

## A Comparative Social Policy Study on the Structure and Characteristics of the Korean Welfare State: Focusing on the Analysis of Public Social Expenditures\*

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*The aim of this study is to identify the characteristics of the welfare state in Korea by analyzing the trend of public social expenditure since 1970. To understand and in contrast to previous studies, I examine public social expenditure was divided into cash and social services spending; selective spending; public and private expenditure; and expenditure on those of working age and non-working age. These same criteria were also applied to cluster analysis of 20 OECD countries to identify the characteristics specific to the Korean welfare state.*

*The following are the findings of this analysis. First, the paradigm of welfare state has not changed since 1970. Second, the Korean welfare state was developed mainly in terms of cash spending; this imbalanced development was expected to grow with the maturation of the national pension system. Third, since the mid 1990's, the Korean welfare state adopted a selectivist approach based on means-test and it has favored a structural development of selectivism'. Fourth, the welfare state in Korea relied on private finance while private spending was expected to undergo structural development after 2003. Fifth, spending by the Korean welfare state was more focused on those of non-working age than people at working age. Sixth, cluster analysis revealed that Korea still lags in terms of its welfare state and its heavier dependence on private finance.*

**Keywords:** *Characteristics of the Korean Welfare State, Cash Benefits, Selectivism, Private Expenditure, Spending on those of Non-Working Age, Comparative Social Policy, Korea*

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\* Translated from the article published in *Korean Journal of Social Welfare Studies* 35, 2007 with permission from the Korea Association for Social Welfare Studies.

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## I. INTRODUCTION

This study aims at identifying the characteristics of the Korean welfare state. I will analyze the structure and trend of the rising public social expenditure in Korea since 1970. Previous studies have relied on total the amount of social expenditure, whether and when social welfare programs were implemented, and the content of social welfare programs to discuss the character of welfare states. Studies based on total public social expenditure in particular have compared public social spending as a percentage of GDP to identify the character of a welfare state. However, it was criticized that the structure and characteristics of a welfare state could not be fully defined by aggregate expenditure as a sole measure (Esping-Andersen 1990: 19). In addition, Esping-Andersen (1990) established welfare regime theory based on his study analyzing the features of particular welfare state programs, after which most of the discussions on the characteristics of welfare states have referred to the welfare regime typology based on analysis of welfare state program .

There would be no dispute that the characteristics of a welfare state are not distorted when the internal features of welfare state programs are analyzed instead of total public social expenditure (Esping-Andersen 1990: 19). However, there is a limit to identifying a welfare state by focusing only on program-specific measures (Castles and Mitchell 1992). In order to understand the characteristics of a welfare state, it is necessary to analyze the implementation and outcome of the state's social policy apart from the institutional commitment (Choe, H. 2003: 836); a new approach of analysis incorporating both program and expenditure is required.

This study proposes a new analysis that focuses not only on the differences of programs, but also on the achievements of a welfare state. This analysis considers composition as well as changes in what constitutes public social expenditure as well as aggregate spending.<sup>1</sup> Such an approach provides the

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<sup>1</sup> Esping-Andersen (1990: 19-20) presented the analysis of items constituting public social spending as a way to avoid distorting the characteristics of welfare states, noting the limit of data on total public social expenditure. OECD Social Expenditure Database has made it easier to conduct a comparative analysis of public social spending items.

background to understand the interaction between diverse interests and values as they effect decision-making and implementation (Choe, H. 2003: 836).

Previous studies on the Korean welfare state are largely divided into positive and negative assessments. The features of the welfare state in Korea before the Kim Dae-Jung (Kim Tae-jung) administration were predominantly evaluated negatively (Lee, H. 1992; Choi, G. 1997; Kim and Hong 1999; Hong, K. 1998, 1999; etc.). However, positive evaluations such as the “reinforcement of state welfare” or the “take-off as a welfare state” emerged among studies on changes in the Korean welfare state after the Kim Dae-Jung government (Kim, Y.M. 2002a; Seong 2002; Kim and Seong 2003; Takegawa 2006; etc.).<sup>2</sup>

The first question revolves around the doubt about whether the positive assessment of the Korean welfare state is valid. Studies of positive evaluation are based on the rise of total public social expenditure and expansion of social welfare programs. The growth of public social expenditure as a percentage of GDP in 1998 is described as the take-off of the welfare state (Takegawa 2006: 136).

As of 2003, Korea’s public social expenditure as a percentage of GDP was 5.66% (SOCX 2007), far lower than that of the more liberal welfare state of the U.S. at 16.2%, and of Sweden at 31.3%. Nevertheless, positive evaluations insist that public social spending in Korea showed an upward tendency once it reached over 5% of GDP from 1998 (Kim, Y.M. 2002b: 355-366). Yet, examining the increase in aggregate spending cannot give a comprehensive picture of changes the Korean welfare state has undegone. To put it another way, it can be disputed whether viewing public social expenditure growth since 1998 reflects changes in the Korean welfare state or is simply a result of a passive response to the financial crisis.

The limitations of focusing on aggregate spending changes from social expenditure data can be overcome by analysing the composition and changes constituting social expenditure. Variance decomposition analysis on social expenditure can add to the analysis in two significant ways uses. First, it

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<sup>2</sup> Assessment on the character of the Korean welfare state after the Kim Dae-Jung administration has been led by conflicting interpretations on the expansion of welfare policies and increase in total social spending.

tackles the content validity of the welfare effort in studies that rely on total social expenditure data. Second, this approach does not simply regard the expansion of the social welfare system as simply a reinforcement of state welfare. In other words, variance decomposition of social spending items provides a more detailed analysis on how institutional features of the Korean welfare state are reflected in policy implementation. As a result, it provides a new evaluation of the Korean welfare state.

This study therefore investigates characteristics that reflect both programs and outcomes using the following four criteria: balance between cash benefits and social services spending; balance between public and private finance, balance between universalist and selectivist spending; and balance between spending on those of working age and non-working age. Using these four criteria, I will review the aforementioned negative assessments on the Korean welfare state. Prior studies have relied on the welfare regime typology of Esping-Andersen (1990) for their negative assessments on the Korean welfare state (Cho, Y. 2002; Son 2005; etc.). Those studies can be categorized as within the limit of institutional determinism on welfare states (Ahn, S. 2007: 136). Given the close relationship between welfare state, capitalism as well as the shift in the world's capitalism from Keynesian welfare state to Schumpeterian workfare state (Jessop 1993; 2002), it is necessary to revisit institutional determinism which asserts pre-1980s welfare regime typologies would remain static. This study uses new criteria such as forms of benefit, finance, and benefit eligibility and that takes both programs and outcome into account.

