THE POLITICS OF KOREA’S PENSION INSURANCE REFORM

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INTRODUCTION

Since the first attempt to introduce the national pension scheme in the early 1970s, the process of Korea’s pension insurance reform, targeting to extend insurance coverage nation-wide, has undergone the policy-making dynamics for nearly three decades. Diverse policy actors have engaged in the debates of pension insurance reform, in order to maximize their interests, making the process of the debates very turbulent and sometimes paralyzing. It is of course that social, political and economic contexts have been greatly changed during the periods of debates. Researchers can confirm several stages of debates during the long standing turbulences of Korea’s pension insurance reforms and this gives them a great chance to compare the dynamics of Korea’s pension politics over time.

In particular, the first attempt to establish the national pension scheme in the early 1970s has significant meaning in the history of Korea’s pension politics, as the scheme laid a foundation of Korea’s pension insurance policy in the 1980s and onwards. Furthermore, the first attempt was made under the authoritarian developmental state of the 1970s and therefore it can provide researchers with a great insight in investigating the inter-relationship between economic growth and social policy in the rapidly growing economy like the 1970s Korea.

Against these backdrops, this article aims to analyse the dynamics of pension insurance policy-making in Korea, putting a special emphasis on the analysis of the first attempt to establish the national pension scheme in the early 1970. Through the analysis this article tries to examine how economic and social policies had interacted with each other, in order to support the economic growth on which the developmental state put a top priority.
To these ends, this article intends to establish the comprehensive analytical framework to adequately explore the dynamics of Korea’s pension politics from the viewpoint of process-oriented perspective. In practice, policies are not made in a vacuum. The policy process greatly constrains the outputs of policies. Policies are made through the dynamic interaction between diverse policy actors. Contextual factors also intervene to regulate the process of policy-making and to constrain the final outputs of policies.

But while large amount of research projects have been conducted to examine the pension insurance policy, most of them had concerns only on analysing its contents, paying little attention to the investigation into the system and process of policy-making. In contrast this article will delve into the dynamism of the national pension scheme through the systemic and process-oriented lens, linking policy-making process with the policy context as an external constraint and policy output as a result of policy-making. Depending on this process-driven framework, this article may clarify how the policy context constrains the policy-making process and how the policy dynamics impacts policy outputs. On the key theoretical perspective, this article largely relies upon the policy network perspective that is regarded as one of more comprehensive and flexible theories. The following are research questions that this article tries to answer through the focused analysis of the national pension scheme of the early 1970s Korea.

- In what ways had the policy context influenced the dynamics of pension insurance policy-making?
- What were the attributes and types of the pension insurance policy network? Which interests dominated the policy network?
- In what ways had participants in the policy network interacted with each other?
- What have been the policy outputs of the pension insurance policy-making and whose interests had been mainly reflected in policy outputs?

THEORETICAL AND ANALYTICAL FRAMEWORKS

With regard to theoretical perspectives, this article explores the policy network perspective as a main theoretical view. As is widely acknowledged, the policy network perspective breaks away from the strict distinction between public and private actors (Groenendijk, 2001: 18) and underlines the horizontal network between players. Accordingly, Börzel
(1998: 254) defines the policy network as “a set of relatively stable, non-hierarchical and independent relationships linking a variety of actors who share common interests with regard to a policy and who exchange resources to pursue these interests…”

Despite the lack of agreement on the attributes of policy network, the main stream is to understand the policy network perspective as an alternative mode of interest intermediation to plural and corporatist perspectives (Bulkeley, 2000: 728). Basically the perspective puts an emphasis on the ‘relationship’ between policy actors, as it adapts network analysis to policy research, and the relationship is intermediated by the resource dependency among network participants.

Although the origin of the policy network perspective can date back to the American sub-systems perspective, policy network studies since the 1980s have led by the British political scientists who were influenced by continental European studies. Both put a priority on structural relations while the American tradition underlines the interpersonal relationship between policy actors. But they have differences in understanding the nature of policy network. While European studies regard policy network as a form of governance, the British ones consider it as a mode of interest intermediation. The British studies pay attention to meso-level concept on the relationship between political institutions, compared to their European counterparts’ emphasis on the macro-level concept of governance.

Meanwhile, it is necessary to classify the policy network for the analysis of policy-making and policy outputs, despite no consensus on its sub-types. Of many classified types, Marsh and Rhodes (1992)’s simple classification of policy network into policy community and issue network is very persuasive, while many of the other classifications are too complicated to guide the real world. Marsh (1998: 13) contrasts the two types:

Policy communities are tight networks with few participants who share basic values and exchange resources. They exhibit considerable continuity in membership, values and outcomes. In contrast, issue networks are loose networks with a large number of members with fluctuating access and significant dispute over values. There is little continuity in membership, values or outcomes.

With respect to the dimensions or variables to analyse policy networks, although many policy network theorists have developed variables, they generally lack of sharing basic common features and only pay attention to the examination of policy network per se. They show limitations in combining the policy network idea with policy context and resultant
outputs, as they have not expressed deep concerns on understanding the policy network within broader contexts. Table 1 exemplifies the dimensions or variables that precedent studies had employed to analyse the policy network.

Table 1 Dimensions or variables to explore the nature of policy network

<table>
<thead>
<tr>
<th>Analysts</th>
<th>Selected variables or dimensions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collins (1995)</td>
<td>Boundaries, membership types, linkage pattern, intensity and density of relations, coordination types, centrality, stability, nature of relations</td>
</tr>
<tr>
<td>Cope (2001)</td>
<td>Continuity (or instability), membership (limited vs. wide and open), resources, power balance</td>
</tr>
<tr>
<td>Daugbjerg (1998)</td>
<td>Membership, integration, institutionalisation</td>
</tr>
<tr>
<td>Döhler (1991)</td>
<td>Network structure, actors and coalitions, governance structure, patterns of interaction, strategic selectivity of networks</td>
</tr>
<tr>
<td>Jordan and Schubert (1992)</td>
<td>Level of institutionalisation, scope of policy-making arrangement, number of participants</td>
</tr>
<tr>
<td>Knoke et al. (1996)</td>
<td>Policy domain, policy actors, policy interests, power relations, collective actions, policy outcomes</td>
</tr>
<tr>
<td>Marsh and Rhodes (1992)</td>
<td>Membership, integration, resources, power</td>
</tr>
<tr>
<td>Montpetit (2005)</td>
<td>Multiplicity of networks, capacity distribution, interconnection, cohesion</td>
</tr>
<tr>
<td>Rhodes (1988)</td>
<td>Constellation of stable interests, membership, vertical independence, horizontal independence, resource distribution</td>
</tr>
<tr>
<td>Waarden (1992)</td>
<td>Actors, function, structure, institutionalisation, rules of conduct, power relations, actor strategies</td>
</tr>
<tr>
<td>Yishai (1992)</td>
<td>Exclusion of networks, dependence between actors</td>
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</tbody>
</table>


