Reforming Pension with Pensioners: Social Dialogue and the Politics of Developmental Welfarism in Japan and Korea
Reforming Pension with Pensioners

: Social Dialogue and the Politics of Developmental Welfarism in Japan and Korea

By

Sunil Kim

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Reforming Pension with Pensioners

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Abstract

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Doctor of Philosophy in Political Science
University of California, Berkeley

Professor T. J. Pempel, Chair

Reforming the public pension system is one of the tough quandaries of welfare states due to progressive aging of the society and economic downturn. To make pension reform fiscally sound and sustainable, benefits must be cut while contributions must be raised. Apprehending popular opposition, governments have introduced the idea of social dialogue in carrying out this unpopular reform by installing participatory policymaking bodies in order to achieve consensus among political parties, interest groups, and citizens. This study examines what has happened to two East Asian countries, Japan and South Korea, which have initiated pension reform with similar goals in similar manners. The Pension Subcommittee of the Social Security Council in Japan hammered out an agreement in 2003 after 2 years of deliberation, which was passed in 2004 after slight revisions. On the contrary, South Korea’s National Pension Development Committee failed to reach a consensus in 2003 and recommended three reform options, all of which were discarded. The result was a stopgap compromise in 2007 among the political parties right before the presidential election. The differences in the autonomous power of welfare bureaucracy, the structure of civil society representation in the participatory policymaking body, and the degree of issue politicization are argued to be the cause of the opposite outcomes of social dialogue for reforming the public pension system in Japan and Korea.

Those different variables, however, are insufficient to explain the varied policy outcomes, considering the profound similarities of the two countries. Japan and South Korea are the major archetypes of the so-called developmental state, and both of them are known to have developed the strong state-weak society nexus. The welfare programs in the two countries share the general traits of the developmental welfare state in which welfare policies have been subordinated by economic policies. Since the 1990s, the civil societies in both countries have been greatly invigorated. Thus it is essential to examine how the similar welfare regimes have generated different institutional settings accounting for the opposite outcomes in the pension reform initiatives.
This dissertation suggests that this puzzle should be examined from a macro-historical perspective by examining the historical transformation of “developmental welfarism” in the two countries. First, Japanese developmental welfarism established through the welfare bureaucracy’s interaction with the stable ruling party and the under-empowered civil society, has turned the welfare bureaucracy into the primary regulator of welfare services. To serve the interests of the ruling party, the welfare bureaucracy has shied away from provoking politically sensitive issues such as tax increases while relinquishing welfare responsibility to society by transforming the society as the government’s welfare service partners. On the other hand, Korean developmental welfarism featuring the welfare program as an instrument for political legitimation, has made the welfare bureaucracy a politicized client of the political elite. In order to accomplish welfare goals imposed by the top decision makers, the Korean bureaucracy had to rely on society’s resources, which gradually undermined its bureaucratic autonomy. Unlike its Japanese counterpart, the Korean state became regarded as the direct provider and guarantor of welfare services.

Under these circumstances, the Japanese welfare bureaucracy was able to carry through unpopular reform by effectively preventing the issue from being politicized. The civil society representatives were isolated from the technocratic decision making process in the deliberation council. The representatives, civil society organizations, and the political parties were not linked to exert power in the policymaking process. However, the Korean bureaucracy could not keep the original reform agenda under control because the issue was rapidly politicized by the representatives of civil society and interest groups, supported by the civil society associations and the political parties linked to them, in the deliberation council. Thus, in conclusion, the introduction of the participatory policymaking measure does not necessarily enrich social dialogue to hammer out an agreement for carrying out unpopular reform initiatives. On the contrary, the existing structure and pattern of governance is reinforced by it.

In addition to the theoretical implications for developmental welfarism and participatory governance, this dissertation sheds lights on some theoretical controversies in the field of Japanese politics, Korean politics, and the comparative policy literature, all of which underscore the importance of a historically transformed state-society relationship in the two countries, a substantial difference of Japan and Korea.

Keywords: pension reform—Japan and Korea, developmental welfarism, participatory governance
To my parents,

for their untiring love and support...
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# List of Acronyms and Abbreviations

* J: Japan; K: Korea

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<td>CCEJ</td>
<td>Citizens’ Coalition for Economic Justice (kyŏngje chŏng’ŭi silch’ŏn simin yŏnhap, K)</td>
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<tr>
<td>Chifuren</td>
<td>National Federation of Regional Women’s Organizations (zenkoku chiiki fujin dantai renraku kyŏgikai, J)</td>
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<tr>
<td>ALMP</td>
<td>Active Labor Market Program</td>
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<tr>
<td>CEFP</td>
<td>Council on Economic and Fiscal Policy (keizai zaisei shimon kaig, J)</td>
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<tr>
<td>CSSS</td>
<td>Committee for Social Security System (sahoe pochang chedo shimŭi wiwŏnhoe, K)</td>
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<td>Dōyūkai</td>
<td>Japan Association of Corporate Executives (keizai dōyūkai, J)</td>
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<td>DPJ</td>
<td>Democratic Justice Party (minju chŏng’ŭidang, J)</td>
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<tr>
<td>DPJ</td>
<td>Democratic Party of Japan (minshutō, J)</td>
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<tr>
<td>DRP</td>
<td>Democratic Republican Party (minju konghwadang, K)</td>
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<td>EPB</td>
<td>Economic Planning Board (kyŏngje kihoekwŏn, K)</td>
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<td>FKI</td>
<td>Federation of Korean Industries (chŏn’guk kyŏngjein yonhaphoe, K)</td>
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<td>FKTU</td>
<td>Federation of Korean Trade Unions (Han’guk nodong chohap ch’ongyangŏnmaeng, K)</td>
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<tr>
<td>HCI</td>
<td>Heavy-and-Chemical Industrialization (chunghwahak kongŭphwa, K)</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<td>JAM</td>
<td>Japanese Association of Metal, Machinery and Manufacturing Workers (J)</td>
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<td>JCCI</td>
<td>Japan Chamber of Commerce and Industry (Nihon shōkō kaigisho, J)</td>
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<td>JSCP</td>
<td>Japanese Society of Certified Pension Actuaries (Nihon nenkin sūrijin kai, J)</td>
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<td>JSD</td>
<td>Japan Federation of Service and Distribution Workers Unions (Nihon sabisu ryūtsū rōdōkumiai rengō, J)</td>
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<td>Korean Confederation of Trade Unions (chŏn’guk minju nodong chohap ch’ongyangŏnmaeng, K)</td>
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<td>Korea Employers Federation (Han’guk kyŏngyŏngja ch’onghyŏphoe, K)</td>
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<td>MHW</td>
<td>Ministry of Health and Welfare (kōseishō, J)</td>
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<td>Abbreviation</td>
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<tr>
<td>MOF</td>
<td>Ministry of Finance (jaimushŏ, J)</td>
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<td>MOT</td>
<td>Ministry of the Treasury (ōkurashŏ, J)</td>
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<tr>
<td>NBLSA</td>
<td>National Basic Living Security Act (kungmin kich’o saenghwal pojangbŏp, K)</td>
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<td>NDP</td>
<td>New Democratic Party (shinmindang, K)</td>
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<td>Nikkeiren</td>
<td>Japan Federation of Employers’ Association (Nihon keieisha dantai rengŏ, J)</td>
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<td>NPC</td>
<td>National Pension Corporation (kungmin yŏn’gŭm kongdan, K)</td>
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<td>National Pension Reform Board (kungmin yŏn’gŭm chedo kaesŏn kihoekdan, K)</td>
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<td>NPS</td>
<td>National Pension Service (kungmin yŏn’gŭm kwalli kongdan, K)</td>
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<td>NWPO</td>
<td>National Welfare Planning Office (kungmin pokchi kihoekdan, K)</td>
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<td>OPSSW</td>
<td>Office of the Presidential Secretary for Social Welfare (sahoek pokchi susŏk pisŏgwansil, K)</td>
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<td>Pension Actuarial Subcommittee, Social Security Council (shakai hoshō shingikai nenkin süri bukai, J)</td>
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<td>PB/MHLW</td>
<td>Pension Bureau, Ministry of Health, Labor and Welfare (kōseishō nenkinyoku, J)</td>
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<td>PCMFA</td>
<td>Public Capital Management Fund Act (kong’gong chagŭm kwalli kigŭmbŏp, K)</td>
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<tr>
<td>PCPP</td>
<td>Presidential Commission for Policy Planning (taet’ongryŏng chamun chŏngch’ae kihoe kwiwŏnhoe, K)</td>
</tr>
<tr>
<td>PD/MHLW</td>
<td>Pension Division, Pension Bureau, Ministry of Health, Labor and Welfare (kōseishō nenkinyoku nenkinka, J)</td>
</tr>
<tr>
<td>PFMC</td>
<td>Pension Fund Management Committee (nenkin shikin unyŏ bunkakai, J)</td>
</tr>
<tr>
<td>PS/SSC</td>
<td>Pension Subcommittee, Social Security Council (shakai hoshō shingikai nenkin bukai, J)</td>
</tr>
<tr>
<td>PSPD</td>
<td>People’s Solidarity for Participatory Democracy (ch’amōyŏnda, K)</td>
</tr>
<tr>
<td>PSRC</td>
<td>Pension System Research Committee (nenkin seido chōsakai, J)</td>
</tr>
<tr>
<td>PTC</td>
<td>Presidential Transition Committee (taetongryŏngjik insu wiwŏnhoe, K)</td>
</tr>
<tr>
<td>Rengŏ</td>
<td>Japanese Trade Union Confederation (Nihon rōdŏkumiai sōrengkai, J)</td>
</tr>
<tr>
<td>SCAP</td>
<td>Supreme Commander of the Allied Powers (J)</td>
</tr>
<tr>
<td>SCNR</td>
<td>Supreme Council for National Reconstruction (kukka chaekŏn ch’oegeo hoeŭi, K)</td>
</tr>
<tr>
<td>SFA/NPDC</td>
<td>Subcommittee on Fiscal Analysis, National Pension Development Committee (chaejŏng punsŏk chŏnmun wiwŏnhoe, K)</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Full Name</td>
</tr>
<tr>
<td>--------------</td>
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<tr>
<td>Shufuren</td>
<td>Housewives’ Federation (shufu rengokai, J)</td>
</tr>
<tr>
<td>SID/NPDC</td>
<td>Subcommittee on Institutional Development, National Pension Development Committee (chedo paljŏn chŏnmun wiwŏnhoe, K)</td>
</tr>
<tr>
<td>Solidarity</td>
<td>Solidarity Committee for the Establishment of the National Basic Living Security Act (kungmin kich’o saenghwal pochangpŏp chejŏng ch’ujin yŏndae hoeŭi, K)</td>
</tr>
<tr>
<td>SPCAR</td>
<td>Second Provisional Commission on Administrative Reform (dainiji rinji gyŏsei chōsakai, J)</td>
</tr>
<tr>
<td>SSC</td>
<td>Social Security Council (shakai hoshō shingikai, J)</td>
</tr>
<tr>
<td>SSDC</td>
<td>Social Security Deliberative Council (sahoe pojang simŭi wiwŏnhoe, K)</td>
</tr>
<tr>
<td>SSSC</td>
<td>Social Security System Council (shakai hoshō seido shingikai, J)</td>
</tr>
<tr>
<td>USAMGIK</td>
<td>U.S. Army Military Government in Korea (K)</td>
</tr>
<tr>
<td>WFA</td>
<td>Women Farmers’ Association (zenkoku jyosei nōgyō keiseisha kaigi, J)</td>
</tr>
<tr>
<td>WP</td>
<td>Welfare Pension (fukushi nenkin, J)</td>
</tr>
<tr>
<td>WPRC</td>
<td>Women and Pension Review Committee (josei to nenkin kentŏkai, J)</td>
</tr>
</tbody>
</table>
Notes on Conventions

Names of Japanese and Korean persons mentioned in the dissertation are written with the family name first followed by the given name in accordance with the established East Asian custom, except the cases where the Western practice of naming is more widely known, e.g., Syngman Rhee. Japanese transliteration conforms to the Modified Hepburn system using macrons (’) for long vowels. The McCune-Reischauer system is applied in romanizing Korean names using breves (˘) for short vowels and apostrophes (’) for aspirated consonants. Exceptions are made to those individuals who have been conventionally transliterated with their own renderings, for example, Park Chung Hee and Roh Moo-hyun. Korean given names with two syllables are hyphenated without capitalizing the second syllable. Names of authors in Japanese and Korean language publications generally conform to these rules, but the names follow their own English renderings if the dissertation only cites their English-language publications. Family and given names are separated by commas in notes and references.

Japanese and Korean terms are italicized in parentheses and transliterated by the Modified Hepburn and the McCune-Reischauer systems. Capitalization is only used for the country names, e.g., Nihon and Han’guk, as well as in the first words of cited publications. Proper nouns such as places and corporations are romanized without parentheses in non-italic types following the same transliteration systems. Exceptions are made to those proper names which have standard conventions such as Tokyo, Seoul, and Kanebo Ltd.

The transliteration systems were referred to from the American Library Association—Library of Congress (ALA-LC) Romanization Tables retrieved from the Library of Congress website at http://www.loc.gov/catdir/cpso/roman.html.
I. INTRODUCTION

1. Research Puzzle

*Social Unrest Around the World*

The Parisian autumn in 2010 was bruised by strikes and arsons. Tens of thousands of protesters were arrested and thousands of paramilitary policemen were deployed. This all began with President Nicholas Sarkozy’s staunch reform initiative on France’s national pension system which would reduce benefits and raise contributions by extending retirement years by two years. Since the reform would influence every citizen’s income level, it was unsurprising that 70 percent of the people showed sympathy to the protesters. At this time, Sarkozy also experienced a record-breaking 70 percent disapproval rate. (*L’Express* October 19, 2010). A commentator mentioned that Sarkozy’s major mistake was to “cut off serious discussion with the unions and the opposition,” and by doing so, “social dialogue was interrupted” (*New York Time* October 20, 2010, A10). People throughout not only France, but also Greece, Spain, and Italy, have been protesting against welfare cuts, but “governments are going ahead with reforms anyway” (*The Economist* July 17, 2010, 59). The leader of the French ruling party claimed that “there is no other solution to save our pension system” (*New York Times* October 21, 2010, A6). Then, could those people have found some other solutions to save the pension system had social dialogue not been interrupted?

The world is aging rapidly. In 1980, males over sixty composed 12.3 percent of the total population of all OECD countries. The elderly male population gradually increased to 15.3 percent in 2000, but accelerated in the new millennium. By 2050, the elderly male population is expected to reach 28.8 percent of the total population. The aged female population also shows a similar trend, expanding from 16.7 percent in 1980, 19.7 percent in 2000, and a projected 33.6 percent in 2050 (OECD 2007). The aging society challenges the classical solutions of social welfare based on pension: making contributions during employment and receiving compensation after retirement. Pension reform is fixing this problem by having people contribute more and receive less compensation, which naturally makes reform unpopular as Pierson (1996, 175-176) succinctly notes:

The growth of social spending has reconfigured the terrain of welfare state politics. Maturing social programs produce new organized interests, the consumers and providers of social services, that are usually well placed to defend the welfare state. The networks associated with mature welfare state programs constitute a barrier to radical change in another sense as well. As recent research on path dependence has demonstrated, once initiated, certain courses of development are hard to reverse. Organizations and individuals adapt to particular arrangements, making commitments that may render the costs of change (even to some potentially more efficient alternative) far higher than the costs of continuity. Existing commitments lock in policymakers. Old-age pension systems
provide a good example. [...] Once in place, such systems may face incremental cutbacks, but they are notoriously resistant to radical reform.

It is not necessary to introduce the idea of “path dependence” or “increasing return” (Pierson 2000) to understand the difficulties of changing existing pension schemes because it is intuitive that the beneficiaries of national pension systems, *i.e.*, the voters, would object to pension reform in a democratic society.

This dissertation is about the ways unpopular reforms are carried out in democratic regimes via *social dialogue* institutionalized by the state. Two countries in East Asia will be investigated from a comparative angle: Japan and South Korea (Korea hereafter). Both countries have experienced a dramatic increase in the aging population and plunging birth rates, leading to the title of the most aged nation to Japan and that of the fastest aging nation to Korea (Ito 2008, 1043-44). Pension reforms with similar objectives were initiated in the two countries almost simultaneously with similar methods, but produced very different outcomes. The participatory councils in Japan and Korea both deliberated pension reform issues in the mid-2000s and Japan carried out reforms despite widespread distrust and popular objections. Its Korean counterpart also muddled through reforms, but failed to reach the original reform goals. This research seeks to explain why similar reform initiatives carried out in similar institutional settings have resulted in different policy outcomes. Has social dialogue framework influenced the reform process, and if so, then in what ways? If not, then what were the major factors that generated such different policy outcomes?

**Participatory Reforms and Civil Society**

Unlike countries with a long history of corporatism, social dialogue is relatively new vocabulary in East Asia. Corporatism in Japan and Korea traditionally has excluded labor and civil society in its governance system, while the strong, or so-called developmental, state in the two countries has effectively mobilized society for its own goals. The state and society have met frequently, but in hierarchical manners (Pempel and Tsunekawa 1979; Garon 1997; Suh 1998).

As civil society in both Japan and Korea grew more powerful with economic, political and social development, both countries’ governments were likewise reformed to accommodate growing public participation. Participation defined the essence of the new state-society relationship in the “age of citizens” (*shimin no jidai; simin ŭi sidae*) in both countries. In fact, initiating unpopular reform in democratic society inevitably entails civil society participation, either because of the claimed and anticipated benefits of the participatory governance or simply because of the government’s blame-avoidance and risk-sharing strategy (King, Feltey, and Susel 1998; Bonoli and Shinkawa 2005; Mok and Forrest 2009).

The governments of Japan and Korea, facing the impending debacle of their public pension schemes, initiated a series of reforms throughout the past couple of decades. The latest reform attempts demonstrated the changing status of civil society: both
governments introduced participatory measures in their unique policymaking procedures, i.e., the deliberative council system (shingikai; simūihoe). The pension reform plans were primarily drafted by the deliberative councils and then passed the legislatures. Initiating unpopular reform in democratic society inevitably entails civil society participation. Although both countries provided opportunities for civil society to speak out, the extent to which participatory pension reform succeeded in Japan and Korea differed greatly.

First of all, both governments had clear goals in order to restore actuarial stability of their public pension systems. The governments’ pension reform plan intended to hike up premiums and cut payments while extending the retirement age. The society—including the groups of pensioners, would-be pensioners, and employers—no doubt opposed such a stopgap fix on their pension system. Civil society representatives participating in the deliberative councils asked for fundamental reforms to more equitably and fairly distribute not only benefits but also financial burdens across all generations, genders, and income levels.

The Japanese government attained most of its proposed reform goals. In addition to benefit cuts and contribution hikes, the Japanese government introduced an automatic system of actuarial balance restoration which would make it extremely convenient for the government to adjust benefit and contribution levels without going through the rumblings of statutory deliberation and legislation. On the contrary, the Korean deliberative council was swayed by political confrontation and off-track rallies aiming to influence the policymaking procedures. The council ended up proposing multiple options for the reform and simply passed the ball to the legislature, which resulted in a patchwork bill that did not satisfy anyone. In other words, the institution for social dialogue in Japan served as an efficient vehicle for the government, the welfare bureaucracy in particular, to implement its goals while the Korean counterpart became a political arena where all interested parties competed for governmental resources. The main objective of this dissertation is to investigate various factors and socio-historic conditions which led to these different policy outcomes.

2. Arguments in Brief

Policy Outcomes in Developmental Welfare States

As briefly noted above, Japan and Korea have been identified as developmental states “whose politics have concentrated sufficient power, autonomy, capacity and legitimacy at the center to shape, pursue and encourage the achievement of explicit developmental objectives, whether by establishing and promoting the conditions of economic growth” (Leftwich 2001, 155, emphasis original). Developmental states have contemplated social welfare programs primarily to promote their developmental objectives. Commentators have named this type of welfare state as a “developmental welfare state,” and Japan and Korea have been its archetypical cases, as will be addressed
in the following chapter. Unlike Western European welfare states, both Japan and Korea installed public pension systems with clear developmental goals.

It is expected that, given their similarities, the two developmental welfare states—Japan and Korea—would produce similar policy outcomes. Since the developmental state provided welfare programs in order to pursue specific economic goals, it should be able to likewise withdraw these benefits if the need arises. However, only Japan, albeit with growing social friction, was able to successfully carry out welfare reform. Not only did the Korean government fail to complete reform as envisioned, but it exacerbated social tensions in the country. In a nutshell, the Japanese state demonstrated greater power, autonomy, and capacity in carrying out unpopular reform than its Korean counterpart. This is puzzling considering the Japanese tradition of “immobilism” and “reactiveness” (Calder 1988b; Pyle 1998; Stockwin 1988; Schoppa 1991; Lincoln 2001; Mulgan 2002; Amyx 2004). Deeply vested interests and Japan’s unique consensus building process are infamous for causing immobilism in the Japanese political process. Reforms are rarely undertaken, and if initiated, then they usually undergo a long and winding decision-making process. On the contrary, Korea has been canvassed as a country of swift reforms and rapid changes (Nakano and Yŏm 1998; Ônish and Tatebayashi 1998; Kong 2000; Tiberghien 2002; Ha and Lee 2007; Kang, M-k. 2009). Korea’s strong presidential leadership frequently introduces and carries out new reform measures. These conventional stereotypes of the two countries do not fit well in the case of pension reform. Besides, in terms of the abovementioned logic of path-dependence and institutional lock-in, the Japanese pension system has had a much longer history and more mature institutional scheme where players have graver stakes than its Korean counterpart.

The most frequently employed explanation is the institutional difference of the two political systems, building on the pioneering works on welfare reforms in Western European countries by Immergut (1992), Bonoli (2000), and Huber and Stephens (2001). The fundamentally different political-government systems of the two countries are likely to yield different policy outcomes (Cho, M. 1992; Pak, Yi, and To 2008; Lee, S. 2010). Korea’s presidential system is likely to have more veto points in the case that the ruling party does not command a majority in the legislature. Japan’s parliamentary system is less likely to have effective veto points because of the strong alliance between the ruling Liberal Democratic Party (じゆみんしゅとう, LDP hereafter) and the bureaucracy. Yet, the political environment of the Japanese Diet rapidly changed in the 2000s, and the opposition party resisted the reform plan. However, the objection was not sufficiently politicized, and lukewarm at best. There were few noticeable organized protests either. In Korea, the ruling party had majority seats in the National Assembly at the time of the reform, but the reform bill did not go through. Furthermore, the influence of political parties and civic groups, or civil society organizations, was visibly significant in Korea. This was especially apparent in the early stages of the reform initiative, such as when the deliberative councils debated policy. In Japan as well, labor group demonstrations and business complaints accompanied the policymaking procedure, however, the voices were selectively translated into the policy deliberation. Despite citizen representation in the
council, the desires of the largest interest group, namely the subscribers of the national pension scheme—the general public—was not delivered during the bureaucratic deliberation process. The opportunity structure to make the deliberation an effective veto point was equally offered to the social and political actors in the two countries but the outcome was quite different. These observations suggest that it is not the number of institutionalized veto points per se, but sociopolitical dynamics that allow or interrupt the functioning of veto points which lead to these dissimilar outcomes.

Another widely discussed explanation is a society-centered approach which claims that the different nature of civil society has influenced the different policy outcomes. It has been well documented that Japanese civil society lacks advocacy activities while Korean society abounds in political advocacy. Comparative studies of Japan and Korea often focus on the difference between Japanese civil society’s accommodating nature and Korean civil society’s contentious character (see Schreurs 2002; Han 2006; Ch’ong M. 2006; Ch’oe H. 2007; Ra, I. 2008). Japan’s civil society indeed played an insignificant role in reforming Japan’s pension program while Korea’s civil society actively intervened in the decision-making procedure. However, what is important is not whether civil society played a role but rather why civil society participation in Japan and Korea produced different outcomes. Korea could not match Japan in terms of the number of organizations and members related to or with vested interests in public pension programs. If a society’s political influence is proportional to its available resources for mobilization as the resource mobilization thesis posits, then the case of the two countries would be a good starting point to review this claim.

Finally, some propose a state-centered approach emphasizing the roles and capacity of bureaucracy. The proactive aspects of Japanese bureaucracy have been well documented in the masterful works by Campbell (1992), Pempel (1992), and Pempel and Muramatsu (1995), among others. The Korean bureaucracy, however, has also been depicted as autonomous and strong by many commentators (Amsden 1992; Jones and Sakong 1980; Choi B. 1990; Tiberghien 2002; O 2009; Kim, B-K. 2011). There is no doubt that the welfare bureaucracies in Japan and Korea initiated and guided pension reform in both countries. To explain why both countries’ strong bureaucracies produced different outcomes after the introduction of participatory policymaking measures, however, still warrants academic attention.

**Historical Origins of Policy Differences**

This study builds on existing accounts and argues that the different policy outcomes on the issue of pension reform should be viewed primarily from historical angles. In particular, this study proposes that the state-society relationship transformed by developmental welfarism in the past has substantially influenced recent outcomes in participatory welfare policy. Both Japan and Korea introduced welfare programs in an effort to achieve specific developmental goals, and thus have a built-in nature instrumentalism in welfare provisions. Welfare expansion in both countries was politically-driven and proactive. However, the two developmental welfare states
contemplated and implemented welfare expansion quite differently. In Japan, the social bureaucracy was the major actor in the establishment of the welfare system. The welfare bureaucracy made the main decisions to introduce modern welfare programs in concert with the economic bureaucracy and LDP politicians. The LDP political elite claimed most of the credit of welfare expansion during the hyper-growth era in order to legitimize their political dominance. Problems arose, however, with welfare retrenchment. The LDP drove welfare retrenchment under the banner of “welfare reconsideration” (*fukushi minaoshi*), and it increasingly loaded society with heavier welfare burdens. The pension program was also restructured to reduce benefits and increase contributions. The welfare bureaucracy has strictly avoided making politically sensitive decisions, but it has contemplated highly technical measures to adjust pension programs. Over the course of the economic downturn, the welfare bureaucracy successfully redefined itself as a regulator of welfare fulfilled by society, avoiding blame for welfare retrenchment. When Japan’s civil society asked for fundamental reforms including welfare tax issues, the welfare bureaucracy responded by placing responsibility for welfare reform on politicians. The politicians, who kept on upholding “radical reforms” but suffered political trauma regarding tax issues, had jurisdiction over welfare reform. The bureaucracy set the agenda for pension reform and bureaucratically deliberated such reforms. Even when participatory measures were introduced, civil society representatives realized that they could not do much in the deliberative council.

The Korean developmental state also heavily utilized welfare programs as a means to achieve political and economic goals. At every stage of welfare expansion, the political elite claimed credit for favorable reforms. Unlike their Japanese counterparts, however, the welfare bureaucracy faced tightening restrictions under Korea’s strong presidential leadership. Although the welfare bureaucracy primarily initiated welfare expansion and retrenchment building on bureaucratic rationality, the political decision has usually been overridden. The welfare bureaucracy had to make policies politically appealing in order to achieve specific policy goals. Over time, the welfare bureaucracy’s policymaking increasingly became politicized and inconsistent. Political rhetoric overruled technical rationality in major welfare decision-making.

This overwhelming political influence over bureaucratic decision-making also influenced the behavior of social actors as well. Developmental welfare states generally rely on societies for welfare provision. Thus, the political nature of Korea’s welfare policymaking prompted Korea’s civil society to influence the government’s decision via political mobilization. As a result, the welfare bureaucracy has gradually lost the authority and capacity to mediate conflicts among social groups whose interests hinge on the government’s policy. The introduction of participatory measure in policymaking exacerbated it further since civil society came to have official channel to influence the policymaking.

In short, Japan and Korea’s different civil society-government relationship led to contrasting outcomes in the reform process. However, those contrasting aspects of the two bureaucracies were not given at the onset but have been transformed through their interaction with other players during the developmental welfare state formation.
3. Methods and Organization

Scope of Research

As stated above, this research primarily takes a historical approach to the development of the welfare state and, *inter alia*, its pension program in Japan and Korea. As this dissertation argues that the policy outcomes of the recent pension reforms originated from the ways in which the welfare states were transformed, this research will begin by presenting chronological overviews on the development of welfare programs in the two countries.

The main discussion of welfare reform will focus on the roles of the major players in the deliberation process: the government officials, politicians, interest group representatives, and civil society representatives. The welfare bureaucracy which drafted reform proposals and arranged deliberation procedures is no doubt the key player in the pension reform initiatives. The bureaucracy is also the only player which had complete access to all the technical information required to carry out the reform. The different aspects and natures of the two bureaucracies in Japan and Korea (c.f. Ha Y. 1994; Chŏng S-h. 2003) will be discussed in detail as they are parts of the crucial factors that determined policy outcomes.

This research will also discuss the political elite, which cannot help but be responsive to voters, and its role in welfare reform. Given the nature of welfare reform, the direction of reform is likely to hinge on the power relationship between the technocratic elite and the political elite, or between political parties which represent specific voter constituencies. This dissertation will examine not only the fundamental differences of the two political systems, but also whether the political changes in the past decades have made a significant impact on the welfare policymaking process. Besides, since unpopular reform requires popular approval or a strong political mandate, the aspects of political leadership warrants due consideration as well.

Among societal actors, the role of interest groups such as business associations or labor unions will be analyzed because they represent the parties directly interested in welfare reform. It would not be an exaggeration to say that the major breakthrough in the scholarship of welfare state study came with the discovery of labor politics (e.g. Esping-Andersen 1985 among others). A group of scholars also discovered the profound role of the business sector in welfare state transformation (Hacker and Pierson 2002; Mares 2003). Despite different accounts on the roles that business and labor played in the transformation of specific welfare programs, the general consensus has been that both have their own clear policy preferences and attempt to exert influences, directly or indirectly, on welfare policymaking.

Finally, the dissertation focuses most intently on the roles of the citizen members who joined the deliberation process as they represented the general public directly affected by changes in the pension program. Also increasingly influential are the civic groups. Throughout the 1990s and the 2000s both Japan and Korea witnessed the rapid
growth of civil society as demonstrated by the skyrocketing number of civil society organizations. A large number of civil society organizations were in fact related to social welfare issues and they expressed their opinions on pension reform during the 1990s. This research will examine if the ways in which civil society’s opinions were delivered into the deliberation process have made a significant impact on the results of reform.

Outline of Dissertation

This dissertation begins with a brief review of literature on the welfare state in East Asia (Chapter II). The discussion will lead us to identify the common characteristics of Japanese and Korean welfare regimes as well as their differences. The next chapters (Chapter III and IV) will discuss the development of welfare states in the two countries in a historical perspective. In doing so, the chapters will address the fact that the major actors came to have different roles to play in welfare provisions and form different relationship among them. The different traits of developmental welfarism will also be highlighted.

This discussion of welfare state formation in Japan and Korea will be followed by a detailed illustration of the Japanese pension program in Chapter V. The research will address how the programs were implemented in the first place and how the actors responded to the changes in pension programs, with specific reference to the role of welfare bureaucracy. This will provide ample information on the background of the 2004 pension reform that will be discussed in the following chapter.

Similar discussions of Korea will follow the discussion of the Japanese case in Chapter VI, beginning with the historical depiction of the transformation of pension programs. The relationship between political executives and welfare bureaucracy will be highlighted. The chapter will also present the background of the 2007 pension reform initiatives.

The following two chapters (Chapter VII and VIII) are the discussion of the Japanese and Korean pension reform in the 2000s. The political and social dynamics surrounding the pension reforms will be presented in detail. In particular, the reform agenda setting, participatory deliberation, and legislation process will be discussed in an effort to find the implications of the new concept of social dialogue in welfare policymaking.

The final chapter (Chapter IX) will provide comparative and comprehensive discussions on pension reform in Japan and Korea. The major findings will be reviewed from a comparative angle and the theoretical implications on welfare policymaking and participatory governance in the two neighboring countries will be discussed.
II. WELFARE POLICYMAKING IN JAPAN AND KOREA

1. Different Aspects of Developmental Welfarism

Japan and Korea have traditionally been referred to as the two examples of the “developmental welfare states” wherein welfare is closely linked to the ideology of economic development. Both of them have developed, although to different degrees, “conservative” welfare schemes that underscore occupational social security systems, maintain preferential treatment for special interest groups, and encourage employment-based welfare, or workfare. The role of the state is kept strong but marginal, as more a regulator than a provider of welfare provisions, which eventually results in low levels of redistribution and decommodification (Aspalter 2005, 14-16). The basic pattern of welfare development in the two countries is also not too different in that both of them have developed occupational and universal welfare programs in an attempt to ward off social discontent and potential electoral challenges (Pempel 2002). In other words, social welfare in the two countries has largely expanded through the occurrence of economic and political crises.

Despite the common developmental goals they shared, Japan and Korea pursued quite disparate methods to reach their welfare goals. In Japan, the government proactively initiated welfare expansion to complement rapid economic growth and its aging population. The welfare bureaucracy was at the center of Japanese welfare policy making, coordinating the ruling LDP’s political interests with that of major interest groups. On the contrary, Korea’s welfare bureaucracy, which attempted welfare expansion in the early 1970s, had to contemplate welfare programs as a means of direct capital mobilization for industrialization in order to attract top political elite who had the ultimate authority to implement public policies. Welfare programs motivated by social policy needs were frequently discarded by political decisions. Major expansion of welfare programs in Korea thus came not through the rational calculation of welfare bureaucracy, but rather through political democratization as the political elite had to offer concessions in the form of welfare.

This chapter aims to illustrate Japan and Korea’s different paths towards welfare statehood despite their shared patterns of the so-called “developmental state” model—economic growth and institutional design. Each country has shaped distinctive state-society relationships in an attempt to achieve common developmental goals, which would lay different grounds of welfare reform throughout the 1990s and 2000s.
2. Welfare States in East Asia

Models of Welfare Capitalism

Esping-Andersen’s seminal book (1990) categorized three ideal-typical models of welfare capitalism, i.e., liberal, conservative, and social democratic, according mainly to the degrees of labor de-commodification and citizen’s social entitlements. Liberal welfare states such as the U.K. and the U.S. have the lowest degree of de-commodification, meaning that the state’s welfare schemes do not interfere with the workings of the free market principles in the labor market. Thus these countries provide low, need-based welfare benefits to all citizens. Conservative welfare states, such as Germany provide extensive welfare benefits to citizens based on employment and contributions. The welfare schemes of these countries show a medium level of de-commodification, supplementing the occupational and employment incentives. Finally, the social-democratic welfare regimes in Scandinavian countries have the highest degree of de-commodification, meaning that the welfare benefits provide extensive and universal benefits to citizens regardless of their positions in the labor market. The universal benefits are the result of the social-democratic labor movements in these countries which extended welfare services. In short, welfare benefits exist independent from the labor market in liberal welfare regimes, supplement the existing labor market in conservative welfare states and protect citizens from the labor market in social-democratic welfare states. These three models can often be clustered into residual, subsidiary, and redistributive welfare states respectively (Ebbinghaus and Manow 2001, 9).

Despite later criticism by a number of scholars (see Arts and Gelissen 2002) and Esping-Anderson’s own acknowledging of the significance of the family and household in studies on the welfare state and his subsequent revision of the criteria (Esping-Andersen 1999), the three “worlds” have been widely accepted as the ideal-typical models of welfare state regimes in capitalist democracies and applied to the analysis of the late-comers and non-Western countries (e.g., Castles and Mitchell 1993; Ferrera 1996; Bonoli 1997). Esping-Anderson himself (1997) also identified Japan as a hybrid type of European and American models. The virtue of the typology is, as Pierson (2000, 809) points out, that welfare state should be seen as “parts of complex, historically generated configurations.”

Although a country’s economic and sociocultural aspects play significant roles in the transformation of welfare state regimes, the critical and direct determinants of regime diversification are political in nature (Huber and Stephens 2001). The configuration of the power bases of political actors in a country, leftist parties and unions in particular, determines a country’s welfare policy preferences, which have overtime transformed the characteristics of welfare regimes. In other words, the characteristics of the political regime largely determine the type of welfare state. Late-industrializing countries in particular have welfare programs deeply embedded in political interests and economic strategies, and thus they have been greatly influenced by political changes such as democratization (Haggard and Kaufman 2007, 10-12).
Since the welfare state discourse was fundamentally about capitalism and democracy, the newly industrializing countries were largely left untouched (Walker and Wong 1996). Scholars viewed the idea of social welfare as un-Asian. They claimed that those newly industrializing countries (NICs) in East Asia have underdeveloped social welfare systems because they prioritize economic growth over welfare. They also point to the fact that Confucian values are not compatible with the idea of social welfare (Chau and Yu 2005, 22). Scantly existing discussions on the East Asian welfare systems simply regarded them as “unacceptable” because of their “minimalist on welfare, maximalist on profit” standards in the welfare state debates (Jones 1993, 198). Although Japan, was included in the three-world type regime analyses due to its remarkable economic performance, it was regarded as an exception to the Western-style models than as a new pattern (Goodman and Peng 1996, 193).

**East Asian Model of Welfare State?**

There was increasing demand to conceptualize East Asian welfare regimes as they showed rapid and impressive expansion of welfare provisions. Asian welfare regimes often occurred at lower levels of modernization compared to their Western counterparts (Hort and Kuhnle 2000, 168), and they normally did not have the key elements of Western welfare development such as competitive class-based political parties or the transformation of the social rights of citizenship. Unlike their Western counterparts, Asian welfare policies were initiated and implemented in completely top-down manners by the government elite, while the government prioritized economic development (Kwon, H. 1996). In fact, an earlier observation on the four East Asian countries stated that “established theories of social welfare and industrialization do not account for the complexities of welfare phenomena” in the region and thus that “a host of political, historical, economic, cultural, idiosyncratic and even mundane factors will be identified as combining both reactively and proactively to facilitate the emergence of welfare institutions” (Midgley 1986, 235). Therefore, criticizing the then dominant Western-centric perspective, alternative approaches to the East Asian welfare regimes were made in an effort to grasp the differentiating aspects of the East Asian welfare states. These perspectives underscored the conservative traits of the East Asian welfare states such as occupationally divided welfare programs, significant reliance on the market for welfare provision, existence of privileged welfare recipients—e.g., government officials, teachers, and military personnel—dualism between large and small-and-medium size enterprises, and a gradual extension of welfare provision to minimize the state’s financial commitments (Aspalter 2001, 89-90).

The first attempt to categorize the East Asian welfare state model was, as usual, to use the cultural label of the region, i.e., Confucianism (see Tang 2000, 34-36). Scholars of this approach have found that the welfare programs of the East Asian countries are less dependent on governments than on companies, families, or communities. The delivery of social security services relies on voluntary action and traditional institutions. They are also strongly attached to non-statutory social welfare schemes, all of which make them
look like “household economy welfare states run in the style of a would-be traditional, Confucian, extended family” (Jones 1993, 214; see also Jones 1990). Confucianism also influences the dominant political power of conservative parties as well as the underdevelopment of class-based politics, which have impeded the development of western-style welfare programs. This was further sophisticated by Goodman and Peng (1996) as “Japan-focused East Asian welfare states” which have pragmatically adopted western welfare programs based on their cultural tradition. Peng and Wong (2010, 660) summarize that the welfare schemes in these countries have commonly related to the “bottom-up democratic political pressure” and low universalism and redistribution costs due to relatively “egalitarian” aspects of the societies. They claim that “these states were able to gain support for solidaristic solutions to social risks because of a deeply entrenched narrative of national population homogeneity, a deeper sense of national ‘we-ness’ around which social policymakers could more easily sell the idea of a universal and inclusive social insurance state.” Vij (2007) also attempts to explain the structure and changes of state welfare provisions from cultural aspects such as the attitude towards the state, social meaning of assistance, “social and self-worthiness,” and so forth.

The cultural approach and its elaborated version of East Asian welfare model discourse was criticized because of its inability to explain the different degrees of welfare development among East Asian countries. Among the Confucian countries, Japan, South Korea, and Taiwan have developed a Bismarckian model of welfare programs without excessive income inequalities while Singapore and Hong Kong have adopted a market-oriented residual welfare system with substantial income inequalities, despite their common traits such as low social expenditures and benefit levels, priority on educational spending, etc. (Walker and Wong 2005, 9-11). It was also pointed out that the causal linkages between Confucian values and social policies are very weak while many of the Confucian welfare programs in these countries are actually not unique to the region (Aspalter 2005, 6-7). Also, many commentators point to the fact that common, seemingly cultural, traits of the East Asian welfare schemes are rather the products of the state’s deliberative political and economic activities without significant “impetus toward the social welfare state” (Pempel 1999, 179). In other words, the traditional values of each society have been “utilized and reinforced” for welfare provision, depending on the state’s prioritized policy goals and socio-political environments (Kono 2005, 137)

In fact, some political economists insightfully observed the “increasingly close relationship between economic and social policy in East Asia” (Deyo 1992, 50). Since then the focus of the debates on the East Asian welfare regime has moved toward examining the unique role of the state in creating and promoting specific welfare programs during the rapid economic growth era, which was closely related to developmental ideology and policies. Consequently, although it is widely acknowledged that each East Asian country has developed its own unique mix of welfare policies and programs to respond to common social problems (White and Goodman 1998), there have been a variety of attempts to characterize the East Asian welfare regimes focusing on their shared “overarching approach” to the social problems which “marks a fundamental unity of governing philosophy and brings [them] together to some degree” (Holliday and Wilding
“Productivist” and “developmental” are the two most widely circulated keywords in this literature.

**Productivist-Developmental Welfare Capitalism**

The main gist of the productivist welfare state is the combination of a “growth-oriented state” and “subordination of all aspects of state policy, including social policy, to economic/industrial objectives” (Holliday 2000, 709). The overall aspect of social policy can either be universalistic or particularistic depending on the political, economic, and social conditions of each regime. In developmental-universalist regimes, the states step into creating universal welfare programs, whereas in developmental-particularist regimes they underscore the state’s role of directing individual welfare provisions.

Despite differences in the details of social policy and welfare provisions, East Asian countries roughly share the following four aspects which label them as productivist welfare regimes: (1) social policy is not autonomous but subordinated to the dominant economic policy goal; (2) the countries have social policy centers of social investment such as education and basic health rather than social protection; (3) social policy is driven by the “imperatives of nation-building and regime legitimation”; and (4) the state plays only “contributory roles” to the broader welfare mix, sustained by “strong families and household strategies,” as a regulator rather than a provider (Gough 2004, 190-191). In this scheme, welfare programs became a central part of the “productivity coalition” between business and labor wherein the state intervened to arrange long-term coordination to reinforce the coalition (Manow 2005, 118-120).

The idea of productivist welfare, however, was increasingly criticized because of its overt testimonial on the subordination of social policy to economic policy as well as on the absence of the former’s institutional autonomy from the latter, which was challenged by the increasing influence of autonomous social policies for social integration (Lee, J. 2007, 7-9). Economic difficulties and the advent of aging society coupled with the progress of democracy and the rise of civil society in the region have significantly undermined the validity of the productivist welfare regime argument. Politics, democratization, *inter alia*, has exerted profound influence in making economic policy and social policy interdependent, which eventually transformed the types and resources of welfare provisions by the state in the East Asian welfare states (Kwon, H. 1998, 66-67; 2005c, 489).

Kwon, H. (2005) thus elaborated the idea of the developmental welfare state by distinguishing two strands of developmental-productivist welfare accounts: (1) *selective welfare developmentalism*, which is a Bismarckian combination of productivism, selective social investment and authoritarianism, and (2) *inclusive welfare developmentalism*, featuring productivism, universal social investment and democratic governance, where he finds a general transition from selective to inclusive developmental welfare states among East Asian countries. Building on the developmental state and the productivist welfare capitalism thesis, Kwon argues that the nature of the welfare state in the region was largely defined by the “overarching economic goal” during the hyper growth period.
However “once the overarching goal of economic policy is reset,” he states, “other public policies, including social policy will be readjusted in line with the new policy paradigm,” to bring about “new definitions of developmental social policy” and create “enough room to accommodate political demands for greater social rights” (Kwon, H. 2005a, 7). The transition toward the inclusive type of developmental welfare state, however, does not mean a convergence to Western type of welfare state by any means, but rather a strong prevalence of productivism which underscores economic imperatives in East Asian social policy. The gist of the developmental welfare state thesis is that since the “politics of democratization (or lack of it) was salient in realizing economic imperatives in social policy” in East Asian welfare states, we need to look into their “political dynamics” that realign the relationship between economic and social policy goals and mediate various policy reforms to accommodate increasing social demands (Kwon, H. 2005a, 19-20).

The productivist-developmental welfare state perspectives suggest that social policies in East Asian countries are hard to separate from economic policies. However, the developmental welfare state thesis does not imply the former’s subordination by the latter. Rather, it underscores that East Asian countries had to develop specifically tailored welfare programs to accommodate increasing social demands without simultaneously impairing economic efficiency. This warrants the state to undertake highly political maneuvers to balance economic and social rationales for the development and reform of welfare programs under the continuously changing economic, political and social conditions (Chang 2004; Kim, P. 2010).

Despite the common elements of welfare programs in the region, the ways in which East Asian countries have developed national welfare systems are not identical. Since each country had to achieve, paraphrasing Pempel’s observation (1992, 94), “particular and discrete fusing of those factors into a specific national success story,” it is difficult to categorize them into a single model of welfare state. In fact, as White and Goodman (1998, 20) aptly put it, the welfare systems in East Asia were “created ex nihilo” as a “process of transforming poor societies,” unlike the Western counterparts where welfare systems were already institutionalized and welfare expectations were entrenched after the industrial transformation. In other words, East Asian countries had to develop welfare programs under the continuous pressure of economic crises which created a unique type of “conflict between pro-welfare and anti-welfare.” In Europe, all political parties and politicians intrinsically advocate welfare expansion but acknowledge that it should be held down to a certain level (Takegawa 2009, 90). The absence of welfare coalitions thus allowed intra-governmental politics, inter alia, the social and economic bureaucracies, to determine welfare policy in the developing stages of the developmental welfare regimes with minimal parliamentary adjustment.

The overwhelmingly bureaucratic policymaking of welfare programs that observers have unanimously documented in East Asia is nothing but the consequence of the developmental nature of welfare politics. It has, however, significantly been challenged by rapid political, social, and economic changes, i.e., democratization, aging, and economic crisis. Elected politicians and government office holders as well as members of civil society began to form advocacy coalitions to change the course of “their own unique ways
In the sections to come, we will look into the transformation of the welfare programs in Japan and Korea further in detail from the developmental welfare state perspective.

3. Japan and Korea as Developmental Welfare States

To recap, we have already discussed the idea that East Asian welfare states transformed under the strong influence of developmental ethos that prioritized economic goals over welfare provisions. However, it does not necessarily mean that social policies were subordinated to economic or industrial policies. Both Japan and Korea have developed their own ways of organizing welfare to cope with political, economic, and social challenges by continuously adjusting the balance between social and developmental goals. Besides, they have come to face increasing demands of society in adjusting the balance as representative and participatory democracy deepens. The different degree of social demand and path of democratization has also transformed the developmental welfare states in Japan and Korea in different ways.

Nonetheless, the similarity of Japan and Korea has generally been taken for granted since the early days of the developmental state thesis (e.g., Johnson 1987), due specifically to their institutional resemblances. The historical trajectory of Japan and Korea’s welfare state transformation and the structures of welfare provisions in both countries are quite similar because the latter followed the former’s path (Pempel 2002; Takegawa 2005b, 110; 2009, 79-80), as addressed in

The timing of welfare program implementation shows a general pattern of Korea adopting the Japanese system with a time gap of a decade or more. In fact, Korea, as a latecomer in every aspect in social, economic, and political development, has primarily referred to the Japanese cases, which satisfy both what Collier and Messick (1975, 1313) called “hierarchical” and “spatial” diffusion of social policy, i.e., adopting advanced institutions, geographical vicinity, low linguistic barrier, and historical (colonial) experiences. However, the comparison of two countries also shows some interesting differences. In Japan, major programs were introduced at the onset of the so-called 1955 system, and these programs were gradually expanded up to the 1980s. Although there obviously were cycles of welfare expansion such as the “crisis and compensation” process Calder referred to (1988b), there was no drama like the cases of the Korean welfare programs. In Korea, the two major programs, healthcare and national pension, were enacted in 1963 and 1973 in a very radical manner. They had however been dormant for more than a decade and implemented in 1977 and 1986 respectively for apparently political reasons. In other words, the Korean welfare bureaucracy introduced the advanced system of welfare from Japan and attempted to transplant them into Korea with the endorsement of the political elite who desperately needed to win popular support. Once adopted, however, those programs were shelved due to economic reasons on which the political elite put higher priority. In other words, the similar roles of the two social
bureaucracies, i.e. installing and expanding welfare programs, have played out under different political circumstances which have led them to develop different policymaking behaviors. As we will discuss later, their different behavior would lead them respond distinctively to the similar social demands delivered at the participatory decision-making arena.

The following sections will present the stories of welfare building, beginning with Japanese case, in an effort to address the distinctive aspects of each welfare regime as well as its welfare policymaking. This will provide the ground for the discussion of the welfare reforms, pension reforms in particular, in the 2000s.

<table>
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<tr>
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<td>Korean Relief Decree (1944)*</td>
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<td>First legislation in 1963 (implemented in 1977)</td>
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<td>Type: compulsory insurance with public provider</td>
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<td>Current system in 1975</td>
<td>First legislation in 1995</td>
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<td>Major revision in 1998</td>
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<tr>
<td>First legislation in 1971</td>
<td>Current system in 1981</td>
<td>None</td>
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<tr>
<td>Type: Employer liability and assistance</td>
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III. JAPAN: BUREAUCRATIZED DEVELOPMENTAL WELFARE STATE IN THE OLDEST AGING SOCIETY

1. Development of Proactive Social Welfare in Japan

Prewar Development of the Japanese Welfare System

Welfare states are often known to be born as a result of the exigencies of war and the balance of social forces in the post-war situation (Rose 2003, 806). However, each welfare regime had its historical and institutional background set well before World War II, and Japan was no exception (Aspalter 2001, 9). Like many Western counterparts, Japanese social policies commenced with public assistance programs in the 19th century and developed through industrialization and warfare. The state’s spending on poverty relief was, however, marginal at best. The Japanese version of poor law, the Relief Order of 1874 (jutsukyū kisoku; jukkyū kisoku), and other several relief ordinances provided statutory benefits, sufficient only to maintain a bare existence, to those who were completely out of family support such as the frail and elderly, orphans, and severely impaired people (Maeda 2000, 29-30). Meiji political leaders strongly discouraged the poor’s access to assistance by limiting the recipients’ public benefits and political rights. They also blocked the attempts by Ministry of Home Affairs (naimushō) to expand welfare programs on the ground that it would make people lazy (Taira 1967, 96; Anderson 1993, 41-42). In fact welfare recipients were often stigmatized as lazy and useless people whether officially or unofficially (Ishida 1994). Instead, the Meiji government strongly encouraged family and community support for the needy. This government’s reluctance in providing public assistance continued well into the early 20th century with a slight growth in spending which originated mainly from the government increasing benefits to the wounded and the bereaved through the enactment of Military-related Assistance Act (gunji kyūgohō) of 1917 (Taira 1967, 98).

Increasing numbers of Japanese intellectuals and bureaucrats, Gotō Shimpei for instance, were however, acknowledging that poverty was the very product of national prosperity and thus prompted “a reevaluation of the state’s responsibility as a social actor,” as Kinzley (1988, 24) notes, and engendered acceptance of “deliberate social engineering as a legitimate, indeed a necessary, state function.” Subsequently, the pauperization of people and the rise of the popular movement during and after World War I (1914-1918) and the Great Kanto Earthquake (1923), as well as the great economic depression in 1927 (shōwa kinyū kyōkō), profoundly impacted the course of social welfare in Japan. The Japanese state incorporated the idea of social policy and began to actively engage in welfare activities by rapidly developing social bureaucracy (Garon 1997, 50; Kikuchi et al. 2003, 77ff). The essence of such activities was the promulgation of the Relief and Protection Act (kyūgohō) in 1932, which increased the number of assistance recipients from 18,118 in 1931 to 157,564 in 1932. The expenditure on it was also sextupled in the same period (Garon 1997, 43). Simultaneously, the Japanese government vigorously
encouraged and promoted the creation of private welfare organizations in the name of “social works” to upkeep the state’s welfare activities. As a result, the number of social work organizations skyrocketed from 1,183 in 1920 to 9,423 in 1935 (Kikuchi et al. 2003, 90).

The reciprocal development of social welfare provisions by the state and the private sector, however, came to an end due to Japan’s rush toward imperial wars with China and the U.S. (1937-1945). The government took control of the social work programs of the private sector by enacting the Social Work Law (1938), which the social bureaucrats had longed for (Garon 1997, 57). Extensive changes were also made in the supply-side of healthcare services through wartime mobilization. The welfare bureaucracy of the newly established Ministry of Health and Welfare (kōseishō, MHW hereafter) reorganized private medical practitioners and established a nationwide universal healthcare management system (Sugita 2007, 149-151). It by no means indicated a shrink in state welfare provision, but rather quite the opposite. During wartime political turmoil throughout the 1930s and 1940s, public assistance programs were expanded until the collapse of the Japanese Empire in 1945. The social bureaucrats wholeheartedly complied with the military’s urgent requests to expand public assistance programs (Anderson 1993, 51).

The exigencies of the war made social welfare a tool to “mobilize and enhance the human resources” of the nation, which resulted in ignoring those who were incapable of working as they were not “valuable human resources” for wartime mobilization (Garon 1997, 58). That is, the definition of “non-deserving poor” (Anderson 1993, 49) was changed from employable to less-usuable under total war mobilization. The Japanese bureaucracy’s idea of “social control” and the idea of Nazi Germany’s “labor state” (Arbeitsstaat) played a significant role in the transformation of Japan’s welfare regime (Ishida 1994, 32-43). The notion and rhetoric of social security was used to mobilize popular support for the war against external as well as internal threats (Amaki 2006, 181-182). In fact, the enactment of the National Health Insurance Law (1938) was intended to help conversion of workers and farmers into soldiers, and the establishment of the employee pension system (1941) was to generate funds for the war (Anderson 1993, 52-53).

In sum, the Japanese welfare system at the final stages of the war was basically residual with substantial reliance on family and community support. Social policies were strongly beneficial to soldiers and public employees than the weak (Kikuchi et al. 2003, 150). This was mainly driven by wartime exigency, which was replaced by a postwar chaos with the Emperor’s surrender speech in August 1945. Since the state deliberately used wartime social policies to control and mobilize the population (Anderson 1993, 50-51), the occupation authority, whose primary goal was to eradicate Japan’s war capability, had to devise an innocuous welfare system amidst the postwar catastrophe.

Birth of Modern Welfare during Occupation

The “ultimate objectives” of the Supreme Commander of the Allied Powers (SCAP hereafter) was “to insure that Japan will not again become a menace” and to establish “a
peaceful and responsible government” on the ruins of war (SWNCC 1945). For this, SCAP pursued two political goals simultaneously: disarmament (demilitarization) and democratization. The occupation authority reviewed the entire set of prewar policies and many of them were adjusted, reformed, or abolished. The social policies were no exception.

At first, the occupation authority clearly recognized that the Japanese prewar welfare system had served as one of the pillars of total war mobilization, and it thus had to be fundamentally reformed for the complete demilitarization of Japan (Kikuchi et al. 2003, 157). However, the devastated situation of postwar Japan forced SCAP to act urgently to rebuild social welfare system quickly. For this, SCAP had to leave the task of redeveloping social welfare programs in the hands of the prewar welfare bureaucracy due to the “experience and familiarity that these officials brought with them” (Sugita 2007, 155) from the wartime expansion of social welfare programs.

SCAP announced the Relief and Welfare Plan (SCAPIN 404) in December 1945 and subsequently decreed Public Assistance (SCAPIN 775) in February 1946. The Public Assistance stipulated that the state, i.e., the Japanese government, should be primarily responsible for welfare provision to support Japanese people’s basic standard of living, and that benefits should be provided to all citizens without discrimination (Fujimura 2006, 24). The enactment of the Public Assistance Act (seikatsu hogo hô: literally “livelihood protection law”) in September 1946 was the result of these SCAP’s welfare guidelines (Kikuchi et al. 2003, 157). Also, the New Constitution of Japan promulgated on November 3, 1946, specified that “[a]ll people shall have right to maintain the minimum standards of wholesome and cultured living” and “[i]n all spheres of life, the state shall use its endeavors for the promotion and extension of social welfare and security, and of public health” (Article 25).