We start by using the features of reclassified social expenditure items as objective criteria. This approach has been tried in one study of welfare states, which divided social welfare programs into cash transfer and social services programs within a broader framework of "livelihood security" (Ahn, S. 2007). The present study reassesses the characteristics of the Korean welfare state by adding three more criteria: balance of social welfare finance, balance between universalism and selectivism, and balance of life cycle risk to the criterion from Ahn, S. (2007).

The research questions of this study are as follows: RQ 1) What features comprise the Korean welfare state spending? Does the increase in spending indicate structural development? RQ 2) How can these features be categorized?

This paper is structured as follows. Section II reviews previous studies on

the characteristics of the Korean welfare state. Section III explains research data and methodology, followed by results of the analyses in section IV. The last section re-evaluates the character of the Korean welfare state from the perspective of comparative social policy combined with the new analysis.

## II. LITERATURE REVIEW

As mentioned above, earlier studies on the Korean welfare state are divided into positive assessment and negative assessments.<sup>3</sup> The Korean welfare state is viewed positively by studies that value welfare expansion efforts beginning with the Kim Dae-Jung administration. Kim, Y.M. (2002a) argued the state had greater responsibility for welfare and hence universal state welfare was expanded after the financial crisis of the late 1990s. HisHe based this analysis on these factors: a analysisbroader coverage of social insurance including employment insurance, workers' compensation insurance and the national pension; an integration of the health insurance system; introducing the national basic livelihood security system and better basic livelihood security.

Unlike other studies, Song, B. (2006) reviewed the theoretical framework of capitalist state theory and criticized the idea that welfare policy of the Kim Dae-Jung government was neo-liberal. Taking the approach of Jessop, he examined the unique ways Kim's administration could expand welfare policy amidst a neo-liberal global economy. He concluded that the welfare policy of the Kim government should not be regarded as neo-liberal. In line with this argument, Takegawa (2006) declared that the changes taking place signaled the beginning of Korea as a welfare state.

Studies that negative evaluate the Korean welfare state conclude that it lags far behind when considering public social expenditure and social welfare programs. Insufficient industrialization and an authoritarian political system (Lee, H. 1992), the lack of labor politics (Choi, G. 1997), and the welfare

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<sup>3</sup> Although most of them conclude with mixed — neither positive nor negative — assessments depending on the aspects individual study focuses on, it is regarded possible to roughly divide general ways of defining latest changes of the Korean welfare state.

function of unofficial community (Kim and Hong 1999) have all been used to explain Korea's lagging welfare state. Recently, more emphasis was put on the globalization of capital as well as the influence of neo-liberalism (Kim and Lee 1999; Kim and Kim 2006).

Kim and Hong (1999) used various data in their study on the state-market-community model of the social welfare provider to present the Korean welfare state as a "lagging state with a grown market and changed community." Hong and Song (2003) argued that the increase in social spending as a percentage of GDP in 1998 changed the 'lagging state and grown market.' Noting that the change was limited to the development of income security and no significant change was found in social services, they argued that there was no change in the Korean welfare state. Ko, S. (2003: 102) harshly criticized the expansion of welfare in the late 1990's; He (2003: 10) pointed out that "Korea is neither a welfare state nor a welfare society."

Contrary to the approaches mentioned above, recent studies suggest the necessity to consider both welfare policies and labor policies to identify the characteristics of the Korean welfare state (Shin, D. 2003; Yang, J. 2002). They concluded that the Korean welfare state cannot be regarded as improved when taking labor policy into account. Although the welfare policy of the Kim Dae-Jung administration tended to expand state welfare, it was only to help spread neo-liberalism in economic policies, which also means that the Korean welfare state should be seen as neo-liberal (Son, H. 2005: 217).

In addition to studies about characteristics, Choe, H. (2003) applied the measure designed by Castles (2002) to evaluate the Korean welfare regime. Castles (2002) separated social expenditure into household income maintenance, relief and health, and state service to avoid distortions that arise when total social spending is used to evaluate a welfare state. Choe, H. (2003) conducted a cluster analysis of 28 OECD countries and categorized their welfare regimes into the following five types: conservative, semi-conservative, social democratic, semi-liberal, and liberal. It was determined that welfare spending in Korea remained typically liberal (focusing on relief and health) until 1997. Even though the Korean welfare state tended to be conservative in terms of politics, system and culture, the actual spending showed a tendency toward liberalism (Choe, H. 2003: 17). Yet the assessment argued that a conservative welfare model was developed after 1998. With this

analysis, Choe, H. (2003) refuted opinions of both Nam, C. (2002) and Cho, Y. (2002) which considered the Korean welfare state to be conservative and neo-liberal respectively.

This conclusion can be disputed if the increase in social expenditure is explained by the steep rise in pension payments for early retirees is regarded as a shift towards a conservative model. According to Castles (2002), spending grew in 1998 due to unemployment benefit in response to massive unemployment and therefore lump sum payments on retirement should be excluded from the analysis of spending in 1998 for logical consistency. Given this, an evaluation of the Korean welfare state of 1998 will produce a different outcome.

The above discussions on the Korean welfare state, though useful, are limited. Because they rely on the existing welfare regime typology which focuses on income maintenance, they fall easily into a trap of institutional determinism (Ahn, S. 2007: 136). Prior studies are limited by a framework of welfare regime theory and provide assessments that are too broad and abstract which makes it difficult to substantively analyze the characteristics and changes of welfare states. They also fail to reveal specific and diverse areas that require institutional reform, nor do they establish strategies or paradigmatic blueprints for the future welfare states. Finally, these studies do not identify response strategies beyond income maintenance, excluding such areas as responses to new social risks resulting from the change in the socio-economic structure.