Depending on the theoretical perspectives in the field, this article formulates the analytical framework by selecting the variables to analyse the policy network and situating them in between the policy context as an external constraint and the policy outputs as the results of policy-making, so as to examine the policy-making of the national pension scheme from the systemic and process-oriented point of view. The following are the items this article employs as an analytical tool to analyse the pension politics in the 1970s Korea.

- Policy context (political, social, and economic contexts)
- Policy networks dynamics
  - Initiators, motivation and triggering devices
  - Number of participants and key players
POLICY DYNAMICS OF KOREA’S PENSION INSURANCE POLICY-MAKING
: FRUSTRATED ATTEMPT TO ESTABLISH THE NATIONAL WELFARE PENSION SCHEME

1. Case synopsis

The first attempt to introduce the national pension scheme was officialised by the November 1972 report of the Korea Development Institute (KDI), a think tank of the Economic Planning Board (EPB), to President Park Chung-hee. The KDI devised the idea to introduce the national pension scheme as a means of mobilising domestic capital for the heavy-chemical industrialisation in the early 1970s. The president was delighted by the KDI idea and ordered to map out more detailed draft. On 12 January 1973 the president made public the government plan to introduce the pension scheme from 1974 and that was a starting signal for the first attempt to establish the national pension scheme. The Ministry of Health and Social Affairs (MHSA) also reported its own idea to the president.

On 31 January 1973 the Administrative Committee for the National Pension Scheme, consisted of working-level officials from relevant government departments and institutes, was formed to make the detailed government draft. Since then on, debates on the national pension scheme had mainly been developed within the Committee and the policy-making was nearly monopolised by official government actors. Private interests were completely excluded from the formal arena of policy-making. They were just policy targets to collect information and to hear opinions.

Two key players - the KDI (along with the EPB) and the MHSA - submitted alternatives to the Committee, respectively. Even though the Committee held meetings several times to make its own draft, it failed to map out a single draft. The Committee reported the first tentative draft, juxtaposing the allegations of the KDI and the MHSA on competitive issues, to the vice-ministerial conference in May 1973. The vice-ministerial conference decided to hold public hearings, targeting relevant private interests and government committees, and
dispatched public officials and researchers to foreign countries to collect information on
the pension systems of advanced countries.

After holding public hearings in June 1973, targeting trade unions, employers, academic
circle and the mass media, the Committee made the second tentative draft containing a
single alternative and reported it to the ministerial conference on 30 July 1973. Afterwards,
the second tentative draft underwent further repairs and consultation with the ruling party.

On 20 September 1973, the EPB and the MHSA ministers held a joint press conference
to announce the government plan to introduce the national pension scheme. But public
opinions were generally negative to the government plan, mainly due to the government’s
outspoken intention to use the national pension scheme as the means of mobilising
domestic capital. To cope with this public criticism, the government formed the inter-
governmental public relations committee to let the general public know the details of the
government plan and to collect the opinions of relevant parties. On 30 October 1973 the
final government draft was reported to the president. It lowered employees’ contribution
rate to reduce their economic burden and mitigated clauses to the direction of emphasising
the social welfare function of the national pension scheme. The State Council endorsed the
government draft as the National Welfare Pension Insurance Bill on 11 November and the
it was suggested to parliament on 17 November 1973. Despite opposition tackling in
parliament, the Bill passed the National Assembly Health and Social Affairs Committee
with the approval of 9 to 2 and passed the plenary session by 102 to 34 on 1 December

However, the government suspended the enforcement by invoking the Emergency
Measure (No.3) in 14 January 1974, just 10 days after the promulgation of the Act, on the
pretext of reducing the economic burden of the general public under the world economic
stagnation situation. The decision was led by economic secretaries to the president, without
a prior consultation with the EPB or the MHSA. Afterwards, the national pension scheme
was suspended indefinitely and invalidated in practice, even though some of its contents
were revived in the National Pension Insurance Act of 1986.

2. Policy context

The political context in the early 1970s was characterized by the authoritarian politics that
concentrated political power on the president. Political system was closed. In December
1971 the Park government declared the National Emergency to clamp down on opposition parties and civil society. Again in October 1972 Park declared the *Yushin* (revitalization) and totally transformed the Korean political system into the authoritarian developmental state. Parliament was dissolved forcibly and the Constitution was rewritten in order to give the president a supreme power (Buzo, 2002: 130-132). According to the *Yushin* Constitution, the president was elected indirectly by the puppet National Council for Unification and one third of lawmakers were appointed by the president, as a way of guaranteeing the ruling party dominance in Parliament (Shin D., 2000: 117). President Park promulgated a series of emergency measures in the 1970s to make the opposition bloc and civil society silent. It is of course that this closed and dictatorial political system was greatly influential on making the policy-making process of the national pension scheme be the government bureaucracy-dominating.

With regard to the social context, the progress of industrialization from the late 1960s accelerated urbanization and changed the Korean family system from the extended family system to the nuclear family system. Of course these changing patterns of life style and the family system caused the economic poverty of the elderly and the irresponsibility of young generation in protecting older family members. In particular, the concentration of young working people in urban cities intimidated the economic security of the remained old parents in the rural sector (NPS, 1998: 59).

However, this general trend of urbanization and aging society was, in practice, not so influential on debating the introduction of the national pension scheme at the time. In the early 1970s, 52.3 percent of the working population was in the agricultural and fishery sector and the aged 65 and more were only 3.3 percent of total population (Yang J., 2007: 91). Additionally, the civil society including trade unions was inactivated in the 1970s. The dictatorial political leadership incapacitated civil society under the pretext of maintaining the all-out national security system from the intimidation of Northern communist countries (Kihl, 2005: 50). Therefore, it may be irrelevant to explain the efforts to introduce the national pension scheme in the early 1970s through social variables, such as societal pressure and demographic needs.

