

Are Korean Welfare Politics Changing?: The Politics of the First and Second Pension Reforms in Korea*

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This article examines what factor was most significant in determining the pension reforms in Korea. This will be achieved by analyzing the two pension reforms undertaken during the Kim Dae-jung government (the first pension reform) and Roh Moo-hyun government (the second pension reform). The research demonstrates that in both cases the results were decided by the power relations formed through a process of strategic actions and interactions among major actors. This implies that actors rather than institutions, and dynamic power relations rather than the power resources of actors, are crucial in changing welfare policies. In addition, the comparison of the two pension reforms shows that the interactions among the actors became more active, and the role of the political parties became more important during the decade separating the two reforms. The pattern of forming coalitions and cooperating among the actors also changed during the period in scrutiny from being tacit and loose to open and active.

Keywords: Welfare Politics, Pension Reform, Kim Dae-jung Government, Roh Moo-hyun Government, Actors, Power Relations, Korea

I. INTRODUCTION

All welfare policies and the related decision-making processes are fundamentally political. However, in Korea, even after democratization,

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welfare issues had not been politicized for an unusually long period. Only recently have we started to observe some overt indicators of the activation of welfare politics. These include the hot debates over free school lunches during the 2010 local elections and the subsequent vigorous discussions among influential politicians about their vision for the welfare state. The phenomenon is likely to become more pronounced during the campaign period ahead of the 2012 presidential election. The situation might make one assume that Korean welfare politics are finally experiencing some significant changes. Are Korean politics of welfare indeed slowly changing from the bottom? And what does this transformation mean for the future of the Korean welfare state?

To answer these questions, this paper compares the national pension scheme (NPS) reforms in 1998 during the Kim Dae-jung government (hereafter, “the first pension reform”) and those in 2007 during the Roh Moo-hyun government (hereafter, “the second pension reform”). It looks for the critical factors that determined the results of the two reforms and analyzes how and why these factors differed in order to assess the changing trends in the politics of welfare.

Why choose the pension scheme? In general, a national pension system is a core program of a welfare state, which requires larger expenditures than any other program. Also, as the central part of the “politically constructed property rights” (Schwartz 2001) within a welfare state, a pension system incorporates the logic of redistribution and social solidarity and represents political compromise among social forces. These characteristics make pension politics the best site to observe welfare politics in a country. Although the public pension system in Korea has not reached a mature stage yet, in terms of importance it already shares the common characteristics mentioned above.

To perform a comparative analysis of the first and second pension reforms, this study adopts the perspective of the power-centered action theory of Ana Rico. This perspective, compared to other existing approaches, is more advantageous for examining the socio-economic base of the welfare politics, the power resources of the main actors, and the dynamic interactions among the actors. The focus of the comparison will be on the strategic interactions and consequent power relations among the actors. It is this factor that determined the difference between the two pension reforms. And I will argue

that the changes in the strategic actions and the interactions of the actors, which formed the eventual power relations in the two pension reforms, represent an important transformation in Korean welfare politics.

II. THEORETICAL DISCUSSION: EXISTING STUDIES AND ALTERNATIVE ANALYTICAL FRAMEWORK

The research on the pension reforms since the start of the Kim Dae-jung government can be divided into studies focusing on the structure and context, and those works emphasizing the interactions between the main actors. Of the first type, several works that have adopted a new institutionalist perspective (Kim and Kim 2005; Kim, Y. 2005; Hyun, O. 2008; Park, K. et al. 2008) stand out in particular. They confirm that the main propositions of the new institutionalism, represented by path dependency and veto point (Bonoli and Shinkawa 2005: 20), also apply to Korea. That the social solidarity attribute of the pension was preserved during the first reform because of the existing pension system design (Kim and Kim 2005; Kim, Y. 2005), and that the range of the second reform was not large (Park, K. et al. 2008: 111) both support the path dependency thesis. The veto point thesis is supported by the fact that during the first reform the original bill passed without major revisions in the power structure of the majority government in a highly centralized presidential system, and during the second reform the final bill was significantly modified in the decentralized power structure of a the divided government (Kim, Y. 2005).

However, such new institutionalist explanations, as convincing as their simplicity and clarity are, also contain limitations. Since they focus on institutions, the more dynamic variables are unintentionally underestimated. As will be examined in the main part of this article, the institution is a necessary condition rather than a sufficient condition for a particular policy change. Even when there is no significant veto point in the power structure, most governments tend towards compromise during pension reforms to avoid blame. Therefore, rather than checking whether a compromise and modifications are present or absent, it is important to explain why particular compromises and modifications become possible.

Another noteworthy study focusing on the structure and context of the pension reform is Choi, Y. (2008). This study deals with the influence of the industrial structure and businesses. Based on a comparative analysis of Korea and Taiwan, he argues that pension reforms brought about divergent results caused by differences in industrial structures and subsequent differences in employers' interests rather than institutional variables. This research is exceptional because it draws attention to employers, an easily overlooked but important factor in the politics of welfare. Nevertheless, because the political actions of employers in welfare politics are not highly visible in Korea, there is a tendency to infer the business interests from the characteristics of the industrial structure and substitute the analysis of businesses' actions with the inference.

In contrast to arguments emphasizing structure and context, there is a series of studies focusing on the dynamic interactions among main actors. The most representative among these is research utilizing the theory of policy network (Yang, J. 2001; Cho, G. et al. 2009). These studies, Cho, G. et al. (2009) in particular, investigate how the interactions among the involved actors have influenced pension reforms and demonstrate that in Korea too, the politics of welfare and welfare policies are becoming closely related to each other. However, these studies generally adopt a pluralistic perspective that considers all those involved in the policy process as "individuals and groups of individuals with various motives, goals, and interests."¹ Such studies are not concerned with the socio-economic roots of the actors' interests, the asymmetry of their economic and power resources, and the properties of the ideology of the political parties that represent them. This perspective obscures the connotation of class politics in pension reform.

This paper modifies the theoretical traditions defined by Ana Rico (2004) as "power-centered action theories" in order to analyze the political process of the first and second pension reforms. Rico's power-centered action theories possess the following characteristics. Firstly, the strategic actions and interactions of the main actors are considered the most important factor of the policy changes. This allows us to break away from the excessive emphasis

¹ The only exception is Yang, J. (2001), which examines the policy network of the first pension in connection with the dominant political coalition.

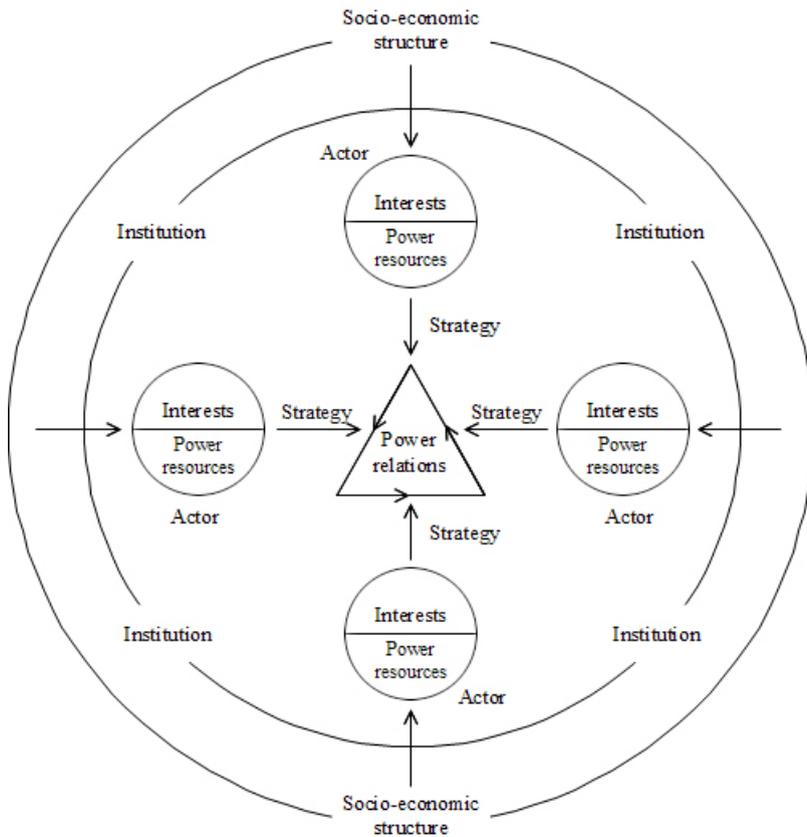


Figure 1. Analytical framework of the politics of welfare surrounding the pension reform

