Institutional Linkages between Social Protection Measures and Industrialisation in Korea

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• Compatibility between Economic Policy and Social Policy

• Institutional Linkage between Economic Policy and Social Policy

• Classifications of Institutional Linkage between Economic and Social Policies
I. Compatibility between Economic Policy & Social Policy

- **Compatibility** (positive-sum) or **Incompatibility** (trade-off) between efficiency/economic growth/capitalism & equity/egalitarian redistribution/welfare state

- After the golden age, new incompatibility: social policy $\rightarrow$ decline in
  
  (i) productive sector
  (ii) labour supply & work incentive
  (iii) saving & investment
• Empirical evidence of trade-off arguments → mixed and inconclusive (e.g. Atkinson 1999)

• Globalisation and social policy: compensation effect (Rodrick 1997) & compatibility effect (Gough 1996)

• Reciprocal, complex and dynamic relationship b/w social & economic policies
II. Institutional Linkage between Economic Policy & Social Policy

- The Developmental State & Developmental Welfare
  - The state’s role as a regulator & a low social spender
  - Prominent welfare role of the private sector

- initiated & advocated by *bipartite coalitions*
  → ‘Varieties of Capitalism’ approach
II-1. Institutional Linkage at the Regime Level

• **Varieties of Capitalism** approach (e.g. Soskice 1999; Hall and Soskice 2001; Ebbinghaus and Manow 2001)

- **Institutional complementarities** (or **elective affinities**) b/w specific social protection and particular components of production regimes

(a) **Liberal** Market Economies (LMEs)

(b) **Coordinated** Market Economies (CMEs)
(cont.)

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

- **Group-coordinated market economies**
  - state-business alliance
  - vocational training as a company-based phenomenon
  - technology diffusion and development within the group of companies
  - company-based unions
II-2. Institutional Linkage at the Policy Level

• Social policy under group-CME: **company welfare** (& **company-specific skill**)
  → **institutionally complementary** to other spheres of production regime (i.e. industrial relations, vocational training, corporate governance)

• ‘**Economy-first**’ developmental strategy and its subordination of social welfare
• Linkage b/w work and welfare in terms of
  (i) employment (by the high economic growth rate and rising income levels);
  (ii) human capital investment (also self-reliance);
  (iii) company welfare (with lifelong employment patterns);
  (iv) work-based, contributory social insurance programmes
III. Classifications of Institutional Linkage

Production

Economic Infrastructure

Tax Credit

Reproduction (Supply-side)

Social Investment

Cash Transfer

Redistribution (Demand-side)

Protection
III-1. Social Investment

- Swedish ‘active manpower policy’, the US ‘workfare’, the UK ‘welfare-to-work’
- East Asian productivist social policy
- Korean social investment & Industrialisation
  - Low spending on ALMP (0.1% of GDP in 1996)
  - High spending on education (17.6% of gov’t expenditure in 1972, 21% in 1983, 19.8% in 1987)
  - High participation and completion rates at all levels of formal education
  - state-led vocational training system during 1970s
III-2. Economic Infrastructure

- Infra (transport, energy, information/communication technology, drinking water, sanitation and irrigation)
- **economic growth** (raising labour productivity and lowering production and transaction costs) & reproduction of labour force (improving health, nutrition and education)

- Expanding infrastructure in the *early* stage of development <e.g.> **Transport infrastructure** (expressways, urban railways, container ports)
III-3. Tax Credit

- **Fiscal welfare** (Titmuss 1958)
- **Tax expenditure**: relieving tax burdens or giving tax refunds to *individuals* for social purposes
- Tax incentives and exemptions for *firms*

- A series of tax bills during the industrialisation period → to encourage firms’ investment and individuals’ saving

- Cash transfers → not a main policy tool before 1997
Thank you