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Efforts & Outcomes of the Welfare State

– Welfare Spending, Redistribution, and Quality of
Society



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【Publications】

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Efforts & Outcomes of the Welfare State:
Welfare Spending, Redistribution, and Quality of Society

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I

Introduction

I

Introduction <<

The welfare state is a form of political community that protects citizens' right to social security, honoring civil rights and solidarity as principal political values. Raising the question of what is at the core of the welfare state, Uusitalo (1984) finds the answer in the welfare efforts and outcomes based on his comparative analysis of such states. Welfare efforts can be measured in terms of the scope and maturity of social security laws and public social spending, while welfare outcomes can be measured in terms of income inequality, the extent of Redistribution, social mobility, and opportunities for education.

This study¹⁾ compares various welfare states along these two dimensions—efforts and outcomes—with a view to finding policy implications for the welfare state in South Korea. To this end, the author compares the trends and current levels of welfare efforts by the member states of the Organization for Economic Cooperation and Development (OECD) in terms of public social spending, and examines the composition of such

1) This study is an updated and revised version of Chapters 7, 8 and 9 of *Designing a Korean Welfare State Model: A Comparison of Welfare Regimes*, published by KIHASA in 2016. See the original study for detailed discussions of the datasets and methods of analysis used.

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spending. This study shows that, contrary to popular belief, the public social spending of these countries continued to rise even after the 1980s, 'Golden Age of welfare state'. Social democratic states continued to increase their public social spending well into the 1990s, and the relative latecomers to the welfare state in southern Europe and East Asia did likewise until 2010 or so. The total amounts that these states have spent on public social services, however, are insufficient sources of information on the changing dynamics and structures of such spending programs. While qualitative studies are needed to examine these changes in detail, an exploration of the changing composition of public social spending could reveal at least an outline of those changes.

Next, this study reviews the distributive outcomes and quality of societies in these welfare states as reflecting the effects of their welfare policies, institutions, tax policies and spending programs. Welfare states levy taxes and distribute tax revenue toward improving the welfare of individuals, households, and society, thereby correcting extreme inequalities that can result from markets left completely free. Inequality among citizens can take the form of extreme material poverty, and also express itself in gross disparities in quality of life and the quality of society as a whole. This study examines the effects of different welfare regimes on reducing poverty and inequality, and applies the OECD's Better Life Index (BLI), a multifaceted in-

strument for measuring the quality of life in a given society, to compare welfare states.

This study adds the Southern European and East Asian types to Gosta Esping-Andersen's initial typology of liberal, conservative, and social democratic welfare states (1990). The social democratic welfare states(Nordic) include Denmark, Finland, Norway, and Sweden; the conservative welfare states (Continental), Austria, Belgium, France, Germany, Luxembourg, the Netherlands, and Switzerland; the liberal welfare states (Anglo-Saxon), Australia, Canada, Ireland, New Zealand, the United Kingdom, and the United States; the Southern European states(Mediterranean Rim), Greece, Italy, Portugal, and Spain; and the East Asian states, South Korea and Japan. In independent discussions on Korea, however, Japan is placed together with the conservative welfare states.

II

Welfare Efforts

1. Levels of Public Social Spending
2. Proportion of In-Kind Benefits in Public Social Spending
3. Composition of Public Social Spending
4. Fuzzy Set Ideal Type Analysis & Re-Categorization

II

Welfare Efforts <<

1. Levels of Public Social Spending

The table and figures below capture the trends in the public social spending of the different welfare regimes since 1980. With the exception of a few, the level of public spending in most welfare states has been on a consistent rise even after the so-called crisis of the welfare state in the 1980s. This is mainly because the elderly populations and unemployment rates—two major factors in increasing public spending—have been growing in these states. The global financial crisis of 2008 also raised the level of public spending for most of them.

〈Table 1〉 Changing Public Social Spending Levels (as Percentage of GDP)
by Welfare Regime

(unit: %)

Welfare Regime	1980~1989	1990~1999	2000~2010
Soc. dem.	23.52	27.56	25.44
Conservative	20.36	22.20	23.49
Liberal	15.69	17.30	17.43
S. European	15.56	19.07	22.22
Korean	-	3.57	6.54
Average	18.59	20.50	21.29

Source: stats.oecd.org (Social Expenditure Statistics, accessed on August 16, 2016).

The levels of public social spending in the social democratic welfare states escalated dramatically in the late 1980s and the

early 1990s,²⁾ before plummeting radically afterward. The abrupt increase and decrease in this spending appear to reflect the confluence of two contrasting factors, i.e., the rising unemployment rate due to the financial crisis and the need for restructuring.³⁾ Since the late 1990s, the spending levels of these countries have fluctuated only a little, mostly remaining more or less static. The social democratic states nonetheless have consistently maintained the highest absolute levels of public social spending.

With the exception of the Netherlands,⁴⁾ the conservative welfare states have been increasing their public social spending levels slowly and steadily.⁵⁾ France, in particular, has recently

2) The levels of public social spending reached a peak almost simultaneously in social democratic states, i.e., 35.1 percent in Sweden in 1993, 32.9 percent in Finland in 1993, 29.3 percent in Denmark in 1994, and 23.8 percent in Norway in 1991 (stats.oecd.org).

