

# Pension Politics in Korea after Democratization: *The Failed Attempts of Party Politics and Social Dialogue\**

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## Abstract

*This analysis of Korean pension politics under the Roh Moo-hyun administration focuses on the roles and limitations of party politics and social dialogue as institutional intermediaries between the state and civil society. It suggests that the social policy reform was made through formal democratic systems but without some of the essential elements of democracy. Although each political party admitted pension problems suggested by civil society during the initial stage of agenda formation, the final decision was made through negotiations among the political parties and government bureaucracy. In making decisions, there was no room to discuss the positions of labor, capital or other social groups. The political parties did not provide a channel for civil society's positions to be reflected in National Assembly discussions. On the other hand, an attempt at social dialogue was initiated by the new ruling elite. Although various interest groups displayed the possibility of agreement, the process of social dialogue was stopped by the Ministry of Health and Welfare. Even after democratization, bureaucracy affected party politics and dominated social dialogue as Korean pension politics lacked institutional communication between the state and civil society.*

**Keywords:** party politics, social dialogue, bureaucracy, democratization, Korean pension reform

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## **Introduction**

This research began with the question of whether Korean society had achieved substantial democratization in the politics of welfare after the implementation of procedural democracy. The democratic system in Korea established quickly following the struggle for democratization in 1987. As democratization was followed by welfare development, there are opinions that the introduction of welfare systems in Korea was influenced by political democratization and that the scope of welfare programs has expanded steadily despite financial restrictions imposed by the economic crisis in 1998 (Seong 2002; Wong 2004). According to Wong (2004), the influence of democratization is manifested in two respects: the process of welfare politics and the contents of welfare policies. The influence of civil society on the process of welfare policymaking is strengthened by the expansion of democracy. Secondly, welfare policies that have been subordinate to economic policies during the period of authoritarianism eventually aim to expand social rights and redistribution. In fact, welfare politics under Kim Dae-jung's government was quite different from that before democratization, when the state unilaterally led social security legislation.<sup>1</sup> The establishment of the National Basic Living Security Act in 1999 and the integration of national health insurance showed that civil organizations took the initiative in policies, at least in the early period of democratization (Kim 2005; Wong 2004).

However, it is uncertain that democratization, in the sense of the overthrow of a dictatorship and authoritarianism, led to a substantial change in social politics, particularly with regards to the relationship between civil society and the state. It is difficult to say that Korean welfare systems have developed to center on social rights and redistribution. Welfare reforms that occurred in the latter period of the

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1. During the Kim Dae-jung government (from February 1998 to February 2003), the Democratic Party was in power and their ruling continued until the early period of the Roh Moo-hyun government. In the end of 2003, the Democratic Party was divided into the Uri Party and the Democratic Party. The more reformative Uri Party became the ruling party during the Roh Moo-hyun government.

Roh administration, such as medical aid reform, the introduction of long-term elderly care insurance, and the introduction of social service vouchers neither caused discussions in civil society nor occurred through civil society initiatives. Although social welfare reform was an issue directly linked to the quality of life, few open discussions on the issue took place in Korea. Most social welfare issues were raised by the state, and welfare programs were executed without the process of open discussion. Although various committees were formed ostensibly for civilian participation, they were more for the voicing of expert opinions than for ordinary citizens. Even though the definition of a “citizen” as one with civil and political rights was formed through the great struggle of 1987, it was difficult to find active citizens who take an interest in the extension of social politics to social rights.

To find the origins of this problem, it is necessary to examine the dynamics of Korean welfare politics since democratization with particular attention to the relations between the state and civil society. A lot of research has emphasized the role of the main social actors as the cause of limitations on social policies in Korea. Based on the power resource theory, some observers identify the vulnerability of labor movements and leftist political parties as the cause of the problems. During the early 2000s, despite the advance of the leftist Democratic Labor Party to the National Assembly, reorganization of dynamics surrounding social politics did not occur.<sup>2</sup> In order to understand the problems more clearly, the focus of attention must be shifted from the social actors to mechanisms like party politics, social

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2. There is an opinion that the Democratic Labor Party's success in advancing to the National Assembly is not merely a supplement to the limited power resources of the working class (Eun 2005). This argument claims that it is not caused by a strategy based on class politics but by a symbolic strategy based on grass-roots or distribution politics. My position is that, although the Democratic Labor Party has struggled to be the *people's* political party rather than a class political party, this is difficult to assert because of its unclearly established relationship with the Korean Confederation of Trade Unions. It is undeniable that the Korean Confederation of Trade Unions and the Democratic Labor Party were very close, particularly in terms of position formation and activities related to social policies.

consultation, and government bureaucracy.