on structure and context and grasp the importance of the dynamics in of welfare politics. Secondly, while the focus is on the actors, their actions are grounded in a socio-economic context, i.e. the capitalist economy and class interests. This argument constitutes the fundamental difference between Rico and the policy network approach, which treats political actors as individuals and which separates them from their broader connections with society (Rico and Costa 2004: 16). Thirdly, as a framework for analyzing strategic interactions between actors and their power relations, Rico emphasizes strategic alliances connected to a broad range of social subgroups who provide competing policy alternatives. For example, solidaristic coalitions

composed of various actors—such as a pro-welfare coalition and an anti-welfare coalition (Hicks and Misra 1993), or a stakeholder coalition and a stake challenger coalition (Peterson 1993)—may form around a welfare reform. And policy changes depend on the aggregated, relative power resources of these competing alliances. Unlike the classical power resource theory, this approach lets us assess the influence of various actors involved in the policy transformation process, in addition to the influence of labor and employers.

This paper uses Rico's perspective with two modifications. Firstly, I believe that policymaking is influenced more by power "relations" of actors than by the amount of their power "resources." Power resources, as an asset providing a source of power includes collective action resources, formal institutional power resources, financial resources, and knowledge-based power resources (Rico 2004: 16-20). Generally the power resources of an actor are fairly stable and therefore somewhat static within a given period. On the other hand, a power "relation" develops through complex interactions under specific conditions and is thus changeable depending on mobilization of public support and on coalitions and alliances. In other words, the power resources of each actor are structuralized in a relatively stable form in a given period, whereas power relations are "shaped" in the "process" of interactions amongst the actors. Power relations are much more dynamic than power resources. In this study, within a dynamic situation of policy-making, power resources are considered a factor constraining and shaping the actors' actions. The strategies and interactions between the actors as well as the resultant power "relations" and balance of power are considered the critical factors determining the results of a policy-making. Power resources are an important variable affecting power relations among the actors, but power relations cannot be reduced to power resources.

Secondly, the main actors in this article are categorized as social actors and political actors. A social actor is a group that has direct vested interests in a specific issue in civil society, while political actors are those who aggregate and articulate social actors' interests in the formal, institutionalized political arena. Such a categorization helps explain the differences between the roles of an interested party and a political representative, as well as the differences in their political influence that stem from the fact that their actions take

place in different spaces. The main social actors examined in this article are the employers association and the two largest labor unions, civic groups, and interest groups. Among the political actors are several political parties, the presidential office as an institution, and each administrative department. Figure 1 demonstrates the analytical framework for understanding the pension politics in Korea, based on the discussion above. Using this framework, I will compare how the pension politics differed between the two governments—the Kim Dae-jung and Roh Moo-hyun governments—and what kind of effect each had on the results of the pension reforms.

This paper adopts the method of cross-time comparison. The focus are the strategic actions and interactions between the main actors over pension reform in each government. The process and results of the two pension reforms were fairly different, and we hypothesize that the cause was the difference in the strategic interactions and consequent power relations among the main actors. This study mainly uses the literature review method. I will work with the official and unofficial government documents, pension-related revision bills and enactment proposals, records of the National Assembly, materials of public hearings and discussions, statements and press releases of interest groups and civic groups. In addition, I use a database of the interview material on the related actors, built by the “Research Team for the Collection of Qualitative Basic Data Related to the Birth, Growth, and Reorganization of the Korean Welfare State” (hereafter, “Basic Data Collection Team”).²

III. PENSION POLITICS OF THE FIRST PENSION REFORM

1. Process and Results of the Pension Reform

The Kim Dae-jung government, which took office during the 1997 financial crisis, faced three tasks in regard to the NPS. The first problem was the

² This research team, composed of Yang Jae-Jin, Kim Yeong-Soon, and eleven other researchers, and supported by the Korea Research Foundation (presently the National Research Foundation of Korea) collected, from 2005 to 2007, the primary written data and testimonies of major actors concerned with the core social security system. The results were digitalized and built into the database.

existence of the self-employed urban population who were not covered by the program, and the people who were formally included in the system but in reality remained outside of it—mainly non-regular workers in small businesses. Secondly, the system was not financially sustainable in the long term because of the unrealistic low contribution-high benefit structure and the aging population. Thirdly, the government had to solve the potential reduction of returns in the national pension fund caused by a lack of transparency and the undemocratic operation of the fund.

In fact, the preceding Kim Young-sam government recognized these problems and prepared a revision bill to tackle them. At that time, the Office of the Chief Social Welfare Secretary in the President's Office (Blue House), upon a request by the president, drew up a plan for long term development of the public pension system. The essence of the plan was to urgently carry out a structural reform to financially stabilize the NPS and then expand the scheme to include the self-employed (reform first, expansion second). The Ministry of Health and Welfare (MOHW) raised objections and suggested including the self-employed first and then implementing reform, which would not damage the frame of the existing pension structure (expansion first, reform second). However, the ministry's proposal was rejected. In the end, the Task Force for Improving the National Pension System was established under the guidance of the Blue House Chief Social Welfare Secretary's Office in June 1997, and the Task Force presented three different alternatives. The first one focused on maintaining and improving the existing system through a parametric reform that would decrease the benefit level and increase the premium. The second plan was developed based on the reform plan for a multi-pillar pension system recommended by the World Bank. This alternative involved a structural reform in which the national pension would be divided into basic and earnings-related parts, and the two parts combined would make up an income replacement rate of 40 percent. The third alternative suggested introducing personal pension plan, i.e. a complete privatization of the pension system in the Chilean style. The second among the three proposals was finally adopted in December 1997 (Yang, S. 1998; Yang, J. 2008).

However, the reform plan of the Kim Young-sam government was abolished with the advents of the Kim Dae-jung government in February 1998. The new government carried forward an effort, led by the MOHW, to

extend the pension scheme to the urban self-employed, while preparing a new pension reform proposal based on the parametric reform plan mentioned above. The main contents of the new proposal were as follows. First, reduce the income-replacement level of the national pension from 70 percent to 55 percent. Second, gradually adjust the legal retirement age from 60 to 65 years (by 2033). Third, reduce the income redistribution function by revising the pension to earnings-related pension ratio in the national pension benefit formula from 1:0.75 to 1:1. Fourth, make estimates for future financing and readjustments of the national pension system every five years. Fifth, increase the number of representatives of the insureds in the National Pension Fund Operation Board, change the head of the Board from the Minister of Finance to the Minister of Health and Welfare, and provide the Board with the actual decision-making authority by transforming it from a consultative to decision-making body. This reform bill was taken to the vote of the National Assembly in December 1998. With the exception of the decision made in the process of National Assembly review to modify the post-reform income-replacement level from 55 percent to 60 percent, the bill passed in its original form. It was enforced beginning in January 1999. The expansion of the scheme to include the urban self-employed began in April 1999.

The process of the first pension reform formally ended here. In reality, however, a kind of “third round of the battle,” aborted later, was on the way. In March 1998, the World Bank provided Korea with a 2 billion dollar structural adjustment loan, attaching to it, among other conditions, the requirement to reform the public pension to a multi-pillar system and revise the public fund management law. To fulfill this promise, the Kim Dae-jung government set up the Action Committee for Public and Private Pension Systems, which proposed several reform plans. Nevertheless, no reforms followed during the administration as the MOHW opposed the multi-pillar system and adopted a lukewarm attitude toward any future discussion. The opposition party did not take any special motion on the issue, either (Yang, J. 2008: 147).