3) In the early and mid-1990s, the Nordic states faced the most serious economic crisis since the 1960s. The unemployment rate in Sweden, which had not exceeded the two-percent range since the 1960s, abruptly rose to eight percent in 1993 and even broke through 10 percent in 1996. The economic crisis compelled policymakers to introduce radical restructuring measures, reducing the generosity of the social security system and placing greater emphasis on accountability (Park, 2005, pp. 213–216). The main features of the welfare reforms of 1993 included (1) raising the retirement age and introducing wait periods for sick leaves; (2) reducing the amount of pension benefits, childcare allowances, and family pension benefits, and lowering the income replacement rate of unemployment insurance benefits; and (3) introducing income-proportional or work-contingent social insurances (Kang et al., 2008, p. 191).

4) The Netherlands' public social spending increased steadily until the early 1990s, reaching 26.1 percent in 1993. Subsequent reform of the Dutch social security system, however, caused this level to plummet to 19.8 percent in 2000 (stats.oecd.org).

5) While this study places the Netherlands in the conservative group, the Dutch welfare system is more similar to those of social democratic states in that it

shown an even higher public social spending level than the social democratic states.

Of the four welfare regime types, the liberal welfare states show the least change, and also the lowest level of public social spending on average (17.4 percent). The public social spending levels in the United States, Canada, and Australia tend to approximate one another closely.

The Southern European states have shown the most radical increase in public social spending over these decades, which rose from 15.6 percent in the 1980s to 19.1 percent in the 1990s, and further to 22.2 percent in the 2000s, close to the average of the conservative states. The levels of public social spending varied widely among the Southern European states until 1980 or so,⁶⁾ but have since converged around the same levels.

Korea was the latest to join the ranks of these welfare states in the development of a social security system. As such, it has the lowest levels of public social spending. However, the nation

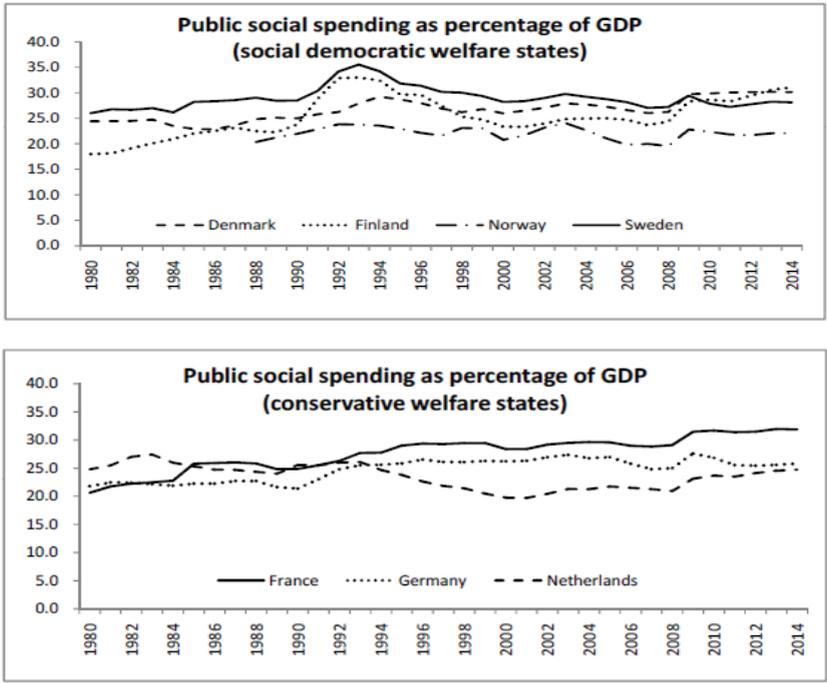
features a well-developed union-centered decision-making structure. Yet, like the liberal states, the Dutch system for workers and families also takes quite a residual approach (Kang et al., 2008, p. 12). The Dutch system is thus often discussed as an example of hybrid welfare regime. The series of labor market and welfare system reforms introduced under the Wessenaar Accord of 1982 also caused the Netherlands' public social spending to drop drastically by the mid-1990s and afterward.