In dealing with democracy in Korean welfare politics, this study focuses on institutionalized communication between the state and society rather than on the social actors. In particular, it considers political parties and social consultation as important links connecting the state and society, focusing on the political process for the 2007 reform of the national pension. The national pension system had seen little change since its introduction in 1988, but in 2007 it underwent significant and immediate change through structural reform. Its case is politically interesting because there was little resistance to this radical reform. The reform of the national pension program had been lengthily discussed by experts and laymen alike and was attempted through various political methods, including government-led unilateral reform, compromise between political parties as well as between civil society interest groups and the state. During the reform process, major political parties had their own reform plans and, in the case of the Grand National Party, used them to obtain votes from the elderly.<sup>3</sup> It is believed that an adequate analysis of pension politics may be reached through demonstrating the relationship between civil society and the state, looking at the clash between bureaucratic politics and social dialogue and, finally, through examining the malfunction of party politics.

### **Focus of Analysis: Institutional Interaction between the State and Society**

The outcomes of democratization in 1987 included the delegation of power through elections, competition among political parties, and the separation of the three powers of administration, legislation, and judi-

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3. In the early 2000s, the Grand National Party, the Uri party, and the Democratic Labor Party were the major political parties in the National Assembly. The conservative Grand National Party was majority in the National Assembly. All of them were active players in the pension politics.

capture. The fact that the government was changed for the first time in 1988 as the result of an election can be seen as a result of democratization. Although there were few objections to the basic concept of democratic systems, there were varied opinions about what is meant by the democratization of social politics and its characteristics. The democratization of social politics can be defined as the shift from unilateralism of the state in policymaking to the allowance of compromise and debates between competing ideas. It requires a change in the relation between state and civil society. Wong (2004), for example, suggested that the expansion of a policy network and the participation of experts were both results of this shift to democracy. Seong (2002) also emphasized change in the policy network: the collaboration of civil movements and new ruling elite resulted from the replacement of the ruling power and the expansion of space for civil movements after democratization. Like Kim Dae-jung's government, Roh Moo-hyun's government inherited the orthodoxy of democratization movements in the 1980s and largely replaced the ruling elite. The political voice of civil movements was also raised. Members of the new ruling elite were more attuned to reformative intellectuals and used the term "welfare state" more actively.

Although civil movements and the advance of reformative intellectuals led to changes in the policy network, it was somewhat different from the expansion of the public's influence on politics. The change in political leadership was not so extensive that it reflected the various socioeconomic interests of civil society. The working class, the major source of profit in capitalist production, had long been alienated from Korean social politics; this was also the case in the 2000s. According to Choi's (2005) discussion on Korean democracy in the distorted function of party politics was, and continued to be, the key factor related to the vulnerability of democracy in Korean society. Democracy is powered by the mediation of socioeconomic differences by political parties representing social groups, namely by the institutionalization of social conflicts through competition and negotiation among political parties. To that end, policymaking is based on the principles of political parties and the interests of their

supporters.

Within this context, this study assumes that the keys to the democratization of social policy are overcoming the governmental unilateralism of political processes, raising social policies as issues in civil society, forming groups on social policies to participate in the policymaking process, and exerting and coordinating the influence of these groups in the political sphere. During the authoritarian age of Korea, the state was the main actor in the proposal of key policy issues and the creation of final policies. Issues raised in civil society were frequently suppressed, and the state monopolized most social policy processes and functions. Representative cases were the establishment of the National Welfare and Pension Act in 1973 and National Pension Act in 1988.

In a properly functioning democracy, ideas on policies undergo the process of public discussion in which various conflicting and competing ideas are negotiated. Political parties usually play the role of mediating differences and conflicts in social opinions; they serve as essential intermediaries for communication and interaction between the state and civil society. This mediating function of political parties is one of the core elements of democracy.

Along with political parties, social consultation bodies are regarded as intermediaries between the state and civil society and are used by the state to settle conflicts in civil society. Unlike political parties, relevant parties meet face-to-face in social consultation bodies to compete and negotiate with one another; they can supplement or replace party politics as a device for mediation between the state and civil society or serve as a device for finding agreement among interested parties. On the other hand, the decisive criterion that distinguishes state corporatism and social corporatism is the intensity of the state's role. When the state does not intervene directly but instead limits itself to advocating social compromise and the institutional enforcement, social consultation bodies can support the realization of democracy. Figure 1, below, illustrates political parties and social consultation bodies as intermediaries between the state and civil society in Korean pension politics.