The study of Choe, H. (2003), on the other hand, provides a lot of insight. As Esping-Andersen (1990: 19) pointed out, analyses based on public social spending can distort the nature of the welfare state. Yet, he continued to say (Esping-Andersen 1990: 19-20) that the problem magnifies when welfare states are assessed by aggregate public social expenditure. An analysis of items constituting the spending and a time-series analysis on the structural change of spending, in addition to an analysis on total public social expenditure can minimize possible errors caused by analyzing aggregate spending only.

Despite these positive aspects, Choe's study (2003) fails to conduct more detailed analysis on the character of the Korean welfare state. Instead, it remains limited by institutional determinism in which social spending is categorized as conservative, liberal, and social democratic. Because its

typologies of social welfare spending are too simple, it cannot fully explain the different strategies in welfare states. It also falls short of reflecting later changes since it analyzed data of Korea until 1998.

In order to overcome such shortfalls, this study will use comparative Korean welfare state statistics data from 1970 to 2003 to analyze the upward tendency of the Korean welfare state spending and its characteristics. Section III elaborates more on the research data and method.

### III. RESEARCH DATA AND RESEARCH METHOD

#### 1. Research Data

This study used the Comparative Social Policy Dataset (CSPD) for its analyses. It was collected and compiled from 2005 to 2006 by the Social Policy Research Group of Seoul National University, which was sponsored by the Korea Research Foundation. The macroscopic global dataset was built through collection, compilation and update of quantitative data on the origin, growth and restructuring of the Korean welfare state. This comprises Korean comparative welfare state dataset which was created as part of the Comparative Welfare State Dataset (CWSD) built by Huber et al. (2004).

Korean social expenditure data linked with the OECD Social Expenditure Database (SOCX) was the primary variable used in CSPD data. Previous studies using aggregate social spending have relied on SOCX. Yet, there is a limit in analyzing the characteristics and changes of the Korean welfare using SOCX because its data on Korea is available only from 1990. On the contrary, CSPD data on the social spending of Korea dates back to 1960. As the data before 1970 is incomplete in specific areas of the expenditure, it is hard to completely fully categorize the spending based on the data though they could still be useful for an analysis on aggregate expenditure. Given these facts, this study used data from 1970 for its analysis.

The Korean public social expenditure data is designed to have the same structure with SOCX to enable international comparisons. SOCX has a total of nine areas which include old-age, survivors, incapacity-related benefits, health, family, active labor market programs, housing and other social policy

areas. Each of the nine areas are divided into cash benefits and benefits in kind and present specific programs for each country.

## 2. Analysis Method: Variance Decomposition and Cluster Analysis

The present study reviewed the Korean welfare state from various perspectives by conducting variance decomposition of social welfare spending items. Variance decomposition was adopted to investigate the first research question of this study which was to figure out if a rise in social spending beginning in 1970 could be considered a structural development.

Cluster analysis was deployed to answer the second research question to explore how each country is linked. Because this study divide social welfare expenditure into four types, hierarchical cluster analysis was used.<sup>4</sup> Squared Euclidean Distance was adopted to measure distance between each country and Average Linkage Method was used for clustering. For each analysis criteria, average value of data from 1999 to 2003 was used.

A total of 20 following OECD countries were included in cluster analysis: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Italy, Japan, Luxembourg, the Netherlands, Norway, Sweden, Switzerland, the U.K., the U.S., Portugal, and Korea.

## 3. Analysis Criteria: Establishment and Measurement

### 1) Establishment

This study divided social expenditure based on the following four criteria: form of benefit (cash and social services), finance (public social expenditure and private social expenditure), benefit eligibility (universalism and selectivism), and life cycle risk (spending on those of working age and non-working age).

Those four criteria were derived from the following definition of welfare state. The present study adopted the following definition by Briggs (1961)<sup>5</sup>:

<sup>4</sup> Software used for the analysis is Stata 8.0/SE. While SPSS provides rescaled distance 0-25, Stata presents actual distance. Therefore, countries were clustered based on 25-50% of actual distance.

<sup>5</sup> Briggs (1961) is considered to have defined welfare state in the most comprehensive

A welfare state is a state which guarantees individuals and families a minimum income, provides protection against certain social contingencies, and offers all citizens social services of the best standards available (as cited in Flora and Heidenheimer 1981: 29).

According to Briggs (1961), a welfare state is where a state (finance) provides all citizens (benefit eligibility) with both cash and service (form of benefit) against social contingencies (life cycle risk). This framework of analysis is useful in identifying the characteristics of welfare states in general. Marshall (1963) also emphasized the importance of taking these factors into account to achieve social right.

In addition to defining the welfare states, these criteria have also been used to evaluate the structural reform of welfare states. Pierson (1996: 157) considered the extent of expansion of means-test (benefit eligibility), the level of increase in accountability of the private sector (finance), and the degree of changes in generosity of cash benefits (form of benefit) as the criteria to assess structural reform of welfare states. More lately, Ahn (2007) suggested it would be useful to have an analysis with distinction between cash transfer programs and social services programs as criteria for new typology strategy.

## *2) Measurement*

This study divided social welfare expenditure into cash and social services spending; expenditure based on selectivism; public and private expenditure; and spending on those of working age and non-working age. Each of the items was measured in the following manner.

First, cash spending is spending for income replacement which serves as an exclusive source of income for recipients, wherein pensions account for the largest part of it (Castles 2002). Cash expenditure was measured by adding all the cash spending of nine areas in SOCX.

Second, social-services spending is in response to new social risks that have emerged in the post-industrial society (Castles 2002). That includes spending on family services as well as social protection for the elderly and disabled. It was calculated by adding spending the ALMP to the total benefit

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manner (Kim and Seong 2000).

in kind onto the nine areas of SOCX, excluding healthcare spending.

Although ALMP spending is not included in the SOCX benefit in kind, this study incorporated it into social service expenditures because it is related to changes in the employment structure; what's more, it is spending to improve employment. On the other hand, healthcare spending is better explained as expenditure on medical security, which is a response to traditional social risks (Castles 2002) and thus this study excluded it from social spending.