Interestingly Japanese officials interpreted the state’s responsibility as a means to regain control over welfare issues. The discussion in the Social Security System Council (shakai hoshô seido shingikai, SSSC hereafter) of the Cabinet Office demonstrated that they recognized the state’s welfare provision as the government’s duty or responsibility rather than the Japanese people’s right to claim (Ishida 1984, 48-49). In fact, welfare provision “as a matter of right,” as Taira (1967, 103-104) notes, was indeed “a revolutionary concept” and, thus, the “family responsibility” and the importance of “mutual help among relatives” in providing welfare goods survived in the postwar Civil Code of 1948. Also, the Japanese government’s welfare efforts focused on providing benefits to war victims and veterans as appeared in the cases of the swift enactment of the Child Welfare Act (jidô fukushihô) in 1947 and the Persons with Disabilities Welfare Act (shintai shôgaisha fukushihô) in 1949—two components of the so-called “three laws of welfare” (fukushi sanpô) along with the abovementioned Public Assistance Act—to help war orphans and the war disabled respectively (Fujimura 2006, 25).

Although the Public Assistance Act was revised in a way which underscored the people’s right to demand welfare in 1950, the social bureaucrats’ perception of state welfare did not dramatically change from that of the prewar welfare system (Ishida 1984,
50-51). In fact, they continued to support the prewar institutions and advocated central control over welfare policies (Anderson 1993, 53-54). The prewar social bureaucrats returned to the government with “their prewar notion of social policy, which combined reform and control” (Garon 1987, 235).

In any case, the Occupation period set the grounds for the development of the modern welfare state in Japan by enacting major welfare laws—not only the abovementioned “three laws” but also the Industrial Accident Compensation Insurance Act (rōdōsha saigai hoshō hokenhō) and the Unemployment Insurance Act (shitsugyō hokenhō), all enacted in 1947—and by establishing governmental welfare agencies. On these grounds, the welfare system of Japan was dramatically expanded all across the board throughout the 1950s and 1960s.

**Hyper Economic Growth and Welfare Expansion**

The political turmoil after the occupation ended shortly with the arrival of the so-called 1955-system (gojūgonen taisei), the beginning of the long conservative LDP rule. Although the LDP has conventionally been regarded as having placed a higher priority on economic growth rather than welfare expansion, it was in fact during the LDP’s majority rule that welfare programs were dramatically developed (Kasza 2011, 194). When the MHW drafted a universal health insurance plan in 1955 it was the LDP who passed the bill in the following years (1958). In response to Asahi Shigeru’s litigation that attracted great media attention (Asahi vs. MHW case), they were the politicians who initiated actions to mend the defective public assistance programs and have the welfare bureaucracy improve them (Milly 1999, 260-262; Kikuchi et al. 2003, 172-173). It was also the LDP that pledged universal pension schemes at the electoral campaigns in 1958 and created legislation for them in 1960. In short, the LDP, for its own political purposes, employed welfare programs proactively proposed by the welfare bureaucracy, not by the progressive opponents (Tanabe 1995, 98).

Throughout the 1960s, under the LDP’s leadership, Japan was rapidly equipped with modern welfare programs. The Ikeda Administration (1960-1964), amidst the political mayhem after the renewal of the U.S.-Japan Mutual Security Treaty, promoted the building of a “welfare state” (fukushi kokka) which would pursue vigorous extensions of social security programs. It was one of the “three pillars of the new policy,” along with public investments and tax cuts, to achieve the ambitious “income-doubling plan” (shotoku bizō keikaku) championed by Ikeda Hayato (Calder 1988a, 366-367; Milly 1999, 176). The “six laws of welfare” (fukushi roppō)—the Act on Welfare of Mentally Retarded Persons (chiteki shōgaisha fukushihō, 1960), the Act on Social Welfare Service for Elderly (rōjin fukushihō, 1963), and the Act on Welfare of Mothers with Dependents and Widows (boshi oyobi kafu fukushihō, 1964), along with the aforementioned “three laws”—began to serve as the main pillars of the Japanese welfare system.

Public pension coverage was expanded to all of the adult population and national healthcare benefits were provided to all citizens, signaling the beginning of “universal welfare coverage” (kokumin kaihoken kainenkin). Throughout the 1960s and the early
The benefits of healthcare and pensions were continuously increased by the LDP governments. The LDP sometimes even joined the opposition Socialists for the expansion of welfare as they lost popularity, and endorsed progressive welfare policies (Garon 2002, 6-7). Family allowance (jidō teate) also began to be provided to the third child and onwards, and the elderly over the age of 70—later lowered to 65—were entitled to free medical care. Pension benefits were indexed to consumer prices to offset inflation caused by the real GDP growth at an average of 8.6 percent from 1960 to 1975. During the same period of time, the government’s social expenditure rose much faster at 12.8 percent (Aspalter 2001, 12; Kasza 2011, 194-195). LDP politicians, including Prime Minister Tanaka Kakuei, even confronted the Ministry of the Treasury (ōkurashō, MOT hereafter) to increase welfare spending and claimed some victories (Shinkawa 2001, 9). This dramatic development of welfare in Japan was self-proclaimed as the opening of the “age of welfare” (fukushi no jidai), and Prime Minister Tanaka declared that the year 1973 would be the “beginning of the welfare state” (fukushi gannen) in Japanese history (Shinkawa 2001, 6).

Meanwhile, at the outbreak of the first Oil Crisis in 1973, some LDP politicians began to circulate anti-welfare rhetoric by underscoring the virtues of self-help and the balance between the economy and welfare. The then Prime Minister Miki Takeo espoused his “life-cycle plan,” criticizing the over-proliferation of welfare as reckless and wasteful (fukushi baramaki) while promoting “welfare by self-help” (mizukara no doryoku ni yoru fukushi). This was actually supplemented by official emphasis on the role of the individual, family, and neighborhood in welfare provisions through the 1970s (Ishida 1984, 53-54). This renascent idea of self-help welfarism was widely dubbed as the “Japanese-style welfare society” (Nihon-gata fukushi shakai), against the idea of a “welfare state” (fukushi kokka) which implies the fundamental responsibility of the central or local governments in welfare provision (Kikuchi et al. 2003, 182). Consequently, prompted by the Iranian Revolution and its subsequent Oil Crisis in 1979, the Japanese government announced the New Economic and Social Seven-Year Plan (shin keizai shakai nanakanen kaikaku) to build a “proper system of public welfare built on the basis of self-help efforts of individuals and cooperation within families and communities” (Gould 2003, 37; see also Campbell 1992, 220).

This effort to curb welfare spending for the sake of financial austerity in the 1970s was short-lived, however. The MHW’s attempt to increase the retirement age from 60 to 65 in 1981 was thwarted by popular opposition (Shinkawa 2001, 6). On the contrary, the types of welfare services provided by the government as well as their coverage were in fact expanded through the 1970s (Kikuchi et al. 2003, 183). Japan was “the only case,” according to an empirical study of welfare curtailment in 16 major OECD countries, “where high income elasticities of social spending combined with relatively high economic growth (Alber 1988, 193). From 1975 to 1981, public spending on welfare grew much faster at 8.4 percent than GDP growth (4.7 percent). Nevertheless, a time for retrenchment looked unavoidable considering the rising cost of welfare and the slowing of economic growth in the mid-1980s.
2. Transformation of Developmental Welfarism

Underdeveloped Welfare State

As such, during the hyper economic growth period Japanese people witnessed the rapid increase of social welfare benefits, propelled by the “catching up” spirit (Watanuki 1986, 261-262). However, beneath the ever-maturing façade of the welfare state, it should be observed that this dramatic development of welfare institution was not so much impressive comparing the size of government’s welfare spending with that of Western countries. The Japanese government, since the late 1950s, kept the size of welfare under strict control (Aspalter 2001, 11-12). Japan’s growth of social expenditure ratio per GDP was indeed remarkable from 9.4 percent in 1965 to 17.3 percent in 1981, compared to the OECD average growth from 16.7 to 27.6 percent during the same period (Alber 1988, 190). However, if we exclude education and health expenses, social expenditures for pensions and other public assistance were from a mere 2.8 percent of GDP in 1965 to 7.7 percent in 1981, less than half of the OECD 16 countries’ 9.2 and 15.7 percent respectively (see Figure III-1).

Figure III-1. Social expenditure shares to GDP in Japan and OECD countries, 1965-1981 (in percent)

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<tr>
<th>Year</th>
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<th>OECD-16</th>
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<tr>
<td>1965</td>
<td>2.8</td>
<td>9.2</td>
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<tr>
<td>1981</td>
<td>7.7</td>
<td>15.7</td>
</tr>
</tbody>
</table>

Source: Alber (1988, 190).

Besides, these figures basically do not take hyper-growth itself into account, i.e., the price changes. The real social expenditure reflecting the rapid price increase shows different picture as appeared in Table III-1.
Table III-1. Real social expenditure shares to GDP in OECD countries, 1960-1981 (in percent)

<table>
<thead>
<tr>
<th>Country</th>
<th>1960</th>
<th>1981</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>12.3</td>
<td>22.1</td>
</tr>
<tr>
<td>France</td>
<td>13.4</td>
<td>29.1</td>
</tr>
<tr>
<td>Germany</td>
<td>20.4</td>
<td>29.2</td>
</tr>
<tr>
<td>Italy</td>
<td>18.1</td>
<td>26.2</td>
</tr>
<tr>
<td><strong>Japan</strong></td>
<td><strong>10.2</strong></td>
<td><strong>13.7</strong></td>
</tr>
<tr>
<td>United Kingdom</td>
<td>14.8</td>
<td>23.1</td>
</tr>
<tr>
<td>United States</td>
<td>11.3</td>
<td>20.2</td>
</tr>
<tr>
<td>Australia</td>
<td>10.9</td>
<td>17.6</td>
</tr>
<tr>
<td>Austria</td>
<td>19.2</td>
<td>25.9</td>
</tr>
<tr>
<td>Belgium</td>
<td>17.2</td>
<td>35.0</td>
</tr>
<tr>
<td>Denmark</td>
<td>-</td>
<td>31.8</td>
</tr>
<tr>
<td>Finland</td>
<td>15.8</td>
<td>26.0</td>
</tr>
<tr>
<td>Greece</td>
<td>8.9</td>
<td>13.1</td>
</tr>
<tr>
<td>Ireland</td>
<td>12.5</td>
<td>25.1</td>
</tr>
<tr>
<td>Netherlands</td>
<td>18.0</td>
<td>33.9</td>
</tr>
<tr>
<td>New Zealand</td>
<td>14.3</td>
<td>18.6</td>
</tr>
<tr>
<td>Norway</td>
<td>12.1</td>
<td>27.1</td>
</tr>
<tr>
<td>Sweden</td>
<td>15.9</td>
<td>33.5</td>
</tr>
<tr>
<td>Switzerland</td>
<td>8.0</td>
<td>13.9</td>
</tr>
<tr>
<td>OECD Average</td>
<td>13.7</td>
<td>24.3</td>
</tr>
</tbody>
</table>

Notes: (1) Excluding education; (2) 1980; (3) 1979
Source: OECD (1985, 28).

The less-than-average shares—10.2 to 13.7 percent—as well the sluggish growth rate—1.4 percent average annual (compound) growth—of Japanese social security expenditures in real terms succinctly indicates that the benefits provided by the state were far from substantial for the welfare of Japanese people. This can also be confirmed by the abyssal social security spending per capita, which was 20 U.S. dollars in 1958. This meant that Japan ranked 4th from the bottom—above Portugal, Spain, and Turkey—among OECD countries (Kasza 2006, 61-62). Even by 1975, Japan’s social security expenditures remained low though their total spending on social security leapt to almost 14 times the original amount, or 378 U.S. dollars. The portion of the government’s social spending in the entire spending was also, although the amount was continuously increased in absolute terms, limited through the economic growth era as shown in Table III-2.

Table III-2. Ratio of social spending to total government spending, 1955-1990 (in percent)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Ratio</td>
<td>10.2</td>
<td>11.6</td>
<td>14.1</td>
<td>14.3</td>
<td>18.4</td>
<td>19.3</td>
<td>17.5</td>
</tr>
</tbody>
</table>

Source: MHW (1999, Table 2-3-10).
Not only the spending, but also collecting revenue for welfare was limited due to the balancing-budget-without-tax-increase (zōzei naki zaisei saiken) principle of the Japanese government, which will be discussed later, as appeared in Table III-3.

Table III-3. Ratio of tax and social security contribution to national income (in percent)

<table>
<thead>
<tr>
<th>Country</th>
<th>Tax burden</th>
<th>Social security contribution</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1970</td>
<td>1991</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1970</td>
<td>1991</td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td>19.4</td>
<td>27.4</td>
<td>24.8</td>
</tr>
<tr>
<td></td>
<td>5.4</td>
<td>11.8</td>
<td>39.2</td>
</tr>
<tr>
<td>U.S.</td>
<td>29.3</td>
<td>25.6</td>
<td>36.8</td>
</tr>
<tr>
<td></td>
<td>7.4</td>
<td>10.7</td>
<td>36.3</td>
</tr>
<tr>
<td>U.K.</td>
<td>40.6</td>
<td>39.4</td>
<td>48.5</td>
</tr>
<tr>
<td></td>
<td>7.9</td>
<td>10.6</td>
<td>50.0</td>
</tr>
<tr>
<td>France</td>
<td>29.1</td>
<td>33.7</td>
<td>48.0</td>
</tr>
<tr>
<td></td>
<td>18.9</td>
<td>28.1</td>
<td>61.8</td>
</tr>
<tr>
<td>Germany</td>
<td>30.3</td>
<td>29.2</td>
<td>45.3</td>
</tr>
<tr>
<td></td>
<td>15.3</td>
<td>21.8</td>
<td>51.0</td>
</tr>
<tr>
<td>Sweden</td>
<td>42.2</td>
<td>42.0</td>
<td>53.7</td>
</tr>
<tr>
<td></td>
<td>11.5</td>
<td>13.5</td>
<td>55.5</td>
</tr>
</tbody>
</table>

Notes: (1) 1989; (2) 1990; (3) 1988.
Source: Tachibanaki (2000, 204).

The Japanese people’s overall tax burden and their social security contribution increased by around 15 percent to GDP between 1970 and 1991. It is however still remained low compared to other advanced countries, except the U.S., by more than 10 percent. This succinctly illustrates the underdevelopment of the Japanese welfare system.

What is certain is that all LDP leaders have unanimously promised to expand welfare benefits ever since they got power in 1955. From the declaration of “the first-year of welfare,” the LDP governments set a welfare-first principle (fukushi yūsen) in the state budget making, which lasted through the rest of the 1970s (Yokoyama 1988, 42, 51). The growth rate of social spending finally stagnated in the 1980s as in Table III-4.

Table III-4. Ratio of welfare-related budget to the general account budget, 1973-1987 (in percent)

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Ratio of welfare-related items</td>
<td>14.8</td>
<td>16.9</td>
<td>18.5</td>
<td>19.8</td>
<td>20.0</td>
<td>19.8</td>
<td>19.8</td>
<td>19.3</td>
<td>18.9</td>
<td>18.3</td>
<td>18.1</td>
<td>18.4</td>
<td>18.2</td>
<td>18.2</td>
<td>18.6</td>
</tr>
<tr>
<td>Increase rate of welfare-related items</td>
<td>28.8</td>
<td>36.7</td>
<td>35.8</td>
<td>22.4</td>
<td>18.4</td>
<td>19.1</td>
<td>12.5</td>
<td>7.5</td>
<td>7.6</td>
<td>2.8</td>
<td>0.6</td>
<td>2.0</td>
<td>2.7</td>
<td>2.7</td>
<td>2.6</td>
</tr>
<tr>
<td>Increase rate of general account budget</td>
<td>24.6</td>
<td>19.7</td>
<td>24.5</td>
<td>14.1</td>
<td>17.4</td>
<td>20.3</td>
<td>12.6</td>
<td>10.3</td>
<td>9.9</td>
<td>6.2</td>
<td>1.4</td>
<td>0.5</td>
<td>3.7</td>
<td>3.0</td>
<td>0.0</td>
</tr>
</tbody>
</table>

Note: Figures based on the amount in the original budget account excluding special account and supplemental budgets.
Source: Yokoyama (1988, 45).
The ratio of the welfare-related budget amount (shakai hoshō kankeihi) to the general account budget (ippan kaikei) rose steeply with the commencement of the “first-year of welfare” for several years. It then rapidly subsided through the 1980s until it became constant at around 18 percent. Given the incremental, proportional, and irreversible growth of the government budget, which developed even into a so-called fiscal rigidification (zaisei kōchokuka) status (Campbell 1977, 227-241), the trend of the welfare budget change is indeed distinctive.

The foregoing sections presented two contradicting gestalts of the Japanese welfare state. First, the social welfare of Japan has, by and large, constantly expanded despite the worldwide trend of neoliberal welfare retrenchment. At the same time, however, social spending has been strictly controlled at a low ratio to the total government expenditures. These occurred without visible changes in the state’s revenue structures. In short, the way that welfare benefits are secured and delivered was changed during the hyper-growth period, and it is the key to understanding the Japanese welfare state.

**Japanese-Style Welfare Society**

It is good to point out here that Satō Eisaku, the longest serving prime minister (1964-1972) in Japanese history, deliberately avoided using the term social security or welfare state but instead preferred the term social development. “He included everything from social security to regional development,” Watanuki (1986, 261) notes, “under social development” (author’s emphasis). In other words, welfare was clearly regarded as a part of social development projects maintained by the Japanese state. The rationale of the social security programs was to provide “the minimum security by the government plus the spirit of self-help” in the words of the former Prime Minister Miki Takeo (quoted from Watanuki 1986, 264), to sustain economic growth which was regarded as “the most crucial remedy for the social disease, which calls for a welfare state provision” (Tachibanaki 2000, 201). This developmental welfarism under the banner of “Japanese-style welfare society” began to be widely circulated from the middle of the 1970s with the notion of “welfare reconsideration” (fukushi minaoshi) amongst politicians, bureaucracy, and media (Campbell 1992, 213-221).

To build the Japanese-style welfare state, the last prime minister in the 1970s, Ōhira Masayoshi (1987-1980), stated at a Diet speech in January 1979 that he “would like to build up a welfare society while retaining a traditional Japanese spirit of self-respect and self-reliance [with] human relations which are based upon the spirit of tolerance and the traditional social system of mutual assistance” (quoted from Shiratori 1986, 198). “I should like to add the public welfare system” Ōhira continued, “to a fair degree to them.” He further indicated that public welfare should primarily be provided through “self-reliance in families, and welfare facilities and services carried out by the local community and private organizations, such as business enterprises” (Shiratori 1986, 198, author’s emphases). Subsequently the ruling LDP also published an official booklet entitled...
“Japanese-style Welfare Society” (1979, recited from Ishida 1984, 55-56) that summarized the ultimate goals of building the Japanese-style welfare society as follows:

1. Making various systems of our liberal society strong enough to have every citizen design his/her own individual and rational life-cycle
2. Reinforcing the social security functions of family, the smallest social unit to which each individual belongs, by making its foundation robust
3. Maintaining the vigor of companies to which we expect the great role of supporting individual life-cycle and family foundation in an aging society
4. Invigorating the society and people’s self-help spirit by alleviating the burdens of families and companies by endeavoring to retain “small and efficient government”

By emphasizing the roles of family, local community, and company as the main pillars of welfare provision, the Japanese state attempted to put the burdens of welfare costs on society.

In practice, the Japanese family has played a critical and primary role in welfare provision. It indeed was the most frequently summoned topic whenever welfare was at issue. Japanese welfare offices investigate the “support ability” of a welfare applicant’s extended family members, regardless of their residency, along with his/her household income and assets (Izuhara 2006, 166). Family, however, was not regarded as a stable and sustainable welfare provider because of the rapidly changing Japanese family structure as in Table III-5.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>One-person households</td>
<td>8.6</td>
<td>10.7</td>
<td>12.0</td>
<td>14.9</td>
<td>17.3</td>
</tr>
<tr>
<td>Nuclear family households</td>
<td>22.7</td>
<td>26.7</td>
<td>29.8</td>
<td>33.2</td>
<td>37.1</td>
</tr>
<tr>
<td>Three-generation households</td>
<td>54.5</td>
<td>50.1</td>
<td>45.9</td>
<td>39.5</td>
<td>33.3</td>
</tr>
<tr>
<td>Other related households</td>
<td>14.4</td>
<td>12.5</td>
<td>12.2</td>
<td>12.4</td>
<td>12.2</td>
</tr>
</tbody>
</table>

*Note:* Family contains at least one elderly person aged 65 and more.


Family households with elderly persons were rapidly being nucleated, and the number of three-generation households, which used to be most common and constituted the backbone of the family-based welfare system, was swiftly subsiding (Izuhara 2006, 162-165). In fact, the “welfare substitution by family” was made possible only by what Uzuhashi called “advantage of backwardness” (2003, 6) transiently, meaning, only when economic development outpaced social development. The company and the community thus became the main subjects of the government’s welfare policies.
**Occupational Welfarism in Convoy Capitalism**

A renowned scholar pejoratively labeled the flipside of the Japanese-style welfare society as the “Japanese-style company-oriented society” (Watanabe 1991, quoted from Miyamoto 2003, 14) where companies, instead of the state, primarily provided welfare “equivalents” to their employees. What this view delineated was that Japanese people receive *pro bono* benefits from their employers for their hard work and loyalty, without any idea of social rights. And indeed, there is no denying that this occupational welfare system has positively contributed to the rapid economic growth in Japan by, for instance, generating “a substantial pool of valuable investment capital that funneled through the Japanese government” (Shinkawa and Pempel 1996, 323).

Enterprise welfare is not a unique system found only in Japan. Nor is it a recent invention. It can be traced back to the late 19th and the early 20th century (Shinkawa and Pempel 1996, 287-292). What make the current Japanese enterprise welfare system distinctive from its historic predecessors, as well as from the fringe benefits of its Western counterparts, are its quasi-universalist aspect and the substitutive role of statutory welfare benefits (Cho Y-h. 1996, 284). As apparent in Table III-6, Japanese companies’ welfare costs are almost equal to the statutory benefits, indicating how underdeveloped statutory programs in the Japanese occupational welfare system are.

<table>
<thead>
<tr>
<th>Country</th>
<th>Cash earnings</th>
<th>Statutory benefit</th>
<th>Non-statutory benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>84.3</td>
<td>7.6</td>
<td>7.1</td>
</tr>
<tr>
<td>France</td>
<td>68.1</td>
<td>19.7</td>
<td>7.9</td>
</tr>
<tr>
<td>Germany</td>
<td>76.6</td>
<td>17.7</td>
<td>3.1</td>
</tr>
<tr>
<td>Italy</td>
<td>70.2</td>
<td>26.7</td>
<td>3.2</td>
</tr>
<tr>
<td>Netherlands</td>
<td>76.9</td>
<td>16.6</td>
<td>6.6</td>
</tr>
<tr>
<td>Sweden</td>
<td>75.4</td>
<td>21.3</td>
<td>3.3</td>
</tr>
<tr>
<td>U. K.</td>
<td>83.1</td>
<td>7.7</td>
<td>6.6</td>
</tr>
</tbody>
</table>

*Notes: (1) Including retirement allowances, excluding education and training cost; (2) firms more than 30 employees in 1985; (3) firms more than 10 employees in 1985; (4) all firms in 1972; (5) all firms in 1975; (6) all firms in 1976.*

*Source: Cho Y-h. (1996, 283).*

This indicates that the benefits that a worker receives can greatly differ across companies, industries, jobs, and all other variables. Thus utilizing companies as alternative welfare providers might be a rather exaggerated notion (Anderson 1993, 28). It should rather be viewed as an institutional outcome of Japan’s developmental welfarism that links welfare to economic growth by coordinating the interests of business, organized labor, and the conservative LDP government, *complementing* the state’s basic welfare functions as well as *alleviating* its financial burden.
Under postwar economic conditions, each citizen needed to secure welfare benefits from his/her employer, and the government believed that company-based welfare would ease labor tensions. The government, which was suffering from a budget deficit and rising social problems, actively intervened in the expansion and institutionalization of the occupationally-based welfare programs with tax incentives and policy regulations. Companies’ welfare-related expenses became tax deductible while the contributions could be allocated for long-term investment (Shinkawa and Pempel 1996, 299-300). It was legislated as the employee pension system (kōsei nenkin) of which mandatory coverage was continuously expanded.

It was a win-win situation for most players involved. The employees’ benefits were continuously expanded, in part because of the growing economy and in part because of competition over welfare provisions among companies to attract and recruit employees. It is also worth noting that the benefits for business included tax deductions and the accumulation of investable assets, not to mention corporate loyalty and labor-management harmony. It also served for the interests of the government and the LDP as well. The institutionalization of company-based welfare bestowed good means for regulation and oversight upon the government. The government was also able to fully utilize welfare funds for its own discretion, for instance, for the Fiscal Investment and Loan Program (zaisei tōyūshi, FILP hereafter), since the tax code stipulated that all non-taxable welfare contributions should be invested in trust banks or insurance companies, which were under the government’s strict regulation (Shinkawa and Pempel 1996, 320). It was beneficial for the conservative LDP to win popular support by keeping its pledge of small government and low tax burden while promising welfare benefits. In short, it was an effective incentive system for the Japanese state to have economic actors maintain high employment rates and productivity growth, while providing “a substitute for social consumption and,” in the words of the Japan Productivity Center, “for Japan’s relatively underdeveloped public welfare programs” (quoted from Shinkawa and Pempel 1996, 304).

By the early 1980s, Japanese government successfully shifted its major welfare responsibilities to the company level without strong financial commitments due mostly to economic prosperity (Aspalter 2001, 19). Thus the fissures of the win-win occupational welfarism came from the economy as it gradually slowed down, which made it difficult for companies to sustain a high employment rate. The Nakasone administration (1982-1987) embarked on massive developmental projects focusing on local independent projects (chihō tandoku jigyō), as well as on the FILP throughout its term to support the employment regime (Miyamoto 2008, 118-126). This created a situation of near-full-employment without productivity growth that made companies shoulder more and more of the welfare burden. Also, massive local developmental projects made a very complicated inter-regional redistribution structure of the government’s revenue, which would later cause serious budget problem that could not be handled even with tax increases (Dewit and Steinmo 2002).

Schoppa (2006) succinctly illustrates the fundamental dilemma of company-oriented welfarism. He defines the Japanese developmental regime as a “system of convoy capitalism” which pursued the coordinated development of stable economic growth and
social protection. In this system, welfare was provided through family composed of a full-time housewife and a male breadwinner, who was protected by lifetime employment and occupational welfare programs provided by companies, which was protected by the state’s various policies and regulations. When hyper-growth generated surplus revenue to subsidize employment in inefficient sectors including the agricultural sector, the unemployment rate was able to be maintained extremely low, which eventually buttressed the system of convoy capitalism (Kasza 2006, 105). This system, however, soured with sagging economic growth. The unemployment rate rose as industrial hollowing-out deepened. Ever-rising wages led Japanese companies to hire more and more part-timers and housewives, which gradually destabilized the basis of convoy capitalism. The subsidies to inefficient sectors had to gradually be reduced, and fiscal curtailment also caused the decline of company-oriented welfarism (Kasza 2006, 110).

**Welfare Retrenchment in the Late 20th Century**

As described in the previous section, the Japanese government did not significantly curtail social expenditures during the 1970s despite the decreasing growth rate, which plummeted from an average of 10 percent in the 1960s to three to five percent in the late 1970s. In practice, the governments never met its own growth target in the 1970s (see Table III-7).

Table III-7. Forecast and actual growth rate, 1970-1990 (real GNP in percent)

<table>
<thead>
<tr>
<th>Economic plan (Administration)</th>
<th>Plan year</th>
<th>Forecast</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Economic and Social Development Plan (Satō Administration)</td>
<td>1970-75</td>
<td>10.0</td>
<td>4.9</td>
</tr>
<tr>
<td>Basic Economic and Social Plan (Tanaka Administration)</td>
<td>1973-77</td>
<td>9.4</td>
<td>3.5</td>
</tr>
<tr>
<td>Economic Plan for the Last Half of the 1970s (Miki Administration)</td>
<td>1976-80</td>
<td>6.0</td>
<td>4.0</td>
</tr>
<tr>
<td>New Economic and Social Seven-Year Plan (Ôhira Administration)</td>
<td>1979-85</td>
<td>5.7</td>
<td>4.1</td>
</tr>
<tr>
<td>Outlook and Guidelines (Nakasone Administration)</td>
<td>1983-90</td>
<td>4.0</td>
<td>3.9*</td>
</tr>
</tbody>
</table>

Source: Okita (1990, 155).

Since the LDP governments were reluctant to raise taxes, especially after the defeat in the 1979 Lower House election over the proposal to introduce the general consumption tax (*ippan shōhizei*, see Kato 1994, 127-128), budget deficits began to rapidly pile up. The Second Provisional Commission on Administrative Reform (*dainijī rinji gyōsei chōsakai*; SPCAR hereafter) was installed in 1981 to initiate an across-the-board reform of the public sector under the banner of “fiscal reconstruction without a tax increase” (Fujimura 2006, 30; see also Masujima 1999). Facing growing budget deficit and fiscal debt, the main goal of the reform was, as expected, to cut spending and downsize the public sector.
In the meantime, the political environment changed. The electoral challenge to the LDP from opposition parties rapidly diminished. Popular protests faded away with the end of the decades-long protest at the Narita International Airport. Internationally, the global trend of welfare retrenchment, labeled as Thatcherism and Reaganomics, also hit Japan. The discourse of self-help and wasteful welfare was therefore re-circulated among politicians. As a result, the government decreased welfare benefits and cut down the role of the public welfare system. The retirement age for pension was raised and the required contribution years to be qualified for full pension benefits were lengthened as well. Co-payment for healthcare services was either introduced or increased depending on the types of health insurance. Direct public assistance was also reduced in the 1980s (Fujimura 2006, 32; Kasza 2011, 196). The central government’s subsidies to local authorities were cut across-the-board in the 1980s. At the same time, private welfare providers were allowed in some service areas in the late 1980s (Kikuchi et al. 2003, 182-183).

The cornerstone of these series of so-called “institutional reforms” (seido kaikaku) was the enactment of the Health and Medical Services for the Aged Act (rōjin hokenhō) in 1983, which sought to reduce the government budget by making insurance holders contribute 70 percent of the premium (Yokoyama 1988, 75-76). These retrenchments basically reallocated resources without increasing government’s contribution. In other words, the series of welfare reforms aimed to make welfare beneficiaries contribute more while alleviating the government’s fiscal burden (Fujimura 2006, 30). At the same time, the central government also divested its financial responsibility to local authorities.

The retrenchment, however, did not bring about serious backlash from society largely due to the lack of resistance from organized labor (Goodman 2001, 180-181). As the unions relied mainly on occupational welfare, which continuously grew throughout the 1980s, their primary interest was to maintain the benefits that companies had provided them with. Since the government was championing occupational welfare, the unions found few reasons to resist welfare retrenchment. When a commentator boasted that Japan was the “welfare super-power” in the late 1970s, what he meant was that “Japan was the worker’s paradise” (Nakagawa 1979, 34) wreathed by “cheap government,” low-tax, egalitarian income distribution, and the employees’ “will to work.” To sustain this cheap welfare government in the era of economic slowdown, the government had to install “cheaper alternatives” to the current system by underscoring the role of civil society including companies, communities, and citizen themselves.

3. Reinforcing the Developmental Welfarism

Crisis of the Japanese-style Welfare State

Every society ages but Japan’s aging is exceptional in terms of its speed and the magnitude of its impact. In the 1940s Japan witnessed a soaring population due mainly to the prewar government’s policy of “give birth and multiply” (umeyo fuyaseyo). The
wartime government deliberately and explicitly endeavored to keep the birthrate high by all available means. The end of the war boosted the birthrate, and there were over 2.5 million childbirths every year between 1947 and 1949, a total of 8 million added to the Japanese population registry. These postwar baby boomers, or so-called dankai generation, triggered Japanese policymakers to initiate extensive birth control measures and they achieved a sharp decline in the birth rate from 34.3 in 1947 to 19.4 in 1955 (see Figure III-2), which was “unprecedented in recorded world history” (Schoppa 2008, 644).

Figure III-2. Japan’s birth and death rates, 1940-2004

![Graph showing birth and death rates from 1940 to 2004.](image)

Note: All are crude rates, i.e., value per 1,000.
Source: SRTI.

This exceptionally large cohort of the born-in-the-1940s, mounting around 20 million, became a looming concern for the Japanese government as well as for people in their 30s and 40s in the 1970s. As their concern for post-retirement life grew, the government responded with generous pension programs and free (or low-cost) healthcare for the elderly.

These old-age welfare programs were not sustainable unless the size of the young and working population was kept strong, or unless the economy kept producing enough revenue to keep the programs running. As we have seen in the foregoing sections, all of them were on the wane. The old-age dependency ratio that shows how many elders are supported by the working population—measured by the share of the aged people of 65 or over in working age people of 15 to 64—grew continuously from its lowest point—43.5 in 1990. It was expected to pass the wartime high point soon and reach 73.8 by the year 2050 (Katsumata 2002, 208-209; The Economist May 7, 2009).
The dependency rate, by definition, is about elders and newborns. In 1989, the total fertility rate was announced to be 1.57, which was lower than the record-low rate of 1.58 in 1966, the year of Hinoe-Uma. This so-called “1.57 shock” shook the Japanese public as well as politicians and led the government to deliver a policy guideline on declining fertility in 1991, which was read: (1) to maintain harmony between family life and occupational life; (2) to improve living conditions such as housing; and (3) to support child-rearing economically and psychologically (Atoh 2002, 200).

It took three more years for action plans to come out. The “Basic Direction of Future Childcare Support Policy” (kingo no kosodate shien no tame no shisaku no kihonteki hook nit suite), the so-called Angel Plan, and the “Five-year Plan for Urgent Childcare Measures” (kinkyū hoiku taisaku nado gokanen jigyō) were enacted in 1994 with a scheduled completion date in 1999. Another “Basic Direction Policy,” or the New Angel Plan, took effect in 2000 with more ambitious targets to be completed by 2004 in an effort to expand childcare-related welfare services (CAO 2011, 3-5; see Peng 2008, 1039 for the result). Also, the family allowance program, which had been drastically cut in the early 1980s, was reinstated and came into effect in 1996. Finally, the New Angel Plan was complemented by the “Another Measure for the Low Fertility Problem” (shōshika taisaku purasu wan) announced in 2002 (Peng 2008, 1041).

However, the critical dilemma of this fertility increase policy was its incompatibility with enterprise-oriented welfare which strongly stood on the male breadwinner model of family welfare (Schoppa 2008, 649). What is worse, the company-based occupational welfare model did not look viable in the era of economic difficulties.

The occupational system in Japan has widely been described as being supported by three pillars, i.e., enterprise unions, lifetime employment, and seniority based wage system (Vij 2007, 164). During the economic high time, these pillars buttressed the enterprise-based welfare system without costing the government. The employees’ welfare benefits were, however, fundamentally tied to their employment status and, as the economic performances of Japanese companies dwindled, the occupational welfare system diminished in tandem.

As illustrated in Figure III-3, the number of irregular workers, not only female but also male employees, was rapidly increasing. Those irregular workers were out of the protection of the company-based welfare system. In fact, even among the regular workers, the lifetime welfare benefits were only provided to the permanent, lifetime regular employees of core industry who constituted only 25 to 30 percent of the total workforce. This number has been on the wane since the early 1990s (Goodman 2001, 183-184). In other words, the company-based welfare of convoy capitalism created the problem of deepening dualism between workers employed in core and periphery industries as well as the dualism between regular and irregular workers. The 1985 pension reform was the first attempt to bridge the dualism of the Japanese welfare system by providing basic protections to those who were not eligible for occupational welfare benefits (Aspalter 2001, 19).
The malfunctioning occupation-based welfare system and the deepening problem of dualism brought about the idea of linking welfare reform and labor policy (Fujimura 2009, 9-10). However, active labor market policies such as public employment services, training schemes, and employment services created huge government costs, which was tough for the Japanese government already struggling with mounting debts and shrinking revenues (see Figure III-4).

Source: Tōkeikyoku.
Finally, in 1997, the Japanese government declared a state of emergency in its fiscal condition and stated:

The environment surrounding our country has rapidly been changing due to the progress of the low-birth-and-aging, collapse of the Cold War, end of the catch-up economy, coming of the age of competition, decrease of working-age population, etc. The condition of our country’s public finance, *inter alia*, has fallen into the worst crisis situation among all advanced countries… [T]o march toward the affluent welfare society with sound and dynamic economy, in tandem with the economic reform, we cannot delay a second to initiate the urgent task of reforming the current financial system and rebuilding a sound public finance. (PMO, June 3, 1997)

In terms of initiating reform, however, the people’s declining confidence in the government became one of the greatest challenges the government faced (Pharr, Putnam, and Dalton 2000, 12-13). According to the *World Values Surveys* conducted in 2000, 68 percent of the respondents did not have much confidence in civil service (54 percent of low confidence and 14 percent of zero confidence) and 78.3 percent did not show trust in the Diet (56.7 percent of low trust and 21.6 percent of zero trust). Also 72.9 percent had low confidence in the government (54.3 percent of low confidence and 18.7 percent of zero confidence) and 71.2 percent in major companies (56.8 percent of low confidence and 14.5 percent of zero confidence). The Japanese people’s distrust in government was even more significant than in Korea, excluding the people’s the confidence in parliament. The Japanese distrust of government was even higher than in the U.S. (World Values Surveys 2005).

In practice, a 1992 survey on the public pension program revealed that about two million out of eight million non-employees did not join the program. Besides, more than two million subscribers did not pay premiums. One of the main reasons was the lack of confidence in welfare programs, which largely originated from the people’s suspicion of the government squandering public works and welfare spending (Fushimi 1997, 89; Tachibanaki 2004).

**Community Welfare and the State-Society Relationship**

Under the tight budget strain, the Japanese welfare state brought the community-based welfare system back, which was another major aspect of the Japanese developmental welfarism. When the idea of community-based welfare was contemplated in the 1970s, *i.e.*, the LDP’s endorsement of the Japanese-style welfare society, it was more rhetoric than an action plan. Little was mentioned as specific roles of community or neighborhood in welfare provision. This was largely due to the fact that there was no such “society” or “community” that was able to take the welfare tasks (Watanuki 1986, 266). Therefore, a welfare society should be *created* by the state to complete the Japanese welfare state building of this style. The “active welfare society” (*katsuryokuaru fukushi*...
shakai), officially proposed by the SPCAR, had become the buzzword in the 1980s (Watanuki 1986, 267).

The welfare policy during the age of economic slowdown was in line with galvanizing community-based welfare, which warranted the state’s deliberative intervention to create a “welfare community.” The basis of the existing system of community-welfare was rapidly destabilizing, not only due to “increases in the number of elderly people, but also [due] to decreases in the availability of informal care as the caregiver themselves aged” (Ikegami 2008, 1056). In other words, the state had not only to funnel infrastructure and capital but also to build a community of caregivers and those who were cared for. This idea was wholeheartedly accepted by the LDP politicians who were desperately in need of measures to win voters back.

As a result of the series of welfare cuts back in the 1980s and the introduction of the unpopular consumption tax in 1989, the LDP’s plan seriously backfired and the LDP lost the Upper House election. The party leaders attempted to win back voters by promising benefits to the elderly while the bureaucracy was still trying to control expenditure. The compromise was the launch of the Ten-year Strategy for the Health and Welfare of the Aged (kōreisha hokenhukushi suishin jikkanen senryaku), otherwise known as the Gold Plan (gōrudo puran), in 1989. The basic idea of the Gold Plan was to provide care to the elderly by hiring home-helpers and by building day-service or short-term-stay care centers. In 1995, the Murayama administration revised the Gold Plan and set higher targets. It was further continued by the Gold Plan 21 in 1999 by the Obuchi administration. The goals of the Gold Plans had generally been met as seen in the Table III-8.

Table III-8. Major targets and results of the Gold Plans

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Home helpers</td>
<td>35,905</td>
<td>100,000</td>
<td>170,000</td>
<td>350,000</td>
<td>247,518</td>
<td>402,554</td>
</tr>
<tr>
<td>Short-stay centers</td>
<td>7,674</td>
<td>50,000</td>
<td>60,000</td>
<td>96,000</td>
<td>89,373</td>
<td>148,119</td>
</tr>
<tr>
<td>Day-service/care centers</td>
<td>1,780</td>
<td>10,000</td>
<td>17,000</td>
<td>26,000</td>
<td>27,727</td>
<td>49,181</td>
</tr>
<tr>
<td>In-home care centers</td>
<td>300</td>
<td>10,000</td>
<td>10,000</td>
<td>10,000</td>
<td>8,500</td>
<td>15,500</td>
</tr>
<tr>
<td>Special nursing homes</td>
<td>172,019</td>
<td>240,000</td>
<td>290,000</td>
<td>360,000</td>
<td>347,491</td>
<td>462,473</td>
</tr>
<tr>
<td>Help-service facilities</td>
<td>47,811</td>
<td>280,000</td>
<td>280,000</td>
<td>297,000</td>
<td>422,000</td>
<td>706,000</td>
</tr>
<tr>
<td>Care houses</td>
<td>1,700</td>
<td>100,000</td>
<td>100,000</td>
<td>105,000</td>
<td>169,300</td>
<td>307,900</td>
</tr>
<tr>
<td>Multipurpose senior centers</td>
<td>40</td>
<td>400</td>
<td>400</td>
<td>1,800</td>
<td>560</td>
<td>880</td>
</tr>
</tbody>
</table>

Notes: (1) Planned in 1989; (2) planned in 1994; (3) planned in 1999.
The series of Gold Plans aimed to provide care for the elderly who had been adding financial burdens to the government’s healthcare programs. Therefore, the plans left the institutional care system largely untouched while significantly expanding and improving the community care system (Ikegami 2008, 1060).

As stated in the previous sections, the Japanese government strongly emphasized the roles of family and the neighborhood in welfare provision. Goodman’s study (1998), which largely builds on Ben-Ari’s ethnographic study on two Japanese suburban towns (1991), describes the profound role played by voluntary welfare commissioners (minseiiin) appointed by the government in delivering social services. The commissioners originated from the prewar hōmeniin and served the local community on a voluntary basis with social workers (shakai fukushi shuji) who are paid government officials. Goodman’s study starkly illustrates the ratio between the voluntary commissioners and the social workers. While there were 190 thousands of commissioners across the country, there were merely 15,000 welfare officials in the early 1990s (Goodman 1998, 144). This striking 12.5 to 1 ratio is the key to understanding the nature of Japanese welfare society. “In the context of potentially escalating welfare costs and decreasing the number of those in the workforce to pay taxes to support the system,” he (1998, 152) explains, “their [commissioners’] cheapness is clearly attractive.” Still in 2007, 230 thousands of commissioners designated by law were delivering welfare services (Sankei Shimbun May 25, 2008). This economization of welfare can also be found in the public employment service (PES). Japan, along with Korea, has a strikingly small number of PES staff compared to other countries (see Table III-9).

Table III-9. Number of public employment service staff

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of PES staff</th>
<th>Number of the economically active population per staff</th>
<th>Number of employed workers per staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>87,570</td>
<td>450</td>
<td>364</td>
</tr>
<tr>
<td><strong>Japan</strong></td>
<td><strong>15,290</strong></td>
<td><strong>4,388</strong></td>
<td><strong>3,445</strong></td>
</tr>
<tr>
<td>Korea</td>
<td>2,436</td>
<td>9,011</td>
<td>5,395</td>
</tr>
<tr>
<td>Sweden</td>
<td>11,000</td>
<td>403</td>
<td>339</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>33,000</td>
<td>882</td>
<td>711</td>
</tr>
<tr>
<td>United States</td>
<td>71,378</td>
<td>1,953</td>
<td>1,717</td>
</tr>
</tbody>
</table>


**Welfare Reform and Civil Society**

In sum, the Japanese state devised administratively demarcated and guided communities to fill the lacunae between occupational welfare and traditional family or self-help welfare (Takahashi 1997). This community-based welfarism began in the 1980s with the aim of mobilizing society’s resources but it went further to make society provide welfare to itself voluntarily under the banner of participation (Fujimura 2000). Thus, in the beginning of the 1990s, the government, EPA and MHW in particular, devised the
idea of a “participatory welfare society” (sankagata fukushi shakai) in an effort to encourage the participation of citizen volunteers (borantia) and non-profit organizations (NPOs) in welfare services (Fujimura 2000, 7; Kwon, H. 2003, 236). The EPA (1993) published a pamphlet in 1993 advocating participatory welfarism to promote active participation of citizens who are soon-to-be the beneficiaries of welfare provisions.

One of the consequences of the state’s community-based welfare initiatives in the 1990s was, as Peng (2005, 85) aptly states, the creation of “a new institutional framework for the emergent grass root community groups to participate in and enlarge the scope of civil society engagement in social welfare.” Surveys conducted by the EPA demonstrated the growing presence of public service related organizations among social groups, which “complemen[t] and replac[e] public services that the governments are supposed to promote for the general public […] and respond to needs close to home, and to matters of concern to a small number of residents” (cited from Mochizuki 2002, 322). According to a survey conducted in 1995, almost half (47.1 percent) of the total NPOs were related to healthcare services. In terms of the shares in the whole NPOs, the welfare-related groups increased by 22.8 percent from the 1989’s survey (Atoda, Amenori, and Ohta 1998, 105).

In any case, the absolute size of the civil society sector was expanding and becoming more visible. Annual media coverage on NPOs skyrocketed from 8.7 in 1994 to 339 in 1998 (Hasegawa 1999, 19). “Citizen’s organizations” (shimin dantai) and “civil society” (shimin shakai) continued to appear more often in media, from 248 times to 557 times, and 48 times to 99 times respectively, throughout the decade (Tsujinaka 2002, 30-31). The Great Hanshin Earthquake (1995) and the legislation of the Act on Promotion of Specified Non-profit Activities (tokutei hieiri katsudō sokushinhō) in 1998 were, as Pekkanen (2000) succinctly illustrates, the catalysts of the opening of the age of citizens.

4. Bureaucracy in the Welfare Expansion and Retrenchment

Welfare Expansion without Budget Expansion

It has widely been discussed that social welfare programs are largely developed by the welfare bureaucracy who, in the words of Garon (2002, 5), “deftly balanced conflicting political pressures and policy needs.” The LDP without a doubt, as one of the key players of the 1955-system, played a significant role in the transformation of the welfare state in Japan. However, the LDP’s basic stance has been to respond selectively to the welfare policies submitted by the bureaucracy. As long as the welfare programs delivered benefits to the party’s constituencies, the LDP had little reason to object to the bureaucracy’s proposal. Conflicts among interest groups do exist and cause serious problems in welfare policymaking. However, their interests are usually represented via pertinent government agencies which “submerged” welfare politics within the bureaucracy (Takegawa 2005a, 178). Therefore, welfare policymaking is usually not so visible to the general public, which has effectively prevented it from getting politicized.
Also addressed by a number of welfare state literature is how Japan’s social democratic forces, labor unions in particular, played a limited role in the formation of welfare programs. It was actually the state bureaucracy that promoted the welfare provisions including universal healthcare, pension systems, and the recent LTCI. Although the progressive local authorities (kakushin jichitai) supported by the SPJ and the JCP in the 1970s and 1980s advocated welfare expansion, the state bureaucracy did not “bow to the pressure of the reformist authorities and reluctantly promoted reforms,” Takegawa (2005, 177) puts it, “[but instead,] the state bureaucracy used the pressure of the reformist authorities to realize its own objectives.”

In short, it was the state bureaucracy, not political parties, that played a central role in welfare state development. The LDP of course, exerted influence upon receiving political threats from opposition parties, but it did not have any consistent vision for a welfare state (Miyamoto 2003, 15). Especially since the mid-1980s, what was noticeable in the series of welfare reforms was the strong MHW’s proactive initiatives (Shinkawa 2001, 9). Upon the political pressures of SPCAR, the welfare bureaucracy proactively responded with the slogan of “Japanese-style welfare society,” which had originally been espoused by the LDP politicians, in an effort to reduce the state’s financial burdens by utilizing non-state actors to provide welfare services. A series of reports were published by welfare bureaucrats proposing renewal of welfare programs (see Miyamoto 2003, 20) during this period. Deeply inspired by the community care programs of U.K., these publications underscored more active participation of the local community in providing welfare services.

In the middle of the 1990s, with the beginning of the second Hashimoto administration (1996-1998), the prime minister announced the launch of “six major reforms” (rokudai kaikaku), i.e., administrative, fiscal, welfare, economic, financial, and educational reforms. In particular, Hashimoto himself was the Minister of Health and Welfare under the Ōhira administration (1978-1979), and he showed great commitment to carry out welfare reform. He in fact reinstated the consumption tax increase for welfare revenue, which had once been foiled during the preceding Murayama administration (1994-1995), and finally accomplished a one percent increase (Fujimura 2006, 33).

Meanwhile, the MHW, via a joint statement of its eight major deliberation councils, advocated “structural reform” (kōzō kaikaku) of the welfare system. The statement, entitled the “Direction of the Structural Reform of Welfare System: An Interim Report” (shakai hoshō kōzō kaikaku no hook: chūkan matome), delineated four principles of welfare reform: (1) carrying out an across-the-board reform; (2) recipient-oriented reform by supporting individual self-reliance (kojin no jiritsu); (3) reinforcing the state-society cooperation by invigorating civil participation; and (4) making welfare system more equal and fair (MHW 1997b, 1.2.1.2.2). Subsequently, the MHW proposed to revise the Social Welfare Service Act (shakai fukushi jigyōhō) with a strong emphasis on the citizen’s voluntary participation in welfare provision (Fujimura 2006, 33). The bill passed the Diet and the new Social Welfare Act (shakai fukushi hō) came into effect in 2000. The new law aimed to promote civil participation by galvanizing existing community-based welfare institutions such as the municipal council of social welfare (shakai fukushi
kyōgikai), the community chest (kyōdō bokin), the voluntary welfare commissioner (minsei iin), the commissioned child welfare volunteer (jidō iin) and so forth (MHL 2000, 1.2.5.1.2).

It was less the LDP than the intra-governmental relationship that restricted the welfare bureaucracy's room to maneuver, with the economic bureaucracy in particular. As well addressed in the study on postal savings, welfare goals and developmental goals can be satisfied in chorus as long as the economy is continuously growing (Calder 1990). Basically, welfare bureaucracy is not a budget-generating agency but one of the major budget-consuming agencies. Welfare bureaucracy is likely to prefer higher tax rates for welfare financing and larger organizational jurisdictions and turfs. However, the MHW strictly avoided the issues that the LDP and the economic bureaucracy were not likely to support: expansion of tax-based financing and organizational expansion (Miyamoto 2003, 20). In fact, the welfare bureaucracy proactively responded to the MOF's attempts to limit social expenditure by diligently devising ways to reduce spending, which awarded the MHW a title of “an honor student in finance” (zaisei no yūtōsei) (Etō 1995, 111).

How can we explain the welfare bureaucracy's economism to limit welfare spending? The small size of Japan's welfare bureaucracy—roughly one tenth of its U.S. counterpart—prevented the rise of welfare professionalism, meaning that the welfare bureaucracy serves its own interests rather than that of the people's (Goodman 2001, 181). The idea of participatory welfare is exactly what they aimed at: welfare expansion without budget expansion.

The bureaucracy's goal seems successful. As the Figure III-5 indicates, Japanese people's reliance on the government for welfare provision has gradually decreased over time.

**Problem of Direct Service Provision: Public Pension**

The Japanese welfare bureaucracy has been known to employ technical problem-solving approaches in social issues (Milly 1999, 271). The welfare bureaucracy had to solve the problem of providing welfare benefits under the conditions of limited budget and organizational capacity without losing control over their service areas. More and more services were thus contracted out to civil society actors, which inadvertently empowered civil society. In order not to lose control over the society's welfare providers, the MHW endeavored to formulate administrative and legal means to intervene in the welfare business of the municipalities (Etō 1995). It created legislation for the qualification of welfare providers and inserted legal strings in the new welfare laws to maintain its overseeing and monitoring authority over welfare provisions.

As Haddad (2011) succinctly illustrates, the increasingly active participation of NPOs in welfare provision has developed, despite the government's decreasing responsibility as a direct provider of welfare services, in tandem with the increasing scope of the government's authority. This “discretional engagement of bureaucracy in welfare
issues” (Estévez-Abe 2003), however, faced another ordeal. That is, its own direct service provision: the public pension system.

Figure III-5. Japanese people’s expectation on the government’s role in welfare provision

Who is responsible for old-age welfare

Source: CAO Surveys, each year.

Expected proper role of the government

In a nutshell, the scheduled pension revaluation approached even under the pressure of rising demand of civil participation and the welfare bureaucracy's growing efforts to regain control over welfare issues. The bureaucracy wanted to restore fiscal balance by cutting benefits and raising contributions while the civil society at large wanted fundamental reforms to restore the balance across gender, generation, and income levels. Interest groups such as employers and employees also spoke out to make the public pension schemes more beneficial to them. All of them were scheduled to meet first at Tokai University Club (Tōkai Daigaku Kōyūkaikan) in Kazumigaseki on January 16, 2002.
IV. KOREA: A POLITICIZED DEVELOPMENTAL WELFARE STATE IN THE FASTEST AGING SOCIETY

1. Development of Instrumental Social Welfare System

Korea is a relatively new welfare state which launched most of its welfare programs in the 1980s and expanded them in the past two decades. However, Korea enacted and implemented or withdrew and revised such programs with remarkable speed. To begin with, the speed with which Korea reformed is fundamentally related to the speed of aging of society. The current ratio of senior citizens to population is 11 percent, ranked 27th in OECD countries, in which Japan topped the ranking by 22.6 percent. However, the projected population-aging index measured by the share of population over 65 to population below 14 portrays a striking picture. The index score is expected to almost quadruple from 67.7 in 2010 to 214 in 2030 while that of the OECD countries will leap from 97 to 146 during the same period. The aging process for Korea’s population will continue accelerating throughout the 2030s and 2040s (index score 315). Korea will eventually pass its Japanese counterpart which has a 36.5 percent elderly population over the age of 65 and become the most elderly nation in the world with a median age of 57 and a 37.3 percent senior citizen population. Currently, Korea's median age is 37 while Japan stands at 43. Korea’s current reproduction rate (birth per person) is 1.22, the lowest among all 34 OECD countries, surpassing Japan’s 1.37 and Germany’s 1.38 (Dong-A Ilbo, September 7, 2011, A5). Korea is indeed the world’s fastest aging society. To cope with the speed of the progressive aging, changes in welfare provisions should come at the same speed.

However, it was not all about an aging society. Just like its predecessor across the Korea Strait, it was the state that designed, initiated, and implemented welfare programs in the postwar developmental period. The strong policy priority on economic development was also conspicuous in the history of welfare in Korea. The telling difference, however, is the role of society due to its historical conditions. The Korean government had to take national integration into effect for rapid nation-state building when Japanese colonialism ended. The devastation of the Korean War and the subsequent regime competition between South Korea and the communist North during the Cold War were key political conditions for the inception of welfare programs. The wave of democratization and the rise of civil society since the late 1980s played substantial roles in the development of the Korean welfare state. The major transformation in welfare provision came in the aftermath of the financial crisis in 1997 through 10 years of progressive regimes.

Overview of Welfare Provisions before 1960

Traditional Korea, the Chosŏn dynasty, was a Confucian society with a ruling aristocracy called yangban. The yangban aristocracy utilized Confucianism to justify
social hierarchy, but Confucianism it also had a strong egalitarian element which dictated that “peasant welfare was the basis of the well-ordered society” (Palais 1991, 19). Thus various public assistance programs were installed to relieve the suffering of peasants. Yet the series of peasant uprisings in the late Chosŏn period clearly demonstrate that the welfare system did not function efficiently. People relied more on traditional mutual aid than the state’s public assistance, which gradually dissipated as the dynasty collapsed.

Despite King Kojong’s attempt to build a modern nation-state, Japan’s growing imperialism consumed Korea and finally annexed it in 1910. Meanwhile, the traditional mutual aid system was swiftly dismantled due in part to Japanese-influenced modernization policies and the introduction of Western system mostly by religious organizations (An, Cho and Kil 2005, 68-71). Soon after the annexation, the Japanese Colonial Government (Chōsen shōtokufu) installed a number of public assistance programs to deliver services to Korean people in the name of the Japanese Emperor (onshikin). Many religious organizations also offered poverty and disaster relief with the intention to legitimize the colonial rule (An, Cho and Kil 2005, 90-95).

These primitive systems of public assistance did not provide enough social relief for the people. The number of peasants in abject poverty as recognized by the colonial government was almost half of the entire peasant population. The colonial government also recorded as many as 1.2 million landless slash-and-burn peasants in the 1920 and the 1930s (Kang, M-g. 1987, 12). The colonial government’s aggressive cadastral survey in the 1920s transformed the huge landless peasantry into low-wage workforce, i.e., the urban poor.

As Japan rushed towards war against China and the Allied Forces, colonial Korea was restructured to prepare for military mobilization. A modern welfare bureaucratic organization (kōseikyoku) was installed in 1941 in an effort to improve public health conditions for wartime conscription and commandeering. The first comprehensive welfare legislation, the Korean Relief Decree (Chōsen kyūgorei), was enacted in 1941 to provide public assistance to the elderly, children, pregnant women, and the disabled via local authorities. The military aspect of the decree was well stipulated in one of its clauses which stated that the assistance would be provided, “from the standpoint of demographic and health policies, to reconstruct the mode of the people’s living as well as to bear and rear healthy and strong soldiers” (An, Cho and Kil 2005, 142).

