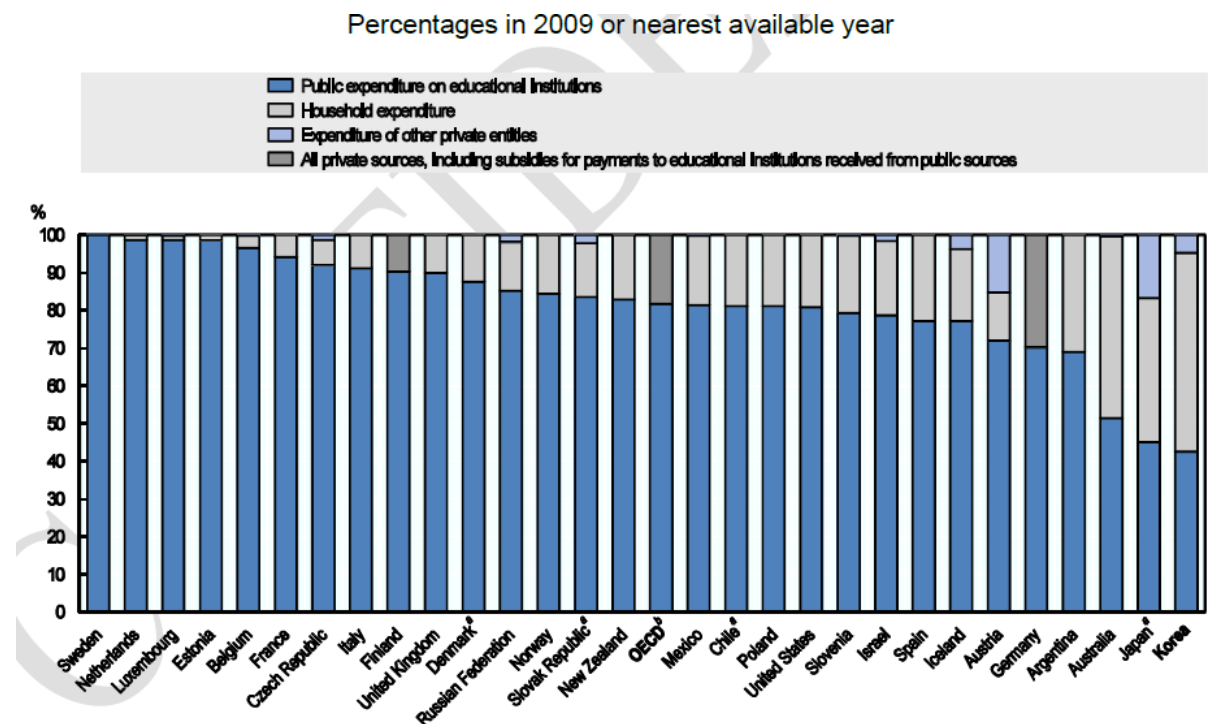
Source: OECD (2011), *Doing Better for Families*, OECD Publishing, Figure 2.4.

⁴¹ Ibid., 184.

⁴² Ibid., 185.

⁴³ “Finland is selected as a reference country for comparison as Korea often compares its policy inputs with Finland’s to identify different approaches to producing similar outcomes, such as on students achievements on the PISA assessments.”, Ibid., 200.

Figure 3. Distribution of public and private spending on early educational institutions⁴⁴



Source: OECD (2012), *Education at a Glance 2012: OECD Indicators*, Tables B3.2a and B3.2b.

2. Welfare: Health-care

Universal Health-Care and previous Health-care Reform

After the first introduction of National Health Insurance (NHI) in 1977, Korea extended public health care service to all Koreans in 1989. Everyone must insure NHI system while paying monthly insurance premium depends on his/her income or property level. Nowadays, everyone can receive public health-care service everywhere, but the cost-effectiveness is not satisfied people expected. About 90% medical facilities belong to the state in Sweden, but

⁴⁴ “Note: Countries are ranked in descending order of the proportion of public expenditure on educational institutions in pre-primary education. a) Some levels of education are included with others. b) Unweighted average of the 27 member countries shown in the chart above for ‘Public expenditure on educational institutions’; ‘All private sources, including subsidies for payments to educational institutions received from public sources’ equals 100 minus the average previously described.” OECD.2013a, “Strengthen Social Cohesion in Korea,” OECD Publishing.

Korea shows the opposite trend – about 90% is private medical facilities. NHI itself could not guarantee the whole coverage of health care, even though Korea also had well developed NHI system like Sweden.

In 2000, the Korean government did the Separation Reform in health care to promote specialization. The initial aim of this reform was “to reduce the over-use of drugs, improve the quality of care, expand patients’ rights to information and raise the efficiency of the pharmaceutical industry.” However, the government forcibly modified “the planned reform in favour of physicians’ right” because of the physicians’ strikes. NHI was in financial crisis in 2001-02 because of 49% increase of medical fees to reimburse physicians’ income loss.⁴⁵ On the one hand, while cancer, chronic diseases, and elders’ disease especially over 65 were still increasing, financial burden of NHI is sharply increasing.

Sharply increase of medical cost due to free Health-care for people with four critical diseases

In last presidential election, the President Park stated extension of health-care for people who have four critical diseases – cerebrovascular and cardiac disorders, cancer, and terminal illnesses – and can take free health-care service. This concept came from to protect people who cannot pay for tremendous medical cost due to critical diseases. In the beginning, the presidential transition team estimated that these diseases need 1.5 trillion won per year, but the real cost will be several fold increase because potential patients caused by free health-care service will sharply increase, according to Yang’s claim.

Debate of the Expansion to DRG (Diagnostic Related Group) from Fee-For-Service

⁴⁵ R. S. Jones(2010), “Health-Care Reform in Korea,” *OECD Economics Department Working Papers*, no. 797, OECD Publishing. <http://dx.doi.org/10.1787/5kmbhk53x7nt-en>. 2010:13.

DRG⁴⁶ payment system was applied to about 2900 hospitals except general hospitals to reduce medical cost on July 1st, 2012, because many said that fee-for-service payment system has caused the increase of medical cost. OECD has recommended for Korea to change the payment system to DRG from fee-for-service. Jones (2010) in an OECD report pointed out that the fee-for-service system had two problems: (1) health care providers have induced unnecessary health-care treatment to increase profit; and (2) providers receive an incentive when they increase the intensity of services. For instance, the rate of caesarean deliveries in Korea was increased from 6% in 1985 to 36% by 2008, because the price is 1.5 times higher than for a normal delivery.⁴⁷

However, the debate of pros and cons between DRG and fee-for-service was going on. The Korean Medical Association has pointed out the side-effects of DRG: Essential health-care service might be reduced; medical institutions enforced patients to leave a hospital earlier; Complications and death rate might increase; medical centers might avoid treating patients with critical diseases; the quality of medical service will be lower. Moreover, Ryu announced on Feb. 25, 2013 that the DRG had no effect to reduce medical cost with recent study of Professor Kim, Jin-Hyun at SNU.⁴⁸

⁴⁶ DRG stands for “Diagnostic Related Group” and is a billing code. “In 2002, Korea introduced a DRG payment system on a voluntary basis for eight illnesses, which were chosen because of their high level of standardisation in treatment and low variation in costs. Together, they accounted for about a quarter of in-patient cases... A government study found that the DRG was successful in reducing medical costs by 14% and the length of hospital stay by 6%. The cost savings were achieved in part by cutting the number of tests, from 5.1 to 3.8 per patient, and the use of antibiotics by 30%. The DRG also lowered the administrative cost of filing and processing claims for individual treatments.” Randall S. Jones (2010), “Health-Care Reform in Korea,” *OECD Economics Department Working Papers*, no. 797, OECD Publishing, (2010):18, <http://dx.doi.org/10.1787/5kmbhk53x7nt-en>.