Third, expenditure based on selectivism is defined as means-tested spending with the objective of poverty reduction. While selectivist expenditure in Korea was measured by counting other social policy areas of SOCX, other OECD countries included in cluster analysis calculated it by adding expenditure on means-tested programs beginning in 2003. In addition to items under other social policy areas of SOCX,<sup>6</sup> means-tested spending on unemployment (e.g. Germany), means-tested benefit for the elderly and disabled (e.g. Belgium and the U.K.), and other family cash benefit programs with means-test were included in selectivist spending. Housing assistance benefit, ALMP spending, and means-tested medical benefit were excluded (SOCX 2007a: 21-22).

Fourth, public and private expenditure were divided depending on who controlled the relevant financial flows (SOCX 2007a: 8). For public spending, the financial flow is controlled by the government while spending not provided by the government is considered private (SOCX 2007a: 9). Private spending is further divided into mandatory private social expenditure and voluntary private social expenditure (SOCX 2007a: 9).

Fifth, spending on those of working age was measured by adding cash and social services spending, which included family, unemployment and ALMP of SOCX. Although family expenditure encompasses spending on children, it was counted as expenditure on those of working age since female employment could be promoted with spending on children. Spending on old-

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<sup>6</sup> In case of Korea, other social policy areas include benefits with no means-test such as benefit for protection of North Korean defectors. Yet, as the amount is not large enough to change the percentage of GDP used for analysis, they have no impact on the result of the study. Therefore, it is considered acceptable to use other social policy areas data for the analysis.

age pension was used to measure expenditure on those of non-working age.

## IV. ANALYSIS RESULT

In this section, we see that variance decomposition analysis on increased spending by the Korean welfare state presents no structural development. As to the comparative cluster analysis among OECD countries, results reveal that the Korean welfare state lags behind in all areas of analysis.

### 1. Characteristics of the Korean Welfare State and its Structural Development

This section uses variance decomposition of aggregate social spending and variance decomposition of social spending items to identify the nature of the Korean welfare state and its structural development.

#### *1) Upward Tendency of Total Public Social Expenditure and Variance Decomposition*

The upward tendency of total public social expenditure and variance decomposition of specific spending items will reveal whether the social spending shows structural development.

Figure 1 below exhibits the trend of public social spending since 1970. Korea recorded a steady growth of public social expenditure as a percentage of GDP from 0.83% in 1970 to 5.66% in 2003. Public social spending in 1998 showed a remarkable increase.

Takegawa (2006: 136) described it as take-off of the welfare state in Korea, while Kim, Y.M. (2002b: 355-366) used it as grounds to argue that the state welfare in Korea was improved. However, spending growth at the time was a temporary phenomenon resulting from rising unemployment during the financial crisis of the late 1990s. Thus, it would be a mistake of generalizing a statistical illusion to regard the increase as take-off as a welfare state or improvement of state welfare.<sup>7</sup> The upward trend line of public social

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<sup>7</sup> Esping-Andersen (1990: 19-20) warned about distorted interpretation of welfare

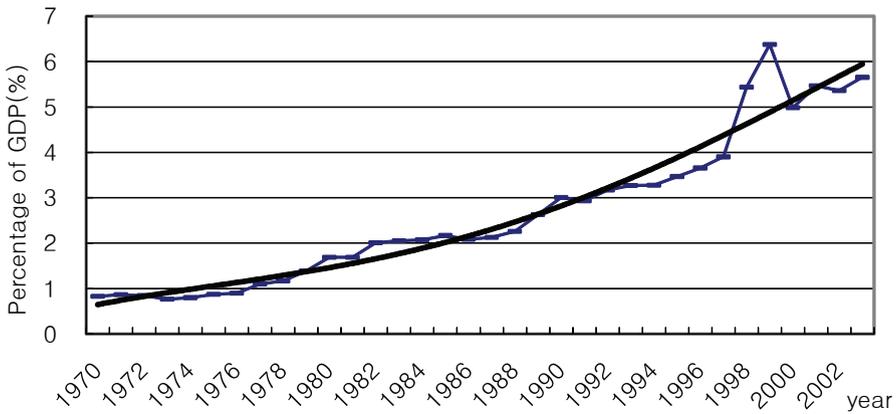


Figure 1. Trend of public social expenditure in Korea since 1970

expenditure since 1970 in Figure 1 shows no particular shift in the trend of public social spending changes after 1998.

Figure 2 illustrates the variance decomposition of items that contributed to increased public social expenditure at that time. In 1998, the total spending growth reached KRW 7, 158 billion, of which old-age pension, ALMP and unemployment benefit accounted for 48.3%, 23% and 10.1% respectively. It turned out that lump sum payments by the government employee retirement pension and lump sum refunds by the national pension increased by about KRW 2.1 trillion and KRW 1 trillion respectively compared to 1997. They were temporary severance payments caused by growing unemployment and they could not be considered extensions of the state role for insuring its people against social risks (Esping-Andersen 1990: 19). Even Kim, Y.M. (2002b), who argued for improving state welfare, defined the period as a time when a neo-liberal approach emerged (Kim, Y.M. 2002b: 353-354).

Table 1 shows an average annual growth rate of public social expenditure in each area, which presents an average rise in the 1970s. This is explained by the impact of mature institutions adopted in the 1960s and new institutions introduced in the 1970s. Specifically, social spending rose due to the government employee pension (1960), the military pension (1963), the

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states, which could occur when aggregate spending data is used.

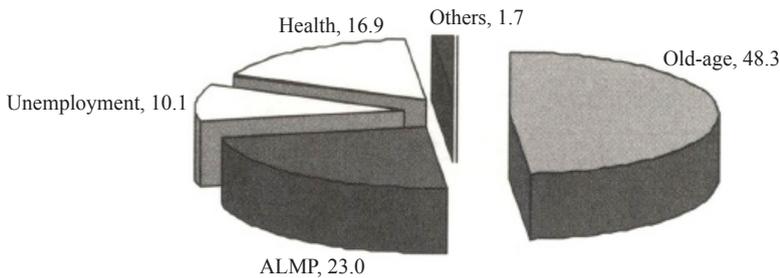


Figure 2. Share of items contributed to the increase in public social expenditure in 1998

workers' compensation insurance (1963), the livelihood protection system (1961), the medical aid (1970), the health insurance system (1977), and the Social Welfare Services Act (1970). Survivors' benefits increased significantly because health insurance-based funeral payments grew dramatically from 1978 and 1979. The dramatic increase in incapacity-related benefits coincided with a steep rise in workers' compensation insurance payments and incapacity benefits by the government employee pension and the military pension. Although family-related benefits grew considerably, its share in the total sum was small. Spending on other policy areas rose due to educational assistance began in 1979.