As seen from the discussion above, the most important aspect of the pension reform of 1997-99 was that it preserved the basic frame of social solidarity in the national pension—the principle of solidarity between classes, groups, and generations (Kim, Y. 2002: 41). The reform ceased at parametrical changes, and the urban unemployed were newly included in

the system. In addition, it can be argued that the first pension reform had several other effects. Firstly, the insurants' representation in National Pension Fund Operation Board was strengthened. Secondly, the reform did not offer a solution to the problem of old-age protection for the group of low-income non-participants in the NPS. Thirdly, the income redistribution function of the NPS was slightly weakened.

2. Politics of the Pension Reform

What kind of welfare politics caused the results of the first pension reform? Let us first examine the socio-economic interests surrounding the pension reform and then investigate how the interactions and power relations among the actors affected policy-making.

We can largely divide the socio-economic interests surrounding the first pension reform, which was started by the Kim Young-sam government, into two positions. The first aimed at making the pension scheme universal by expanding the existing national pension of social solidarity to the self-employed with a simultaneous parametric reform to achieve financial sustainability. This position corresponded with the interests of the urban self-employed who remained outside of the system, the low-income insurants who would benefit from the redistribution element of the national pension, and the existing insurants who would enjoy the advantages of high returns through the pension scheme. The wage earners had conflicting interests. Minor parametrical changes were more favorable than a radical structural reform. But expanding the NPS with its strong income-redistribution element to include the self-employed who tend to underreport their profits, could hurt wage-earners. The office of the Chief Social Welfare Secretary in the Blue House under the Kim Dae-jung government, the MOHW, the ruling party — National Congress for New Politics (hitherto, political actors); the Korean Confederation of Trade Unions (KCTU, Minju Nochong), progressive civic groups, social welfare scholars (hitherto, social actors) were the main actors representing the first position.

The second position supported the structural reform plan (above-mentioned reform plan 2), which was intended to strengthen the responsibility of the individual and the logic of the market. This position

argued for weakening the inter-generational as well as the inter-class redistribution aspect of the existing pension scheme by reducing the income replacement level and expanding the earnings-related part of the pension. In the civil society, this position conformed to the interests of insurance companies, businesses, and the higher-income class. Insurance companies would benefit from the expansion of the private pension market; businesses would be able to reduce the contribution payments for their employees to the public pension program; and the higher-income class would not need to accept a relative disadvantage due to the redistribution element. The Office of the Chief Social Welfare Secretary in the Blue House during the Kim Young-sam government, the Ministry of Finance, the New Korea Party (hitherto, political actors), the Korea Employers Federation, and neoliberal economists (hitherto, social actors) were the main actors representing this position.

How did the strategic interactions of these actors unfold? The test of the actors' strength over the first reform proceeded in two rounds. The first one took place between the office of the Chief Social Welfare Secretary in the Blue House and the MOHW during the Kim Young-sam government. The MOHW proposed an "expansion first, reform second" approach (parametrical reform) but the Office of the Chief Social Welfare Secretary in the Blue House pushed forward its "reform first, expansion second" position (structural reform). The result was the victory of the Office of the Chief Social Welfare Secretary, which was backed by the president. The Task Force for Improving the National Pension System, under the influence of the Chief Social Welfare Secretary's Office, appointed advocates of neoliberalism as the committee members and they eventually adopted the structural reform plan as the majority proposal (Yang, J. 2008: 138-9). A popular civic group, People's Solidarity for Participatory Democracy (PSPD) issued critical statements against the proposal, although it did not have any effect.

However, the change of government in 1998 offered an opportunity for a second contest over the pension reform, which completely reversed the direction of the initial reform. When Kim Dae-jung won the presidential election, the MOHW filed a report to the government transition committee in which it negatively evaluated the adopted reform bill. It argued that the existing pension structure was good for securing the support of broad masses of the population and for facilitating social solidarity among different income

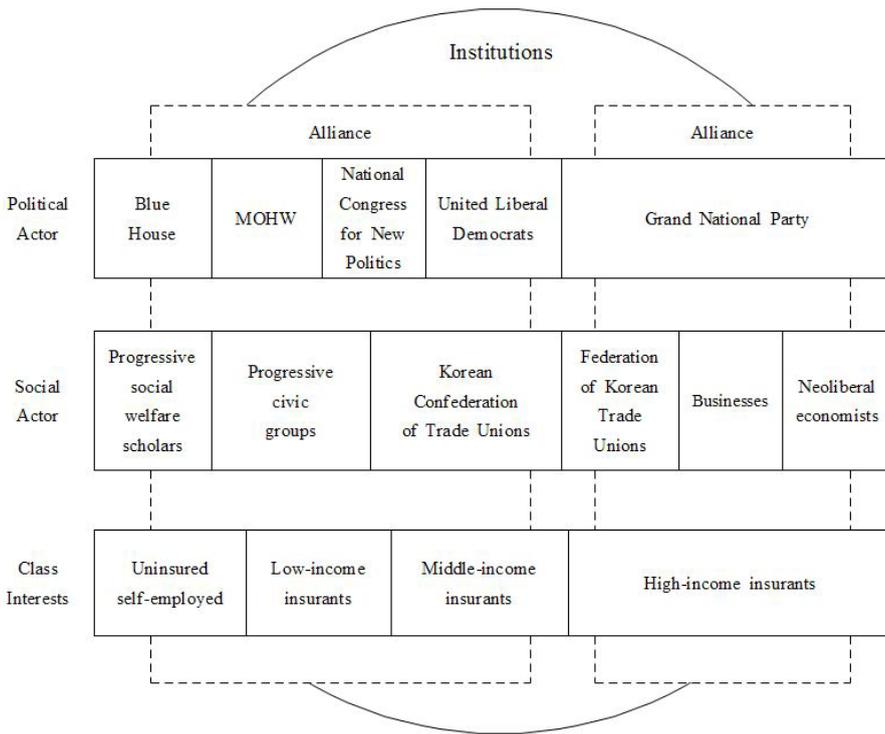


Figure 2. Composition of Politics of Welfare in the First Reform

brackets and occupations. The ministry, therefore, claimed that the structural reform was the issue to be considered after the scheme was extended to the urban self-employed. In the end, the transition committee accepted the recommendations of the MOHW and repealed the pension reform plan of the Kim Young-sam government. And it was decided not to proceed with the structural reform while expanding the scheme in the urban areas in 1998 (Yang, S. 1998).

Several social actors voiced their protests during the subsequent process of devising a new pension reform bill based on the MOHW's proposal. First, the Federation of Korean Industries and the Korea Employers Federation protested against the extension to the urban self-employed on the grounds that it would increase the burden on businesses. The Federation of Korean Trade Unions (FKTU) argued that to prevent disadvantages to wage workers

because the urban self-employed tend to underreport their earnings, it would be necessary to separate the pension funds for the paid workers from those for the self-employed. In contrast, the Korean Confederation of Trade Unions suggested maintaining the existing unitary structure with its strong character of social solidarity but reinforcing the assessment of the earnings of the self-employed. The most active among the social actors, PSPD enthusiastically supported expansion of the NPS to achieve universal coverage (Kim, Y. 2002: 46).

Secondly, in regard to operating the pension fund, the PSPD, Korean Confederation of Trade Unions, Federation of Korean Trade Unions, and even the Korea Employers Federation criticized the system of compulsory deposits of the pension fund in the public sector and demanded democratizing operations of the pension fund. The opinions converged and the efforts joined for the common goal of defending the pension fund against insolvency. This was a demand they had voiced since the National Pension Reform Board was established in 1997 (People's Solidarity for the Participatory Democracy 1997).