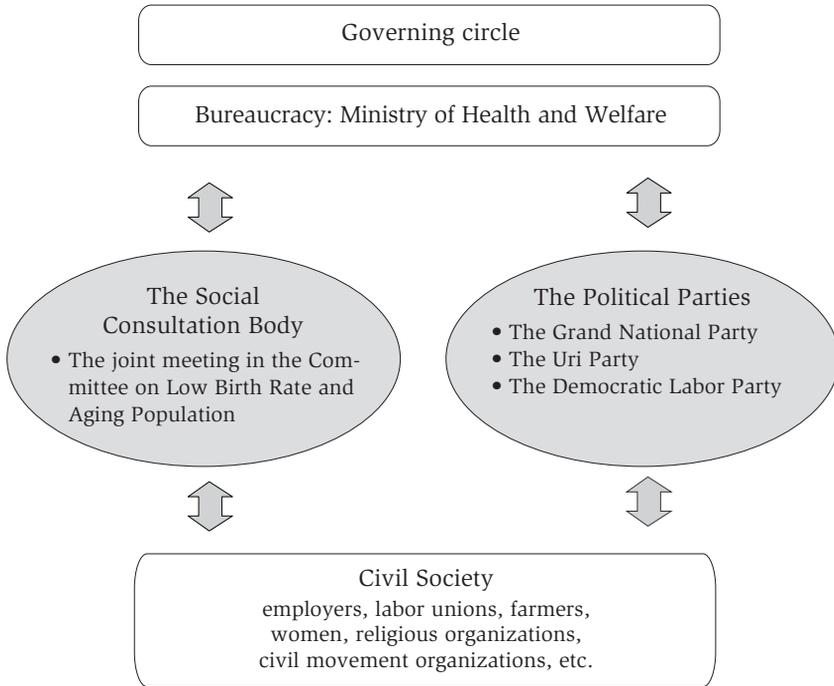


Figure 1. Political parties and social dialogue body as links between the state and civil society

The political process of the national pension reform will be examined through the issues of party politics and social consultation which mediate the communication and interactions between civil society and the state. The roles and limitations of party politics and social consultation will be discussed in reference to the policymaking process divided into three stages: the agenda formation stage, the alternative policy making stage, and the policy adoption stage.<sup>4</sup>

4. Distinction between the three stages of the policymaking process was based on Anderson's (1975) theory. In the agenda formation stage, problems become social issues and attract the attention of policymakers. In the alternative policymaking stage, alternative policies are formalized to solve specific problems, and at the policy adoption stage, one plan is chosen among multiple alternatives.

## **The Contents of the National Pension Reform in 2007**

The reform of national pension system in 2007 changed the structure of the pension through the introduction of the basic old-age pension and the extensive reductive adjustment of the national pension. The contents of the newly introduced basic pension and the reduced national pension are as follows.

The basic old-age pension benefits are provided to 70% (60% in 2007) of senior citizens over the age of 65. The highest level of the basic old-age pension starts from 5% of the mean reported income (the value of A).<sup>5</sup> This plan differs substantially from the flat-rate basic pension system that was advocated by some actors. The basic old-age pension was a form of public assistance rather than basic security in terms of its benefits, methods of benefit determination, and coverage. Apart from its new name, it was little more than a reorganization of the senior pension, which supplemented public assistance. Low-income seniors who had been covered by the senior pension would receive, after the reform, benefits of the basic old-age pension. The benefit of the senior pension ranged from 30,000 to 50,000 won in 2005, hardly a meaningful amount for income security.<sup>6</sup> The highest level benefit of the basic old-age pension starts from 5% of the value of A and, as it is reduced based on income level, the actual benefit is less for most of elders.

It was planned that the income replacement rate would immediately be cut by 10% in 2008 and then decrease by 0.5% each year until it reached 40%. This was a larger adjustment than the reform plan of 2002. When the ultimate income replacement rate (40%) planned by the reform is reached, the pension for average income earners who have contributed for 20 years will fall short not only of

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5. The maximum benefit of the basic old-age pension was set at 5% of the average income (for three years) of all national pension members. It was estimated to be 89,000 won in 2008 and 94,000 won in 2009, but the maximum benefit in 2008 was 84,000 won.

6. In 2005, seniors aged 65, subject to basic livelihood security, and low-income earners born on or before July 1, 1933, were eligible for the senior pension.

Table 1. The Contents of the Reformed National Pension Act (November 30, 2007) and the Basic Old-Age Pension Act (December 7, 2007)

		Before Reform (2007)	The Reform Plan
National pension	Income replacement rate	60%	50% in 2008 40% in 2028 (0.5% decrease each year)*
National pension	Contribution rate	9%	9%
Basic old-age pension**	Coverage	<ul style="list-style-type: none"> <li>- Elders eligible for basic livelihood security</li> <li>- Elders in the quasi-poor class</li> <li>- 610,000 people</li> </ul>	<ul style="list-style-type: none"> <li>- Elders aged over 65 (60% in 2008, 70% in 2009)</li> <li>- 1,920,000 people</li> </ul>
Senior pension -basic old-age pension	Benefit level	30,000-50,000 won	<ul style="list-style-type: none"> <li>- The upper limit is 5% of a (the mean reported income of all contributors to the national pension)</li> <li>- 91,000 won (in 2010)</li> </ul>
Senior pension -basic old-age pension	Financial resource	Tax	Tax

\* The income replacement rate of the national pension is based on average income earners who have paid contributions for 40 years or more.

\*\* The basic old-age pension is a continuation of the senior pension in terms of contents. The details of the senior pension above are as of 2005.

the minimum wage but also of the minimum cost of living. It will become impossible to lead a subsistence level of life even with an average income earner's public pension benefits. The pension benefits of high-income earners also will be insufficient.