In short, public welfare policies during the colonial period were constructed to facilitate war mobilization in the last decade. Private welfare provisions were either dismantled or utilized for political purposes by the colonial authorities. Therefore, when the colonizers left, as much as a quarter of the entire population was in need of relief, mostly landless peasants and the urban poor (An, Cho and Kil 2005, 163). As many as two million Koreans repatriated from Japan and China were added to the numbers of landless peasants and urban poor in Korea already in need of substantial aid. The entire health and medical system broke down after World War II, and the Korean people desperately needed assistance (Kwon et al. 1975, 22, 33).
With Japan’s withdrawal, Korea was put under the control of the U.S. Army. When the Japanese colonial government handed Korea over to the U.S. Army Military Government in Korea (USAMGIK hereafter), the USAMGIK maintained Korea’s colonial structure in order to preserve social order. Facing Korea’s dismal living situation, the USAMGIK issued a series of welfare memorandums for public assistance almost identical to those of the former colonial government (An, Cho and Kil 2005, 165-166). Upon realizing the institutional deficiency in delivering public service, the USAMGIK concentrated on building and underpinning administrative arms of the government throughout the entire country. This however resulted in the relative decrease of the public assistance budget because a large portion of the welfare budget was spent expanding and maintaining the government’s bureaucratic apparatus (Yi, Yi, and Chŏng 1998). A sporadic surge of public assistance was provided usually after mass uprisings or social unrest. Meantime, rising political and social turmoil due to the ideological, and eventually territorial, division of the country led the USAMGIK to increasingly emphasize social order and popular control, which left the needy almost out of public assistance.

One interesting feature of the welfare programs during the U.S. military government was their strong emphasis on child protection (Yu, Yi and Choe 2005, 24). The welfare memorandum 3C (February 7, 1946) included nursing mothers of children age 6 and under in the primary coverage of the public assistance (Yi H-s. 2008, 427). The USAMGIK also promulgated the “Regulation of Child Labor” in September 1946 (Ordinance no. 112) to prohibit the employment of children under age 14. It also prohibited children under age 16 from working more than eight hours a day or in dangerous environments. Children 16 to 18 years old were allowed to work up to 10 hours a day.

Another important aspect was the mingling of state and society through mass mobilization. Due to the lack of state capability to provide welfare benefits, there arose a series of relief movements in the early days of the U.S. Military rule. These movements were organized using existing social units such as schools, religious organizations and newly-formed political groups. The government deliberately encouraged and manipulated these relief movements for public welfare as well as for political purposes (Yi, H-s. 2008, 435-436).

All in all, the welfare policies of the USAMGIK were barely different from its predecessor’s. The USAMGIK’s welfare memorandum no. 3C even stated that “the relief payment rate will be set higher than that of the Korean Relief Decree” (Yi H-s. 2008, 427). The USAMGIK generally maintained the instrumental aspects of its inherited colonial welfare policy and occasionally improvised provisions. These programs fell short of providing sufficient assistance to the needy, and in fact exacerbated social security issues, especially in the case of public health. There was no urgent need for the military government to rebuild a functioning healthcare system as the war was already over. Only preventive measures against epidemics were sporadically taken by the government (Yi, H-s. 2008, 430-431).
The newly established Republic of Korea which took over the USAMGIK in 1948 did not and could not expand welfare programs mainly for economic reasons. The Syngman Rhee government (1948-1960) heavily relied on aid from the U.S. for its survival. After the Korean War (1950-1953), the government had to prioritize postwar reconstruction. Welfare policies were targeted towards Korean War victims, veterans and their families, but the limited government budget could not provide substantial benefits even to them. International relief funds were mostly allocated to war orphans and orphanages. In 1957, for instance, as much as 15 percent of the government’s entire welfare budget was allocated to buy food for children in orphanages and foster care institutions (Yu, Yi, and Choe 2005, 26).

The government initiated a massive refugee resettlement project including population relocation to agricultural areas in order to expedite postwar reconstruction and encourage people’s self-help survival instincts. To encourage employment, the government first promulgated labor-related laws and regulations which were substantively favorable to workers. The government also put great emphasis on rebuilding the school system in an effort to maintain its administrative presence, deliver welfare services, control society, diffuse the government’s ideology and propaganda, and produce a skilled workforce. In order to accomplish these goals, the government even implemented compulsory education during the Korean War. Traditional welfare measures, which had been banned by the colonial government, were revived as well in an effort to promote Korea’s self-help spirit and community-based welfare provisions (Yi, H-k. 2006, 44-45).

Further, the Ministry of Social Affairs (sahoe’bu) even attempted to introduce very progressive unemployment and labor protective measures. The leftist Progressive Party (chinbodang) and the rightist General Federation of Korean Trade Unions (taehan noch’ong) together submitted social policy measures intended to protect workers. All these attempts had an extremely slim chance of being realized given the extremely limited government budget in a country of less than 100 dollar per capita income (Nam, C-s. 2005a, 49-51). Nevertheless, society continued to espouse this progressive rhetoric throughout Korea’s contemporary history.

Military Coup and the Birth of Developmental Welfarism

Syngman Rhee’s authoritarian regime came to an end by a mass uprising incited by the corruption scandals and the rigged election in 1960. The new government headed by a liberal politician, Chang Myun, was fully aware of the social demands for welfare provisions and held a meeting entitled National Conference for Comprehensive Economic Affairs (chŏng’guk chonghap kyŏngje hoŭi) in December 1960. Around 300 participants including President Yun Po Sun and Prime Minister Chang gathered together to discuss a variety of issues including the establishment of social welfare system. The Employment and Living Standard Section finally proposed to install the Committee for Social Security System (sahoe pochang chedo shimûi wiwŏnhoe, CSSS hereafter) to discuss and improve
labor and living conditions (Nam C-s. 2005b, 26). The council was about to launch in May 1961, but was aborted when General Park Chung Hee staged his military coup.

Whereas Rhee administration passed less than a handful of welfare-related legislation—most of them for the benefit of the regime’s power bases, *i.e.*, soldiers (Military Benefits Act, 1950), police (Police Benefits Act, 1951), and public employees (Public Officials Pension Act, 1960)—the military junta introduced a series of public welfare legislation as Table IV-1 demonstrates.

<table>
<thead>
<tr>
<th>Date</th>
<th>Name</th>
<th>Contents</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960. 1. 1</td>
<td>Public Officials Pension Act</td>
<td>Welfare benefits for public employees</td>
</tr>
<tr>
<td>1961. 1. 11</td>
<td>Veterans Compensation Act</td>
<td>Stabilize the livelihood of veterans and their bereaved families</td>
</tr>
<tr>
<td>1961. 12. 30</td>
<td>Livelihood Protection Act</td>
<td>Annull the Korea Relief Act (Addenda 2)</td>
</tr>
<tr>
<td>1962. 1. 10</td>
<td>Seaman Insurance Act</td>
<td>Welfare of crew members and their families</td>
</tr>
<tr>
<td>1962. 3. 30</td>
<td>Disaster Relief Act</td>
<td>Emergency relief for disaster victims</td>
</tr>
<tr>
<td>1963. 1. 25</td>
<td>Military Pension Act</td>
<td>Welfare of the veterans and their bereaved families</td>
</tr>
<tr>
<td>1963. 11. 5</td>
<td>Industrial Accident Compensation Insurance Act</td>
<td>Protect workers from accidents</td>
</tr>
<tr>
<td>1963. 11. 5</td>
<td>Act on Social Security</td>
<td>Prescribe basic standards on the social security system building on the new Constitution</td>
</tr>
<tr>
<td>1963. 12. 16</td>
<td>Medical Insurance Act</td>
<td>Non-compulsory insurance</td>
</tr>
<tr>
<td>1970. 1. 1</td>
<td>Social Welfare Services Act</td>
<td>Guidelines for welfare service providers</td>
</tr>
<tr>
<td>1973. 12. 20</td>
<td>Pension for Private School Teachers and Staff Act</td>
<td>Stabilize the livelihood of the employees in private educational institutions</td>
</tr>
<tr>
<td>1973. 12. 24</td>
<td>National Pension Act</td>
<td>Not implemented</td>
</tr>
<tr>
<td>1976. 12. 22</td>
<td>Medical Insurance Act (revision)</td>
<td>Compulsory insurance</td>
</tr>
<tr>
<td>1977. 12. 1</td>
<td>Medical Protection Act</td>
<td>Provide medical service to a household on welfare</td>
</tr>
</tbody>
</table>

*Note*: Referred to MGL and KLRI for translation and error correction.


General Park’s Revolutionary Committee, or the Supreme Council for National Reconstruction (*kukka chaekōn ch’oeogo hoeŭi*, SCNR hereafter), sent a memorandum to the Cabinet in July 1962 stating that the state would develop a social welfare system and that the contents and timing of the development would be determined by the state (Cho, Y-j. 2008b, 72; Yang J. 2008, 336):
Shortly after, when a new constitution was being drafted in 1963, the military junta added a clause upholding social welfare and the state’s primary responsibility (MGL):

\textit{Article 30}  
(1) All citizens shall be entitled to a life worthy of human beings.  
(2) The State shall have the duty to endeavor to promote social security and welfare.  
(3) Citizens who are incapable of earning a livelihood shall be protected by the State under the conditions as prescribed by Act.

The rationale of the military government’s rather progressive moves described above was primarily political. The provisional military leadership had to earn popular support as soon as possible since there was a rising demand for an immediate transition to a civilian government. The swift introduction of the medical insurance system was an archetypal example of reforms motivated by political expediency (Cho Y-j. 2008a, 78-79). The abovementioned CSSS members persuaded General Park personally to introduce an ahead-of-its-time welfare program. As it was not initiated by social demand or bureaucratic consensus, its compulsory implementation was simply turned down by the SCNR upon the suggestions from high-profile economic bureaucrats. It could finally be implemented after the issue was adopted by political parties as one of their campaign pledges.
In any case, as General Park pledged to hold an election and decided to run for president himself, the military regime enacted a number of welfare programs that had been drafted and shelved, or had been about to be implemented by the previous government. These programs also showed preferential treatment to people with specific occupations such as soldiers, public employees, and teachers—including private school employees.

Since the ultimate purpose of welfare expansion was to underpin its regime stability, once established, the welfare programs were revised, suspended, or aborted for the purpose of economic development (KSSI 2000, 21-22). The compulsory implementation of medical insurance was delayed and industrial accident insurance was also revised in a way to limit its coverage. The Livelihood Protection Act turned out to be a void promise as few meaningful enforcement decrees or ordinances followed.

The biggest predicament for the Korean government to carry out welfare programs was, no doubt, limited resources for social policies due to economic underdevelopment and the goal of economic growth which was the utmost priority. In other words, the Park government had to mobilize all available resources for the rapid achievement of economic growth in tandem with responding to social demands from the constituencies considered vital to the legitimization and stability of the authoritarian regime. The ideas of self-support and employment-based welfare were adopted while the state attempted to maintain firm control over the allocation of social resources.

Thus the government set the principle of “self-support” (chahwal) for the “employable needy” (kūllo kuho daesangja) that mobilized them for state-subsidized public work in return for putting them on rations provided by charities (Yang J. 2008, 337). Thus the law relinquished the donor’s right to distribute charity goods to the government. One of the follow-up measures of the Livelihood Protection Act, the Temporary Measures for the Guidance of Self-support (chahwal chido e kwanhan imsi choch’ibŏp) in 1968 stipulated that the act “aims to relieve the employable needy by providing public works opportunities” (Maeil Kyungje Shinmun April 20, 1968, 2; Kyunghyang Shinmun July 2, 1968, 1). The Measures also made the local authorities the primary provider of relief goods collected largely from international and domestic charities. Finally, social welfare service was made to be provided only by lawful foundations and every aspect of their operation was put in the Social Welfare Services Act in 1970 in statutory forms (Yi H-k. 2006, 48).

*Marriage of Instrumentalism and Developmentalism*

Despite its phenomenal economic growth in the 1960s, Korea was cast into internal and external challenges in the beginning of the 1970s. First, domestically, people began to demand political freedom after a decade of authoritarian rule by Park Chung Hee, especially after the constitutional amendment in 1969 which allowed him to seek a third term. The opposition party led by Kim Dae-jung was growing more and more popular while the Park regime’s approval rate was dwindling. Also the international economy became unstable as the Nixon Shock and the collapse of the Bretton Woods
system led to the depreciation of the dollar, which was detrimental to export-driven economies like Korea. North Korea, on the other hand, was able to maintain stable growth due to its economic independence from the West, threatening South Korea which just had caught up North (see Figure IV-1).

Figure IV-1. Growth rates and per capita GDP of North and South Korea, 1955-1975

![Graph showing growth rates and per capita GDP of North and South Korea, 1955-1975.](image_url)


After a narrow victory over Kim Dae-jung and his New Democratic Party at the 1971 presidential and legislative elections, President Park declared a state of emergency in December 1971 and then martial law in October 1972 to dissolve the National Assembly and revise the constitution. The new constitution, or the Yushin Constitution, was designed to convert Park’s presidency into a legal dictatorship under the banner of “Koreanized democracy” (Han’gukjŏk minjujuŭi) which had become the deus ex machina of the authoritarian regimes of Korea (Scalapino 1962; Chin 2006). To justify this dictatorial rule, the Yushin government professed the “growth-first, distribution-later” (sŏn-sŏngjang hu-bunbae) ideology, and this became the basis for Korea’s social welfare policy (Yi 2006, 50-51). It explicitly subordinated all social policies to economic development.

However, fierce competition with North Korea which advertised its universal welfare system including free medical service was a thorn in Park’s flesh (Kim, J-d. 2001, 76). Also, the Korean media heavily covered social problems in Korea such as the increasing number of people out of medical care due to its growing costs in the mid-
1970s. (Yu, Yi, and Choe 2005, 37). At the same time, the government’s heavy-and-chemical industrialization drive rendered large-size enterprises desperate for skilled labor, which in turn let them increase occupational benefits (Chŏng, M-g. 2009, 134-135).

Thus, the government decided to intervene directly in wage adjustment and labor dispute reconciliation by installing various commissions under the Labor Administration (nodongch’ŏng). Also, a special administrative measure was promulgated to prohibit collective bargaining or action of unions and to take direct sanctions against employers’ wrongdoings as well (Maeil Kyungje Shinmun March 4, 1972, 7). The Medical Insurance Act was revised in a way which made membership compulsory to workplaces with more than 500 employees in 1977 and then companies with more than 300 employees in 1979. The Ministry of Health and Social Affairs (pogŏn sahoebu, MHSA hereafter), the then Minister Shin Hyun-hwak in particular, played a key role in driving the revision of the healthcare system against challenges from the Economic Planning Board (kyŏngje kihoekwŏn, EPB hereafter) and other economic agencies (Kim, J-d. 2011).

The president’s decision was, needless to say, crucial in the amendment of the Act. In fact, he had the then MHSA Minister Ko Chae-pil, who were not enthusiastic about the plan, step down and then appointed Shin in order to carry out medical insurance reform (Cho, Y-j. 2008a, 81). The economic agencies seriously challenged the plan but Park was adamant because the welfare bureaucracy had made the president believe that the compulsory implementation of medical insurance would not harm economic growth but rather facilitate it. Furthermore, big business groups which had already been implementing company-based medical programs did not find any reason to oppose the government’s plan (Cho, Y-j. 2008a, 81-82). Therefore, according to then Chief of Presidential Secretary Kim Chung-Yum, President Park ordered all the related agencies to put a higher priority on social development, inter alia medical security, than the economic development plans (Shin, D. 2003, 97).

Nevertheless, the case of the medical insurance system by no means undermined the fundamental aspects of Korean welfarism, i.e., instrumentalism and developmentalism. The two most illustrative examples are the introduction of the pension system in 1973 and the radical enforcement of the company-based medical insurance scheme.

First, the National Welfare Pension (kungmin pokchi yŏn’gŭm, NWP hereafter) system, which will be discussed more in detail in the chapter to come, was the invention of developmental ideas. The welfare bureaucracy had been planning welfare expansions from 1963, largely inspired by Japan’s example. However, the idea of pension was very new to the military junta, and politicians and economic bureaucrats severely denounced it as a plan to make people lazy. To earn the top political leader’s endorsement, the welfare bureaucracy contemplated the idea of linking welfare with developmental strategy. One former KDI researcher who participated in the pension system development in the 1970s stated in an interview:
At that time, the MHSA recommended the introduction of pension system repeatedly but the president did not like the idea he believed it did not have economic benefits. Finally in 1973 the MHSA suggested the pension system nicely wrapped with the utility of its reserve fund, which successfully attracted the president. *(Hankyung Business 71, April 15, 1997)*

To earn the final ratification from the top decision-maker, *i.e.*, the president, the MHSA had to join forces with the EPB to prepare detailed plans to implement pension system and collect reserve funds. Over this course, however, what Merton (1975) called “goal displacement” occurred. The government’s announcement of the commencement of the national welfare pension program spelled out that “the resources reserved by the introduction of new welfare programs will be productively used in increasing employment and boosting economic development by focusing on heavy and chemical industrialization” *(Yang, C.-j. 2007, 98)*.

Politically installed, and so politically uninstalled, the NWP program was shelved in 1974 due in part to the Oil Shock and in part to the South Korea’s archrival, *i.e.*, North Korea. Pyongyang’s sudden abolishment of income taxes made it impossible for President Park to establish a new quasi-tax *(Yang, C.-j. 2007, 102)*. As direct taxation became difficult, the South Korean government decided to introduce an indirect value added tax system, which made the NWP system very unattractive.

Although the NWP program was continually postponed throughout his term in office, it is clear that President Park had an instrumental and deep understanding of the pension program as apparent in his speech in 1975:

> In examining the role of national welfare program in income redistribution, we have to keep in mind that the redistribution of income between different income groups is not the only or even the primary objective of the NWP [...]. The accumulation of substantial reserve funds in excess of current requirements for benefit payments would enable Korea to use its NWP system as a means of increasing savings in the economy. *(quoted in Hwang, G. 2006, 59)*

Second, the reason that President Park supported MHSA’s employment-based medical insurance scheme was also to utilize healthcare benefits as a means to boost the economy. He was a firm believer of company welfarism—that the best means to preempt the rise of militant labor movement was to underscore the idea of the “company as an extension of the family” that was largely rooted in society *(Fiori and Aspalter 2006, 27)*. The employers did not oppose the compulsory medical insurance scheme despite the immediate costs they had to shoulder since they believed that the company-based welfare would, as the state preached, bring about industrial peace that could offset and further exceed the costs in the long run *(Woo 2004b, 201)*.

The government also believed that growing social discontent should be mitigated by state intervention as apparent in the establishment of the Policy Council for Employees’ Welfare *(kūlloja pokchi chŏngch’aek simŭi wiwŏnhoe)*. This Council was
chaired by the Minster of the EPB—not the MHSA—in 1978 with 10 other minister or
deputy-minister level government representatives and the Federation of Korean
Industries (chŏn’guk kyŏngjein yonhaphoe, FKI hereafter) chairman and the Federation of
Korean Trade Unions (Han’guk nodong chohap ch’ongyŏnmaeng, FKTU hereafter) general
secretary (Kyunghyang Shinmun March 28, 1978, 1). The Park regime also enacted the
Medical Protection Act (1977) in an effort to directly provide healthcare benefits to the
needy with 100 percent government finances, against the economic bureaus’ concern of a
serious budget shortage. The scope and amount of welfare provisions were maintained as
minimal as possible (Yang J. 2008a, 338).

In short, the welfare expansion under Park Chung Hee’s authoritarian rule was the
beginning of developmental welfarism in Korea characterized by its instrumentalism and
developmentalism. The welfare programs were implemented by the state with specific
sociopolitical goals in mind, and the goals were largely subordinated by economic goals.
One of the political consequences of this type of developmental welfarism was that the
state had been identified as the key player of welfare provision despite its lack of
resources, which later generated a significant impact in state policymaking by greatly
increasing society’s dependence on the state.

2. Rise of Civil Society and Welfare State Transformation

End of Authoritarianism

Park’s legal dictatorship came to an abrupt end with his sudden assassination,
which brought about another military coup by General Chun Doo Hwan. After a series of
purges on political opponents and physical repression including the bloody massacre in
Gwangju, Chun inaugurated himself promising to build a “democratic welfare state”
(minju pokchi kukka) with four goals: (1) establishing a democracy suited to our political
climate; (2) attaining a true welfare society; (3) realizing a just society; and (4) reforming
national spirit by educational reform and cultural enhancement (Dong-A Ilbo September
1, 1980, 3). The new president’s emphasis on welfare came largely from his lack of popular
support. Due to its shaky constitutional legitimacy, the Chun government had no choice
but to present “a reform-like blueprint for the future” despite the global trend of welfare
retrenchment in the 1980s (Ahn and Lee 2005, 174). Subsequently the government
contemplated “three grand welfare legislations,” i.e., minimum wage, national pension,
and universal healthcare.

The developmental aspect of welfare instead waned as the new regime attempted
to earn popularity by rejecting the growth-first policy of the previous regimes. This
phenomenon appears in the following excerpt from a government-controlled newspaper:

The gist of the idea of “welfare” is to enhance economic, social, and emotional stability of
those who had been alienated by the economic-growth-first policies in the 1960s and 1970s,
which had caused unequal distribution of wealth, corruption, and mammonism in our
society. It is thus an idea to make “equal distribution” as the foundation of all policies. (Kyunghyang Shinmun May 18, 1981, 3)

In other words, the new administration’s welfare policies continued to be instrumental as before, but with a less developmental orientation. As Table IV-2 depicts, the new government reallocated a significant portion of the general account budget from economic development to social development.

Table IV-2. Breakdown of general account budget in Korea (in percentage)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>General administration and national defense</td>
<td>43.9</td>
<td>43.9</td>
</tr>
<tr>
<td>Social development</td>
<td>23.1</td>
<td>27.6</td>
</tr>
<tr>
<td>Education</td>
<td>17.1</td>
<td>21.5</td>
</tr>
<tr>
<td>Manpower</td>
<td>1.1</td>
<td>0.6</td>
</tr>
<tr>
<td>Health</td>
<td>1.4</td>
<td>1.3</td>
</tr>
<tr>
<td>Social security</td>
<td>2.4</td>
<td>3.2</td>
</tr>
<tr>
<td>Housing</td>
<td>1.2</td>
<td>1.0</td>
</tr>
<tr>
<td>Economic development*</td>
<td>21.7</td>
<td>17.2</td>
</tr>
<tr>
<td>Others</td>
<td>11.2</td>
<td>11.2</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

* Government’s investment in industrial sectors including agriculture.


The blueprint in fact, rapidly materialized. Especially after the electoral debacle during the 1985 legislative election, the government sped up its process to introduce generous welfare programs. At the election, Chun’s Democratic Justice Party (minju chŏng’ŭidang, DJP herefater) managed to secure the majority seats in the NA but could not garner more than 35.2 percent of the entire vote, whereas the two major opposition parties earned 49.0 percent. Soon after, the president stated that major efforts would be made to enhance the welfare of the rural population, his most loyal constituencies. The government subsequently enacted the Comprehensive Measures for Rural Development (nong’ŏch’on t’ükpyŏl taech’aek) mostly contemplated by the EPB officials (Yu, Yi, and Choe 2005, 42). The president said in an interview that the people in rural areas had been disadvantaged by the government’s economic policies and this would be mitigated by the measures (Dong-A Ilbo March 5, 1986, 3). Shortly after, the government enacted the Minimum Wage Act and enforced the National Pension Act all in 1986. Healthcare benefits were also continuously expanded while Chun Doo Hwan was in power.

The authoritarian regime, however, could not hold up against the uproar of the waves of democratization any longer. The government decided to resume free direct presidential elections that had been aborted for 15 years since Park Chung Hee’s Yushin declaration in 1972. Every candidate who ran for the presidency came with his own
welfare pledges, which were, without doubt, embellished with visionary ideas (Fiori and Aspalter 2006, 28-30). Welfare had become every political bidder’s instrument, not an exclusive scepter for the ruling incumbent.

Democratization and Welfare Explosion?

Piven and Cloward (2004 [1971], 334) called the rapid expansion of welfare programs in the 1960s “welfare explosion”, which was “a political response to political disorder.” Post-democratization Korea also witnessed the explosion of welfare programs amidst political disorder in the late 1980s. First of all, the medical insurance coverage was amended a few times (1986-1989) to expand its coverage to all citizens including the urban self-employed and the rural population, and it became a universal healthcare system. The Industrial Accident Compensation Act and other labor-related laws and regulations were significantly amended in favor of workers. The Minimum Wage Act took effect in 1987, and the national pension program was finally implemented in 1988. Along with the introduction of the new system, coverage of existing welfare schemes was also improved as shown in Table IV-3.

Table IV-3. The growth of social insurance coverage rate, 1990-1999 (in percent)

<table>
<thead>
<tr>
<th>Year</th>
<th>Pension&lt;sup&gt;(1)&lt;/sup&gt;</th>
<th>Healthcare&lt;sup&gt;(2)&lt;/sup&gt;</th>
<th>Unemployment&lt;sup&gt;(3)&lt;/sup&gt;</th>
<th>Work Injury&lt;sup&gt;(4)&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>31.4</td>
<td>100</td>
<td>-</td>
<td>65.8</td>
</tr>
<tr>
<td>1991</td>
<td>31.4</td>
<td>100</td>
<td>-</td>
<td>69.1</td>
</tr>
<tr>
<td>1992</td>
<td>32.3</td>
<td>100</td>
<td>-</td>
<td>61.5</td>
</tr>
<tr>
<td>1993</td>
<td>32.7</td>
<td>100</td>
<td>-</td>
<td>60.5</td>
</tr>
<tr>
<td>1994</td>
<td>33.2</td>
<td>100</td>
<td>-</td>
<td>63.4</td>
</tr>
<tr>
<td>1995</td>
<td>41.3</td>
<td>100</td>
<td>30.7</td>
<td>68.8</td>
</tr>
<tr>
<td>1996</td>
<td>41.5</td>
<td>100</td>
<td>30.7</td>
<td>71.1</td>
</tr>
<tr>
<td>1997</td>
<td>43.7</td>
<td>100</td>
<td>31.8</td>
<td>71.8</td>
</tr>
<tr>
<td>1998</td>
<td>44.7</td>
<td>100</td>
<td>51.8</td>
<td>66.1</td>
</tr>
<tr>
<td>1999</td>
<td>75.8</td>
<td>100</td>
<td>70.0</td>
<td>79.7&lt;sup&gt;(5)&lt;/sup&gt;</td>
</tr>
</tbody>
</table>

Notes: (1) contributors/labor force; (2) contributors/population; (3) contributors/total employees; (4) contributors/total employees as of 1995; (5) forecast for 2000

Source: Yang, J. (2000, 244).

Scholars defined this post-1987 expansion as “welfare explosion” caused by the various social movements for democratization (Kim and Sŏng 1993, 331; KSSI 2000. 30; Ahn and Lee 2005, 177; Fiori and Aspalter 2006, 30; Hwang, G. 2006, 152; Haggard and Kaufman 2008, 229; Chŏng 2009, 145-147). What these observations neglect is that the expansion of welfare programs around 1987 had already been scheduled to be implemented by the authoritarian regime. The growth rate of social expenditures during
this period was far from explosive, given the negligible spending level in the 1980s, as appeared in Figure IV-2.

The military-origin presidents in the 1980s and the early 1990s, i.e., Chun Doo Hwan and Roh Tae Woo, supported various social welfare programs largely in an effort to bolster their popular bases and to offset shaky political legitimacy. Roh Tae Woo in particular, paid good attention to welfare provision due in part to the scheduled 1988 Seoul Olympic Games and in part to rising popular unrest after democratization. He even employed very radical ideas in housing policy such as the “public concept of land ownership” (t’oji konggaenyŏm), which restricted the exercise of property rights by defining land as a public entity in order to regulate the housing market, and the “2 million new housing provision project” (chut’aek 200-manho könsŏl) in an effort to provide low-cost housing.

The “explosion” was short-lived anyway. The growth of social spending in the early 1990s was barely noticeable, and the welfare budget of the Ministry of Welfare actually decreased under the first civilian president, Kim Young Sam (1993-1998), for the first time in the contemporary history of Korea (KSSI 2000, 32; Ahn and Lee 2005, 179-180; Yang J. 2008a, 340-341). One of the self-claimed achievements, the completion of the “four social insurance programs” (4-dae pohŏm) with the enactment of the Employment Insurance Act (koyong pohŏmbŏp) in 1995, had already been on schedule by the previous administration, in August 1991 precisely (Yu, Yi, and Choi 2005, 47). President Kim and his policy staff had fundamentally conservative views on welfare issues. He frequent used the words “Korean disease” (Han’gukbyŏng), dubbing “English disease.” His real intention
of the enforcement of the employment insurance program was to have Korea bestowed with OECD membership during his term (Ahn and Lee 2005, 179; Yi, H-k. 2006, 57-59). It was also aimed to relieve the employers’ burden to support the company welfare system. Thus this policy was wholeheartedly endorsed by the FKI while it faced stark opposition from labor unions (Song 2003, 413).

Another notable event related to welfare development during the Kim Young Sam administration was the enactment of the “Public Capital Management Fund Act” (kong’gong chaquam kwalli kigumbop, PCMFA hereafter) in 1994, which stipulated that the balance of the state welfare funds, including all public pension funds, should be deposited to the public capital management fund (PCMF). The PCMF was managed by the Ministry of Finance (Chaemubu) under the oversight of the Management Committee of Public Capital Management Fund, headed by the Minister of EPB. This allowed the funds to be appropriated for the government’s public investment and loan programs (KSSI 2000, 32; c.f. MGL, no. 4677). In 1994 and 1995, 75.8 percent of the national pension fund investment was transferred to the PCMF at 2 percent lower than the market interest rate, causing more than 300 million dollars of annual opportunity loss (Kyunghyang Shinmun May 17, 1997, 21).

In short, as the catchphrase of the Kim Young Sam administration, i.e., globalization (segeyhwa), symbolizes, the first civilian-origin president placed a higher priority on pushing the national economy up to the level of advanced countries, which he believed would provide rationale for his other political agendas. Unlike his predecessor, President Kim Young Sam viewed welfare policies as a necessary cost to pass the “international standard” test to get OECD membership. The major breakthrough was thus made after the financial crisis, as will be discussed in the following section.

Welfare Expansion in the Era of Welfare Retrenchment

In the winter of 1997, the Korean government declared a de facto financial moratorium and announced a list of reform plans as terms of requesting emergency relief funds, or stand-by credit, from the International Monetary Fund (IMF hereafter). The entire country was swirled into sweeping reforms both in the public and private sectors. The crisis helped Kim Dae-jung’s National Congress of New Politics (saejôngch‘i kungmin hoeuí) come to power, breaking the long-lasting conservative rule since the military coup of 1961.

Kim Dae-jung’s social policy can be summarized as “a continuous expansion of the recipient, coverage, and state budgetary support” with updated goals, instruments, and institutions to achieve the “universality of social protection to the entire population” (Song 2003, 425). As shown in Figure IV-3, the social expenditure per head in Korea was rapidly raised for the two years following the financial crisis from $644.2 to $1,074.2.
First of all, the employment insurance scheme and the industrial accident compensation insurance were expanded to all workplaces with more than one employee, meaning virtually to all workplaces. A clause on the “protection of the state of motherhood” (mosŏng poho) was inserted to the employment insurance to provide extra welfare benefits including paid parental leave. Second, the government expanded the coverage of national pension to all citizens, including even the urban self-employed in 1999. The National Basic Living Security Act (kungmin kich’o saenghwal pojangbŏp, NBLSA hereafter) also took effect in 1999. In addition, the National Health Insurance Act was enacted in an effort to unify the medical insurance programs.

Amongst these, the most notable event was the enactment of the NBLSA. It was first initiated by an alliance of 45 civic groups petitioning to reform the mediocre provision by the existing Livelihood Protection Act. The government then installed a provisional committee to draft a new bill (Yu, Yi, and Choe 2005, 50-51). What warrants attention is not the extended benefit per se but the way in which it was legislated. When the civic groups petitioned to expand social security benefits, the bureaucracy confronted the plan apprehending fiscal deficit and administrative difficulties (Kyunghyang Shinmun July 20, 1999, 12; Shimizu 2008, 243). The president was, as usual, the key player in the stalemate. In the middle of 1999, President Kim Dae-jung held a press conference announcing that he would add “productive welfare” to his administration’s two governing principles, i.e., parallel development of democracy and market economy (Maeil Kyungje June 26, 1999, 4). The pro-democracy notion was a rhetorical tool to distinguish the new party from the conservative majority, and the pro-market idea was an ideological thrust.
to push economic reform. The productive welfare was a response to growing popular demand for more social security under stiffening financial conditions. Simultaneously, the President was compelled to offer a visible outcome of the productive welfare rhetoric before the upcoming legislative election. He thus ordered the government agencies, which had been opposing welfare expansion, to draft a welfare expansion bill. His welfare drive also aided him in garnering support from civil society in forming a new political party. The timely advancement of civil society groups advocating welfare issues offered a suitable venue to build a welfare coalition with them (Ringgen et al. 2011, 94).

The revised bill for the NBLSA greatly relaxed its eligibility requirements to increase beneficiaries. It also eased conditionality on the work-capable population to mobilize the beneficiaries in major public works. In other words, the productive welfare public assistance was distinguishable from its Western counterpart, i.e., workfare programs, in that it was not a measure for welfare retrenchment but a solid way to extend welfare benefits (Yi and Lee 2005, 161-162).

The notion of productive welfare (saengsanjŏk pokchi) was not Kim Dae-jung's own invention. It was officially mentioned as one of the five principles in the former president Kim Young Sam's speech on the “Vision for the Globalization of the Quality-of-Life” (salmŭi chil ŭi segyehwa kusang) in March 1995, which envisioned “investment-like welfare programs provided on the condition of recipient’s self-help and self-reliance (chaju chajo)” (Kyunghyang Shinmun March 24, 1995, 1, 3; see also Yang J. 2008, 340). The productive welfare in Korea, or DJ Welfarism, was in line with his predecessor’s invention. President Kim Dae-jung (PCQ 2000, ix-x) stated that the foundation of the DJ welfarism is to “cater to the demands of sustained economic growth, while providing for the sharing of economic prosperity among all citizens.” He continued:

The productive welfare policy rejects the simple notion of passively protecting the poor and the disadvantaged by merely giving them money. Passive welfare does not elevate a recipient’s sense of self-worth nor does the simple giving of alms create opportunities for economic and social advancement. A more proactive approach to welfare is for the government to provide the means for self-improvement and, ultimately, self-support. (PCQ 2000, x)

Among other things, productive welfarism rested on the firm principle of “welfare through work.” However, it also underscored various, and sometimes contradicting, ideas such as social solidarity, participation, individual freedom, decentralization, etc. Thus, some scholars found a thick shadow of Confucianism whereas others observed “rather old-fashioned, government-interventionist welfare” or the “legacy of growth-first ideology” in productive welfarism (e.g., Gilbert 2004; Cho, W. 2005; Park, Y. 2008). Hints of neo-liberal workfarism and the “residual welfare model” as well as “Scandinavian social democratic” elements were even discovered by many commentators (e.g., Park, Y. 2009, 543; Kim, Y-H. 2003; Kuhnle 2004).
Without a doubt, welfare expansion after the financial crisis was the government’s productivist response to the crisis and “an attempt to bolster industrial competitiveness and economic growth” (Kwon and Holliday 2007, 248). A variety of ideas, however, were mingled into DJ Welfarism, most of which were provided by the intellectuals of civil society. Behind the rhetoric, the instrumental welfarism was up and going, as well demonstrated by the pension fund problem.

This instrumental aspect of the pension system was visibly exposed by the government’s borrowing from the national pension reserve fund. Since 1988 when the national pension program was introduced, the government extensively borrowed more than half of the total fund by 1996 and it reached up to 75 percent in 1998. The interest rate was significantly lower than the market rate which greatly undermined the fund’s long-term financial soundness (Shin, D. 2000, 97-98).

The Kim Dae-jung government did not correct the practice but continued to heavily borrow from the fund to pay for its post-crisis recovery measures at much lower interest rates as Table IV-4 indicates.

Table IV-4. Performance of the public capital management fund, 1994-1999

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<tbody>
<tr>
<td>Annual loss*</td>
<td>-4.5</td>
<td>-24.1</td>
<td>-130</td>
<td>-163.2</td>
<td>-103.0</td>
<td>-849.7</td>
<td>-1,274.5</td>
</tr>
<tr>
<td>Interest rates differential to prime lending rate</td>
<td>-2.1%</td>
<td>-0.97%</td>
<td>-1.86%</td>
<td>-1.37%</td>
<td>-0.56%</td>
<td>-3.1%</td>
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* 1 billion Korean won (800 thousand to 1 million US dollars, approximately).

Source: Hankyoreh Shinmun (January 26, 2001, 14).

The pension fund served as the government’s pocket money since the enactment of the aforementioned PCMFA. The government borrowed a total of 42.36 trillion won from the national pension fund between 1994 and 2000 but it only repaid 5.18 trillion won in 1999 and 2000 (Korea Times, January 26, 2001). Despite the reform of its governance structure, i.e., partial liberalization, the national pension fund is still the most frequently used tool by the government to defend stock or foreign-exchange market collapses.

**Participatory Welfare under Participatory Government**

The following Roh Moo-hyun administration’s welfare policies were basically in line with the previous regime in terms of gradual welfare expansion with a focus on employment. One of the top twelve policy goals was “to improve participatory welfare and quality of life” by:
• Developing a full-fledged national healthcare system;
• Promoting national welfare with focus on guaranteeing minimum livelihood, childcare, and support for senior citizens and the handicapped;
• Creating a prosperous and stable society;
• Stabilizing housing prices and improving the quality of housing; and
• Improving living conditions for rural and fishing population (OTP)

These goals would necessarily entail the increase of social spending, so financial agencies expressed objections to these goals. Regarding healthcare reform, resistance from the Korea Employers Federation (Han’guk kyŏngyŏngja ch’onghyŏphoe; KEF hereafter) and the KFTU were apprehended (16th PTC 2003, 191-192). As usual, the government bureaus’ objection was not an issue in Korea. The real issue was the resistance from the society, considering the catchword of the new administration, viz. “participatory government.” The Presidential Commission for Policy Planning (Taet’ongryŏng chamun chŏngch’aek kihoek wiwŏnhoe, PCPP hereafter) stated that the limited implementation of participatory welfare policies was largely due to the unchanging nature and structure of labor unions and political parties (quoted in Kabumoto 2009, 26).

Participatory welfare was thus exposed to the problem of technocratic knowledge and ideological goals in social policymaking. In other words, the political executives relied on civil society’s welfare professionals to set the agenda and policy goals while they also depended on the economic bureaucracy for its implementation as the government had to keep up with its macro-economic goals (Kim, Y-s. 2009, 178-179).

Between the increasing demands of society and the government’s fiscal limitation, the Roh administration’s social policies became a mix of neo-liberal economic principles and social-democratic ideas. It necessarily generated continuous policy conflicts and competition among agencies (Kim, Y-s. 2009, 177-178), as is succinctly shown in the spending pattern of Figure IV-4. The figure also demonstrates a continuing increase of the welfare budget. In fact, in 2004 welfare spending finally overtook economic budget (Yang J. 2008, 344-345).

However, the central concern for the government was the striking numbers of the growing aged population and the plummeting birthrate. Although President Roh had pledged to expand welfare benefits since the election campaign period, the government was compelled to initiate reform on the old-age related welfare programs at its earliest possibility, because the previous regime had delayed the imposition of the reform. In particular, the pension entitlement had become more accessible during the previous administrations in order to cope with soaring unemployment (Fiori and Aspalter 2006, 37), which aggravated the situation. Reform was unavoidable but so also was the society’s disgruntlement in the participatory welfare regime.
Figure IV-4. Changes in government budget composition, 1997-2009

**Budget amount (in 1 trillion KRW)**

- General administration
- Public safety
- Housing and community development
- Health and welfare
- Defense
- Education
- Others
- Economy

**Ratio of budget items in general account budget (in percentage)**

- Economy
- Education
- Health and welfare
- Others
- Housing and community development
- Public safety

*Source: MSF, Aggregated fiscal statistics.*
3. Instrumental Welfarism and the Hollow-out of the Welfare Bureaucracy

*Politics at the Center of Welfare Provision*

Throughout the developmental era, welfare programs were regarded by the government as a “secondary regulatory ruling device” (Ahn and Lee 2005, 170). The persistent problem of the authoritarian regimes’ lack of legitimacy led them to utilize welfare programs. To this end, given the lack of available government resources, the government intervened deeply into society to mobilize and extract resources. This further led the government to rely on society’s voluntarism for welfare provision (Kim, T. 2008), as similar to the Japanese case. Unlike Japan, however, the instrumental use of welfare policies has always been explicit and handled directly by the political elite because of the abovementioned problem of limited political legitimacy. In other words, the top political elite set welfare goals such as an introduction of a new program or expansion of certain benefits, and the welfare bureaucracy took care of follow-up measures.

The instrumental aspect of welfare provision created two problems in the functioning of welfare bureaucracy. First, it significantly undermined the agenda setting capacity of the welfare bureaucracy. The welfare policymaking during the authoritarian era was strictly confined to the policy circles surrounding the president and his aides, either in the bureaucracy or in the political parties. The official welfare bureaucracy, let alone the legislature, had a limited role in policymaking as well addressed in the cases of the implementation of pension and healthcare system. The welfare bureaucracy, although they did draft and propose some welfare policies, frequently had to take care of top-down political “orders” against its rational goals.

Second, since the welfare bureaucracy’s policies had frequently been overruled by political decisions, the welfare bureaucracy had to rely on “presidential blessing” (Kwon, H. 2005b, 36) in case it sought to carry through a specific policy agenda of its own, as we have gone over in the previous section on the implementation of the NWP program. If it failed to get the president’s endorsement on an issue of stark intra-governmental conflict, the entire bureaucracy could be in organizational jeopardy. This rapidly and substantially politicized welfare policymaking.

For instance, when the MHSA endeavored to reform the healthcare system in the early 1980s, there were policy conflicts between the so-called integrationists (*t'onghap-pa*) who upheld unified healthcare system and the associationists (*chohapjuŭi-pa*) who subscribed to the existing association-based system. The then Minister Ch’ŏn Myŏng-gi, who had been an opposition party lawmaker in the Health and Social Affairs Standing Committee during the previous Park regime, endorsed the integrationists to create a unified healthcare system. However, the associationists composed mainly of economic bureaucrats, persuaded the then President Chun, arguing that the existing system would be more suitable for maintaining low government responsibility. Since the regime’s primary goal at that time was to stabilize the economy and curb inflation, it won the...
regime’s “blessing.” The impact of the president decision was fast and strong enough to replace the stubborn Minister Ch’ŏn with a female lawmaker who did not have any social policy experience. The integrationists in the MHSA were all soon purged, leaving the agency to associationists’ hands for more than a decade (Wŏn 2006; Cho, Y-j. 2008a, 84-85).

The nature of the welfare state thus depended on the top political leader’s policy preferences. During the authoritarian developmental era, the economic bureaucracy largely had superiority over the welfare bureaucracy because of the top political leader’s economy-first policy principle. This resulted in the principle of conservative public finance with limited welfare spending (Chŏng, M-g. 2009, 133). Welfare expansions were considered as long as they were viewed to have positive relations with economic growth, as in the case of the NWP and the Industrial Accident Compensation Act. Thus limited eligibility and selectivism became the key traits of the welfare system in the 1970s (Ahn and Lee 2006, 173). When political legitimization came to have top priority in the mid-1980s, welfare programs were rapidly expanded whenever there was a political crisis. Welfare bureaucracy in Korea did not and could not have a chance to proactively respond to the social demand.

This instrumental welfarism also brought about changes in the bureaucracy-society relationship. For instance, once the welfare bureaucracy was ordered to install a national health insurance program, the welfare bureaucracy had to work with the business sector where company-based medical care had been provided to employees. To accomplish the mission, the welfare bureaucracy requested the business circle, the FKI in particular, to participate in the drafting of the medical insurance program. Businesses complied with the welfare bureaucracy’s proposal of 50:50 sharing of the welfare cost, but they asked for effective control over the premiums and government subsidies, thinking that it could be used as companies’ savings for investment (Choe, S. 2006, 48-50). The insurance scheme in practice, was accumulating a substantial amount of surplus funds as the total revenues were always greater than spending. In 1981 for instance, the accumulated surplus funds were roughly equivalent to the total spending of the year (Park, C. K. 1991, 346).

The FKI therefore provided money, spaces, personnel, and so forth for this healthcare plan. The first chairman of the Federation of Korean Medical Insurance Societies (ŭiryo pohŏm yŏnhaphoe), was the founding member of the FKI, Kim Ip-sam, and its office was located inside the FKI building. Although the health insurance program before the merger in 2000 was a state welfare program where half of the premium was paid by the government, i.e., tax revenue, each medical insurance society (ŭiryo pohŏm chohap) was under the complete control of individual companies. In other words, the medical insurance program was a national welfare program managed by company welfare programs (Chŏng M-g. 2009, 143).

This example illustrates what happened to the bureaucracy-society relationship in implementing politically imposed welfare tasks. The lack of government capacity and resources at the onset of welfare expansion in tandem with political pressure upon the
welfare bureaucracy, made the bureaucracy rely on the private sector. While this state-society interdependence developed into a state-society welfare partnership in Japan, it significantly undercut the bureaucratic autonomy in Korea since accomplishing the politically imposed instrumental welfare goal became the ultimate goal of the welfare bureaucracy instead of its own social policy goals.

**Democracy, Civil Society, and the Welfare Policymaking**

Democratization also made a significant impact in welfare policymaking. Originally, interest groups were deliberately excluded in policymaking unless the state needed to mobilize them for political reasons. The government frequently installed a deliberation council to justify the policy causes of the state. Although interest groups and bureaucrats were appointed as members of such councils, their influences were minuscule. In many cases, these deliberative councils simply worked as rubber stamps without a meaningful deliberation process (Kim, Y.-m. 2005, 130-132, 151-152).

However, democratization significantly increased the influence of civil society in the state’s governance mechanism. The influence of democratization, by nature, spread from formal representation channels such as political parties, the legislature, and the president. This centrality of politics in welfare policymaking had significant ramifications after democratization as it opened the window of opportunity for interest groups to compete for preferential policies. Given the weakening autonomy of welfare bureaucracy, it is far from extraordinary to guess that society would attempt to influence bureaucracy via politics.

The shaky base of the welfare bureaucracy’s autonomy surfaced when multiple interest groups competed for bureaucratic decisions as in the cases of: the creation of a unified health insurance scheme in 1998-2000 (see Kwon, S. 2003; Wŏn 2006); the dispute over the pharmaceutical and payment reforms in 2000 (see Kwon and Reich 2005, 1017-1910); the conflict over the separation of dispensary from medical practice between the Korean Pharmaceutical Association and the Korean Medical Association (An, B.-c. 2002). In particular, the herbal pharmacy license dispute between the Association of Korean Oriental Medicine and the Korean Pharmaceutical Association lasted for three years from 1993 to 1996, replacing three MOHW ministers (see Pak, S.-p. 2000; Ha 2005).

Meanwhile, the role of civil society organizations, Citizens’ Coalition for Economic Justice (kyŏngje chŏng'ŭi silch’ŏn simin yŏnhap, CCEJ hereafter), People’s Solidarity for Participatory Democracy (ch’amyŏyŏndae, PSPD hereafter), and Korean Confederation of Trade Unions (chŏn’guk minju nodong chohap ch’ongyŏnmaeng, KCTU hereafter) among others, in setting the welfare policy agenda and providing rationale of the new administration’s policy significantly expanded (Kim, Y.-m. 141-142). Their claimed nature of pursuing public-interest and political neutrality empowered them more than other traditional interest groups such as the FKI, the KEF, the KFTU, etc. The democratically elected presidents relied on policy advice from these civil society organizations. A number of their representatives were directly appointed as high-profile government officials.
One good example to show the increasing influence of civil society is the legislation of the abovementioned NBLSA. The PSPD initiated a movement to provide minimum welfare for the needy in 1998 amidst the post-crisis economic turmoil. The PSPD formed an alliance with other social organizations to submit a petition to the NA. Unfortunately, the bill was shelved at the Legislative Review Subcommittee due mainly to opposition from government agencies. The civil society groups thus formed a larger network organization, Solidarity for the Legislation of the NBLSA (kungmin kich'o saenghwal pochangpŏp chejŏng ch’ujin yŏndae hoeŭi, Solidarity hereafter), with 28 participating group representatives to break the deadlock. It was, however, not the Solidarity’s months of demonstrations and meetings with political parties and government representatives, but President Kim Dae-jung’s speech in June 1999 that restarted debate on the bill. His appointment of Ch’a Hŭng-bong, a social welfare professor, to the Minister of the MOHW in May was the prelude for President Kim’s direct engagement in the issue (Wŏn, S. 2006, 171). Also, one of the active members of the Solidarity, Shin Pil-kyun, was made a Secretary to the President for Civil Affairs in July 1999 (An, B-y. 2000, 32). The government agencies’ objections got noticeably weaker after the speech, and the bill was passed on August 12, 1999 subsequently (Kim, Y-s. 2005, 102-106).

Once passed, however, the NBLSA did not function as expected. The government agencies were in discord in almost every aspect of the bill and attempted to keep their bureaucratic interests and turfs. Solidarity’s influence was markedly waning in the process of establishing ministerial enforcement decrees and rules. Solidarity was split on tactical issues, and the president, whose political goal had already been attained by the legislation of the NBLSA, did not intervene in the matter any further. The following year’s general election, which motivated the president’s intervention, turned out to be a major political defeat which significantly impaired his power. Under this situation, the medical-pharmaceutical controversy arose and the government was not able to effectively handle the conflict of interests (Kwon, H. 2005b, 45).

This case demonstrates the characteristics of welfare politics and the role of civil society. First, civil society was mobilized to influence the policymaking procedure. In the legislation of the NBLSA, Solidarity’s activities heavily relied on two elite activists, a religious leader (Rev. Song Kyŏng-yong of the Anglican Church of Korea) and a professor (Mun Chin-yŏng of Sogang University), the former for networking and mobilization and the latter for policy proposal (An, B-y. 2000, 26-27). Rev. Song had a wide and dense personal network with high-profile political leaders of the ruling party and Prof. Mun was one of the founding members of PSPD. The dependence on the ruling-party’s friendly activist and the PSPD’s policy brain later contributed to the split of the Solidarity as some participating groups of the Solidarity objected to their views. In this civil society movement, although they were mainly mobilized by intellectuals and activists with knowledge of welfare issues, it was hard to define them as welfare professionals (Kim, S-y. 2006, 66).

Since democratization, welfare policy has become one of the major policy agendas in every presidential and legislative election (Kim, S. 2004, 230). At the same time, the
number of social groups that advocated particular welfare policies in favor of their own interests multiplied as state welfare programs expanded. Their mounting pressure on government policymaking has become one of the primary variables to explain policy outcomes. The increasing influence and participation of civil society in government policymaking was indeed one of the major achievements of democratization in Korea, and it has often been praised as social partnership, solidarity, or social concertation (Yang, J. 2010). The unintended consequence was the significant politicization of welfare issues (Kabumoto 2009, 25-26), which accelerated the hollowing-out of the welfare bureaucracy.

**Politicization and De-professionalization of Policy Agenda**

The most noticeable impact of instrumental welfarism and democratization in welfare policymaking was politicization and de-professionalization of agenda. While welfare bureaucrats played a significant role in the development of Korean welfare system during the developmental era, it was the top political leaders who made the critical decisions. In the developmental situation where social policy issues were subordinated to economic agenda, the most effective means for welfare bureaucrats to attain their goals was to get the top political leader’s support. Most of the “victories” of welfare bureaucracy against economic agencies, e.g., the introduction of the medical insurance and the legislation of the NWP Act, were made possible by the president’s personal support. When opposition political parties attempted to pass the bill for unifying medical insurance programs, it was also the president that vetoed it because of the welfare bureaucracy’s recommendation (Kim J-d. 2011, 80-81).

Democratization completed changed the scene. The president did not play a guardian’s role for the bureaucracy. Ministers of MOHW were forced to step down after the abovementioned disputes among interest groups. The most dramatic was the herbal pharmacy license dispute which led the resignation of three MOHW ministers (Dong-A Ilbo May 16, 1995, 1; August 9, 1996, 2). When Minister Sŏ Sang-mok was replaced by Yi Sŏng-ho in 1996, both the Association of Korean Oriental Medicine (AKOM) and the Korean Pharmaceutical Association (KPA) published statements expressing their concerns and expectations as the former was known to be pro-AKOM and the latter, pro-KPA (Kyunghyang Shinmun May 17, 1995, 23). The society swiftly mobilized itself for welfare expansion. Welfare advocate organizations were formed to submit petitions to government agencies, to the legislature, and directly to the president (see the list at Ringen et al. 2011, 67-68). In the case of healthcare system unification, the integrationists as well as the associationists formed a network organization to advocate their claims and influence policy results. Since the first thing that Minister Ch’a, a staunch integrationist, did when he assumed office was to expel the associationists from major posts in the MOHW, Kim Jong-dae, the senior leader of the MOHW’s associationist faction, resigned and then joined forces with enterprise medical insurance society unions to protest the decision (Wŏn, S. 2006, 172).
Also, there has been a major shift in the composition of welfare policy entrepreneurs. The birth of welfare programs were mostly devised by a handful of professionals including progressive medical doctors working in the government deliberative committees. They were gradually replaced by professionals in government research institutes such as the Korea Development Institute (KDI) inter alia, throughout the 1980s and the 1990s. The progressive governments since the late 1990s sought for policy discontinuation from the preceding conservatives and relied on professionals participating in civil society organizations (KSSI 2000, 44). To the government, the rising new civil society must have been very attractive as the “new citizens” were free from vested interest in the reform target. These civic groups became the policy entrepreneurs in the post-democratization arena (Ringen et al. 2011, 86-88) despite their lack of professionalism and technical expertise.

The consequence of this de-professionalization of welfare policymaking is well addressed in the dispute between the Korean Medical Association (KMA) and the Korean Pharmaceutical Association (KPA). When civil society leaders urged the KMA and the KPA to sign the agreement, the payment system reform was left untouched. The civil society representatives only aimed to induce a grand political compromise between the interest groups on the issues of financing and pharmaceutical reforms which did not require much technical knowledge to understand (Kwon and Reich 2005, 1014). The problems of the complicated payment system for medical services were simply neglected or approached from moral standpoints. Needless to say, the role of the welfare bureaucracy, the bearer of technical knowledge, was strictly limited in this situation, and thus, welfare bureaucracy only played an administrative role in implementing follow-up measures (Kwon and Reich 2005, 1014-1015).

4. Consequences of the Political Welfare Policymaking

The Bureaucracy between the Society and the Politics

The East Asian welfare model, due to the different phases of democratization and economic difficulties in the process of welfare state formation, has clear differences from its Western counterparts in that it emphasizes role-sharing between the government and the private sector (Kamimura 2006, 327-328). However, the ways in which they shared welfare roles have brought different consequences.

In Japan, the welfare bureaucracy has been at the center of setting the welfare agenda. Whenever political needs arose, the welfare bureaucracy was eager to translate them into welfare policies by giving burdens to society. Policymaking was strictly confined under bureaucratic jurisdictions. For this, the welfare bureaucracy had to proactively respond to social demands.
On the contrary, the welfare programs were the best vehicle for authoritarian regimes to underpin their support bases. To this end, welfare services should be delivered directly by the state, despite the government’s limited capabilities. The welfare bureaucracy had to mobilize the society but it did this under strong political pressure, which made it vulnerable to the society’s penetration into the bureaucratic decision making process. Policymaking was politicized and bureaucratic autonomy was undermined. Democratization was the catalyst of this trend. Therefore, although welfare provisions were shared between the government and society both in Japan and Korea, the state of Korea became more and more responsible for welfare provision while the state and society in Japan has built a bureaucratically controlled welfare partnership.

A snapshot view on the Korean people’s perception on the state welfare is well addressed in a survey conducted in 1997.

Figure IV-5. Attitude to the state’s responsibility for individual welfare around the financial crisis

As shown in the Figure IV-5, an absolute majority of people believed that the state was primarily responsible for welfare provision after the economic crisis. A recent survey conducted in 2007 also shows people’s view of the state’s primary responsibility for welfare issues (see Figure IV-6). Only less than 2 percent of respondents said the state is not responsible for welfare issues.

**Paradox of the State-Centered Welfare**

Each regime has developed rhetorical notions of welfare politics such as Kim Dae-jung’s “productive welfare,” Roh Moo-hyun’s “social investment state,” and the current Lee Myung bak administration’s “active welfare.” These all take root in the restructuring of welfare state in Western Europe, *inter alia* Tony Blair’s “the third way” rhetoric (Kim, S-w. 2009, 28). In other words, they originated from the debate on restructuring welfare programs in matured welfare states.
Unfortunately, in terms of its welfare capacity, the Korean state has been and still is mediocre compared to other developed countries as illustrated in Figure IV-2 of the foregoing section. Despite past administrations’ emphases on welfare provision through active labor market programs (ALMPs), the current employment insurance program has
been suffering from serious understaffing and lack of financial support (Lee, J. 2009) as addressed in Table IV-5.