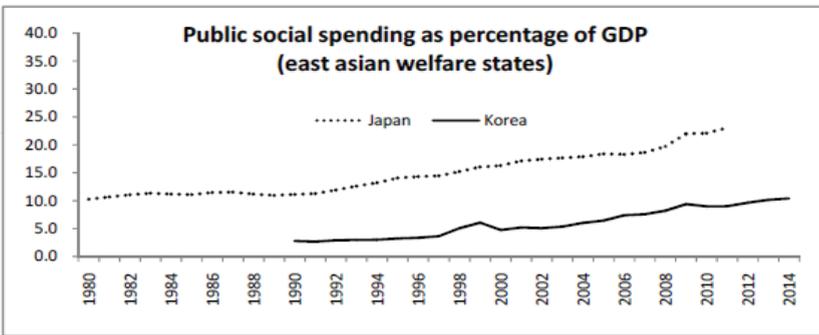
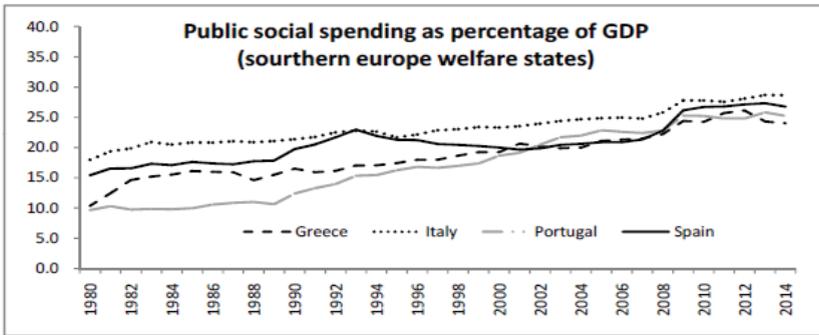
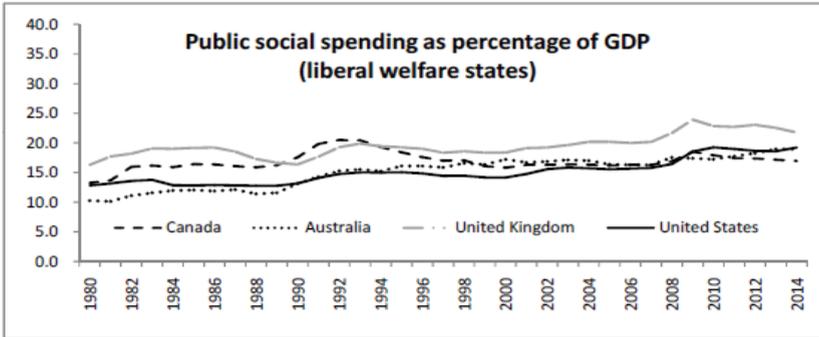
6) Public social spending levels were 9.6 percent in Portugal, 10.3 percent in Greece, 15.4 percent in Spain, and 18.0 percent in 1980, with the gap between highest and lowest amounting to 8.4 percentage points. By 2010, however, these levels had increased to 25.2 percent in Portugal, 24.2 percent in Greece, 26.2 percent in Spain, and 27.8 percent in Italy, with the gap between highest and lowest reduced to 3.6 percentage points (stats.oecd.org).

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is rapidly catching up, with spending levels jumping from 2.8 percent in 1990 (little information on welfare in Korea exists prior to this period) to 9.0 percent in 2010 and further to 10.4 percent in 2014. Japan's public social spending levels, at 10.3 percent, were also among the lowest in 1980 along with Italy and Greece, but had leaped to 22.1 percent by 2010, approximating the averages of the Southern European and conservative states.

[Figure 1] Changing Public Social Spending Levels (as Percentage of GDP) by Welfare Regime





Source: stats.oecd.org (Social Expenditure Statistics, accessed on August 16, 2016).

This comparison shows that the public social spending levels of all types of welfare regime, except the liberal and Korean ones, have been converging with one another in recent years.

Spending by the social democratic states dropped slightly in the early to mid-1990s due to the economic crisis, but has remained more or less the same since then. Conservative states, with the exception of the Netherlands, have seen their spending rise incrementally. Although the Southern European states started off with significantly lower public social spending levels, their welfare systems have been maturing over the last few decades, increasing their spending levels dramatically. The liberal states, in the meantime, have shown the least fluctuation since the 1980s, with the exception of a brief rise. As the latest of these states to develop a welfare system, Korea's absolute public spending is less than half of advanced welfare states, but has been rising rapidly.

2. Proportion of In-Kind Benefits in Public Social Spending

In-kind benefits in public welfare programs consist of social and health services. These in-kind services do not directly contribute to income equality, but are as important as cash benefits as they gradually reduce the "citizenship gap," by allowing for "a general enrichment of the concrete substance of civilised life, the general reduction of risk and insecurity, an equalisation between the more and less fortunate at all levels" (Marshall, 1950). Moreover, by bringing care, traditionally re-

garded as a matter of the feminine and private domain, into the social domain, these services promote the economic participation of women and support the public employment service (PES) programs of active labor market policies (ALMPs), thereby facilitating the rise of a virtuous cycle between economic growth and welfare (Ahn, 2011, and Yo, 2006). This study thus examines the proportions of in-kind benefits in welfare states' public social spending levels in order to identify the constitutions of different welfare regimes.