The reform is expected to bring considerable changes not only to pension financing but also to the contents of social rights and the state's role in senior income security. The right to supplementary income security based on means testing has been ensured, albeit at a low level, while the contractual right to adequate income security has

been considerably reduced. The pension reform lowered the level of security provided directly by the state, thereby adjusting the state's responsibility. The state has also given up adequate income security for the national pension beneficiaries while introducing supplementary income assistance for elders of the current generation.

### **The Outline of Political Process of the 2007 Pension Reform in Korea**

By 2007, the plans for the reform had already been in process for around ten years. The period between 2003 and 2007 in particular saw active government attempts to reform pension policies, competition among alternatives proposed by political parties, the entering into and the cancellation of various agreements between political parties, efforts to reach an agreement through the Committee on Low Birth Rate and Aging Population, and more. However, the final reform plan was made and enacted by the government unilaterally.

By the time the first Committee for the Development of National Pension was organized in the mid-1990s, financial stabilization of the national pension fund was already established as an important issue. Nevertheless, it was still kept as an internal issue among experts without any open discussion in society. While providing relief loans during the economic crisis in 1998, the World Bank recommended the reorganization of the Korean pension system into a multi-pillar structure. The Kim Dae-jung administration began preparations for the reform of the national pension system by forming the second Committee for the Development of National Pension.

The Roh Moo-hyun administration attempted pension reform immediately upon taking office. In May 2003, the Committee for the Development of National Pension reported its progress to the government; the government adopted one out of the committee's three proposals and submitted a reform plan aimed at financial stabilization. The government's plan was to raise the contribution rate gradually from 9% up to 15.9% and lower the income replacement rate from

60% in 2010 to 50% by 2030. The government submitted the revised bill of the Pension Act to the National Assembly in October 2003, where it was then delayed.

In 2003, based on the results of financial calculations,<sup>7</sup> the government tried to justify pension reform by asserting that the pension funds would soon be exhausted. The government put all its efforts into pushing its proposal in the belief that the reform was an opportunity to change the pension system without considering different parties' various vested interests in the pension system. However, resistance came from civil organizations including labor groups. Furthermore, people's general distrust of the national pension scheme escalated due to the government's predictions that funds would be exhausted, thus making pension reform a major social issue. Public antipathy towards national pension scheme was a decisive factor in the failure of the reform. The government's attempt to reform the pension was suspended, but the predictions about the exhaustion of the pension funds spread further, which reinforced the necessity of the reform as advocated by the government.

After the failure of the initial trial of pension reform, the Special Committee on National Pension System was formed in the National Assembly in November 2005 but did not produce any results. Thereupon, the government attempted a different approach to pension politics. In June 2006, the government proposed a new plan for pension reform. After several trials, which took place over approximately seven months after the initial proposal, the government finally succeeded in reforming the pension system. The plan for the basic old-

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7. According to the results of analyses published in mid-2003 by the Subcommittee of Financial Analysis under the Committee for the Development of National Pensions, the pension fund will record a deficit in 2036 and be exhausted by 2047 if its current pension benefit rate (60%) and contribution rate (9%) are maintained (Committee for the Development of National Pensions 2003). However, civil organizations questioned this projection, pointing out that the total birth rate was assumed to be 1.17, the world's lowest level, and the deficit was overestimated because it used a unit of 70 years instead of 60 (Committee for the Development of National Pensions 2003).

age pension was passed in the National Assembly in July 2007, and the plan for the reduced national pension was then passed in December through an agreement with the Grand National Party. Labor and civil organizations were united in their opposition to the new plans but could not exert influences at any stage of policymaking.

### **Party Politics of Pension Reform**

It is important to consider whether or not political parties tried to reflect the interests and different opinions of civil society on the reform of the national pension system through conflicts and agreements in the National Assembly.

#### *The Agenda Formation Process*

Let us firstly examine the agenda formation process. Pension reform was first raised as a political issue by the government. It was government bureaucracy that always took the initiative in setting political agenda. However, while the government highlighted financial problems, political parties attempted to reflect the voices of civil groups through discussions of issues such as the coverage of national pension scheme, the adequacy of benefits, and the elderly poverty. Political parties used these issues as grounds for rejecting the government's reform plan in 2003. That is, the government raised the financial problem of the national pension system as an issue, while issues about the adequacy of benefits and the inclusiveness of the pension system were raised by civil society and political parties. Because these agendas conflicted with each other, pension reform reached a stalemate.

When the government-proposed bill of 2003 planning to reduce the benefit levels of national pension to 50% was suspended in the National Assembly, the ruling Uri Party could not actively advocate the government's plan. This was partly due to internal problems in the party but mainly because the party could not support financial

stabilization by itself while other political parties were working on tackling the “blind zone” problem and elderly poverty. The ruling party did not have any clear position on pension reform; it stood between the government and civil society, some of its members advocating the government’s reform plan and some criticizing it. The party did not try to resolve internal conflicts through formal processes nor did it actively consult with social groups. The party continued to change its position but was largely influenced by the position of the Ministry of Health and Welfare (MHW) as the financial crisis theory gained more ground. Social groups did not have a stable platform from which to assert their different opinions. However, because of the sharing of power between the Uri Party and the Grand National Party, the government-proposed bill continued to drift during the mid-2000s.