Meanwhile, the economic context was critical in triggering the debate on the introduction of the national pension scheme. Since its inauguration in the early 1960s, the Park
government had propelled industrialisation through the government-led planned economy (Kim S., 2008: 73). The first and second economic development plans were very successful by doubling economic volumes and spurring economic growth. Thanks to the successful economic policy of the 1960s, Korea could establish the foundation of further economic growth in the 1970s and the 1980s.

But on the other, Korea’s economic growth strategy was excessively dependent on foreign capital under the situation of lacking the accumulated domestic capital. Until 1972 the ratio of foreign capital to GNP was continuously increasing (Kim W., 1978: 119), and the redemption amount of foreign debts was 320 million dollars. The total amount of foreign loans reached to 2 billion dollars in 1971 (Frank et al., 1975: 101-122).

But entering the 1970s, the government intended to sustain economic growth by transforming industrial structure from the light industry into the heavy-chemical industry from the period of the third economic development plan (1972-73). But unlike the light industry that relied on working forces, the heavy-chemical industry needed the input of big amount of capital. On the other hand, the government targeted to maintain the 8.6 percent of economic growth during the 5 years of the third economic development plan. For that aim, the government tried to improve international payments by reducing foreign debts.

Under these circumstances, mobilising large-scale domestic capital was essential in establishing the heavy-chemical industry on which the Park government put a top priority in the 1970s. The government expected the ratio of domestic capital to reach to 21.5 percent of the GNP until the final year of the third economic development plan (Jun N., 1989: 434). Indeed, to President Park, maintaining economic growth and increasing export volume were imperative to legitimise his dictatorial political system and for the end establishing the heavy-chemical industry was essential.

The interim evaluation of the general public on the October 1972 Yushin would totally depend on the achievement of 10 billion dollars of export…Concentrate all government capacities and put policy priorities on achieving the export target of 10 billion dollars…(Oh W. 1999, 489-91).

To achieve this economic policy goal, government departments competitively studied out the ways to mobilise domestic capital, including the development of new sources of taxation, such as telephone tax, inhabitants tax and sewage tax, and the inauguration of 1
trillion Won saving campaigns in the agricultural sector. Of economic departments, while the Ministry of Finance (MOF) devised the introduction of value added tax and the National Investment Fund in order to mobilise domestic capital, the EPB and the KDI paid attention to the idea of establishing the national pension scheme as a way of domestic capital mobilisation (Yang J. 2007: 92).

3. Policy-making dynamics

Initiators, motivation and triggering devices

The studies to introduce the national pension scheme had been conducted even before the government formalised the discussions on the introduction of the national pension scheme in 1972. The MHSA studied the pension scheme from July 1971 and published ‘Long-term plan to introduce the national pension scheme (1973-83)’ in October 1972 (NPS, 1998: 59). The Ministry of Culture and Public Relations also published ‘Future Korea’ containing the government’s intention to enforce old-age pension insurance, national medical insurance, and the compulsory education of middle school from the late 1970s (MCPR, 1972: 55).

However, the real initiators of the debate on the introduction of the national pension scheme were the KDI and President Park. The KDI began to study the national pension scheme from 1972. KDI director Kim Man-je obtained Lee Sung-yun’s report on the pension scheme and ordered Park Jong-ki, a KDI researcher, to make further studies on the pension scheme. Park Jong-ki interviewed with American pension professionals and made the report on 25 November 1972. Kim Man-je and Park Jong-ki met EPB director Tae Wan-sun to persuade him. On 30 November 1972, Kim Man-je reported to President Park on the utility of the national pension scheme in mobilising domestic capital for the heavy-chemical industrialisation. Park ordered the KDI to make further research and cooperate with relevant government departments, formally initiating the policy-making of the national pension scheme.

The debate on the introduction of the national pension scheme was largely set off by economic motivation. The KDI persuaded the president by alleging the excellence of the national pension scheme in the mobilization of domestic capital. The KDI expected the insurance fund would reach to 46.5 billion Won in the first year and the amount would be 181.6 billion Won by the third year of enforcement. Welcoming the KDI recommendation, President Park declared in his New Year’s Speech on 12 January 1973: “…The government
is preparing the introduction of the national pension scheme to financially support retired workers, the disabled, and their bereaved family members...” (NPS, 1998: 64).

But in addition to this economic motivation, political necessity also certainly influenced on making a decision to introduce the national pension scheme. After the constitutional revision in 1969 to provide President Park with a third chance for the presidency, the Park government was already under the transformation of the political system into dictatorship. In continuation, the Park government declared the National Emergency in December 1971 in order to clamp down on political opponents under the pretext of maintaining social order and establishing the total national security system. The declaration of the October 1972 Yushin was not different from another military coup. The Yushin government of the 1970s was a model example of the authoritarian developmental state (Buzo, 2002: 132-136). Against these backdrops the Park government needed to provide the general public with some social welfare benefits, including the national pension scheme, in order to legitimise the sudden change of the political system.

**Number of participants and key players**

Participants in the policy-making of the national pension scheme, developed between mid-1972 and January 1974, were numerically not a few. Governmental actors included the president, staff in the Office of the President (OP), the prime minister, EPB, MHSA, and KDI. MOF, Ministry of Government Administration, Ministry of Culture and Public Relations, and National Labour Bureau were minor governmental participants who engaged in the inter-departmental government committees. Both ruling and opposition parties got involved in the parliamentary policy-making process, whilst the ruling party also participated in the governmental decision-making process through the ruling party-government conference. Private interests such as trade unions and employers associations articulated their interests in the policy-making process.