Table IV-5. Korea state’s welfare capacity in active labor market programs (ALMPs), 1998-2004

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<tr>
<th></th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>ALMPs expenditures*</td>
<td>1,627,392</td>
<td>3,265,765</td>
<td>2,313,351</td>
<td>1,428,834</td>
<td>1,342,498</td>
<td>931,917</td>
<td>940,505</td>
</tr>
<tr>
<td>Number of Employment</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Security Centers (ESCs)</td>
<td>99</td>
<td>122</td>
<td>126</td>
<td>168</td>
<td>166</td>
<td>155</td>
<td>130</td>
</tr>
<tr>
<td>Number of ESC staff</td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Total</td>
<td>2,050</td>
<td>2,661</td>
<td>2,436</td>
<td>2,497</td>
<td>2,364</td>
<td>2,367</td>
<td>2,383</td>
</tr>
<tr>
<td>Public employees</td>
<td>754</td>
<td>786</td>
<td>517</td>
<td>548</td>
<td>543</td>
<td>603</td>
<td>642</td>
</tr>
<tr>
<td>Civilian job counselors</td>
<td>1,296</td>
<td>1,875</td>
<td>1,919</td>
<td>1,949</td>
<td>1,821</td>
<td>1,764</td>
<td>1,741</td>
</tr>
</tbody>
</table>

* 1 million Korean won.
Sources: Lee, J. (2009, 284); OECD.iLibrary.

The low social spending by no means denotes low social demand. In practice, the government’s low social spending has been compensated by extraordinary high voluntary private welfare programs. The per capita amount of life insurance in force has hiked in the past decades, more than double of the per capita income. This means that, as shown in Table IV-7, Korean people have been paying more private life insurance premium than direct tax, i.e., more on so-called “self-help welfare” or “informal welfare” (Nam 2008) than the state welfare.

Table IV-6. Comparison of Korean people's tax payment and life insurance premium, 1993-2006

<table>
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<tr>
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<tbody>
<tr>
<td>National tax</td>
<td>36,374.7</td>
<td>63,645.9</td>
<td>96,616.6</td>
<td>130,260.9</td>
</tr>
<tr>
<td>Internal tax total</td>
<td>34,174.6</td>
<td>52,153.1</td>
<td>82,225.9</td>
<td>113,879.5</td>
</tr>
<tr>
<td>Direct tax total</td>
<td>16,413.8</td>
<td>25,620.1</td>
<td>39,261.7</td>
<td>62,794.3</td>
</tr>
<tr>
<td>Income tax</td>
<td>9,462.8</td>
<td>14,867.9</td>
<td>19,160.5</td>
<td>31,004.3</td>
</tr>
<tr>
<td>Corporate tax</td>
<td>5,862.3</td>
<td>9,424.7</td>
<td>19,243.1</td>
<td>29,362.2</td>
</tr>
<tr>
<td>Indirect tax total</td>
<td>17,368.6</td>
<td>25,364.7</td>
<td>40,605.6</td>
<td>47,928.1</td>
</tr>
<tr>
<td>Value added tax</td>
<td>11,687.5</td>
<td>19,488.0</td>
<td>31,608.8</td>
<td>38,092.9</td>
</tr>
<tr>
<td>Total life insurance premium</td>
<td>24,053.4</td>
<td>48,955.9</td>
<td>49,067.0</td>
<td>66,454.9</td>
</tr>
</tbody>
</table>

Note: Figures are in billion Korean won.
Source: Nam (2008).

Korean people's high private insurance subscription rates, which is exceptional compared to the OECD averages (see Table IV-7), indicates that there is a strong social
demand for welfare programs. It also indicates that the Korean people’s ability and willingness to share welfare costs must not be very low.

Table IV-7. Private insurance penetration rate and per GDP ratio (in percent)

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</thead>
<tbody>
<tr>
<td><strong>Private insurance penetration rate</strong></td>
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<td></td>
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</tr>
<tr>
<td>Korea</td>
<td>10.2</td>
<td>11.0</td>
<td>11.2</td>
<td>11.7</td>
<td>13.8</td>
<td>11.6</td>
<td>11.8</td>
<td>10.6</td>
<td>10.2</td>
<td>9.8</td>
<td>9.8</td>
<td>10.7</td>
</tr>
<tr>
<td>OECD</td>
<td>-</td>
<td>8.4</td>
<td>7.8</td>
<td>8.3</td>
<td>8.4</td>
<td>8.7</td>
<td>9.1</td>
<td>8.9</td>
<td>8.4</td>
<td>9.3</td>
<td>9.2</td>
<td>9.1</td>
</tr>
<tr>
<td><strong>Per GDP ratio</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Korea</td>
<td>230.2</td>
<td>231.7</td>
<td>227.3</td>
<td>197.2</td>
<td>138.0</td>
<td>130.0</td>
<td>142.5</td>
<td>136.5</td>
<td>139.4</td>
<td>124.6</td>
<td>112.7</td>
<td>118.4</td>
</tr>
<tr>
<td>OECD</td>
<td>-</td>
<td>37.4</td>
<td>34.6</td>
<td>37.0</td>
<td>37.5</td>
<td>38.3</td>
<td>40.9</td>
<td>39.2</td>
<td>35.8</td>
<td>39.0</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Nam (2008).

In sum, there has been mismatch between social demand and state provision of welfare. People are willing to pay for their old-age security but the state’s welfare program has been suffering from distrust. The relationship between the welfare state’s transformation and the current problems of the welfare program will be discussed further in detail in the chapters to come with a specific focus on the national pension program.

So far, we have discussed the development of welfare system in Japan and Korea. Both of them roughly fall into the category of developmental welfare state characterized by the higher policy priority on economic development than social welfare, which has resulted in low welfare expenditures and high reliance on society for welfare provisions. They, however, show crucial differences in terms of the state-society relationship. In Japan, the state has proactively intervened in society to achieve developmental welfarist goals. On the contrary, Korea’s similar intervention strategy ended up making society more dependent on the state for welfare provision. In other words, similar interventionist states concluded a state-society partnership with bureaucratic control in one country and a hollowed-out of bureaucracy with a politicized society in the other, largely due to the bureaucracy-politics relationship during the developmental era.

The following chapters will discuss the political implications of these different aspects of state-society relations. The research will discuss cases of recent pension reform initiatives where the Japanese and Korean states took on similar political tasks and faced similar social challenges, yet generated different reform outcomes. Before moving on to the main analysis of the pension reform case, some social and political background and the overview of the pension reforms will be briefly presented below.
V. PROACTIVE BUREAUCRACY AND PENSION REFORMS IN JAPAN

1. Development of Pension System in Japan

Origins of Pension System

The Japanese pension system traces its roots back to the Meiji period when the government introduced a pension scheme (onkyū) for Navy servicemen in 1875 (kaigun tainrei), for Army servicemen in 1876 (rikugun onkyūrei), and for government officials in 1884 (kanri onkyūrei). Separate pension schemes for other public employee groups such as police officers and teachers were established as well. These schemes were integrated into the Public Servants Pension by the enactment of the Public Servants Pension Act (onkyūhō) in 1923 (MHW 1975, 1.2.2.1). The basic premise of these public pension schemes was to have the state as an employer to provide compensation to the public employees and their bereaved in the form of severance pay or end-of-service benefits (taishoku teate) when they retired, got sick, or deceased (MIC). As the Public Servants Pension was not applied to all publicly employed personnel, those who worked in the public sector but were not under the Public Servants Pension’s coverage were organized into the Public Service Industry Mutual Aid Association (kangyō kyōsai kumiai).

In fact, the Mutual Aid Association (kyōsai kumiai, MAA hereafter) was first formed in Kanebo, Ltd. (kanegafuchi böseki kabushiki kaisha) in 1905 (Saguchi 1977, 51). The MAA system spread rapidly across industries, even to the public sector employees such as railroad and postal workers (kangyō kyōsai kumiai). The MAAs in certain public sectors were subsidized by the government, which demonstrates the selective and unequal nature of the traditional social security system in Japan. Without state regulation and subsidization, these MAAs were little more than savings plans for their enrollees and thus could not function as a social insurance scheme (Saguchi 1977, 202-203). Benefit and contribution levels varied widely among companies. Even among the public sector MAAs, some groups, for instance seamen (Nihon kaiin kumiai, established in 1921), received special care from the state, as demonstrated by the legislation of the Mariners’ Insurance Act (senin hokenhō) in 1939, largely due to their military importance (Kasza 2006, 39). The military officials, needless to say, received preferential treatment, paying only one percent of their salary for pension contribution, half of what was paid by other enrollees in the Public Servant Pension scheme.

Reform in the private sector pension system was carried out in the midst of the Second World War, as part of the wartime mobilization. A unified pension scheme for private sector employees was applied to all male manual workers in 1941 under the Workers’ Pension Insurance (rōdōsha nenkin hoken) program. It was then expanded to female and office workers in 1944 under the Employees’ Pension Insurance (kōsei nenkin hoken, EPI hereafter) scheme, in an effort to secure the workforce and to increase
compulsory savings, as demonstrated by its exceptionally high contribution rate (Yokoyama and Tada 1991, 61; Choppel, Kuno, and Steinmo 2005, 24). Nearly all of the contributions were, without doubt, used to pay for the war and war-related activities (Kasza 2006, 40). Privileged benefits were given to specific groups of workers, such as miners for instance, for the sake of the war and industrialization.

After the war, SCAP sent a memorandum to the Japanese government to stop paying pension benefits to military officials and their families as it would help the militarists (Tanaka 1997, ch. 2). Thus, the government removed military officials from the list of the beneficiaries in the Public Servants Pension Act in February 1946. However, the Public Servants Pension Act survived in the form of noncontributory welfare programs for the retirees. The payment to military officials was suspended until resumed by the Japanese government in 1953 soon after the SCAP left (MIC). The prewar military officers and bureaucrats continued to enjoy the non-contributory benefits of the Public Servants Pension.

The original idea of the welfare bureaucracy in the postwar Japan was to create a unified pension system, given the disproportionately unequal benefit levels across job entitlements and statuses. Thus the SSSC published a memorandum recommending the implementation of a unified pension scheme for all citizens (Yokoyama and Tada 1991, 153). However, most of the public MAAs survived after the war and were integrated by the National Public Officers MAA Act (kokka kōmuin kyōsai kumiaihō) enacted in 1948 and then amended in 1958. Employees in quasi-public sectors such as public corporations, private schools, and agricultural cooperatives were enrolled in each of their own MAAs. Municipal government employees also established their MAA in 1962 (MHW 1975, 1.2.2.1). These MAAs were subsidized by the government budget.

The pension scheme for private sector employees also took the shape of the current employees’ pension program by the fundamental revision of the EPI Act in 1954, which expanded its coverage to all employees. This revision set the ground for the postwar pension system, meaning relatively generous benefits as a means of income redistribution based on the assumption of gradual economic growth (MLHW 2009a, 9-10).

In this situation, the primary goal became to ensure that every citizen was enrolled in a pension program. The Office of Policy Planning (kikakushitsu) was installed in the MHW to take charge of the introduction of a national pension system in 1955. Budgeting and staffing were carried through. The LDP adopted the introduction of a national pension as its campaign pledge for the 1958 election (Yokoyama and Tada 1991, 157). Finally, the National Pension System (kokumin nenkin, NPS hereafter) was enacted in 1959 which extended pension programs to the citizens who had not been covered either by public or private employees’ pension schemes, including farmers and the self-employed. For those who had already reached pensionable age or were too old to meet the contributory qualifications, a noncontributory, means-tested Welfare Pension (fukushi nenkin, WP hereafter) would be provided. In this so-called “age of pensions-for-all” (kokumin kainenkin no jidai), benefit levels, as well as premiums, were gradually
increased throughout the 1960s (Kasza 2006, 64). The Employees’ Pension Fund (kōsei nenkin kikin) was established in 1965 and the Farmers’ Pension Fund (nōgyōsha nenkin kikin) was added to the NPS in 1970. As of the early 1970s, a plethora of pension schemes coexisted as shown in Table V-1 below.

Table V-1. Varieties of Japanese pension programs around the 1970s

<table>
<thead>
<tr>
<th>Job criteria</th>
<th>Title</th>
<th>Legislation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Employed</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private sector</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regular employees</td>
<td>Employees’ pension</td>
<td>Employees’ Pension Insurance Act (1954)</td>
</tr>
<tr>
<td>Quasi-public sector</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Seamen</td>
<td>Mariners’ insurance</td>
<td>Mariners’ Insurance Act (1939)</td>
</tr>
<tr>
<td>Private school employees</td>
<td>MA(A) pension</td>
<td>MAAs of Agriculture, Forestry and Fishery Corporation Personnel Act (1958)</td>
</tr>
<tr>
<td>Agricultural, forestry, or fishing cooperatives employees</td>
<td>MA(A) pension</td>
<td>MAAs of Agriculture, Forestry and Fishery Corporation Personnel Act (1958)</td>
</tr>
<tr>
<td>Public sector</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prewar public officials and war veterans</td>
<td>Public servant pension (onkyū)</td>
<td>Public Servant Pension Act (1923)</td>
</tr>
<tr>
<td>Postwar government employees</td>
<td>MA(A) pension</td>
<td>National Public Officers MAA Act (1958)</td>
</tr>
<tr>
<td>Public corporation employees</td>
<td>MA(A) pension</td>
<td>Public Corporation Employees, etc. MAA Act (1956)</td>
</tr>
<tr>
<td>Municipal government employees</td>
<td>MA(A) pension</td>
<td>Local Public Officers, etc. MAA Act (1962)</td>
</tr>
<tr>
<td><strong>Non- or self-employed and day workers</strong></td>
<td>National pension or basic pension (kiso nenkin)</td>
<td>National Pension Act (1959)</td>
</tr>
<tr>
<td>Farmers</td>
<td>Farmers pension (noncompulsory)</td>
<td>Farmers’ Pension Fund Act (1970)</td>
</tr>
</tbody>
</table>

Note: Legislation year and translations based on the Ministry of Justice’s data (see MOJ).
Sources: Compiled from MHW (1975, 1.2.2.1) and Campbell (1992, 53-54).

Among these schemes, the public sector MAAs were characterized by “intense group interest representation and extreme administrative fragmentation—six ministries had jurisdiction over the various MAAs” (Campbell 1992, 335). Thus, until the National Railroad MAA (Nihon kokuyū tetsudō kyōsai kumiai), one of the companies under the application of the Public Corporation Employees, etc. MAA Act, nearly went bankrupt in the early 1980s, these MAAs had been out of the welfare bureaucracy’s attention. The EPI and the NPS were the primary policy objects of the MHW’s pension policy.

The introduction of NPS was somewhat hastily carried out mainly due to political reasons, i.e., the competition of LDP with the socialists, who drafted a universal pension
bill, before the general election of 1958 (Campbell 1992, 65). Thus, without much time to prepare, the original program simply set minimum, flat-rate contributions and benefit levels. Once installed, the welfare bureaucracy faced huge challenges in trying to make the program serve as an attractive, sustainable, fair, and working social insurance for its enrollees. The continuous increase of pension benefits was indeed a very attractive idea both to the bureaucracy and the LDP politicians.

**Politics-driven Pension Expansion**

Given the dismally low rates at the time of introduction, without much consideration, the contribution and benefit levels were expected to hike over time. In 1962, the SSSC stated that the current pension schemes would not help alleviate the economic problems of the retirees and the elderly (rōgo mondai) and recommended significant hike of benefit levels (Yokoyama and Tada 1991, 190). As, by law, the pension scheme was scheduled to be reviewed every five years, the first hike occurred with the first mandatory review performed in 1964. For the MHW’s field offices which were having hard time encouraging people’s NPS enrollment, this benefit hike was the best advertisement. Various exceptions to the pension requirements, e.g. shorter contribution history, were added to boost the enrollment rates—and the non-enrollees’ votes as well (Campbell 1992, 100). The EPI was also about to be raised due to economic prosperity which had pumped up wages. The Japan Federation of Employers’ Association (Nihon keieisha dantai rengō, Nikkeiren hereafter) expressed their concern of rising labor costs due to the hikes of the EPI and the lump sum severance pay (taishokukin), and suggested adjustments to the EPI and the company's own retirement programs. Labor however worried that their benefits would be out of their control because of the government control. The MHW mediated the conflict by allowing the labor's participation in the management of the pension fund and finally established the Employees’ Pension Fund (Yamazaki 1985, 186-189).

As a result, reflecting the rapid economic growth and inflation levels, EPI’s model pension benefit skyrocketed from 3,500 yen in 1964 to 20,000 yen in 1969 and its replacement rate—expected benefit’s ratio to average wage—leapt from 36 percent to 45 percent. The benefit payment levels also reached 10,000 yen in 1965, which then doubled in four years. Reviewing the NPS, there was an increasing consensus that the NPS should be balanced with the EPI in terms of benefit levels (Campbell 1992, 93). That is, the standard pension benefit for employees and the national pension benefit for married couples were both hiked to 20,000 yen in 1969. The non-contributory WP’s benefit level was also significantly raised upon political pressure from the beneficiary groups.

This was plainly unsustainable. For instance, with the 1969 benefit hike which was “balanced” to the EPI model pensioner, a couple enrolled in NPS could expect to receive 4,000 yen of supplemental payment (fuka nenkin) in addition to the 16,000 yen of regular benefit at the age of 65 by voluntarily contributing an extra 350 yen per month. Nonetheless, the continuing economic prosperity gave policymakers an unfounded optimism regarding the future of the pension system. The electoral victories of the LDP
against the progressives also justified the welfare expansion in the 1960s and the early 1970s. In addition, the “old people problem” that bombarded the media (Campbell 1992, 140-141) led to a continual expansion of benefits. Heralded by the declaration of the “beginning of the welfare state” (fukushi gannen) in 1973, the EPI enrollees witnessed their pensions reach 50,000 yen of monthly pension benefit levels, 60 percent of the replacement rate. Furthermore, this would also be scaled by consumer price and wage indices annually to compensate for any potential loss.

As the following Figure V-1 and Figure V-2 illustrate, the growth rate of the employees’ pension benefit outpaced those of average wage and consumer price index, on which the levels of pension contribution were hinged. The national pension was not exceptional as shown in the next figure. The benefit level of the NPS continued to grow just as rapidly as the EPI.

After the first Oil Shock, inflation hit Japan hard, followed by a rapid rise in wages (Yokoyama and Tada 1991, 204). As the pension benefit levels were tied to price levels, an automatic increase took effect. The dual hikes of price and wage shot the EPI benefit levels high, as shown in the above figure, up to 90,393 yen in 1976. NPS benefits were also substantially hiked to 65,000 yen, although it could not be balanced to the EPI due to fiscal reasons, in the same year. Contribution rates were also raised but at a significantly lower rate than the benefit hikes (Campbell 1992, 167-169).

Figure V-1. Trend of employees’ pension benefit, wage, and consumer price, 1970-1995

Note: Values are set to 100 in 1970.
Figure V-2. Trend of national pension benefit and consumer price, 1970-1995

Note: Values are set to 100 in 1970.

**Welfare Bureaucracy, Politicians, and Interest Groups**

In the early stages of the establishment of pension systems, the voice of the welfare bureaucracy was quite limited for several reasons. First of all, due to their short experience, welfare bureaucrats did not have sufficient knowledge of pension systems (Campbell 1992, 77). They had to rely on a handful of experts or refer to foreign experiences. As their familiarity was with the British system, it became their primary reference. Also, due to the ruling LDP’s fierce competition with opposition parties, the welfare bureaucracy was under strong pressure to provide concessions to the LDP’s major constituencies, which made the bureaucracy vulnerable to the influence of interest groups. The NPS was in fact on the LDP’s campaign agenda at the 1958 general election. Finally, the preexisting variety of pension programs had generated vested interests among politicians, social groups, and even government agencies.

The Pension Bureau of the MHW played “virtually no role” in the expansion of the WP (Campbell 1992, 154) while the LDP politicians claimed all the credit for the installment of its non-contributory, pork-barrel like, benefits. The MHW’s main target was to raise the EPI’s benefit levels to 60 percent, which was recommended by the International Labor Organization as the standard of advanced countries (Yokoyama and Tada 1991, 192-193; Campbell 1992, 156).

The socialists and the progressives strongly objected to the creation of the large-scale pension fund on the grounds that the money would be used for the conservative
political interest, *viz.* remilitarization (Campbell 1992, 164-165). To counter this argument, the government established the Pension Welfare Service Corporation (*nenkin fukushi jigyōdan*) and controlled its spending within welfare-related works such as building care centers and hospitals, which would ultimately serve the welfare bureaucracy’s interest by creating a good number of their post-retirement jobs. In addition, the welfare bureaucracy made the contribution and benefit levels hinged on the price and wage changes in an effort to prevent substantial politicization of the issues on the one hand and for the sake of technocratic convenience on the other. The labor was also united to raise their voice on the pension issue in the early 1970s. Since the enactment of the Employment Insurance Act in 1974, the business and the labor formed an implicit partnership on welfare issues and sought accommodation from the Diet together. (Anderson 1993, 69-72).

In short, a commentator named this welfare expansion as political-bureaucratic-business-labor cooperative system (*sei-kan-zai-rō kyōchō taisei*), which made all those interested parties happy. However, this rapid expansion created two potential problems: fiscal unsustainability and inequality across pension schemes (Yokoyama and Tada 1991, 194-201). Nonetheless, the pension programs momentarily worked perfectly and satisfied everyone as the Japanese economy grew rapidly enough to cover the mounting pension payments and raise benefits across-the-board. However, it would not take long to realize that the happy days were grounded on “rosy-colored assumptions about future economic growth” of the government (Campbell 1992, 171).

2. Problems of the Pension System

*Aging, Instability, and Inequality*

As the population grew older, the focus of pension shifted from preparing people for their old age life (*rōgo mondai*) to supporting the elderly (*rōjin mondai*) and responding to the problems of the aging of the society *per se* (*kōreika shakai mondai*). The analysis on the long-term population and economic forecasts in the late 1970s by the economic bureaucracy began to cast a shadow over the rosy assumptions of the Japanese welfare state (Campbell 1992, 313-316).

As shown in Figure V-3, the total population of Japan has steadily increased throughout the postwar period. However, after the peaks of the baby boom between 1947 and 1949, or the so-called *dankai generation*, the birth rate has continuously dwindled. That is, although the number of births has been relatively steady, the working-age population has accrued progressively. Since the absolute number of the elderly was quite small compared to the working-age population, the welfare expansion of 1960s and 1970s barely brought about immediate attention. The real problem was the rapidly expanding working-age cohorts, or soon-to-be pensioners. The immediate impact of the change was made to the fiscal stability of the pension programs.
As Table V-2 demonstrates, the financial condition of the two major pension schemes was relatively sound to cover all the payment requests in the 1960s and 1970s. However, in the EPI, the high dependence on interest income had the potential to cause serious problems once the economic growth cooled down and the interest rates went down. In addition, the series of revaluations on EPI finance, the ratio of reserve funds to payments turned out to be dissipating rapidly. It had been expected to be 2.6 percent in 2010 according to the 1973 revaluation, but was adjusted to 2.3 percent by the 1976 revaluation and then 0.01 percent by the 1980 revaluation. Desiccating reserve meant less and less interest income (Yamazaki 1988, 158-159). In the NPS, the increasing portion of tax-based treasury funding would bring substantial burden to the government budget. As the differential between income and payment was rapidly shrinking, it would soon become a “de facto pay-as-you-go scheme” (Yashiro 2001, 15) with a narrow buffer zone, which should eventually be sustained by the transfers from the government.

The fiscal instability fundamentally came primarily from the Japanese pension’s “miraculous system of high benefit with low burdens” (Noguchi 1986, 180), which inescapably would enlarge the difference between revenues and expenditures for the public pension programs. Even in a conservative estimate by the EPA in the early 1980s, the gap between social security benefits and contribution was expected to grow up to 10 percent in the 2000s (see Table V-3).
### Table V-2. Balance sheets of employees and national pensions, 1960-1981 (1 billion yen)

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<tr>
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<tbody>
<tr>
<td><strong>Employees’ Pension Insurance</strong></td>
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</tr>
<tr>
<td>Contribution</td>
<td>80.7</td>
<td>297.4</td>
<td>749.7</td>
<td>2,202.0</td>
<td>4,700.7</td>
</tr>
<tr>
<td>Treasury funding</td>
<td>2.8</td>
<td>8.1</td>
<td>33.0</td>
<td>173.8</td>
<td>572.7</td>
</tr>
<tr>
<td>Interest</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>0.7</td>
<td>1.3</td>
<td>2.8</td>
<td>10.2</td>
<td>12.5</td>
</tr>
<tr>
<td>Total</td>
<td>106.8</td>
<td>385.2</td>
<td>1,033.4</td>
<td>3,137.0</td>
<td>7,070.5</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>12.9</td>
<td>42.8</td>
<td>167.2</td>
<td>988.8</td>
<td>3,436.6</td>
</tr>
</tbody>
</table>

| **National Pension System** | | | | | |
| Income                  |       |      |      |      |      |
| Contribution            | 18.4  | 24.8 | 106.4| 369.1| 1,182.4|
| Treasury funding        | 11.6  | 14.6 | 39.4 | 211.3| 542.0 |
| Interest                | 0.5   | 10.3 | 39.1 | 109.3| 150.7 |
| Other                   | 0.0   | 0.0  | 0.0  | 2.1  | 32.7  |
| Total                   | 30.5  | 49.7 | 184.9| 693.8| 1,907.7|
| **Total expenses**      | 0.0   | 1.9  | 16.3 | 462.4| 1,597.8|

* NPS is 1961 data.


### Table V-3. Differences between benefits and contributions (in percentage to GDP)

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<tbody>
<tr>
<td>Social security benefits (A)</td>
<td>13.7</td>
<td>18.4</td>
<td>21.3</td>
<td>25.3</td>
<td>29.8</td>
<td>31.2</td>
</tr>
<tr>
<td>Public pensions (a)</td>
<td>4.8</td>
<td>8.7</td>
<td>11.1</td>
<td>13.8</td>
<td>17.1</td>
<td>17.1</td>
</tr>
<tr>
<td>Social security contributions (B)</td>
<td>10.1</td>
<td>11.2</td>
<td>11.6</td>
<td>15.6</td>
<td>19.0</td>
<td>21.4</td>
</tr>
<tr>
<td>Public pensions (b)</td>
<td>5.4</td>
<td>6.0</td>
<td>6.2</td>
<td>9.7</td>
<td>12.6</td>
<td>14.5</td>
</tr>
<tr>
<td>(B)-(A)</td>
<td>-3.6</td>
<td>-7.2</td>
<td>-9.7</td>
<td>-9.7</td>
<td>-10.8</td>
<td>-9.8</td>
</tr>
<tr>
<td>(b)-(a)</td>
<td>0.6</td>
<td>-2.7</td>
<td>-4.9</td>
<td>-4.1</td>
<td>-4.5</td>
<td>-2.6</td>
</tr>
</tbody>
</table>

Source: Edited from Noguchi (1986, 184).

Another problem was, as briefly noted before, the growing inequality among pension programs. The variety of pension programs have all different contribution and benefit structures, as well as varied government subsidy rates. The different retirement age was also a major problem to be rectified (Gould 1993, 39). The most generous program was the pension for municipal government employees. The other programs’ benefit ratios to the Municipal Public Employees MAA pension were as shown in Figure V-4.
Narrowing the gap was mostly achieved by introducing new programs to compensate for disadvantaged pensioners such as the Employees’ Pension Fund and Farmers’ Pension while raising the overall benefits of the programs. Despite the narrowing gap, there existed privileged pensioners while the benefit from the NPS was way too small. The labor especially protested the privileged treatment for the public employees’ pension schemes (Anderson 1993, 73). The SSSC and welfare bureaucracy believed that the only ways to address this problem would be to create a nationwide unified pension system.

The inequality also contributed to the declining confidence in the public pension system. The salaried workers in particular regarded social spending as a subsidy to the “unproductive but political powerful rural and small business interest” (Chopel, Kuno, and Steinmo 2005, 27).
**Maturing Reform Environment**

The first attempt to reform the pension system occurred in the late 1970s. The MHW installed research committees and councils to review the existing pension schemes. It was suggested that, considering the LDP’s as well as the opposition party’s request of continuous benefit hikes, the slowing down of the economy, and the strong objections of the economic bureaucracy to further welfare expansion, the normal pensionable age should be raised to 65. However, the LDP’s near defeat in the 1979 election, mostly due to the Ōhira administration’s consumption tax plan, rewound the clock (Campbell 1992, 326).

The urgency of the reform was basically rooted in the inherent fiscal instability of the public pension schemes. As noted above, the system assumed a steady and continuing growth of the economy, which began to stumble after its peak in the middle of the 1980s. The birthrate was dwindling much faster than the government’s projections, meaning a rapid decrease of future revenue to support ever-increasing pension payments. However, the development of the pension program could only be sustainable as long as the economy was continuously growing and the degree of the aging of society was moderate, both of which unfortunately were unattainable.

Since the introduction of new tax revenue and the welfare cut was thwarted, the government had to find a new way to carry through its reform plan. In line with the second SPCAR’s “fiscal reconstruction without a tax increase” the welfare bureaucracy drafted a pension reform blueprint focusing on two goals: fiscal stability and unifying pension schemes. Minor revisions were carried out without much resistance. The National Railroad MAA and other public employees’ MAAs were merged. Parametric adjustment was made to alleviate the financial burden caused by the inflation and wage increase (Yokoyama and Tada 1991, 314).

The most significant breakthrough was the 1985 revision in which basic old-age pension (ており延老金, OBP herefater) for all citizens was introduced. While it aimed to expand benefits to all citizens, it simultaneously served to subsidize the pension funds by their contribution. Thus all of the pension programs were reorganized into a two-tier multi-pillar system as illustrated in Figure V-5.

The 1985 pension reform also proposed to increase the pensionable age—the retirement age when contributors become eligible to receive benefits—of women for the employees’ pension program from 55 to 60. Four years later, college students were also compulsorily enrolled in the national pension program (MLHW 2009a, 10). Minor adjustments were scheduled in the coming revaluation years.

**Progressive Aging and the Bubble Burst**

The situation got worse, however, in the late 1980s when the asset price bubble was about to burst. Concurrent to the dwindling economic growth rate, the aging of society continued to proceed. Throughout the 1990s, the growth rates have never recovered the level of 1990 (see
As the progressive aging continued, Japan had the highest average age in the world.

**Figure V-5. Structure of public pension system in Japan**

- Employees’ Pension Fund (optional)
- Occupational addition
- National Pension Fund (optional)
- Employees’ Pension Insurance
- Mutual Aid Pension

National Pension (Old-Age Basic Pension)

- Self-employed, farmers, etc.
- Salaried workers
- Government and municipal officials, private teachers
- Spouses of the Category II insured

**Source:** Drawn from MHLW (2009b, 13-14).

**Figure V-6. Rates of GDP Growth and Aging Society, 1980-2000 (in percent)**

*Annual GDP growth rates in percentage
**Population over 65 in percentage to working age population

**Source:** OECD.iLibrary.
The dwindling economic growth posed a substantial threat to the Japanese pension system. As noted above, the NPS was substantially relying on interest income by investing the pension fund. The Japanese pension funds served as the constant, reliable and “patient” capital for the government’s developmental strategy (Estébez-Abe 2001; Park, G. 2004). To this end, profitability was of less importance than stability. Thus the economic slowdown directly influenced the operational profit levels of the pension funds. The rates of return to the pension funds were indeed quite low in comparison to the counterparts in other countries mainly due to the government’s strong regulation and conservative investment practices (Clark 1996, 68-69).

Figure V-7. Rates of return to pension funds in the U.S. and Japan, 1985-1992

![Rates of return to pension funds in the U.S. and Japan, 1985-1992](image)


A quick comparison with the U.S. pension fund (see Figure V-7) demonstrates that the return of the Japanese pension funds was stable but not highly profitable. Besides the subpar performance of the funds, the Pension Welfare Service Corporation’s mismanagement, such as its direct investment in various not-quite-profitable businesses was also criticized as being a means to provide welfare bureaucrats with post-retirement jobs (Kunieda 2002, 66-67). Although the NPS was maintained mainly by tax revenue, it was also directly hinged on the private sector’s economic performances as the amount of collected income and corporate tax dwindled.

The government’s demographic projections have revealed “a lower-than-expected fertility rate and a longer-than-anticipated life expectancy” since the 1990s (Kabe 2007, 74). As the table below succinctly demonstrates, the government’s population projections had to be modified every time they were estimated and new numbers came up. The aging of Japanese society progressed more quickly than the government’s projection as
addressed in Table V-4, and its impact would be pervasive unless appropriate adjustments were to be made immediately.


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<tbody>
<tr>
<td>1990</td>
<td>1.84%</td>
<td>1.54%</td>
<td>n.a.</td>
<td>11.9%</td>
<td>12.0%</td>
<td>n.a.</td>
</tr>
<tr>
<td>2000</td>
<td>1.96%</td>
<td>1.60%</td>
<td>1.38%</td>
<td>16.2%</td>
<td>16.7%</td>
<td>17.2%</td>
</tr>
<tr>
<td>2010</td>
<td>1.98%</td>
<td>1.78%</td>
<td>1.50%</td>
<td>19.9%</td>
<td>20.9%</td>
<td>22.0%</td>
</tr>
<tr>
<td>2020</td>
<td>1.99%</td>
<td>1.80%</td>
<td>1.59%</td>
<td>23.5%</td>
<td>25.2%</td>
<td>27.0%</td>
</tr>
<tr>
<td>2030</td>
<td>2.01%</td>
<td>1.82%</td>
<td>1.61%</td>
<td>23.0%</td>
<td>25.4%</td>
<td>28.0%</td>
</tr>
<tr>
<td>2040</td>
<td>2.02%</td>
<td>1.86%</td>
<td>1.61%</td>
<td>24.0%</td>
<td>27.3%</td>
<td>31.0%</td>
</tr>
<tr>
<td>2050</td>
<td>2.04%</td>
<td>1.91%</td>
<td>1.61%</td>
<td>23.4%</td>
<td>27.4%</td>
<td>32.3%</td>
</tr>
</tbody>
</table>


The unanticipated progressive aging translated directly into the government’s budget deficit since there was an increasing number pension recipients and decreasing number of taxpayers. In fact, the central government’s debt began to soar, partly because of the gradual increase of social expenditure. In particular, the social expenditure for old-age, both public and mandatory private, in percentage of GDP doubled from 3.1 percent in 1980 to 7.4 percent in 2000 (see Figure V-8).

Figure V-8. Ratio of government debt and social spending to GDP, 1980-2000 (in percent)

Source: OECD.StatExtracts
The abovementioned hike in social expenditure for old-age population was driven primarily by the skyrocketing pension expenditure as depicted in Figure V-9. A series of reform was inescapable.

Figure V-9. Trend of social expenditure by types, 1964-2003 (in 100 million yen)

![Figure V-9. Trend of social expenditure by types, 1964-2003 (in 100 million yen)](image)


As Figure V-10 indicates, the impact of the rising pension expenditures was detrimental for the Japanese government in its effort maintain its welfare system. Reform was not an option but a necessity overdue by the nexus of interests during the hyper-growth period.

Figure V-10. International Comparison of Social Expenditure Composition in 2003 (in percent)

![Figure V-10. International Comparison of Social Expenditure Composition in 2003 (in percent)](image)

3. Tailored Reform Attempts since the 1980s

Fundamental Reforms?

To cope with the shaky fiscal stability of the pension system, the MHW attempted to fix the problem by cutting benefits and raising the contributions of pension program enrollees. The MHW’s first attempt, as discussed in the foregoing sections, was to implement a pensionable age extension in 1979, which ended up a failure due to the political situation. The 1985 reform attempt achieved major success. First, the MHW was able to adjust benefit levels by extending the qualification period for full pension from 25 to 40 years. The age of pension eligibility was set at 65 for the newly introduced OBP. A more important achievement was the 5-year raise for male EPI enrollees from 55 to 60. Female enrollees were scheduled to be raised to 60 by 2000. However, the subsequent reform in 1989 was repudiated by the LDP which was critically injured by the consumption tax introduction in 1988 (Shinkawa 2001, 11; Nihon Keizai Shimbun April 20, 2002, 26).

In fact, the Japanese government employed various measures to sustain life-time employment since the 1970s to pass the welfare burdens to companies when the normal retirement age was 55. A majority of companies were in the process of extending the retirement age to 60 when the 1985 reform was initiated. Then another hike kicked in which widened the gap between retirement and pensionable ages. The rising discontent of both labor and the business were as clear as day (Shinkawa 2003, 27).

The collapse of the economic bubble threw Japan deep into a recession and the 1992 census projected a gloomy picture of Japanese demography. The welfare bureaucracy resumed the pension retrenchment attempt with a contribution hike from the current 14.5 percent of monthly income (excluding bonuses) to 29.8 percent—22.9 percent of annual wages including bonuses—by 2.5 percent incremental raises for every five years (Kabe 2007, 75). To this end, the MHW proposed to extend the normal pension age from 60 to 65 for only the fixed-rate portion (teigaku bubun) of the EPI scheme. As noted above, the pension premium was imposed not only on the regular wage but also on extra-salary income including bonus payments. This policy, sōhōshūsei, would come into full effect by another revision in 2003.

Oddly enough, society did not vehemently object but kept to “silence and compliance” (Shinkawa 2003, 28) mostly due to the political upheaval that occurred in the early 1990s. The LDP lost its majority at the 1993 election and the opposition parties excluding the communists formed a coalition government headed by Hosokawa Morihoro. Since the non-LDP coalition government’s primary goal was to pass the long overdue election reform bill, the pension reform got significantly lower attention. The labor and business also largely complied with the coalition government’s benefit cut proposal without much dissent (Takayama 1995, 46). Therefore, owing to the 1994 reform, the pensionable age was to be set at 65 both for the fixed-rate and for the proportional (remuneration-based) portions (hōshūhirei bubun) by 2000 (MLHW 2009a, 10).
However, adjusting the pensionable age was far short of rectifying the impending collapse of the pension programs. According to the scheme revised by the 1994 reform, the government subsidies were expected to rise from 3.9 trillion yen to 8.1 trillion yen in 2025 (Takayama 1995, 58). This was not sustainable without a substantial tax increase to inject sufficient funds to pension funds. Prime Minister Hosokawa in fact held a midnight press conference on February 3, 1994, announcing his plan to introduce a 7 percent welfare tax (kokumin fukushizei), which was repealed in five days. After Hosokawa’s resignation, the Murayama government subsequently proposed a 5 percent consumption tax increase bill and had it pass the legislature. From then on, there have been numerous attempts to revert the tax rate back to 3 percent, which clearly demonstrated the popular resistance to a tax increase even for the purpose of welfare expansion.

Nonetheless, the MHW recognized that a crisis would hit the pension scheme unless significant adjustments were made to the contribution and benefit rates. Consequently, in 1997, the MHW published a report entitled “Pension Reform: Five Options” where five potential options from keeping the current system to a complete privatization (MHW 1997a). These options were nothing but a presentation of different combinations of benefit and contribution levels to maintain the current pension system. The subsequently announced MHW’s “Three Plans” for pension reform was also all about the pension’s commencement year (Miyatake 2001, 18-19). As addressed below, manipulating benefit and contribution levels and adjusting pensionable ages in order to restore fiscal soundness of the pension programs was the underlying, and in a sense primary, guideline for the MHW bureaucrats whenever they handled pension problems.

Years later, the demographic projection and the government’s fiscal situation loomed even darker. More cuts in benefits and raises in contributions were proposed. EPI enrollees were supposed to pay 34.3 percent of their monthly salary, or 26.5 percent of annual wage including bonuses, by the year 2025 with 5 percent cuts in remuneration-based benefits. Finally, the EPI extended its coverage up to the 69 years old in an effort to collect insurance premiums from the working elderly (Kabe 2007, 76).

It was a series of “politically-painful decisions” to repeatedly push “politically-unpopular” reforms (Schoppa 2011, 206). According to an opinion survey conducted right before the 1999 reform, 56.1 percent opposed the reform bill. 55.8 percent of the respondent expressed their distrust of the public pension systems (Yomiuri Shimbun September 11, 1999, 31). Once the Diet passed the bill, it was heavily criticized by the labor unions, business circles, and the general public, all of the key constituencies of the political parties. Therefore, it could not but be carried through by the welfare bureaucracy, and it indeed was (Chapel, Kuno, and Steinmo 2005, 29). The MHW planned a far-reaching reform to make these painful reform measures automatic.

“Pension Problem”

Around the turn of a new century, the words “pension problem” was being widely circulated. According to the Yomiuri Shimbun database, the annual usage of the words in the titles of newspaper articles hit 53 times in 1998 and 47 times in 1999. It peaked in 2000
(91 times) and then disappeared (31 times in 2001 and 9 times in 2002). As briefly noted above, the welfare ministry approached it primarily from the perspective of fiscal sustainability, while the most popular concern regarding the pension system was the intergenerational inequality (Kunieda 2002, 60). However, as shown in various surveys, people's disenchantment with the pension system grew worse. Since the pension schemes changed mostly toward the ways in which benefits were reduced and contributions were raised whenever the government's demographic and fiscal projections turned out to be incorrect, there was rising concern that the collapse of the public pension system was imminent among the general public. It was aggravated by the outrageous intergenerational imbalance, or the fact that those who were born in 1930 received benefits worth five times their lifetime contributions and those who were born in 1950 got 50 percent more (Yashiro 2001, 15). In other words, more and more people believed that the pension system was not only unstable but also unfair. The intergenerational inequality greatly influenced the declining trust of Japanese people, *inter alia* younger generations needless to say.

It was well acknowledged that the problem originated from the overly generous benefits for the older cohorts has necessitated constant cuts in the benefits and raises in the contributions. While the cuts and raises of pension all impact the lives of people, the younger cohorts have to bear more negative financial burdens due to the quasi-PAYG structure of the Japanese pension system (Horioka 1999, 297-298). As noted, the PAYG system is more beneficial to current pensioners than to future pensioners on the grounds of progressive aging and decreases of benefits. This reported inequality between the active and retired citizens widened due to the persistent intergenerational transfer problems and a study demonstrated that the PAYG system's negative impact on the young and future generations was, regardless of the measures employed, unavoidable (Doi and Ihori 2009, 86-84).

Figure V-11. Survey response on the trust in public welfare in June 2003 (in percent)

![Figure V-11: Survey response on the trust in public welfare in June 2003 (in percent)](image)

Source: *Asahi Shimbun* (June 21, 2003).
As a result, a survey on the confidence in public welfare system projected a striking intergenerational difference as shown in Figure V-11.

The declining confidence in pension programs translated into the increasing number of people in arrears on contribution payments. In a survey in 1996, 66.3 percent of people who did not pay due contribution had either life insurance or private pension insurance (Miyatake 2001, 26). The number of default and nonpayment in pension contribution was rapidly increasing, which further aggravated the sustainability of the current pension schemes (Takegawa 2006, 88-90).

**Plan for another “Fundamental” Reform**

The Japanese economy did not show any significant signs of recovery but actually was on the verge of entering another long-term recession, which would last through the entire 1990s and 2000s. Economic stimulus packages tightened the government budget but the social expenditures increased due to the dismal performance of the Japanese pension funds. The corporate pensions were also suffering from significant underfunding problems due to the dismal performances (McLellan 2004, 12). The number of terminated EPI funds skyrocketed in the 2000s (see Figure V-12). In fact, the pension fund in Japan turned into a deficit in 2001 for the first time in its history. In the year 2003, Japan’s pension expenditure held almost half of the total social expenditure, which was larger than other advanced countries.

![Figure V-12. Number of terminated EPI funds, 1991-2002](source: McLellan (2004, 41).

Considering the aggravating problem of intergenerational imbalance of welfare burden, policymakers and experts embraced a call for reform of the existing PAYG system of pension throughout the 1990s. Experts argued that the PAYG system should be replaced by a mix of defined contribution (DC) system and private savings. Still, welfare
policymakers put more focus on raising contribution rates and reducing benefits (Peng 2008, 1036).

The reform attempts described above were politically dubbed in the slogan of “fundamental reform” (bappon kaikaku), literally meaning uprooting and replanting it. Despite such political rhetoric, the pension reforms during this period were primarily parametric and incremental. A raise in the OBP’s pensionable age by 5 years, implemented in 2001, would take 12 years to be completed (Yashiro 2001, 16). No serious consideration of changing the financing structure, which would necessarily touch upon political issues such as tax increase, was accomplished. Not only the fiscal health but also the popular support for the pension programs was at stake.

Another statutory financial revaluation was approaching in 2004 and the MHLW set a timetable for a public pension reform, as usual. The first step was to organize a council to deliberate the reform plan, as usual.
VI. HOLLOWED-OUT BUREAUCRACY AND PENSION REFORMS IN KOREA

1. Origins of Pension System in Korea

_Ideological Origins of Public Pension Programs_

The idea of giving pensions is a relatively new concept in Korea. During the Japanese colonial period, colonial rulers applied the Public Servant Pension (onkyū or ŭn'gūp) scheme in Korea just as they did in Japan. However, since there were very few high-ranking Korean officials in the colonial government, the word did not mean much in Korea. After liberation, the word “pension” first appeared in the draft bill of the State Public Officials Act (kukka kongmuwŏnbŏp) in 1948. It stated that “pension will be paid, per the guidelines stipulated by law, to those who retire after a fairly long time of diligent service, or to those who retire or deceased due to illness or injury while on duty” (Dong-A Ilbo November 18, 1948, 1). It was more a lump sum severance pay than the regular pension we know now.

Although enacted, the public officials’ pension program could not be implemented due to the extremely tight budget of the Korean government in the 1950s, during and after the Korean War. Instead, in 1952, the Korean government promulgated a special act to provide pension benefits to wounded veterans and policemen as well as families of military servicemen and policemen killed in action (chŏnmol kun’gyŏng yujok kwa sang’i kun’gyŏng yŏn’gŭmbŏp) (Dong-A Ilbo September 6, 1952, 2). Unfortunately, limited state capacity hampered government efforts to deliver pensions to beneficiaries (Dong-A Ilbo October 20, 1954).

The state began to effectively deliver pension benefits in 1960 after enacting an amendment to the State Public Officials Act which covered veterans under the Public Officials Pension. In 1962, the Military Relief Compensation Payment Act (kunsal wonho posangbŏp) replaced the aforementioned pension law for wounded and deceased veterans. One year later, the Veteran’s Pension Act (kunin yŏn’gŭmbŏp) came into force through the military government headed by General Park Chung Hee (Yu, Yi, and Ch’oe 2005, 57). Thereafter the word “pension” (yŏn’gŭm) referred to pensions for public officials as demonstrated by the facts that “pension fund” (yŏn’gŭm kigŭm) and “pension bank” (yŏn’gŭm ŭnhaeng) denoted government-sponsored financial institutions for public employees (Dong-A Ilbo March 21, 1970, 1, May 12, 1970, 1).

These pension programs were introduced primarily to provide compensation to those who served in government. The government politically demarcated the boundaries of beneficiaries, and the laws had provisions on the deprivation of pension benefits in case recipients were convicted, _inter alia_, by the National Security Act (kukka poanbŏp, enacted in 1948) or the Anti-Communist Activities Act (pan’gongbŏp, enacted in 1961), which was notorious for its arbitrary and political applications.
The pension programs nonetheless continued to expand into the private sector. In 1966, the MHSA planned to establish a retirement pension corporation (yŏn’gŭm kŏngsa) in order to secure retirement allowances, i.e., severance pay, for public employees as well as employees in private companies (Kyunghyang Shinmun January 5, 1966, 7). Subsequently, the MHSA drafted the Workers’ Pension Act (kŭlloja yŏn’gŭm pŏban) in 1968 (Kyunghyang Shinmun May 22, 1968, 7). The MHSA’s Endowment Insurance Program (yangro pohŏm) of 1969, however, did not pass (Kyunghyang Shinmun January 15, 1969, 7). The opposition New Democratic Party (shinmindang, NDP hereafter) also included a universal employees’ pension program in its party platform (Kyunghyang Shinmun May 21, 1969, 2), but the universal pension program was not realized due to its narrow defeat at the 1971 presidential election. The only new addition was for private schools—teachers in 1973 and employees in 1978—by the Ministry of Education (mun’gyobu).

**Capital Mobilization through Pension System**

Stunned by the political discontent shown at the 1971 election, President Park and the ruling Democratic Republican Party (minju konghwadang, DRP hereafter) sought to expand social welfare in tandem with a new developmental push into heavy-and-chemical industrialization (HCI hereafter).

**Figure VI-1. Domestic saving rate in Korea, 1965-1990**

![Graph showing domestic saving rate in Korea from 1965 to 1990. The graph displays a steady increase in savings rate over the years.](source)

Source: Pak and Yi (1997, 14).

Since the push for industrialization in the mid-1960s, Korea faced a strict dearth of capital due to low domestic savings. The government thus had to rely on an expansive
monetary policy which inflated domestic market prices and skyrocketed interest rates, especially in the curb market. In 1972, President Park issued an Emergency Decree on Economic Stability and Growth, the so-called “August 3rd Decree,” to enforce a three-year moratorium on curb market corporate loans in order to bail-out private companies in financial difficulties (Chang, H. 2006, 266-267). He did this also to take control of the flow of domestic capital. Domestic savings rates in the 1960s were already below 20 percent, but they fell again in 1971 to a mere 14.6 percent (see Figure VI-1). Park Chung Hee, who narrowly won his third presidential term in 1971 by revising the constitution, then inflamed Korean public unrest when he declared a state of emergency in order to make himself president for life. So Park desperately needed the capital and economic resuscitation to buttress his fading legitimacy. To this end, Park announced the HCI plan at the beginning of 1973 in an effort to achieve 10 billion dollars in exports and a 1,000 dollar per capita income by 1980.

At the National Assembly session, the EPB Minister said that the NWP program was launched after the months of covert deliberation among the representatives from government agencies, the KEF, the KFTU, the media and the academia, right after the President Park’s New Year’s speech on the introduction of the national pension system in Korea (Dong-A Ilbo, September 27, 1973, 2). Subsequently, President Park also ordered the Ministry of Finance (chaemubu) to mobilize private capital to invest in the government’s key industrialization projects, resulting in the enactment of the National Investment Fund Act (kungmin tuja kigŭmbŏp) in December 1973. The National Investment Fund Act sought “to set up the National Investment Fund and prescribe the matters necessary for its efficient employment, in order to raise and supply the investment and loanable funds, based on the extensive savings and participation of the people, which are necessary in promoting the foundation of key industries, such as heavy and chemical industries, and increasing the exports” (KLRI). Also stipulated was that the “fund created by the National Welfare Pension Act” should be deposited into the National Investment Fund.

The EPB made it public that the NWP bill, drafted by MHSA and the Labor Administration, would be finalized by the end of the year and put into effect in 1974 (Dong-A Ilbo June 25, 1973, 1). However, the plan to collect pension payments for HCI industrialization did not work as planned as only 3.3 percent of Korea’s population were elderly and as a majority of the population subsisted on a mere 400 dollar personal income (Yu, Yi, and Ch’oe 2005, 59-60).

**Beginning of the Fourteen Years Delay**

At the beginning of 1974, the President declared the Emergency Measure no. 3 to temporarily ease taxpayers’ burden by cutting income and corporate taxes as well as postponing the implementation of the NWP and the Private School Employees’ Pension for one year (Kyunghyang Shinmun January 14, 1974, 1). While the Private School Employee’s pension was scheduled to take effect in 1975 (Dong-A Ilbo November 20, 1974, 1), the NWP continued to be delayed, mainly due to the decrease of real income caused by rising commodity prices, which was adversely affecting low-income workers (Dong-A Ilbo
September 12, 1974, 2). The business sector argued to revise the NWP toward a way in which adding the government’s subsidy (Dong-A Ilbo September 17, 1974, 2). Finally, the MHSA minister announced that the implementation of NWP would be postponed until further notice considering the economic situation (Dong-A Ilbo, September 25, 1974, 1). The Act was amended to add a clause on the implementation date, to be determined by the presidential decree. The MHSA tentatively set the implementation date in 1977 with a lowered contribution rate (Dong-A Ilbo, September 26, 1975, 1; April 22, 1976, 7), but the EPB minister announced further delays (Dong-A Ilbo June 18, 1976, 1). The MHSA announced that it would be put into effect in 1980 (Dong-A Ilbo March 22, 1978, 7), but the EPB claimed that it could be impossible to bring it into force in the early 1980s (Dong-A Ilbo May 20, 1978, 2). Upon seeing the ruling DRP lawmakers request for the early implementation of the NWP program, the EPB Minister Nam Dŏk-wu responded: “Since we are not quite sure if both employers and the employees all agree on the NWP implementation, the government and the party should discuss this issue further” (Dong-A Ilbo March 24, 1978, 1). At the beginning of 1979, the government decided that the NWP would be put in force in 1981 and took steps to establish organizations and amend the law (Dong-A Ilbo January 30, 1979, 7).

However, the EPB suddenly changed its plan and reported to the president that NWP could be implemented as early as 1980, the next year (Dong-A Ilbo March 6, 7). This time the MHSA opposed it on the ground that there would be no time to prepare for such an abrupt implementation because the ministry was not ready. The fundamental reason of this sudden change of policy was the president’s push for the HCI in the wake of the Second Oil Crisis. Even before the NWP implementation plan was set, the EPB already allocated the use of the pension fund (Dong-A Ilbo February 9, 1979, 2). However, the impact of the energy crisis was also affecting the business sector, and the KEF claimed that the NWP plan should not be implemented without proper changes in the current retirement allowance system (Dong-A Ilbo May 18, 1979, 2). The labor strongly protested to the employers’ plan to integrate the retirement allowances and the NWP (Dong-A Ilbo, June 26, 1979 2). Finally, the government announced another delay in the implementation of the NWP to sometime in the 1980s (Dong-A Ilbo July 17, 1979, 7).

Months later, President Park was assassinated by one of his aides and a new military junta assumed power via the December 12th Coup. The Park Chung Hee regime’s polices and projects were reviewed and discarded, including the NWP. The interim government headed by the acting president Choi Kyu-ha, announced that the government would primarily endeavor to improve the existing system without introducing new welfare programs in a near future (Dong-A Ilbo December 17, 1979, 7). The leader of the new military junta, General Chun Doo Hwan, assumed power and had himself elected president in August 1980. The new government stated that no plan for the NWP implementation would be set for the time being (Dong-A Ilbo October 25, 1980, 7).

President Chun dissolved all political parties including the DRP and established his own Democratic Justice Party (minju chŏng’ŭidang, DJP hereafter). The DJP declared that the new regime’s goal would be to build a “righteous democratic welfare state” (Dong-A Ilbo December 2, 1980, 1). It published a pamphlet entitled “Designs for Welfare
State in the New Age” (saesidae pokchi kukka ŭi sŏlgye), illustrating the plans for welfare expansion including the NWP implementation in 1983 (Kyunghyang Shinmun February 10, 1981, 2). One of the government think tanks, the Korea Development Institute (Han'guk kaebal yŏn'guwŏn, KDI hereafter), also submitted a report claiming that the NWP would be a better option than the current company-based retirement allowances for businesses and employees since it would be managed by the government and thus free from bankruptcy unlike individual companies’ retirement fund reserves (Dong-A Ilbo, February 23, 1981, 2). The report also projected that the NWP fund would serve as a reliable and stable financial source for the government (see Table VI-1).

Table VI-1. Projection of the balance of the national welfare pension fund estimated in 1981

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Enrollees (thousands)</td>
<td>2,930</td>
<td>4,740</td>
<td>6,765</td>
</tr>
<tr>
<td>Income</td>
<td>216.4</td>
<td>920.7</td>
<td>3,692.0</td>
</tr>
<tr>
<td>Premium</td>
<td>216.4</td>
<td>614.7</td>
<td>1,698.6</td>
</tr>
<tr>
<td>Interest</td>
<td></td>
<td>306.0</td>
<td>1,993.4</td>
</tr>
<tr>
<td>Expenses</td>
<td>10.8</td>
<td>59.0</td>
<td>261.6</td>
</tr>
<tr>
<td>Benefit payment</td>
<td></td>
<td>21.2</td>
<td>164.6</td>
</tr>
<tr>
<td>Operation cost</td>
<td>10.8</td>
<td>30.7</td>
<td>76.4</td>
</tr>
<tr>
<td>Annual net profit</td>
<td>205.6</td>
<td>861.7</td>
<td>3,430.4</td>
</tr>
<tr>
<td><strong>Fund balance</strong></td>
<td>205.6</td>
<td>2,391.5</td>
<td>13,397.5</td>
</tr>
</tbody>
</table>

*Note: Figures in 1 billion won.*

*Source: Dong-A Ilbo (February 23, 1981, 2).*

It of course did not take long to find that the projection was too rosy. However, it demonstrated that the government was seriously considering the implementation of the long delayed NWP program. Finally the government announced that the NWP would be brought into force by 1986. The only obstacle was the objection from the business sector and the labor force (Dong-A Ilbo October 20, 1982, 2).