⁴⁷ Ibid., 17-18.

⁴⁸ Ryu, Jang-hun, “‘정부 주장한 포괄수가제 장점 없었다’ 충격적 연구 보고서,” *Raportian*, Feb. 25, 2013, http://www.raportian.com/n_news/news/view.html?page_code=movie&no=10594&movie_theme=.

3. Welfare: Pension

Rising concerns of exhaustion of Pension Fund by 2060

Korea's Public Pension System (NPS) was implemented in 1988 and extended to include both farmers and fishermen in rural areas in 1995 and self-employed people in urban areas in 1999. However, despite external growth, NPS still had serious structural problems "on the imbalance between generous benefits and low contribution rates since its introduction." Moreover, NPS "faces long-term financial instability and intergenerational inequity problems due to an imbalance in the benefit-contribution structure and a rapidly aging population."⁴⁹ The state made several amendments to alleviate the financial imbalance, but the structural framework of the existing scheme was maintained. In 2007 National Pension Act, the state included the introduction of the noncontributory Basic Old Age Pension System (Table 1). In addition, according to Moon's journal article in 2009:

in a way to rationalize and complement the National Pension Scheme, the government also included the introduction of the Military Service Credit System, which was designed to grant six months' coverage to a person who has successfully finished his/her military service, and the Childbirth Credit System, designed to grant additional coverage to women who give birth to more than two children (Table 2).⁵⁰

Moon showed the projection of the pension fund using "the long-term Actuarial Toolkit, a customized form of the World Bank's Pension Reform Options Software Toolkit (PROST) Model" Following this assumption, Moon stated that "the financial deficit of the pension fund is likely to occur in 2035, 10 years later than the previously expected point of time." Under

⁴⁹ Hyungpyo Moon (2009), "Demographic changes and pension reform in the Republic of Korea," ADBI working paper series, no.135, 2009:1-2.

⁵⁰ Ibid., 3.

the assumption without change, “the point of time when the fund runs out of money will be postponed by 15 years from 2045 to 2060.”⁵¹ Therefore, even though the time of pension exhaustion was postponed, the need of pension reform keeps increasing for financial sustainability and equity. Due to these reasons, insured cannot believe the NPS and these days, the number of withdrawals by volunteer insurers is sharply increased. According to the Howe et al. in the Aging of Korea, 7.2% working-age adults are available to support each elder in 2007, and “that ‘support ratio’ is due to fall to 2.5 by 2030 and to 1.3 by 2050.” This means that only one Korean worker may support each retiree.⁵²

Table 1. Major Contents of the Amendment to the National Pension Act

| Major Contents of the Amendment | | Before Amendment | After Amendment |
|--|---------------------------|--|---|
| Long-term financial stabilization measures | Contribution rate | 9% of average monthly income | same |
| | Income replacement rate | Average income replacement rate based on insured people with 40 years of coverage:* 1988–1997: 70% 1998–2007: 60% | 2008: 50%; 2009–2028: Decrease by 0.5 percentage points per year; After 2028: 40% |
| Measures to rationalize and complement the National Pension Scheme | Abatement Old Age Pension | Additional 2.5% abatement rate applied to pensioners with less than 10–20 year coverage: 47.5% (2010)–92.5% (2019) | Abolishment of additional reduction rate: 50% (2010)–95% (2019) |
| | Early Old Age Pension | - Applicable 5 years before the normal benefit payment age, which is currently 55 - Decrease by 5% of the benefit amount per year for the period of early payment | Upward adjustment of the abatement rate per year for the duration of early payment (5 percentage points to 6 percentage points) |

⁵¹ Ibid., 6.

⁵² Howe, “The Aging of Korea,” (2007):15.

| Major Contents of the Amendment | | Before Amendment | After Amendment |
|---|---|--|--|
| | Incentives for inducing early old age pensioners to engage in income-earning activities | <ul style="list-style-type: none"> - Suspension of benefit payment if beneficiaries engage in income-generating activities - Application of Early Old Age Pension to people aged over 60 | <ul style="list-style-type: none"> - Suspension of benefit payment if pensioners generate income - Application of the Active Old Age Pension to workers aged 60 and above - Increase in benefit payment rate for the period of re-subscription (6% per year for the re-subscription period) |
| | Deferred Pension System | None | <ul style="list-style-type: none"> - Payment of increased benefit when beneficiaries, who reach the pension age, defer the receipt of pension - Additional rate: 0.5 percentage points per month (6 percentage points per year) |
| | Military Service Credit System | None | When a person has successfully finished his/her military service, an additional insured period (6 months) is granted to the person |
| | Childbirth Credit System | None | When a person gives birth to more than two children, an additional insured period (up to 50 months) is granted to one of the children's parents |
| Measures to expand the pension coverage | Introduction of Basic Old Age Pension System | None | <ul style="list-style-type: none"> - Expansion of the scope of beneficiaries: from 60% to 70% of the elderly population aged 65 and over - Increase in benefit rate: from 5% to 10% of average earnings of total national pensioners by 2028 |

Note: * Based on the amount of monthly benefit in the first year of pension payment against the recalculated average lifelong earnings of middle-income earners

Source: Press Release from the Ministry of Health & Welfare (2007)

Table 2. Comparison of Financial Prospects before and after the Amendment

(Unit: trillion KRW, %)