More specifically, the government formed the Administrative Committee on 31 January 1973 shortly after the president’s publicity to introduce the national pension scheme on 12 January 1973, to map out the general frame of the scheme. Relevant government officials from EPB, KDI, MHSA, MOF, Ministry of Government Administration, and National Labour Bureau participated in the Committee to specify the national pension scheme. The Committee draft was reported to vice-ministerial and ministerial conferences. The prime minister engaged in the debated by ordering to strengthen public relations campaign on the
national pension scheme and to form the public relations committee, headed by the Minister of Culture and Public Relations. With regard to the role of the OP, Jeong So-young, a senior economic secretary to the president, engaged in the making of government bill, whereas the Chief Presidential Secretary (Kim Jeong-ryum) and other economic secretaries to the president played a crucial role in invalidating the national pension scheme on 14 January 1974.

Political parties also engaged in the policy-making process, despite their roles were largely marginal under the strong presidential political system. The ruling party cooperated with the government to work out the government bill and played a pivotal role in making the National Welfare Pension Insurance Act in December 1973. But the role of opposition parties was peripheral in the ruling party-dominating parliament and their opinions were largely ignored. Trade unions and employers were invited to the public hearings that the Committee held in June 1973, but their opinions were referred just a little bit.

Thus, even though the number of participants was not a few in the policy-making of the national pension scheme, key players were limited to only small numbers of government actors, including EPB, KDI, MHSA, the president and his staff. Other relevant government departments only played marginal roles. Although the ruling party played an important role in the parliamentary decision-making, its role was generally stayed in legitimating the decided government bill. Under the dictatorial political system of the 1970s, the ruling party was loyal to the president. Parliament of the 1970s was dominated by the ruling party and played a role of rubber-stamp that gave a concrete form to government initiatives. Opposition parties were excluded from major parliamentary policy-making and their voices were not heard so loudly. Trade union movement was not activated yet and the Federation of Korean Trade Unions, the only peak association of trade unions at the time, was pro-governmental. Employers’ groups, such as the Federation of Korean Industries and the Korean Employers Federation, were compliant to government policies.

Among key actors, the KDI devised an idea to formulate the national pension scheme as a way of mobilising domestic capital for the heavy-chemical industrialisation (Park J., 1998: 38). The KDI idea attracted the deep attention from the president. The KDI suggested its own draft, emphasising the economic function of the national pension scheme, to the Committee. Of course the KDI participated in the Committee as a member. The EPB as a supervisor of the KDI supported the KDI draft actively.
The MHSA as a competent government department of social welfare affairs had different inclination to the national pension scheme. It emphasised the social welfare function of the scheme, while the EPB and the KDI underlined its economic function. Thus, the MHSA named as the national ‘welfare’ pension scheme, following the Japanese example. The MHSA studied the national pension scheme even before the earnest discussion on the introduction of the national pension scheme began. Immediately after the president’s New Year Address, the MHSA submitted its own draft, characterised by low contribution and high benefits. The MHSA also participated in the Committee.

The president gave a critical impetus in starting the debate on the introduction of the national pension scheme. After hearing from the KDI in November 1972, the president instructed to make further studies (NPS, 1999: 63). He made public the introduction of pension scheme in his New Year Address in January 1973. He ordered the MHSA to prepare the national pension scheme, in order to start it from 1974. Economic secretary to the President engaged in relevant ministerial conferences and influenced decision-making. On 18 May 1973, Jung So-young advised department ministers to stop the debate and to send delegates abroad to study foreign pension systems. Under the strong presidential system of the time, presidential staff engaged in every important state affair, and the national pension scheme was not an exception. In the meantime, the Chief Presidential Secretary and economic secretaries, who were largely dispatched from the MOF and the Ministry of Commerce and Industry, invalidated the enacted pension scheme, without a prior notification to the EPB and the MHSA, by persuading the president to promulgate Emergency Measure (No.3). At the time, even though the heavy-chemical industrialisation plan that gave an initial motivation to the pension debate was led by the EPB, the OP got an upper hand on the EPB in deciding the financial sources of the plan (Yang J., 2007).

Participants’ interests

Participants had different interests in the pension scheme. The interests of the president and his staff in enacting the national pension scheme were complex and comprehensive. In this regard they were different from individual government department and private interest groups. Economically, the main concern of the president at that time was to double the volume of export through the heavy-chemical industrialisation. But big amount of capital was needed in promoting the heavy-chemical industry. Accordingly, the president and his staff paid attention to the national pension scheme as a means of mobilising domestic
capital. But to the president and his staff, the national pension scheme was just one competent way of diverse capital mobilising methods, and therefore they cancelled the enforcement of the scheme in January 1974, as they thought its usefulness would not be so big. Also, they had political interests in enacting the national pension scheme. The Park government planned to the simultaneous pursuit of social development and economic growth from the late 1970s. Thus, according to ‘Future Motherland’ issued by the Ministry of Culture and Public Relations, the Park government intended to push ahead with the three national tasks of pension insurance, national medical insurance and compulsory education of middle school students from the late 1970s (MCPR, 1972: 55). In addition, introduction of the national pension scheme was advantageous to the legitimisation of the sudden change of political system towards authoritarianism. Moreover, in the early 1970s, the two Koreas intensified the competition on the supremacy of their political systems, as the South-North dialogue began. It was generally acknowledged at that time that North Korean welfare and health systems were not bad in its coverage.

Meanwhile, the interests of the EPB and the KDI, as economic department and institute, in establishing the national pension scheme were primarily in converting pension insurance fund to economic development (Park S., 2004: 189). Accordingly, they focused on making bigger and stabilising pension insurance fund. The KDI calculated the accumulated fund would reach to 181.6 billion Won in three years. As economic agencies who were responsible for the growth of economy, the main concerns of the EPB and the KDI were naturally in economic and financial matters of the national pension scheme. In order to easily transfer the pension insurance fund to economic development tasks, the EPB and the KDI intended to take an initiative in managing the insurance fund. Also, they alleged to introduce the high contribution-low benefits system and to reduce the covered persons, for the financial stability of the national pension scheme.

In contrast, the MHSA as a department in charge of social welfare understood the national pension scheme from the viewpoint of welfare policy. It paid little attention to its economic function. Even though the MHSA also enumerated the contribution of the national pension scheme to economic development as one of the expected effects of the national pension scheme, they put bigger emphasis on the welfare function of the national pension scheme in distributing national wealth and establishing the full-blown welfare system (Jun N.,
1989: 439). The MHSA had interest in pushing the first button of the welfare state through the establishment of the national pension scheme, and therefore it named the scheme as the national ‘welfare’ pension. For this officially stated interest, the MHSA advocated wider coverage and larger benefits as far as possible. As the EPB did, the MHSA also had interest in taking an initiative in managing the national pension scheme, particularly the pension insurance fund.