As the Seoul Olympic Games were approaching, the government planned to join the OECD at the earliest possible date and, to this end, to develop welfare systems to meet the OECD qualifications. The EPB officially announced that it would make the NWP ready for implementation by the end of 1983 (Dong-A Ilbo, January 25, 1983, 1). However, the global economic slowdown and the welfare retrenchment influenced the Korean policymakers as well. The government thus decided to postpone the commencement to the next five-year socioeconomic development plan period; that is, sometime after 1987 (Dong-A Ilbo November 16, 1983, 1).
2. Development of National Pension System

_National Welfare Pension to National Pension System_

In August 1984, the government installed the Preparatory Committee for the Implementation of the National Welfare Pension (kungmin pokchi yŏn’gyum silsi chunbi wiwŏnhoe) with the aim of launching the pension program within the 1980s (Dong-A Ilbo, August 7, 1984, 2). The preparatory committee was composed of 15 members including the minister of MHSA (Chair), deputy ministers of 7 government agencies, business and labor representatives, and five academic representatives. At the first meeting in September, the committee set the commencement date between 1987 and 1991 (Dong-A Ilbo, September 13, 1984, 2). The developmental aspect of the pension scheme was also at play. The government unveiled the plan to overtly utilize pension funds in development projects by borrowing them into the government’s budget account (Dong-A Ilbo, September 2, 1985, 2).

Figure VI-2. Major indicators of the Korean economy, 1980-1985

<table>
<thead>
<tr>
<th>Year</th>
<th>Account balance</th>
<th>GDP growth rate</th>
<th>Consumer price index</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>-$5.3bn</td>
<td>-28.7%</td>
<td>8.7%</td>
</tr>
<tr>
<td>1981</td>
<td>-$4.7bn</td>
<td>-21.6%</td>
<td>5.9%</td>
</tr>
<tr>
<td>1982</td>
<td>-$2.7bn</td>
<td>7.4%</td>
<td>7.2%</td>
</tr>
<tr>
<td>1983</td>
<td>-$1.6bn</td>
<td>3.4%</td>
<td>9.3%</td>
</tr>
<tr>
<td>1984</td>
<td>-$1.4bn</td>
<td>2.3%</td>
<td>7.0%</td>
</tr>
<tr>
<td>1985</td>
<td>-$0.9bn</td>
<td>2.5%</td>
<td>7.0%</td>
</tr>
</tbody>
</table>


Time was ripe for the implementation. As appeared in Figure VI-2, the government’s fiscal condition was getting better and reaching an almost balanced budget. The price level, which had been one of the technical causes of the delays of NWP—because high inflation rate could cause resistance to a compulsory savings scheme like pension—rapidly stabilized. Simultaneously, the labor disputes were gradually increasing again while income inequality was also growing continuously through the early 1980s (see
Figure VI-3, which prompted the political circles to contemplate measures to mitigate potential political tension.

While the preparatory committee took care of technical details of the NWP program, it was the DJP that determined the implementation timeframe. Before the general election in 1985, the DJP pledged that the NWP would be put into force by as late as 1989 (Dong-A Ilbo February 16, 1985, 9). The EPB, which was working on drafting the sixth five-year socioeconomic development plan, confirmed that the national pension system would begin in 1989 (Dong-A Ilbo July 8, 1985, 5). The welfare bureaucracy also undertook the groundwork for the launch of the decade-delayed NWP program. In July, the EPB came up with a draft plan enforcing employees’ pension scheme for all workplaces with more than 10 employees. The draft pension scheme had 40 percent replacement rates and 7 percent contributions rates (4 percent employers’ portion) with a minimum 20 years of premium paying period for full pension qualification at the age of 60 (Maeil Kyungje Shinmun July 6, 1985, 2). Next year, the KDI finalized the NWP implementation proposal and submitted to the preparatory committee which set the program to begin in 1988, one year prior to the initial plan (Dong-A Ilbo June 12, 1986, 1). It revised the contribution rates of the original plan in a way which gradually increase it from 2.5 percent to 10 percent by 2000. The government also proclaimed that the pension funds would primarily be allocated to the welfare-related public works such as public housing projects.

The business sector largely confronted the implementation of the NWP because the plan retained the existing retirement allowance system. Basically, employers believed that the pension system was an extra burden for the businesses in addition to the current
statutory retirement allowance system. Thus they argued that the new pension scheme should be integrated into the severance payment scheme or the current statutory status of the retirement allowance should be repealed. They did however know that this kind of anti-labor measure would not be accepted by the political leaders. Thus they asserted that the pension fund should be managed by those who pay the contribution, i.e., the companies unless the government substantially subsidized the program. The KEF suggested establishing an independent public corporation to manage the fund (Dong-A Ilbo November 28, 1984, 1).

Nevertheless, President Chun was determined to carry out the NWP implementation plan and announced that it would take effect in 1988 as scheduled. In addition, he pronounced that extra welfare provisions such as universal health care and minimum wage, or the so-called “three welfare laws” (sam-dae pokchi ipbŏp), were on their way (Dong-A Ilbo August 11, 1986, 3). The government and the DJP subsequently publicized the Comprehensive Measures for National Welfare on September 1, 1986, addressing a series of welfare expansions in the coming years including universal healthcare and minimum wage in an effort to garner popular support at the time of regime succession (Kyunghyang Shinmun September 2, 1986, 1-2). The Chun administration advertised that these welfare expansions would help make Korea one of the advanced countries in five years (Maeil Kyungje Shinmun September 16, 3). The DJP controlled legislature passed the new year’s budget reflecting 100 percent of the welfare expansion proposals (Kyunghyang Shinmun December 2, 1986, 5). Finally, the National Pension Act (kungmin yŏngumbŏp) passed the National Assembly on December 17, 1986, with the enforcement date of January 1, 1988.

In 1987, President Chun’s plan to appoint his successor under the current constitution’s indirect presidential election system was toppled by mass protest, the June Uprising. Chun and his political circle conceded and a direct presidential election was scheduled to be held in December. All presidential candidates pledged to expand welfare benefits, without doubt. Newly elected president Roh Tae Woo declared the year 1988 would be the “first-year of welfare” (pokchi wŏnnyŏn) underscoring the launch of the national pension system (Kyunghyang Shinmun January 1, 1988, 23).

Ironically, although the first year of welfare commenced with the national welfare pension, the revised law was simply named National Pension Act, crossing out the word “welfare” since “the word welfare connotes something benevolent which is not suitable for the pension scheme fundamentally maintained by the program enrollees’ contributions” (NPS 2008. 60). Certainly, pension is a social insurance program in which enrollees’ participation and contribution is essential. However, people simply believed that they would receive benefits from the state after retirement just like public assistance programs.

**Colliding Meanings of Pension**

The delay in the implementation of the pension system was largely due to the lack of political decisiveness and unfavorable economic conditions. However, the conflicting
perception of the pension was also an impeding block for the development of pension system in Korea. In a nutshell, the society viewed pension as a direct benefit from the state while the state regarded it as the society’s contribution to the state. In other words, it was perceived as a sort of public assistance to citizens while as a social insurance to the state. It also resulted in the change of name from the national welfare pension to national pension system in the 1980s.

The word “pension” in Korea is yŏn'gŭm, literally meaning “annual” (yŏn) “pay” (gŭm), a concept closer to the word “annuity.” Thus, to Korean people, pension simply meant that money is paid in installment, not in lump sum, for the rest of their life. When the NWP was first legislated, it was widely advertised that “the right to receive pension benefits continues throughout your life time” (Kyunghyang Shinmun November 8, 1973, 4). When sports pension (ch’eyuk yŏn’gŭm) was given to national athletes who enhanced “national prestige” by winning medals at international sports competitions, people were interested what they would do with the “lifetime salaries” (Dong-A Ilbo January 6, 1976, 4). The selling point of the private pension insurance introduced in the late 1970s was also its lifetime benefit: “live longer, more benefits” (Maeil Kyungje Shinmun, February 27, 1979, 8). Receiving pension meant that you were entitled to receive a lifetime benefit.

This perception originated from the fact that pensions in Korea had traditionally been only for the privileged state and quasi-state groups: military servicemen, veterans, state officials, public and private school (including colleges and universities) employees, and so forth. Also provided were the national athletes and high-profile public officials, including presidents. The National Assembly had persistently endeavored to introduce a pension system without success (see Dong-A Ilbo February 26, 1966, 1; November 21, 1968, 2; June 19, 1975, 2; January 26, 1979, 4; December 11, 1984, 2; December 20, 1990, 22) on the popular ground that they do not deserve more tax money after retirement. Thus they had to devise a leeway by installing a statutory organization for former lawmakers, the Constitutional Government Society (hŏnjŏnhoe), and have it pay pensions to its members. In short, the pension had been considered a “lifetime compensation” for the service for the state.

What these pension programs have in common is their heavy, or complete in some programs, dependence on government subsidies. Thus, despite its social insurance nature, the NWP had, from its beginning, been fundamentally considered welfare benefits provided by the state. When the NWP scheme was first announce in the early 1970s, there was a popular opposition, not only to the high contribution rates but, to the lack of substantial government subsidies (Dong-A Ilbo September 29, 1). The opposition NDP protested claiming that the money should not be mobilized for the government’s HCI plan and the state should “substantially subsidize” it, as much as a “half of the employees’ contribution” (Dong-A Ilbo November 8, 1973, 1). The KFTU also argued that the bill should include more “government subsidies” and “benefit raise equal to the public employees’ pension” (Dong-A Ilbo, November 28, 1973, 2). The state however did not make much effort to have people understand its social insurance nature largely because it would have made it difficult to implement the program. When the MHSA announced the blueprint for the construction of the welfare state, the Minster stated that, “by
introducing the retirement pension scheme, we will have all workers receive retirement benefits with government subsidies, regardless of the size of their workplaces, to realize a perfect social security system in our country” (author’s emphases) in 1972 (Kyunghyang Shinmun November 15, 1972, 1). The use of the word “insurance” was thus strictly avoided in contemplating public pension schemes.

Thus, when it was publicly known that there would be no government subsidies, the NWP plan was severely criticized. Opponents claimed that “the government is playing a benevolent state with people's own money” (Dong-A Ilbo November 24, 1973, 3). Although the legislature, both the ruling and the opposition parties, strongly urged the government to provide substantial amount of subsidies, around 25 percent but at least more than 15 percent, the government accepted only a one percent subsidy to those who live below poverty line (Dong-A Ilbo November 28, 1973, 3). There was a popular demand that the state should provide subsidies to the national welfare pension but the government determined not to do that on the ground that the government budget was too tight and it would bring about tax increases (Dong-A Ilbo November 8, 1973, 3).

Since it was regarded as an extra benefit from the state, the labor force also vehemently opposed the idea of integrating retirement allowances with the NWP since the retirement allowance, or the lump sum severance pay, was regarded as “deferred salary” (hubul imgŭm) as it was stipulated in the Labor Standard Act (Dong-A Ilbo March 18, 1971, 2). Thus, in the late 1973 when the National Welfare Pension Act was promulgated and scheduled to take effect with the beginning of a new year, there was a rush of workers’ retirement as they worried they might not receive their lump sum retirement benefits. So the Labor Administration (nodongch’ŏng) had to release an urgent message that “retirement allowance is a salary that its payment is simply deferred” and “it has nothing to do with the national welfare pension” (Maeil Kyungje Shinmun December 14, 1973, 4). In other words, the workers saw that to give the severance pay in a form of pension payment, viz. monthly installment, would mean a delay in due payment or salary curtailment given the high nominal interest rates.

While the implementation of the NWP was being delayed due to the lack of government budget, the government planned to introduce private pension insurance programs, maintained completely by enrollees’ premiums, of which performances such as interest rates and payments would be guaranteed by the government. The first type of private pension insurance was made by the Ministry of Finance in the name of Lifetime Pension Insurance (chongsin yŏn’gŭm pohŏm) in 1979 (Maeil Kyungje Shinmun January 27, 1979, 1). Simultaneously the government attempted to privatize the NWP by amending the law into a national pension insurance act (Maeil Kyungje Shinmun February 23, 1979, 1; Kyunghyang Shinmun January 16, 1985, 5).

The introduction of private pension scheme reinforced the idea of a national pension as state benefits because people believed that the NWP should be different from the private pension programs that anyone could subscribe with his/her own money. It later, in the middle of 1990s (see Kim, S-g. 2010, 136-144), contributed to the precipitating confidence in the national pension system when the private insurance companies were
sitting their products by advertising the instability of the government pensions since the
general public believed that the national pension programs would provide more benefits
beyond their contribution because of the state subsidies. It in turn contributed to the
government’s policy to maintain irrationally low contribution and generous benefit rates
in order to expand coverage and encourage voluntary subscriptions.

**Expansion of National Pension System**

After years of twists and turns, the national pension program was finally launched
in 1988. The national pension was revised, as illustrated in Table VI-2, from the original
NWP program in many aspects (Yang, J-j. 2008b, 130-131). First, the coverage was
expanded to all workplaces with more than 10 employees—originally 30 employees—but
self-employed and rural population were excluded except licensed professionals such as
doctors and lawyers. Second, it made payment more proportional to contribution and
with more years of subscription than the original NWP. Third, contribution rates were to
be gradually raised from the lowest 3.0 percent in the beginning to 9.0 percent in 10 years.
Finally, it removed the state’s subsidies to low-income subscribers (Yu, Yi, and Choe 2005,
60).

Among these changes, the most noticeable characteristics of the national pension
program were its limited coverage and low contribution rates, as well as the fairly high—
“extremely” and “unsustainably” high by international standard according to the World
Bank (Holzmann et al. 2000, 10, B5.4)—70 percent mandated income replacement rate.
Given people’s lack of knowledge of the pension system and its rather hurried
introduction, the government was forced to take incremental approach to the national
pension system and make the new pension plan look really attractive.

The first trial to the working of the national pension system was its expansion to
companies with more than 5 employees scheduled in 1992. It turned out to be successful
with its achievement of more than 90 percent of subscription rates (NPS 2008, 68). The
next target was the rural population. It was noticed that the rural areas had undergone
substantial demographic changes since the 1980s as appeared in Table VI-3. According to
a survey in the early 1990s, the continued migration of young population had brought
about a rapid aging of rural area and a reduction in income for the residents.

The newly established Kim Young Sam government however was seeking
economic development through deregulation and liberalization under the banner of
“globalization” (segyehwa). This entailed mounting social unrest from rural population
because it would lift major trade barriers on agricultural products. To compensate as well
as enhance productivity of the agricultural industry by inducing the retirement of the
oldest farmers, a swift introductory plan of the pension system in those areas was adopted
(Yang, J-j. 2008b, 134-135). As this plan had a compensatory aspect, a number of
provisional clauses were attached including various premium payment exceptions and the
interim state subsidies.
Table VI-2. Comparison of National Welfare Pension and National Pension programs

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Subject to be subscribed</td>
<td></td>
</tr>
<tr>
<td>Age between 18 to 60</td>
<td>Age between 18 to 60</td>
</tr>
<tr>
<td>Obligatory application</td>
<td></td>
</tr>
<tr>
<td>Category I subscriber: workplace (30 or more employees)</td>
<td>Workplace subscriber: 10 or more employees</td>
</tr>
<tr>
<td>Category II subscriber: self-employed, farmers and fishermen</td>
<td>District subscribers: less than 10 employees</td>
</tr>
<tr>
<td>Voluntary application</td>
<td></td>
</tr>
<tr>
<td>Basic pension structure</td>
<td></td>
</tr>
<tr>
<td>Fixed</td>
<td></td>
</tr>
<tr>
<td>Standard monthly wage x 2.4</td>
<td>Standard monthly wage x 2.4</td>
</tr>
<tr>
<td>Income-proportional</td>
<td></td>
</tr>
<tr>
<td>Average monthly wage (latest 3 years) x 2.4</td>
<td>Average monthly wage (entire subscription period) x 2.4</td>
</tr>
<tr>
<td>Old-age pension</td>
<td></td>
</tr>
<tr>
<td>Basic amount</td>
<td></td>
</tr>
<tr>
<td>Additional amount</td>
<td></td>
</tr>
<tr>
<td>Spouse, children and parents (family allowances)</td>
<td>Spouse, children and parents (fix benefit)</td>
</tr>
<tr>
<td>Reduced old age pension</td>
<td></td>
</tr>
<tr>
<td>Subscription period between 10 to 20 years: 45% - 100%</td>
<td>Subscription period between 15 to 20 years: 75% - 100%</td>
</tr>
<tr>
<td>Incumbent old age pension</td>
<td></td>
</tr>
<tr>
<td>(having earned income after retirement age)</td>
<td>More than 37.5% or 50 % of basic pension amount depending on subscription period</td>
</tr>
<tr>
<td>Premature old age pension</td>
<td></td>
</tr>
<tr>
<td>(20 plus years subscription period before retirement age)</td>
<td>More than 56.25% or 75% of basic pension amount depending on subscription period</td>
</tr>
<tr>
<td>Disability pension</td>
<td></td>
</tr>
<tr>
<td>3-tiered (100%, 50%, 30%) amount of basic pension</td>
<td>3-tiered (100%, 80%, 60%) amount of basic pension</td>
</tr>
<tr>
<td>Survivors’ pension</td>
<td></td>
</tr>
<tr>
<td>40% to 50% of basic pension</td>
<td>40% to 60% of basic pension</td>
</tr>
<tr>
<td>Lump sum returned</td>
<td></td>
</tr>
<tr>
<td>Disqualified before 10 years of subscription period</td>
<td>Disqualified before 15 years of subscription period</td>
</tr>
<tr>
<td>Pension premium</td>
<td></td>
</tr>
<tr>
<td>Category I: 5%-7% of standard monthly wage</td>
<td>Workplace subscriber: From 3% to 9% gradual increase</td>
</tr>
<tr>
<td>Employer: 3% - 4%</td>
<td>1988-92 1993-97 1998-</td>
</tr>
<tr>
<td>Employee: 2% - 3%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Total: 5% - 7%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Category II: fixed amount contribution</td>
<td>CRA* 2.0% 3.0%</td>
</tr>
<tr>
<td>Tax exemption</td>
<td></td>
</tr>
<tr>
<td>Operational expense</td>
<td></td>
</tr>
<tr>
<td>Low income subsidy (1%)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Converted Retirement Allowance: Fund transferred from reserve funds of companies’ retirement benefits, with the aim of gradually integrating retirement allowance into NP.

Sources: Compiled from NPS (2008, 61), Yang, J-j. (2008b, 130-131), KLRI, MGL.
Table VI-3. Changes of income and demography in agricultural area, 1980-1992

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Average income*</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agricultural population</td>
<td>2,693</td>
<td>5,549</td>
<td>11,026</td>
<td>14,505</td>
</tr>
<tr>
<td>Urban workers</td>
<td>2,809</td>
<td>5,085</td>
<td>11,316</td>
<td>16,171</td>
</tr>
<tr>
<td>Ratio of the aged population</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agricultural areas</td>
<td>10.5%</td>
<td>13.8%</td>
<td>17.8%</td>
<td>21.7%</td>
</tr>
<tr>
<td>Nationwide</td>
<td>3.9%</td>
<td>6.8%</td>
<td>7.6%</td>
<td>8.1%</td>
</tr>
</tbody>
</table>

* 1 thousand won.
Source: Mun and Kim (1994 4-5)

Owing to such privileges, the subscription ratio was a whopping 96 percent during the first voluntary registering period from April 10 to May 31, 1995. However, on the flipside, a great number of subscribers used the abovementioned payment exception clauses and only 70 percent of the contributions were collected (NPS 2008, 75).

3. Bureaucracy in the Politics of Pension Reform

The Aging Shock and Fiscal Instability

Unlike its Japanese counterpart, the Korean national pensions system did not have a mandatory fiscal revaluation clause. When it was time to expand the coverage to urban workers, the fiscal stability of the national pension fund was questioned. First of all, the demographic change turned out to be much serious than expected as illustrated in Figure VI-4.

As shown in Figure VI-4, the total fertility rate of Korea dropped from 4.53 in 1970 to 1.57 in 1990, approximately into one-third. The rapid decline was mainly made possible by the government’s extensive family planning measures launched in the early 1960s. The Korean government implemented massive family planning measures, inter alia birth control, to curb the record-breaking population growth after the Korean War. It turned out to be none too successful and Korea reached the replacement fertility rate in 1983 with the pronounced rate of 2.06. The crude birth rate was as high as 45 per thousand in 1960 but it plummeted to 23.4 in 1980 and then 15.2 in 1996, which made the total fertility rate dropped from 6.0 in 1960 to 4.5 in 1970, 2.7 in 1980, and then to 1.74 in 1995 (Kim, I. K. 2002, 245).

While the fertility rates continued to dwindle, the shift in population change came as late as 1996, more than ten years after the break of the replacement fertility rate (Cho, N. 2002, 229). Economic development and improvement of public health system significantly dropped the crude death rate from 33 per thousand in 1955 to 16 per thousand in 1960. Life expectancy at birth jumped from 61.93 in 1970 to 73.53 in 1995, an almost 20 percent increase in 25 years (KOSIS). Unsurprisingly, the aging of society
progressed much faster than expected, and it called for a comprehensive review of the fiscal stability of the national pension fund. The result warned of an immediate debacle for the program.

Figure VI-4. Trend of demographic changes in Korea, 1970-2005

![Graph of demographic changes in Korea, 1970-2005.](image)

* In percent.

Source: KOSIS.

When the government prepared for the implementation of national pension in the middle of 1980s, it largely relied on the KDI’s actuarial reports mostly building on foreign models and cases, inter alia the Japanese pension system (Pak and Kim 2010, see Min and Ch’oe 1985). According to the KDI’s early projection (see Figure VI-5), the national pension could be financially stabilized as long as it is maintained as a funded system with stable return rate around 10 percent, which was not unreasonable at all in the middle of the 1980s.

The report recommended gradual increase of contribution rates and sound and profitable fund management to cope with the mounting payment due to aging. The report built on the speed of aging in Japan as the reference of the projection but the aging of Korean society progressed much faster than Japan, which made the projection of the fiscal stability flawed. The population assumption that the national pension scheme was based on projected that the total fertility rate would reach the replacement rate around 1995 at 2.18 and then maintain above 2.00 by 2050 (Pak and Kim 2010, 26). As noted above, it was at 1.65 in 1995 already. This flawed projection meant that both the increase of payment amount and the decrease of contribution amount would proceed faster than anticipated. Also, the substantial hikes of the average wage after the democratization
made the ground of the projection much shaky. The original estimation of the average wage increase rate from 1985 to 1990 was 12.0 and from 1991 to 1995 was 11.0 percent, which were in fact 14.4 and 13.1 percent respectively (Pak and Kim 2010, 28; actual wage data from KOSIS). Maintaining stable investment return to the pension fund also got arduous later, but it was still manageable before the 1997 financial crisis.

Figure VI-5. Projection of the fiscal stability of national pension fund estimated in 1985

Notes: 9% contribution rate with statutory 40% payment rate. 100 billion won at 1986 constant price level.
Source: Based on Min and Ch’oe (1985, 64).

After the commencement of the national pension system, the National Pension Corporation (kungmin yŏn’gŭm kongdan, NPC hereafter) began to build its own projection model and reviewed the actuarial stability of the pension fund. However, due to the country’s strong economic performance around 1990, it still demonstrated fairly optimistic projection on the fund’s revenue with stable returns on investment (Pak and Kim 2010, 51). In the best case scenario it claimed that the pension fund would be depleted as late as 2050 without any adjustment to the current scheme.

The first shock came with the NPC’s actuarial report published in 1994 before the expansion of compulsory coverage to rural areas. The report, summarized in Table VI-4, building on a revised demographic and macroeconomic projection, claimed that the pension fund would be exhausted as early as in the 2030s (NPC 1994).
Table VI-4. Result of the 1994 projection of the fiscal stability of the national pension fund

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth rate</td>
<td>6.0</td>
<td>5.0</td>
<td>4.5</td>
<td>3.0</td>
</tr>
<tr>
<td>Consumer price index</td>
<td>5.0</td>
<td>4.0</td>
<td>3.5</td>
<td>2.5</td>
</tr>
<tr>
<td>Average wage increase</td>
<td>10.0</td>
<td>7.5</td>
<td>6.5</td>
<td>5.0</td>
</tr>
<tr>
<td>Return rate</td>
<td>11.5</td>
<td>8.0</td>
<td>6.5</td>
<td>5.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Program options</th>
<th>Estimated year that the NP fund would turn deficit</th>
<th>Estimated year that the NP fund would exhaust</th>
</tr>
</thead>
<tbody>
<tr>
<td>Integrated scheme</td>
<td>2025</td>
<td>2033</td>
</tr>
<tr>
<td>Workplace subscribers</td>
<td>2027</td>
<td>2035</td>
</tr>
<tr>
<td>Rural area subscribers</td>
<td>2017</td>
<td>2024</td>
</tr>
<tr>
<td>Urban self-employed subscribers</td>
<td>2022</td>
<td>2030</td>
</tr>
</tbody>
</table>


Subsequently the KDI also published a report filled with gloomy future of the national pension for which exhaustion would arrive as early as 2022 (see Figure VI-6), if the current system would not be significantly reformed (Mun 1995, 40).

Figure VI-6. Actuarial projection of national pension fund in 1995

Note: Figures in billion won at 1990 constant price.

Source: Compiled from Mun (1995, 41).
It brought about enormous social reactions. The media reported the fiscal instability of the national pension (Kim S-k. 2010, 151). However, since the government was about to expand its compulsory coverage to the self-employed in order for the completion of universal pension scheme within the president Kim Young Sam’s term, reform was not an easy option for the political leaders.

**Failed Reform Attempts**

In the late 1994, President Kim Young Sam announced the so-called Sydney Declaration envisioning the globalization as the central goal of the state. The government’s basic strategy for globalization stressed “fair competition in all sectors and take greater interest in issues related to social development such as environment, labor, income distribution and social welfare” (Gills and Gills 2000, 38). Globalization was applied to every single aspect of Korean society and President Kim proclaimed the “globalization of the quality of life” in March 1995 and ordered the formation of the National Welfare Planning Office (kungmin pokchi kihoekdan, NWPO hereafter) to discuss long-term welfare reform plans (Kyunghyang Shinmun March 24, 1995, 1).

The NWPO was composed of 22 members, headed jointly by the MOHW minister and the KDI chair, drawn from 6 public officials, 5 university professors, 3 research staff of governmental research institutes, 2 journalists, a member of a presidential commission, a FKI representative and a KFTU representative (Dong-A Ilbo May 19, 1995, 2). At the end of the year, the NWPO submitted a blueprint for the national welfare to the president proposing various welfare expansion plans, the expansion of national pension coverage to all citizens by 1998 among others (NWPO 1995, 14-15, cited at Kim, S-g. 2010, 161; Kyunghyang Shinmun December 30, 1995, 22). However, the official report subsequently submitted by the NWPO described the fiscal instability of the national pension fund and suggested raising the pensionable age and contribution rates (Kyunghyang Shinmun January 29, 1996, 1). The report also noted the problem of low return rate on public sector investments prescribed by the PCMFA which had been adversely impacting the national pension fund stability (Dong-A Ilbo March 2, 1996, 31).

Acknowledging the significance of the problem, the Office of the Presidential Secretary for Social Welfare (sahoe pokchi susŏk pisŏgwansil, OPSSW hereafter) envisioned a radical reform encompassing all pension programs to cope with the fiscal instability and the aging of society (NPS 2008, 83-84). However, OPSSW’s attempt faced substantial objections from all interested parties including the enrollees of the other pension programs and the general public as well. The OPSSW advertised the problem of the pension system in order to persuade the urgency of a fundamental reform, only to amplify people’s uneasiness with the national pension system.

Eventually, the OPSSW dropped its initial plan and handed the reform task over to the Social Security Deliberative Council (sahoe pojang simŭi wiwŏnhoe, SSDC hereafter). The SSDC held the first meeting on May 16, 1997, to install the National Pension Reform Board (kungmin yŏn'gŭm chedo kaesŏn kihoekdan, NPRB hereafter) to carry out reform for the “mid- and long-term fiscal stabilization” of the national pension fund.
The newly installed NPRB, headed by an economics professor, stressed that it would contemplate fundamental reform plans to financially stabilize the national pension system.

The government’s reform attempt, however, garnered mostly negative responses. The media blamed the government’s mismanagement of the national pension fund, the loss caused by the CPMF in particular, as the fundamental reason behind the pension debacle. The general public protested the reform asking “why the national pension subscribers have to be responsible for the state’s fault” (Dong-A Ilbo May 20, 1997, 39). In fact, the PSPD filed a lawsuit against the NPC for the loss of the pension fund by providing loans to the government at lower-than-market interest rate (Dong-A Ilbo February 28, 1996, 3). Civil society organizations claimed that the government and the NPC should be responsible for the fiscal problems of the pension fund before initiating any reform (Yang, J-j. 2008b, 140-144; Kim, S-g. 2010, 179). Both the KEF and the KTFU opposed the reform stating that the state should rectify its fault prior to an amendment to the national pension scheme (NPS 2008, 86). Finally, the opposition party presidential candidate Kim Dae-jung officially denounced the reform plan.

Meantime, the NPRB reviewed various reform options proposed by the MOHW. These options contained a variety of proposals from a parametric adjustment to a radical liberalization (NPS 2008, 85). Shortly, three draft options were contemplated and publicized for review in August and then revised options in October (NPS 2008, 92-94). The finalize proposal, an eclectic option of structural reform and parametric adjustment, was submitted to the SSDC, proposing a gradual increase of contribution rate to 12.65 percent and a raise of pensionable age to 65 by 2013. The pension structure was proposed to be separated into basic pension (fixed benefit) and income-related pension. Income replacement rate would be reduced to average 40 percent, a 30 percent cut from the current system (NPS 2008, 95). However, this reform proposal was shelved amid the sociopolitical turmoil caused by the financial crisis and the presidential election.

Table VI-5. Pension benefit comparison across countries as of 1998

<table>
<thead>
<tr>
<th></th>
<th>Germany</th>
<th>U.S.</th>
<th>Sweden</th>
<th>Japan</th>
<th>Korea</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contribution rates</td>
<td>20.3%</td>
<td>12.3%</td>
<td>19.3%</td>
<td>17.4%</td>
<td>9.6%*</td>
</tr>
<tr>
<td>Income replacement rates</td>
<td>70.0%</td>
<td>40.0%</td>
<td>60.0%</td>
<td>69.0%</td>
<td>70.0%</td>
</tr>
<tr>
<td>Pensionable ages</td>
<td>65</td>
<td>65</td>
<td>65</td>
<td>65</td>
<td>60</td>
</tr>
</tbody>
</table>

* For workplace subscribers. District subscribers were 6.0%.


In sum, as Kwon, H. (1998, 111) aptly puts it, the fiscal health of pension fund is hinged on three factors: gross amount of contributions, average interest rate, and gross amount of pension payments. The contribution was set at the lowest possible rate in order to minimize resistance to the compulsory enrollment. The payment rate was on the contrary set at the most generous level as shown in Table VI-5. The interest rate, which
was generally linked to the economic growth rate, was however set lower than market rate in order to divert the fund for developmental projects. All these were ideas originally contemplated by the welfare bureaucracy in an effort to implement the national pension program. The welfare bureaucracy claimed that the expansion of pension coverage should have the foremost priority (Hwang, G. 2006, 68). On the contrary, the fundamental problems of the pension system diagnosed by the economic bureaucracy were: “structural imbalance and financial vulnerability”; “hasty coverage expansion; and “inappropriate levels of contribution and benefits” (Moon and Koh 2005, 236-241). The reform could not budge during the Kim Young Sam administration. Meanwhile, the fiscal collapse of the national pension fund loomed ahead upon the outbreak of the financial crisis which caused the national pension fund to post a 33.5 percent loss in the stock market (Hwang, G. 2006, 76-77).

**Financial Crisis and Reform Breakthrough**

The NPRB’s proposal was reviewed by the President-elect Kim Dae-jung. His Presidential Transition Committee (*taet’ongnyŏngjik insu wiwŏnhoe*) ordered the MOHW to raise the income replacement rate above 54 percent on January 16, 1998. The MOHW responded that they would discard the NPRB’s proposal and draft a new pension reform bill with 60 percent income replacement rate in five days (*Kyunghyang Shinmun* January 17, 1998, 2). Soon the MOHW’s think tank, Korea Institute for Health and Social Affairs (*Han’guk pogŏn sahoe yŏn’guwŏn*, KIHSA hereafter), held a public hearing on January 22, 1998, and announced the readjustment of the income replacement rate between 55 to 60 percent with 9 percent contribution rate by 2009 (*Kyunghyang Shinmun* January 23, 1998, 2). The pensionable age was to be increased by one per every year from 2013 to 65 by 2017. Also introduced was the five-year term mandatory actuarial review (NPS 2008, 97-98).

<table>
<thead>
<tr>
<th>Table VI-6. Outcome of the pension reform in 1997-1998</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Structure</strong></td>
</tr>
<tr>
<td>Original scheme</td>
</tr>
<tr>
<td>Mono-pillar</td>
</tr>
<tr>
<td>NPRB proposal</td>
</tr>
<tr>
<td>Bi-pillar (basic pension and earnings-related pension)</td>
</tr>
<tr>
<td>Final outcome</td>
</tr>
<tr>
<td>Mono-pillar</td>
</tr>
<tr>
<td><strong>Coverage</strong></td>
</tr>
<tr>
<td>Employees (firms with 5 or more employees) and entire rural population</td>
</tr>
<tr>
<td>Entire population aged between 18 and 59</td>
</tr>
<tr>
<td>Entire economically active population between 18 and 59</td>
</tr>
<tr>
<td><strong>Contribution rates</strong></td>
</tr>
<tr>
<td>6-9%</td>
</tr>
<tr>
<td>9-12.5%</td>
</tr>
<tr>
<td>9% by 2009 and gradual increase to 19.1% after that</td>
</tr>
<tr>
<td><strong>Income replacement rates</strong></td>
</tr>
<tr>
<td>70%</td>
</tr>
<tr>
<td>40% (basic pension 16% and earnings-related pension 24%)</td>
</tr>
<tr>
<td>60%</td>
</tr>
</tbody>
</table>

As noted above, the proposal was mostly influenced by the economic bureaucrats, *inter alia*, the KDI. However, the new political elite, President Kim Dae-jung in particular, regarded them to be primarily responsible for the economic crisis. Therefore, President Kim’s distrust of the economic bureaucracy as well as opposition from his civil society partners to the NPRB’s reform proposal led it to be rejected and a more moderate reform initiative to be adopted (Hwang, G. 2006, 70-71; Kim S. 2006, 81). In other words, the welfare bureaucracy was able to materialize its plan with the president’s “blessing” owing to the timely financial crisis and its subsequent regime change. The major changes are summarized in Table VI-6.

4. The Pension Debacle

*The Aftermath of the Reform*

Despite its still generous structure, the reform bill instantaneously provoked outrage from wage earners mostly because of the coverage extension. For workers in non-secure employment as well as for the self-employed, the expansion of coverage ultimately depended on the participants’ willingness to contribute, given the limited administrative capacity to make accurate income assessments (Ku, 2007, 33). Therefore the wage earners argued that they should pay the full contributions unlike the urban self-employed who generally underreport their income and thus pay substantially smaller premiums than wage earners. The KFTU and conservative civil organizations protested the bill and submitted five million signed petitions to the legislature to repeal the bill (Kim, S. 2006, 82). However, with the support from the progressive civil organizations such as PSPD who enjoyed ideological hegemony in the post-crisis political environment, President Kim pushed forward the reform bill under the banner of the “social solidarity” (*sahoejŏk yŏndaе*). In other words, the reform was largely driven by political rhetoric and propaganda, rather than technical debates.

It is well addressed in the aforementioned public hearing held in January 1998 by the KIHSA. The Director of the Pension Bureau of the MOHW presented the government’s reform plan and it was discussed by 13 discussants (KIHSA 1998b)

Public Hearing

*Direction of National Pension Reform*

**Time and Date:** January 22, 14:00-17:00

**Location:** International Conference Hall, Seoul Chamber of Commerce

**Schedule**

| 13:30-14:00 | Registration |
| 14:00-14:30 | Presentation: Direction of National Pension Reform |
| 14:30-15:50 | Discussion |
What is noticeable is the composition of discussants. There were two researchers affiliated with the governmental agencies and two lawmakers. All the others are representing civil society, i.e., three interest groups representatives, two journalists, two professors, two representatives of civil society organizations (one of them was a professor). In other words, except the three professors and two researchers, seven participants were actually non-experts. The NPRB did have a group of expert members (chŏnmun wiwŏn) consisted of 23 professionals including 3 government officials, 11 government think tank researchers, 5 university professors, and 4 researchers affiliated with interest groups and civic groups (see the list in NPS 2008, 648), the decision making structure showed that the expert committee’s decision could be overruled by non-experts. This decision making structure became a standard in organizing a governmental deliberative committee as we will see in the next chapter.

In any case, the civil society representatives were mostly concerned with the management of the pension fund because they believed that the problems of the pension fund were caused less by the contribution/payment structure than by the mismanagement of the pension fund by the previous government including the poor
performance of the PCMF (see Table IV-4 in the foregoing section). In practice, the civic groups including the PSPD, KFTU and KCTU were mobilized in May 1998 for a legislative petition to make the management of the pension fund more democratic and transparent, which was mostly accepted by the MOHW in its final pension reform bill (NPS 2008, 105). The bill finally passed the National Assembly in December 1998 with scheduled implementation in April 1999.

A commentator succinctly reviewed the national pension reform of 1999 as being driven by clear policy goals such as “universality, redistribution, and solidarity and aspires to replacement rates that would, over time, minimize financial security in old age and place Korea in the top rank of public pension providers in the developed world” (Walker 2004, 240). In other words, the welfare bureaucracy attempted to achieve its goal of expanding pension scheme coverage relying on the president’s ideological policy preference. Thus the problems of limited administrative capacity and fiscal health of the fund were largely neglected. The consequence was the pension debacle in the first year of the universal pension scheme.

As soon as the new national pension scheme was implemented, the NPC embarked on surveying income levels in order to determine each subscriber’s premium. To this end, the NPC had new subscribers voluntarily report their income. Apprehending underreporting problem, the NPC set a so-called “suggested income level for reporting” (sin’go kwŏnjang sodŭk), an average income of a group of people with similar occupation and residence estimated by the NPC. If the reported income was lower than the suggested income, the NPC rejected the report and applied the suggested income instead. It brought a huge public backlash. First of all, the NPC’s data relied on pre-crisis income level which was significantly abated after the crisis. Also, the suggested income levels were applied to those who had lost their jobs and businesses (NPS 2008, 119).

Table VI-7. Status of national pension subscription as of 2000 (persons in thousand)

<table>
<thead>
<tr>
<th></th>
<th>Workplace subscribers</th>
<th>District subscribers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Urban</td>
</tr>
<tr>
<td>Insured (A)</td>
<td>5,503</td>
<td>8,864</td>
</tr>
<tr>
<td>Non-insured (evaders)</td>
<td>n/a</td>
<td>526</td>
</tr>
<tr>
<td>Collection rate (per billed amount)</td>
<td>74.5%</td>
<td>78.2%</td>
</tr>
<tr>
<td>Contribution exempted (B)</td>
<td>n/a</td>
<td>498</td>
</tr>
<tr>
<td>Contribution waived (temporary) (C)</td>
<td>n/a</td>
<td>3,174</td>
</tr>
<tr>
<td>Other uncollectable subscribers (D)</td>
<td>n/a</td>
<td>223</td>
</tr>
<tr>
<td>(B+C+D) / A</td>
<td>-</td>
<td>43.9%</td>
</tr>
</tbody>
</table>

Since the beginning of the voluntary reporting in February 5, 1999, the government revised the implementation schedule and methods several times in February 9, February 22, and April 1, 1999. These adjustments, mostly lax in subscription, were to lead to a large hole in the pension system. As of June 2000, as shown in Table VI-7, more than 40 percent of the entire subscribers were either temporarily waived or exempted premium payments. The premium collection rates were around 70 percent.

**Politically Blinded Optimism and Hastiness**

Besides the lower-than-expected the pension premium collection, another impending problem was the fiscal unsustainability intrinsic to the revised national pension program. As noted above, the 1998 reform was building on ridiculously optimistic actuarial projections. All proposals, including the NPRB’s projections, stated that the pension funds would never dry out if their reform plans are implemented.

Table VI-8. Actuarial projections of pension fund reserve by reform proposals in 1998

<table>
<thead>
<tr>
<th>Year</th>
<th>NPRB Proposals</th>
<th>MOHW Proposals</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>ICR* / CR**</td>
<td></td>
</tr>
<tr>
<td></td>
<td>40% / 12.65%</td>
<td>50% / 15.9%</td>
</tr>
<tr>
<td>2000</td>
<td>30.7</td>
<td>30.6</td>
</tr>
<tr>
<td>2010</td>
<td>119.3</td>
<td>117.3</td>
</tr>
<tr>
<td>2020</td>
<td>264.5</td>
<td>272.9</td>
</tr>
<tr>
<td>2030</td>
<td>432.0</td>
<td>479.2</td>
</tr>
<tr>
<td>2040</td>
<td>539.4</td>
<td>622.7</td>
</tr>
<tr>
<td>2050</td>
<td>604.4</td>
<td>711.0</td>
</tr>
<tr>
<td>2060</td>
<td>711.2</td>
<td>846.2</td>
</tr>
<tr>
<td>2070</td>
<td>863.5</td>
<td>1,033.0</td>
</tr>
<tr>
<td>2080</td>
<td>1,067.1</td>
<td>1,281.8</td>
</tr>
</tbody>
</table>

*Notes: Figures in 1 trillion won; * Subscriber average income replacement rate; ** Maximum contribution rate.*

Sources: KIHSA (1998a, 38, 43-44); KIHSA (1998b, 27-28).

According to these projections, the pooled reserves of the national pension fund would never dry out in a foreseeable future. However, the basic assumptions under which these projections had been made were impractical or too rosy at least. First of all, these projections did not put the low collection rates of pension premiums into account. Also not considered was the increasing number of payment exceptions, mostly extended under the increasing political pressures on the NPC. The reported income levels were lowered which was expected to cause losses of more than 2 trillion won (around 2 billion dollars)
in the first four years of the launch of the new pension scheme (*Segye Ilbo* August 10, 1999, 1).

This situation was not improved during the Kim Dae-jung’s term. In fact, due to its hasty implementation, the NPC did not have sufficient capacity or authority to collect premiums and administer its fund. According to an internal material, the NPC estimated an income reporting rate of around 55 to 65 percent. What was worse, around 35 to 45 percent of those who reported their income were waived from premium collection (see Table VI-9). It also turned out in the same survey that 92.7 percent of those who temporarily waived their premium payments had been in waiver status for more than 19 months. More than three million subscribers were in arrears with the premium and more than a million of them had not paid for more than two years (NPS 2008, 205-206).

Table VI-9. Size of income-reported and premium-waived subscribers as of April 2003

<table>
<thead>
<tr>
<th></th>
<th>Urban</th>
<th>Rural</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income-reported subscribers</td>
<td>4,477,261</td>
<td>1,334,147</td>
<td>5,811,408</td>
</tr>
<tr>
<td></td>
<td>55.9%</td>
<td>65.4%</td>
<td>57.8%</td>
</tr>
<tr>
<td>Premium-waived subscribers</td>
<td>3,533,463</td>
<td>706,764</td>
<td>4,239,927</td>
</tr>
<tr>
<td></td>
<td>44.1%</td>
<td>34.6%</td>
<td>42.2%</td>
</tr>
</tbody>
</table>

*Source: NPS (2008, 204).*

In addition, the government was not able to make the stipulation that the contribution rate would be gradually increased in the future due to political reasons. Facing a series of elections, the ruling as well as opposition parties did not want to make it an issue at the election campaigns. Thus the nine percent contribution rate became a fixed rate, which would change the actuarial balance of the pension fund dramatically.

**Faster Aging, Gloomier Fiscal Projection, but Continuing Instrumental Welfare**

The 2000 census made the future of national pension system gloomier. Most of all, it was revealed that the speed of aging was much faster than expected as appeared in Table VI-10.

As noted, the contribution rates were firmly set at nine percent. With the new population projection, the result of the mandatory actuarial review conducted in 2002 was striking. As illustrated in Figure VI-7, the pension fund was expected to dissipate in as early as 2047 since the pension payment would increase much progressively than income growth.
Table VI-10. Comparison of population estimates in 1996 and 2001

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>1996</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total population in 2000</td>
<td>47,008*</td>
<td>47,275</td>
</tr>
<tr>
<td>Total population peak in</td>
<td>2023</td>
<td>2028</td>
</tr>
<tr>
<td>Total population in 2030</td>
<td>50,296</td>
<td>52,744</td>
</tr>
<tr>
<td>Year that the ratios of 65 or more reach at:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7%</td>
<td>2000*</td>
<td>2000</td>
</tr>
<tr>
<td>14%</td>
<td>2019</td>
<td>2022</td>
</tr>
<tr>
<td>20%</td>
<td>2026</td>
<td>2032</td>
</tr>
<tr>
<td>Ratios of 65 or more in 2000</td>
<td>7.2%*</td>
<td>7.1%</td>
</tr>
<tr>
<td>2010</td>
<td>10.7%</td>
<td>9.9%</td>
</tr>
<tr>
<td>2020</td>
<td>15.1%</td>
<td>13.2%</td>
</tr>
<tr>
<td>2030</td>
<td>23.1%</td>
<td>19.3%</td>
</tr>
<tr>
<td>2040</td>
<td>30.1%</td>
<td>23.5%</td>
</tr>
<tr>
<td>2050</td>
<td>34.4%</td>
<td>24.6%</td>
</tr>
<tr>
<td>Total fertility rate in 2000</td>
<td>1.4*</td>
<td>1.8</td>
</tr>
<tr>
<td>Population growth rate in 2000</td>
<td>0.71*</td>
<td>0.89</td>
</tr>
</tbody>
</table>

Notes: Population figures in 1 thousand; * Real value.
Sources: KIHSA (1998, 12); NSO (2001, passim, esp. 34).

Upon the impending debacle, the government installed a new deliberative council to initiate pension reform as soon as possible. The National Pension Development Committee (kungmin yŏng’ŭm palchŏn wiwŏnhoe, NPDC hereafter) was formed under the NHW, with 20 members consisted of 4 government officials, 4 professors (including chairs), 4 interest group representatives (business and labor), 3 representatives from related authorities, 1 journalist and 4 civil society representatives (NPS 2008, 192). They immediately embarked on drafting reform proposals, which will be illustrated in Chapter VIII below.

Nevertheless, diverting low-rate national pension funds for other government projects continued due to the increasing demands for public financing and, further, because the government wanted to use the funds to stabilize the plunging stock market. The Board of Audit and Inspection (Kamsawŏn) revealed that the pension fund lost 120 billion won (around 120 million dollars) in the stock market between 2000 and 2002 due to excessive investment during the stock market meltdown (Kookmin Ilbo July 23, 2002, 7). Since the stock market indices such as KOSPI and KOSDAQ were the barometers for the government’s economic performance, increasing pressure was laid upon the NPC to divert its funds.
The government was eager to have the pension fund for a handy market stabilization measure and revise the Framework Act on Fund Management (*kigŭm kwalli kibonbŏp*) to lift its regulations on the use of the pension fund in stock, bond, and real estate market, but the motion failed in the legislature (*Kyunghyang Shinmun* December 11, 2003, 19). The strong opposition from the public at large, especially from the labor, largely accounted for the failed attempt. Therefore the government tried to amend the bill by establishing an independent fund management committee in which the representatives of civil society including the KFTU and the KCTU would compose 70 percent of its members (*Munhwa Ilbo* August 5, 2004, 4). The bill finally passed the legislature one day before the the year ended (*Kyunghyang Shinmun* December 31, 2004, 1). The government also attempted to make a consolidated framework for a comprehensive use of all resources including various pension funds and drafted the National Finance Act (*kukka chaejŏngbŏp*). It stipulated the installation of a statutory citizen ombudsman system to monitor the usage of the government finance (*Dong-A Ilbo* September 24, 2004, 2). Politically motivated and politically amended. This system of, a sort of, participatory welfare would work as long as the government and the civil society representatives shared their political views and interests. Otherwise, the government would have less and less control over the fund than it had had before the revision of the system.
VII. CONSERVATIVE CORPORATISM AND THE ISOLATED CIVIL SOCIETY IN JAPAN

1. Progress of the Pension Reform

Organizing the Council

Upon initiating the pension reform (see timeline in Table VII-1), the MHLW organized a deliberation council named Social Security Council (*shakai hoshō shingikai*, SSC hereafter) based on the provisions in “Act for the Establishment of the Ministry of Health and Welfare” (1999, Article 7) and “Cabinet Order for the Social Security Council” (Cabinet Order No. 282, June 7, 2000) to discuss the issues of the overall welfare reform. This new SSC was an integration of the previous eight deliberation councils in the MHLW. The Cabinet Order specified six subcommittees to be installed under the umbrella of the SSC and allowed additional subcommittees at the discretion of the council. In the previous SSC, there were only three subcommittees, *i.e.*, Actuarial Subcommittee, Welfare Subcommittee, and Persons with Disabilities Subcommittee, all of which discussed highly technical issues of the social welfare system.

Table VII-1. Timeline of major events in the Japanese pension reform in 2004

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 2002</td>
<td>Pension Subcommittee of the Social Security Council (PS/SSC) launched</td>
</tr>
<tr>
<td>June 2002</td>
<td>Employment and Pension Research Committee launched</td>
</tr>
<tr>
<td>December 2002</td>
<td>Pension Bureau of the MHLW published “Direction and Issues of the Pension Reform Framework”</td>
</tr>
<tr>
<td>March 2003</td>
<td>Experts survey on pension reform</td>
</tr>
<tr>
<td>March 2003</td>
<td>Public hearings (eight times of “town meetings” by September 2003)</td>
</tr>
<tr>
<td>June 2003</td>
<td>“Basic Policy 2003” passed the Cabinet</td>
</tr>
<tr>
<td>September 2003</td>
<td>Revised “Sakaguchi Draft Plan” was made public</td>
</tr>
<tr>
<td>November 2003</td>
<td>PB/MHLW submitted the official draft bill for pension reform</td>
</tr>
<tr>
<td>February 2004</td>
<td>Draft bill for revising National Pension Act passed the Cabinet and delivered to the Diet</td>
</tr>
<tr>
<td>April 2004</td>
<td>Bill passed Health, Labor and Welfare Committee, the House of Representatives</td>
</tr>
<tr>
<td>May 2004</td>
<td>Passed the House of Representatives</td>
</tr>
<tr>
<td>June 2004</td>
<td>Passed the Health, Labor and Welfare Committee, the House of Councilors</td>
</tr>
<tr>
<td>June 11, 2004</td>
<td>Promulgation</td>
</tr>
</tbody>
</table>

This time, at the third regular session of the SSC, Kawa Mikio, the Counselor of the Cabinet Secretariat for Health, Labor, and Welfare, proposed to install a pension subcommittee under the SSC to “review the overall pension issues for the coming
financial revaluation scheduled in 2004” (SSC Minutes, 3rd session, July 13, 2001, author’s emphasis). It was also reported that the recruitment of the members of the Pension Subcommittee of the SSC (shakai hoshō shingikai nenkin bukai, PS/SSC hereafter) would be discussed with SSC Chair, Kaizuka Keimei, a professor emeritus of financial economics who has a long career as active members of a number of government deliberative councils.

The PS/SSC was one of the subcommittees of the SSC under the auspice of the MHLW. The aforementioned Cabinet Order stipulated that the members of the council should “be appointed by the Minister of Health, Labor and Welfare from among persons with relevant knowledge and experience (gakushiki keiken)” but there was no specification on the members of its subcommittees. While the SSC largely followed the traditional rule of organizing its members (c.f. Pempel 1974), PS/SSC was somewhat distinctive in that it recruited three female independent members designed to represent the voice of the civil society.

Table VII-2. List of PS/SSC members, 2002-2004

<table>
<thead>
<tr>
<th>Experts</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Hori Katsuhiro</td>
<td>Professor, Sophia University (Law)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kondō Noriaki</td>
<td>President, Japanese Society of Certified Pension Actuaries</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kōshiro Kazutoshi</td>
<td>Professor, Open University of Japan (Economics)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Miyajima Hiroshi</td>
<td>Professor, University of Tokyo (Economics)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Okina Yuri</td>
<td>Senior Fellow, Japan Research Institute</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ōsawa Mari</td>
<td>Professor, University of Tokyo (Economics/Sociology)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wakasugi Takaaki</td>
<td>Professor, University of Tokyo (Economics)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Watanabe Shunsuke</td>
<td>Editorial Writer, Nihon Keizai Shimbun</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yamasaki Yasuhiko</td>
<td>Professor, Sophia University (Social Welfare)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Interest Group Representatives</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Okamoto Yasuo</td>
<td>Senior Managing Director, Sumitomo Chemical Industry</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ōyama Katsuya</td>
<td>General Secretary, Japanese Association of Metal, Machinery and Manufacturing Workers (JAM)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mukōyama Kōshi*</td>
<td>Director, Japanese Trade Union Confederation (Rengō)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yamaguchi Yōko</td>
<td>Executive Secretary, Japan Federation of Service and Distribution Workers Unions (JSD)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yano Hironori</td>
<td>Managing Director, Japan Business Federation (Keidanren)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Independent Members</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Ide Akiko</td>
<td>Manager, NTT DoCoMo Marunouchi Branch</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Imai Nobuko</td>
<td>Vice President, Women Farmers Association</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sugiyama Chika</td>
<td>CEO, Sereno, Ltd.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Replaced by Kōjima Shigeru in October, 2002.
The list of the PS/SSC members in Table VII-2 shows that the 17 members mainly consisted of experts, i.e., professors or researchers, and representatives of interested parties such as business and labor. Notable members among them are the abovementioned three independent members, Ide Akiko, Imai Nobuko and Sugiyama Chika.

Ide Akiko, representing female employees, was the manager of the Marunouchi Branch, NTT DoCoMo. Since entered NTT in 1977, Ide went through major posts in the company, becoming the first female branch manager in 2001 (Yomiuri Shimbun January 8, 2002, evening edition, i1). She was well known for her successful career from a rank-and-file employee to an executive officer in the NTT Corporation (Naikakufu Danjo Kyōdō Sankakukyoku 2005, 6-7). She later became the first female board member of the NTT and gained acclaim in the Wall Street Journal (November 20, 2006) for her exceptionally successful career in Japan.

Imai Nobuko was affiliated with the Women Farmers’ Association (zenkoku jyosei nōgyō keiseisha kaigi, WFA hereafter), which is a non-governmental-non-profit organization established “to improve the social status of female farmers as well as to exchange and develop knowledge and skills related to farming and agricultural business” on July 1st, 1995 (W.F.A. July 1995, i). The WFA participated in the Gender Equality Council of the Cabinet Office (danjo kyōdō sankaku shingikai) since 1997, to which Imai was appointed as a member in 1999 replacing the then WFA Chair Shimizu Teruko (Yomiuri Shimbun August 6, 1999, 2). She had also served as a member of the aforementioned WPRC before joined the PS/SSC. The WFA continues to send a delegate, the Vice-Chair Koyama Fumiko, to the current PS/SSC launched in August, 2011.

Sugiyama, representing housewives and female retirees, ran a Tokyo based small publishing company Sereno which specialized in the issues of childbirth, childcare, parenting, maternal health, and education. She edited and published journals such as Guide to the Playgrounds in Saitama (kodomo to dekakeru Saitama asobiba gaido). She joined the council because of her career as an energetic writer on childcare and parenting issues. Sugiyama has written extensively on these matters since the middle of the 1990s after retiring from the Recruit From-A (rikurūto furomu ē), a publishing and classified advertisement company for part-time jobs. She, as a manager of an extensive mailing list of childcare NPO leaders, government officials, journalists, businessmen, early childhood educators, and employees in childcare facilities, established an NPO named Institute for the Environment of Raising Children (kosodate kankyō kenkyūjo) in 2002 (Nichigai Associates 2004; Sugiyama 2005).

The composition of the remaining members clearly demonstrates the government’s approach to the reform issue. Most of the recruited experts are economists who had already been serving one of the government deliberative councils when the PS/SSC was launched. In fact, half of the expert members in the council were also members of the Pension Actuarial Subcommittee (nenkin sūri bukai) of the SSC (PAS/SSC hereafter), which specialized in mathematical calculation of the financial status of the
pension funds and pooled reserves (see MHLW 2001a), including the PS/SSC Chair, Miyajima Hiroshi, and Hori Katsuhiro who served as the Chair of the PAS/SSC.