| | Total Revenue | | Total Expenditures | | Account Balance | | Reserve | | Necessary Contribution Rate (%) | |
|------|----------------|----------------|--------------------|------------------|--------------------|------------------|-------------------|-------------------|---------------------------------|-------|
| | Before | After | Before | After | Before | After | Before | After | Before | After |
| 2005 | 30.2 (3.5) | 30.2 (3.5) | 3.2 (0.4) | 3.2 (0.4) | 27.0 (3.1) | 27.0 (3.1) | 173.0 (20.1) | 173.0 (20.1) | 9.0 | 9.0 |
| 2010 | 50.7 (4.0) | 50.7 (4.0) | 8.1 (0.6) | 7.6 (0.6) | 42.6 (3.3) | 43.1 (3.4) | 353.7 (27.7) | 357.3 (27.9) | 9.0 | 9.0 |
| 2015 | 79.9 (4.3) | 80.4 (4.3) | 17.6 (1.0) | 15.5 (0.8) | 62.3 (3.4) | 64.9 (3.5) | 625.3 (33.8) | 638.4 (34.5) | 9.0 | 9.0 |
| 2020 | 117.1 (4.5) | 119.1 (4.6) | 39.3 (1.5) | 30.5 (1.2) | 77.8 (3.0) | 88.6 (3.4) | 988.8 (37.8) | 1,031.9 (39.4) | 9.0 | 9.0 |
| 2025 | 160.6 (4.5) | 167.8 (4.7) | 78.7 (2.2) | 57.9 (1.6) | 82.0 (2.3) | 109.9 (3.1) | 1,397.6 (39.2) | 1,535.0 (43.1) | 9.0 | 9.0 |
| 2030 | 206.2 (4.4) | 225.5 (4.8) | 143.2 (3.1) | 101.3 (2.2) | 63.0 (1.3) | 124.2 (2.7) | 1,761.8 (37.7) | 2,124.1 (45.5) | 9.0 | 9.0 |
| 2035 | 242.1 (4.1) | 285.7 (4.8) | 236.4 (4.0) | 163.5 (2.7) | 5.7 (0.1) | 122.2 (2.1) | 1,924.1 (32.3) | 2,748.8 (46.2) | 9.0 | 9.0 |
| 2040 | 259.9 (3.5) | 348.3 (4.7) | 376.9 (5.0) | 258.1 (3.5) | -116.9 (-1.6) | 90.2 (1.2) | 1,619.6 (21.7) | 3,298.9 (44.1) | 9.0 | 9.0 |
| 2045 | 237.3 (2.6) | 403.0 (4.3) | 553.8 (6.0) | 377.3 (4.1) | -316.5 (-3.4) | 25.6 (0.3) | 478.4 (5.1) | 3,613.3 (38.9) | 9.0 | 9.0 |
| 2050 | 234.4 (2.0) | 443.6 (3.8) | 772.8 (6.7) | 524.9 (4.5) | -538.4 (-4.7) | -81.2 (-0.7) | - | 3,488.9 (30.2) | 29.7 | 9.0 |
| 2055 | 284.4 (2.0) | 454.1 (3.2) | 992.2 (6.9) | 672.5 (4.7) | -707.8 (-4.9) | -218.4 (-1.5) | - | 2,781.5 (19.4) | 31.4 | 9.0 |
| 2060 | 346.4 (1.9) | 424.5 (2.4) | 1,295.8 (7.3) | 876.6 (4.9) | -949.5 (-5.3) | -452.1 (-2.5) | - | 1,131.2 (6.3) | 33.7 | 9.0 |
| 2065 | 425.5 (1.9) | 425.5 (1.9) | 1,671.4 (7.5) | 1,128.5 (5.1) | -1,246.0 (-5.6) | -703.0 (-3.2) | - | - | 35.4 | 23.9 |
| 2070 | 525.1 (1.9) | 525.1 (1.9) | 2,101.1 (7.6) | 1,415.3 (5.1) | -1,576.0 (-5.7) | -890.2 (-3.2) | - | - | 36.0 | 24.3 |

Note: The values in parentheses are ratios to GDP.

Source: Demographic changes and pension reform in Korea, Moon (2009) Table 2.

Fundamental and Structural Problem since Introduction

NPS was designed with structural problems from its introduction due to ‘low contribution and high benefit. Furthermore, direction of public pension system depends on occupation: “the national pension, government employees['] pension, military personnel

pension and private school teachers pension.”⁵³ However, because all four pension schemes have similar structural problems with low contribution and high benefit, some of them are facing financial deficit. However, the tax rate (25%) of GDP in Korea is much lower than OECD average (34%) in 2010 and national deficit has kept increasing every year. In contrast, the Swedish government has covered the initial pension or guarantee pension to support low income pensioners with tax. However, the ratio of non-contributors like persons over 65 reached 34.5% in 2009. Due to rapid population aging, the expenditure of basic old-age pension alone will take up 7.2~9.6% of GDP in 2050. When this will be financed by VAT, the tax rate (currently 10%) should go up to 21~29% by 2050, according to WB and KDI workshop in Washington DC in 2011.

4. Fiscal and Tax Policy

Rising needs to prepare long-term Fiscal Policy Framework

Korean national debt has quickly increased since the 1997-8 Asian crisis and recent Global Financial Crisis. Moreover, Korea is rapidly entering the condition of the Aged Society due to population aging. Therefore, government debt will further increase in the following years. However, “Korea may need to expand automatic stabilizers and reduce discretionary components in the government budget” because the Korean government has not prepared a long-term fiscal policy framework. Thus, financial resources for fiscal stimulus in the recent economic recession were usually large. Hong pointed out that:

Under an administration with an expansionary bias, large discretionary components in the government budget may be particularly harmful for fiscal consolidation. Also, Korea has relatively small automatic stabilizers compared with

⁵³ Hyungpyo Moon(2000), “The Korean Pension System: Current State and Tasks Ahead (draft),” KDI, 2000:1.

OECD economies. Automated changes in transfer payments, for example, would help expand Korea's limited social safety net.⁵⁴

In contrast, Sweden in 2010 made long-term fiscal policy framework “to enhance fiscal sustainability and transparency” since economic crisis in the 1990s and the recent crisis.⁵⁵

Lower Contribution of Tax than OECD average

OECD in 2013 projected that public social spending in Korea will increase “from around 9% of GDP to 22% by 2050 under current policies.”⁵⁶ Korea has lower tax burden at 25.1% of GDP than OECD average of 33.8% in 2010 (Table 3). Korea is facing several major challenges: to support “economic growth in the context of rapid population ageing and globalization;” to meet “the long-term need for additional revenue;” to cope “with widening income inequality and rising relative poverty;” and to improve the local tax system.⁵⁷ However, rapid population aging will put upward pressure on government spending. Direct taxes on households are lower at 3.6% of GDP than OECD average 8.4% in 2010. Social security payroll at 5.8% of GDP are also far below the OECD average at 9.5% in 2010, “reflecting relatively low contribution rates and weak compliance with the social insurance schemes.” 2013 OECD report states that:

[t]he overall ‘tax wedge’ on labor, including income tax and social security contributions, was only 20% in 2010, the fourth lowest in the OECD area. Low taxes on labour contribute to high labour inputs in Korea, which are 37% higher

⁵⁴ Kiseok Hong, “Fiscal policy issues in Korea after the current crisis,” ADBI working paper series, no. 225, 2010:20.

⁵⁵ Government Offices. “The Swedish Fiscal Policy Framework.” March (2011:1).

⁵⁶ OECD.2013, “STRENGTHEN SOCIAL COHESION IN KOREA: Assessment and Recommendations (Preliminary version),” *KDI-OECD Joint Conference on Korea’s social Policy Challenges*, Seoul, 2013:58.

⁵⁷ R. S. Jones(2009), “Reforming the Tax System in Korea to Promote Economic Growth and Cope with Rapid Population Aging,” *OECD Economics Department Working Papers*, no. 671. OECD Publishing. <http://dx.doi.org/10.1787/226518762318>, 2009:6.

relative to the population than the United States, offsetting much of the productivity gap.⁵⁸

Low corporate income tax rates contribute to economic growth. However, direct taxes on household and firms and social security contributions in Korea increased during the decade 2000-10, “while the share in GDP of indirect taxes slightly declined. Therefore, “[t]he large rise in social spending expected for the coming 40 years should be financed through revenue increases.” These increased revenues “minimi[z]e the negative effect on growth.” Pro-growth tax policy limits “any increase in the tax wedge on labour income and keep[s] a low corporate tax rate.” Low indirect taxes calls for an increase in “indirect taxes, notably the value-added tax (VAT), which has a smaller negative effect on labour supply.” VAT at currently 10% in Korea is “far below the OECD average of 18%.” Raising revenue in VAT would be the best approach, following the OECD recommendation. Moreover, “environmental taxes and revenues from auctioning permits” are also good to increase revenue. National Tax System to collect social insurance contributions could be improved to enhance “transparency about income and compliance.”⁵⁹

⁵⁸ OECD.2013, “STRENGTHEN SOCIAL COHESION IN KOREA,” 2013:58.