Private interest groups, whether they are for employees or employers, were not activated during the debates for the enactment of the national pension scheme. They could not exercise political influence under the unprecedented authoritarian political system of the day. They just expressed their concerns on the scheme in the public hearings the government held. In the public hearing, targeting trade unions, the FKTU insisted that economic departments should not charge the pension insurance fund and trade unions should participate in the management of insurance funds along with the representatives of employers. However, despite trade unions could be sensitive to the level of contribution rate and insurance benefits, they never articulated these interests. In the meanwhile, employers’ interests in the scheme were in minimising their financial burden. Thus, the Korea Employers Federation asked for the lowering of contribution rate and the reduction of targeted coverage in the public hearing for employers. But, as trade unions did, employers were also passive in articulating their interests.

Major conflicting parties and key differences of allegation

The national pension policy-making was developed in a closed terrain of bureaucratic politics, completely excluding the participation of private actors. Key participants were the EPB, the KDI, the MHSA, and the president and the OP. The ruling party also intermittently engaged in the policy-making. Among them, key conflicting parties were economic department or institute (EPB, KDI) and social welfare bureaucracy (MHSA), whereas the OP tried to play as a coordinator at least until the making of the scheme. The president initiated and supported the scheme, but he entrusted the matter to government departments and order to intimately cooperate between them. The ruling party backed up the government bill in the parliamentary policy-making.

When comparing the two conflicting proposals, the EPB and the KDI draft focused on the
stable expansion of the pension insurance fund and the easy mobilisation of the fund in promoting the heavy-chemical industrialisation. Accordingly, they, first of all, suggested the high contribution and low benefits pension insurance system. They designed the high level of contribution rate, ranging from minimum 6 percent to maximum 10 percent. They also insisted to broaden the coverage of the national pension scheme, including some of the self-employed, as larger numbers of policyholders were better in expanding the volume of insurance fund. It was of course that the big size of insurance fund was advantageous in mobilising domestic capital. Moreover, the KDI draft tried to shorten the affiliation period for the eligibility of full old-age pension benefits, in order to more stably accommodate the insurance fund by reducing the payment of lump-sum refund. With regard to managing organisation, the EPB and the KDI alleged to establish a new independent body, named the Social Security Agency, to manage the general system and financial fund of the national pension scheme. They also suggested that insurance premium should be collected by the National Tax Service. The KDI draft basically intended to minimise the influence of the MHSA on managing the national pension scheme, so as to more easily mobilise the accumulated insurance fund as domestic capital (Park J. 1975: 103-5). Also, while making the KDI draft, American specialists were mainly consulted and leading actors had largely American education backgrounds, including Kim Man-je and Park Jong-ki.

Meanwhile, the MHSA draft underlined a key role of the national pension scheme in expanding the general welfare system. Although the MHSA also respected the president’s economic intention, it paid bigger attention to the social welfare function of the national pension scheme. For the aim, contribution rate should be reasonable and insurance fund should maintain long-term stability. The MHSA draft, accordingly, suggested the lower contribution rate and the confined coverage to more stable targets. With respect to responsible agency, the MHSA alleged its jurisdiction on the national pension scheme, as a competent department of social welfare policy. The MHSA draft also suggested the making the most of the National Labour Office, affiliated to the MHSA, in implementing the pension scheme, as it had nationwide networks and experience of the management of the Industrial Accident Compensation Insurance. Table 2 compares the two original drafts of the KDI and the MHSA.
Table 2 Comparison of the drafts of the KDI and the MHSA

<table>
<thead>
<tr>
<th>Types of benefits</th>
<th>KDI draft</th>
<th>MHSA draft</th>
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<tbody>
<tr>
<td></td>
<td>Old-age pension, Disability pension, Survivor pension</td>
<td>Old-age pension, Disability pension, Survivor pension</td>
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<table>
<thead>
<tr>
<th>Mandatory Coverage</th>
<th>KDI draft</th>
<th>MHSA draft</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>From 18 to less than 60 years of age (55 years of age for female)</td>
<td>From 18 to less than 60 years of age (55 years of age for female and special types of occupation, such as coal miners and seamen)</td>
</tr>
<tr>
<td></td>
<td>Companies with more than 10 employees (30 employees between 1974-76)</td>
<td>Companies with more than 30 employees (10 employees from 1977)</td>
</tr>
<tr>
<td></td>
<td>The self-employed with income above the exemption limit of business tax</td>
<td>Voluntary affiliation of the self-employed</td>
</tr>
</tbody>
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<tr>
<th>Contribution</th>
<th>I</th>
<th>II</th>
<th>III</th>
<th>Employer</th>
<th>Employer</th>
<th>A flat sum system for the self-employed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee</td>
<td>3%</td>
<td>4%</td>
<td>5%</td>
<td>2%</td>
<td>3%</td>
<td></td>
</tr>
<tr>
<td>Employer</td>
<td>3%</td>
<td>4%</td>
<td>5%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Self-employed</td>
<td>5%</td>
<td>6%</td>
<td>7%</td>
<td></td>
<td></td>
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<tr>
<th>Eligibility of old-age pension beneficiaries</th>
<th>KDI draft</th>
<th>MHSA draft</th>
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<tbody>
<tr>
<td>A person reaching 60 with an insured period of 10 years or more</td>
<td>A person reaching 60 with an insured period of 20 years or more</td>
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<tr>
<th>Managing and supervisory organisations</th>
<th>KDI draft</th>
<th>MHSA draft</th>
</tr>
</thead>
<tbody>
<tr>
<td>Establishment of the Social Security Agency as an independent institution charging pension scheme</td>
<td>General management of pension scheme by the MHSA</td>
<td></td>
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<tr>
<td>Collection of contributions by the National Tax Service</td>
<td>Making use of regional branches of the National Labour Office in collecting contributions and paying benefits</td>
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</table>

Source: adapted from National Pension Service (1998: 69-72)

Interactions between participants

As mentioned before, even though not a few actors participated in the policy-making of the national pension scheme, the debate was largely developed between governing bloc members, particularly in a closed terrain of bureaucratic politics. While the MHSA had studied the national pension scheme quite for a long time, the earnest consideration on the scheme became possible by the KDI report to the president and the president’s followed instruction to do further researches on the scheme. After the president made public, in January 1973, the government’s intention to introduce the national pension scheme from 1974, the MHSA also reported its own plan to the president on 23 January 1973. But the president ordered the MHSA to consult with the KDI and the EPB to map out better and more relevant contents of the national pension scheme (Park S., 2004: 190).