With such a start, by the 1980's, public social expenditure in Korea slowed. While it grew temporarily in the 1990s, mainly in the areas of old-age pension, family, ALMP, unemployment and public assistance, it again slowed down at the beginning of the 2000s. Spending growth in the 90s' was temporary, which, as explained above, resulted from the financial crisis.

As most of the positive evaluations in the discussions on the Korean welfare state are focused on Kim Dae-Jung's administration, it is necessary to examine average annual growth rate of public social expenditure of each government to evaluate those positive assessments. Table 2 presents average annual growth rate of public social expenditure by government.

As the table shows, average public social expenditure during the Kim Dae-Jung administration fell in both aggregate spending and spending by area. It is notable that spending on other policy areas grew at higher rate despite the downward tendency of overall spending increase. Other policy areas refer to means-tested public assistance, whose higher spending growth results from

**Table 1.** Average annual growth rate of public social expenditure by area (%)

Area	Total	1970s	1980s	1990s	2000-2003
Old-age	24.6	26.3	27.7	32.3	-6.3
Survivors	31.0	65.3	21.7	16.2	14.1
Incapacity-related benefits	34.2	69.2	24.1	19.4	17.7
Health	28.3	43.8	29.6	18.2	15.7
Family	38.3	73.4	27.6	30.1	24.6
ALMP	39.4	28.8	31.1	80.1	-23.1
Unemployment	233.9	-	-	528.4	13.0
Housing	-	-	-	-	-
Other social policy areas	49.1	132.9	14.2	18.7	23.8
Total	26.3	39.5	25.3	23.8	5.7

**Table 2.** Average annual growth rate of public social expenditure by government (%)

Area	Park, Chung-Hee 2 <sup>nd</sup> term (73-Oct. 79)	Chun, Doo- Hwan (Aug. 80 -Nov. 87)	Roh, Tae- Woo (88-Oct. 92)	Kim, Young-Sam (93-Feb. 98)	Kim, Dae- Jung (Feb. 98-02)
Old-age	27.2	29.1	29.4	22.1	12.9
Survivors	77.1	17.8	34.4	12.3	8.3
Incapacity-related benefits	71.0	21.6	37.0	16.9	9.7
Health	49.8	28.1	27.8	17.5	16.1
Family	73.4	34.8	31.5	31.3	10.3
ALMP	28.8	32.3	37.5	34.2	85.2
Unemployment	-	-	-	652.8	192.3
Housing	-	-	-	-	-
Other social policy areas	162.7	16.4	4.6	17.8	34.8
Total	43.7	24.4	27.4	18.6	15.4

implementing the national basic livelihood security system. Expenditure on the livelihood care amounted to around KRW 1.1 trillion in 2000, which was more than double the amount of 1998.

These results show that it is not valid to identify the characteristics of the welfare state during Kim Dae-Jung administration as an improvement of state welfare (Kim, Y.M. 2002). In particular, selectivist expenditure on public

assistance grew more while increase in spending on other areas slowed. That means it is necessary to review the idea that the Kim Dae-Jung government pursued a universalist welfare state. This agrees with the study that found that the Korean welfare state before 1997 had a liberal spending structure focused on public assistance (Choe, H. 2003). Although Choe, H. (2003: 851-852) argued that the public social expenditure structure became conservative in 1998, the result of this study refutes that conclusion. As Table 2 shows, public social spending on areas like old-age, survivors, incapacity-related benefits, which Choe, H. (2003) classified as conservative expenditure, grew less beginning in 1998 under the Kim Dae-Jung administration. On the contrary, spending on public assistance and other policy areas, namely liberal expenditure, increased.

The results suggest that there has been no structural development to the Korean welfare state expenditure since 1970.

## *2) Variance Decomposition of Social Spending Items*

Next, we will explore the composition of social spending in the Korean welfare state by dividing items constituting social expenditure using four criteria.

First is selectivist spending, which is related to benefit eligibility. Figure 3 illustrates the upward tendency of selectivist benefits as a percentage of GDP since 1970. Selectivist benefit expenditure was measured with means-tested benefits and Figure 3 shows its rapid growth since 1996. Based on the spending trend, there was no particular pattern in selectivist spending of Korea until the mid-1990s but structural development began from the late 1990s. Development of the national basic livelihood security system per se has often led to a positive evaluation. Yet public assistance functions as a primary safety net not as last resort safety net, which means its development is only temporary, given the lack of a general welfare state safety net and thus the development does not prove that the Korean welfare state is advancing apace.

The second is cash benefits and social services spending, a criterion in relation to the form of benefit.

Social benefits are largely divided into cash benefits and social services

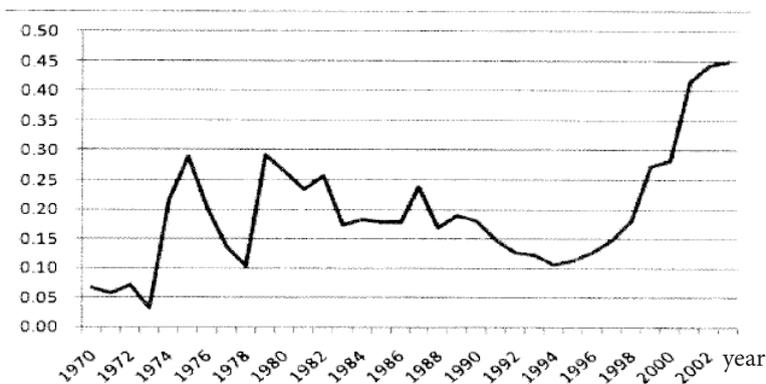


Figure 3. Trend of selectivist expenditure growth (% of GDP)

