

Institutional Linkages between Social Protection Measures and Industrialisation in Korea

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Content

- Compatibility between Economic Policy and Social Policy
- Institutional Linkage between Economic Policy and Social Policy
- Classifications of Institutional Linkage between Economic and Social Policies



I. Compatibility between Economic Policy & Social Policy

- **Compatibility** (positive-sum) or **Incompatibility** (trade-off) between efficiency/economic growth/capitalism & equity/egalitarian redistribution/welfare state
- After the golden age, new incompatibility: social policy → decline in
 - (i) productive sector
 - (ii) labour supply & work incentive
 - (iii) saving & investment



- Empirical evidence of trade-off arguments → *mixed* and *inconclusive* (e.g. Atkinson 1999)
- Globalisation and social policy: **compensation effect** (Rodrick 1997) & **compatibility effect** (Gough 1996)
- *Reciprocal, complex and dynamic* relationship b/w social & economic policies



II. Institutional Linkage between Economic Policy & Social Policy

- The Developmental State & **Developmental Welfare**
 - The state's role as a **regulator** & a low social spender
 - Prominent welfare role of the private sector
 - initiated & advocated by **bipartite coalitions**
 - 'Varieties of Capitalism' approach



II-1. Institutional Linkage at the Regime Level

- **Varieties of Capitalism** approach (e.g. Soskice 1999; Hall and Soskice 2001; Ebbinghaus and Manow 2001)
 - **Institutional complementarities** (or **elective affinities**) b/w specific social protection and particular components of production regimes
 - (a) **Liberal** Market Economies (LMEs)
 - (b) **Coordinated** Market Economies (CMEs)



(cont.)

Industry-based coordination (Europe) & **Group-based** coordination (Japan, Korea)

- **Group-coordinated market economies**
 - state-business alliance
 - vocational training as a company-based phenomenon
 - technology diffusion and development within the group of companies
 - company-based unions



II-2. Institutional Linkage at the Policy Level

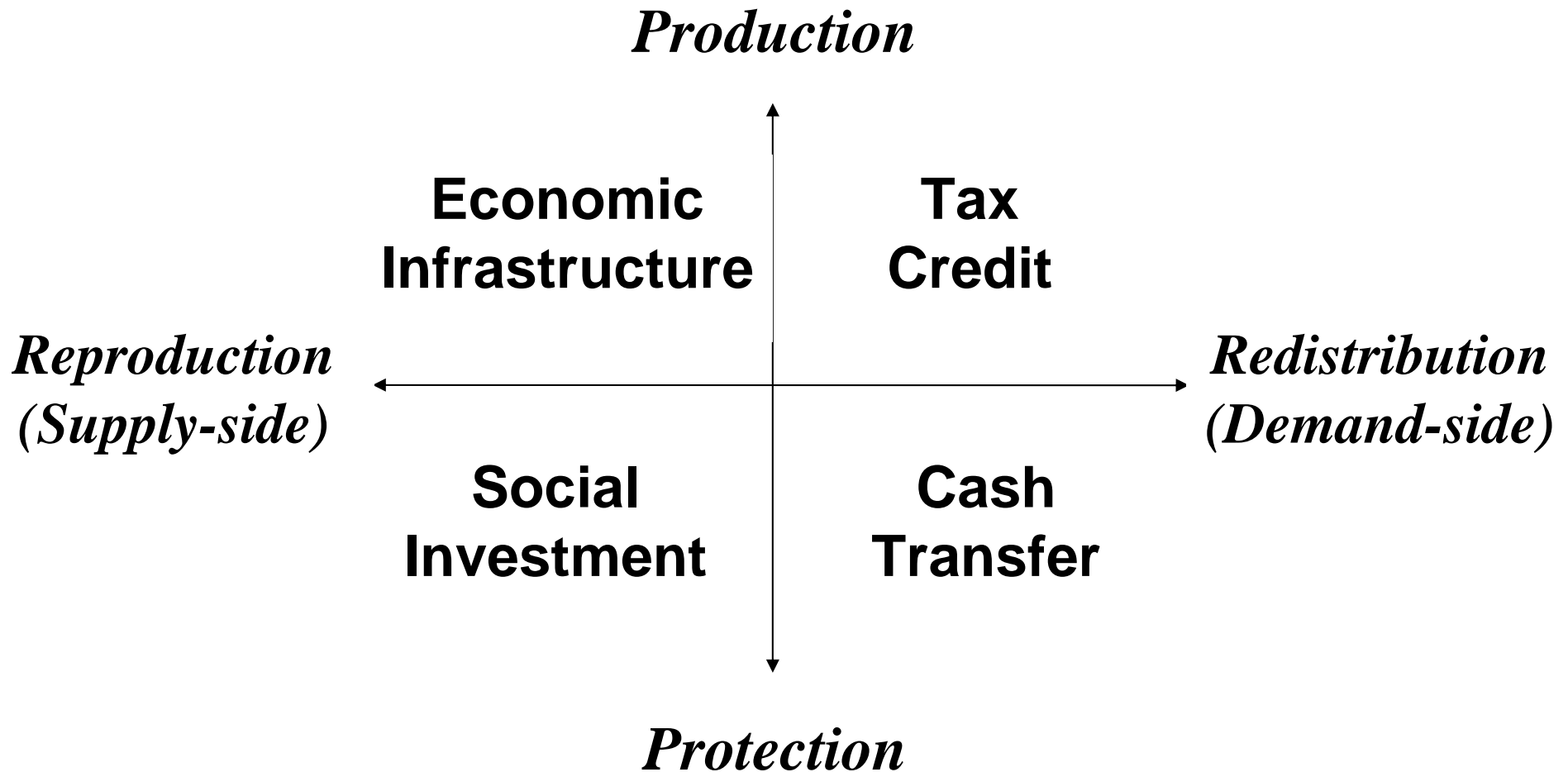
- Social policy under group-CME: **company welfare (& company-specific skill)**
 - **institutionally complementary** to other spheres of production regime (i.e. industrial relations, vocational training, corporate governance)
- **‘Economy-first’** developmental strategy and its subordination of social welfare



- Linkage b/w *work* and *welfare* in terms of
 - (i) **employment** (by the high economic growth rate and rising income levels);
 - (ii) **human capital investment** (also self-reliance);
 - (iii) **company welfare** (with lifelong employment patterns);
 - (iv) work-based, **contributory social insurance** programmes



III. Classifications of Institutional Linkage





III-1. Social Investment

- Swedish ‘active manpower policy’, the US ‘workfare’, the UK ‘welfare-to-work’
- East Asian productivist social policy
- Korean social investment & Industrialisation
 - Low spending on ALMP (0.1% of GDP in 1996)
 - High spending on **education** (17.6% of gov’t expenditure in 1972, 21% in 1983, 19.8% in 1987)
 - High participation and completion rates at all levels of formal education
 - state-led vocational training system during 1970s



III-2. Economic Infrastructure

- Infra (transport, energy, information/communication technology, drinking water, sanitation and irrigation)
 - **economic growth** (raising labour productivity and lowering production and transaction costs) & **reproduction of labour force** (improving health, nutrition and education)
- Expanding infrastructure in the *early* stage of development <e.g.> **Transport infrastructure** (expressways, urban railways, container ports)



III-3. Tax Credit

- **Fiscal welfare** (Titmuss 1958)
- **Tax expenditure:** relieving tax burdens or giving tax refunds to *individuals* for social purposes
- Tax incentives and exemptions for *firms*
- A series of tax bills during the industrialisation period → to encourage firms' investment and individuals' saving
- Cash transfers → not a main policy tool before 1997



Thank you