Following this instruction of the president, the government formed the Administrative Committee on 31 January 1973, including the EPB, the KDI, the MHSA, and other
relevant government departments as members. Since then on, the policy-making process within the government had followed a very formal route and intimate interactions had been developed within the Committee between the key participants. The MHSA submitted its draft to the Committee in February 1973, whereas the KDI submitted in March 1973. The Committee held meetings 12 times to coordinate the debating issues of the two drafts, and decided to suggest both alternatives respectively on uncompromised issues. In the vice-ministerial conference on 18 May 1973, participants failed to reach an agreement and decided to dispatch researchers to foreign countries to learn more relevant pension scheme.

During the deliberation in the Committee, public hearings were held between in June 1973, targeting academic circles, the mass media, employers and employees, in order to collect their opinions. Thus, private actors concerned were very passive in articulating their interests in the national pension scheme. They expressed their opinions in a very mild and passive way and did not interact frequently with official policy actors.

The next steps were to make a single suggestion and to formalise it as a government bill. The ministerial conference, held on 30 July 1973, made a single suggestion and it was made public as a government bill on 20 September 1973. But opposition party and newspapers were critical to the government bill, largely due to the bill’s over-inclination to the economic purpose to mobilise domestic capital. Against this criticism, the government made the committee to strengthen public relations and held several times of the informal gathering targeting employers, employees, and public opinion formation groups. The government also responded to negative opinions by lowering contribution rate. The final government bill was made on 30 October 1973 and was passed in the State Council on 11 November 1973 as the National Welfare Pension Insurance Bill (Choi J., 2003: 100).

Discussions in parliament were unilateral. The government bill was submitted to parliament on 17 November 1973 and was laid before the Health and Social Affairs Committee. In the Committee main opposition party set against the government bill by the reason that the bill was devised not as a tool of social welfare but as an instrument of domestic capital mobilisation. But during the 4 times of deliberations in the Committee opposition allegations were ignored and the government bill passed the Committee by 9 to 2. The Assembly plenary session also passed the bill without sincere discussions by 102 to 34 on 1 December 1973, finalising the policy-making process of the national pension scheme. The National Welfare Pension Insurance Act was promulgated on 4 January 1974.
4. Resultant Policy Outputs

The KDI initiated an idea to establish the national pension scheme as a means of mobilising domestic capital for the heavy-chemical industrialisation and succeeded in winning the sympathy of the president. As a matter of course, the KDI draft put an emphasis on enlarging the size of insurance fund. Meanwhile, the MHSA also submitted its own draft, emphasising the social welfare function of the national pension scheme. The MHSA draft contained lower contribution rate, compared to the KDI draft, and underlined the stable maintenance of burgeoning pension scheme. Thus, the MHSA draft, in general, was more conservative in managing the pension scheme than that of the KDI.

These two drafts were debated within the governmental arena, and organised interests and policyholders were excluded from the formal policy-making system. Even though public hearings targeting the associations representing employers and employees were held separately, their opinions were not sincerely considered at the time when bureaucracy-led policy-making was prevalent. The first tentative draft of the Administrative Committee was nothing but a mixture of the two drafts of the KDI and the MHSA. Amongst key debating items, the Committee only agreed on excluding the self-employed from the mandatory coverage, largely reflecting the MHSA opinion. But in practice, that issue was not so sharply conflicting at the time. Decisions on other important conflicting issues, such as company size of mandatory coverage, contribution rate, eligibility of old-age pension, and managing organisation, were all passed to the higher level of government conferences (Choi J., 2003: 99-101).

The vice-ministerial conference ordered the Committee to do further researches. After studying foreign cases and holding public hearings, the Committee reported the second tentative draft to the ministerial conference. Unlike the first tentative draft, the second one made a single alternative. In the second draft the clauses relating to the mobilisation of domestic capital and heavy-chemical industrialisation were all eliminated and contribution rate adopted the second alternative of the KDI - both of employers and employees 4 percent respectively. The second tentative draft found out a meeting point on managing organisations. While the MHSA was in charge of general management of the national pension scheme, the matter on collecting contributions was assigned to the National Tax Service (Jun N., 1989: 442).
The government draft was made public on 20 September 1973, based on the second tentative draft. But public opinions were negative to the draft and therefore the government took a complementary measure to a direction of lowering the contribution rate of employees. Employees’ contribution rate was reduced to 3 percent, whereas employers’ burden remained 4 percent, as before. Also, by the president’s special instruction, contribution rate of lower income brackets was additionally reduced to 2 percent, as 1 percent of government subsidy was given to them. Furthermore, monthly income earners under 8,000 Won were excluded from paying insurance premium (MHSA, 1974: 83). Thus, the contribution rate that employers should burden was different by their income levels: 3 percent for the monthly income earners of 15,000 Won and more, 2 percent for the monthly income earners in between 8,000 Won and 15,000 Won, and exemption of contribution for the monthly income earners of 8,000 Won and less (Park S., 2004: 192).

The final government bill, passed the State Council on 11 November 1973, contained the following items: 7 percent of contribution rate, the government’s burden on administrative expenses, 50 percent of income deduction on pension contribution, and qualifying old-age pension to persons reaching 60 with an insured period of 20 years or more (NPS, 1998: 80-81). The National Welfare Pension Fund Management Committee, composed of 7-11 members from the representatives of employers, employees and public interest, would be established under the supervision of MHSA, and MHSA minister would be the Committee chairman. Pension insurance fund would be used not only in economic development but also in social welfare programs (Yang J., 2007: 97).

This government bill was a little bit revised in the parliamentary decision-making process in some items, even though the allegation of opposition parties was largely ignored. The main contents of the National Welfare Pension Insurance Act, which passed the parliament on 1 December, are summarised in Table 3.