It can be argued that political parties succeeded in reflecting civil society’s opinions on pensions and formalizing them in institutional politics within the agenda formation process. Thus, along with government’s assertion of the exhaustion of the pension fund, reform discussions took into account both problems of the pension coverage and the inadequacy of benefits. However, it is unrealistic to consider the government’s change of attitude in 2006 regarding the basic old-age pension as being influenced by party politics alone. The MHW’s 2006 proposal was made within the ministry independently from the other actors, and the basic old-age pension was considered as temporarily functional.

### *The Alternative Policymaking Stage*

While the opposition parties furiously resisted the government’s pension reform plan, they were, on the other hand, producing alternative plans. What socioeconomic position were the alternative plans based on? In the alternative policymaking stage, political parties (with the exception of the Democratic Labor Party) were not communicating or allying with civil groups. The Grand National Party (the conservative party) and the Democratic Labor Party (the only left party in the par-

liament) both supported structural pension reform including the introduction of the basic pension system. The Grand National Party proposed a plan that combined a basic pension providing 20% of the average income to the elderly and an earnings-related pension with an income replacement rate of 20% based on 40 years of contributions. The more progressive Democratic Labor Party proposed a plan combining a basic pension that provided a flat-rate benefit amounting to 15% of the average income to 80% of the aged population with an earnings-related pension that featured an income replacement rate of 40% based on 40 years of contributions.

The Grand National Party's basic pension plan was contradictory to the character of its support group and the basic principles of its socioeconomic policies. As the ruling party for a long time before democratization, and being closely connected with the power elite before the change of government, the Grand National Party advocated pro-capitalist policies, such as smaller government and tax reductions. As high-level basic pension required a considerable proportion of the tax budget, this was hardly compatible with the party's tax

*Table 2. Alternative Pension Reform Plans of the Political Parties during Reform Process*

(earning replacement rate: % of A\*)

	Before the reform	Gov. I**	Gov. II (with the ruling party)	Democratic Labor Party	Grand National Party
Basic pension: benefit level	-	-	4-6	15	20
Basic pension: coverage	-	-	60% of the old	80% of the old	100% of the old
National pension: benefit level	60	50	40-50	40	20

\* "A" means the mean reported income of all contributors to the national pension.

\*\* "Gov. I" means the government before 2006 and "Gov. II" means government after 2006 when the Ministry of Health and Welfare changed its reform plan.

reduction policy. Accordingly, even inside the Grand National Party, skepticism surrounded its basic pension plan. However, there was no open process of decision making on pension policies within the party. It was politically useful to hold the alternative plan of basic pension because of the public's antipathy towards the government's pension system. The plan was seen as a way to improve the party's image in relation to social welfare; in fact, the Grand National Party's basic pension plan was perceived as fresh and unprecedented.

From the start of the dispute over the national pension system, the Democratic Labor Party suggested a two-tiered pension system, a fact that was not widely known to the public. The Korean Confederation of Trade Unions assumed a position generally consistent with the plan of the Democratic Labor Party, but ultimately the basic pension was regarded as an initiative associated with the Grand National Party. The Democratic Labor Party's plan took into account both the role of public pension and the balance between tax finance and insurance finance, and it complied with the party's basic position. However, the Korean Confederation of Trade Unions and even some members of the Democratic Labor Party did not fully understand the party's plan. In spite of this situation, the Democratic Labor Party attempted pension structure reform, including the basic pension, through holding a casting vote, while the Grand National Party led the discussion in the National Assembly.

As the Grand National Party and the Democratic Labor Party proposed their pension reform plans, pension reform talks came to cover the possibility of structural reform. Although the basic pension was brought up for discussion, negotiations between the conservative Grand National Party and the progressive Democratic Labor Party were not easy.

In October 2005, the National Assembly formed a special committee to deal with pension reform. After several months without any notable results, the committee left the National Assembly powerless to discuss pension reform. During this time, a number of civil organizations suggested reform plans that reinforced the income security role of public pensions through the introduction of the basic pension

and raising the contribution rate to the national pension, but these suggestions hardly influenced National Assembly discussions.

The government again reached a decisive turning point in mid-2006 when Yoo Si-Min, who had insisted on the introduction of a low-level basic pension called the “Parent Pension” ever since his days as an assemblyman of the ruling Uri Party, was appointed as the Minister of Health and Welfare. A few months later, the Ministry brought out a new pension structure reform plan, which introduced the basic old-age pension and reduced the national pension, a plan that was created mainly by a few bureaucrats. The government plan, drafted in 2006 by the MHW, raised the contribution rate to 12.9% until 2017 and adjusted the benefit rate to 40% until 2030. The basic old-age pension was to be provided to 45% of low-income earning seniors. In a situation where the government’s partial reform plan was in conflict with the structural reform plans of the Grand National Party and the Democratic Labor Party, which had introduced the basic pension in order to resolve the coverage problem, the MHW brought out a plan to introduce the basic old-age pension. At the same time the Uri Party finalized their reform plan, which followed the plan of the MHW.