Miyajima Hiroshi who would later be appointed the Chair of the PS/SSC was a renowned economist and had participated in various government deliberative councils. Joining the new PS/SSC, he stated that the previous deliberative councils in the government agencies had “aimed to produce a report with a single conclusion” by “intermediating conflicting interests.” Miyajima however addressed that this new PS/SSC would not follow the previous practices but instead try “to produce variety of options by listening to as much opinions and voices as possible” and by “encouraging debates among conflicting views and interests” without “imposing a single conclusion” (Shukan Shakai Hoshō February 18, 2002, 4-5). He thus favored the politicization of pension reform issues and claimed that the policymaking of pension reform should be “led by politics” (seiji shudō). Interestingly, he also emphasized that the political decision-making should however be firmly built on technical expertise rather than on political considerations, criticizing the LDP’s effort to make an exception to the statutory reduction of pension payment due to the consumer price decrease (Shukan Shakai Hoshō February 18, 2002, 23-24).

Kōshiro Kazutoshi was appointed as the Deputy-Chair of the PS/SSC. He was a labor economics professor and would become the moderator of the Employment and Pension Research Committee (kōto nenkin ni kansuru kenkyūkai), which was installed by the Director-General of the Pension Bureau in June 2002. Kōshiro has served in a number of the MHLW’s councils as a public interest representative (kōeki iin) and was the Chair of the Central Minimum Wage Council (chūō saitei chingin shingikai).

Professor Hori, a former MHL official and a graduate of the University of Tokyo School of Law, from which all the Director-Generals of the Pension Bureau graduated, was one of the leading figures in the PS/SSC who shared views on the pension reform with the welfare bureaucracy (Shukan Shakai Hoshō January 14, 2002, 24-27; February 4, 2002, 4-5; see also Hori 2005). He had written extensively on the pension reform issues mainly focusing on its long-term financial stability.

Wakasugi Takaaki, a business professor specializing in corporate finance and investment, served as a chair for the Pension Fund Management Subcommittee (nenkin shikin unyō bunkakai). His view on the EPI was similar to that of the business sector in terms of supporting a privatized system of pension and emphasizing the role of individual pension programs (Shukan Shakai Hoshō July 29, 2002, 47).

Okina Yuri was a Principal Research Fellow at the Japan Research Institute (Nihon sōgō kenkyūjo), a think tank of the Sumitomo Mitsui Financial Group. She specialized in financial economics and served in many deliberative councils including the Financial Council (kinyū shingikai) and the Regulatory Reform Council (kisei kaikaku kaigi) as well as the SSC. Her most recent publication at the time of the launch of the PS/SSC was on banking sector reform and depositor protection (Okina 2002). Her main role was similar to that of Wakasugi, to review the pension fund management and its stability.
Kondō Noriaki, the President of the Japanese Society of Certified Pension Actuaries (Nihon nenkin sūrijin kai, JSCP hereafter), had been working in the life insurance industry for more than 30 years when he joined the PS/SSC. He was the Managing Director and the CEO of the Mitsui Life Insurance. The JSCP, according to Kondō, had contributed to the development of Japanese pension system by providing technical assistance and submitting reports to the MHW. In an earlier interview, Kondō stated, “since pension system is based on a very long-term projection and calculations, it is essential to make it financially stable building on sound fiscal management” (Shukkan Shakai Hoshō July 6, 1998, 10), which leads us to guess his basic stance on the pension reform issue.

There were a couple of non-economists, Ōsawa Mari and Yamasaki Yasuhiko. Ōsawa was a specialist in gender issues, which the MHLW regarded as one of the most important agenda for the upcoming pension reform. Professor Yamasaki was a former research fellow in the Social Security Research Institute (currently the National Institute of Population and Social Security Research), one of the MHLW’s research institutions. He was well known for his pension-guide publication series, Meikai Nenkin no Chishiki [understanding the pension system]. Yamasaki also served on a number of deliberative councils and later became the Chair of the PAS/SSC.

The final public interest representative was Watanabe Shunsuke, the editor of the Nihon Keizai Shimbun. Since the middle of the 1990s, he has written and given talks on the issue of pension reform, mostly about its urgency. In 2003, during the PS/SSC, he made a public address arguing that the contribution rate should be nearly doubled from the current rate up to 26 percent in order to cope with the problems of the pension caused by the low fertility rate and the poor performance of companies (Nihon Keizai Shimbun March 27, 2003, 3).

In short, the absolute majority of the expert members were in favor of the government’s reform directions and agenda. Virtually all of them had previous connections to the MHLW by serving in its deliberative councils. Also notable was their bias toward financial economic specialties, which succinctly implied the organizer’s fundamental attitude toward the PS/SSC.

Major objections would, expectedly, come from the interest group representatives. Okamoto Yasuo of the Sumitomo Corporation and Yano Hironori of the Japan Business Federation (Nihon keizai dantai rengōkai, Keidanren hereafter) were appointed to deliver the voice of the business sector. Labor was represented by three members: Ōyama Katsuya of the Japanese Association of Metal, Machinery and Manufacturing Workers (JAM hereafter), Mukōyama Kōshi of the Japanese Trade Union Confederation (Nihon rōdokumiai sórengōkai, Rengō hereafter), and Yamaguchi Yōko of the Japan Federation of Service and Distribution Workers Unions (Nihon sābisu ryūtsū rōdokumiai rengō, JSD hereafter). Their views on the pension reform were simple and clear. The business sector requested more cuts, both in contribution and benefit levels, while the labor was against the benefit cuts and contribution hikes.
The rationale of their claims was identical however: to rectify inter-generational imbalance or inequality. Yano argued that the rising contribution rate would make the situation worse since current subscribers will have to pay more and more money to support current pensioners (Nihon Keizai Shimbun March 8, 2003, 5). The labor also regarded the inter-generational inequality as the key to pension reform. Ōyama stated at a panel discussion that “the various policies to enhance competition among employees have made significant impact in workplaces, as in the case of pension problem, which have further caused generational conflicts including the conflict between senior workers and junior workers at the workplace” (Gekkan Rōdōkumiai January 2001, 11). Mukōyama strongly protested the simple reduction of benefits without restoring inter- and intra-generational inequality (Shūkan Shakai Hoshō July 8, 2002, 28-29). Both parties were thus interested in increasing the government subsidies in pension funds.

What should be noted here is the overlapping membership of the PS/SSC and the other deliberative councils. Besides the abovementioned overlapping membership between the PS/SSC and the PAS/SSC, to discuss gender-related issues, the MHLW had already launched another council, Women and Pension Review Committee (josei to nenkin kentōkai, WPRC hereafter), which submitted its final report in December 2001 and delivered it to the SSC for further deliberation (Nihon Keizai Shimbun December 15, 2001, 7; see also MHLW 2001b). Three members of the WPRC, a professor, a researcher and an independent member, joined the PS/SSC.

The member composition projected the basic idea of the MHLW’s thought process on pension reform, as will be discussed in the next session. The key to successful implementation of the pension reform then would be to keep the MHLW’s agenda from being displaced by the interest group representatives or independent members.

Setting the Agenda

The ultimate goal of the welfare bureaucracy was to make the pension system sustainable. The other important issue was to fix the technical problems of specific types of female subscribers whose benefits were set unfairly to model pensioners. It was basically adjusting the current benefits among male and female subscribers or among housewives and working women. Thus it did not have a significant budget impact but would have great social implications, and, to this end, three female independent members were recruited in the deliberation council.

A survey performed in 2001, however, showed that the general public’s discontent with the pension system were, excepting the levels of contributions and benefits which were naturally unpopular, focused on the inequality issues such as non-payment problems (24.3 percent), generational imbalances (18.9 percent), low government subsidies in national pension (12.3 percent), and so forth (Shūkan Shakai Hoshō January 21, 2002, 50). In other words, there was a clear difference in understanding the priority of the coming pension reform between the government and society.
The first year of the PS/SSC activities were thus devoted to setting the reform agenda and the MHLW endeavored to keep them aligned with its own goals. From the beginning, the welfare bureaucracy tried to focus primarily on parametric adjustments of the contribution and benefit levels. The then Director-General of the Pension Bureau (PB/MHLW hereafter), Tsuji Tetsuo, remarked at an interview that the public pension system should be firmly maintained as a social insurance program building on inter-generational support (sedaikan fuyō) and the primary goal of the reform should be increasing its sustainability by contribution rate hike:

Yet now, in this economic recession, when the wage is not increasing, it is true that more and more people are saying that it is not acceptable to raise pension premiums. However, it is also true that our economy is not going to leap and bounce but, on the contrary, the economy is likely to go up and down. So now our economy is somewhat being stabilized, I believe we can hammer out an agreement on a gradually increase of our premiums. If we look into the case of other advanced countries [...] employers and employees together pay around 20 percent of their annual salary for pension. [...] The [current Japanese EPI’s] contribution rate is now 13.58 percent. As mentioned before, although we may need to consider economic situation, we can secure pension payments to all the people who worry about their old age living only when we raise premiums, which will reinforce the current inter-generational support system. For this, I think we need all the citizens’ cooperation to understand it. (Shūkan Shakai Hoshō January 7, 2002, 62)

Ebata Jun, the Director of the Pension Division, Pension Bureau (PD/MHLW hereafter), subsequently stated that, for the next pension revision (kaisei) scheduled in 2004, the PS/SSC would start in January 2002 in order to:

[...] deliberate the issues of increasing government financing of the OBP, the increase of pension contribution rates, and the measures to bolster the foundation of the pension system, in addition to the women and pension problems. Since all these problems are serious and significant, by having them deliberated by citizens (kokuminteki ni giron shite itadaki), the Ministry will try our best to reach a consensus. (Shūkan Shakai Hoshō January 7, 2002, 77, author’s emphases)

As such, the MHLW clearly envisioned the goals of the pension reform and agenda to be deliberated in the PS/SSC before installing it. Further, the Director-General Tsuji proposed a reform schedule that included detailed steps of deliberation in the PS/SSC in tandem with the discussion in the LDP and ending at the regular Diet session in 2004 (Shūkan Shakai Hoshō January 7, 2002, 63).

The MHLW held a large-scale conference, the National Meeting of Health, Labor, and Welfare Director-Generals (zenkoku kōsei rōdō kankei bukyokuchō kaiigi) on January 16 and 17, 2002, where these goals were shared and confirmed across bureaus. The Senior Vice-Minister of MHLW and the Director-General of PB/MHLW gave speeches to confirm the agenda and the schedule (Shūkan Shakai Hoshō January 28, 13, 30-32). In the
nick of the time, a new population projection was published with a gloomier picture than the previous one, as seen in Table VII-3.

Table VII-3. Projections of the population in 2050 estimated in 1997 and 2002

<table>
<thead>
<tr>
<th></th>
<th>Birthrate</th>
<th>Child-</th>
<th>Ratio of 65</th>
<th>Peak</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Min.</td>
<td>Mid.</td>
<td>Max.</td>
<td>or more</td>
<td>population*</td>
</tr>
<tr>
<td>1997</td>
<td>1.38</td>
<td>1.61</td>
<td>1.85</td>
<td>810</td>
<td>32.3%</td>
</tr>
<tr>
<td>2002</td>
<td>1.10</td>
<td>1.39</td>
<td>1.10</td>
<td>600</td>
<td>35.7%</td>
</tr>
</tbody>
</table>

* Figures in thousands.


This provided the rational ground for the proposal of the contribution rate hike of the EPI system. It was officially proposed that the contribution rate would be increased to 20 percent from the current 13.58 percent of annual income by 2020 to achieve a 54 percent replacement rate, which was simultaneously lowered from the current 60 percent of the average model income (Nihon Keizai Shimbun January 17, 2002, 3). The introduction of a defined contribution (DC) system was also suggested in order to correct the widening gap between expected revenue and available funds (see Aaron and Harris 2004, 67-69 for the differences). This new system, if introduced, would result in a pension payment hinged on the macro-economic and demographic conditions (“macro-economic slide formula”) at the time of retirement instead of a fixed payment rate in the defined benefit (DB) system. Most of the discussion on the employee’s pension was on these levels of adjustment among the representatives of employers (e.g., Keidanren) and employees (e.g., Rengō, JAM), and the MHLW officials.

In terms of the OBP, the MHLW proposed an increase to 50 percent from the current 33 percent of the government funding which had already been stipulated by the previous revision. However, the welfare bureaucracy claimed that it would not be a done deal unless a stable financial source for it could be found. It was indeed a great vehicle for the politicians to claim credit and they indeed spent significant amounts of time on deliberating this done deal.

However, the increase of subsidy to the OBP fund would naturally entail debates on the tax increase, which Prime Minister Koizumi pledged not to consider within his term. The tax increase issue was rapidly politicized among political parties as well as within the LDP. For the welfare bureaucracy this consumption tax issue was indeed an effective tool to evade unwanted reform agenda. Other issues such as alleviating generational and gender inequality were proposed to be on the PS/SSC’s agenda but have not been discussed sufficiently mainly because that it would trigger a structural change in the existing pension system and would bring the issues of tax revenue to the forefront,
which neither the bureaucracy nor the politicians wanted to consider seriously (Shinkawa 2005, 176-78).

Therefore, the agenda was largely confined to the parametric adjustment of the benefit and contribution levels and the introduction of the new balancing mechanism to financially stabilize the pension system. Other tax-related issues were declared to be out of their jurisdictions, or simply tossed to the LDP, which was quite certain not to make any progress. This however does not mean that the welfare bureaucracy set the agenda by itself without any political influence.

The agenda was set in close coordination with the LDP. The MHLW officials frequently went to the LDP’s Pension System Research Committee (nenkin seido chōsakai, PSRC hereafter) and the Health, Labor, and Welfare Committee (kōsei rōdō bukai) to report the progress of the reform and adjust agenda if available. Sometimes the LDP politicians attempted to impose specific agenda such as tax-based financing issues (Shūkan Shakai Hoshō April 22, 2002, 48).

However, the MHLW was adamantly against reforming the public pension system into a tax-financed one. Shinkawa argues that it was because the welfare bureaucracy was concerned of losing its control over the pension assets (Shinkawa 2005, 178), and this claim has been prevalent among the public at large thanks to some bestselling books accusing the bureaucracy’s self-interest of the origin of the pension problem (e.g., Iwase 2007, 255-256). It is all but clear what the real intention (honne) of the MHLW policymakers was but there was a consensus on not embracing the tax-related claims since they were basically out of their jurisdiction and could not devise a settlement within the announced reform deadline. Whatever the reason, it was nothing but certain that the MHLW strongly favored the current social insurance system. The welfare bureaucracy endeavored to technically persuade those LDP politicians, as well as the PS/SSC members, by underscoring the superiority of the current PAYG-based partial funded system, as addressed in its official document (Shūkan Shakai Hoshō May 13, 2002, 54-57).

The independent members and some of the expert members wanted to discuss the substantial transformation of the current system into a tax-based fully-funded one. A study actually demonstrated that the mounting intergenerational inequality could hardly be compensated for without a reform moving toward a tax-financed funded pension system (Kunieda 2002). These attempts however have been effectively discouraged by the other members as well as the MHLW officials in the PS/SSC sessions as will be described later in the sections to come. Outside the council, in response to a citizen’s question at a town meeting regarding the possibility of tax-based funded system, Takahashi Naoto, the Director of the General Affairs Division, Pension Bureau, stated, “[i]t would change the pension system into an entirely new one. All pensioners will get same benefits and you will lose what you have paid. [...] Also its financing should be provided by consumption tax increase, which might go up to 4 or 5 percent hike” (Shūkan Shakai Hoshō March 17, 2003, 9).

Not only government officials but PS/SSC members were also mobilized to preach the rationale of the government’s reform agenda. At another town meeting, the Deputy-
Chair Kōshiro answered the same question with: “The consumption tax would ultimately skyrocket as high as 16 percent. Is there any political party that can afford this? Also, if regime changes, nobody knows where the pension system will go. The idea of introducing an object tax for pension is very dangerous indeed” (Shūkan Shakai Hoshō March 24, 2003, 41). In replying to a similar question in another town meeting on May 16, 2003, the PS/SSC Chair Miyajima answered that this could not be handled by the PS/SSC but by the Diet (Shūkan Shakai Hoshō May 26, 2003, 44). Even one of the staunch advocates of the tax-based funded system, Kojima, answered, “[w]hile the ultimate goal is to make the pension completely funded by tax, for the time being, in order to get rid of popular distrust and anxiety about the pension system, we may have to stick to the 50 percent government subsidy stipulated by the previous pension reform bill” (Shūkan Shakai Hoshō June 9, 2003, 20).

Putting the tax-related items aside, the MHLW presented its ultimate goal in “Direction and Issues of the Pension Reform Framework” published in December 2002 (MHLW 2002b). It stated that a significant revision of the current pension scheme was inevitable because of the aging society, the distrust of the pension system, the changing role of women in society, and the financial deficit. Since the problems of an aging society and pension distrust were basically out of their hands, their primary goal in reform was to restore the budget deficit (Nihon Keizai Shimbun January 17, 2002, 3; see also Shūkan Shakai Hoshō December 16, 2002, 40-43).

Once set, just as in the beginning of 2002, the MHLW had all welfare bureaucrats share the basic goals of the pension reform and made it public via media coverage by holding a large-scale conference. In the keynote speech the Vice-Minister (jimujikan) of the MHLW, Sawada Yōtarō, noted,

With respect to the public pension, it is essential to make the system have long term stability. [...] Preparing for the 2004 fiscal actuarial evaluation, we recently have come up with the “Direction and Issues” on the pension reform after a year of comprehensive deliberation. Building on this, from now on, we will push the reform forward regarding the levels of benefits and contribution as well as the ways to adjust them, in addition to lifting the restrictions on the premium increase and the increase of government subsidy to the OBP up to 50 percent, while listening to the opinion of every citizen. (Shūkan Shakai Hoshō February 3, 2003, 14)

Finally, Prime Minster Koizumi, in his policy speech before the Diet (shisei hōshin enzetsu) on January 31, 2003, stated that “with respect to the pension reform, we have finally compiled (torimatometta) its direction and issues last December” (Shūkan Shakai Hoshō February 10, 2003, 56).
Deliberation in the Council

In this section I will sketch out the deliberation sessions of the PS/SSC based on media articles and minutes. The 26 sessions deliberated wide variety of issues related to the public pension as shown in Table VII-4.

Table VII-4. Themes of the PS/SSC sessions, 2002-2003

<table>
<thead>
<tr>
<th>Session date</th>
<th>Themes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. 2002. 1. 16.</td>
<td>Review of previous reform initiatives including the report from the Women and Pension Review Committee, etc.</td>
</tr>
<tr>
<td>2. 2002. 3. 19.</td>
<td>New population projection, structural reform and the mid-term prospect of government fiscal condition, and the discussion format</td>
</tr>
<tr>
<td>3. 2002. 4. 19.</td>
<td>Role of pension system and the types of pension financing; review of pension reforms of other countries</td>
</tr>
<tr>
<td>4. 2002. 5. 17.</td>
<td>Continuation of the role of pension system and the types of pension financing; fiscal impact of the new population projection on the EPI and NPS</td>
</tr>
<tr>
<td>5. 2002. 6. 11.</td>
<td>Pension system and financing types</td>
</tr>
<tr>
<td>6. 2002. 7. 2.</td>
<td>Structure of the pension system, contribution and benefits, and its relations to the aging society problems and measures</td>
</tr>
<tr>
<td>7. 2002. 7. 19.</td>
<td>Continuation of the previous discussion</td>
</tr>
<tr>
<td>8. 2002. 9. 10.</td>
<td>Actuarial review of pension systems. Consumer price and raising contribution; non-subscriber and nonpayment problems</td>
</tr>
<tr>
<td>9. 2002. 9. 26.</td>
<td>Raising contribution; non-subscriber and nonpayment problems; fiscal condition of pension reserves; issue of category 3 subscribers</td>
</tr>
<tr>
<td>10. 2002. 10. 11.</td>
<td>Review and comprehensive discussion</td>
</tr>
<tr>
<td>11. 2002. 10. 29.</td>
<td>Review and comprehensive discussion</td>
</tr>
<tr>
<td>15. 2003. 3. 7.</td>
<td>Continuation of the previous discussion</td>
</tr>
<tr>
<td>16. 2003. 3. 18.</td>
<td>Actuarial review with respect to its economic assumptions; review of the report from the Pension Fund Management Committee (nenkin shikin unyō bunkakai, PFMC hereafter)</td>
</tr>
<tr>
<td>17. 2003. 4. 22.</td>
<td>Expansion of the EPI to part-time employees; problems of the category 3 subscribers</td>
</tr>
<tr>
<td>18. 2003. 5. 13.</td>
<td>Continuation of the previous discussion</td>
</tr>
<tr>
<td>19. 2003. 5. 30.</td>
<td>Comprehensive discussion on the contribution and benefit levels; review of the opinion survey result</td>
</tr>
<tr>
<td>20. 2003. 6. 12.</td>
<td>Private corporate pension programs and their relationship with the public pension system; taxation issues</td>
</tr>
</tbody>
</table>
21. 2003. 6. 12. Discussions on survivor pension (izoku nenkin) and disability pension (shōgai nenkin); divorce issues; relationship between pension and elderly employment

22. 2003. 7. 24. Presentation on the supplementary materials requested by the committee members; comprehensive discussion

23. 2003. 8. 20. Comprehensive discussion

24. 2003. 8. 28. Report from the PFMC; continuation of the comprehensive discussion

25. 2003. 9. 4. Discussion on the final report


The policy deliberation in the PS/SSC was not much different from what Noble (2000) observed as “freer discussion of predetermined agendas.” Each session, usually held either in one of the MHLW meeting rooms or in hotel seminar rooms near Kasumigaseki, began with briefings of the MHLW officials in a highly technical manner with large amounts of referential materials. After the briefings, the chair, mutually elected among members, had the floor to lead the session in a question-and-answer style. Each member was likely to be given one chance of speaking but not all of the attendants spoke during sessions. If the MHLW officials were given delicate or potentially controversial questions, they usually did not answer the question immediately but deferred to the next session and gave a detailed explanation in the introduction briefing. Further discussion of the topic was generally discouraged because each session had pre-assigned issues to deliberate.

At the same time, the MHLW utilized the media to advertise the inevitability of a parametric revision of the current pension scheme. They frequently invited media to give briefings in advance, usually one day before PS/SSC sessions. The MHLW press-releases and the media “framed” the pension reform discussion within the predetermined agenda throughout the deliberation process. As seen in Figure VII-1, the meeting room usually had a dedicated space for reporters who were usually asked to leave after the introductory briefing. When any media reported against the MHLW’s intentions, the bureau was quick to correct it by publishing press-releases or calling the news desk directly (Nihon Keizai Shimbun October 2, 2002, 4).

As briefly discussed in the foregoing section, the major issues deliberated in the PS/SSC—once the agenda had been set—were barely anything more than adjusting the benefit and contribution rates, which was a completely technical matter. There had been a number of heated debates especially between the representatives of employees and employers and the PS/SSC could not hammer out an agreement because the former simply argued for fewer cuts while the latter asserted for more cuts in benefits (e.g., PS/SSC Minutes, 15th session, March 7, 2003). When an issue did not reach a consensus, it was usually taken care of by holding public hearings or expert surveys. These debates were, as expected, within the issue agenda set by the MLHW. In fact, the bureau had
already set the schedule for public hearings and opinion surveys along the deliberation schedule of the PS/SSC.

Public opinion surveys were conducted by the Cabinet Office or the MHLW. The Cabinet Office’s survey asked respondents to choose one of three options that the PS/SSC proposed: (i) no change in benefit with a hike in contribution; (ii) slight decrease in benefit with a slight increase in contribution; and (iii) major cut in benefit with no change in contribution (CAO 2003). As expected and needless to say, the second option, “[d]espite the expected and growing burden on my pension premium, I prefer to slightly cut my benefit level in order to slow down the contribution increase rate,” got the highest preference (46.7 percent) and served as one of the key arguments to support the MHLW’s stance. The introduction of the DC system and the macro-economic slide formula was also asked for in a descriptive manner and the government got the result what it wanted (see Shūkan Shakai Hoshō May 19, 2003, 6-9).

**PS/SSC and the Other Organizations**

While being discussed in the PS/SSC, the Council on Economic and Fiscal Policy (keizai zaisei shimon kaigi, CEFP hereafter) of the Cabinet Office also envisioned its own reform plan, focusing on fiscal stabilization. The CEFP tentatively set the contribution rate at 18 percent and the personal burden rate—taxes and social security payments combined—at 50 percent (Shūkan Shakai Hoshō June 9, 2003, 42). The Minister of the MHLW, Sakaguchi Chikara. Objected to the proposal because the plan would lower the income replacement rate further down to 45 percent, which would not be acceptable to the general public (Shūkan Shakai Hoshō June 9, 2003, 44). The Chair of the SSC, Kaizuka Keimei, also criticized the bill saying, “[w]e are not a subcontractor of the CEFP,” and claimed that pension reform should be primarily handled by the SSC and its subcommittees (Shukan Shakai Hoshō June 23, 2003, 32). Shortly after, the SSC published its own reform proposal, “Proposal for the Future Direction of Social Security Reform” (korekara no shakai hoshō kaikaku no hōkōsei ni kansuru iken). The LDP’s PSRC also strongly objected to the CEFP’s plan. In response, the CEFP issued its third proposal for welfare reform on June 26, 2003, which eliminated the notions of the 18 percent contribution rate and the 50 percent burden rate (Shūkan Shakai Hoshō June 30, 2003, 6-9).

In the summer of 2003, the PS/SSC was concluding deliberation and entering into a final comprehensive discussion and each member was asked to submit a final statement (Shūkan Shakai Hoshō July 14, 2003, 32). On July 24, the PS/SSC embarked on writing the final report following the exact same content and order of the “Direction and Issues” (Shūkan Shakai Hoshō August 4, 2003, 48). Shortly afterwards, the General Affairs Division of the MHLW submitted “Summary of Deliberation” (shingi seiri memo) to the PS/SSC, recapping major points to be included in the final report with which the final deliberation would be carried out (Shūkan Shakai Hoshō August 25, 2003, 16). This memo (PS/SSC 2003b) enumerated major points discussed in the sessions but highlighted what
seemed to be a consensus reached by all or by the majority, followed by differing views as minority opinions.

Before the PS/SSC finalized the deliberation, Minister Sakaguchi issued a preliminary draft for the 2004 pension reform, On Revising the Benefits and Contributions with respect to the 2004 Pension Reform, the so-called “Sakaguchi Draft Plan,” on September 5, 2003 (see MHLW 2003). As the title indicates, the draft bill was primarily aimed at revising the levels of benefit and contribution of the existing pension scheme. The only noticeable difference between the “Direction and Issues” and the “Sakaguchi Draft Plan” was the income replacement rate, which was slightly raised from 52 percent to 54 percent.

The final session of the PS/SSC on September 12, 2003, began with the General Affairs Division’s briefing about the “Sakaguchi Draft Plan” but, given that its final report was already completed, no further deliberation was in fact available. The PS/SSC submitted the report titled “Opinion regarding the Pension System Revision” (nenkin seijo kaisei ni kansuru iken), which concluded the council’s 20 months of deliberation (Nihon Keizai Shimbun September 4, 2003, 1-2; September 12, 2003, 1), to Minister Sakaguchi that very afternoon. The statement listed and epitomized major issues debated by the council. Although it did not contain a single unified and determined opinion of the council, the statement clearly showed that the majority of the members agreed to the MHLW’s reform initiatives. The MHLW was then ready to embark on its official reform bill with Sakaguchi’s plan on the one hand and the PS/SSC’s report on the other (Shūkan Shakai Hoshō October 13, 2003, 26).

The MHLW then drafted a reform bill summarized as: (i) maintaining 50 percent income replacement rate; (ii) increasing government financing of the OBP fund up to 50 percent; (iii) increasing the contribution rate up to 20 percent; (iv) introducing a macro-economic slide with the DC system. It encountered immediate contention from other governmental agencies, politicians, and civil society. The Ministry of Finance (jaimushō, MOF hereafter) claimed that the reform plan would not be sufficient to restore fiscal stability. The MOF was also critical of the increase of subsidy to the OBP with government budget. The Ministry of Economy, Trade and Industry (keizai sankgyōshō, METI hereafter) also criticized the bill saying it would stiffen the financial situation of the Japanese industries because firms would need to set aside more employees’ pension contribution that otherwise could be invested into industrial activities (Nihon Keizai Shimbun September 13, 2003, 4). The business sector—the Japan Chamber of Commerce and Industry (Nihon shōkō kaigisho, JCCI hereafter) for instance—suggested a much lower 15 percent contribution rate (Nihon Keizai Shimbun November 18, 2003, 3). The Keidanren, while partly seconding METI’s position, requested a more radical cut in benefits and contributions. The Rengō, on the other hand, insisted that the benefit level should be maintained with a lowered contribution level (Nihon Keizai Shimbun November 18, 2003, 3).

Political parties also publicized their manifesto, or public pledges, on a variety of reform issues including the pension reform for the upcoming election (Nihon Keizai
The ruling coalition parties announced that the reform should be based on the “Sakaguchi Draft Plan” and agreed to the 50 percent subsidy to the OBP (Nihon Keizai Shimbun November 11, 2003, 3; November 13, 2003, 1). The opposition Democratic Party of Japan (minshutō: DPJ hereafter) called for a completed “restructuring” of the public pension system by unifying the pension programs. The Communists and the Socialists asserted that the 50 percent government subsidy to the OBP should be a stopover toward a fully tax-funded system of public pension (Shūkan Shakai Hoshō October 27, 2003, 42).

In the meantime, the CEFP also entered the review of the reform plan focusing only on “the rates of benefit, premium, and the government’s contribution,” as stated by the Minister of State for Economic and Fiscal Policy (keizai zaisei seisaku tantō daijin) Takenaka Heisō (Nihon Keizai Shimbun October 4, 2003, 3). With slight modification, the MHLW finalized the official reform plan and submitted it to the LDP’s Pension System Reform Committee (nenkin seido kaikaku kōkai) on November 17, 2003 (Shūkan Shakai Hoshō November 24, 12-13).

Legislation

The legislation process of the pension reform plan was relatively swift and smooth. This was by no means because of an absence of disagreement on the pension reform but because there were not many things to do to the basically parametric reform bill that was highly technical in nature. The bill was filled with mathematical calculations of the future balance of the various pension funds and macro-economic projections. The only subjects which mattered were some of the symbolic figures such as contribution and income replacement rates, which were politically usable in the upcoming election. This actually left many claims of the government’s reform bill largely unverified (Takagawa 2006).

The public pension became the hottest issue in the 2003 election. The DPJ pledged a unified pension system with a fully tax-financed OBP system whereas the LDP remained vague on this issue (Estévez-Abe 2008, 279). The legislation became all about numbers. Koizumi first announced the 50 percent income replacement rate and the LDP claimed an at least 50 percent benefit rate. Sakaguchi announced that the contribution rate was going to be determined between 18 and 20 percent (Shūkan Shakai Hoshō December 15, 2003, 16). The LDP Dietman Niwa Yūya argued that a more than 50 percent benefit rate was “our promise to the people” (Shūkan Shakai Hoshō January 5, 2004, 9). All other political parties, government agencies and interest groups, the business sector inter alia, came up with their own figures and numbers (Shūkan Shakai Hoshō December 8, 2003, 16-17, 39-45; December 22/29, 2003, 13). Finally, the contribution rate of the reform bill was set at 18.35 percent, which was slightly higher than the rate supported by the CEFP, the MOF, and the business sector, but lower than the PS/SSC’s target rate. The benefit level was maintained at 50 percent.

In January 2004, Otsuji Hidehisa became the new Chair of the LDP’s Health, Labor, and Welfare Committee (jimintō kōsei rōdō bukai). He stated:
Some argues that it was the result of compromise or a numbers game (sūji awase) but it was the result of a comprehensive deliberation between the LDP and the Kōmeitō. In order to build a system that can make people assured, I believe we need to show strong political decisiveness on this issue. [...] I know that many fundamental issues such as the status of the OBP, category 3 subscribers, tax-funded system, et cetera, have not been sufficiently discussed, so it would be good to discuss them later through this year. (Shūkan Shakai Hoshō January 12, 2004, 34)

On January 19, the MHLW delivered the reform bill to the ruling party. The finalized reform bill delivered on February 4 to the Ruling Party Pension Reform Committee (yotō nenkin seido kaikaku kyōgikai) removed some delicate issues such as the extension of EPI coverage to part-time workers (Shūkan Shakai Hoshō, February 9, 2004 20), who were not represented in the conservative corporatist system. It passed the Cabinet Council and was delivered to the 159th Diet, which would later be called the “pension Diet” (nenkin kokkai).

Meanwhile, at the PS/SSC session on March 4, 2004, a number of members expressed concern and objected to the process behind the pension bill legislation. Members asked why the PS/SSC’s proposal for the issues other than the benefit cut and contribution increase were dropped. The Director-General Yoshimura responded that it would be deliberated in this PS/SSC in a near future, although the schedule was unclear at that point of time.

The opposition DPJ criticized the bill saying it would not address the problems of the current pension system which required a fundamental reform. At the Diet session DPJ Dietman Yoshigawa claimed, “[t]his is not a fundamental reform (bappon kaikaku).” Sakaguchi then responded: “[t]his reform is a foundation. We cannot budge an inch without this reform. Thus I call this reform a fundamental reform (nemoto kaikaku)” (Shūkan Shakai Hoshō March 1, 2004, 13). Koizumi also called it a first step toward a fundamental reform (bappon teki kaikaku no dai ippo).

However, the DPJ was still drafting its own reform bill but had to rely on the government for technical information and knowledge. Thus the DPJ asked for the MHLW’s help and Minister Sakaguchi replied, “[i]f submitted, we will make all the calculations for your bill. But please finalize it as soon as possible” (Shūkan Shakai Hoshō March 29, 2004, 66). In the meantime, the ruling party’s bill entered into the deliberation process in the Diet in the beginning of April, 2004.

The opposition DPJ finally submitted an alternative reform bill to the Health, Labor and Welfare Standing Committee (kōsei rōdō inkai) (see the comparison table on Shūkan Shakai Hoshō April 26, 2004, 42). The DPJ’s plan suggested a more radical reform endorsing a unified pension system and tax-based financing, including an increase of the sales tax. The LDP severely downplayed the feasibility of the DPJ’s bill. “It [the unified pension system] is the matter of 20 or 30 years later,” said Prime Minister Koizumi at the House of Representatives (shūgiin). “It’s going to take more than one or two years to
simply discuss to which form the system should be unified,” he continued (Nihon Keizai Shimbun April 2, 2004, 2). “The DPJ bill does not have any single number in it,” another LDP Dietman ridiculed the plan. “It would take five years to discuss these agenda. What are we going to do during that time?” (Nihon Keizai Shimbun April 10, 2004, 7). The DPJ criticized the government bill as “nothing but a makeshift budget fix” while the LDP ecedied the DPJ plan as a “review please bill without any tangible number in it” (Nihon Keizai Shimbun April 15, 2004, 5). The MHLW also published official pamphlets implicitly criticizing the DPJ’s reform proposal (Yoshida, Guo, and Cheng 2006, 398).

Meantime, the reform debate drifted to an unexpected direction toward which party politicians could not effectively handle it, i.e., the breakout of the pension scandals (Los Angeles Times May 8, 2004; see also El-Agraa 2009). While politicians were debating the pension reform proposals, it was disclosed that several cabinet members did not pay pension contributions. The opposition DPJ brought this issue to the surface and the then Chief Cabinet Secretary Fukuda responded that this was nothing but personal matters. However, it soon turned out that seven out of the 17 cabinet members, including Fukuda himself, as well as several members of the DPJ, did not pay appropriate pension premiums. It brought about huge popular disgruntlement which resulted in the resignation of Fukuda and the leader of the DPJ, Kan Naoto, simultaneously.

It was nothing but the beginning of a series of pension scandals which, wittingly or unwittingly, swiftly turned popular attention to political and governmental corruption, and away from the pension reform itself. The key issues of the pension reform and party politics were decoupled and barely influenced the electoral outcome (Yamamoto 2005, 217). The political parties only agreed to establish another deliberation council to discuss the unified pension system in the near future (Asahi Shimbun May 7, 2004). While the pension reform issues were drifting, the reform bill, barely revised from the government original plan, was delivered to the floor of the Diet and passed with 67 hours of unprecedented deliberation time, first in the House of Representatives and then the House of Councilors (sangin) because of the DPJ’s boycott (Iijima 2006, 190). It was finally promulgated on June 11, 2004, ending the two-and-a-half years of reform deliberation. After the promulgation of the new pension act, media, politicians, and intellectuals warned of the shortcomings of the new pension system but they had to wait five years to revise the law (Nihon Keizai Shimbun June 29, 2004, 2; July 30, 2004, 5; August 8, 3; August 16, 2; December 19, 21).

2. Conservative Corporatism in Convoy Capitalism

The previous section documented the story of the 2004 pension reform in the context of a proactive bureaucracy that set the agenda, guided the deliberation, and led the legislation process. In this section, the interplay of actors engaged in the dynamics of the pension reform process will be discussed in more detail in order to analytically depict the nature of the state-society relationship in Japan.
The Welfare Bureaucracy

It is obvious that the Japanese pension reform was more successful in terms of achieving the proposed goals of the reform, than other recent cases in France and Greece where the governments’ reform initiatives brought massive setbacks, which eventually undermined their political stability. One noticeable difference in the Japanese case was the strong role of the welfare bureaucracy throughout the reform process. First of all, the Japanese welfare bureaucrats had organizational coherence and personnel stability. In other words, the MHLW had a dedicated bureau of pension with elite personnel specialized in welfare issues such as Tsuji Tetsuo who knew as much and in detail as the other expert members in the council. In fact, the Director-General Tsuji Tetsuo became a professor of social welfare after retiring as the Vice-Minister of the MHLW. The Pension Bureau was established in May 1959 with the promulgation of the National Pension Act and has survived intact as an independent bureau for more than 50 years (Kōseishō Gojūnenshi Henshū Iinkai 1988).

The quality of personnel and the agency’s long history of organizational coherence translated into the bureau’s clear policy goals and procedures. As briefly covered in the previous section, the welfare bureaucracy had set the policy goals before initiating reform. The participatory reform, however, could make the MHLW’s policy goals displaced. To prevent this, the welfare bureaucracy restricted the agenda of the deliberative council to technical issues by leaving politicizable items out of its jurisdiction. The government officials in the council played a key role in keeping the discussion on track. The members of the councils, a majority of whom had had close ties to the MHLW, were largely cooperative with the government’s guidance. Discussions remained within technical discourses instead of political or ideological debates.

Politicians who are typically weak in technical discourse had difficulty in intervening and redirecting the course of the reform, since the reform debates were kept within the predetermined technical agenda. The LDP’s PSRC initially attempted to exert influence in the pension reform and asked the MHLW to come and give comprehensive briefings. However, the PSRC’s meetings with the welfare bureaucrats became more like lectures than policy discussions as time went by. The PSRC chair Tsushima Yūji asked Tsuji Tetsuo to “keep the PSRC updated on this important reform issues” (Shūkan Shakai Hoshō May 20, 2002, 44).

One interesting example is the concept of “macro-economic slide” (makuro keizai suraido) formula, or an automatic adjustment system of the benefit levels in proportion to the macro-economic and demographic changes. It was indeed a magic spell for the bureaucracy since the government would not have to reevaluate the benefit levels every time a new demographic or macro-economic projection came up. However, even the Prime Minister Koizumi did not appear to fully understand it, considering his incorrect answer on the meaning of the macro-economic slide formula at the Diet session on June 3, 2004 (22nd session, HLW Committee, 159th Diet). As well addressed in a report by Japan Research Institute, the fundamental difference of the Swedish and the Japanese macro-slide model is that the former was designed to minimize the political manipulation.
on the pension scale while the latter was to maximize the bureaucratic manipulation, meaning to bypass the political influence (Nihon Sōken 2003, 10). Had Koizumi fully comprehended it, he might have not endorsed the idea.

This pattern of bureaucratization of the agenda was not only applied to the 2004 reform case but has continued without much change. In a recent session held in 2008, the discussion was being moderated by the Chair after everyone exchanged his/her personal opinion in a highly technical matter. “It goes too much in detail,” said the Chair Inagami Takeshi, a sociology and business professor: “It seems we’re in an academic conference” (Kyariaburein Nyusu April 23, 2008).

Political decisions were still shunned. When a journalist suggested, after long sessions of deliberation, to decide whether we should finance the OBP with tax or not, it was interrupted by the Deputy-Chair Watanabe who said: “Absolutely no way. It is better to collect all the opinions of the pension subcommittee with free discussions. Free discussions should not be discouraged” (PS/SSC Minutes, 7th session, April 22, 2008). Just like the 2004 reform case, the welfare bureaucracy avoided making political judgment and passed it to the politicians by enumerating “options” to choose. Although some members criticized the indecisiveness of the council, the deliberation was not further developed but moved on to another topic as scheduled.

Figure VII-1 displays the basic format for the settings of deliberation in the council. In this setting, highly-technical discussions tend to make members feel like students in a classroom where the government officials and some expert members—mostly university professors—deliver lecture-like presentations. Piles of documents on the members’ tables in a large square-shaped hall are intimidating as well. Deliberation meetings usually turn into question-and-answer sessions if discussions go into technical details. Sometimes, the members asked for extra explanations for “more accurate understanding on the government proposal” because of its technical jargons and hard-to-understand formulae (Shukan Shakai Hoshō March 17, 2003, 32).

Also, the chair and deputy chair sit side by side with high-profile government representatives facing a group of officials across the tables. Council members sit in front of a heap documents and ask questions, moderated by the Chair, to the government representatives. Given the two or two-and-a-half hour time limit of each meeting session and the opening statement by the government representatives who usually go over the documents stacked on the table, only one or a couple of chances are given to each council member. In case the questions are too difficult or too delicate to respond on the spot, the government representatives get permission to answer at the next meeting with the opening statement. However, since each and every session had pre-assigned discussion topics, it was very unlikely that the delicate debate would develop further.
In short, the environment of the council was fundamentally unfavorable to "non-affiliated" individual citizens who did not have as much technical knowledge as the government officials or other experts as well as the "affiliated" members, i.e., interest group representatives. The predetermined deliberation schedule and the pre-appointed rapporteurs effectively fenced off potential hazards on the road to the government's predefined goals. It however does not mean that the council members could not advance their opinions or pushed them through. The deliberation council was not by any means a mere rubber stamp but it did affect the course of the reform. This was technically tailored by the bureaucracy that summarized each session and distributed the summary in the next session to guide the deliberation.

Outside the council, the bureaucracy held a series of town meetings in order to advertise the government's reform plan (Shūkan Shakai Hoshō March 17, 2003, 6). Furthermore, the MHLW utilized the PS/SSC in preaching its reform plan. Four members of the PS/SSC, Kōshiro, Yamazaki, Watanabe, and Sugiyama, accompanied the Director-General Yoshitake to a town meeting on the pretext of "listening to people's voice." In practice, however, these members were mainly explaining the government's reform agenda in response to simple questions from participants, who were pre-assigned and staged on the dais together with the members. At a town meeting, a housewife named Nishimura Yumiko, who was of course an appointed panelist, asked: "The premium hike is really a strain to the family budget. If it should be raised, please explain more in detail
why it has to be increased, which would help us feel comfortable with it” (Shūkan Shakai Hoshō March 24, 2003, 43).

As touched upon in the previous section, well-tailored opinion surveys served as strong tools for the bureaucracy to go through political impediments such as the determination of the benefit and contribution levels. The 20 percent contribution rate, which got the highest response at the opinion survey, became the grounds for deliberation at the session (PS/SSC Minutes, 19th session, May 30, 2003). Most members agreed to the 20 percent rate, which got 59 percent approval at the opinion survey, while two business representatives, Yano and Okamoto, and the Rengō representative, Kojima, claimed lower rates. They also asked for slower increases than the other members who insisted expediting the time period to reach the maximum contribution rate. On the benefit cut, only labor representatives showed objections while the other members generally agreed to it. The PS/SSC then finalized the deliberation by enumerating these opinions with visible highlights on the majority view.

Campbell (1992, 347) once stated that the “bureaucrats decided what they wanted to do, and were able to do it” at the 1985 reform, unlike for the previous failed attempts. Kato (1994, 229) also observed that the bureaucracy can exercise influence over policymaking with its “strategic use of policy information and technocratic expertise.” In the late 1980s and the early 1990s, the welfare bureaucracy’s technical knowledge was significantly challenged by academics and critics from civil society (Campbell 1992, 348). Although the influence of political parties and civil society had significantly increased due to their observation, however, the welfare bureaucracy was still able to manipulate the agenda and carry out reform with technical discourses, organizational skills, and effective policy tools.

**Prime Minister and Political Parties**

As noted above, the influence of politicians and elected government officials have indeed increased. It was especially so under Prime Minister Koizumi’s leadership dubbed as “cabinet leadership” (kantei shudō) or “the rule of prime minister” (shushō shihai) by Shimizu (2005) and Takenaka (2006). However, as Kabashima and Steel (2010, 21-22) points out, the Cabinet Office’s policymaking capacity was still limited compared to the bureaucracy, as seen in the pension reform case that was not sufficiently politicized. In practice, the Cabinet Office and the LDP approached the issue primarily from a technical perspective except in the issue of increasing the government subsidy to the OBP.

To begin with, the Cabinet Office and the LDP installed a myriad of policy councils and committees in order take initiative in the reform. First off, the Cabinet Office installed an advisory council, the CEFP, in 2001 to discuss wide range of issues including the problems of social security system. Its report published in June 21, 2001, stated that the social security system should be “sustainable and easy to understand” (Shūkan Shakai Hoshō January 7, 2002, 39), which was not quite different from the view of the MHLW. The Committee also proposed a reform schedule and it was reflected in the next year’s budget. The Cabinet, with the LDP, also organized the Government-Ruling Party Social
Security Reform Conference (seifū yōtō shakai hoshō kaikaku kyōgikai) and published the Outline of the Social Security Reform (shakai hoshō kaikaku daikō) on March 30, 2001. The LDP’s Policy Affairs Research Committee installed welfare-related subcommittees including the Social Security Research Committee (shakai hoshō chōsakai). Also established was the aforementioned PSRC, originally designed to draft its own reform plan on the pension issue (Shūkan Shakai Hoshō January 7, 2002, 42). The Minister of the MHLW Sakaguchi, a Kōmeitō politician, also installed the Discussion Meeting for the Aging Society (shōshika shakai o kankaeru kondankai), moderated by Kimura Shōsaburō, a professor emeritus of history. Its members mostly consisted of academic personnel from a variety of disciplines and there was not a single overlapping membership with the PS/SSC (see the list at Shūkan Shakai Hoshō April 22, 2002, 7). Prime Minister Koizumi asked it to produce measures for the aging society (Shūkan Shakai Hoshō May 27, 2002, 16).

These policymaking bodies continued to discuss fundamental reform of the public pension system including the issue of transforming the current system into a tax-based funded financing system (Shūkan Shakai Hoshō April 15, 2002, 49; April 22, 8-9). However, as the Chair of the PS/SSC aptly posited, the plethora of decision-making—or decision-contemplating—bodies made the entire policymaking procedure murky and unstable (Shūkan Shakai Hoshō July, 1, 2002, 46-47). In addition, these policymaking bodies contemplated individual reform measures under the overarching political theme of so-called “fundamental reform” (bappon kaikaku), without due consideration of the government’s policy capacity or resource availability. Thus, their detailed policy blueprints had to be consulted with and supported by the pertinent government bureaus, wherein the bureaucracy could effectively adjust, change, or even displace specific policies. For instance, the CEFP in the middle of 2002 came to discuss the pension reform issues with materials similar to those which were submitted to the PS/SSC (Shūkan Shakai Hoshō June 10, 2002, 44-45). Both of them were made and provided by the MHLW and it was very likely that they would have produced similar policy outcomes.

Building on the CEFP’s proposal, on July 13, 2002, the Minister of the MHLW held a town meeting on the issue of social welfare and announced that the pension reform would be the top priority issue among the government’s welfare reform agenda (Shūkan Shakai Hoshō July 22, 2002, 8). Subsequently the Prime Minister also requested the Minister of the MHLW to draft a pension reform plan (Shūkan Shakai Hoshō July 29, 2002, 12), which the welfare bureaucracy had already been doing. Koizumi soon dubbed the pension reform a policy to “reduce future pension subscribers’ burden” (Nihon Keizai Shim bun October 19, 2002, 2) by adjusting current pensioners’ benefit and current subscribers’ premium, which was coherent to the welfare bureaucracy’s basic perspective on the pension reform. When the welfare bureaucracy came up with the “Direction and Issues,” Prime Minister Koizumi declared at the Diet that the direction and issues of the pension reform was now “concluded,” which was immediately criticized by a DPJ Dietman Asahi Toshihiro who said, “[t]o claim that the pension reform is now concluded is not a reasonable attitude to listen to the people’s opinion” (Plenary Session, House of Councilors, February 5, 2003).
Political parties actively engaged in the pension issues as well. As party competition intensified, the ruling LDP became more sensitive to popular support. For instance, the LDP, in cooperation with the other political parties, played the leading role in passing the special act aiming to make a temporary exception to the reduction of pension payments in accordance with the decrease in consumer-price, for three years in a row from 2000 to 2002 (Shūkan Shakai Hoshō April 1, 2002, 13). In other words, the politicians cared more about a small portion of pork-barrel-like policies than the pension reform per se, regardless of their overarching rhetoric of the “fundamental reform.” There was no opposition from the opposition parties. Mori Eisuke, the chair of the Health, Labor and Welfare Committee of the House of Councilors, who had been the Parliamentary Vice-Minister of Labor, told at an interview that there were no significant policy conflicts between the ruling and the opposition parties (Shūkan Shakai Hoshō February 11, 2002, 4). In practice, the opposition DPJ had not developed a detailed outline for pension reform when it was initiated by the government. Yamamoto Takashi, the DPJ’s shadow minister stated: “We do not separate healthcare, pension, and other welfare issues but have been reviewing the entire social security system including pension, healthcare, old-age care, et cetera, from a comprehensive perspective” (Shūkan Shakai Hoshō March 18, 2002, 5).

The welfare bureaucracy kept close contact with the LDP from the beginning of the pension reform (Shūkan Shakai Hoshō February 4, 2002, 18). The PB/MHLW officials diligently joined the LDP’s PSRC and other study groups to give detailed briefings on the progress and to persuade them of rationale for the pension reform. After a PSRC meeting where the MHLW briefed them about the pension reform outline, the PSRC Chair Tsushima told to reporters that “on this result of calculations, it is very important how to explain it to the people and get their support. [...] To persuade people and have them understood is our job” (Shūkan Shakai Hoshō August 5/12, 2002, 150).

In doing so, an interesting division of labor was developed between the bureaucracy and the LDP. While the welfare bureaucracy drove the reform toward financial stabilization by cutting benefits and raising contributions, the LDP’s discussion on the pension reform was being directed toward the issue of the increase of government subsidy to the OBP up to 50 percent (Shūkan Shakai Hoshō May 12 2003, 16). In fact, it had already been stipulated by the previous reform as law and the only remaining question was how to provide the funding, either from the introduction of the new tax or from reshuffling tax revenues. Due to its nature of welfare expansion, however, it was politically attractive and usable, especially in the election seasons. Before the upcoming election in 2003, the LDP organized a new pension reform committee and, at its first meeting, the committee confirmed this principle of subsidy increase without specifying the revenue sources. The LDP politicians simply deferred the discussion to sometime after the election in order to make it an issue at the coming election (Shūkan Shakai Hoshō October 20, 2003, 32). It would however keep on being recapitulated throughout the legislation process of the pension reform (e.g., Shūkan Shakai Hoshō December 1, 2003, 12; December 15, 2003, 13).
This division of labor was not necessarily intentional rather than inevitable considering the technical nature of the reform. As the reform discussion proceeded into more and more technical issues, there was less and less room for the politicians to intervene. When the LDP’s PSRC invited some MHLW officials on May 22, 2003, to get briefings on the recent progress on the pension reform issues related to part-time employees and category 3 subscribers, lawmakers candidly said that “it got more and more difficult to understand as it went into details further and further” (Shūkan Shakai Hoshō June 2, 2003, 32).

Therefore, the politicians kept focusing on the issues related to the government subsidy and tax-based financing, which were politically malleable. The opposition parties stood against the government’s plan to cut benefits in addition to the subsidy increase. Thus, when the political parties organized a joint symposium on the pension reform on June 2, 2003, where all sorts of opinions were thrown to the floor (Shūkan Shakai Hoshō June 16, 2003, 40-45), the LDP and Kōmeitō lawmakers were largely in line with the government’s reform direction, the DPJ asked for a transition to full tax-based funded system of the OBP, and the Communist party repelled the benefit cuts.

The LDP’s debate on the pension reform however faced the issue of tax increase, which Prime Minister and the Cabinet were extremely reluctant to discuss. Since the Prime Minister pledged not to raise the consumption tax during his term, Sakaguchi stated that the government would consider the increase of subsidy by reforming the current tax system (Budget Committee of the House of Councilors, January 28, 2003). When the Cabinet Office held a town meeting on the issue of welfare reform, some participants asked for the increase of government subsidy to the OBP by introducing an object tax. The MHLW Minsiter Sakaguchi and the PS/SSC Chair Miyajima expressed negative opinions. Nemoto Takumi, the Vice-Minister of the Cabinet Office, responded, “[s]ince people are allergic to consumption tax increase, we need more comprehensive discussion to approach this issue” (Shūkan Shakai Hoshō March 10, 2003, 9). The LDP’s PSRC continued to discuss the reform including the tax increase issues (Shūkan Shakai Hoshō March 10, 2003, 13), however, they could not revert on the Prime Minister’s no-tax-increase policy. Instead, the LDP, claiming credit for the subsidy increase by the reform, condemned the opposition parties for scheming tax hikes.

**Business and Organized Labor**

The major interested groups in the pension reform were the employers and the workers who would be directly affected by any changes in contribution and benefit rates. From the late 1990s, the Japanese business sector visibly expressed its preferences in pension reform (Choi, Y-j. 2008b, 100-101). It was largely due to the economic difficulties of the companies which had to bear the cost of the growing pension contribution rates. Thus the Keidanren’s major preference was to increase state responsibility in welfare provisions without increasing burdens for the businesses. Given the high corporate tax rates, the only option to achieve this goal was to privatize the EPI system as much as
possible and, more importantly, to raise consumption taxes to subsidize the pension funds.

In the 2000 reform, the government introduced the DC and DB systems in the EPI scheme, responding to the requests of the business sector (Choi, Y.-j. 2008b, 102). By fixing either the contribution or the benefit amount, it was designed to make employees bear more risk than employers while leaving more room for employers to manage the pooled reserves. Although the idea of raising consumption taxes was completely denied, the business sector was able to deliver its preferences to the government, which was to relieve its financial burden for the EPI system. The burden was passed onto employees by the government’s introduction of the DC and DB plans in the EPI system.

In the 2004 reform, the business sector’s basic position was to make the pension financing rely more on government tax revenue, collected via indirect taxes, rather than through a contribution hike or direct tax increase, in order to relieve the employers’ burden. The series of statements published by Keidanren (Shūkan Shakai Hoshō September 2, 2002, 29; October 21, 2002, 28) consistently underscored the indirect tax increase and the importance of self-help. Japan Association of Corporate Executives (Keizai dōyūkai, Dōyūkai hereafter) also issued a statement proposing an introduction of an object tax for pension financing (nenkin mokutekizei) as well as partial privatization of the EPI system (Shūkan Shakai Hoshō December 16, 2002, 15).

The business sector’s strong attachment to the tax increase continued through to 2003. However, as illustrated in the foregoing section, the tax increase was not easily acceptable to politicians. In practice, the business sector’s claim, as the PS/SSC was discussing the levels of contributions, was a signal to the bureaucracy not to raise the contribution level too much (Shūkan Shakai Hoshō September 29, 2003, 33).

With its rich resources, Keidanren had been involved in the pension reform even before the government initiated it. Its report “Basic Thoughts on Reforming the Public Pension System” (kōteki nenkin seido kaikaku ni kansuru kihonteki kan’gaekata) issued on December 7, 2002, was widely circulated and in fact discussed at the PS/SSC sessions. The Public Pension Research Group (Kōteki nenkin kenkyūkai), a subsidiary research organization of Keidanren, also criticized MHLW’s proposal arguing that it would significantly exacerbate the inter-generational transfer (PPRG 2003). They submitted the reports to the PS/SSC for discussion (Kyōdō Tsūshin, April 1, 2003) and it was seriously discussed. Other reports and statements produced by another subsidiary research organization, Pension Reform Committee in the Keidanren Social Security Council (Keidanren shakai hoshō iinkai nenkin bukai) were also frequently discussed in PS/SSC sessions.