Thirdly, regarding the income replacement rate, the PSPD, Korean Confederation of Trade Unions, and Federation of Korean Trade Unions were all strongly against the sharp reduction from 70 percent to 55 percent. They firmly requested lessening the drop of the income replacement rate (Federation of Korean Trade Unions, Korean Confederation of Trade Unions, People's Solidarity for the Participatory Democracy 1998). Among the social actors, the voice of the PSPD was the most prominent. Consistently arguing that they stood for social solidarity and represented the interests of the socio-economic minority, the civic group made their own policy proposal and exercised pressure on the political actors so that the latter would accept the proposal. At that time, when no progressive party existed, the PSPD performed those functions in terms of interest representation and policy-making.

On the other hand, the political actors were not very active. The role of the parties was particularly weak. Neither the ruling nor opposition parties either performed the function of formulating policies by planning the policies and setting the agenda, or the function of interest representation by actively aggregating and articulating the interests of social actors. Instead,

they passively adopted the policy proposal prepared by an administrative department and selectively accommodated preferences of social actors according to the party's political position. The Millenium Democratic Party accepted the proposals of the MOHW, PSPD, and Korean Confederation of Trade Unions, whereas the stance of the Grand National Party mainly reflected the position of business community and Federation of Korean Trade Unions (Kim, Y. 2002: 50-51).

It can be said that two loose alliance entities thus formed between the social and political actors around the first pension reform. That is, the first round was a scene of confrontation between the group composed of the Office of the Chief Social Welfare Secretary in the Blue House, Finance Ministry, businesses, and scholars with neo-liberal views on the one hand, and the group of MOHW, PSPD, two labor unions and social welfare scholars on the other. With the change in government, it was transformed into the group of the Grand National Party, businesses, Federation of Korean Labor Unions and neo-liberal economists contra-positioned against the Office of the Chief Social Welfare Secretary in the Blue House, MOHW, National Congress for New Politics, (United Liberal Democrats), PSPD, Korean Confederation of Trade Unions, and social welfare scholars. The bonds between actors inside each camp were informal and loose rather than formal and intimate, and no close negotiations or compromises were made to achieve the solidarity.

The struggle between the two camps ended with voting at the National Assembly but this final stage went rather "quietly." The ruling party, National Congress for New Politics had obtained a majority in the assembly through the coalition with the United Liberal Democrats, so the circumstances were favorable for easy passage of the bill prepared by the government. The United Liberal Democrats also supported the government's bill because Welfare Minister Kim Mo-im was a member of the party. In addition, the political parties did not play the leading role in pension politics, and therefore in the process of review at the National Assembly they did not make any important modifications to the national pension reform bill submitted by the MOHW. The only significant revision was changing the income replacement rate from 55 percent to 60 percent. The Federation of Korean Trade Unions vigorously demanded this change, the Grand National Party argued for it at the National Assembly, and the Korean Confederation of Trade Unions and the ruling

party shared the same position.³

The outcome from the first reform's pension politics shows that the most important variable that determined the reform's results was the strategic interactions of actors and the power relations that developed through this process. As pointed out by existing studies (Kim and Kim 2005: 223-224; Kim, Y. 2005), one might say that the Korean political institution—presidential system and single term presidency—provided the important conditions for the failure of a structural reform in addition to finishing the reform with parametrical changes. Although this explanation highlights the power of the institution, it does not prove that the institution is the critical factor affecting the results. The decisive opportunity for the MOHW to have its position accommodated in the first reform was not the institutional conditions but rather a major change in power resources due to the government transition. Had the Grand National Party seized power again, the wait-and-see tactics of the MOHW most likely would have become meaningless. The change of administration to the Kim Dae-jung government altered the composition of the two camps pitted against each other over the pension reform (changing the president's and Blue House Chief Social Welfare Secretary Office's characters), and under a strong presidential system this transformation brought a critical change to the power resources of the two coalitions. Moreover, the transformation eventually changed the power relations between the coalitions formed around pension reform.

Although the “creation” of the majority government through the DJP alliance (alliance of Kim Dae-jung's National Congress for New Politics and Kim Jong-pil's United Liberal Democrats) did, in fact, put the government's bill in an advantageous position, it was not the critical factor determining the pension reform results either. Not only did the Grand National Party lose power and enter the pension politics with diminished power resources, it also could not mobilize support or form a policy coalition. It can be concluded that the power relation factors were more important for the results of the first

³ Interview with Kim, Yeon-Myung (representative from civic groups to the Task Force for Improving the National Pension System; interview conducted by Yang, Jae-Jin on 23 March 2000); interview with Lee, Hye-Kyung (representative from academia to the Task Force for Improving the National Pension System; interview conducted by Yang, Jae-Jin on 9 August 2007); Database of the Basic Data Collection Team, 2008.

reform than the systemic factors. The Grand National Party not only lacked a solid platform as a political party when it lost the majority, but it was also unable to abort the government's reform by mobilizing its supporters in civil society or forming alliances with other forces. Meanwhile, the forces that allied with the Grand National Party during the second reform had been covert supporters of the ruling government party during the first reform. The institution, therefore, was just a necessary condition whereas changes in power resources and resultant power relations were the most important factor in the first reform.

IV. POLITICS OF THE SECOND PENSION REFORM

1. Process and Results of the Second Pension Reform

The financial reassessment of the national pension fund in 2003 demonstrated that, despite the first reform, the fund would be exhausted by 2040. In the face of rising concerns about the low birth rate and aging population, the MOHW again prepared a pension reform proposal that focused on financial stabilization and improving the management and supervision of the pension fund. After the 2002 presidential election and the launching of the Roh Moo-hyun government, the MOHW submitted to the National Assembly a pension reform bill (31 October 2003, Table 1). But the proposed bill received criticism from the labor and civic groups for excessive retrenchment and damaging the democratic operation of the fund. Moreover, the Grand National Party, conscious of public sentiment and preparing for the April 2004 general elections, refused to deliberate on the bill. Ultimately the reform plan was automatically abandoned when the 16th National Assembly term ended.

In the post-impeachment storm, the 17th General Election finished with a victory for the ruling party. Although the Roh Moo-hyun government was able to move from a divided to a majority government, the composition of parliamentary seats was still too unstable to push ahead with pension reform. The ruling party obtained just two seats more than was required to achieve the majority, and in the Health and Welfare Committee and Legislation

and Judiciary Committee the number of seats occupied by the ruling and opposition parties was equal.⁴

In addition, in May, the so-called “Eight Secrets about the National Pension Scheme” spread on the Internet sparking off an anti-national pension movement.⁵ The uproar revealed the distrust of the people in the national pension scheme and the government who was planning another retrenchment after the 1998 reform. The MOHW struggled to calm down the unprecedented situation with a public hearing to make known the true facts about the NPS. After the uproar subsided, in October 2004 the MOHW submitted to the National Assembly the same proposal for reforming the national pension as the one they had submitted in 2003. The core of the government’s bill was to gradually raise the contribution rate from the present 9 percent to 15.9 percent by 2030, and to reduce the income replacement rate from the present 60 percent to 55 percent (2007) and then to 50 percent (2008). The labor and civic groups, Grand National Party, and Democratic Labor Party pointed to the problems in the government’s financial reassessment of the pension fund, the unfairness of raising the premium, and the population that was excluded from the NPS. Moreover, they all strongly opposed the bill.

The Grand National Party did not limit its opposition to criticism but set up a taskforce team and, through a public hearing, proposed its own basic pension bill (Yun, K. 2004). The bill included separating the NPS into basic and earnings-related parts, setting the income replacement level for each at 20 percent. It also suggested measures to resolve the problems of the excluded population as well as financial instability. The basic pension targeted “all” elderly of the age of 65 and above, and the earnings-related pension was designed to be fully funded with a contribution rate of 7 percent. The proposal of the Grand National Party offered a fresh solution to the issue of

⁴ The distribution of 299 seats of the National Assembly was as follows: Yeollin Uri Party – 152, Grand National Party – 121, Democratic Labor Party – 10, Democratic Party – 9, United Liberal Democrats – 4, National Alliance Twenty-One – 1, and independents – 2. In the Health and Welfare Committee, the composition was: Yeollin Uri Party – 9, Grand National Party – 9, Democratic Party – 1, Democratic Labor Party – 1.