In summary, political parties adopted alternative plans during the alternative formation process, regardless of their political affiliations and the socioeconomic interests of their supporters. In particular, the ruling Uri Party never took a consistent position in the reform of the national pension.<sup>8</sup> In 2003 and 2006, the party had simply followed the position and plans suggested by the MHW. In making the final plans, bureaucrats in the MHW led the process, allying with the ruling party and excluding civil organizations. The opposition parties also

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8. At a panel discussion during the presidential election in December 2002, President Roh Moo-hyun said, “If the benefit of pension is reduced for the balance of the pension fund, the original purpose of the pension is damaged and the prospect of the exhaustion of the pension fund is uncertain.” In 2003, however, several months after the change of government, the new government and the ruling party discussed the theory of pension exhaustion and proposed a plan to reduce the national pension. Later, the Uri Party proposed a plan that supplemented the senior pension instead of the basic pension, and again in 2006, it promoted assemblyman-proposed legislation based on the government’s plan.

were not given any part in formal discussions on pension policies.

### *The Policy Adoption Stage*

At the policy adoption stage, political negotiations among the political parties and government were dominant. In 2006, the MHW tried to persuade important individuals within political parties without public discussion or a consulting process. Unlike in 2003, this time the ruling party was in step with the government. The MHW's new proposal was submitted as assemblymen-proposed legislation because the procedure involved was less cumbersome than that of government-proposed legislation. The Uri Party's revised bill of the National Pension Act, submitted in October 2006, was a revision of the plan made by the MHW. During consultation between the party and the government, the plan to raise the contribution rate of the national pension was withdrawn because of fear of political resistance. The period for the adjustment of the benefit level was shortened and the income replacement rate was lowered to 40% until 2028. The agreement also broadened the scope of the basic old-age pension to cover 60% of the population aged over 65.

Despite the government's change in attitude, however, the reform was not so simple due to coalitions and the complex alignment of political powers. The opposition parties did not agree with the government's new plan for the professed reason that the scope and level of payment of the basic old-age pension were insufficient.<sup>9</sup>

In response, the Grand National Party, the Democratic Labor Party, and the Uri Party again tried to reach a compromise in November 2006, and the Standing Committee of Health and Welfare prepared a plan agreed upon by the three parties.<sup>10</sup> Prior to an extraordinary session of the National Assembly in April 2007, the two opposi-

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9. The Grand National Party adhered to the basic pension system, which would pay 135,000 won a month per person to over-65s as of 2006, and 300,000 won as of 2028.

10. The agreement between the three parties in November 2006 was as follows. The basic old-age pension, amounting to 5% of the average income of the pension

tion parties submitted a joint, revised bill of the National Pension Act. This bill would pay a basic pension to 80% of the aged population at a benefit rate of 10%, maintain the contribution rate of the national pension at 9%, and lower the benefit level to 40%. Also in this session of the National Assembly, the Grand National Party and the Uri Party sought a compromise that would associate the amendment of the Private School Act with the amendment of the National Pension Act. Ultimately, the government's reform plan was rejected and, as a result, the Minister of Health and Welfare resigned.

As all political parties had been advocating the basic pension system, it could not become a political agenda attracting political support from the elderly for only certain political parties. The Grand National Party did not see any political advantage in maintaining its pension policy alliance with the Democratic Labor Party. Attempts at pension reform were thwarted in the April 2007 session of the National Assembly, so the two major political parties, the Grand National Party and the Uri Party, began to cooperate. This alliance focused on negotiations related to common political causes. They agreed to paying equally (9%) and receiving less (40% until 2028). The Basic Old-Age Pension Act was eventually promulgated in 2007 and was to be enacted the following year, while the National Pension Act was revised at the end of the same year. The coalition of civil organizations voiced strong discontent with the amendments, but the reduction of benefits in the national pension was a cause of general satisfaction in conservative economic circles.

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members (83,000 won per month), would be paid to elders aged over 65 from 2008. The benefit rate of the basic old-age pension would increase by 0.5% each year, up to 15%, until 2028. However, the basic old-age pension would not be paid to the entire population aged over 65 but to between 60% of low-income seniors, as proposed by the ruling party, and 80%, as proposed by the Democratic Labor Party, and the scope of subjects would be expanded every six months, starting in 2008. The benefit rate of the national pension would be lowered to 50% in 2008, and to 40% at a point in the future. In order to prevent the exhaustion of the fund, the contribution rate, which is currently 9% of income, would be raised by 0.39% each year from 2009 up to 12.9% by 2018 (press interview with assemblywoman Hyeon Ae-ja from the Democratic Labor Party, November 24, 2006).

In the alternative adoption process, policy was determined largely through political negotiations. Compromise and coordination between the political parties were unavoidable, but the process featured very little communication or interaction with civil society. This was the case not only with the Grand National Party and the Uri Party but also with the Democratic Labor Party, which had cooperated with the coalition of civil organizations concerned about pension policy. Furthermore, the adoption of the final plan was made by a completely closed discussion within the government bureaucracy without any involvement of the political parties.