⁵⁹ Ibid., 60.

Table 3. The tax mix in OECD countries

Tax revenue, percentage of GDP)

| | 2000 | | 2010 | | | Change ^a 2000-10 |
|------------------------------------|-------------|-------------|-------------|-----------|-------------|--------------------------------|
| | Korea | OECD | Korea | Rank | OECD | |
| Direct taxes on households | 3.3 | 9.3 | 3.6 | 30 | 8.4 | 0.3 |
| Direct taxes on firms | 3.2 | 3.4 | 3.5 | 6 | 2.9 | 0.3 |
| Social security and payroll | 3.8 | 9.3 | 5.8 | 26 | 9.5 | 2.0 |
| Goods and services | 8.7 | 11.3 | 8.5 | 29 | 11.0 | -0.2 |
| Property | 2.8 | 1.8 | 2.9 | 7 | 1.8 | 0.1 |
| Holding taxes | 0.6 | 0.9 | 0.8 | 16 | 1.0 | 0.2 |
| Taxes on property transactions | 2.0 | 0.6 | 1.8 | 1 | 0.4 | -0.2 |
| Estate, inheritance and gift taxes | 0.2 | 0.1 | 0.3 | 4 | 0.1 | 0.1 |
| Other | 0.8 | 0.2 | 0.9 | 3 | 0.2 | 0.1 |
| Total | 22.6 | 35.2 | 25.1 | 31 | 33.8 | 2.5 |

a) For Korea, in percentage points.

Source: OECD (2012), *Revenue Statistics 2012*, OECD Publishing, Paris.

5. The role of Civil Society Organizations (CSOs)

Contribution of Korean CSOs

Labor Unions (LO) under private sectors did not contribute to enhancing the Korean welfare system, but CSOs made a large contribution. In contrast, Swedish LO under the public sectors had a politically important role. The role of CSOs in Korea was started from democratic movement in 1980s. Since the Asian Economic Crisis in 1997-8, CSOs under the Kim Dae-Jung administration had crucial role to extend Korean the welfare system in several arenas from the reform of the NPS, NHS, and Maternity Protection to the introduction of National Basic Livelihood Security System (NBLs) and Welfare Budget Campaign.⁶⁰ Compared to the state, CSOs are so much closer to the general citizens that the partnership between the state and CSOs keeps increasing. Moreover, thanks to the globalization and the development of information and communication technology (ICT), the role of the online

⁶⁰ HyeKyung Lee, "Civil Society and Welfare Reforms in Post-Crisis South Korea," *Canda-Korea Social Policy Symposium II*, Campell Conference Room, Munk Center, University of Toronto, January:2005:3.

community called ‘netizens’ is sharply increasing while blurring the border between online and offline.

“Lawyers for a Democratic Society, the People’s Solidarity for Participatory Democracy (PSPD), and the Citizen’s Coalition of Economic Justice (CCEJ)” are famous CSOs in Korea.⁶¹ CSOs were mostly led by younger generations who

emphasized progressive advocacy functions including efforts to broaden public debate and participation in the formulation of public policy, safeguard or expand the domain of human rights and safeguard public resources such as the environment from the pressures of economic growth.⁶²

“[M]any scholars say that the decade of the 1990s in Korea was ‘the age of civil society.’” The Korean NGO Times (2001) stated that 56.5% of all CSOs “are established in the 1990s and 21% in the 1980s while only 9% were created in the 1970s.” The most three dominant public interest groups are education, research, and social welfare institutions. In general, “service-providing institutions are dependent on government support.”⁶³

Another accountability function of CSOs is monitoring corruption, which is mostly “widespread in the government and among political elites.”⁶⁴ There are several reasons for CSOs to combat corruption in 1990s: 1) lack “either political will or effective anti-corruption strategy and programs” of the governments and political parties; 2) the need for monitoring to support anti-corruption movement; 3) the rapid expansion of citizen groups and the growth of their political influence. “[W]henver there was an important national issue, CSOs made

⁶¹ Cameron Lowry, “Civil Society Engagement in Asia: Six Country Profiles,” East-West Center, Honolulu, Asia Pacific Governance and Democracy Initiative (AGDI), July(2008:17).

⁶² Ibid., 17.

⁶³ Ibid., 18-9.

⁶⁴ Ibid., 17.

coalitions, “and anti-corruption groups were able to solicit the support and solidarity of other areas of civic groups.”⁶⁵ Politically, CSOs “played a powerful role in the general elections in 2000 and 2004” through nation-wide election campaign.⁶⁶

B. SWEDEN

1. Welfare: Child-Care

Early Childhood Education and Care (ECEC) in Sweden

ECEC in Sweden has become critical part of family policy to connect labor market policy because Sweden has achieved two kinds of goals: an increase in women’s labor force participation and a higher birth rate.⁶⁷ The report of National Commission on Child Care in 1968 mentioned that Sweden could accomplish child development and learning, and growth of good conditions through high quality activities. This was the starting point to expand ECEC system and became national level policy through regular discussions and reports. “ECEC has [thus] been closely related to educational issues” and “[t]he pedagogical culture of the pre-school has developed over a lengthy period.” In 1993, “[t]he office of the Children’s Ombudsman was set up with the task of monitoring children’s rights.” ECEC was been taken over the Ministry of Education Science from the Ministry of Health and Social Affairs on 1st July 1996. The important goals of ECEC was reinforced “democracy, equality, solidarity, and responsibility,” after transition to the educational sector.⁶⁸ Korpi stated,

⁶⁵ Jong-Sung You, “The Role of Civil Society in Combating Corruption in Korea,” *11th International Anti-Corruption Conference*, Seoul, Korea, May(2003:3).

⁶⁶ Cameron Lowry, “Civil Society Engagement in Asia,” 2008:23.

⁶⁷ “At the beginning of the 1990s, labour force participation rates of mothers with small children reached a peak of 86 percent and this at a time when Sweden had one of the highest birth rates in Europe.” Barbara Martin Korpi, “Early Childhood Education and Care Policy in Sweden,” *The International OECD Conference Lifelong Learning as an Affordable Investment*, Ottawa, Canada, 6-8 December (2000):2.

⁶⁸ Korpi, “ECEC in Sweden,” (2000):2-3.

In August 1998 a national curriculum for the Swedish preschool came into force.

This curriculum covers goals and guidelines for the activities of children 1-5 years of age in pre-school.⁶⁹

Every child aged 4-5 was entitled to yearly 525 hours to attend free pre-school in 2003 and expanded to include 3 year olds. In 2001, OECD adopted ECEC as a child-care model for other countries.

Transition of ECEC system to Educational Sector

The responsibility of the ECEC in Korea should be taken over the Ministry of Education (MoE) from the Ministry of Health and Welfare, and the MoE should make curriculum for ECEC activities including foreign language training to protect the increase of private tutoring cost. OECD estimated that the Swedish ECEC model was very successful to encourage women's participation in the labor market, to increase fertility rate, and to contribute to child development. OECD in 2001 introduced ECEC to other countries. ECEC is strongly related to educational issues. The educational role of ECEC was reinforced since the transition to the educational sector in July 1996. After the name was changed to pre-school from child-care center, the Swedish government established a national curriculum for preschool in August 1998. This curriculum was distributed to every Swedish preschool as guidelines for the activities of children aged 1-5. The government should keep monitoring for preschool to connect to public school naturally. In Sweden, every child aged 3-5 is entitled to attend free preschool yearly for 525 hours. However, considering most local governments in Korea are confronting the condition of fiscal cliff, governmental leaders must reform gradual extension of free pre-school depending on parent's income level, parent's employment status, or child age. Moreover, the introduction of an organization for motoring system like Swedish

⁶⁹ Korpi, "ECEC in Sweden," (2000):7.