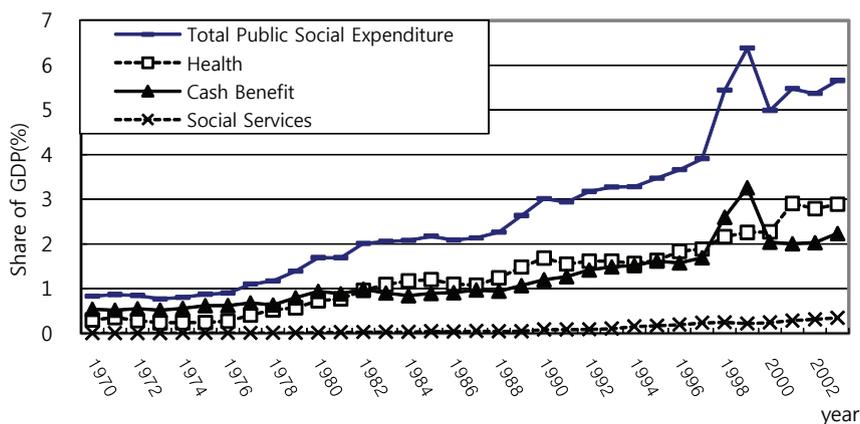


Figure 4. Trend of expenditure on each form of social welfare benefit

(Gilbert and Terrell 2005; Ahn, S. 2007) and Figure 4 exhibits public social spending of each form as a percentage of GDP. It shows a widening gap between shares of social services and cash benefits, which is expected to grow even more once the national pension system enters the maturation phase after 2008 (see Table 3).

Table 3 presents spending on cash transfer as a percentage of GDP, which uses the financial estimates of the national pension with the replacement rate lowered to 40% in the long term and with the estimation of minimized cash transfer expenditure of other systems (KIPF et al. 2007: 223). It shows sums

**Table 3.** Share of cash transfer and social services based on estimates of the national pension expenditure

Year	Estimates of the national pension expenditure (KRW million)	As a percentage of GDP		
		Cash transfer	Social welfare service	Health
2007	6,000,000	3.06	0.34	2.66
2010	10,000,000	3.45	0.57	2.76
2015	17,000,000	3.96	0.63	3.03
2020	31,000,000	4.90	0.71	3.15
2025	56,000,000	5.97	0.90	3.22
2030	90,000,000	7.15	1.21	3.29
2040	207,000,000	9.70	2.14	3.41
2050	381,000,000	11.82	3.25	3.52

\* Data: Data from the KIPF et al. (2007) recalculated by the author.

of social services spending and expenditure on health as a share of GDP, based on the assumption that most systems related to social services would be extended to a greater degree after 2007.

Changes in the shares of expenditure on cash transfer and social services are found in Table 3. For cash transfer spending, its share increases to 7.15% in 2030 due to maturation of the national pension system and to 11.82% in 2050. By contrast, the share of social services is expected to reach 1.21% in 2030 and 3.25% in 2050.

Such a result shows that the Korean welfare state has a lopsided expenditure structure in favor of cash transfers and this bias would worsen without extending social services policies.

The third criterion revolves around finance: public and private spending.

The constituents of public finance in the Korean welfare state is illustrated in Figure 5. The share of contribution to public finance was measured by measuring contributions of the state, employees and employers to social insurance revenue. The figure exhibits a steady increase in the contribution by employees, with a downward tendency in the share of employers. It is worth noting that the share of state contribution remains very low, which means the state plays only a tiny role even in public financing.

Building on these features of the composition of public financing, Figure 6 shows the growth rate of public and private expenditure. The growth rate

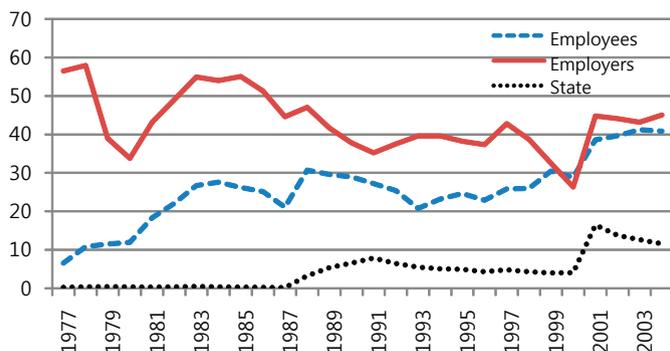


Figure 5. Trend of each contributor's share in social insurance revenue

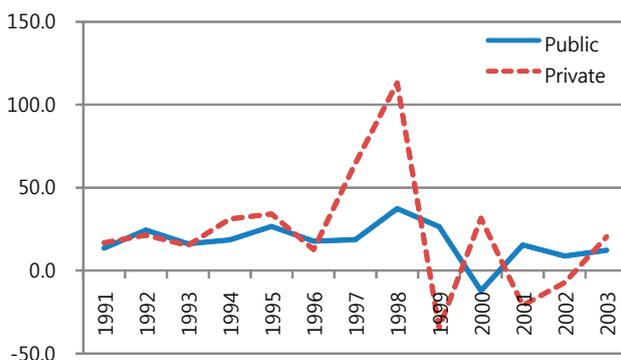


Figure 6. Growth rate of public and private expenditure

of public spending hovered around 20% until 1998 when it started to slide. On the contrary, increase in private spending recorded steep rise in 1998 and kept fluctuating until 2003 when it reached over 20%.

As a percentage of GDP, private spending fell behind public spending by 2% point during the 1990s, but the upward tendency suggests private expenditure would assume a greater role after 2003. In addition, it needs to be considered that data collected on private spending reflects no private transfer expenditure. Taking into account the role played by welfare function of community (Kim and Hong 1999), it could be said that private spending is underestimated in Figure 6. Nevertheless, the growth rate of public expenditure fell while that of private spending rose after 1998, which

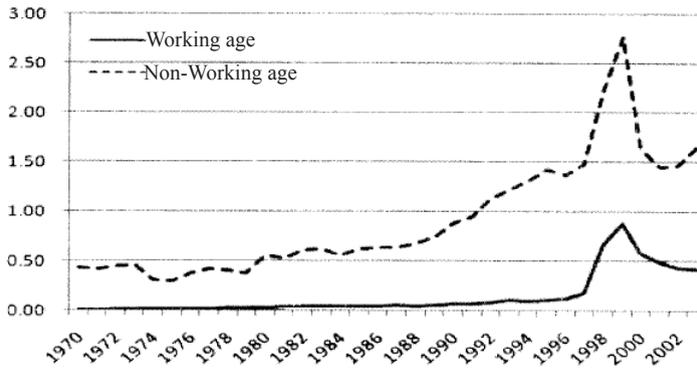


Figure 7. Trend of expenditure on those of working and non-working age

confirms that arguments for structural development of the Korean welfare state and improvement of state welfare are not valid.