In discussion within the National Assembly, the basic pension benefit assumed a flat rate and did not consider a reduction according to income. There was not enough discussion on the way to find funding for the basic pension, even among the political parties. Neither civil society nor political parties exerted any influence on the process of choosing the final alternative policy. All details of the reform plan were decided by the MHW, which regarded basic old-age pension as a kind of public assistance program while some politicians and experts regarded it as a social allowance based on universalism. This affected the contents of the reform plan and development of the old age income security system. These processes of party politics over pension reform in Korea shows a weak link between the political parties and social groups and a lack of capability to do and maintain policy-oriented negotiation. Even after democratization, welfare politics in Korea lacked some essential factors of democracy.

### **Failed Attempts at Social Dialogue**

One important aspect of the pension reform process in 2007 is that compromise was sought not only by the National Assembly but also by the social consultation body, namely the Committee on Low Birth Rate and Aging Population. It seemed a reasonable step as many countries including Italy, France, and Sweden had attempted pension reform through social compromise and it was regarded as a good way

to avoid blame (Pierson 1996). As discussions on pension reform continued with little prospect of resolution, a portion of the new ruling elite promoted social agreement. In fact, compared to the former government, the Roh Moo-hyun government was keenly interested in the social agreements of some European countries, especially the Folder models in the Netherlands. However, the government's distance from the labor unions made things difficult for forming the Tripartite Commission. However, after the failure to reach an agreement at the April 2006 session of the National Assembly, the second Committee on Low Birth Rate and Aging Population was formed in June of the same year, opening prospects for the achievement of a pension reform that would satisfy a wider spectrum of players in social consultation. By September 2006, a joint meeting of interested parties began to deal with pension reform and was referred to as the second agenda. The meeting included organizations representing employers, labor unions, farmers, women, religious and civil groups,<sup>11</sup> the prime minister, and ministers of departments concerned with social welfare.

Members from the political parties were also present as observers. Such a gathering of related governmental departments and major stakeholders from civil society indicated the preparation of an environment for reaching substantial agreement. However, the implementation of an agreement depended largely on the government's attitude. The fact that the joint meeting was being held while attempts at compromise continued among the political parties in the National Assembly presented a problem. In particular, the Minister of Health and Welfare intentionally ignored discussions in the joint meeting and openly declared that he would work for the pension reform plan to be passed in the National Assembly regardless of the schedule of the social agreement. The MHW vetoed discussions in the joint meet-

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11. Inside the joint meeting, the Korean Confederation of Trade Unions, the Federation of Korean Trade Unions, the Korean Peasants League, the Peoples' Solidarity for Participatory Democracy, the Citizens' Coalition for Economic Justice, Korean Women's Association United, and the Young Men's Christian Association were all involved with the discussion on pension reform.

ing while internally revising its plans. Without the support of the MHW, it was virtually impossible for the joint meeting to put into practice a social agreement without any legal enforcement.

During the agenda formation stage, the joint meeting dealt with topics that included not only the financial sustainability of the national pension but also the coverage problem (blind zones), contribution increase, cost of basic security, and adequate levels of benefits. Consequently, instead of focusing on narrow topics such as financial stability, the joint meeting attempted broad discussions concerning the allocation of social costs among social groups in the aging Korean society and the principles that should be applied in reinforcing income security for the elderly.

The joint meeting thus moved toward structural reform that included a basic pension much higher than that proposed by the government. The discussion was led by labor unions, civil organizations and women's organizations. It reflected different interests on the agendas and in the level of knowledge on them more so than the social power of the participating groups.<sup>12</sup> With the progress of the joint meeting discussions, various social organizations including religious organizations, which had not previously held a position on pension reform, came to have their own opinions. The religious groups and the Korean Senior Citizens' Association assumed a similar attitude of advocating basic pension albeit with different reasons. However, when groups representing industry weighed out the burdens of contribution and tax, they changed their attitude and admitted concerns about the basic pension.<sup>13</sup> Nevertheless, by the fall of 2006, the participating organizations had narrowed the differences in their opinions and developed an enhanced level of mutual trust.<sup>14</sup>

The plan that the social organizations finally agreed upon was to pay a pension amounting to about 15% of mean reported income to

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12. YWCA, interview by the author, January 2007.

13. Korea Employers Federation, interview by the author, January 2007; Federation of Korean Industries, interview by the author, January 2007.

14. YWCA, interview by the author, January 2007.

80% of the elderly population while lowering the benefit of the national pension to 40% of mean income. The plan intended to expand the scope of elderly income security and stabilize the finances of the national pension without causing a sharp drop in benefits (particularly for low-income class benefits). Various measures were proposed to raise funds for the basic pension, including the abolition or decrease of the tax reduction system (the annual tax reduction was around 18 trillion won in 2005), the abolition of simplified taxation, and the reinforcement of taxation over income from assets.