⁵ Regarding the validity and errors in the logic of the anti-national pension movement and “Eight Secrets about the National Pension Scheme,” see Oh, K. (2006: 158-168).

the excluded people, which was overlooked in the ruling party's bill. Yet it was difficult to find the enormous financial resources it required (Table 1). In the beginning, the Grand National Party suggested increasing the value added tax. Soon, however, faced with the criticism that the measure would negatively affect the national economy, it adopted an ambiguous position regarding the problem of financing.

Having lost the initiative to the Grand National Party, the ruling Yeollin Uri Party also prepared a reform bill that significantly revised the government's plan (Rhyu, S. et al. 2004). The income replacement rate remained the same with that suggested by the government, but the premium was readjusted upwards to reflect the results of the financial assessment in 2008. In addition, the bill accommodated many long-standing demands of academia and civil society, such as a stipulation by law of the nation's guarantee to pay a national pension, an introduction of a child care credit, and a revision of the conditions for receiving multiple benefits. The review of reform bills by the Health and Welfare Committee of the National Assembly started in November 2004. However, both the Yeollin Uri Party and Grand National Party insisted on their own party's plan and did not compromise. The stalemate continued until 2005.

A turnaround in the deadlock came when Rhyu Si-min was appointed Minister of Health and Welfare and submitted a new reform bill, which was a revision of the bill by the Yeollin Uri Party. The new plan rectified coverage for the originally excluded people, which was the main point of criticism of the existing proposal by the ruling party. The income replacement rate was set at 50 percent; the contribution rate, at 12.9 percent. The basic pension was to be paid in the amount of 80,000 won to the elderly in the lower income bracket, which constituted 45 percent of the population age 65 and above (Table 1). Through negotiations, the Yeollin Uri Party and the MOHW were able to finalize the reform proposal and put it forth in September as the "National Pension Reform Bill" (Kang, G. 2006a) and "Basic Old Age Pension Bill" (Kang, G. 2006b), thus opening a new stage in the negotiations over pension reform.

In addition, the Democratic Labor Party proposed both the "National Pension Reform Bill" (Hyun, A. 2006a) and the "Basic Old Age Pension Reform Bill" (Hyun, A. 2006b), which combined the suggestions of labor and civic groups. The proposal of the Democratic Labor Party involved a

two-tiered structure and on the surface looked similar to that proposed by the Grand National Party. However, the Grand National Party's bill limited the government's responsibility in old age protection to guaranteeing the minimum basic protection and left the rest to the private sector. This was premised on the idea that the role of the NPS could be reduced or transferred to the private sector in the future. In contrast, the Democratic Labor Party bill assumed that the NPS was the foundation of the old age protection system and the basic pension should be introduced to complement the existing protection system (Kim, S. 2008: 164). For this reason, the basic pension bill of the Democratic Labor Party had a tighter structure (small target population and low payments) than the bill suggested by the Grand National Party, and the contribution rate to the NPS was also set somewhat higher. On the other hand, the suggested income replacement rate of the NPS was two times higher than in the Grand National Party's bill and the partial reserve system was to be retained (Table 1).

Table 1. Comparison of 2007 Pension Reform Bills (In 2008 constant prices)

		Original government bill (2003)	Government-Yeollin Uri Party bill (2006)	Grand National Party bill (2004)	Democratic Labor Party bill (2006)	Grand National Party-Democratic Labor Party consensus bill (2007)	Adopted bill (Yeollin Uri Party-Grand National Party consensus bill) (2007)
National Pension Scheme	Income replacement rate	50%	40%	20%	40%	40%	40% (2028)
	Premium	15.9%	13% (2030)	7% (2006)	Maintain current 9%	Maintain current 9%	Maintain current 9%
Basic Pension	Payment rate		70-100 thousand won	9%(2006) 20%(2028)	5%(2008) 15%(2028)	5%(2008) 10%(2018)	5%(2008) 10%(2028)
	Target		60% of elderly	100% of elderly, disabled 3rd degree and above	80% of elderly, disabled 3rd degree and above	80% of elderly, disabled 3rd degree and above	60% of elderly (2008); 70% of elderly (2009)
	Costs in the first year		2.4 trillion won (2008) 3.3 trillion won (2009)	9.5 trillion won (2006)	4.3 trillion won (2008)	4.4 trillion won (2008)	
	Financial resources required (% of GDP, 2030)		6 trillion won (0.3%)	91 trillion won (5.5%)	50 trillion won (2.9%)	38 trillion won (2.0%)	

Overall, by November 2006, the ruling and opposition parties proposed a dozen enactments and reform bills. Among these, the revised version of the national pension reform bill passed the Health and Welfare Committee through the cooperation between the Yeollin Uri Party and Democratic Party on November 30; the basic old age pension bill passed on December 7. However, the bills' review by the Legislature and Judiciary Committee coincided with a conflict between the ruling and opposition parties over the issue of private school law, and, as a result, stayed in the committee for a long time.

At the beginning of the following year, the Grand National Party and Democratic Labor Party started to seek an alliance. This led to an unprecedented situation in which the most conservative and the most progressive parties cooperating over similar policies. After passing the review of the Legislature and Judiciary Committee, the bills were referred to the plenary session of the National Assembly on 30 March 2007. The Grand National Party and Democratic Labor Party reached a compromise and, on 2 April 2007, referred to revised versions of the alternative national pension and the basic old age pension acts. But the voting brought results beyond anyone's expectations. The revised national pension bill proposed by the government party was rejected. Both the alternative national pension and basic old age pension proposals by the opposition were rejected, too. Only the revised version of the basic old age pension bill submitted by the government party passed.⁶ The key to this situation was in the hands of the Grand National Party. They voted in favor of the basic old age pension bill of the government party rather than their own basic pension reform bill.

This meant that only the basic pension was introduced to solve the problem of the NPS' excluded population without reducing the cost of the existing national pension, and the situation developed in direct opposition to the original goal of achieving financial stabilization. Under a storm of public

⁶ The number of registered members of the National Assembly at that time was 296: Grand National Party – 127, Yeollin Uri Party – 108, United New Democratic Party – 23, Democratic Party – 11, Democratic Labor Party – 9, People First Party – 5, and independents – 13. The basic old age pension bill was approved with 254 votes in favor and 9 against with 2 abstentions. The national pension partial reform bill was rejected with 123 votes in favor, 124 against with 23 abstentions.

criticism for these results, the ruling and opposition parties again prepared several national pension reform bills (Lee, J. 2007; Kim, H. 2007; Chung, H. 2007) and entered a new round of negotiations. The Grand National Party, which had thus far had cooperated with the Democratic Labor Party, now sought a coalition with the ruling party. Surrounded by criticism that the two parties traded adopting the national pension bill for revising the private school law, the consensus bill of the Yeollin Uri Party and Grand National Party was finally formulated in April, and passed the National Assembly in July in cooperation between the Yeollin Uri Party, Grand National Party, and Democratic Party.