Inside the PS/SSC, two members, Okamoto and Yano, actively participated in the deliberation process to limit the increase of the contribution rate while insisting on an increase of tax-based subsidy to the OBP (e.g., PS/SSC Minutes, 14th session, February 19, 2003; Shūkan Shakai Hoshō February 24, 2003, 42). They persistently deliver the voices of the business sector in the deliberation process, although their efforts were not always effective.
In case their claims were not accepted, the business sector had a plethora of networks to exert influence on the conservative corporatist regime. Between October 2002 and June 2004, Keidanren officially issued statements on the pension reform and the Chairman Imai Takashi met Prime Minister Koizumi a couple of times to express the concerns of the business sector on pension issues (see Keiei Taimuzu 2649, 2691, 2692, 2700, 2701, 2703, 2720, and 2725). The annual New Year’s Address by the Keidanren Chairman every year during the reform period mentioned the pension reform issues and the Keidanren’s opinion. As the outline of the pension reform got clearer, Keidanren even invited influential figures including Minister Sakaguchi as well as above-director-general-level high profile MHLW officials to discuss the proposed reform bills (see Keizai Kurippu 13, 25, and 35).

The position of the business sector was also represented by the CEFP in the Cabinet Office led by Takenaka Heizō, one of the key players of the Keidanren and Koizumi’s faithful lieutenant (Osawa 2005). The CEFP’s pension reform outline was almost in sync with that of the business sector, except the tax-financing issue. The Minister of the MOF, concerning the burden of the corporate sector, claimed a significant cut in benefits, as low as 40 percent income replacement rate, and a minimal increase in contribution rate, originally up to 15 percent (Shūkan Shakai Hoshō April 14, 2003, 12; May 12, 2003, 32).

Since the MHLW’s final plan for the pension reform were not satisfactory to the business sector, employer organizations denounced the government’s pension plan (Nihon Keizai Shimbun November 19, 2003, 5, 23). As many as 150 business associations including Keidanren, JCCI, and Dōyūkai) held emergency meetings and established an ad hoc organization opposing the increase of pension contribution (Nihon Keizai Shimbun December 6, 2003, 5). It was enough pressure for the government to revise the proposed rate increase from 20 to 18.35 percent. Concurrently the ruling LDP demanded to specify the minimum 50 percent income replacement rate, which was Prime Minister’s public pledge, and it was reflected in the final reform bill (Nihon Keizai Shimbun December 11, 2003, 3; December 17, 1). Responding to the business sector’s opposition, the Japan Franchise Association (cheinkyō) in particular (Nihon Keizai Shimbun December 4, 2003, 5), the expansion of the employees’ pension to part time workers was dropped from the bill. For instance, 16 associations representing service, distribution, and small-and-medium-size industries, which have high dependence on part-time labor, held a large protest meeting in Tokyo on December 5 (Nikkei Ryūtsū Shimbun December 6, 2003, 2).

Another interest group that actively participated in the decision making process was organized labor represented by Rengō, JAM, and JSD. The power of unions in Japan is a controversial topic but a study on the role of Japanese unions on the welfare reform (Miura and Palier 2003) suggests that the unions, despite their organizational weakness, were able to make the government take their policy preferences to account with their institutional and political resources. It has also been argued that the union was able to “block legislation of labor laws because the Ministry of Labor’s advisory councils are the de facto veto points and it is within these councils that union veto power is institutionalized (Miura and Palier 2003, 34).
The labor’s primary stance was that government reform would result in the pension system becoming “hollowed-out” (kūdōka), which means the subscribers might lose what they had paid (Shūkan Shakai Hoshō December 1, 2003, 56). Kojima Shigeru representing Rengō in the PS/SSC stated in an interview that the goal of the Rengō in the upcoming pension reform would be to keep the income replacement rate at the current 55 percent and to keep the tax financing of the OBP (Shūkan Shakai Hoshō October 28, 2002, 4). This, compared to the Keidanren’s statement issued almost simultaneously, was not quite that different from the opinions of the business sector (Shūkan Shakai Hoshō October 28, 2002, 13).

Similarly to the business sector, whenever policymaking went against their interests, the represented labor organizations issued statements and often mobilized popular demonstrations. The managing director of Rengō, for instance, issued 14 official statements for one year between June 2003 and June 2004 (Rengō 2003-2004). Public conferences, hearings, and lecture events were organized frequently. Several times, mass demonstrations were planned and mobilized, especially after the establishment of the Pension Struggle Headquarter (nenkin tōsō honbu) in March 2004 (Nenkin Tōsō Honbu Nyūsu, March 30, 2004 to August 5, 2004). Demonstrating their power, Rengō met high profile politicians from both LDP and DPJ, as well as the Minister Sakaguchi, to discuss the direction of the pension reform. They even made a joint statement with Keidanren to make changes in the finalized reform bill (Keizai Kurippu 35, January 13, 2004).

After the pension reform bill passed the Diet, Rengō issued a “Statement regarding the Ramming the Pension Deteriorating Bill through the House of Councilors” on June 5, 2004, condemning its benefit cut and contribution hike. It stated: “Rengō will endeavor to repeal the reform act and submit a new fundamental reform bill building on tax-based funding of the basic pension in order to establish a real, fair and just, universal pension system. [...] We hereby declare that we will continue to fight, together with the DPJ, to make the government and the ruling party account for this deterioration of the pension system by winning the upcoming House of Councilors election” (Rengō 2004). However, it was generally regarded that organized labor got what they wanted at the 2004 reform (Yun 2010, 16). What was important was that there was no voice for the unrepresented workers such as part-time employees or gender-related issues in the organized labor’s position on the pension reform. The unrepresented were still unrepresented in the case of pension reform.

3. Limited Politicization of the Pension Reform

As such, in the traditional governance structure of the conservative corporatism, those unorganized were under- or unrepresented in the policymaking process. Reforms were carried out without due consideration of their interests because they were not politically significant. The government managed to hold their discontent at bay by proactively providing benefits and services until it significantly undermined the political stability of the regime. However, apprehending another major disgruntlement from the
general public, the Japanese government opted to introduce participatory decision-making procedures. In fact, the prime minister encouraged the members of the Cabinet to meet citizens in various formats such as town meetings, public hearings, press conferences, or participatory councils. This brought changes in the bureaucratic policymaking system. A number of governmental decision-making bodies recruited citizen representatives in an effort to increase policy legitimacy and efficiency in accomplishing the government’s unpopular reform goals in a more democratic manner. In this section, we will look into the role of the independent citizen members in the pension reform process.

**Agenda Setting Politics**

The PS/SSC’s first session was held on January 16, 2002. At the session, the Director-General of the PB/MHLW enumerated a long list of agenda to be deliberated in the future sessions remarking:

I would like to ask this subcommittee to deliberate overall issues on the pension system by the next actuarial review scheduled in 2004. The public confidence and trust on the pension system has been dwindling, so we have discussed basic issues such as the tax financing of the OBP. While we have concluded that it is rational to maintain the public pensions in social insurance framework (PAYG system—author’s note) which are supported by the entire society, the pension system’s response to the socioeconomic conditions was insufficient. (*PS/SSC Minutes, 1st Session, January 16, 2002, author’s emphases)*

The Director-General’s opening statement implicitly indicated that the welfare bureaucracy had a specific agenda and purview. Soon the bureau came up with a long and detailed list of agenda which it proposed be deliberated in the PS/SSC (see *Shūkan Shakai Hoshō January 21, 2002, 16*). One of the council members, Watanabe Shunsuke, suggested the bureau to prioritize them “toward and focusing on the coming actuarial revision.” In response, Chair Miyajima Hiroshi then officially asked the PB/MHLW to make a prioritized list of agenda to be discussed in the council (*PS/SSC Minutes, 1st Session, January 16, 2002*).

In the next session on March 19, 2002, the MHLW submitted a detailed deliberation outline, or “Plans to Proceed Deliberation in the PS/SSC” (MHLW 2002a; see *Shūkan Shakai Hoshō April 1, 2002, 44-45; April 15, 2002, 9*). This document outlined main themes to be discussed with detailed discussion “examples.” At the beginning of the session, Fukui Takehiro, Director of the General Affairs Division, PB/MHLW (sōmu kachō), gave a briefing of the document. Members responded that the deliberation agenda and directions should not be confined by the MHLW. Mukōyama, the Rengō representative, asserted that the current social insurance system should not be a ground assumption of the pension reform but alternative options such as tax-based funded system should be considered and discussed as well. Yano of the Keidanren also argued...
that more fundamental changes in the current pension structure should be discussed. Upon those responses, “[t]here is nothing determined to begin with so please discuss freely,” Fukui answered. He added, “[w]hen discussing, please be sure to consider the purpose, nature, and roles of our pension system and which financing system is the most suitable one” (PS/SSC Minutes, 2nd session, March 19, 2002).

The third session on May 13, 2002, was devoted mainly to the financing system for the pension. Some members claimed that tax-based funding would be more stable and could fundamentally fix the problem of inequality. Ōyama of JAM stated, “[t]o help young people's anxiety about future, we need to make it sure that they will get stable benefits even though they do not pay sufficient contributions due to unemployment, which only can be available by the tax-based financing of the pension system.” Then Okamoto of Sumitomo Chemical responded, “[s]ince it is expected that the number of working population will significantly dwindle and we are now discussing long-term stability of the pension system.” “Thus it is not suitable to discuss such issues here,” he continued. Other members and the MHLW officials seconded the continuation of the current PAYG type social insurance system because of its stability. “Some claim that we need to adopt tax-based system to relieve burdens of the pensions,” said Hori at the session: “However it makes no sense that the burden will be reduced while the benefits stay the same. The social insurance system which links the benefits to the payment is [...] more desirable than the tax-based funded system in terms of fiscal stability” (PS/SSC Minutes, 3rd session, May 13, 2002).

The discussion was continued in the next session where the deputy chair, Kōshiro Kazutoshi, clearly indicated his objection to a transition to a tax-based funded system claiming, “[i]f the pension funds are to be based on consumption tax, there should be a tax hike, which is not feasible to discuss here” (PS/SSC Minutes, 4th session, May 17, 2002). These sessions were documented as having hammered out an agreement on maintaining the social insurance system (Shūkan Shakai Hoshō May 13, 2002, 12; May 27, 2002, 48). And, in the meantime, the SSC began discussing the issues of the contribution and benefit levels, on the ground that the pension system would be maintained the same as the current PAYG social insurance system (Shūkan Shakai Hoshō June 3, 2002, 6-9). The PS/SSC also moved on to the next topic of the government subsidy to the OBP (Shūkan Shakai Hoshō June 24, 2002, 13).

Meantime, the Director-General of the PB/MHLW proposed installing another advisory committee named the Employment and Pension Research Committee moderated by Kōshiro Kazutoshi, the Deputy-Chair of the PS/SSC and a staunch supporter of the current PAYG system, who said at an interview: “[T]his time, all members of the PS/SSC acknowledge that we need to reform the current pension system fundamentally. However, in details, there are discords on financing types, in other words, to go with the social insurance system or tax-based funded system. Personally, I believe that the tax-based funded system is not a feasible option, and its advocates should not have much expectation on it” (Shūkan Shakai Hoshō July 1, 2002, 5).
In the same interview, Kōshiro made an interesting remark on the introduction of the automatic balancing system, before it was officially proposed by the PB/MHLW:

In case that growth rate dwindles, life expectancy elongates, and birthrate drops, it would be impossible to maintain the pension system without a built-in automatic adjustment system [of benefits and contributions]. Sweden has adopted this kind of system and I think it sheds light on our pension system. (Shūkan Shakai Hoshō July 1, 2002, 5, author’s emphases)

It implied that the welfare bureaucracy was contemplating a new system that adjusted the levels of benefits and contributions in accordance with the macro-economic conditions, a system which had been working in Sweden, by installing a new research organization under its jurisdiction. Tsuji also gave a briefing to the LDP’s PSRC on June 18, 2002, regarding the Swedish pension reform that “had abolished its tax-based funded system and introduced an automatic fiscal balancing mechanism (jidō zaisei kinkō mekanizumu)” (Shūkan Shakai Hoshō July 1, 2002, 17). The PS/SSC was also in fact scheduled to discuss about foreign cases of pension reform soon focusing on the recent Swedish one. As will be discussed later, however, the welfare bureaucracy misinterpreted the nature of the Swedish pension reform, wittingly or unwittingly.

In any case, the next meeting on July 2, 2002, was mostly devoted for the MHLW’s presentation on the pension reform guideline and the rationale for benefit-cuts and contribution-hikes as well as the introduction of the automatic fiscal balance system. The Director of the Pension Division Ebata Jun spent most of the 90-minute session in explaining the technical details of the reform options and program changes. One week after the session, the MHLW went to the LDP to give briefings on the pension reform at the PSRC meeting (Shūkan Shakai Hoshō July 15, 2002, 40-42).

The Swedish automatic adjustment system was discussed at the next session where Ebata explained it as “a built-in mechanism to secure the long-term stability of the pension system by automatically cut benefits in case of unexpectedly progressive aging or low growth rate” (PS/SSC Minutes, 7th session, July 19, 2002). Some members expressed concerns about the lack of means to deter continuous cuts or steep drops in the benefit levels, but the majority of the members expressed favorable opinions to the system, especially its “automatic” mechanism and the “Swedish” origin. Miyajima concluded:

It seems that it is a common understanding of many members that we need to avoid too frequent revisions of the pension system. I think the strong interest on this Swedish system came from the fact that this automatic mechanism would help us design a, sort of, permanent system. Here we need to check if we have reached a consensus on this issue or not. (PS/SSC Minutes, 7th session, July 19, 2002)

The media documented that the PS/SSC reached a consensus on the introduction of the automatic fiscal balance system (Shūkan Shakai Hoshō July 29, 2002, 14). The
MHLW then stipulated in the White Paper that the direction of the 2004 reform would be to “build a permanent system of sustainable pensions by national consensus building on the current social insurance system of inter-generational support with appropriate government subsidies” (Shūkan Shakai Hoshō September 16, 2002, 9). The reform agenda were finally set and the major government partners were changed. Since “the first round of reading” (dai-ichi dokkai), the bureau called it, was now completed (Shūkan Shakai Hoshō September 23, 2002, 36), the resumed PS/SSC sessions were to discuss detailed items within the reform agenda.

The new Director-General of the PB/MHLW, Yoshitake Tamiki, at an inaugural interview, confirmed the reform agenda and schedules underscoring the importance of the public information and the role of the PS/SSC for advertising the rationale and direction of the pension reform (Shūkan Shakai Hoshō September 30, 2002, 6-8). Finally, the MHLW published a document titled “Summary of the Opinions on the Pension System Reform.” The summarized opinions in this document were largely excerpted from those of handful of members, Hori and Kōshiro in particular, who generally supported the government’s reform directions. Some objections from the interest group representatives were also included in the document but few from the independent citizen members (see Shūkan Shakai Hoshō October 21, 2002, 40-45).

The politicians, from around this time, came to follow the reform agenda and schedules set by the MHLW. Minister Sakaguchi reported to the Cabinet Office’s CEFP that the “basic points of reform” would be “to adjust the levels of benefit and contribution” and to choose one of the two adjustment systems, i.e., the current manual adjustment system or a new automatic adjustment system. In response to some critics, Sakaguchi responded that the pension reform plan would be proposed in a “form of options,” so “all available policy options will be considered and deliberated as long as they are submitted in a discussible manner” (Shūkan Shakai Hoshō November 11, 2002, 40-45).

The reform schedule was set in detail including all the dates of opinions surveys and the deadline of the final report (see the schedule on Shūkan Shakai Hoshō November 18, 2002, 42). While discussing the levels of benefit and contributions in the PS/SSC, the MHLW embarked on the discussion of the automatic balance adjustment system by holding a joint conference with the Pension Research Center (nenkin sōgō kenkyū sentā) in December 2002 to discuss the Swedish pension reform case (Shūkan Shakai Hoshō December 2, 2002, 6-9). The PS/SSC subsequently reported to the SSC that the result from the discussion on the Swedish system would be delivered to the following session and inserted in the interim report (Shūkan Shakai Hoshō December 9, 2002, 16). It indeed took substantial part in the PS/SSC’s interim report, “Direction and Issues,” as one of the proposed options in the name of “macro-economic slide formula” (see Shūkan Shakai Hoshō December 16, 2002, 47).

At the session on December 13, 2002, the representatives of the labor, Ōyama and Kojima, raised objections to the “Direction and Issues” stating that the option of a tax-based funded system was not sufficiently described in the report which might imply the unfeasibility of this option. Director-General Yoshitake responded that it was technically
impossible to make calculations based on a fictitious tax-based funded system without proper framework (PS/SSC Minutes, 12th session, December 13, 2002). While there were more than 30 formulae in the “Direction and Issues,” the funded system option in practice could not be seriously discussed as it did not have any tangible figures.

In the beginning of 2003, Yoshitake stated in an interview that the transition to tax-based funded system could not and would not be deliberated in the PS/SSC, considering the unstable financial situation of the Japanese government. He addressed that the PS/SSC would focus on three topics: basic framework of the pension reform, important issues in detailed reform items, and the ways to improve each item (Shūkan Shakai Hoshō January 6, 2003, 63-64).

All discussions, from then on, built on the options presented in the “Directions and Issues.” With the beginning of 2003, the PS/SSC discussed the introduction of the macro-economic slide formula, which was largely supported by members (Shūkan Shakai Hoshō February 3, 2003, 40). Remaining issues were simple adjustments of the levels and minor issues such as the part time workers problem and gender-related issues. As discussed in the foregoing section, once the agenda were set, the PS/SSC did not make any significant changes to the government’s proposed reform plan described in the “Directions and Issues,” what Koizumi called the conclusion of the pension reform.

Cats in the Council

The process of reform agenda setting described above demonstrates the way in which the state handled the pension issues. As pointed out above, the welfare bureaucracy, from the beginning, had a clear goal to achieve: “more contribution, less benefit.” On the contrary, the citizen representatives, although all of them had clear visions and opinions, were not able to effectively penetrate into the decision making procedures dominated by the bureaucrats and expert members equipped with technical expertise and professional knowledge. The citizen members in the council, although most of them are representatives of certain organizations, did not represent any politically-influential civil society organizations either, which otherwise could have empowered the members as we will discuss in the next chapter on the Korean case.

The independent members, were all female citizens interested in gender and generational equality issues. Imai Nobuko, who represented female farmers in the PS/SSC, once wrote:

[N]ow that 60 percent of the agricultural workers are women, I believe it would be impossible to energize rural society without improving the status of women. Much would it be so in this aging of the society without women’s cooperation. To help farming families and agricultural industry would be little other than to establish a cooperative relationship among family members based on their mutual respect. In particular, to improve the status of women, it would be necessary to make the wives of the young farmers as the partners of the family farming contract that determine the payment of wages. It would also be
essential to introduce a retirement allowance system for them based on the years they have worked in the farm as well as the size of the farm. (Imai 1998, 18)

As such, she understood, although somewhat naïvely, the problems of instability and inequality of the female farmers and wanted to make her voice heard in the PS/SSC. In practice however, Imai spoke up only 10 times in the entire 26 sessions. That however does not mean that she did not participate in the deliberation process. She succinctly and persuasively demonstrated, building on her life born to a wage worker’s family and becoming a farmer and a housewife, the absurdity of the pension system significant inequality across gender, occupation, and pension programs (PS/SSC Minutes, 8th session, September 10, 2002). What is important is that her opinion was not seriously discussed in the deliberation process. Her final report submitted to the council at the 24th session which described what should have been and should be discussed exactly recapitulated the matter of equality among gender, occupations, and pension programs, which she originally wanted to discuss in the PS/SSC (Imai 2003).

Sugiyama’s basic stance was well addressed in her column written in 2003, which stated, “[t]he government’s so-called “measure for aging-society” (shōshika taisaku) is saying something like that “the state will support the elderly with pensions and finances, so young women should bear more children,” which brings more and more opposition from young women” (Shūkan Shakai Hoshō September 1, 2003, 26). She also pointed out that the government regarded women as sources of pension funding by making them pay contributions throughout their lifetime, which makes women “responsible for their company, their family, and their society all at the same time” (Sugiyama 2003, 137). Thus her point was that, in order to fix the pension system, the government, as well as companies, should provide equal benefits to the young women who have to bear the cost of childbirth and childcare (Shūkan Shakai Hoshō September 8, 2003, 52-55).

To address these issues, Sugiyama actively participated in the deliberation and spoke up 27 times. However her participation was more noticeable in the latter period, especially in the 2003 after the reform agenda were fixed. In other words, considering the predetermined agenda and limited timeframe, her issue of gender equality, approached from childcare and aging society perspective, could not be sufficiently discussed in the PS/SSC since the council had shunted all issues related to fundamental reform.

Ide’s participation was more active than Imai’s. She spoke up 25 times, roughly once per session. However, similarly to Imai, her words were not effectively discussed by the council as her final report also stated. In fact, all three independent members actively participated in the issues regarding part-time employment and the problem of inequality across occupations and gender. All of them also favored the expansion of the EPI coverage to part-time workers (Shūkan Shakai Hoshō May 26, 2003, 42-43). These issues unfortunately were out of contention since the agenda was focused on the issues related to the financial stability of the pension system.

It was not only the independent members but also the interest group representatives who were frustrated by the council’s process of deliberation as well as its
final conclusions. However, the fundamental difference between them was that the latter had their own organizations which were willing to support and mobilize for them. The Japanese civil society which was represented by the citizen members in the council was not linked each other.

Civic groups and advocacy organizations for the pension reform issues existed even before the government formed the PS/SSC. A series of statements were published by various civil society groups including the Pension Research Society (nenkin gakkai) on November 8, 2001, and the Policy Vision Forum (seisaku kōsō fōramu) on February 23, 2001. The Japan Association of Senior Citizens and Retirees Organizations (Nihon kōrei taishokusha dantai rengō) held a mass demonstration on September 15, 2001, to deliver the elderly’s voice to the government (Shūkan Shakai Hoshō January 7, 2002, 45). These must have influenced the government’s decision to carry out reform via participatory means.

However, those who represented civil society in the PS/SSC were not representing civil society organizations. Imai was affiliated with a loosely organized interest group. Sugiyama’s organization was also a volunteers’ organization of personnel related to childcare, which was not likely to issue any statement or submit petitions on the pension reform in order to help Sugiyama make her way through the council’s policymaking procedure. Petitions and demonstrations were made by other organizations. For instance, the Association of Employees’ Pension Recipients (zenkoku kōsei nenkin jukyūsha dantai rengōkai) submitted a petition to Sakaguchi on December 17, 2003, asking for building “a long-term stable pension system without reducing pension benefits” (Shūkan Shakai Hoshō January 12, 2004, 15-16).

Besides, although there existed two nation-wide civil society organizations representing pensioners’ interest, the National Federation of Employees’ Pensioners’ Association (zenkoku nenkin jukyūsha dantai rengōkai, established in 1968) and the Japan Pensioners’ Union (zennippon nenkisha kumiai, established in 1989), neither of them had an effective influence during the pension reform process. The National Federation, which had a million members, was basically a quasi-governmental organization. The only full-time staff members in the organization were ex-bureaucrats of the Social Insurance Agency (shakai hokenchō amakudari). The Pensioners’ Union in contrast was an advocacy-based organization with 100 thousand members that was actively speaking volumes about pension issues. However, there was no one who could represent the Union in the deliberation council. No statements issued by the Pensioners’ Union, or even the ones by the National Federation, were brought to the table in the PS/SSC.

The citizen representatives on the council, who were appointed by the government in an effort to enhance the policy legitimacy and to make the deliberation process more democratic, were sufficiently linked to the civil society. Although they expressed their concerns and showed objections on the methods that the reform issues were deliberated, they were not represented by any influential civil society organizations unlike the interest group representatives. The civil society representatives in the deliberative council, “like a borrowed cat” (karite kita neko no yōni), could not help but follow the almost pre-
determined course of the pension reform because of their lack of attributes and the institutional setting which prevented them from speaking out about representing specific interests of the society.

**De-politicization of Participatory Reform**

A report of International Labor Organization succinctly criticized the pension reform process in 1999 as follows:

It is clear that the Consultative Committee on Pensions (nenkin shingikai—author's note) is run by the Ministry of Health and Social Affairs (the MHW—author's note). But the degree of control enjoyed by the civil servants leaves them open to the temptation to fence in the Committee’s work, not only by managing appointments and reappointments (or non-reappointments), but by choosing the rapporteurs from the Committee and thus becoming de facto drafters of the report [...] Apart from the reinforcement of bureaucratic power, the absence of public debate on pensions should be recognized. The social partners may naturally have divergent views, but the debate which could allow the public to see different side based on the airing of little-known facts is not on the table. (Estienne and Murakami 2000, 61-62)

The reports state that, despite its proper timing, flexible solutions, and formal consensus building, the pension reform was primarily driven by the welfare bureaucracy for the sake of the bureaucratic interests. Upon receiving popular criticism, it was not a surprise that the Japanese bureaucracy adopted participatory governance measure, the social dialogue so to speak, which was becoming a buzzword among academic pundits as well as practitioners, because it was believed to promote good governance by effective participation of all stakeholders and to be a time-tested option for combating the problems of social exclusion and political apathy in a democratic society (Osmani 2008). Needless to say, the introduction of participatory measures was political in nature as well. Japanese politicians wanted to use civil participation to increase their say over the bureaucracy’s policymaking. Since the question of welfare in a politically disenchanted society was a textbook malaise for the participatory medicine, the Japanese government had no other option but to resort on participatory procedure to carry out the proposed unpopular reform initiatives. The Japanese pension reform in 2004, however, does not look too far from the reform that the above ILO report investigated.

In sum, this story of the Japanese pension reform addresses that the participatory procedure, *per se*, did not bring about significant changes in the state-society relationship. On the contrary, the preexisting state-society relationship was not only recapitulated but also, in a sense, reinforced by the enhanced participatory procedure. The PS/SSC in Japan was overwhelmed by technical discourses dominated by the bureaucratic elite. Civil participation, selectively tailored by the government from the beginning, was largely limited and guided by the government. Against the politicians’ influence, the Japanese bureaucracy was able to handle the political challenge by
manipulating its own administrative arms and technics. Eventually, they went through the long-delayed pension reform against the social and political opposition. It was, ironically, the participatory measure itself that has served as a useful tool for the welfare bureaucracy to initiate and carry out unpopular reform.

Kato (1991, 111) succinctly identifies four elements of successful reform initiation by special commissions: formal endorsement by top leader, substantial support from the government and the legislature, balanced member composition for broad public support, and professional capacity to make a reform plan technically feasible. In the case of the PS/SSC, the member composition was the issue, which looked balanced and broad superficially but biased and limited in substance. Council members were drawn from a narrow elite pool which either had close connection with the government or interest groups. Keidanren for example was officially represented by, Yano, but Okamoto, who was appointed as a representative of employers (CEO of Sumitomo Chemical) voiced the same opinions on the reform issues. Okamoto in fact became the Chair of the Keidanren’s Pension Reform Committee and became the member of the National Social Security Council (shakai hoshō kokumin kaigi) of the Cabinet Office some time later. The citizen members who were recruited from a non-representative pool could not influence the decision making process effectively.

The participatory measures they employed could not effectively appease popular contention either. Nor did it bring about meaningful consensus among contending political and social actors. In fact, Japanese citizens’ dissatisfaction on the pension system was further aggravated through the deliberation council’s activities. At a survey conducted by the Cabinet Office in February 2003, 47.1 percent of respondents expressed their understanding on the direction and necessity of the pension reform (Yomiuri Shimbun April 27, 2003). At the beginning of 2004, more than 90 percent of the respondents expressed their concern on the pension reform. (Yomiuri Shimbun January 29, 2004). According to Mainichi Shimbun’s surveys conducted in May 2004, majority of respondents said that the bill should be repelled (62 percent at May 17 survey and 58 percent at May 25 survey). 67 percent disapproved the reform bill at a survey by the Kyodo News Service (Kyōdōtsūshin) on May 17. After the bill was promulgated, 78 percent responded that the bill should be revised (Mainichi Shimbun July 19, 2004). As was Campbell’s classical observation (1992, 367), public opinion played only passive roles in the welfare cutbacks. The elderly were not politically mobilizable either. It was hard to expect any political “gray power” in Japan.

The welfare bureaucracy kept the key reform issues from being politicized by making it a matter of technical knowledge rather than political debate. In fact, politicizable issues were handed over to the political parties such as the government subsidy and tax financing issues. By so doing, the issues deliberated in the PS/SSC were taken care of by expert members in highly technical matters. The limited politicization was the primary reason of the success and the limitation of the 2004 pension reform in Japan.
VIII. STATE-LESS CORPORATISM AND THE POLITICIZED CIVIL SOCIETY IN KOREA

1. The First Actuarial Review and the Politicization of Reform

Organizing a Participatory Reform Council

The World Bank diagnosed Korea as having a “relatively immature OECD-style defined-benefit pension schemes,” which lacks “proper linkage between contributions and benefits” (Holzmann et al., 2000, 168). “[I]f reform is not undertaken soon,” the report continued, “the high implicit pension debt will manifest itself within the next 15 or 20 years.” At a timely manner, the result of the 2000 national census hit hard the entire country (see Table VI-10). Acknowledging the urgency of a structural reform of the pension system, policymakers had made attempts to reform it without much success (see NPS 2008, 154-158) until an ideologically-motivated president assumed power with popular support from young generation voters who had been benefited from the dramatic democratization movement through the late 1980s to 1990s (see timeline in Table VIII-1).

As the above timeline depicts, there were many bumps and bruises along the way to the pension reform. The contents of the reform were also more than dramatically changed through the reform process. The reform, initiated by the MOHW, followed a standard operation procedure of carrying out unpopular reform. The government installed a deliberative committee in order to encourage social dialogue and, in so doing, envisioned to produce optimal outcome by intermediating conflicting interest.

As we have gone over in the foregoing chapter (see VI-3 above), the first attempt to initiate participatory reform was the National Pension Reform Board (kungmin yŏn’gŭm kaesŏn kihoekdan) installed in 1997. It was generally regarded as a failure. The lack of expertise and bureaucratic support as well as the strong objection from the civil society, among others, were largely accounted for its unsuccessful performance (Kim, W-s. 2008, 88-90). Building on this experience, the new deliberative council was launched from different format in an effort to make up the lack of social communication and professional expertise.

The new NPDC was thus installed under the MOHW in order to provide sufficient administrative support. To enhance its technical expertise, two subcommittees, i.e., the Subcommittee on Institutional Development (chedo paljŏn chŏnmun wiwŏnhoe, SID/NPDC hereafter) and the Subcommittee on Fiscal Analysis (chaejŏng punsŏk chŏnmun wiwŏnhoe, SFA/NPDC hereafter), were installed under its wings. The National Pension Research Center (kungmin yŏn’gŭm yŏn’gu sent’ŏ, NPRC hereafter) of the National Pension Service (kungmin yŏn’gŭm kwalli kongdan, NPS hereafter) took charge of technically supporting the NPDC.
Table VIII-1. Timeline of the Korean Pension Reform in 2007

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 2002</td>
<td>National Pension Development Committee (NPDC) established</td>
</tr>
<tr>
<td>April 2003</td>
<td>NPDC publicized financial revaluation</td>
</tr>
<tr>
<td>June 2003</td>
<td>NPDC finalized draft reform plan</td>
</tr>
<tr>
<td>October 2003</td>
<td>Government’s reform bill submitted to the National Assembly (NA)</td>
</tr>
<tr>
<td>December 2003</td>
<td>Deliberation delayed</td>
</tr>
<tr>
<td>June 2004</td>
<td>Bill expired with the end of the 16th National Assembly</td>
</tr>
<tr>
<td>May 2004</td>
<td>Protests against the National Pension (NP) system</td>
</tr>
<tr>
<td>June 2004</td>
<td>Reform bill resubmitted to the 17th National Assembly</td>
</tr>
<tr>
<td>October 2004</td>
<td>Ruling Open Our Party (Yŏllin Uri-dang: UP) submitted a reform bill based on the government’s bill</td>
</tr>
<tr>
<td>November 2004</td>
<td>Democratic Labor Party (Minju Nodong-dang: DLP) submitted a reform bill</td>
</tr>
<tr>
<td>December 2004</td>
<td>Opposition Grand National Party (Hannara-dang: GNP) submitted a reform bill</td>
</tr>
<tr>
<td>May 2005</td>
<td>Special Committee for Pension System Revision (SCPSR) was installed in National Assembly</td>
</tr>
<tr>
<td>November 2005</td>
<td>Minister of Health and Welfare proposed “Senior citizen pension” (hyodo yŏng'am)</td>
</tr>
<tr>
<td>February 2006</td>
<td>SCPSR expired</td>
</tr>
<tr>
<td>June 2006</td>
<td>Ministry of Health and Welfare (MOHW) proposed a revised reform bill</td>
</tr>
<tr>
<td>September 2006</td>
<td>UP submitted a revised reform bill</td>
</tr>
<tr>
<td>December 2006</td>
<td>UP’s reform bill passed the Health and Welfare Committee (HWC), delivered to the Legislation and Judiciary Committee (LJC)</td>
</tr>
<tr>
<td>March 2007</td>
<td>Bill passed LJC and laid before the National Assembly plenary session</td>
</tr>
<tr>
<td>April 2007</td>
<td>DLP and GNP submitted a revised bill</td>
</tr>
<tr>
<td>June 2007</td>
<td>All bills were rejected except the Senior citizen pension bill</td>
</tr>
<tr>
<td>July 3, 2007</td>
<td>New reform bill was introduced by the inter-party negotiation</td>
</tr>
<tr>
<td></td>
<td>Pension reform bill passed the National Assembly plenary session</td>
</tr>
</tbody>
</table>

While the subcommittees were oriented toward technical deliberation, the NPDC itself was organized in order to satisfy fair representation of the society, the lack of which was the cause of the previous NPRB’s failure. Among the 21 members (excluding the MHOW secretariat members), four members—two representing regional subscribers and the other two affiliated with civic groups—represented the civil society, which was a new trend in organizing deliberation councils (see Table VIII-2). In fact, the preceding deliberative council for pension reform, the NPRB, had 47 members consisted only of government officials, experts from research institute and universities, labor/business representatives, and a couple of journalists. The civil society representatives were expected to deliberate the reform issues more democratically by intermediating conflicting interests via social dialogue. In short, the member composition of the NPDC was thus designed to balance the civil society representation and the technical expertise.
Table VIII-2. List of the NPDC members, 2002-2003

**Chair**
Chŏng Un-ch’an  Professor, Seoul National University (Economics) (replaced by Song Byŏng-rak)

**Government**
Pae Yŏng-sik  Chief of the Planning and Management Office, Ministry of Planning and Budget (replaced by Bae Chŏl-ho)
Kim Wŏn-pae  Chief of the Planning and Management Office, Ministry of Labor (replaced by Chŏng Byŏng-sŏk)
Pyŏn Yang-gyun  Chief of the Planning and Management Office, Ministry of Finance and Economy (replaced by Kim Gyu-bok)

**Governmental Agencies**
Chŏn Hong-taek  Vice President, Korea Development Institute
In Kyŏng-sŏk  Chairman, National Pension Service (replaced by Chang Sŏk-jun)
Chŏng Kyŏng-pae  President, Korea Institute for Health and Social Affairs (replaced by Pak Sun-il)

**Academia**
Yi Man-wu  Professor, Korea University (Economics)
Yi Hye-kyŏng  Professor, Yonsei University (Social Welfare)
Yun Kŏn-yŏng  Professor, Yonsei University (Economics)
Kim Sang-gyun  Professor, Seoul National University (Social Welfare)

**Labor**
Kim Sŏng-tae  General Secretary, Federation of Korean Trade Unions (FKTU)
Yi Hong-wu  Deputy Chair, Korean Confederation of Trade Unions (KCTU) (replaced by Kim Hyŏng-tak)

**Business**
Cho Nam-hong  Vice Chairman, Korea Employers Federation (KEF)
Kim Hong-kyŏng  Vice Chairman, Korea Federation of Small and Medium Business (replaced by Chang Chi-jong)

**Regional Subscribers**
Nam Sang-hae  Chair, Korea Restaurant Association
Hyŏn Üi-song  National Agricultural Cooperative Federation (replaced by Yi Ji-muk)

**Civil Society**
Yi Yun-ja  Chair, Korea National Council of Consumer Organization
Shin Ch’ŏl-yŏng  General Secretary, Citizens’ Coalition for Economic Justice

**Media**
Ji Yŏng-sŏn  Editorial writer, The Hankyoreh (han’gyŏre sinmun)

**Secretariat**
Yi Sang-sŏk  Director-General, Pension and Insurance Bureau, MOHW
No In-ch’ŏl  Director, National Pension Research Center (NPRC)

Source: Compiled from NPDC Materials (14) and NPS (2008, 650).
Besides its member composition, what is distinguishable was the status of the NPDC. Although both the NPDC and its Japanese counterpart PS/SSC were installed under the competent agencies, i.e., MOHW and MHLW respectively, the Korean NPDC was not *controlled* by the MOHW. The NPDC included government officials as its members, which significantly limited the voice of the bureaucracy. In fact, except the two members of the administrative secretariat, there was only one official from the MHOW among the four government representatives.

This however does not mean that the MHOW did not play significant role in the pension reform process. In fact, the two out of three government agencies that sent their representatives were under the legal jurisdiction of the MHOW. Also most of the expert members, including the three out of four professors, had been members of the government policy councils and espoused to solve the problems of the pension system with parametric adjustment based on technical calculations.

Professor Yi Man-wu has been the advisory member of the Korea Institute of Public Finance (*Han’guk chos’e yŏngi wyŏn*), a government research institute, since 1999. Professor Yun Kŏn-yŏng was also specialized in macroeconomics and public finance and has served a number of government deliberative councils. He later became a lawmaker of the GNP in the 17th National Assembly. Professor Kim Sang-gyun, who was the chair of the SID/NPDC, had served in the previous NPRB and has become the default member of government councils related to pension issues. There three professors basically underscored the financial stability of the pension system more than the expansion of coverage. The other academic member, professor Yi Hey-kyŏng, was a specialist in gender and social equality. She has consistently insisted the idea of “minimum guarantee” (*NPDC Minutes*, 4th session, 92) emphasizing the fact that the average income replacement rate could be misleading because many subscribers had less than 40 years of payment history.

Professor Kim was one of the key players in the pension reform process. As noted, he had been working with the MHOW in the previous reform attempts and strongly supported the idea of stability-first argument in the pension reform. His position was similar to that of professor Hori in the Japanese counterpart, however, Kim was not able to make his, or the government’s, prevailed in the committee. In his book documented the process of the pension reform (Kim S-g. 2010), Kim illustrates various cases where the expert’s opinions were frequently overturned by non-expert’s during deliberation.

In a way to buttress technical expertise, besides, a dedicated support team was installed in the National Pension Research Center to help the NPDC’s activities (PCPP 2008, 25). Unlike its predecessor—or the KIHSA where researchers of general welfare affairs took charge of pension issues—this new research center was filled with well-trained experts dedicated in pension issues (Kim, S-g. 2010, 233).

All in all, the NPDC was, from its appearance, much closer to the ideal type of participatory governance or social dialogue, balancing the civil society representation and the technocratic expertise, than its Japanese counterpart.
Deliberation in the NPDC

Another important element of failure of the previous pension reform was the unclear government goals (Kim, W-s. 2008, 90). Therefore, it was essential for the government to clearly specify the goals of the reform and make them shared among the committee members. The primary goal was to restore the fiscal stability of the national pension system by adjusting the levels of benefits and contributions, which were irrationally set generous to subscribers. This was well addressed in the MOHW’s document titled “Plan for the National Pension Actuarial Revaluation and the Establishment of the NPDC” in March 2002 and released to the committee members:

Basic Direction

- To draw plans for national pension development and to make the actuarial revaluation transparent and trustworthy by organizing and managing the NPDC with civilians. To this end,
  - Recruiting socially representative figures
  - Holding seminar and public hearings to collect public opinions
- To make professionals of various expertise including economy and social welfare participate in the decision making
- To propose a plan to develop national pension as well as to achieve long-term fiscal stability by professionally analyzing the actuarial revaluation (NPDC Materials, 3-4)

As described above, the document clearly indicated that the basic direction of the reform was to “achieve long-term fiscal stability” through initiating social dialogues. In other words, like the Japanese counterpart, the welfare bureaucracy had envisioned clear policy goals to achieve by installing the deliberative council centering on the issue of fiscal stabilization. However, the deliberation process was by no means smooth and effective.

Table VIII-3. Major topics of the NPDC sessions, 2002-2003

<table>
<thead>
<tr>
<th>Date</th>
<th>Themes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. 2002. 3. 19</td>
<td>Subcommittee organization</td>
</tr>
<tr>
<td>2. 2002. 4. 1</td>
<td>Agenda setting; deliberation schedule</td>
</tr>
<tr>
<td>3. 2002. 9. 4</td>
<td>Actuarial revaluation review; discussion on the problems of pensions</td>
</tr>
<tr>
<td>4. 2002. 11. 25</td>
<td>Proposals for stabilizing the pension fund</td>
</tr>
<tr>
<td>5. 2003. 3. 7</td>
<td>Fiscal projections and plans to stabilize pension fund</td>
</tr>
<tr>
<td>7. 2003. 5. 28</td>
<td>Pension fund stabilization, final report, etc.</td>
</tr>
</tbody>
</table>

Source: NPDC Materials, 326-327.
The first session on March 19, 2002, began with a briefing on the session’s agenda including the organization of two expert subcommittees by the Director-General of the Pension-Insurance Bureau, the MOHW. The representatives of interest groups and regional subscribers claimed that they were not sufficiently represented in the subcommittees, which were designed to deliberate technical issues. A representative of labor sector, Kim Sŏng-t’a’e of KTFU, said, “[t]here is no representatives of subscribers in the subcommittees but their member composition is biased toward academia, government officials, and researchers.” “Since this is a delicate issue,” he continued, “subscribers should have them represented in the subcommittees” (NPDC Minutes, 1st session, March 19, 2002, 7). The NPRC Director responded, “[s]ince the subcommittees discuss only technical issues, we appointed the members based on their expertise and excluded the representatives of the interested groups in order for efficient operation of the subcommittees.” He continued that the organizing principle of the subcommittees was expertise while that of the NPDC was representativeness (NPDC Minutes, 1st session, March 22, 2002).

It instantly brought about opposition. The KCTU representative also seconded Kim Sŏng-t’a’e’s position by claiming, “[a]ll interested parties should send their representatives to the subcommittee because they have sufficient expertise.” One of the civil society representatives, Shin Ch’ŏl-yŏng of the CCEJ, also argued that subscribers should have their representatives in the expert subcommittee “in terms of efficiency and legitimacy of policymaking.” Amidst the heated debate among the subscriber representatives, government officials and expert members on the issue of organizing subcommittees, the Chair urged the MOHW to redesign the organizational structure in a way which replaced some appointed members with those who were recommended by the subscriber groups. Therefore, the subcommittees came to be organized by experts appointed by the government as well as by the interested parties. The list of the newly organized SID/NPDC is as Table VIII-4.

As the new member composition of the SID/NPDC addresses, non-experts in the pension issues were included under the banner of social representation. Interest groups sent their officials to represent their views in the technical deliberation committees. Some groups such as the PSPD and the KCTU but they were strong welfare expansionists and did not have expertise in financial affairs. This composition was indeed different from its counterpart in Japan, the PAC/SSC.

The second session was planned to discuss the reform agenda. The expert members, Kim Sang-gyun in particular, made it clear that the primary agenda of the pension reform was to make the pension fund fiscally sustainable (NPDC Minutes, 2nd session, April 1, 2002, 42). The majority of the members agreed to this as the specific figures related to the benefit cuts and contribution hikes had not come up yet. It certainly appeared that the members agreed on the reform agenda set by the MOHW as described in the NPDC secretariat’s report that marked the result of the deliberation as “passed without objection” (NPDC Materials, 65). From the next session, the NPDC was scheduled to enter into deliberating various options to make the pension system sustainable.
Table VIII-4. List of members in the Subcommittee on Institutional Development, NPDC

<table>
<thead>
<tr>
<th>Title</th>
<th>Name</th>
<th>Affiliation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chair</td>
<td>Kim Sang-gyun</td>
<td>Professor of Social Welfare, Seoul National University</td>
</tr>
<tr>
<td>Deputy Chair</td>
<td>No In-chŏl</td>
<td>Director, National Pension Research Center</td>
</tr>
<tr>
<td>Members</td>
<td>Kim Pong-ik</td>
<td>Director, Ministry of Finance and Economy</td>
</tr>
<tr>
<td></td>
<td>Ko Kyŏng-sŏk</td>
<td>Director, Ministry of Health and Welfare</td>
</tr>
<tr>
<td></td>
<td>Pak Chang-hwan</td>
<td>Director, Ministry of Labor</td>
</tr>
<tr>
<td></td>
<td>Kim Yong-jin</td>
<td>Director, Ministry of Planning and Budget</td>
</tr>
<tr>
<td></td>
<td>Sin Ki-chŏl</td>
<td>Director, Financial Supervisory Service</td>
</tr>
<tr>
<td></td>
<td>Wŏn Chong-wuk</td>
<td>Research Fellow, Korea Institute for Health and Social Affairs (KIHSA)</td>
</tr>
<tr>
<td></td>
<td>Yi Yong-ha</td>
<td>Research Fellow, National Pension Research Center</td>
</tr>
<tr>
<td></td>
<td>Yi Hye-hun</td>
<td>Research Fellow, Korea Development Institute</td>
</tr>
<tr>
<td></td>
<td>Kwŏn Mun-il</td>
<td>Professor of Social Welfare, Duksung Women’s University</td>
</tr>
<tr>
<td></td>
<td>Kim Yong-ha</td>
<td>Professor of Finance and Insurance, Soonchunhyang University</td>
</tr>
<tr>
<td></td>
<td><strong>Yi Ho-sŏng</strong>(1)</td>
<td>Director of Social Welfare Division, Korea Employers Federation (KEF)</td>
</tr>
<tr>
<td></td>
<td><strong>Sŏ Chŏng-dae</strong>(2)</td>
<td>Vice-President, Korea Small Business Institute</td>
</tr>
<tr>
<td></td>
<td><strong>Yi Dong-ho</strong>(3)</td>
<td>Director, Korea Federation of Trade Unions (KFTU)</td>
</tr>
<tr>
<td></td>
<td><strong>Yi Tae-su</strong>(4)</td>
<td>Professor of Social Welfare, Kkottongnae University</td>
</tr>
<tr>
<td></td>
<td><strong>Kim Yŏn-myŏng</strong>(5)</td>
<td>Professor of Social Welfare, Chung-Ang University</td>
</tr>
<tr>
<td></td>
<td><strong>Chŏng Myŏng-ch’ae</strong>(6)</td>
<td>Senior Research Fellow, Korea Rural Economic Institute</td>
</tr>
</tbody>
</table>

Secretariat  Yun Sŏk-myŏng | Research Fellow, National Pension Research Center |

Notes: (1) KEF recommendation; (2) Korea Council of Medium Industry (Han’guk chungso kiôp hyŏbūihoe) recommendation; (3) KFTU recommendation; (4) Korea Confederation of Trade Unions (KCTU) recommendation; (5) People’s Solidarity for Participatory Democracy (PSPD) recommendation; (6) Association of Farmers Organization (nongmin danch’e hyŏbūihoe) recommendation.

Source: NPDC Materials, 43.

When the data arrived from the subcommittee, it turned out that the number of nonsubscribers and the size of unreported incomes were too large. This caused the committee to divide into two groups. The first group of members, including the government, placed higher priority on restoring fiscal stability than resolving the nonsubscriber problem, or so-called “blind-spot” problem, building on the urgent need to revise the benefit-contribution scheme (see Figure VI-7). The other group of members, labor representatives in particular, argued that the fiscal stability could be attained by
reducing the blind-spot and transforming the national pension into a really universal program. This argument obviously implied a welfare expansion including the increase of the government, tax-based, subsidies to the national pension fund in order to attract the voluntary subscription of nonsubscribers and to provide coverage to those who were not eligible for pension benefits.

This issue was closely linked to the persistent problem of the Korea’s pension system which maintained extremely low contributions and relatively generous benefits in an effort to continuously expand its coverage (An, C-b. 2005, 92). Since the introduction and development of the pension system was hinged on the political elite’s decision, the welfare bureaucracy envisioned welfare expansion in order to make the program politically attractive. To this end, as we discuss in section IV-3 above, the welfare bureaucracy deliberately projected rosy forecasts. The politicians in return utilized it for political purposes and, therefore, the gap between the material condition of the pension system and people’s expectations of it widened. The cost of this goal displacement was quite substantial. It rapidly undermined the general public’s confidence in pension system once the gloomy picture of the national pension system was revealed and heavily covered by media.

In the fourth session of the NPDC on November 25, 2002, the MHOW submitted a document describing measures to financially stabilize the pension system (NPDC Materials 110-117). It suggested a parametric adjustment of the contribution and benefit levels as well as the speed of the adjustment without changing the existing system. The proposed four options were the combinations of income replacement and premium rates at 50 and 13.90, 50 and 13.80, 40 and 10.75, and 40 and 10.55 (all in percent).

This subcommittee’s technical report did not play an effective role in persuading those who took the welfare-expansion-first stance. First of all, since not all of the NPDC members, the civil society and the interest group representatives in particular, were specialists in financial or budgetary matters, it was difficult for the government agencies to persuade them with the technical data building on those statistical projections. “We don’t even know what’s going to happen tomorrow,” said a member in the session. “Then, how can we determine a future pension scheme today based on 60 to 70 years of speculation?” (PCPP 2008, 29-30). Secondly, due to the approaching presidential election, the pension reform issues were also extensively discussed outside of the committee. The interest group representatives frequently held press conference to ask the running candidates’ policies on the national pension issues. One of the leading candidates, Roh Moo-hyun of the ruling party, who was supported by the progressives including the labor sector, criticized the conservative contender saying:

Mr. Lee (Lee Hoi-chang, the opposition party candidate, author’s note) pledged that the pension payment should be cut to 40 percent (income replacement rate, author’s note) but it is a fundamentally wrong idea. We made pension to support old-age living. If cut pension payment to meet fiscal balance, it is not pension but something like “pocket money” (yongton). Pension problem can be fixed by adjusting to our country’s future
economic situation. If Mr. Yi is talking about it (pension benefit cut, author’s note) based on the projection of the year 2048 at this point, it is way too uncertain. (compiled from Kim S-g. 2010, 245; Segye Ilbo December 17, 2002, 3)

The next deliberation session scheduled in December 2002 thus came to a temporary halt owing to the presidential election. The presidential candidate who pledged no cuts in benefits won the election and the NPDC deliberation went awry.

During the presidential election campaign, the ruling party’s presidential candidate Roh Moo-hyun promised to maintain 60 percent of the income replacement rate while the contending opposition party candidate acknowledged that a benefit cut would be inevitable. He argued, “the pension system is the core of ‘social solidarity’ (sahoe yŏndaе) that has transferred the responsibility of elderly care from family to the state” (Chosun Ilbo June 3, 2002, 8). In contrast, the opposition party contender Lee Hoi-chang stated, “[i]t’s the matter of whose money that the pension system should be funneled with.” “The pension system should be turned from a low-contribution-high-benefit structure into an appropriate-contribution-appropriate-benefit structure,” claimed Lee (Chosun Ilbo June 3, 2002, 8).

Roh won the election and the inauguration of the pro-labor president who had pledged no benefit cuts caused the labor representatives in the NPDC to be more stubborn in their arguments. The resumed sessions in 2003 did not produce any consensus but confirmed the conflict of opinions among the representatives of society. In the fifth session, the labor representative began to express distrust of the government’s fiscal calculation (NPDC Minutes 5th session, March 7, 2003, 107). Kim Hyŏng-t’ak of the KCTU attempted to bring up the tax-based pension financing issues asserting, “[i]t is the government’s irresponsibility to simply fix the problem of drying up national pension.” “It should be addressed,” he continued, “what the state can contribute to this situation” (NPDC Minutes 5th session, March 7, 2003, 111-112). The business representatives also tried to insert their primary interest, the problem of the retirement allowances, into the deliberation agenda, to be discussed by public hearings and opinion surveys.

One noticeable thing was the interest group representatives’ effort to make changes in the types of opinion surveys used. It was originally planned to be an expert survey as in the case of Japan. Due to the nature of the unpopular reform, the importance of opinion surveys at this stage of initiating reform was more than apparent. However, they successfully pressed the NPDC members to expand the survey to employers and subscribers.

Expectedly, an absolute majority of the general public preferred the low contribution and high benefit structure of the national pension system. Backed up by the result, the representatives of the interest groups claimed that the simple cut-and-hike solution would not be “acceptable to people.”
Table VIII-5. Result of opinions surveys on the pension reform in 2003 (in percent)

<table>
<thead>
<tr>
<th></th>
<th>Less than 40%</th>
<th>40% to 50%</th>
<th>50% to 60%</th>
<th>More than 50%</th>
<th>Don't know</th>
</tr>
</thead>
<tbody>
<tr>
<td>Experts</td>
<td>29.0</td>
<td>31.0</td>
<td>26.0</td>
<td>14.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Employers</td>
<td>12.0</td>
<td>4.5</td>
<td>25.0</td>
<td>58.0</td>
<td>0.5</td>
</tr>
<tr>
<td>Subscribers</td>
<td>6.7</td>
<td>5.0</td>
<td>24.0</td>
<td>61.4</td>
<td>2.9</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Less than 12%</th>
<th>12%</th>
<th>15%</th>
<th>18%</th>
<th>20%</th>
<th>More than 20%</th>
<th>Don't know</th>
</tr>
</thead>
<tbody>
<tr>
<td>Experts</td>
<td>25.0</td>
<td>17.0</td>
<td>41.0</td>
<td>9.0</td>
<td>5.0</td>
<td>1.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Employers</td>
<td>52.5</td>
<td>44.5</td>
<td>2.0</td>
<td>0.5</td>
<td>0.5</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Subscribers</td>
<td>57.9</td>
<td>33.8</td>
<td>5.2</td>
<td>0.9</td>
<td>0.9</td>
<td>0.4</td>
<td>1.0</td>
</tr>
</tbody>
</table>


To facilitate consensus building process, at the last session, the NPDC ended up making three options to choose one of them as their final proposal, despite some professional members’ strong objections (e.g., Kim Sang-kyun). Three options were based on income replacement rate (60 percent, 50 percent, and 40 percent) and premium rate (19.85 percent, 15.85 percent, and 11.85 percent). No doubt, labor representatives preferred the first while business insisted on the latter option (Kim W-s. 2008, 91-92). Therefore, the three options were not likely to reach a conclusion because of the constant opposition from business, labor, and civil society representatives. The labor representative in particular questioned the accuracy of the technical statistics and asked for recalculation building on more positive demographic projections (NPDC Minutes, 7th session, May 28, 2003, 124-125). They also made the final report spell out the labor’s opinion which asked for new actuarial revaluation with the “labor and civil society’s participation” and the need to consider the contribution of the government (NPDC Minutes 7th session, May 28, 2003, 125-126).

Instead of extending deliberation, they simply decided to submit all three options, marking the second one as its preference, to the MOHW as the deadline set by the MOHW was approaching. Nothing was determined and the MOHW picked the second option, i.e., income replacement rate cut from 60 to 50 percent and premium rate increase from 9 to 15.85 percent. It subsequently submitted the proposal to the National Assembly for deliberation. Since the NPDC could not reach a consensus, each member still insisted that his/her opinion was more appropriate than the government’s plan. All the interest groups and civil society organizations which had sent their representatives to the NPDC raised objections to the plan (Dong-A Ilbo August 20, 2003, 25). The civil society representatives, such as Kim Yŏn-myŏng, argued that the benefits would not need to be cut because it could be funneled by taxes (Kim S-g. 2010, 284).
The government’s reform bill brought about huge popular contention (Kyunghyang Shinmun August 27, 2003, 6). A series of strikes were scheduled by the labor unions (Chosun Ilbo October 28, 2003, A10). They claimed that such a small pension would be nothing more than pocket money, dubbing President Roh’s word that he had used during his election campaign. The media amplified the impending collapse of the pension system. The distrust of the pension system exploded by rumors circulated over the Internet called “the eight secrets of the national pension” (see NPS 2008, 218) which collected extreme cases of losing what subscribers have contributed. Some groups even advocated a complete abolishment of the national pension system (Seoul Shinmun May 31, 2004, 10).

Once the highly controversial proposal was delivered to the NA, the pension reform issue was further politicized. Considering the upcoming general election, no political party could seriously think of such an unpopular reform (Hankook Ilbo December 26, 2003, 19; see also Choi, Y-j. 2008a, 131-132). The MOHW in fact worried that “the government pension reform bill, prepared for two years, would be adrift without a single deliberation in the NA, because political parties are afraid of the opposition from the civil society organizations and labor unions” (quoted in Choi, Y-j. 2008a, 132). Confirming the MOHW’s concern, the bill was shelved and expired with the end of the 16th National Assembly. In short, the participatory mechanism of social dialogue to solve the impending problem of desiccating pension funds ended up amplifying the social contention. Some may argue that it could have made been more successful had it not been for the participatory measure. However, the pension reform issue had already been too politicized to be deliberated by the participatory framework.