Children's Ombudsman is necessary to maintain the quality of preschool's curriculum to prevent waste of state resources.

Introduction of Parental Leave Insurance for Child-care

Sweden introduced parental leave to replace maternity leave and to improve child well-being and economic independence for women in 1974. On the basis of the family policy reform, there were democratic goals – gender equality and full employment. With the extension of parental leave, Swedish parents could rear their children at home while receiving financial support from the state or workplace for sixteen months. It has contributed to a higher fertility rate and women's labor force participation than other European countries.

Parental leave at first “comprised six months of leave per child,” extended to nine months in 1978, and nowadays extended to paid leave of 480 days per child. The childcare system actually expanded during a severe economic crisis in the 1990s.⁷⁰ Today, according to Earles,

[Parental leave] system offers parents 13 months of leave per child at an 80 percent income replacement rate, with an additional three months available at a flat rate. The total of 16 months currently available to parents includes two months reserved for mothers and two months reserved for fathers, leaving 12 months to be divided as the parents wish.⁷¹

The parental leave system has encouraged women's labor force participation and has brought negative consequences as well “[b]ecause women take the majority of parental leave” and employers should hire new employees. This has resulted in discrimination against

⁷⁰ Kimberly Earles, *Swedish Family Policy – Continuity and Change in the Nordic Welfare State Model*, 45, no. 2, April (2011): 183-4.

⁷¹ Earles, *Swedish Family Policy*, (2011):188.

women. Thus, one proposal in 2005 was debated: paid parental leave should be increased to 15 months – five months for a mother, five months for a father, and five months depending on parents' wish.⁷²

Introduction of Home-care Allowance in 2008

Sweden introduced a home-care allowance system for children aged 1-3 who did not enroll in public pre-school in 2008, but it brought some negative effects. It made women stay at home and weakened economic independence of women. It did not encourage men's role in childrearing, and has limited women's role to traditional child rearing as women's work. Finally, it did not encourage gender equality and caused discrimination. Only one third of Swedish municipalities have adopted this policy. This allowance "is becoming more popular with immigrant women who face greater labour market marginalization," not Swedish-born parents. This was becoming another social issue to bring potential "segregation and isolation among immigrant communities in Sweden."⁷³

2. Welfare: Health-Care

Universal Medical and Health-Care

The Swedish health system offers universal health care services and public expenditures for all Swedes based on three basic principles: "human dignity, need and solidarity, and cost-effectiveness."⁷⁴ The Swedish welfare system emphasizes equal rights to all human beings. All Swedes have access good health care with "[t]he Health and Medical Services Act of 1982." Sweden has three governmental levels: "the national government, the 21 county

⁷² Ibid., 189.

⁷³ Ibid., 188.

⁷⁴ Anders Anell, Glenngård AH, and Merkur S, "Sweden: Health system review," *Health Systems in Transition*, 14, no. 5, 2012:1–159(xiii).

councils and regions, and the 290 municipalities.”⁷⁵ The Swedish government “is responsible for overall health policy.” The county councils and regions are responsible for “funding and provision of services” and the municipalities have responsibilities “for the care of older and disabled people.” The major funding comes from tax (80%), close to “9.9% of gross domestic product (GDP)” in 2009. Everyone under aged 20 receives free of charge medical and health care service. However, private expenditure is about 17% of total funding. The state is obliged to pay minimum charge for patients to protect from moral hazard. The state is applying the guidelines of maximum expenditures to protect patients’ financial burden. More human resources in Sweden are allocated “to the health sector than most OECD countries.”⁷⁶ The quality level of Swedish health care service is much higher than other European countries.

The Swedish health system has three main agents - the government as a purchaser, hospitals as providers of health care services, and patients. Therefore, the state has the ownership of most university hospitals, pharmaceutical companies, and drug stores. The 21 county councils/regions and 290 municipalities have the contract for health-care services with providers. Providers receive service charges for patients from the 21 county councils/regions and 290 municipalities. The main source of about 80% of these service charges is tax and the state can offer free health care service for all Swedes.

Patient-oriented Health-care System, Stockholm Model

One important factor in Swedish health-care reform is that the financial burden of patients is not increased and every system is designed as patient-oriented. The health care model in Stockholm in 1990s known as ‘Stockholm Model’ was successful and this model was applied to all Swedish county councils and regions. The funding is still provided by the

⁷⁵ Ibid., xv.

⁷⁶ Ibid., xiii.

county councils but private individuals or companies could provide health care services to deal with the growing quality issue of health-care service. In applying this model, the state has achieved several aims: to improve the quality of health care service, to extend patients' rights and autonomy to choose hospitals, to save national financial resources, not to increase patient's financial burden, and to privatize the operating system partially with the introduction of a competitive system.

With the privatization of the health care system, Sweden has reduced the waiting times of services and improved access to providers. Patients have been protected with the introduction of the annual high-cost regulation policy in medical care, inpatient cost, and prescription cost. The cost-effectiveness has been improved.

Policies to protect Moral Hazard

Sweden has focused on removing ineffectiveness in medical and health care reform. Several policies were applied to protect from moral hazard in the health care system. Minimum charge to patients is one of them except Swedes under 20 ages who receive services free of charge. Secondly, the state has introduced strengthened sick leave policies since 1991. Employee, employer, and NSIB (National Social Insurance Board) must share the expenses of the financial loss occurred during sick leave of employees or workers. The main agent for responsibility about the loss of sick leave depends on the number of days: the first day to the employee; between the second day and fourteenth day to the employer; the other days to NSIB.⁷⁷ Lastly, the state has strengthened its rehabilitation program to minimize persons caused by disease since 1990. NSIB is responsible for overall management and

⁷⁷ Philgyun Shin, *복지국가 스웨덴: 국민의 집으로 가는 길(Welfare Country, Sweden: The way to the house of the people)* translated by the author, Humanitas Press, 2011:245.

supervision for rehabilitation. Employers have the first responsibility for their workers' rehabilitation program.⁷⁸

3. Welfare: Pension

Introduction of Radical Change from defined benefit to Notional Defined Contribution

In 1999, Sweden introduced radical pension reform after passing pension legislation in 1998 from 'defined benefit' to 'Notional Defined Contribution (NDC)' – a defined contribution plan financed on a pay-as-you-go (PAYG) basis, and entirely applied since January 2003. Pension reformers had an objective “to design a fiscally sustainable pension system tied to economic growth with a clear link between contributions and benefits,” and wanted that contribution rate of NDC could remain unchanged in the long run.” NDC as a public and mandatory system was “financed primarily on a pay-as-you-go basis but with a funded component.” “The new public pension system consists of three components: income pension, premium pension, and guarantee pension.”⁷⁹ Under new NDC system:

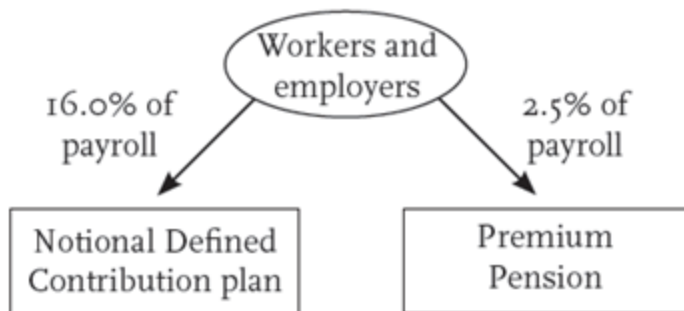
the *income pension* will replace the current earnings-related pension. The income pension will be a defined contribution scheme with a contribution rate of 18.5 percent: 16 percent of earnings will be credited to a “notional” account and the remaining 2.5 percent will be contributed to an individual account. The retirement age will be flexible; benefits can be paid out starting at age 61, and at retirement the account balance will be converted to an annuity. Benefits will be indexed to life expectancy for successive cohorts of retirees. For individuals with no or low pensions, the pension system will provide a *guarantee pension*. Unlike the current flat-rate benefit, the guarantee pension will be means-tested and offset by the income pension. The guarantee pension replaces the current FP benefit and pension

⁷⁸ Ibid., 248-9.

⁷⁹ Runo Axelsson, “Annual National Report 2010: Pensions, Health and Long-term Care,” May(2010:9).

supplement. It will be payable only from age 65. The guarantee pension will be funded completely from general tax revenues (Figure 4).⁸⁰

Figure 4. Swedish Pension System



Source: The Swedish Pension System and the Economic Crisis, Dec(2009)

The new NDC reform was done because “[t]he old Social Security system provided a flat rate benefit to ensure income security in old age and a supplementary old-age pension to provide an earnings related pension.” In addition, the old Social Security system had some problems: 1) “sensitive to changes in economic growth⁸¹,” 2) “principle of competition for loss of income had eroded⁸²,” 3) “unsystematic and inequitable distribution of contributions and benefits⁸³,” 4) “labor market distortions.”⁸⁴ In the long run, NDC will contribute to

⁸⁰ Annika Sundén, “How will Sweden’s new pension system work?,” Center for Retirement Research at Boston College, no. 3 Mar. (2000:2, 7).

⁸¹ “The flat-rate and earnings-related pension benefits, as well as the earned pension rights, were indexed to follow prices rather than wages. Therefore, in times of rapid economic growth the relative value of pension benefits declined. On the other hand, in times of negative growth, pension rights and benefits rose faster than contributions.” Ibid., 1.

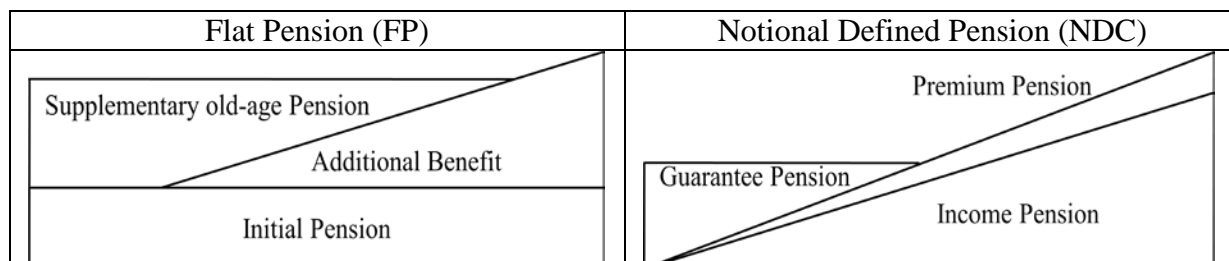
⁸² “Indexation to prices also meant that in times of real wage growth successively larger proportions of the population earned the maximum pension benefit. At some point, the earnings-related pension would have become a flat-rate benefit.” Ibid., 1.

⁸³ “Contributions were paid on all earnings during a worker’s lifetime, while benefits were only based on the 15 years with highest earnings. This policy redistributed income from those with long working lives and flat life-cycle income (typically low-income workers) to those with shorter work histories and rising earnings (typically high income workers).” Ibid., 1.

⁸⁴ “The benefit formula implied that reducing labor force participation did not necessarily translate into lower pension benefits.” Ibid., 1-2.

achieve financial stability⁸⁵ and fairness and redistribution (Figure 5).⁸⁶

Figure 5. Compare between FP and NDC



Source: Strong Welfare Country, Sweden written by Takayoshi

Strong Support of the Swedish Government

Sweden took at least about ten years to prepare current the NDC (Notional Defined Contribution) concept and principles in the 1990s. As other OECD countries, Sweden should strongly need to reform its pension system due to population aging and economic crisis in 1990s. Thus, the Swedish government appointed a group to prepare a proposal for pension reform in 1991. The proposal prepared the group needed broad political support to insulate against future changes and collective agreements. “The proposal was presented in 1994 and [was] passed in principles by Parliament” in 1998. “The design of the Swedish system is new and, following Sweden, several other countries have adopted similar systems.”⁸⁷

In the NDC system, the responsibility of individuals is more important for retirement planning and preparation. Thus, information and education become more crucial in the NDC

⁸⁵ “The long-term financial stability in the system is ensured by linking earned pension rights to economic growth and by linking benefits to life expectancy... This makes the system sensitive to changes in the relative size of cohorts. Increasing the contribution rate is not a viable option in the NDC framework since it automatically increases benefit promises proportionately.” Ibid., 2.

⁸⁶ “In contrast to the old system, benefits in the new pension system are determined by lifetime contributions. However, for workers in the lower half of the wage distribution, the link between contributions and benefits is blurred because of the offset between the income pension and the guarantee pension... At the same time, the system redistributes income from high earners by putting a ceiling on earnings used in determining benefits but levying the employer payroll tax on full earnings.” Ibid., 2.

⁸⁷ Ibid., 3-4.

system. “In order to inform and educate the population about the new pension system, the National Social Insurance Board (NSIB) launched a large information campaign during 1999.” Thus, every Swedish citizen received “information materials with an annual statement of expected pension benefits.”⁸⁸

4. Fiscal and Tax Policy

Sustainable and transparent Fiscal Policy

In 2010, Swedish Government submitted a Government Communication, “Fiscal Policy Framework” as the political decision making process, to the Riksdag (the Swedish parliament) “to enhance fiscal policy sustainability and transparency by institutionalizing important principles” after passing the 2010 Spring Fiscal Policy Bill, which “would present a code of conduct for fiscal policy.” In the Communication, the Swedish “[g]overnment clarifies what the fiscal policy framework comprehends and how it is implemented” and focuses on making “central principles for measures of stabilization policy and for financial market interventions” including “principles for the central government budget process, budgetary goals and rules.” The state founded these principles “on the experience gained from the economic crisis in the early 1990s and the recent crisis.” The Communication also “includes important principles for openness and clarity in fiscal policy presentation.” Fundamentally, the state “intends the framework to increase knowledge about and support for the central principles used by the Government.” Therefore, it “contribute[s] to further enhancing the credibility of Sweden’s fiscal policy conduct and its long term sustainability” of public finances.⁸⁹

“The overall objective of fiscal policy is to create” much welfare “by promoting sustainable economic growth,” redistribution, and stable resource utilization. “Fiscal policy

⁸⁸ Ibid., 14.