The main contents of the final bill included: in regard to the national pension, reduction of the payment rate from 60 percent to 40 percent (gradually by 2028), retention of the premium rate at the present level of 9 percent; and in regard to the basic pension, payment of the amount equal to 5 percent (10 percent in 2028) of the average wage for workers to 60 percent (70 percent by 2028) of the elderly age 65 and above.⁷ The meaning of this pension reform can be summarized as follows. Firstly, the goal of financial stabilization was attained slightly below the government's original goal (postponing the exhaustion of the fund to 2070). By reducing the income replacement rate, the projected time of financial depletion was extended from 2047 (in case of maintaining the existing system) to 2060. Secondly, the old age protection of the insureds was weakened. The problem concerned insureds who would not be able to receive a full pension because of a short period of contribution to the scheme.⁸ For example, the pension paid to a couple both of whom work and make average earnings but contribute to the scheme for less than 20 years would not reach the level of the minimum cost of living (Kim, S. 2008: 161). Thirdly, the introduction of the basic pension -allowed for-resolving the problem of the excluded population. In particular, the decision to make base the basic pension on an income replacement rate rather than a fixed amount as argued for by the Grand

⁷ Other important amendments included: introduction of the childcare credit and military service credit, division of pension in case of re-marriage (which was not allowed before), and easing restrictions on receiving multiple pensions as a survivor.

⁸ In 2007 the average period of contribution to the national pension was 21.7 years.

National Party and Democratic Labor Party, meant that the basic pension resembled a public pension rather than public assistance (Oh, K. 2007: 197). Considering institutional path dependence, this point can be seen as the biggest achievement of the pension reform for those forces aimed at building a universal welfare state. Nevertheless, it was pointed out that the bill did not clarify whether the basic pension would still target 70 percent of the population after 2010, and thus left room for reducing the number of recipients of the basic pension in case the number of pensioners in the national pension scheme increased.

2. Politics of the Pension Reform

Let's examine the socio-economic interests and interactions among actors involved in the second pension reform. In terms of the interests involved, there were two major controversial issues in the second pension reform: financial stabilization measures and an introduction of the basic pension. Firstly, to make the national pension financially sustainable, it was necessary to either raise the premium or reduce the income replacement rate or both. The measures would lessen the burden on future generations, but they undermined the interests of the current insurants. Another retrenchment in the income replacement rate following the one in 1999 would significantly weaken their old age security. For this reason, the two labor unions, the Korea Women's Association United, the PSPD, and other organizations representing the interests of the insurants opposed the "pay more get less" pension reform plan of the government party. They strove to minimize the reduction in payments and increase in premium (PSPD et al. 2006). Meanwhile, the business community objected to raising the contribution rate. The Korea Employers Federation argued that companies are already responsible for half of the workers' national pension premium payments and for the severance pay, so another premium increase would detrimentally effect the competitiveness of Korean businesses. Instead of raising the contribution rate, they suggested introducing a diversion of severance pay so that a certain proportion of the severance pay would be deducted from the national pension premium. If that was too onerous, they proposed an alternative of reducing the income replacement rate to 40 percent (Korea Employers Federation

2004). In addition, they argued that it would be necessary to tighten the relationship between contribution and benefits by separating the basic and earnings-related parts of the pension since the burden on companies' employees increases caused by understating profits by the self-employed coupled with an inadequate system for assessing their income (*Yonhap News*, 19 November 2006).

Regarding this issue, in the first bill (2003), the government party proposed decreasing the income replacement rate to 50 percent and increasing the contribution rate to 15.9 percent. In contrast, the Grand National Party suggested that the basic pension be introduced and setting the income replacement rate at 20 percent (40 percent together with the basic pension), with the contribution rate at 7 percent. The Democratic Labor Party argued that even if the basic pension was introduced, the income replacement rate should be 40 percent (60 percent together with the basic pension) and the contribution rate must be kept at the present 9 percent (Table 1).

Secondly, introducing the basic pension was a structural reform aimed at guaranteeing income for that generation of the elderly who were not able to join the national pension scheme since it was nonexistent, and for the younger population who would be unable to participate in the scheme in the present and thus would be ineligible for pension in the future. Naturally, the biggest beneficiaries of the new basic pension system would be the present and future aged people in the lower income bracket. For those with a higher income, they would be ineligible for receiving the basic pension. Given that the basic pension was financed with general taxes, even if those with a higher income did receive a basic pension, it was likely that the burden on them would be greater than their gains. As might be expected, the elderly groups actively supported the basic pension plan. The Korean Senior Citizens Association, using a high voting rate of the elderly as a lever, exercised pressure on political parties and sat in the voting sessions concerning the basic old age pension bill at the National Assembly. The PSPD, Korean Confederation of Trade Unions, Federation of Korean Trade Unions, Korea Women's Association United and other civic groups took a stance in support of the cause for the common good of "alleviating poverty among aged people with a low income" and strongly demanded the introduction of a generous basic old age pension system (National Pension Insurant Groups Association

2007). In contrast, the five major business community groups insisted that the excluded population's problem should be solved through the national basic livelihood security system and related residual pension of public assistance, not by the basic pension system funded with general taxes (*Yonhap News*, 19 November 2006).

As to the basic pension system, the Grand National Party suggested an income replacement rate of 20 percent paid to 100 percent of the elderly. The Democratic Labor Party submitted a bill targeting 80 percent of the population age 65 and above with the payment rate of 15 percent (starting from 5 percent). The government party at first opposed the introduction of a basic pension system but, faced with an offensive from the Grand National Party and Democratic Labor Party, later prepared a plan that covered 60 percent of the elderly with the income replacement rate of 5 percent (Table 1).

What kind of interactions took place among the actors, based on these interests? The political process of the second pension reform can also be divided into two rounds: October 2004 – June 2005, and June 2005 – July 2007. In the first round, the MOHW submitted the “pay more get less” pension reform bill and received severe criticism from the labor and civic groups among social actors, and the Grand National Party and Democratic Labor Party among political actors. Unlike during the first reform, this time the Federation of Korean Trade Unions sided with the Korean Confederation of Trade Unions and civic groups against the government bill. While opposing an increase in premium, the Korea Employers Federation did not make any active moves.

Considering the actors in this round, the Grand National Party, which proposed the introduction of the basic pension, conspicuously stands out. In the beginning of the discussion, the Democratic Labor Party and civic groups prepared their own proposals for a two-tiered basic pension plus national pension system, but rather than promoting their bills, they put most of their efforts into criticizing the government plan, so their proposals did not receive much publicity. In contrast, the Grand National Party set up a taskforce team, held a public hearing and took other steps to actively present their policy, and eventually succeeded in gaining political benefit for the basic pension bill. In other words, they prepared the ground for claiming the credit. In the context of the government and the ruling party, which posed as more progressive,

not suggesting any measures to deal with the problem of the excluded poor elderly from the NPS, the proposal of the Grand National Party looked particularly novel. Some critics said that the proposal amounted to no more than a political offensive because the Grand National Party's position on the problem of financing was ambiguous, and that the party's intention was to privatize the earnings-related part of the national pension (in the future). Nevertheless, that did not become an issue. Instead, the bill received the ardent support of the elderly groups.

Interactions among actors at this period were not active. The labor, civic groups, and Democratic Labor Party shared their positions but did not closely cooperate with each other; instead, each of them concentrated on criticizing each other. The ruling party was relatively cooperative with the government, but kept a passive attitude toward the politically unpopular government plan and then reluctantly submitted a revised bill that simply delayed the increase in the contribution rate (Rhyu, S. 2004). The government (MOHW) could not gain support from any of the social forces and became isolated. If we summarize the positions regarding the issues in this period, the composition was a "government party desiring a parametric reform" versus "all other political and social actors," but neither a policy coalition nor a united front were built.

The second round of the reform, which proceeded from June 2005 to July 2007, was an active period for welfare politics, during which all the actors formed and reformed policy coalitions. In particular, the role of political parties was significantly expanded. The event that initiated this change was the MOHW attitude under newly appointed Minister Rhyu Si-min. The MOHW prepared a new reform plan that added the elements of the basic pension. It proposed further cuts of the earnings-related part of the national pension to 40 percent, and introduced the Basic Old Age Pension in the amount of 70,000-100,000 won to 60 percent of the elderly (Table 1). Although this bill looked similar to the proposal of the Grand National Party, in reality it contained a profound difference. The Basic Old Age Pension was not based on the concept of an income replacement rate but was to be paid in fixed amounts. This meant that the Basic Old Age Pension resembled public assistance rather than the first tier in a two-tiered pension scheme. The target of 60 percent of the elderly population was also far from constituting a

pension system with universal coverage.