2. Politicized Corporatism and Civil Society

Politicization of Pension Reform

As briefly mentioned above, while the NPDC was deliberating the pension issues, the ruling party’s presidential candidate Roh Moo-hyun pledged that there would be no benefit cut in the upcoming pension reform. During the election campaign, he and his party severely downplayed his opponent’s idea of stabilizing the pension system by cutting benefits.

Upon winning the election, the President-elect Roh Moo-hyun organized the Presidential Transition Committee (taetongryŏngjik insu wiwŏnhoe, PTC hereafter) and set the policy foundation of the new government. One of the ground principles of the PTC was the “participation” of citizens in policy making (16th PTC 2003, 21). Welfare reform, including the restructuring of the national pension scheme, was one of the major issues and the new government was about to initiate major reform according to the participatory principles. The PTC subsequently announced that the decision will be made by the NPDC.
As discussed above, however, the PTC realized that “cuts of benefits and increases of contribution are inevitable in order to stabilize the national pension fund” (Hankook Ilbo, January 7, 2003). In other words, the campaign pledge was not based on solid policy information but just a simple winning strategy. The problem was that the campaign strategy in tandem with his emphasis on the participatory decision rapidly politicized the pension reform issues.

The welfare bureaucracy was in fact in great dilemma as the ruling party’s candidate advocated welfare expansion against the government’s retrenchment goal. An autonomous strong bureaucracy could have corrected the presidential candidate’s unrealistic campaign pledge but the MOHW did not do anything but postpone the NPDC session to the next year. The consequence of the politicization of the pension reform was detrimental.

First of all, the opposition party was not going to cooperate with the Roh administration unless President Roh apologised for his change of position (Yi, S-b. 2005, 119-120). Furthermore, the GNP, which had lost presidential elections twice in a row, began to initiate welfare expansion as a means to earn voters (Kim, S-g. 2010, 268). Now the pension issue turned into not a matter of policy competition but that of political rallying. These claims were not based on any solid statistical projections but political pledges. The name of the old-age pension was used in rhetorical wordplay such as “pension in honor of the aged” (kyŏngno yŏng’gŭm) or “pensions for filial piety” (hyodo yŏng’gŭm).

The politicization of pension reform spread through President Roh’s “participatory” government’s policymaking network. In fact, many civic groups and labor organization made mutual policy agreements with Roh’s election camp during the campaign period. After assuming power, President Roh installed many deliberative councils under the banner of participatory governance. According to statistics, the Roh administration installed 2.6 new councils or committees every month, tallying up to 156 during his term (Joong-Ang Ilbo December 7, 2007). A good number of members from interest groups and civil society organizations were recruited in the government’s decision making bodies as well. A survey showed that 158 posts of the government organizations were filled with personnel affiliated with the PSPD under the Roh Moo-hyun government (Chosun Ilbo September 1, 2006). In this situation, to push forward the pension reform against the agreements with these governance partners meant a huge political setback for the ruling political elite. Thus the political elite became more and more reluctant to carry out the reform goals.

This influenced the deliberation process in the NPDC as well. At the last session in May 2003, the Director-General of MOHW stated, “[t]he MOHW has to present a fiscal stabilization plan to the National Assembly soon, so the NPDC should draw a conclusion” (NPDC Minutes, 7th session, May 28, 2003). The KFTU representative claimed that it would bring about enormous popular protests so they could not decide this issue there. The labor leaders saw that the government pension would cause massive anti-
government protests and, this meant the welfare bureaucracy did not determine anything regarding the reform plan but simply tossed it to the politicians.

While the due date was approaching, the NPDC could not move an inch to a consensus. Thus the MOHW tried to use opinion surveys but the interest group and civil society representatives found that it could be used as a means to impose the government’s preferred option to people. They, as stated previously, added popular opinion surveys in addition to the expert survey that the welfare bureaucracy originally planned.

The public hearings, which were utilized to help the government to preach its reform agenda in Japan, were the main arena for the civil society to manifest its influence. The representatives’ organizations were mobilized and joined the event to empower their representatives. Open discussions from the floor were frequently used to criticize the views that represented the government’s reform goals. When the subcommittees’ proposals were submitted to the NPRC for deliberation, the members were split on accepting their policy options. Instead of continuing deliberation, the interest groups and civic groups held press conferences and organized mass demonstrations outside the committee to influence the committee. Media in the press conference, wittingly or unwittingly, spread negative images of the pension reform (Kim, S-g. 2010, 260).

**Negotiation, Compromise, and Goal Displacement**

The government’s reform attempt resumed with the beginning of the 17th National Assembly. The MOHW resubmitted the reform bill for deliberation. In return, virtually all political parties joined the debate and proposed their own pension reform bills. They even installed a special committee for the pension reform in the National Assembly (kungmin yŏn’gŭm chedo kaesŏn tükbŭŏl wiwonhoe), which did not produce any meaningful outcomes (NPS 2008, 228-231). Table VIII-6 below summarizes the variety of proposals contested at the National Assembly.

Facing such objection from the opposition parties as well as from the general public, the government and the ruling UP decided to add more benefits to the BP system and sent the bill to the plenary session. At the session, the opposition parties also submitted a joint reform bill and both bills were put to a vote on April 2, 2007. However, only the portion of bills which would increase the BP benefits were passed while the main bills to cut pension benefits and raise contribution were voted down. Popular criticism skyrocketed against the politicians and they were forced to compromise, and quickly reached an agreement. The ruling UP discarded its plan to increase the contribution level and the opposition GNP agreed to adjust the benefit level. DLP and civil society organizations criticized the motion but the bill passed the National Assembly on July 3, 2007, ending four years of political deliberations.
Table VIII-6. Alternative reform plans of the political parties

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</thead>
<tbody>
<tr>
<td>BP Benefit Level</td>
<td>-</td>
<td>5%</td>
<td>5%</td>
<td>10% (2008) to 20% (2028)</td>
<td>5% (2008) to 15% (2028)</td>
<td>5% (2008) to 10% (2018)</td>
</tr>
<tr>
<td>BP Coverage</td>
<td>-</td>
<td>45%</td>
<td>60%</td>
<td>100%</td>
<td>80%</td>
<td>80%</td>
</tr>
<tr>
<td>NP Benefit Level</td>
<td>50%</td>
<td>50% (2008) to 40% (2030)</td>
<td>50%</td>
<td>20%</td>
<td>60% (2008) to 40% (2023)</td>
<td>50% (2008) to 40% (2018)</td>
</tr>
<tr>
<td>NP Contribution Level</td>
<td>15.9% (2030)</td>
<td>12.9% (2017)</td>
<td>12.9%</td>
<td>7%</td>
<td>9%</td>
<td>9%</td>
</tr>
</tbody>
</table>

* Passed Health and Welfare Committee; ** Submitted to the Plenary Session.

The new reform bill received severe criticism. The goal of the reform was to enhance the sustainability of the national pension funds which would be depleted by 2038 without significant changes in the contribution and benefit levels. However, the 2007 pension reform simply postponed the exhaustion time for just three years and, on the contrary, added more benefits which would aggravate the fiscal instability of the government budget deficit (Yi, T’-j. 2010). Throughout the reform process, the voice of the technocratic elite was hardly noticeable. Political rhetoric and campaign slogans hijacked the course of the reform and produced dismal result which did not satisfy any parties that had participated in the reform procedure.

3. Participatory Pension Reform in Comparative Perspective

The series of event surrounding the national pension reform in Korea epitomizes how politics and bureaucratic policymaking intertwined through the social dialogue. The government came with clear policy agenda and goals. However, the previous experience of failure due to the lack of legitimacy, in tandem with the rising influence of civil society, led the MOHW to carry out the unpopular reform by installing a participatory council. The NPDC had however two different aspects compared to its Japanese counterpart, the PS/SSC, which was able to push the reform forward.

First was the lack of bureaucratic autonomy. As discussed before, the Korean welfare bureaucracy had been significantly hollowed out, paradoxically, during the developmental welfare state era. To briefly recap, the weak policy capability and low policy priority of the welfare bureaucracy made it rely on political influence to achieve its welfare goals, which in turn, left the bureaucracy vulnerable to external penetration. While the MOHW was able to organize the deliberative council and frame reform
agenda, it fell short in maintaining the coherence of the original initiatives upon the increasing external influence translated through the representatives of interest groups and civil society in the NPDC. Policy measures based firmly on technical rationale were frequently turned over by political rhetoric. The chair of the SID/NPRC later recalled that the technical expertise was frequently overridden by the logic of representativeness through the decision making process (Kim, S-g. 2010, 232).

Under this circumstance, the welfare bureaucracy’s initial goal was displaced with an organizational one, meaning, to finalize the deliberation and pass the result to the decision maker. In the final session, the Director-General of the Pension Insurance Bureau stated: “The deliberation began last year and I think it is almost over. It must be good if we can make a compromised deal but it is very unlikely that we can reach a consensus. The Ministry has to submit a proposal to stabilize the pension finance, so we have to end the deliberation. The government can do its job after the committee brings the deliberation to a conclusion” (NPDC Minutes 7th session, May 28, 2003, 134). Thus the year of deliberation came to an end with a laundry list of reform options that, later, would be discarded by the legislature.

Second, unlike the representatives of society in Japan, the civil members of the NPDC were represented by interest groups and civil society organizations, which were effectively linked to the politics. In other words, they were not isolated in the deliberative council but in fact more influential than the public interest members such as professors and experts. In the case of SID/NPDC, the interest groups and civil society organizations were able to send their own experts to represent them. When their voices were not effectively reflected in the deliberation, they were able to mobilize and demonstrate their political influence, while the expert members were not.

Finally, the reform issue was substantially politicized. The Japanese welfare bureaucracy made great effort to prevent the key reform goals, i.e., the fiscal stabilization by benefit cuts and contribution hikes, from being politicized while leaving the other issues such as government subsidies and tax increases in politicians’ hands. The key issues were approached from bureaucratic perspective from the beginning to the end, allowing small leeway for political maneuver. In contrast, the national pension reform issue attracted great political attention, due in part to the scheduled major elections and to the participatory policymaking measures introduced at the time.

The consequence of the politicization was that, as an article’s title (Kim and Kim 2005)—one of the authors was a civil society representative in the SID/NPDC—suggests, the pension reform in Korea became identified as a matter of “conflict between social solidarity and long-term financial sustainability,” a highly ideological and political struggle between the state and civil society, instead of technical calculations or interest intermediation. In fact, the government recently installed the Committee for Public Pension Reform (kongchŏk yŏn’gŭm kaehyŏk hyŏbüihoe) under the Prime Minister’s Office in order to deliberate urgent reform issues (Seoul Shinmun April 4, 2008, 6), which is moderated by the Deputy Minister for Management of Social Integration (sahoe t’onghap chŏngch’aek silchang), not by welfare or economic bureaucrats.
So far, we have discussed the development of welfare state and pension programs, as well as the process of pension reform in Japan and Korea. The next chapter will review the major findings and present a comparative and comprehensive analysis as the conclusion of this dissertation.
IX. CONCLUSION

1. A Tale of Two Welfare States

In the preceding two chapters, we have sketched out the process of pension reforms in Japan and Korea. The public pension systems in the two countries were at stake due to the aging demographics and the economic difficulties. Facing the predicament, the goal of the welfare bureaucracies was simple and clear: to fiscally stabilize the public pension systems by cutting benefits and raising contributions. The Japanese bureaucracy managed to achieve the professed reform goal in a much shorter period of time than the Korean government, which eventually failed to attain the initial goal. Both governments employed similar participatory measures to minimize the anticipated political backlash from carrying through the unpopular reform tasks. The main discussions presented in the chapters were to explain why those participatory reforms via social dialogue produced visibly different outcomes in the two countries. The differences in the autonomous power of welfare bureaucracy, the degree of organization of civil society, and the limited politicization of the reform issue were posited as the independent variables. The real question, however, lies in the origins of these differences. To answer the question, I will revisit the major themes of the foregoing chapters below as the conclusion of the dissertation.

Nature of the Developmental Welfarism

The dissertation began with the description of the models of welfare states. As canvassed in Chapter II, the East Asian welfare regimes, Japan and Korea inter alia, have substantial differences from the Western counterparts. First of all, their welfare programs were devised and implemented for developmental purposes, not in response to the rising social democratic forces. In other words, the welfare programs in the so-called developmental welfare regimes in East Asia were introduced since they offered meaningful benefits to economic development, not since they were demanded by the society as a social right. Secondly, the welfare spending of these regimes were substantially restricted, compared to that of the Western welfare states, due to the logic of economic development. Finally, the reliance of the Japanese and Korean welfare regimes on the private sector—or the society at large—for welfare provision has been far greater than that of any European conservative welfare states including Germany.

The most significant consequence of the developmental welfarism in the state-society relationship was the emergence of the state as more a “regulator” than a “provider” of welfare benefits to the general public. The society was extensively mobilized by the state to make it responsible for the welfare provision, instead of the state. The companies, in addition to the traditional welfare providers such as families and local communities, became the primary providers of welfare benefits while the state supported their economic activities and regulated them to take charge of welfare provisions.
This developmental welfarism works as long as the society can meet the people's welfare demands, that is, as the economy prospers and the system of supply-and-demand of welfare is balanced. The economic downturn and the aging of society that the two countries experienced over the past decades, however, rapidly undermined the vitality of the developmental welfarism. Retrenchment of welfare provisions became inevitable.

The society's responses to the state in the era of welfare retrenchment were quite different from the Western counterparts. First, the actors of the two societies wanted to fundamentally transform their welfare system by making the state more directly responsible for the welfare provisions. In other words, the debates on welfare reform in Japan and Korea were more about expansion—or fundamental transformation—versus retrenchment, rather than about the degree of retrenchment observed in many of the recent Western cases. The representatives of the state and the society faced each other with completely different reform agenda in their hands. Therefore, the welfare reform issue is a barometer to examine the state-society relationship in the two countries, beyond a simple measure to evaluate the state’s reform capability, since the different reform outcomes can manifest the state-society relationship of each country transformed through the welfare state building process.

**Transformation of the Developmental Welfarism**

As discussed in Chapter III, the Japanese welfare state is the typical case of developmental welfare state wherein welfare programs were introduced and implemented for the purpose of economic growth. To this end, given the limited resources available for welfare provisions, the private sector companies were made to take charge of large chunks of welfare services in addition to the traditional providers such as families and communities. After the triumphant declaration of the “first-year of welfare,” however, the Japanese government was under continuous pressure to fiscally stabilize its welfare programs due to the slowdown of economic growth and the progressive aging of society. Then, society was rediscovered as the primary welfare provider which prompted the government to work on establishing partnership with society in delivering welfare services with limited state resources. The welfare bureaucracy penetrated deeply into the society to galvanize voluntary organizations of society in an effort to transform them into reliable partners of the developmental state’s welfare services.

The Korean government also introduced and implemented welfare programs for the sake of industrialization as illustrated in Chapter IV. As a loyal follower of the Japanese developmental state, identical or similar welfare programs were adopted with a gap of a decade or so. The developmental aspects of the Korean welfare programs were more explicit and straightforward than the Japanese origins however. The state freely and frequently mobilized and reallocated the private sector resources to appropriate them to providing welfare services. Unlike the Japanese counterpart, the Korean government was not reluctant to take responsibility of the welfare provisions—which was in fact provided by the society just like in Japan—but exploited them as a political “instrument,” in other words, to legitimize the regime.
The differences of the two developmental welfare states originated from this aspect. In Japan, the decisions to introduce and expand welfare benefits were contemplated by the welfare bureaucracy to begin with. Although the credit for the welfare expansion was given to the LDP politicians, it was the welfare bureaucracy which maintained control over policymaking even during the political campaign of welfare retrenchment under the banner of “welfare reconsideration” (fukushi minaoshi). In doing so, the LDP’s reliance on the welfare bureaucracy’s “technical solutions” on the welfare issues became increasingly significant. It was largely made possible by the welfare bureaucracy’s great effort to minimize welfare spending and to have the society take more welfare responsibility.

On the other hand, the welfare programs in Korea, although they were also devised by the welfare bureaucracy as in Japan, did not take effect without political “blessings” of the top decision makers. In other words, the welfare expansions were enforced as long as they met both developmental and political qualification set by the top political elite. This has significantly politicized the welfare bureaucracy’s policymaking practices. The bureaucracy’s own welfare goals were often processed through political

Sources: Asahi Shimbun (January 16, 1973, 8), Kyunghyang Shinmun (January 1, 1988, 23).
rhetoric and logic to satisfy the top decision makers, which resulted in greater welfare benefits with greater government responsibility despite the unchanging lack of resources.

These different paths of developmental welfarism have created contrasting state-society relationship in the two countries. The Japanese society was mobilized and organized to serve as partners of the government. Private companies, local communities, and NPOs began to work to provide welfare services under the guidance of the welfare bureaucracy. The government became the regulator of the welfare services delivered by the private sector actors but did not have to take substantial responsibility: it was the “welfare society” that was in charge. On the contrary, the society in Korea, which was mobilized and organized as extensively as its Japanese counterpart, did not turn into a partner of the government. Welfare had been claimed to be the state’s direct responsibility and, thus, the society became increasingly dependent on the state. Further, the politicization of decision making coupled with the growing influence of the civil society after democratization weakened the autonomous policymaking capability of the welfare bureaucracy.

**Pension Programs and the Welfare Bureaucracy**

The state side of the story was further examined through the pension program developments in the two countries in Chapter V and VI. As many commentators have observed (Estébez-Abe 2001; Park, G. 2004; Manow 2005, Hwang, G. 2006), one of the main reasons to expand pension system in Japan and Korea was to appropriate the fund toward industrial-developmental projects, which makes the pension system an ideal case to examine their developmental welfarism.

The long story of the development of the Japanese pension system canvassed in Chapter V demonstrates the central role of the proactive welfare bureaucracy. To begin with, it was not the welfare bureaucracy but the political elite that pushed for the expansion of pension programs at the burgeoning stage of the public pension program. The LDP in the postwar political situation was in great need of policy measures to win popular support. To give the benefits of pension to all citizens, which had previously been limited to a handful of privileged groups such as public officials, was an attractive populist slogan for the political elite.

In response to the political demands, the welfare bureaucracy continued to expand the coverage with very generous benefit structures. The tension between the political logic and technocratic rationality was exacerbated in the late 1970s. The political actors were divided into welfare expansionists, advocates of the status quo, and those who were in favor of retrenchment, while the fiscal unsustainability was looming larger. There were two options for the welfare bureaucracy to fix this fiscal unsustainability: finding extra revenues or adjusting benefit and contribution levels. Upon experiencing the unsuccessful and undesirable results after touching upon tax-related issues, the former option was shortly discarded.
Therefore, the welfare bureaucracy endeavored to depoliticize the pension issues without bringing any tax-related issues to the forefront. Adjustment of benefits and contribution levels became a default agenda in every pension reform. Conflicting interests were proactively adjusted through deliberation processes prior to the reform enactment. In doing so, the welfare bureaucracy made itself an influential and primary regulator of the pension system largely supported by the contribution of every citizen and company, not by the government budget, which is a thumbnail image of the developmental welfarism in Japan.

The ways in which the Korean bureaucracy developed the public pension system illustrated in Chapter VI epitomized how the welfare bureaucracy had been hollowed out over the course of the developmental welfare state building. The idea of national pension was introduced at a quite early stage of the welfare state building due to the strong influence of the Japanese experience with the pioneering welfare bureaucrats. To realize the goal, the welfare bureaucracy seasoned it with developmental logic in order to get the ironfisted authoritarian leader’s approval. However, as the implementation of the pension scheme was postponed for more than a decade, the welfare bureaucracy had to make it politically usable and acceptable by revising the scheme into a more affordable one while promising unrealistically generous benefits. Political logic overrode bureaucratic rationality. This process significantly politicized the welfare policymaking process of the bureaucracy.

Claiming all the credit for the benefits offered by the public pension system, the politicians spurred on the coverage expansion even though the increasing fiscal instability was looming ever larger. The bureaucracy's reform attempts were blocked by political interests. In the meantime, the increasing influence of the society especially after the democratization in the late 1980s rapidly undermined the autonomous power of the bureaucracy by frequently frustrating its reform attempts through political mobilization.

One thing worth noting here is the general public’s perception on pension in Korea. Pensions were, just as in Japan, originally provided only to the privileged groups of the state. In an effort to make the pension scheme more attractive, the government underscored that the national pension would be directly managed by the state, despite its social insurance nature. The Korean state, unlike its Japanese counterpart, became regarded not as a simple regulator of the pension programs but as its direct provider and guarantor. In practice, as one of the pension programs in developmental welfare states, the state’s direct subsidy to the pension fund was substantially limited. The politicized, state-centeredness of the Korean developmental welfarism thus made it difficult for the state to effectively handle the popular demand of the government subsidy increase into the desiccating pension reserves.

Reform and the Response of the Society

The problems of the public pension system in the two countries were aggravated over the past decades and the two governments proposed a major revision of their pension programs in the early 2000s. Apprehending popular contention, as stated in
Chapter I, the rise of the civil society and the increasing demands of participatory policymaking led the governments to envision carrying out the reform initiatives through social dialogue. The pension reform cases discussed in Chapter VII and VIII in greater details depicted the ways in which each society responded to these government’s reform initiatives, as briefly summarized in the beginning of the Conclusion.

What is worth noting is the transformation of civil society during the developmental welfare state building. As discussed in Chapter VII, the Japanese civil society was not effectively mobilized on this issue. The two largest pensioners’ organizations were little more than the welfare bureaucracy’s partners managed by retired welfare bureaucrats (amakudari). The uncountable number of civic organizations for elderly citizens such as senior clubs did not play prominent roles in the pension reform. Only the interest groups which had long been represented and participated in the policy deliberation of the welfare bureaucracy such as Keidanren and Rengō were mobilized for the reform issues. The developmental welfarism led by a proactive bureaucracy has stymied the emergence of influential welfare advocacy groups that could otherwise have politicized the reform issues. The citizen representatives in the reform deliberation were “real” individuals without significant organizational support, who could not effectively politicize the reform to change the bureaucratically-predetermined reform agenda.

The Korean case projects an opposite picture. The politically-driven developmental welfarism made the state responsible for the pension program. The popular contention headed directly toward the state bypassing bureaucratic intermediation. Forming advocacy groups was thus the best strategy to have their voice delivered to the state. The networked citizen organizations such as CCEJ and PSPD, offspring of the democratization movement, were commissioned to represent the general public’s welfare demands throughout the reform process. All interested parties mobilized themselves to speak volumes about the pension issues by joining the advocacy network. As portrayed in Chapter VIII, the hollowed-out bureaucracy was not able to intermediate the conflict of interest under the inundation of political influences. As the then prime minister recalls, it was nothing but the political elite’s maneuvering, viz., negotiating political parties, mobilizing the welfare bureaucracy, persuading interest groups and the media, that carried through the pension reform in the 2000s (Yu 274-285).

2. Social Dialogue and the Politicization of Reform

To recap, this dissertation started from an observation of the different outcomes of the participatory pension reforms initiated under similar conditions in Japan and Korea in the past decade. The findings suggested that the different aspects of bureaucracy and civil society as well as the degree of politicization of the reform issue were the primary causes. These different aspects, the dissertation argues, were the results of the different paths of developmental welfare state formation in the two countries: the bureaucracy-centered Japan which has proactively designed a transition toward welfare “society” versus the
politics-oriented Korea that has instrumentally utilized welfare programs for political legitimation.

Revisiting the question raised at the beginning, it is time to evaluate the social dialogue implemented to accomplish the unpopular reform goals. The participatory councils were the vehicle for the social dialogue in the two reform cases. To begin with, let us briefly review the theoretical discussions on the deliberative bodies.

**Deliberative Councils**

The deliberative council in Japan has a long history, tracing back to the 1890s (Schwartz 1993, 218; see Fukui 2007a, 2007b). While there were many advisory bodies in the government, the current form of deliberation council intermediating interests among social actors was known to have been established and become widespread during the wartime period when the Japanese government was striving to mobilize and allocate resources for war-preparation. The Control Association (tōseikai) established for the coordination of industrial sector was one of the examples (Gao 2001, 61). The prewar intermediary institutions, however, differ from postwar deliberative bodies in terms of their obviously smaller number of members and regional (e.g., Chamber of Commerce) or group-ownership (e.g., Zaibatsu) based representation. Also a higher ratio of participation by politicians (Diet members) was another significant difference (Okazaki 2001, 325).

Postwar deliberative councils were basically designed to collect technical information and reflect public opinions in policymaking. It also aimed to reestablish the government authority which had been deteriorated after the end of World War II (Abe, Shindō, and Kawato 1995, 53-55). Government agencies were empowered to establish deliberative bodies to “gather opinions for client groups” and to “impose their own agenda on such groups” by the enactment of the National Administrative Organization Act in 1949 (Pempel and Muramatsu 1995, 55). The SSSC’s “Recommendations on the Social Security System” (shakai hoshō seido ni kansuru kankoku), for instance, defined the scope of social security and outlined the development of the welfare system in the postwar Japan (SSSC 2000). Throughout the post-war period, Japanese government established numerous deliberative bodies.

Despite the proclaimed roles and functions of deliberative councils, as briefly noted in the beginning of the dissertation, there are perspectives that do not regard Japanese deliberative body as a coordinating institution for a cooperative relationship. Some find “gimmicks” which disguise the government’s hidden intention or obscure bureaucratic responsibility, which are criticized as kakuremino, or an “invisibility-working fairy cloak” (see Kusano 1995, 195-219). Johnson (1982, 47-48) further pointed out that the deliberative council system generally failed to represent the interest of the “public at large.” Therefore, the deliberative councils have been major target of the administrative reforms and the number of councils has decreased over time as shown in Figure IX-2.
However, the general consensus seems to acknowledge the important role played by the deliberative bodies either as a strong policy tool of Japanese bureaucracy or as a major source of information (Schwartz 1993, 47). Considering the member composition in general, it can be said that deliberative bodies, at least, function as a “useful listening post” (Schwartz 1998, 57) allowing interested parties to express their opinions. It is also widely accepted, attested to by former deliberative council members, that the deliberative councils have seriously endeavored to improve policymaking procedure towards a more participatory and democratic way (Harari 1988, 155-156). The critical difference of these competing views is thus “who” represents the public at large in the deliberative council to make it a truly participatory policymaking institution.

An empirical study on the deliberative council in the 1980s demonstrates that bureaucrats made up more than 20 percent of its membership and ex-bureaucrats made up another 20. Thus in total no less than 40 percent of members of deliberative councils were (ex-) bureaucrats (Pempel and Muramatsu 1995, 55). Studies by Harari (1988; 1990) also confirm the composition of deliberative councils wherein the bureaucracy and the private sector representatives were balanced and mediated by amakudari ex-bureaucrats. The private sector representatives were the representatives of the organized interest groups such as Keidanren and Rengō. The public interest or neutral representatives were largely drawn from so-called “persons of learning and experience” (gakushiki keikensha), mostly college professors (Schwartz 1998, 74). The general public was supposed to be
represented by the public interest councilors and thus it is claimed to be misleading to regard the deliberative councils as an institution of “direct citizen participation” (Schwartz 1998, 53).

Exceptional cases where rank-and-file citizens participated in the deliberation councils are the consumer-related policy councils reported by Vogel (1999) and Maclachlan (2002). Civic organizations such as the Housewives’ Federation (shufu rengōkai, Shufuren hereafter) and the National Federation of Regional Women’s Organizations (zenkoku chiiki fujin dantai renraku kyōgikai, Chifuren hereafter) sent their delegates to the deliberative councils to represent opinions of housewives. Nonetheless, it has generally been hard to find citizen representatives in the deliberative councils. It is therefore worth studying the citizen representatives in the PS/SSC as it may herald an elevation of the degree of participatory democracy in Japan.

**Participatory Institution and Changes in Policymaking**

This study however claims that the participatory procedure, *per se*, did not bring about significant changes in the bureaucracy-dominated policymaking through the deliberation council. As addressed in Chapter VII, the PS/SSC in Japan was overwhelmed by technical discourses presented by the bureaucratic elite. Citizen representation, selectively tailored by the government in accordance with its predetermined reform agenda, was thus substantially limited. They wanted to change the agenda set by the bureaucracy, which had been transformed through the interaction with the political elite over the past decades, but to no avail. Without organized support from the civil society they were not able to push their argument further unlike the representatives of organized interest groups. In fact, many social issues in Japan have been out of the public debates because of the bureaucracy’s strong influence in agenda setting (Tanaka 2000, 153-157). Thus it was a barometer for the power of civil society in participatory governance, which turned out to be negative in elaborating the degree of participatory democracy in Japan.

The Korea’s experience of participatory pension reform can be identified as a completely opposite case to the Japanese counterpart. The NPDC in Korea was swamped in political rhetoric appropriated by interest group representatives as well as citizen participants. Strongly supported by their organizations in society, the non-bureaucracy members incessantly brought new agenda on the table criticizing the welfare bureaucracy’s predetermined ones. Even the highly technical discourses such as demographic projections and fiscal calculations were replaced by political rhetoric such as “future of the welfare state in Korea.” Given the nature of the unpopular reform, the result the deliberation was unquestionable. The participatory measure in Korea effectively stymied the entire reform process.

Politicians also played different roles in the deliberation process. Japanese politicians wanted to use the social dialogue to increase their voice over the bureaucracy. The political actors in Korea also attempted to exploit it to increase their influence over the bureaucracy. However, the difference in the autonomous strength of the bureaucracy resulted in different outcomes. The Japanese bureaucracy was able to handle the political
challenge by manipulating its own administrative arms and technics. Eventually, they went through the long-delayed pension reform against political opposition. The Korean bureaucracy, which had already been hollowed out by external interference, could not effectively face the political challenge.

The findings suggest, as noted above, that the introduction of participatory decision making institution did not make meaningful changes in the ways in which the pension reform was initiated. It on the contrary served to legitimize the government’s claim and helped it be legislated as planned in Japan. Despite the exploding number of civil associations and the galvanized competition of political parties, they were not effectively translated into raising the influence of the Japanese civil society. It is thus my argument that it should be attributed to the limited institutionalization of the voices of civil society and the overwhelming presence of bureaucratic decision making institutions. On the other hand, the Korean developmental state which placed politics at the center of the decision making process has politicized the Korean civil society. Overwhelming the political decision making process undermined bureaucratic rationality and autonomy, which resulted in the lack of policy capacity to carrying out reform against popular discontent. Despite the technical nature of the reform the Korean welfare bureaucracy was not able to effectively respond to the politicized claims from the civil society, which eventually left the reform issues to be handled by political actors who would make the financial situation of the national pension program worse.

Source of Bureaucracy’s Power in Social Dialogue

It leads us to the discussion of bureaucratic power and state-civil society relations. First, the coherence of the welfare bureaucracy should be taken into consideration. The Japanese MHLW has a dedicated bureau of pension with the personnel specialized in pension issues such as the Director-General Tsuji Tetsuo. His technical expertise and leadership was one of the critical sources of the welfare bureaucracy’s power in the reform deliberation.

It should however not be regarded as the bureaucrat’s personal ability but as the Pension Bureau’s policy capability. For instance, the case of the 1985 pension reform documented in Nakano (1992, 15-82; 1993, 51-66) as the typical case of the bureaucracy-led policymaking (kanryō shudō), demonstrates the pioneering role played by the then Director-General of the Pension Bureau, Yamaguchi Shinichirō. Yamaguchi is generally referred as the “spirit of pension” (nenkin no oni) in Japan because of his profound contribution in the development of the public pension system (see Kubo 2005). As Nakano (1993) reports, he initiated the pension reform plan by organizing a study group within the MHW to foster a ministerial consensus on this issue. Supported by its deliberative councils, Yamaguchi then hammered out an inter-governmental agreement by actively participating in policy councils of the LDP and the Cabinet Office. Opinion surveys and media control were also carried out in order to win popular support on the reform issue.
However, in contrast, the two pension departments of Korea had been under the Bureau of Pension and Insurance, mainly in charge of health insurance affairs, until a Deputy Director for National Pension (kungmin yŏn'gŭm simŭigwan) was installed in 2003. Frequent inter-departmental personnel transfers made it difficult for the MOHW to have pension specialists. In the NPDC, the role of the MOHW representative was little more than as administrative support, let alone agenda setting or control.

Also, the different aspects of civil society played an important role in producing different outcomes. In the Japanese participatory governance scheme, representatives of civil society were led to participate as individuals regardless of their organizational affiliation. The organizations with which the citizen members were affiliated did not officially support the members’ activities. Neither were they willing to protest against the decision if their representatives disagree with it. In contrast, the citizen members on the Korean deliberation councils were representing their civil society organizations. If the members were not satisfied with the deliberation, they could resort to their organizations that were willing to mobilize their forces. The citizen members of the Japanese PS/SSC were by no means fully satisfied with the decision of the council but there was nothing that could be done for them unlike the interest group representatives. In Korea, the citizen members, and their organizations, could easily cooperate with interest group representatives, not to mention with their associations, to make their voice heard. As the civil society representatives could exit if their voice would not work—paraphrasing Hirschman (1970)—the Korean bureaucracy was not able to effectively control the reform agenda through the deliberation process.

**Evaluating the Reform Outcomes**

Although the Japanese welfare bureaucracy passed its original reform bill to legislation as scheduled, both cases are hard to claim clear successes, considering the ultimate goal of these social dialogues, because the participatory measures they employed could not effectively appease popular contention. Nor did it win consent from all contending political and social actors. In fact, Japanese citizens’ dissatisfaction on the pension system was further aggravated through the deliberation council’s activities as demonstrated by the post-reform surveys noted in the foregoing chapters. Korea was no different. In a survey conducted in November 2006, the majority of respondents (57.4 percent) expressed their negative views of the pension reform that was currently being discussed while only 10.4 percent had positive views (Naeil Sinmun December 6, 2006, 17). After the reform bill passed the National Assembly in 2007, only 26.1 percent of the respondents were willing to join the new national pension program. 58.3 percent said that they would not approve the new national pension program (Munhwa Ilbo June 30, 2007, 6). This clearly shows that the participatory reform did not produce any significant outcome in terms of winning popular support.

Nevertheless, it is obvious that the Japanese pension reform was more successful in achieving the initial goal of the pension reform while it was barely able to in its Korean counterpart. What seems obvious in the Japanese case was the strong role of the welfare
bureaucracy through the deliberation process. The MHLW had clear policy goals and procedure to follow. The government officials in the deliberation council played a key role in keeping the discussion on track. The members of the councils, a majority of whom had had close ties to the MHLW, were largely cooperative to the government’s direction. Discussions remained with technical discourses instead of political or ideological debates. Since the debates were kept within the predetermined agenda, politicians or rank-and-file citizens who are largely weak at technical details were unable to intervene and redirect the course of the deliberation.

On the other hand, the deliberation council in Korea basically began with relatively open goals. The MOHW bureaucrats were equal members of the council with other representatives, headed by an economics professor. Every session was filled with political and ideological claims with abstract and normative arguments. “Everybody wants to pay less and get more,” Song Byŏng-rak, the chair of the NPDC said at an interview: “However, the society will get stronger if we get less than we paid, considering it as a donation” (PCPP 2008, 28). Members believed that they were discussing the future of the welfare state in Korea, not the stability of the pension fund which would be exhausted soon. This attitude was also appeared in the public pledges of the presidential candidates in the 2007 election. On the solution for the aging society, the GNP candidate Lee Myung-bak stated that “senior citizens are suffering from diseases, poverty, and loneliness.” “National pension or basic pension alone cannot solve the problem,” he continued, “so we need to think of new paradigm of welfare.” Chŏng Dong-yŏng, the UP candidate also mentioned that what matters is a “policy philosophy on welfare” (Hankook Ilbo December 17, 2007, 5). No numbers, no details, just abstract political slogans.

This should not be interpreted as the Japanese bureaucracy’s having superior technical knowledge than the Korean counterpart. The MHLW in fact stated, “[w]e believe the decreasing birthrate would be temporary. We (on the contrary) concern that the reform of the pension finance might go awry due to this thing [temporary decrease of birthrate]” (Yomiuri Shimbun June 11, 2004, 8), which was far from the correct understanding of the demographic situation of Japan. Nor should it be argued that the Japanese bureaucracy deliberately manipulated or concealed specific information with respect to the pension reform. What was important was that the technical information disclosed and disseminated through the deliberation process was not usable to the general public (Ushimaru 2005, 209). The civic representatives in the council were neither linked to the experts in the civil society nor supported by organizational power enough to override the decision making process bounded in technical debates.

3. Some Theoretical Implications

Finally, this dissertation attempts to contribute to the theoretical debates in several issue areas. First of all, it aims to examine the claims of participatory governance, which have been widely accepted as a practical solution to overcome the limitation of representative democracy (see Manin 1997). The notion of participatory or deliberative
democracy has gained currency as an alternative to representative democracy which simply aggregates or brokers interests of society (Barber 2008). Advocates of deliberative democracy, Fischer (2004, 22) for instance, argue that “citizen deliberation is a solution to the questions of both legitimacy and problem-solving confronting the modern state.”

“[I]nstitutions are crucial,” notes Sunstein (2002, 124), in deliberating controversial issues, “to create spaces for deliberating groups without insulating group members from those who have opposing views, and without insulating those outside the group from the view of those within it.” Also essential for the deliberative scheme to serve for the value of the participatory democracy is participatory professional expert who can “effectively share and convey information and its implications to the larger public” (Fischer 2004, 26). “The forum of deliberation,” notes Goodman and Thompson (1996, 12) conclusively, “embrace[s] virtually any setting in which citizens come together on a regular basis to reach collective decisions about public issues—governmental as well as nongovernmental institutions.

They endorse deliberative and participatory policymaking measure not only in terms of its normative value but also of its practical value. In fact, deliberative measures achieved major success in hammering out consensus in many countries. There has been a growing recognition that policymaking without public participation is ineffective (King, Feltey, and Susel 1998, 319) and, in practice, public participation is widely regarded as a critical means for achieving progress in pension reform (Reynaud 2000). Successful reform cases have mostly based on broad consensus and agreement among political parties, interest groups and citizens on reform initiatives through their participation in policymaking process (Hering 2010, 172).

The Japanese and Korean pension reform cases discussed in this dissertation suggest that social context is as much important as participatory institutions and expert participation. In other words, the degrees of politicization and the autonomy of government agency are crucial in the success of participatory policymaking. Sunstein (2002, 124) actually argues that the “value of deliberation [...] depends very much on social context—on the nature of the process and the nature of the participants.” However, as Mutz (2006, 136-136) aptly points out, the deliberative institution is likely to encourage participation of those who are “more extreme in their views and thus unrepresentative of the general population” in a highly politicized society, which may “prolong conflicts and prevent compromise.” Korea’s pension reform case succinctly demonstrates the detrimental result of the deliberative policymaking in a highly politicized society. Thus, as an “editor of a newspaper,” borrowing the metaphor of Pettit (2004, 61), the deliberative body should be authorized to make a depoliticized decision building on its own deliberation of various opinions and contesting interests, against the political penetration from political elite and civil society.

**Bureaucratic Autonomy and Pluralism in Japan**

This dissertation is also a study on deliberative policymaking institution and thus attempts to theoretically contribute to the discussion of decision making and governance.
First, scholarship on Japanese policymaking had been dominated by the strong state thesis until a number of literature emerged emphasizing the significance of the non-state actors (see Allinson 1989).

There have been two schools of thoughts in interpreting the nature of Japanese policymaking: bureaucracy-centered approach and pluralist approach (Vogel 1994, 220-222). The bureaucracy-centered perspective underscores the autonomous power of the Japanese bureaucracy in intermediating conflicting interests of society as well as providing concessions to political pressures, while injecting its own interest in the state policymaking. The pluralist views on the other hand emphasize the reciprocal interaction between the bureaucracy and the society, interest groups inter alia, in making government policies. The former has been well versed by the classical claim of the developmental state thesis that described Japan as “a system of bureaucratic rule” where the bureaucracy “makes most major decisions, drafts virtually all legislation, controls the national budget, and is the source of all major policy innovations in the system” (Johnson 1982, 20-21, 320). Hoshino Eiichi called it “state monopoly on public affair,” a setup whereby the government monopolizes decisions as to “what constitute[s] the public interest” and “the actions carried out to serve this interest” (Katō 2002, 39). The other viewpoint is well represented by the scholars who see the Japanese bureaucratic system as being “exchange-based and political” (Muramatsu 1981, 326) and interpret the government policies as consequences of the political lobbying of interest groups (Rosenbluth and Thies 2010, 72-94). A myriad of researches concur in regarding the Japanese bureaucracy as “representing a variety of interest groups” and “encouraging their pluralistic participation” (Muramatsu, Itō, and Tsuji 2001, 68).

The latter perspective, so-called “patterned pluralism” has been gaining more currency. Patterns pluralism is defined as a policymaking system “characterized by a strong state with its own autonomous interests and an institutionalized accommodation among elites, interacting with pluralist elements” (Muramatsu and Krauss 1987, 537). “In the patterned pluralist system,” they note, “there are constant attempts to coordinate and structure the keen intra- and intersectoral competition. The use of shingikai to hammer out acceptable policy solutions among competing interests is one such coordinating device” (Muramatsu and Krauss 1987, 538-539). The popularity of the notion of patterned pluralism largely builds on the findings which demonstrate the increasing influence of non-bureaucratic actors such as politicians and interest groups. Miura (2008) for instance points out that the labor policymaking has been transformed from “bureaucracy-led consensus-oriented, to a majoritarian process” due to the power shift from “bureaucrats to politicians as well as from labor to capital.”

Japanese pension reform of 2004 is a good case to evaluate the claim. To begin with, the debate surrounding Japanese policymaking has overwhelmingly centered on political economic issues which put the government, the ruling party, and the business sector largely in accordance in their policy preferences. Thus the current discussion generally covers the cases where the state functions as an “interested mediator” in “conflicts among interest groups” to “guide bargaining toward outcomes” that satisfy the bureaucracy’s own distinctive preferences as well as those of interest groups (Schwartz
The welfare issues on the contrary have often coincided with the preferences of political left and civil society in general (Collick 1988, 232). Especially when the welfare bureaucracy embarks on a retrenchment reform, it is hard to find the ministry’s allies. In other words, the Japanese welfare bureaucracy had to develop its own interests which do not necessarily be in accordance with those of ruling party, business sector, or organized labor. Unlike economic and industrial ministries which intermediate conflicting interests among social actors in a pluralistic manner, the welfare bureaucracy has to carry through its own reform goals against influential actors of patterned pluralism such as business and organized labor. In the 2004 pension reform case, the welfare bureaucracy had to challenge virtually all actors including the general public and it successfully faced the challenge through the deliberation system. Its successful implementation demonstrates the autonomous power of the welfare bureaucracy, and the validity of the bureaucracy-led policymaking nature in Japan.

It is worth noting the ways in which the welfare bureaucracy has maintained autonomous control over policy agenda against the increasing influence from politicians. The case of pension reform in 1985 sheds some light on this question. In the reform, the MHW resolved a policy conflict with the SSSC of the Cabinet Office which was advocating a tax-funded unified pension system. As the idea of balancing-budget-without-tax-increase was gaining support due to the administrative reform led by the SPCAR, the Director-General Yamaguchi made a political decision to discard all tax-related claims from its proposal and to uphold the social insurance principle in the public pension system, which eventually drew the SSSC’s “general understanding” (ōmune rikai) on this issue (Nakano 1993, 60). In other words, the MHW preemptively dropped potentially politicizable issues, the tax-financing inter alia, from its reform measures and handed them over to the politicians or other political ministries.

Sources of bureaucratic autonomy differ across ministries and countries (Painter 2005). What this study finds is the importance of issue de-politicization since politicizing issue opens a window of external influences.

**Democratization and Welfare Politics in Korea**

It has been well documented that most economic problems, caused from either international crisis or domestic policy failures, were dealt with by political executives in the ways of protecting and supporting the business sector in order to sustain the economic growth, and thus, secure the political legitimacy in Korea (Woo 1991, 112). Welfare programs in Korea were also introduced as a part of the politics of legitimation but, as Kwon, H-j. (1999, 132) succinctly posits, with “no real perceived threat from the working class” unlike the Western cases. They were “preemptive strikes” made by a “confined circle” of policymakers including “the president, his advisors and ministers” who selectively implemented the policies proposed by “groups of policy experts” in accordance with the logic of industrialism and economic development (Kwon, H-j. 1999, 132-134). This instrumental nature of welfare policy, as discussed in Chapter IV, politicized the welfare issues from the beginning. Furthermore, unlike its Japanese counterpart, the
Korean bureaucracy’s relationships with its social constituents have been “instrumental rather than consummate” (Cho, M-b. 1992, 172). This has politicized the Korean bureaucracy as well. In short, a politicized welfare bureaucracy has been making politicized welfare policies in Korea. The lack of Korean bureaucracy’s autonomy in the executive-bureaucratic nexus has been called a “sunflower” model in which bureaucrats “radiate around the chief executive,” or the president (Cho, M-b. 1992, 169). Few decisions have been made against the will of political executives.

However, increasing number of scholars point out the “over-bureaucratization” and the persistence of strong state legacy in Korea after democratization (e.g., Choi, J-j. 2005; Kim, Han, and Jang 2008). The underdeveloped civil society and the incompetence of the political executives after democratization allowed the bureaucracy dominating policymaking process. A number of literature thus suggest more empowerment of civil society in policymaking, including the welfare reform issues (e.g., Lee and Park 2009; Chung, H. 2010; Kim, S. 2010; Fiori and Kim 2011) is crucial. In short, they claim that more politicization is required to reform the government’s policymaking system.

Politicization is generally defined as “the substitution of political criteria for merit-based criteria in the selection, retention, promotion, rewards, and disciplining of members of the public service” (Peters and Pierre 2004, 2). Countries have employed the politicization strategy in order to reform the problem of over-bureaucratization by increasing the bureaucracy’s responsiveness to political executives and civil society. This research on the contrary argues that the more politicization may be detrimental in such an over-politicized country like Korea. As the pension reform case illustrates, the bureaucracy’s technocratic decisions were overturned by political rhetoric and mobilized influence of interest groups and civil society. As an empirical study on the unintended consequence of the participatory reform in Korea suggests, participation of civil society does not necessarily bring more democratic and efficient policy outcome (Cho, S-I 2007).

Comparative Study of Japan and Korea

Finally, this study emphasizes the importance of the marriage of macro-historical comparison and micro-institutional analyses. A volume of literature has focused on comparing specific institutional features of Japan and Korea. They do underscore macro-level differences of political system but not quite clear how these systemic differences have produced different political or social outcomes (e.g., Nakano and Yŏm 1998; Chŏng, S-h. 2003; Lee, J. 2008; Peng 2008b). On the other hand, the contrasting macro-level image of depoliticized Japan and the politicized Korea has been often canvassed by many scholars but they used to end up emphasizing cultural or historical differences (see Kimiya 2003, 176-182). The study of welfare reform in the two countries can greatly contribute to analyzing the nexus of macro-historic differences and micro-institutional outcomes.

Also, this dissertation attempts to rectify the insufficient understanding on the difference of the Japanese and Korean states. Institutional similarities between Korea and Japan have been a dominant view in analyzing the political economic system. It has

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largely come from a cross-regional comparison in political economic literature. Schneider (1999), for instance, argues that the critical difference of Japan and Korea from the Latin American developmental states is the existence of the strong, autonomous, meritocratic, and professional bureaucracies in contrast to the weak, captured, appointive, and political bureaucracies in their Latin American counterparts. However, as addressed throughout this dissertation, the difference between Japanese and Korean bureaucracy is too profound. To better understand the different political and social outcomes in Japan and Korea, it is urgent to eliminate the Korea’s image of second Japan.
EPILOGUE

*Politicization in Japan: Story of Ms. Sugiyama*

Ms. Sugiyama’s first contact with the government was made in 1998 when she was writing informative columns in *Sukusuku Akachang* [growing toddlers], a journal published by the NHK, on various childcare issues. She was invited to an interview of the MHW conducted by the Deputy Director of the Policy Division, Minister’s Secretariat (*daijin kanbō seisakuka kachō hosa*). The deputy director asked if she had any specific requests to the government regarding the aging society problem. Sugiyama responded that the biggest concern was to get affordable and reliable babysitter. She also told that there was serious discrimination against job searching women after childbirth. The interviewer then asked her preference of the government’s childcare support policies, between cash benefits and direct service provision in particular, which she was not appeared to know the differences. Finally, the interviewer directly asked her opinion on the government’s pension policy:

*Nakada Hisoshi* (MHW Deputy Director): How do you feel about the opinions that there are many things that make working women and housewives worry including pension system?

*Sugiyama*: I have often read letters delivered to the journal where I write columns, and realized that many housewives think that it is not right to collect tax from housewives, and, in fact, so I do. It is personal decision whether to work or not, but, if not working, I think we have to surrender specific benefits attached to working. Many people are trying to work up to the point that does not generate taxes so I think we need to make anyone who wants to work without concerning taxes. Well, everyone, including me as well, does not like pay much tax, but I think it might be good for women to think that they are participating in society by paying taxes. (*Kōsei* September 1998, 26)

As her words implies, Sugiyama was one of faithful citizens wanting to improve living situation by making appropriate revisions of the system. Her earlier writings showed no “discontent” or “disgruntlement” against the government. From then on, she became a *regular* in government-hosted events, where she has gradually realized the importance of politics.

Sugiyama recalled the first day when she was invited to one of the CAO’s advisory committee in 1998 noting:

Seating in front of a number of big figures including Mr. Hashimoto Ryūtarō, Mr. Koizumi Junichirō and other ministers, I said to myself what a wrong place (*bachigai*) I am in! All the members were “intellectuals” (*yūshikisha*) such as college professors. Besides, I was the youngest member in the committee, and a nameless freelancer writer. I felt like I should go home as early as possible, but thought that my advantage would be that I have nothing to lose even though I make mistakes or whatever. (*Sugiyama 2005, 20*)
Thus she had courage to speak up regarding the problems of the childcare system in Japan that she had experienced as a working mother, indicating that bearing and rearing children in Japan is too painful (tsurai). The members, mostly male, in the conference hall replied with harsh comments such as: “I cannot believe childcare in Japan is painful”; “It is a shock to me that mothers are not feel happy about caring their children”; “Mothers have maternal affection and motherly instincts, which make mothers feel comfortable about childcare”; and, “Ms. Sugiyama, please refrain from writing such things in your published articles” (Sugiyama 2005, 25, 94).

Stunned, but not frustrated. As described in the foregoing chapters, Sugiyama vigorously represented her perspective on childcare-related issues. Although her efforts did not create much sensation, meantime, the experience with the PS/SSC in 2002-2004 changed her attitude in approaching those issues. In other words, she came to locate the childcare and pension reform issues in a broader political context and realize the significance of political advocacy. It led her to attempt to link the issues to upcoming elections.

When the reform bill was being deliberated at the Diet, Sugiyama personally conducted a survey of the major political parties on the pension reform issue. The LDP and the New Komeito Party (kōmeitō) responded that the government’s reform bill would greatly relieve the problems of the aging society while the DPJ, the Communists and the Socialists responded that it would not fix any problems (Sugiyama 2005, 192-201). Having been a supporter of a fundamental reform with more government responsibility, without doubt, Sugiyama made herself aligned with the opposition parties. She also endorsed a statement against the Koizumi government’s so-called “Trinity Reform Package” claiming that it would relinquish the childcare responsibility to local governments which were not ready to take it (see Sugiyama 2005, 190). Further, she organized a political
advocacy group to arouse public attention to the issue.

The Let's Go to the Election! Committee (senkyo ni ikō! iinkai) was thus established to urge participation in the upcoming election in favor of the childcare welfare expansion. It began with setting up a website—available at [http://www.na-ka-ma.com/senkyo/] but now defunct—containing detailed comparison of childcare policies of major political parties. With the boom of the so-called Manifesto election, major media including Asahi Shimbun, Yomiuri Shimbun, and Kyōdō Tsūshin covered her activities and the organization’s proposal. However, as she admitted, it did not make much influence (Sugiyama 2005, 2–7). Voters were more interested in the pension problems, the pension scandal more precisely, than the fundamental issue of the welfare system in Japan. She returned to the deliberative councils.

Sugiyama was appointed as one of the members of the new PS/SSC installed in December 2006. The 18 members of the new PS/SSC were all new members except Imai (the WFA President), Watanabe (Nihon Keizai editorial writer), and Sugiyama (PS/SSC 2006a). She also joined the PS/SSC’s working group on the expansion of the EPI coverage to part-time workers (pā to rōdōsha e no kōsei nenkin tekiyō ni kansuru wākin gurūpu) as one of the six members (with four professors and a journalist) in December 2006 (PS/SSC 2006b). At a panel discussion, Sugiyama said, “While I was listening in the government council, I realized that the aging problem is really serious but neither institutions nor money is sufficient” (Kōsei Rōdō August 2008, 6). Thus she proposed to build NPO-focused childcare programs with administrative “back-ups,” which were identical to the MHLW’s views on social welfare.

The incumbent DPJ administration’s pledge was to reform the pension system fundamentally into a fully tax-funded system. However, once assuming power, the DPJ’s pension reform policy has been leaning toward a parametric adjustment of the current system instead of a radical reform (Nihon Keizai Shimbun January 15, 2011, 5; Shūkan Tōyō Keizai February 5, 2011). The MHLW launched a new PS/SSC in August 2011 with all new member composition. The WFA continued to send their representative, Vice President Koyama Fumiko. The roles used to be played by Ide and Sugiyama were replaced by Fujisawa Kumi, Vice President of the Think Tank SophiaBank (sinku tanku sofia banku) and Japan Social Entrepreneur Forum (shakai kigyōka foramu) and Komuro Yoshie, CEO of Work Life Balance Co., Ltd. (kabushiki kaisha wāku raifu baransu), a Tokyo-based consulting company (PS/SSC 2011). Both of the two new independent representatives, Fujisawa and Komuro, are energetic writers who have a long history of affiliation with the government’s deliberation bodies (see profiles at Fujisawa and Work Life Balance, Co. Ltd.).

Since the 2004 reform, the welfare bureaucracy has suffered from the significant loss of popular confidence due to various scandals related to pension records as well as personal corruption cases. It is now to be seen what will be the outcome of the deliberation in the PS/SSC.
Contrary to the Japanese case, the issue of pension reform in Korea requires more technical approaches than political approaches. Unfortunately it is difficult to find technocratic approaches by the welfare bureaucracy. Policies are made for political consideration by technocrats. For instance, the Roh administration’s major welfare program The Vision 2030, which reflected the president’s intention to cut ties from the traditional “growth-first, welfare-later” ideology, was drafted by Pyŏn Yang-gyun, the then Director of Policy Division, Presidential Office, who had been a member of the NPDC and a career bureaucrat in the government budget offices (Chosun Ilbo August 31, 2006). Kwŏn O-gyu who had been a strong subscriber to economic growth and liberal market principles, began sending reports on the merits of the Swedish welfare system when he was appointed as the Ambassador to the OECD (Chosun Ilbo November 7, 2006). Kwŏn was later described as a “soft market ideologue” (pudūrŏun sijangjuŭija) with a long and close personal tie with the president when appointed as the Minister of Finance and Economy (Seoul Kyŏngje July 2, 2006).

“Public officials have no spirit,” told a high-profile government official at a PTC meeting for the president-elect Lee Myung-bak in 2008 (Chosun Ilbo January 4, 2008), paraphrasing Max Weber’s famous words, “[s]pecialists without sprit, sensualists without heart” (2003 [1905], 124). While Weber’s words warn the potential danger of technocratic rule, i.e., problems of depoliticized bureaucracy, what the Korean public official wanted to say was an excuse of his behavior under the previous administration: “we implemented the policies because we were told to do so.”

Meanwhile, pension funds are still being exploited for political purposes. The government attempted to make the national pension fund exempted from liability of loss in case it was used for the government’s target program (Hankyoreh Shinmun April 20, 2011, 7). Further the chairman of the Presidential Council for Future and Vision (mirae kihoek wiwŏnhoe) even stated that the government would make the national pension fund actively exercise its voting rights as shareholders as a means to make the government policy delivered to the private sector (Hankook Ilbo April 27, 2011, 3).

President Lee and his governing staff’s initial view on national pension was to privatize it as much as possible. The government was also supposed to initiate a pension reform in 2009 building on the actuarial review performed in 2008. However, the political executives were not able to push unpopular reform in 2009 due to the trauma of the months of popular protests in 2008. The government’s approach to pension reform has thus been swayed by political situation. Recently, at the new year’s address, President Lee asserted that we need to reform the pension system as “we're rapidly heading toward the era of life expectancy of 100 years” (Chosun Ilbo January 3, 2011). Yet, the political elites are split over the issue and the strongest candidates for the next presidential election favor welfare expansion. Even the conservative ruling GNP’s front-runner, Park Geun-hye, endorses an across-the-board expansion of welfare programs including the national pension scheme (Dong-A Ilbo October 10, 2011). Under these political circumstances, the
spiritless Korean bureaucracy is not likely to embark on pension reform until all the elections are over in 2012.
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* Japanese and Korean language literature is transliterated by the romanization systems specified in Notes on Conventions on page xi. English translation is parenthesized in a pair of square brackets while transliteration of terms into original language is presented with round brackets.


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