⁸⁹ Government Offices, “The Swedish Fiscal Policy Framework,” March (2011:1).

has several different goals and means,” which should be observed “to achieve long-term sustainability and transparency” through fundamental principles.⁹⁰ On the one hand, “[i]n 2007, the Government set up a fiscal policy council” to make “fiscal policy more transparent” and improve “external monitoring and evaluation.”⁹¹ Furthermore, for “Government intervention in the financial markets to be effective,” it is important “to have a clear allocation of roles among authorities and clear principles for how public finances are to be safeguarded.” It is necessary in financial crises “for the Government to take special measures to promote financial stability and thereby prevent crisis.” For openness and clarity, “[t]he Government’s Annual Report contains an evaluation of the past budget year.” Besides, “[b]oth the Spring Fiscal Policy Bill and the Budget Bill contain forecasts for the coming 3-4 years.”⁹² Long-term surveys and the assessments of the public finances are also to be supplemented at regular intervals for fiscal policy.

Crucial role of 1991 Tax Reform and Swedish Tax Policy

Sweden passed a great tax reform in 1991, “often referred to as the Tax Reform of the Century.” The 1991 tax reform “was very ambitious, involving a combination of tax rate cuts and tax base broadening amounting to about 6 percent of GDP.” This reform was the remarkable result “of a long-term process of investigation.” This reform was “studied by various government committees involving academic tax experts, civil servants, politicians and representatives of the most important interest groups.” It was close to a remarkable revolution.⁹³ This reform “introduced the blueprint that has now become known as the Nordic dual income tax which separates the taxation of capital income from the taxation of

⁹⁰ Ibid., 5.

⁹¹ Ibid., 10.

⁹² Ibid., 8-9.

⁹³ “For example, the statutory corporate income tax rate was roughly cut in half, but the resulting revenue loss was fully offset by a broadening of the corporate tax base.” Peter Birch Sorensen, “Swedish Tax Policy: Recent trends and Future challenges,” Minister of Finance, 2010:323.

other income.” This reform was done under the principles, neutrality and uniformity of taxation. The Value Added Tax (VAT) rate “on all (taxable) goods and services was [also] adopted” in a similar way. The Tax Reform of the Century “represented a bold experiment in tax policy based on a clear set of principles that led to a much more consistent system.” In the long run, this reform contributes to allocate resources “without sacrificing the goal of equity in taxation.” Since 1991, “[t]he introduction of an Earned Income Tax Credit [EITC] in 2007 was an important innovation in the taxation of labour income” to stimulate labour force participation.⁹⁴ Table 4 shows the change of the tax reform from 1989 to 1991 and 2008. Total tax revenue of GDP was cut from 53.7% in 1991 to 47.1 % in 2008: tax cut on personal income, social security contributions, payroll taxes, and property taxes.

Table 4. Evolution of the Swedish tax structure since the tax reform of 1991

(percent of total receipts)

| | 1989 | 1991 | 2008 |
|--|-------------|-------------|-------------|
| Taxes on personal income | 39.3 | 33.5 | 29.4 |
| Taxes on corporate income | 3.8 | 3.5 | 7.0 |
| Social security contributions | 26.7 | 29.1 | 24.9 |
| Payroll taxes | 2.5 | 3.5 | 8.4 |
| Property taxes | 3.3 | 4.0 | 2.3 |
| Taxes on goods and services | 24.2 | 26.4 | 27.9 |
| VAT | 13.6 | 16.4 | 20.1 |
| Excise taxes | 10.6 | 10.0 | 7.8 |
| Miscellaneous taxes | 0.2 | 0.1 | 0.1 |
| Share of taxes in GDP (percent) | 55.5 | 53.7 | 47.1 |

Source: Revenue Statistics of OECD Member Countries (Source OECD).

⁹⁴ Peter Birch Sorensen, “Swedish Tax Policy: Recent Trends and Future Challenges,” Ministry of Finance, 2010:322-5.

5. The role of Civil Society Organizations (CSOs)

Crucial role of Swedish Labor Union

The Swedish welfare system and Labor Unions (LO) have politically contributed to make current the Swedish welfare model. There has been strong labor movement for several decades, while the Swedish Social Democratic Party (SAP) has long dominated. Since the Second World War, strong centralized labor unions (thereafter LO) have primarily been “responsible for the sustaining of high labor solidarity,” and SAP also “tend[s] to give deference to LO and rarely take initiatives in formulating policies.” SAP has contributed “to implement labor-friendly policies” and foster cohesive labor forces. “Both high Levels of Labor Mobility (ILM) and strong centralized labor unions (LO) can make labor owners across industries become more coherent.”⁹⁵

“There are currently three major trade union confederations,” commonly known as the LO, in Sweden: 1) “the Swedish Trade Union Confederation (Landsorganisationen i Sverige or LO);” 2) “the Swedish Confederation of Professional Employees (Tjänstemännens Centralorganisation or TCO);” 3) “and the Swedish Confederation of Professional Associations (Sveriges Akademikers Centralorganisation or SACO).” LO has had a crucial role for electoral support for SAP. In contrast, TCO and SACO as two major labor organizations did “not have official connections with any political parties in Sweden.” In mid-1980s, “about 40[%] of LO members belong to the [SAP] through their local unions.” On the one hand, the Rehn-Meidner model was presented in 1951 to Congress to involve with several objectives: 1) “wage policy of solidarity to achieve wage stability and structural change;” 2) “restrictive fiscal policy and active labor market policy to reduce overall profits

⁹⁵ Zhou Qiang, “Partisanship, Union Centralization, and Mobility: The Political Roots of Interindustry Labor Mobility,” PhD Thesis Manuscript, Columbia University, 2008:194-6.

and promote labor mobility.”⁹⁶ This model successfully contributed to “macroeconomic outcome of economic stability, full employment, rising standard of living and low budget deficits in Sweden.”⁹⁷

The Social Democrats introduced three ways to deal with unemployment: restructure of the active labor market programs (ALMP) – introduction of the two programs, “Youth Practice Placement” and “Working Life Development Projects”; construction of individual strategies for job search activity; strengthen of the formal education due to “widening gap between rates of unemployment among workers of different skill levels.”⁹⁸ Moreover, the agreement between LO and SAF contributed to lead “the push for equality, which was marked by a concerted drive to improve the relative wages of the low paid.”⁹⁹

⁹⁶ Ibid., 199-200.

⁹⁷ Ibid., 205.

⁹⁸ Ibid., 212.

⁹⁹ Ibid., 206.

IV. RECOMMENDATIONS AND CONCLUSION

Korea must extend its welfare system due to rapid population aging, but the fundamental problem is how to obtain additional financial resources. This report showed what empirical studies were done through literature review. Most advanced countries already experienced many trials and errors creating a functional welfare system. For instance, Sweden took a long time, over one hundred years, to make the current mature welfare system while experiencing many trials and errors. Significantly, LO largely contributed to enhance the Swedish welfare model. In contrast, the extension of Korean welfare has started since 1997-8 IMF crisis; thus the Korean welfare history is too short compared to Sweden. Therefore, if the Korean government would undertake many trials and errors, Korea might learn some lessons from Sweden. Furthermore, Korea should keep in mind that Sweden conducted several welfare policy reforms and it was essential to have a long-term plan and continuous discussions or debate with the public. Therefore, Korea must follow a gradual policy reform with a long-term plan to mitigate social impact and should get social agreement from the people. In the analysis phase, this report showed the comparative study of policies between Korea and Sweden in several sectors: child-care, health-care, pension, fiscal policy, and the role of civil society. Lastly, there are some recommendations what Korea will need to fulfill welfare extension.

