The People Power Revolution that toppled former South Korean President Park Geun-hye was historic and unprecedented. Among other things, it represented a visceral call by the public for clean government and an accountable democracy. The tasks now facing newly elected President Moon Jae-in are daunting and urgent.

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President Moon Faces the Reality of Welfare State Costs

By Jae-jin Yang

After 10 years of conservative administrations, South Korea is once again being led by a president from the Democratic Party, which first fostered the idea of a modern welfare state in South Korea under two previous presidents from the same party.

President Moon Jae-in, however, is unlikely to make major strides on this important social agenda because of his reluctance to challenge a growing and deep-seated resistance to tax increases, writes Jae-jin Yang.

On May 9, Moon Jae-in was elected as the 19th president of South Korea, marking the third Democratic Party administration, following the presidencies of Kim Dae-jung and Roh Moo-hyun. The center-left party has historically been supportive of building a welfare state. The Kim administration laid the foundations for this under the name of “productive welfarism.” Under that program, social insurance coverage was extended to marginal workers in the informal sector. The Roh administration further expanded the welfare state through the “Vision 2030” campaign, which introduced public childcare services, long-term care for the elderly and earned income tax credits (EITC). Can the Moon administration further develop the country’s welfare state?

Since democratization in 1987, South Korea has developed rapidly as a welfare state. However, that development is insignificant when compared to the nation’s economic growth. South Korea is the 11th largest economy in the world and the seventh largest exporter. Its per capita income also exceeds the average of the European Union. However, its public spending on social programs in 2016 was only 10.4 percent of gross domestic product (GDP), or half the OECD average of 21 percent. The happiness of south Korean citizens is also low. According to the Gallup Survey on Life Satisfaction, which covered more than 200 countries worldwide, South Korea ranked 27th among the world’s 32 advanced economies.

When Moon first campaigned for president in 2012, he established a Welfare State Committee and pledged, “I will implement a five-year plan for the development of the welfare state as soon as I am elected.” In the 2017 presidential election, welfare was not a major issue in Moon’s campaign. Nonetheless, under the slogan, “With Moon Jae-in, toward a happy country,” he repeated his promise to expand welfare, in contrast to his conservative opponents. It remains to be seen whether his administration will be able to further develop a welfare state. While it is expected to make more progress than the previous conservative government, the Moon administration is unlikely to make as much progress as either the Kim or Roh administrations. This is largely due to limitations in the national budget and to the strong reluctance of the middle class to accept increased taxes.

During the 2012 presidential election, the “Wind of Free Welfare” blew strongly following the free school lunch debate in 2010. While campaigning, even conservative party candidate Park Geun-hye pushed for economic democracy and the expansion of welfare programs as part of her platform. However, when her administration increased taxes to fulfill those welfare pledges, it faced a strong backlash from the middle class. In the 2017 presidential election, many candidates promised to expand welfare while remaining largely silent on the issue of taxes, mentioning only increases in corporate taxes.

THE NEED FOR WELFARE EXPANSION
Certainly absolute poverty has disappeared in South Korea. However, relative poverty is on the rise. Figure 1 shows that Korea’s D9/D1 ratio, which is the wage gap between the top 10 percent and the bottom 10 percent of full-time workers, is the second worst among OECD countries. Moreover, the ratio of low-paid workers (i.e. low-pay incidence), who are full-time workers and earn less than two-thirds of median income, is nearly 25 percent, the second highest in the OECD. This shows that South Korea’s unequal income distribution is similar to that of the United States.

The relative poverty of wage earners is not the only problem; indeed, it pales in comparison to the destitute quality of life among the elderly. In 2014, 49 percent of people aged 65 and older lived in poverty, nearly four times higher than...
the OECD average of 13 percent. Weaknesses in the public pension system have exacerbated the situation and led to increasing depression among the elderly and a dramatic rise in elderly suicide, from 34 per 100,000 people in 2000 to 72 in 2010, far above the OECD average of 22.1.