(Table 2) Public Social Spending Levels & In-Kind Proportions by Welfare Regime

(Unit: %)

Welfare Regime	Public Health Spending Included			Public Health Spending Excluded		
	Public social spending (A)	In-kind spending (B)	Proportion	Public social spending (A)	In-kind spending (B)	Proportion
	% of GDP		B/A*100	% of GDP		B/A*100
1990						
Soc. dem.	24.79	9.41	37.85	19.74	4.36	21.89
Conservative	20.38	6.29	32.02	15.12	1.03	6.93
Liberal	16.42	6.14	38.18	11.53	1.24	11.51
S. European	17.49	4.95	28.43	13.02	0.48	3.62
Korean	2.77	1.59	57.52	1.29	0.12	8.90
Avg.	18.85	6.36	35.12	14.02	1.53	10.24
2011						
Soc. dem.	26.85	12.21	45.69	20.69	6.05	29.48
Conservative	25.30	9.68	38.70	17.90	2.29	13.10
Liberal	19.98	9.43	47.40	12.86	2.30	17.62
S. European	26.21	7.93	30.24	19.55	1.27	6.46
Korean	8.99	5.36	59.61	4.96	1.33	26.83
Avg.	23.63	9.56	41.62	16.80	2.73	16.57

Source: stats.oecd.org (Social Expenditure Statistics, accessed on August 16, 2016).

Note that the proportion of in-kind services in public social spending levels differs significantly depending on whether the spending on public healthcare is included. Also note that, first, the proportions of in-kind services increased on average by a noticeable margin in 2011 compared to 1990. With public health spending included, the proportion of in-kind benefits in total public social spending grew from 35.1 percent in 1990 to 41.6 percent in 2011, or 6.5 percentage points on average. With public health spending excluded, the proportion again grew from 10.2 percent to 16.6 percent, or 6.4 percentage points. This reflects “the growing importance of social services against the backdrop of the changing labor market, demographic structure, and family” (Kim et al., 2007, p. 37). Second, when public health spending is included and Korea is excluded from the comparison, the proportion of in-kind benefits is highest in the liberal states, followed by the social democratic states, conservative states, and Southern European states, in that order. When public health spending is not included, however, the proportion of in-kind benefits is overwhelmingly highest in the social democratic states, followed by the liberal states and the conservative states, in that order. In-kind benefits as a percentage of GDP amounted to 6.1 percent in the social democratic states as of 2011, at least twice or three times that of other welfare regimes. Esping-Andersen (1996) thus argued that “the defining characteristic of the Nordic welfare

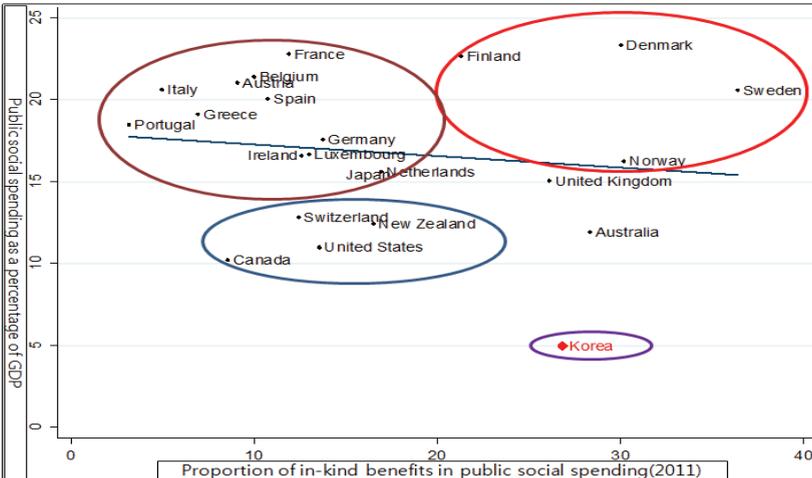
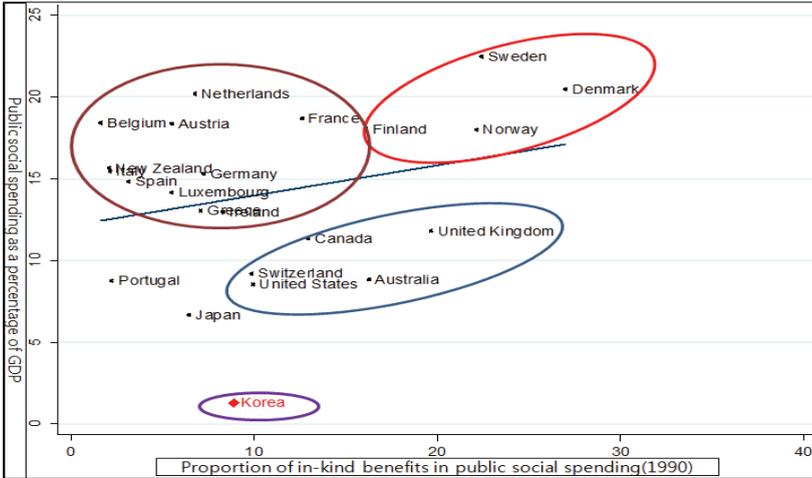
states is not in the income they guarantee, but in the social services they provide” (quoted in Kim et al., 2007, p. 42). Most researchers providing typologies on social service or care regimes (Munday and Ely, 1996; Anttonen and Sipilä, 1999; Bettio and Plantenga, 2004; Rostgaard, 2006) also group Sweden, Norway, and Denmark together into the Scandinavia model (Anttonen and Sipilä), the Nordic model (Bettio and Plantenga), or the family work model (Rostgaard), characterizing them as the archetypes of social service-centered welfare states (Yeo, 2006, pp. 37-45).