The last chart is spending on those of working age and non-working age.

Figure 7 presents the trend of expenditure on people at working and non-working age. It shows that the spending structure is focused on those of non-working age (the elderly). Also, a considerable increase in expenditure on both working and non-working age was recorded in 1998 temporarily due to the financial crisis in the late 90s. The change in trend in 2003 suggests that spending on the elderly rose more sharply, which is due to growing pension payments. The amount of pension payment for the elderly rose from KRW 5.7 trillion in 2002 to KRW 7 trillion in 2003. On the other hand, expenditure on those of working age recorded only a slight increase from KRW 2.9 trillion in 2002 to KRW 3 trillion in 2003. Without other changes, the spending structure of the Korean welfare state is expected to have a structural development of expenditure on those of non-working age.

## 2. New Typology: Analyzing Type of Spending Structure of the Korean Welfare State

In the previous section, the characteristics of the Korean welfare state was explored using four criteria applied to spending items and aggregate social spending data. This section adopts the same criteria to see how different Korea is from other OECD countries in terms of the type of welfare state

expenditure

Table 4 presents the result of cluster analysis with each of the four criteria applied, classifying the 20 OECD countries included into four types. Type 4 was composed of countries with the highest average value in social services spending, public expenditure and non-working age spending, most of which were Northern European countries. In other words, those were social democratic countries according to the welfare regime typology of Esping-Andersen (1990). Type 3 mainly consisted of countries classified as conservative regime.

By contrast, Type 2 was comprised of countries with the highest average value in private expenditure and selectivist spending, which were categorized as liberal regimes such as the U.S. and Australia. On the other hand, Type 1, Korea, recorded the lowest average value in all criteria. It means that the Korean welfare state lags significantly and fails to reach the standard of Western welfare states in all four criteria.

Table 5 shows the outcome of cluster analysis with all the criteria, clustering the countries into five types.

Type 1 included only Korea with the lowest spending in most criteria. Interestingly, Korea recorded the highest level of private spending compared to the other four types, while its expenditure as a percentage of GDP was low in all the other criteria. It accords with the research of Kim and Hong (1999), which reviewed data until the mid-90s and described the Korean welfare state as lagging state, grown market, and changed community. To put it another way, no change is found in the spending structure of the Korean welfare state.

Type 2 showed the highest average of selectivist spending and consisted of countries like Australia, the U.S. and Japan. It means that Japan should be classified as a welfare state with a liberal spending structure (Esping-Andersen 1990) rather than one with semi-conservative structure (Choe, H. 2003). It also suggests Korea and Japan should not be regarded as belonging to one model, such as an East Asian welfare model. In terms of private spending, in particular, Japan showed the lowest level compared to other types while Korea had the highest private expenditure.

Countries with spending structures similar to that of Type 4 rather than Type 2 constituted Type 3. Interestingly, Finland classifies as a social democratic regime according to the typology of Esping-Andersen (1990) yet

Table 4. Result of cluster analysis 1

Criteria 1		Type 1	Type 2	Type 3	Type 4
Average	Cash spending	2.3	10.0	15.6	14.1
	Service spending	0.6	3.1	2.3	8.1
Countries		Korea	Norway, Finland, Netherlands, U.K., Switzerland, Australia, Japan, Canada, U.S.	France, Belgium, Germany, Austria, Greece, Luxembourg, Portugal, Italy	Sweden, Denmark
Criteria 2					
Average	Public financing	5.6	17.9	22.2	27.2
	Private financing	2.4	6.6	2.4	2.6
Countries		Korea	U.S., Switzerland, U.K., Netherlands, Japan, Canada, Australia	Norway, Italy, Portugal, Luxembourg, Greece, Finland	Sweden, France, Germany, Denmark, Belgium, Austria
Criteria 3					
Average	Public social expenditure	5.6	17.5	19.4	26.1
	Selectivist expenditure	0.4	7.3	1.5	1.05
Countries		Korea	Australia	Canada, Japan, U.S., Finland, Greece, Luxembourg, Portugal, Netherlands, Switzerland, U.K.	Austria, Belgium, Denmark, Germany, France, Italy, Norway, Sweden
Criteria 4					
Average	Working-age	0.09	2.6	4.4	7.4
	Non-working age	1.4	7.3	11.6	13.1
Countries		Korea	U.S., Switzerland, U.K., Netherlands, Japan, Canada, Australia	Portugal, Luxembourg, Italy, Greece, Norway, Finland, Germany, France, Belgium, Austria	Sweden, Denmark

**Table 5.** Result of cluster analysis 2: Input of all variables

		Type 1	Type 2	Type 3	Type 4	Type 5
Cluster average	Cash	2.3	8.3	12	<u>16.3</u>	13.5
	Service spending	0.6	2.2	2.8	2.6	<u>7.5</u>
	Public expenditure	5.6	16.7	20.5	25.2	<u>26.9</u>
	Private expenditure	<u>2.4</u>	0.6	2.3	0.7	0.7
	Selectivism	0.4	<u>3.1</u>	1.5	1.1	0.9
	Working age	0.09	1.3	2.2	2.1	<u>3.7</u>
	Non-working age	1.4	5.1	6.1	<u>10.7</u>	7.9
Countries	Korea	Australia, Canada, Japan, U.S.	Finland, Netherlands, U.K., Luxembourg, Portugal, Switzerland	Austria, France, Germany, Belgium, Greece, Italy	Sweden, Denmark, Norway	

the U.K. and Switzerland were categorized as liberal despite having the same characteristics as Finland. In contrast, the present study tried to establish a typology by focusing on spending structure with regard to actual policy implementation, while the welfare regime typology of Esping-Andersen (1990) was based on institutional data and emphasized cultural and political aspects. In other words, Finland is social democratic in terms of institution and culture, but it is more conservative when it comes to actual financial spending structure.