Suicide is not an issue faced by the elderly only. The suicide rate in South Korea exceeds the OECD average for all age groups. The country’s overall suicide rate was 28.7 in 2013, more than twice the OECD average of 12.3. The problem of low fertility is also serious. In 2015, South Korea’s fertility rate was only 1.2, the lowest among OECD countries. It remains at just 60 percent of the 2.1-rate required to maintain the current population. In short, although the economy is developing impressively, South Korea suffers from greater income inequality than other OECD countries and also high poverty rates among the elderly, high suicide rates and low birth rates. The government thus has no choice but to intervene in order to ensure income redistribution and to provide solutions to social problems.

THE MOON ADMINISTRATION BLUEPRINT

During the campaign, Moon promised to generate decent job opportunities and to focus on issues related to the elderly and the low birthrate. First, he promised to convert indirectly hired employees in the public sector, who are typically uninsured and earn low wages, into direct employment (300,000 jobs). He further promised to convert part-time or contract workers to full-time status (340,000 jobs) and to create 174,000 new jobs in social services, safety and education. After being elected, Moon established the Presidential Job Committee as his first task to immediately begin the creation of 820,000 jobs. He then visited Incheon International Airport, a public corporation, as his first presidential visit and urged the company to convert non-regular workers to regular employees. This was a distinct departure from previous governments that have focused on increasing management efficiency in the public sector.

To solve the problems faced by the elderly, Moon pledged to raise the basic pension from 200,000 won to 300,000 won per month. He also pledged that the number of jobs available for the elderly would nearly double, from 430,000 to 800,000, and wages increase from 220,000 won to 400,000 won a month. He further promised that 90 percent of dementia-related medical expenses would be covered by the government. With respect to the low birth rate, he pledged to introduce a childcare allowance of 100,000 won a month. He also promised to raise the minimum benefit for childcare leave. It will be difficult for the new administration to realize all these pledges, but the Ministry of Health and Welfare and the Ministry of Gender Equality and Family announced that they would accept and implement the majority of Moon’s welfare pledges in the first work report before the National Planning and Advisory Committee set up by the new president. The social policies promised by Moon are more expansive than those of the conservative party candidates. However, they are modest in comparison to the promises he made in the 2012 presidential election, when social welfare was the biggest electoral issue. In addition to promising to create jobs in the public service sector, Moon promised free childcare and education for all children under 6 years. Strengthening public health care was also promised, with an expansion of health insurance coverage to 90 percent of all medical services from the current 60 percent and a lowering of the maximum out-of-pocket expenses to 1,000,000 won annually. In addition, Moon pledged to double the basic elderly pension and to expand coverage from 70 percent to 80 percent of those over age 65. Moon’s social policy platform also included cutting college tuition in half and providing free high school education. His Democratic Party estimated that the 2012 social policy platform would cost 38.5 trillion won annually, accounting for about 12 percent of the national budget. But the costs projected by the Democratic Party were very conservative. The Korea Economic Research Institute (KIEP) estimated that the actual annual cost of implementing these 2012 presidential pledges would be 114 trillion won, or one-third of the national budget.2

However, during the 2017 presidential election, Moon did not disclose how much it would cost to create jobs and implement his welfare pledges, nor did he mention how he would fund his goals. He only pledged to close loopholes in corporate taxes, reform government outlays and cut wasteful government spending. This is very moderate compared to his position in 2012, when he promised to roll back the Lee Myung-bak administration’s tax cuts and increase taxes on wealthy individuals and big businesses. Surprisingly, Moon reiterated former President Park’s contradictory but politically safer stance during the 2012 election: “More welfare without tax increases.”

‘PRESIDENTIALISM’ AND A WELFARE STATE?

Looking at the history of Western welfare states, it is clear that a welfare state is not created overnight. Therefore, we cannot expect such a thing from the new president. We cannot even expect the same degree of development in the South Korean welfare state that was seen during the Kim and Roh administrations. This is because the financial capacity of the state is weaker than before. As Figure 2 shows, the fiscal deficit since 2008, when Roh left office, has grown. In a situation of fiscal deficits, tax increases are inevitable to increase public sector jobs and expand social welfare. Fortunately, South Korea has a low tax rate, so there is room for tax increases. As of 2015, South Korea’s total tax rate, including social security contributions, was 25.3 percent of GDP, which is similar to the US (26.4 percent) but far below the OECD average of 38.1

**FIGURE 2 TRENDS IN FISCAL DEFICITS**

Source: National Assembly Budget Office (2015: 157)

<table>
<thead>
<tr>
<th>Year</th>
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<tr>
<td>2015</td>
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<td>2003</td>
<td>10 Won trillion</td>
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percent. Among OECD countries, only Ireland (23.6 percent), Chile (20.7 percent) and Mexico (17.4 percent) have lower tax rates. However, it would not be easy to increase the tax rate in South Korea, especially given the country’s political system, which is vulnerable to popular pressure.