Table 3 The main contents of the national Welfare Pension Insurance Act

<table>
<thead>
<tr>
<th>Items</th>
<th>Contents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coverage</td>
<td>All residents in Korea from 18 to less than 60 years of age (except for government employees and military personnel)</td>
</tr>
<tr>
<td>Categories of insured persons</td>
<td>Mandatory affiliation for employers and employees with more than 15,000 Won of monthly income Voluntary affiliation for employees with less than 15,000 Won of monthly income and the self-employed</td>
</tr>
</tbody>
</table>
Types of benefits | Old-age pension, disability pension, survivor pension, and lump-sum refund
---|---
Eligibility of full old-age pension | A person reaching 60 with an insured period of 20 years or more (reduced old-age pension for a person reaching 60 with an insured period from 10 to less than 20 years)
Contribution | 7 percent of standard monthly income for mandatory insured persons (4 percent contribution by employers and 3 percent contribution by employees), a flat rate for voluntary insured persons by their income level
Benefit level | More than 40 percent of final wage level
Managing organisations | Management by MHSA minister, entrusting the National Tax Service with the matter on collecting contributions

Source: adapted from NHS (1998: 89)

Although some fiercely conflicting items like managing organisations were compromised in between the two allegations of the KDI and the MHSA, the general features of policy outputs were closer to MHSA proposal in terms of the category of insured persons and the eligibility of full old-age pension. In the process of collecting public opinions through public hearings and informal discussions, most interested parties were critical to the government’s intention to take advantage of the national pension scheme in raising domestic capital for the pursuit of heavy-chemical industrialisation. Thus they preferred the MHSA draft, which put a higher emphasis on the social welfare function of the national pension scheme. But this did not mean that the MHSA proposal was greatly reflected in policy outputs. The contribution rate, the most important debating issue at the time, was decided in between 5 percent of the MHSA draft and the maximum 10 percent of the KDI draft.

Putting together, the policy output of the first attempt to introduce the national pension scheme was just the mixture of contending allegations and therefore the original intention of the national pension scheme, which targeted to mobilise domestic capital, was transmuted in a larger part. It was of course that this weakened effect of the national pension scheme on mobilising domestic capital became one of the main reasons that the OP finally set aside the decided pension scheme.

5. Distinctive Policy Impacts

The first attempt to establish the national pension scheme was frustrated by Emergency Measure (No.3), declared on 14 January 1974, just 10 days after the promulgation of the
National Welfare Pension Insurance Act, to stabilise the economic life of the general public (Park S., 2004: 193). It is well-known fact that economic secretaries in the OP who controlled economy-related policy at the time played a key role in the process of invalidating the Act (Park J., 1998: 38). Meanwhile, the MHSA and the National Tax Service already reorganised the offices and established Welfare Pension Insurance Bureau and Pension Insurance Collection Bureau respectively, in order to undertake the matters on pension scheme. But these plans should also be cancelled. Thus, the suspension of pension scheme enforcement greatly undermined the people’ confidence in the government.

But nevertheless, the enactment of the Act laid a foundation of re-establishing nationwide pension scheme in the late 1980s. In this respect, even though the implementation of the national pension scheme was failed in the early 1970s, the Act functioned as an establish path that constrained the re-emergent debates on the introduction of the national pension scheme in the late 1980s, as historical institutionalism contends. The main contents of the frustrated National Welfare Pension Insurance Act were greatly reflected in the National Pension Insurance Act, enacted in December 1986.

**DISCUSSIONS AND CONCLUSION**

The National Welfare Pension Insurance Act was enacted on 1 December 1973 and promulgated on 4 January 1974. If the Act had been enforced as scheduled, it might have had a great significance as the first nationwide social insurance program, targeting the general public. But unfortunately, from the second half of 1973, the world economy was greatly deteriorated by the outbreak of the Middle East War and resultant oil shock. The Park government suspended the enforcement of the Act for a year by declaring Emergency Measure (No.3) on 14 January 1974, only 10 days after the promulgation of the Act (Park, J. 1998: 38). The Emergency Measure contained big amount of contents consisted of 35 clauses, including the lowering of income tax and commodity tax, in order to reduce the economic burden on the general public and private companies. Afterwards, MHSA minister made public the extending postponement for another one year, and at last the implementation of the national pension scheme was suspended indefinitely in December 1975, finally frustrating the first attempt to establish the national pension scheme.

The reasons why the national pension scheme was frustrated can be traced from diverse angles, including political, economic and social contexts. The first one is political
interpretation. The then political power structure, dominated by the president and the OP, was absolutely disadvantage to the propulsion of the national pension scheme. The EPB and the MHSA, who played key roles in the policy-making of the national pension scheme, were outside the key policy-making. Power holders in the OP suddenly published Emergency Measure (No.3) and suspended the enforcement of the national pension scheme. Emergency Measure (No.3) contained large and diverse contents and thus not a few times were needed in making the Measure. The core political power in the OP was clandestinely making the detailed contents of Emergency Measure (No.3), at least from the latter half of 1973. Both the EPB and the MHSA were ignorant of the contents of Emergency Measure (No.3), as prior notice was not given to them (Yang J., 2007: 101). In the early 1970s immediately after the inauguration of the new dictatorial government, very small numbers of power elites, including the president and his key staff in the OP, were monopolising political power in the governing bloc. Key decision-making system on important state affairs was much closed and was operated clandestinely. Unlike the 1960s when the EPB played an important role in making important economic policies, key power holders on economic and industrial policies were in the OP staff that had links with the Ministry of Finance and the Ministry of Commerce and Industry. Both the EPB and the MHSA who played pivotal roles in making the national pension scheme were excluded from the key policy-making system at the time. The heavy-chemical industrialisation, which had the first priority of economic and industrial policies in the 1970s, was led not by EPB but by the OP. In particular Chief Secretary to the President Kim Jeong-ryum and Secretary Oh Won-cheol were the two key persons of propelling the heavy-chemical industrialisation (Kim H., 2005: 291-302). Even though the EPB and the KDI provided the president with an idea that the pension insurance fund would be a good source of mobilising domestic capital to promote the heavy-chemical industrialisation, they were excluded from key industrial policy-making systems and could not have an opportunity to continuously persuade the president.