Type 4 exhibited the highest average in cash and non-working age spending and included mainly conservative countries like Germany based on the welfare regime typology. Finally, Type 5 recorded higher services spending, public expenditure, and working age spending than other types and consisted of countries with social democratic regimes such as Sweden.

The result of cluster analyses suggests that Korea is isolated as a lagging

welfare state, falling far behind any other OECD countries. Moreover, the private sector plays the greatest role in the expenditure of the Korean welfare state.

## V. CONCLUSION

This study has evaluated the characteristics and structure of the Korean welfare state by applying the criteria of cash/social services spending, selectivist expenditure, public/private spending and expenditure on those of working/non-working age. The result could be summarized as follows.

The analysis on the features of spending structure based on these four criteria produced the following outcome. With regard to the form of benefit, the Korean welfare state had an expenditure structure focused on cash transfer and showed a low level of development on social services spending, with no trend of structural development found. As for finance, the welfare state in Korea relied on private finance, and the structural development of private spending was expected to begin after 2003. In terms of eligibility for benefit, the Korean welfare state was selectivist based on means-test and showed trend of structural development toward a selectivist welfare state from the mid-90s. As to expenditure according to generation, the welfare state of Korea spent far more on those of non-working age than people of working age. With maturation of the national pension, a structural development is expected for expenditure on those of non-working age.

Second, cluster analysis was conducted on 20 OECD countries to identify the relative position of the Korean welfare state. The result showed that Korea was categorized as significantly lagging and was particularly dependent on the private sector compared to other types.

The findings of this study have several implications.

First, the present study has theoretical significance regarding debates over the characteristics of the Korean welfare state.

The study also improves analytical result by using time series data on the Korean welfare state expenditure. Further, it evaluates the character and development of the Korean welfare state with subdivided social spending data. Regarding the characteristics of the Korean welfare state, the result of

variance decomposition of total public social expenditure and social spending items suggest that there has been no structural development of the Korean welfare state since 1970. It means improvement of state welfare or take-off as a welfare state, which studies of positive evaluation like that of Kim, Y.M. (2002a) or Takegawa (2006) suggested, was not found between 1970 and 2003. The expenditure increase in 1998 was not a structural development but a temporary phenomenon responding to the financial crisis. Typology based on new criteria showed that the Korean welfare state still fell far behind and the private sector has led the development more than in any other countries.

Second, this study provides more specific implication with respect to the strategy to organize systems for a paradigm shift of the Korean welfare state.

The present study does not aim to show that the Korean welfare state is not mature enough to discuss its characteristics (Kim, Y.B. 2002: 331), and thus efforts are still required to improve state welfare. Its purpose is to propose a strategy for a future paradigm shift based on a detailed evaluation of the Korean welfare state current status. This is because an abstract is of little help in establishing specific policy directions. Although the analysis indicates that the Korean welfare state has yet to mature, considering the path dependency of the system, it seems highly likely that one of the two spending structures will be used as the welfare spending structure of Korea: either liberal spending structure of underdeveloped welfare state or conservative spending structure that is less economy-friendly and cannot respond to new risks properly. On the premise that a historic turning point of path dependency is possible, it seems that the analysis showing the Korean welfare state is lagging behind could serve as a ground for reform to establish a new welfare state strategy. In other words, a plan for a system reform of the Korean welfare state could be formulated based on the criteria applied to the analyses of the study in following ways.

Firstly, the strategy of the Korean welfare state needs to be adjusted considerably towards expanding social services expenditure. This is different from insisting on maintaining or reducing cash benefits. As the above analysis showed, the Korean welfare state is still lagging. It is therefore necessary to establish a system that tries expand social services which serve as functional equivalent to cash benefits while guaranteeing appropriate cash benefits. This idea is in line with research that suggested the political

and economic sustainability of a welfare state can be achieved whilewhile balancing cash benefits and social services spending (Ahn, S. 2007).

Secondly, it is necessary to expand the universalist system led by the public sector.<sup>8</sup> The findings of this study indicate that the state's role in developing the Korean welfare state was concentrated on means-tested selectivist spending. Compared to Western welfare states, the state's contribution to social insurance and universalist spending was far less in Korea. The Western welfare states show that high social-services spending is compatible with cash benefits for income maintenance over 10% of GDP. As of 2003, cash benefits in Korea recorded a meager 2.3% of GDP. Therefore, Korea needs a strategy of welfare state that pursues expansion of universalist social services spending with income maintenance programs reformed to an appropriate extent.

Finally, a strategy for increasing social expenditure on those of working age is required. Korea has shown a considerably imbalanced development of spending on those of non-working age between 1999 and 2003, which is recorded at 1.4% of GDP on average, while; expenditure on people of working age was 0.09%. This is an extremely imbalanced structure even in comparison to countries with the greatest gap between the two, such as Austria, Germany and France, where spending on those of working and non-working age was recorded at 2.1% and 10.7% respectively. Such an imbalance, it is thought, will worsen when the timing of the national pension system maturation is considered. On the premise that a welfare state cannot be developed when considered separately from productivity, the lopsided spending structure is a critical issue that threatens the sustainability of the welfare state.

In conclusion, the findings of this study could serve as a compass in drawing a blueprint for new sustainable Korean welfare state beyond the limit

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<sup>8</sup> The direction of the reform strategy proposed in the present study is different from the pursuit of social investment strategy which emerges in current discussions on the reform of the Korean welfare state. As previously proposed social investment strategies lack specific budget estimates regarding the amount of total aggregate social spending, which makes them difficult to assess. Yet, the idea of adding social investment policies without reforming the income maintenance system is highly likely to result in quasi-selectivistic social investment state which focuses on those of low income entrenched in social services system development unless considerable aggregate social expenditure is guaranteed (cf. Kim, Y. 2007; Yang, J. 2007 etc.)

of institutional determinism. Although the Korean welfare state has taken the wrong path towards development, that does not preclude changes in the institutional path is impossible. It is even more hopeful that the Korean welfare state has greater possibility for more thorough reform than other developed countries as it is still in the initial stage of development.

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