In any case, when the new government proposal came out, the ruling party, in contrast to its previous behavior, started debates and negotiations with the MOHW. After adopting a modified government plan as a new pension policy, the party proposed several amendments to the national pension act and the basic old age pension bill. The Democratic Labor Party also put forth a national pension reform bill and basic pension bill that better defined its previous proposal (Table 1). During the heated debates, the parties released several dozen national pension reform bills ahead of the legislative review period (November) of the regular session of the National Assembly, which opened in September 2006. The plenary sessions of the National Assembly and the Health and Welfare Committee became the site of a fierce battle.

Active participation of political parties in pension politics signified a phenomenal change in welfare politics. The initiative of the Grand National Party should be regarded as the momentum that started this transformation. After the presidential election, Park Se-Il, Yun Kun-Young, Lee Hye-Hoon and other pension experts joined the Grand National Party, and the party was able to develop a solid position on pension reform unlike in the previous period. And by communicating with civil society at public hearings and other venues, it reaffirmed its policy line. Clearly, the party had already shown itself a skillful player in the first round. Its unexpected proposal for a basic pension earned the support of the elderly and lower income class; the suggestion to reduce the contribution rate was popular among those who distrusted the NPS and those who could not afford to pay pension premiums because of financial hardship. The problem of financing was the Achilles' heel of the Grand National Party proposal but none of the social or political actors succeeded in making it an issue. On the contrary, the basic pension bill of the Democratic Labor Party, with its decreased generosity in consideration for the basic pension's relations with the NPS, was overshadowed by Grand National Party's proposal.

The proactive approach of the Grand National Party placed a great deal of pressure on the Yeollin Uri Party. In addition to widespread distrust and discontent of the citizens with the national pension scheme, resistance from civic groups and labor, as well as criticism of the Democratic Labor Party, the

Yeollin Uri Party now faced the challenge of the more conservative Grand National Party proposing a more progressive reform proposal. In response to this challenge, during the second round the Yeollin Uri Party attempted to seize the initiative through close negotiations between the party and the government. In turn, this made the Democratic Labor Party, which had previously concentrated all its focus on criticism, prepare its own reform bill and get more deeply involved in the pension politics inside the Assembly. The initiative of the Grand National Party initiated a chain effect that activated the party roles synergistically.

The parties's roles were not confined to aggregating interest of civil society and proposing policies. To carry through their proposals, the parties built strategic coalitions with other political parties. Under the circumstances, this had a very important impact because neither the ruling, nor the opposition party had the majority. The strategic coalition built by the Yeollin Uri Party with the Democratic Party ahead of the voting played a decisive role in the government party's bill passing through the Health and Welfare Committee (in November and December 2006). Because of policy similarities, the Grand National Party and Democratic Party cooperated in spite of their heterogeneous ideologies and constituencies. The two parties prepared a joint bill (the Grand National Party – Democratic Labor Party consensus bill in Table 1) and submitted it as a revised bill during a regular session of the National Assembly in April 2007.

Meanwhile, social actors developed temporary alliances according to their positions, forming links with political actors. A temporary policy coalition for pension reform included the Korean Confederation of Trade Unions, Federation of Korean Trade Unions, Korean Peasants League, PSPD, and the Korea Women's Association United. They took the same position as the Democratic Labor Party and, through close interactions, achieved a considerable level of unity over policy. The Korean Senior Citizens Association, representing the interests of senior groups, supported the bill of the Grand National Party. Later, when the Grand National Party and Democratic Labor Party joined their efforts, these social actors developed a loose alliance pivoting on areas of agreement between the two parties. In contrast, the Korea Employers Federation took a neutral stance and criticized all bills of political parties as populist. In reality, there was no political

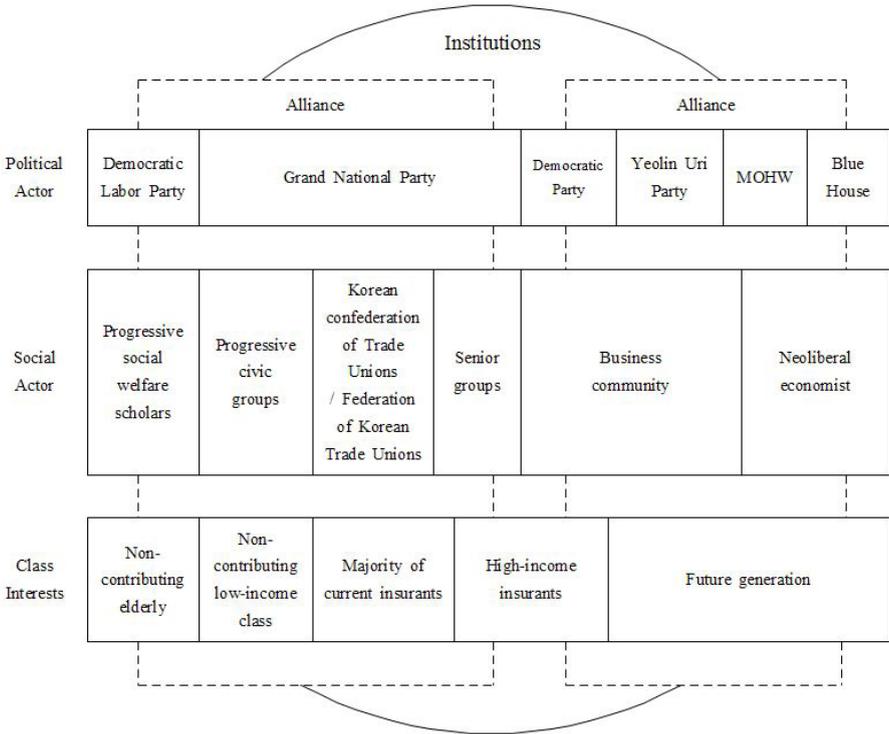


Figure 3. Composition of Welfare Politics in the Second Reform

party that represented the association’s suggestion to cut down the income replacement rate to 40 percent without introducing the basic pension.

In this way, we can define two policy coalitions that formed over the pension reform before the April 2007 voting in the National Assembly. These were: the Grand National Party – Democratic Labor Party – progressive civic groups – labor – senior groups – progressive social welfare scholars coalition on the one hand; and the Blue House – government – Yeollin Uri Party – Democratic Party on the other (Figure 3). As neither side was able to achieve dominance, the balance of power between the two coalitions was tight. However, the result of the struggle was unexpected: as outlined above, at a regular session in April, the National Assembly passed only the Basic Old Age Pension Act of the government party. As mentioned earlier, the Grand National Party changed its position and agreed to the basic old age pension

system as suggested by the ruling party. The members of the United New Democratic Party, who seceded from the Yeollin Uri Party, also supported the proposal and the Basic Old Age Pension Act was adopted by an overwhelming majority. In contrast, the national pension scheme reform bill was rejected not only by the Grand National Party and Democratic Labor Party, but the members of the United New Democratic Party also casted blank ballots. The United New Democratic Party members wanted to join in credit claiming (the basic old age pension bill) but avoid criticism (for national pension scheme reform), and the ruling party failed to attract them to their side (See Footnote 7).

During this process, speculations arose that the ruling party, in order to have the national pension bill pass the Assembly, arranged passage of the private school reform act. Public criticism was rampant about the abnormal situation and sudden metamorphosis of the Grand National Party. But the Grand National Party, which had so far allied with the Democratic Labor Party, this time decided to negotiate with the ruling party. And in July the consensus bill of the two parties allowed completion of the second pension reform. The tight power relationship between the two coalitions broke down the moment the Grand National Party chose to compromise with the ruling party, and the pension reform finished with the consensus bill of the Grand National Party and ruling party. Although the Democratic Labor Party and insurant groups formed the “solidarity convention for normalization of the pension system” and denounced the actions of the government party and Grand National Party, they were unable to change the adopted bill.