Third, contrasting the social democratic regime are the Southern European states, which, on average, spend only 1.3 percent of their GDP or 6.5 percent of their public social spending on in-kind benefits. Social insurances catering to workers on the fragmented labor markets form the core of the welfare systems in these states, where the Catholic tradition and familism still delegate care to the feminine and private domain. Bettio and Plantenga (2004) divide 14 European states into five groups based on their analysis of the services provided for children and seniors. The authors group the Southern European states, such as Italy, Greece, and Spain, together, as those in which care remains primarily a family affair. The authors even characterize the family in these states as serving as a “social clearinghouse,” as the formal systems of care remain underdeveloped, compelling concentrated and diverse forms of

care exchange to take place along the family networks (quoted in Yeo, 2006, p. 41). The contrast between the Southern European (male breadwinner-centered) and Nordic (universal) models of welfare is most prominent in the respective proportions that in-kind benefits make up in the public social spending of these countries.

When public health spending is included, the proportion of in-kind benefits in Korea's public social spending was 57.5 percent in 1990 and 59.6 percent in 2011, the highest among all welfare states compared. This represents the relative "over-development" of the National Health Insurance (NHI) system in Korea. When public health spending is excluded, the proportion of in-kind benefits in Korea's public social spending drops radically to 8.9 percent, as of 1990, placing the country in the lower-middle range of the compared states. By 2011, however, the proportion had risen to 26.8 percent even when public health spending was excluded.

[Figure 2] Proportions of In-Kind Benefits in Public Social Spending (Public Health Spending Excluded, 1990 vs. 2011)



Source: stats.oecd.org (Social Expenditure Statistics, accessed on August 16, 2016).

This is likely because the growing demand for a social service-centered welfare state and investment in social welfare in the mid-2000s turned the interest of academia and policy circles to introducing more in-kind benefits. It was, in fact, in the mid-2000s that the Korean government began to introduce step-by-step additions to childcare support, the Long-Term Care Insurance for Seniors (LTCIS), and other universal social services. As the figures suggest, the welfare state in Korea may have started out with greater similarity to the conservative or Southern European Model, with under-developed care services, but has since become closer to the social democratic or liberal models with in-kind benefits making up a significant portion of public social spending. The public discourse on social democracy and services is gaining increasing political currency in Korea, leading to a growing number of successful policy programs. Nevertheless, it is still too early to conclude in which direction the Korean system will develop in the future, as there are still a number of factors, such as the old-age pension, expansion of the basic pension system, and a rapidly aging population, that will likely raise the proportion of cash benefits in the future.

3. Composition of Public Social Spending

The table and figures below capture the compositions of public social spending by welfare regime type.

First, between 1990 and 2011, the absolute public social spending levels changed significantly, but the compositions thereof remained more or less the same, despite the welfare reforms that took place.

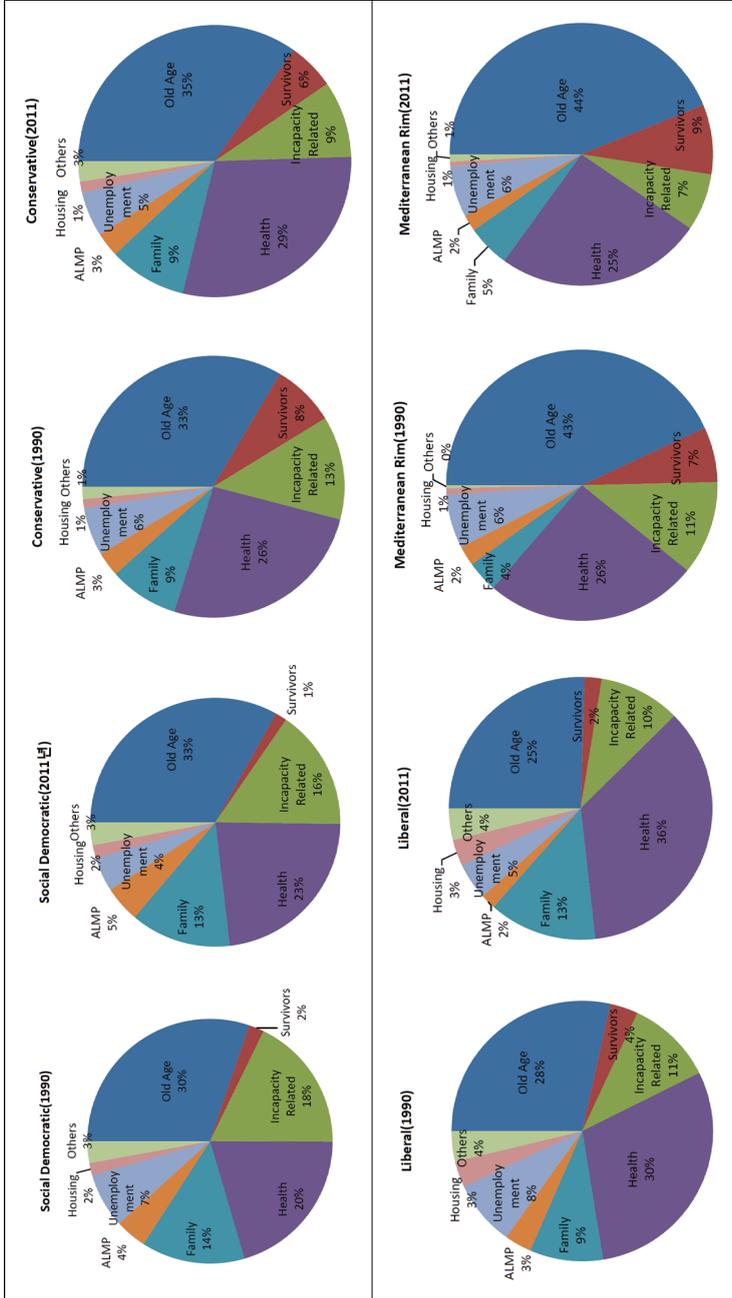
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(Table 3) Composition of Public Social Spending (as Percentage of GDP) by Welfare Regime