Another political reason for the suspension of the national pension scheme can be traced to the then fierce competition on the supremacy of political system between the two Koreas. Since the July 1972 South-North Joint Communiqué and the world trend of East-West détente, it had become possible, even not fully, for South Korean people to compare the social lives and politics of the two Koreas. In particular, social and health care sectors and
tax systems were critical in legitimating the authoritarian dictatorship. In 1973 North Korea announced the plan to abolish income tax from March 1974 and made propaganda offensive, portraying North Korea as a paradise free from tax burdens (Yang J., 2007: 101). Against this political backdrop, key power holders became negative to the introduction of the national pension scheme, as they thought the general public regarded pension contribution as a practical introduction of a new kind of tax (Yang J., 2007).

From the economic perspective, the practical effect of the national pension scheme on mobilising domestic capital was greatly decreased, compared to the original intention of the KDI draft, as contribution rate was lowered in larger margin and the coverage of mandatory affiliation was greatly reduced in the policy-making process. According to the original KDI draft, the total amount of pension insurance fund was expected to be 46.5 billion Won in the first year of enforcement and 181.6 billion Won in the third year (NPS, 1998: 67). But as is shown in Table 4, the expected amount of insurance fund completely missed the target as contribution rate was lowered. Meanwhile, the Ministry of Finance thought out the introduction of National Investment Fund (NIF) in 1973, by putting dispersed government funds together, as a means of mobilising larger scale of domestic capital. In practical outcomes compared in Table 4, the investment amount of the NCF to the heavy-chemical industry was much greater than the possible amount of pension insurance fund.

Table 4 Comparison of the size of pension insurance fund and National Investment Fund

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<tbody>
<tr>
<td>KDI draft</td>
<td>1,816</td>
<td>2,853</td>
<td>4,072</td>
<td>5,539</td>
<td>7,289</td>
</tr>
<tr>
<td>Final government Draft</td>
<td>273</td>
<td>607</td>
<td>1,018</td>
<td>1,523</td>
<td>2,140</td>
</tr>
<tr>
<td>NIF (Amount of investment to the heavy-chemical industry)</td>
<td>3,458 (1,927)</td>
<td>5,368 (3,405)</td>
<td>8,638 (5,672)</td>
<td>12,284 (8,417)</td>
<td>15,355 (10,417)</td>
</tr>
</tbody>
</table>

Source: adapted from Yang J. (2007: 103)

Differently from the EPB and the KDI, to economic secretaries in the OP, who were largely dispatched from the MOF and the MCI, the national pension scheme was only one possible way of mobilising domestic capital. Accordingly, they discarded the national pension scheme after the stony-hearted analysis of its benefits and costs. To them, the
expected benefits of the national pension scheme in mobilising domestic capital was not so
greater, compared to its possible costs, including political burdens.

In the social perspective, there was no social pressure and outside supports for the
introduction of the national pension scheme in the policy-making process. In Western
countries the existence of strong trade unions was imperative in the development of social
welfare, including pension insurance. But in the early 1970s Korea, trade union power was
very weak under the typical form of the authoritarian state. The Federation of Korean
Trade Unions, a national association of trade unions, functioned as a supporter of
government labour policies and the Korean state corporatist regime harshly suppressed the
opponent activities of trade unions.

In case of the national pension scheme, trade unions were very passive in articulating
their interests. They only participated in public hearings. Furthermore, at that time trade
unions had not professional knowledge and concerns on the matter of pension insurance.
Even when the government cancelled the enforcement of the national pension scheme,
trade unions did not show any response (Park J., 1998: 38). Also, civic groups that played
very pivotal roles from the late 1980s and onwards did not allowed to articulate public
interest in the 1970s.

In the meanwhile, business interest groups were negative to the introduction of the
national pension scheme, as they thought the scheme would be a great financial burden on
companies and increase labour costs. Notwithstanding their negative opinions towards the
national pension scheme, business interest groups, represented by the FKI and the KEF,
could not publicly oppose to government policies in those days. But we can simply
suppose that the developmental state, putting a top priority on economic growth, could not
but have a selective affinity with business interests, and that might be one of important
motivations in suspending the enforcement of the national pension scheme. Moreover,
business interest groups might have personal or informal connections with economy-
related departments and economic secretaries to the president, instead of openly opposing
to government policies.

From the perspective of policy itself, the national pension scheme was unrealistic in many
respects. That is, the feasibility of policy implementation was very low. Above all else, the
success or failure of pension insurance is highly dependent on the stability of commodity
price, as pension benefits are generally interlocked with the level of inflation. But annual inflation rate was around 16 percent in those days, and that would severely intimidate the stable management of pension insurance finance. Also, confronted with economic stagnation from the second half of 1973, the government planned to lower the direct tax, such as income tax and corporation tax, in order to reduce the financial burden of both of employers and employees. The government, instead, intended to strengthen the indirect tax system, by introducing a super tax like value added tax (VAT). At this changing moment of tax policy, it was unrealistic to burden insurance premium on employers and employees, who thought pension contribution as another payment of tax.

The driving force of the national pension scheme was broken up between government departments in the policy-making process. While many important policies were propelled by a sole department or at least by the coalition of government departments with similar policy orientations, the national pension scheme was propelled by the two conflicting departments, the EPB (including the KDI) and the MHSA, with opposite policy orientations - economic growth and economic distribution, respectively. Thus, policy outputs were about halfway between the two conflicting allegations and that greatly damaged the original intention of introducing the pension scheme to mobilise domestic capital for the heavy-chemical industrialisation. Of course, that became one of important reasons for suspending the implementation of the national pension scheme.

Inconsistent political support of the president on policy was also one of key reasons for the non-implementation of the national pension scheme. At first, the president showed great concerns on the KDI idea, which suggested to make the most of pension insurance fund as a means of economic policy, and made public, in January 1973, the government’s intention to introduce the national pension scheme from 1974. However, President Park did not pay a consistent attention to the national pension scheme. Economic secretaries in the OP might have infused the president that the economic effect of the national pension scheme would not be so significant, compared to its possible political burden on the president and the economic burden on policyholders. Thus, the president endorsed Emergency Measure (No.3) to suspend the enforcement of the national pension scheme, only 10 days after the promulgation of the National Welfare Pension Insurance Act.

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