In the final analysis, however, the process of searching for alternative plans was halted by the MHW. When the Ministry submitted a legislative bill to the National Assembly through the ruling party, discussion in the social consultation body proved to be in vain. Some social organizations began to view the social agreement merely as the government's means of pressing the political parties to reach an agreement. As a result, the participant groups' trust in the government was damaged.<sup>15</sup> Despite an apology from the Prime Minister for this breach in trust, an important NGO and some of the other participants withdrew from the joint meeting. In fact, the joint meeting was left stranded after the reform of the national pension.

In 2007, civil organizations and labor unions were generally negative in their opinions of the pension reform. Even the organizations that participated in the joint meeting were opposed to the political process. Several social organizations involved in the meeting, including the Peoples' Solidarity for Participatory Democracy, the Young men's Christian Association, the Korean Women's Association United, and the Korean Confederation of Trade Unions, formed a "pension coalition" and waged campaigns against the government's legislation. However, the coalition failed to influence the two major political parties.

The reason for the failure of social dialogue in Korea does not

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15. Korean Confederation of Trade Unions, interview by the author, January 2007; Peoples' Solidarity for Participatory Democracy, interview by the author, February 2007.

seem to be related to the conditions of successful social dialogue described in Reynaud (2000). The failure can not be attributed to a lack of credible information or permanent working group. The problem was that the MHW had the power to disrupt the social dialogue body while the government, with the exception of some members of the new ruling elite, had no will to work out social compromise on the pension reform. The social dialogue on pension reform had no solid footing and could thus be overpowered by the government. Various civil society opinions regarding pension reform were integrated through social consultation, and there was an opportunity for that result to be presented to the government. Among the various organizations involved, there was a strong possibility of coming to an agreement based on trust, but the link between the joint meeting and the government was extremely weak. The joint meeting acted as an agreement-making mechanism within civil society, but it did not work adequately as a mechanism for compromise between the state and civil society.

## **Conclusions**

The politics of pension reform in Korea show the weak connection between the state and civil society. The two devices, party politics and the social dialogue, disclosed some problems. First, Korean party politics on pension reform were under the influence of the MHW, while the political parties barely communicated with civilian social groups. Civil society was excluded from the process of knowledge accumulation in the creation of alternatives. Instead, the major political parties moved forward with a plan that was insensitive to the fissures that their plan would create in civil society. As a result, pension reform became an issue of power dynamics among the political parties. The parties did not serve as a channel for civil society's opinions in the National Assembly discussions. This was due to the fact that Korean political parties were not accustomed to formal and stable routes of communication with social groups. Additionally, the parties

had been focused on negotiating numerical instead of policy-oriented issues. Political parties treated the pension issue as a problem of image politics; even the leftist party concentrated more on compromise with the other political parties than on cooperation with civil society. Furthermore, the bureaucrats in the MHW had much more information and expertise compared to political parties. As a result, the parties' pension policies lacked consistency in principles and wavered between partial reform and structural reform. In making a decision on the reform plan, the ruling Uri Party was thoroughly influenced by the MHW. Even the final decision was made through a process of compromise led by the MHW. The final decision was made behind closed doors, through negotiation and transaction among only the political parties and the government.

With regard to attempts at social consultation, although some members of the new ruling powers gave meaning to social negotiations, these negotiations did not have any binding power over bureaucrats and were regarded as a nuisance in pension reform discussions. After democratization in Korea, power dynamics between bureaucrats and ruling elites, not with social groups, became the decisive factor in social dialogue. Communication channels between the social consultation group and the government were limited and led to a failure to use the essential factors of social consultation (such as reliability, mutuality and power balance) to move forward in their social planning. This example, as exhibited by the politics of pension reform, shows that a lack of communication between the state and society undermines the state's abilities to resolve conflicts.

Civil society did not have an adequate forum in which to form, openly discuss, and negotiate its position. The structure in which social policies were made through compromise among the two major political parties and government bureaucrats presented obvious limitations for labor unions, which had to rely on the limited bargaining power of the leftist Democratic Labor Party, a minor player in the National Assembly. In the political process surrounding Korean pension reform, neither labor groups nor civil society had an outlet to express their opinions. The mechanism for reflecting and settling

differences in socioeconomic positions among social groups was extremely vulnerable.

As professional bureaucrats influenced party politics and dominated social dialogue, they took the lead in the policymaking process. This suggests that social policy reform was made through formal democratic systems but without some of the essential elements of democracy. The MHW stopped social dialogue and took advantage of the ruling party during legislation, and it also participated in transactions among the political parties. Democratization caused divisions among bureaucrats and the governing circle, and even the reform-oriented new ruling elite could not control the bureaucrats. This should be a clue as to why bureaucratic politics continued to be dominant even after democratization. There is a need to revise the theory of a developmental welfare state in Korea (Kwon 2005). At the very least, the role and force of the ruling elite and bureaucrats should be considered in the analysis of the politics of social policy. The inadequate communication between the state and civil society has created an institutional vacuum in Korean social politics, which even a change in the ruling elite cannot fill.

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