	Total	Old Age	Survivors	Incapacity related	Health	Family	ALMPs	Unemployment	Housing	Other
1990										
Soc. dem.	24.79	7.47	0.50	4.42	5.05	3.38	1.02	1.80	0.40	0.71
Conservative	20.38	6.83	1.59	2.61	5.26	1.75	0.62	1.21	0.23	0.31
Liberal	16.42	4.68	0.57	1.76	4.90	1.49	0.55	1.34	0.53	0.62
S. European	17.49	7.54	1.15	1.96	4.47	0.65	0.42	1.12	0.14	0.06
Korean	2.77	0.61	0.20	0.29	1.48	0.03	0.03	.	.	0.17
Avg.	18.85	6.23	1.00	2.49	4.83	1.70	0.61	1.34	0.33	0.41
2011										
Soc. dem.	26.85	8.89	0.40	4.20	6.16	3.50	1.26	1.19	0.46	0.80
Conservative	25.30	8.80	1.41	2.30	7.40	2.33	0.73	1.35	0.34	0.61
Liberal	19.98	5.09	0.42	2.00	7.12	2.65	0.37	0.91	0.64	0.78
S. European	26.21	11.49	2.25	1.85	6.66	1.37	0.54	1.64	0.15	0.24
Korean	8.99	2.10	0.30	0.49	4.03	0.94	0.28	0.29	.	0.60
Avg.	23.63	8.03	1.07	2.40	6.84	2.39	0.68	1.21	0.41	0.62

Source: stats.oecd.org (Social Expenditure Statistics, accessed on August 16, 2016).

[Figure 3] Composition of Public Social Spending (as Percentage of GDP) by Welfare Regime Type

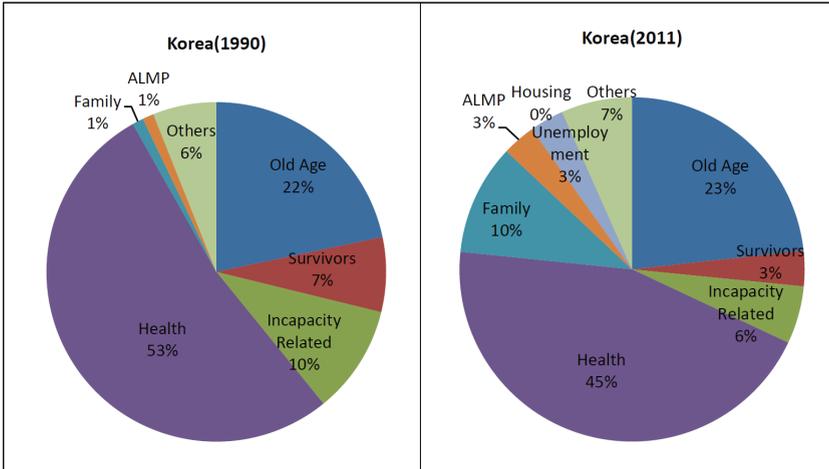


Source: stats.oecd.org (Social Expenditure Statistics, accessed on August 16, 2016).

Second, the social democratic and conservative states show public social spending structures that are relatively evenly developed and well-balanced. The liberal and Southern European states, on the other hand, show a predominant focus on health and elderly services, respectively.

Finally, health spending made up 53 percent of Korea's public social spending in 1990, when the Korean welfare state was still in its incipient stage. This is because the NHI was among the first welfare programs ever to be introduced in Korea, and the National Pension, which became a social insurance program around this time, was relatively less mature than the NHI. By 2011, the proportion of health spending had reduced, but was still larger than in other welfare states. By 2011, the proportion of spending on family services had increased to almost 10 percent, as a result of expanding childcare services and family support programs, such as the earned income tax credit (EITC).

[Figure 4] Compositions of Korea’s Public Social Spending



Source: stats.oecd.org (Social Expenditure Statistics, accessed on August 16, 2016).