In Child-Care Reform, firstly, Korea needs to transit its ECEC system to Educational Sector. OECD estimated that the Swedish ECEC model was very successful to encourage the women's labor market, to increase the fertility rate, and to contribute to child development. On the one hand, ECEC is strongly related to educational issues. The educational role of ECEC was reinforced since the transition to the educational sector in July 1996. In Sweden, every child aged 3-5 is entitled to attend free preschool yearly for 525 hours. However,

considering most local governments in Korea have been confronting in the condition of fiscal cliff, governmental leaders must reform gradual extension of free pre-school depending on parents' income level, parents' employment status, or the child's age. Moreover, the introduction of an organization for motoring system like the Swedish Children's Ombudsman is necessary to maintain the quality of preschools' curriculum to prevent waste of state resources.

Secondly, the parental leave system for child-rearing should be gradually extended.

The Korean government should gradually extend its parental leave system to increase the birth rate and women's labor force participation with a long-term plan. The Swedish parental leave system was successful to increase these two goals at the same time. Nowadays, parents who give birth can use paid leave of 480 days for child-care – two months for a father, two months for a mother, and 12 months depending on parents' wish. Moreover, the government should prohibit infants aged 0 from being sent to facilities and parents should raise their baby directly. It will contribute to raising the child's emotional development and to protect the double subsidy of the state. In Northern European countries, it is common that infants aged 0 should be raised by parents who use parental leave to take care of their baby directly. At the toddler stage, it is very important to obtain the awareness of six senses and to share feelings between baby and parents. In the life-cycle model, ECEC “is considered to play a critical role. A large body of empirical work, as well as neurological science research, has established that fundamental cognitive and non-cognitive abilities are created well before the age of five.”¹⁰⁰

¹⁰⁰ “ECEC thus generates a higher rate of return on public intervention than later stages of education, and even more so for disadvantaged children who receive much less cognitive and emotional stimulation at home (Heckman and Masterov, 2007).” OECD.2013a, “Strengthening Social Cohesion in Korea,” OECD Publishing, 2013:176.

Thirdly, home care allowance should be reconsidered, because Korea and Sweden have experienced negative consequences. ECEC was proved to develop child education, but some low income families chose the option to receive the home care allowance, not to send their child to child-care centers in Korea. In Sweden, the home care allowance did not contribute to encouraging gender equality and it made women stay at home for longer period. Therefore, it should be given to only infants aged 0 to set a sustainable welfare service.

Fourthly, universal child-care policy should be reconsidered for sustainable financial status. The extension to the universal child-care service has not contributed to encouraging women's labor market participation and fertility rate. Korea is rapidly entering the condition of an Aged society, and Korea's workforce keeps going down. Therefore, the increase of fertility rate and women's labor force participation is critical matter to cover the lack of workforce and to maintain sound and youthful Korean society for future. Moreover, the financial status of the Korean government is not sufficient to fulfill the welfare extension pledges of President Park. In contrast, most advanced countries including Sweden have reformed their welfare system from a universal welfare system to keep sustainable welfare service, because their financial resources were not sufficient.

In Health-Care Reform, Korea rapidly faces growing health care costs, but cost-effectiveness is low. Life expectancy in Korea was around 51 years in 1960, and increased to 80.3 years in 2009, above the OECD average of 79.3. Besides, the fertility rate plummeted from 4.5 in 1970 to recently around 1.2, one of the lowest in the world. Longer life spans and risky health behaviors mean that most people are likely to have chronic diseases. It also means public health expenditure will sharply increase due to rapid population aging. Moreover, medical cost will rapidly increase due to free health care for people with four

critical diseases – one of the pledges of President Park. On the one hand, OECD has recommended for Korea to change the payment system to DRG (Diagnostic Related Group) from fee-for-service to reduce medical cost. However, the debate of pros and cons between DRG and fee-for-service is still going on. The state should carefully consider rising the financial burden of NHI.

Secondly, the state should consider financial burden of patients not to increase in health care reform. One important factor in Swedish health-care reform is that the financial burden of patients was not increased and every system was designed for patient-oriented health care, applying the Stockholm Model to all Swedish county councils and regions. Sweden has focused on removing ineffectiveness, and applied several policies to protect from moral hazard in medical and health care reform. A minimum charge to patients is one example.

In Pension Reform, first of all, Korea needs to change to Notional Defined Contribution (NDC) like Sweden. In 1999, Sweden introduced radical pension reform, which consisted of income pension, premium pension, and guarantee pension. The guarantee pension will be funded completely from general tax revenues. In contrast, Korean NPS had serious structural problems since its introduction with the concept of ‘low contribution-high benefit,’ which was caused to bring rising concern of exhaustion of pension fund by 2060. Thus, Korean pension highly needs to change Swedish Notional Defined Contribution to draw the trust of the public, to change ‘high contribution-high benefit’, and to prepare the second oldest aging society with 38% of elders over 65 by 2050.

Secondly, the ratio of non-contributors should be reduced. In 2007, the state included the introduction of the noncontributory Basic Old Age Pension System including Military

Service Credit System and the Childbirth Credit System to NPS. These are mostly non-contributed benefits that the expenditure of pension fund is continuously increasing. It causes long-term financial instability and intergenerational inequity problems in NPS and brings higher financial burden of future generations. Fortunately, on July 17, 2013 the state announced that the coverage for Basic Old Age Pension will be covered for 70~80% of low income elders by tax from July, 2014. However, the state should consider how to cut the ratio of non-contributors, over one third (34.5%) in 2009.

In Fiscal and Tax Reform, the state should prepare long-term Fiscal Policy Framework and carefully cope with the situation of rising public expenditure. Extending welfare services is inevitable as Korea is facing rapid population aging. However, the Korean government did not make a long-term fiscal policy framework like Sweden, because financial resources for fiscal stimulus in economic recession were usually large and automatic stabilizers were still lacking. In contrast, Sweden in 2010 prepared a Fiscal Policy Framework to enhance fiscal policy sustainability and transparency based on the experience since 1990s economic crisis and recent crisis. On the one hand, Korea has lower tax burden at 25.1% of GDP than OECD average at 33.8% in 2010. However, OECD in 2013 projected that public social spending in Korea will increase from current 9% to 22% of GDP by 2050. Low corporate income tax rates in Korea contribute to economic growth. However, direct taxes on households (3.6%) and social security payroll (5.8% of GDP) are lower than OECD average in 2010, even though these increased during the decade 2000-10. In contrast, the total share of indirect taxes in GDP slightly declined during the same period, 2000-10. Current VAT at 10% in Korea is lower than OECD average at 18%. Raising revenue in VAT and environmental taxes would be the best approach, following the OECD recommendation. A National Tax System to collect social insurance contributions could be also improved to enhance transparency about

income and compliance.

In the role of Civil Society Organizations, Korean government should get public agreement from civil society actors through continuous discussion or debate, when the state reforms welfare policies. In Sweden, civil society actors like labor unions (LO) had a critical role to form the current welfare system. They made a large contribution to derive social agreement between the Swedish citizens and the central government through continuous discussions. In Korea, the contribution of CSOs largely was started from the movement of democratization in 1980s, and was extended in 1990s because they are much closer to the citizens. These days, the roles of civil societies are becoming more powerful, while the engagement in partnerships between civil society and business, government, or international organizations is becoming broad.

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