The resolution of the second reform lets us see the unique, comic, and kaleidoscopic side of Korean politics that can annihilate a long-term process of coalition-building at a stroke. Nevertheless, if we look carefully into the results of the pension reform, we will realize that the power relations that had formed through coalitions were not completely destroyed in the end. The proposal put forth by the Grand National Party during negotiations with the ruling party was closer to the plan devised in consensus with the Democratic Labor Party, rather than to the original bill of the Grand National Party. The bill of the government party was also considerably modified to accommodate criticisms by the insurant groups and opposition parties. In other words, the final result of the pension reform clearly reflected the power relations that

formed around the reform.

The politics of the second reform can be interpreted from a similar perspective to that of the first reform. The power structure of the divided government made it impossible for the government and ruling party to unilaterally push ahead with the reform, and the bill adopted in the end was considerably different from the initial proposal of the government (Kim, Y. 2005; Park, K. 2008). This fact demonstrates the limits imposed by the institution on the actors (from the position of the government and the ruling party) and the opportunities it offers (from the position of the forces that were against the government-led reform). Nevertheless, the explanatory power of the institutionalist approach for the second reform also ends here.

The results of the second reform, as in the first one, were ultimately determined by power relations. During the second reform, the government and ruling party had more power resources. Even though the conservative Grand National Party had large power resources in several fields, the government party not only gained control of the government in the presidential system, but at least for a short time, had a majority in the National Assembly. Nevertheless, despite a disadvantage in power resources, the Grand National Party was able to turn the odds in its favor through a skillful play in building power relations. First, it isolated the government party by cooperating with the Democratic Labor Party and then aligning with some of the powerful social actors linked to the latter. Then it built the power relations that gave it a political stake in the pension reform, along with a stake in the private school reform bill by reversing its alliance with the Democratic Labor Party overnight to one with a common competitor, the ruling government party. Of course, an overnight shift in a policy-based alliance with impunity was possible only in the realities of the Korean politics, but the Grand National Party utilized these realities to its full advantage.

To sum up, the key variable of institutional power resources—whether the party is in power or not—did not change significantly from the first to the second reform. However the ability of the Grand National Party to develop power relations to its advantage by mobilizing support and forming alliances demonstrated a profound change. The party was able to overcome its weaker power resources to a large extent.

In contrast, despite superior resources, the ruling government party

was not able to build power relations to its advantage and became isolated. The problem of pension reform had already been politicized during the presidential election and the anti-national pension movement, but the MOHW remained indifferent to preparing favorable political conditions to promote reform. Also, despite the necessity of resolving the problem of the excluded population which was emerging as an important social issue, the Ministry did not pay attention to these circumstances and put up a proposal focusing only on financial stabilization. The Yeollin Uri Party dragged behind the Grand National Party and other oppositional forces all throughout the pension reform process and failed to attract even opposition parties with a similar position. Eventually, the ruling government party had to take on the entire blame for the problems related to pension reform and ended up with a reform greatly different from what it had in mind.

The Democratic Labor Party did not do better in terms of political ability. It made a bill proposal and made it available to public opinion too late so the credit for introducing the basic pension went to the Grand National Party. Moreover, despite the fact that the adopted bill was closest to the Democratic Labor Party's proposal, they experienced a negative assessment—the "(only) opposing force"—rather than that of the "alternative (suggesting) force." That is because instead of focusing its criticism on the regression of the basic pension from the party's original bill, the Democratic Labor party denounced the revision of the national pension law to which it agreed with the Grand National Party as diminishing the new pension to "pocket money." True, for a minor party that had entered the National Assembly for the first time, there existed fundamental limits to its power resources. Yet the Democratic Labor Party did not demonstrate a mature image as a strategic actor in pension politics. Since the final bill differed greatly from the Grand National Party's initial proposal, its gains were more a political victory than practically beneficial. To a significant extent, it was a victory achieved as a result of the incompetency of other political actors.

V. CONCLUSION: IMPLICATIONS AND PROSPECTS

Let us now summarize the implications of the two pension reforms in Korea.

The most significant implication is that actors are more important in welfare politics than an institution, and that the power relations developing through interactions among actors play a more important role than the actors' power resources. Power relations are not static but dynamic. Even if an actor is in unfavorable institutional conditions and lacks power resources, it can build power relations to its advantage through strong leadership, appropriate framing of issues, and mobilization of public opinion, as well as effective coalitions. And when this power surpasses that of the stakeholders in the existing system, it can bring about change and open new paths.

Next, the results of the second pension reform demonstrate that Korean welfare politics experienced a profound transformation over the past ten years. Firstly, compared to the first reform, the number of actors increased and interactions among them became more engaged in the second reform. Enthusiastic activities of many groups—several civic groups (in the end, their number reached 16) aggregated under the umbrella of National Pension Insurant Groups Association, interest groups such as senior groups who wanted to raise their voices in welfare politics, and an “anti-national pension” movement on the internet—indicate that Korea, too, is entering the period of full-fledged welfare politics.

Secondly, the role of political parties became more important. The major actors in the first reform were the president's office and government departments. The political decisions of top leaders in the government mattered most, the details of the reforms were determined through the policy-making process in the bureaucracy, and the civic groups performed a role similar to a progressive political party representing the interests of the socio-economic minorities. As for the political parties, they selectively adopted the policy proposals prepared by the government and preferences articulated by the social actors (based on their political position). Towards the second reform, however, political parties became very important actors and consequently the legislature acquired a more prominent role. Political parties took the lead in devising policies and forming public opinion; they aggregated and represented the interests of their supporters. And it was the vibrant strategic interactions among the parties that decided the concrete contents of laws.

Thirdly, the mode of strategic actions and interactions between major

actors during the two periods also changed. During the first reform and until the first round of the second reform, social and political actors shared positions but did not build coalitions openly, limiting their cooperation to “tacit policy alliances” (Kim, Y. 2002: 52). Interactions between the two competing camps were insignificant as well. The second reform, however, was characterized by public proclamations of support, active negotiating and compromising, and explicit policy coalitions. Within a coalition entity, cooperative interactions became closer and it was possible to achieve considerable unity of policy contents among insurant associations and political parties; confrontation between the two coalition entities became fierce, developing into a dynamic process of conflict and compromise. All these processes were reflected in the legislative proposal.

What does this change mean for the future of the Korean welfare state? The shift that occurred from the first to the second pension reform demonstrated that the role of welfare politics in determining welfare policies is becoming more pronounced in Korea. And we can also see that welfare has become an increasingly important issue in party politics and election campaigns. The controversy over free school lunches and the victory of the Democratic Party in the 2010 local elections, along with the subsequent outpouring of welfare discourses, should be considered relevant points in the long-term trend of welfare issues becoming politicized. The trend is likely to accelerate until the next National Assembly and the presidential election in 2012. And there is a great possibility that a much more systematic debate on the welfare state—including on the problems of financing and taxes, on labor market policies and the growth engine—will take place in this process.

The fundamental reason for the transformations in welfare politics is that the level of social risks has increased since the 1997 financial crisis and is now reaching a critical point in Korean society. The deepening social crisis is well represented in the trends of low fertility, poverty-caused family disorganization, and old age suicide due to living hardships. A more immediate cause is the self-awareness of the political and social actors, i.e. the realization that the crises of livelihood in Korean society are difficult to solve with the market alternatives, and that welfare is a system of redistribution decided through politics. The lesson of the politics of two pension reforms for the political forces who will vie with each other over “what welfare state we

shall pursue” are as valid as ever: power resources are more important than institutions, and power relations are more important than power resources. Quoting Rico (2004) once again, a soccer team with superior players, the best financial resources, and strong supporters does not always win.

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