4. Fuzzy Set Ideal Type Analysis & Re-Categorization

The fuzzy set ideal type analysis (FSITA) enables the researcher to assess whether welfare states are shrinking, restructuring, or resisting change (Kvist, 2007). The table below captures the results of an FSITA on the 23 welfare states compared,⁷⁾ using variables similar to those used in the clustering analysis—public social spending levels, proportions of in-kind benefits, and proportions of elderly (bereaved), family and health programs in public social spending.⁸⁾

7) Analysis on Korea’s public spending starts in 1990.

8) Some criticize the FSITA for encouraging arbitrariness in the operationalization of variables (Longest and Vaisey, 2008). This study minimizes the risk of such criticism by ranking all variables, and expressing the ranking of each using a

Almost no change is noted during this period in the cases of Sweden and Denmark. Norway and Finland show some change, but retain more or less the same patterns. These social democratic states, in other words, maintain relatively high public social spending levels, great proportions of in-kind benefits, and spend more on family support than elderly services and healthcare.

The liberal states including the United States, and particularly Canada, stand in contrast to the experiences of social democratic states. These states maintain relatively low public social spending levels, but large proportions of spending on in-kind benefits, and also spend more on healthcare than on elderly and family services. The pattern of relatively low public social spending levels coupled with relatively large proportions of in-kind benefits has been increasingly observed in Australia, New Zealand, Switzerland, and Korea as well. During this period, however, the Australian government not only focused on healthcare, but also on family support, which is a tendency shared by the United Kingdom and New Zealand. The liberal states, in other words, can be divided again between the American type that spend relatively little on healthcare and the Oceanian type that spend relatively much on family and healthcare. The recent Korean welfare structure is closer to the Oceanian type than the American one.

zero-to-one parameter to standardize their rankings.

The welfare states of Spain and Italy remained in their formative stage until the end of the 1980s or so with relatively lower public social spending levels and smaller proportions of in-kind benefits. The same pattern persisted in Greece and Portugal well into the 1990s. By 2011, however, all had significantly raised their public social spending levels, while still spending low amounts on in-kind benefits. Spain and Italy tended to maintain relatively high spending on elderly services throughout the period, while Greece and Portugal made changes in this direction as well. As of 2011, the four countries shared quite similar patterns of public social spending.

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〈Table 4〉 FSITA Results, 1985-2011

	A(공적사회지출), B(현물급여비중)			C(노인), D(가족), E(건강)		
	1985년	1995년	2011년	1985년	1995년	2011년
Sweden	AB	AB	AB	cDe	cDe	cDe
Denmark	AB	Ab(AB)	AB	cDe	cDe	cDe
Norway	aB	AB	AB	cDe	cDe	cDe
Finland	Ab	Ab	AB	cDe	cDe	CDe
Canada	aB	aB	aB	cdE	cdE	cdE
United States	aB	aB	aB	CdE	CdE	cdE
Australia	aB	aB	aB	cDE	cDE	cDE
New Zealand	ab	ab	aB	CDe	cDE	cDE
United Kingdom	ab	aB	AB	cDe	cDE	cDE
Korea	aB	aB	aB		CdE	cDE
Greece	ab	ab	Ab	CdE	Cde	Cde
Portugal	ab	ab	Ab	CdE	CdE	Cde
Spain	ab	Ab	Ab	Cde	Cde	Cde
Italy	ab	Ab	Ab	Cde	Cde	Cde
Austria	Ab	Ab	Ab	CDe	CDe	CDe
Belgium	Ab	Ab	Ab	cDe	cde	cDE
France	Ab	AB	Ab	CDe	CDE(CDe)	CDE
Germany	Ab	Ab	AB	CdE	CdE	CdE
Ireland	ab	ab	Ab	cde	cDe	cDe
Luxembourg	ab	ab	Ab	Cde	CDe	cDe
Japan	aB	aB	AB	CdE	CdE	CdE
Netherlands	Ab	Ab	AB	cde	cde	cdE
Switzerland	ab	ab	aB	Cde	Cde	cdE

Note: 1) Uppercase denotes high, lowercase denotes low.

2) A, a: total public social expenditure(TPSE), B,b: proportion of in-kind to TPSE, C,c: proportion of Old age to TPSE, D,d: proportion of Family to TPSE, E,e: proportion of Health to TPSE,

Source: stats.oecd.org (Social Expenditure Statistics, accessed on August 16, 2016).

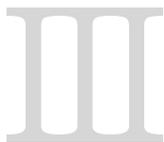
Japan's public social spending structure is distinct from those of the European countries. There are also countries that experienced significant changes within their own public social spending structures during the given period. As of 2011, all the

welfare states compared, except for Switzerland, had relatively high public social spending levels, but the proportions of spending on elderly services, family support, and healthcare varied significantly from regime to regime or even country to country. In recent years, it has become increasingly difficult to group the European countries formerly categorized as “conservative welfare states” into a single homogeneous group.