South Korea has a presidential system and single-member district electoral rules like the US. Under this system, presidential candidates are very sensitive to tax issues due to the winner-take-all nature of the simple plurality required to win election. If even a small percentage of middle-class voters, those most sensitive to tax increases, withdraw their support, a presidential candidate can easily lose the election. Furthermore, voters can easily identify those responsible for an unpopular tax increase and can thus vote out the ruling party, resulting in a big swing in seats in the National Assembly. Since the president and the ruling party take all the political blame, it is not easy to raise the taxes needed to build a welfare state. The 2014 tax row illustrates just this situation.

Upon inauguration, President Park scaled back her promised social welfare programs. Nevertheless, at least 99.2 trillion won (about US$81 billion) was required to pay for them over her five-year term. The Park government placed a priority on broadening the tax base by levying taxes on the underground economy and curtailing tax-exemptions, rather than by raising tax rates or introducing new taxes. Thus, the government announced a change in its tax code for 2014. While sticking to Park’s pledge not to raise taxes, the government slashed several tax credits, effectively increasing taxes for the high- and middle-income brackets. The government expected to raise 12 trillion won from these efforts. However, salaried workers were outraged and the then-opposition Democratic Party leveraged public anger, calling it a “tax bomb” on working people. Members of the ruling party likewise attacked Park’s tax reforms. Facing a strong backlash, Park vowed to revise the tax code reform. Following her order, the government modified the tax code to return money to the middle class. As a result, 7.4 million out of 16.19 million income earners (i.e. 45.7 percent) became fully exempt from paying taxes, the largest tax exemption in South Korean history.

Since that tax row, public opinion has changed. According to an opinion poll by Gallup Korea, support for “more welfare” had fallen to 36 percent in January 2015 from 62 percent in January 2012, while “economic growth” received an approval rating of 58 percent, up from 31 percent in January 2012. Consistent with the decline in approval for welfare expansion, more people favored “no more welfare” (48 percent) over “more welfare with tax increases” (41 percent). This explains the change in Moon’s modest 2017 social policy platform and the lack of open discussion of tax increases.

THE FUTURE OF THE SOUTH KOREAN WELFARE STATE

As renowned welfare state theorist Esping-Andersen pointed out, tax revolts and backlashes against the welfare-state over past decades have generally been strongest in residual welfare states such as the United States, not in big European welfare states such as Sweden. Given the increasing income inequality and social problems, bottom-up demand for social welfare will grow continuously. President Moon has no choice but to address these problems. However, it will not be easy for the new government to take bold action to build a welfare state because of tax issues.

In contrast to his 2012 pledges, Moon emphasizes that jobs are the best kind of welfare. As such, he is focusing on increasing job opportunities rather than simply expanding welfare. He expects the creation of decent jobs within the public sector to provide better public service to the public, and this, in turn, will lead to better quality jobs in the private sector. As low-wage, low-benefit, part-time jobs are replaced by high-wage, high-benefit, full-time jobs, the wage gap will be eased and more young people will be able to marry, build families and have hope for the future. This might thus lead the nation to a “dream” state where welfare is no longer needed. However, the three opposition parties, which now account for a majority in the National Assembly, are clearly opposed to this plan because job creation in the public sector will lead to tax increases. Corporations are also opposed, arguing that Moon’s job policy is impractical. Currently, Moon has an approval rating of close to 80 percent, but his popularity will gradually diminish, as is the norm following the election of a president in South Korea. There seems not much that can be done to build a welfare state by a president who has given up on tax increases and suffers from tugs-of-war with opposition majority in the National Assembly.

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