Welfare State Outcomes

1. Redistribution: Poverty & Inequality
2. Quality of Society: the OECD's Better Life Index
3. Efforts & Outcomes of Welfare States: FSITA
and Re-Categorization



1. Redistribution: Poverty & Inequality

Table 5 compares the before-tax and before-transfer as well as after-tax and after-transfer poverty rates of the total population, the working-age population (15 to 65 years old), and the retirement age population (66 years old and older) by welfare regime type, comparing the poverty-reducing effects of tax and income transfer programs.

As expected, of the welfare regimes compared (except for Korea), the social democratic regime shows the lowest average poverty rate of total population, followed by the conservative states, the liberal states, and the Southern European states, in that order. This order remains the same before and after income transfers and also for poverty-reducing effects. In other words, the social democratic welfare regime is most effective at reducing poverty, followed by the conservative, liberal, and Southern European regimes. The patterns persist more or less with respect to working-age and retirement age populations as well. However, the after-transfer poverty rates of retirement age populations in the Southern European states tend to be slightly lower than those of the liberal states.

Welfare states in general, however, are quite effective in alle-

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viating poverty at all levels, rescuing 50 percent or so of the working-age population from short-term poverty and 80 percent or so of the retirement age population from long-term or perpetual poverty, both measured in terms of market income. Specifically, 72.4 percent and 59.1 percent of the overall populations in the social democratic and Southern European states live above the poverty line, while the conservative and liberal states have reduced poverty rates by 19.9 percent and 18.3 percent, respectively.

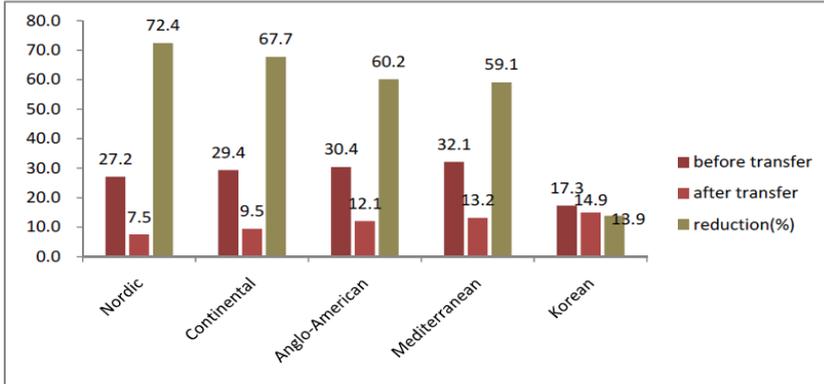
〈Table 5〉 Poverty-Reducing Effects of Welfare Regimes (As of 2010)¹⁾

	Type	Soc. Dem.	Conservative	Liberal	Southern European	Korean	Avg.
Overall population	Before transfer	27.2	29.4	30.4	32.1	17.3	29.2
	After transfer	7.5	9.5	12.1	13.2	14.9	10.7
	Margin of reduction (%p)	19.7	19.9	18.3	19.0	2.4	18.5
	Reduction effect (%)	72.4	67.7	60.2	59.1	13.9	63.4
Working-age population (15 to 65)	Before transfer	19.4	19.8	23.7	23.0	12.8	21.0
	After transfer	8.1	8.5	11.4	12.1	11.3	9.9
	Margin of reduction (%p)	11.3	11.3	12.3	10.9	1.5	11.1
	Reduction effect (%)	58.4	57.1	52.0	47.4	11.7	52.8
Retirement age population (66+)	Before transfer	74.4	75.1	62.9	77.3	58.4	71.4
	After transfer	8.3	10.6	13.8	12.1	47.2	12.9
	Margin of reduction (%p)	66.1	64.6	49.1	65.2	11.2	58.6
	Reduction effect (%)	88.8	86.0	78.1	84.4	19.2	82.0

Note: 1) As of 2009 for Japan and 2011 for New Zealand and Switzerland.

Source: stats.oecd.org (Social Expenditure Statistics, retrieved on July 27, 2016).

[Figure 5] Poverty-Reducing Effects of Welfare Regimes (As of 2010)



Note: 1) As of 2009 for Japan and 2011 for New Zealand and Switzerland.
 Source: stats.oecd.org (Social Expenditure Statistics, retrieved on July 27, 2016).

Considering these tendencies in welfare states, Korea is a notable exception. Although Korea’s before-tax and before-transfer (market income) poverty rate is lower than those of even the social democratic welfare states, the welfare regime in Korea exerts little influence on rescuing people from poverty, keeping Korea’s after-transfer (disposable income) poverty rate quite high in comparison to the average rates of all four welfare regimes. In particular, Korea’s elderly poverty rate is an astounding 47.2 percent, almost three times the average of all other welfare states (12.9 percent). What are the reasons?

First, the unemployment rate in Korea has remained persistently lower than those of other OECD member states, except during the Asian Financial Crisis, so the percentage of households that have lost their market income due to unemployment has also been kept smaller. The long-term unemployment rate

in Korea is a meager 0.5 percent (OECD 2016, Figure 1.4).⁹⁾ One reason Korea's unemployment rate has remained so low for so long is that the country's economy has been growing rapidly for the last several decades, except during the Asian Financial Crisis in the late 1990s. Other factors can be found in the strong work ethic and the little in welfare cash benefits available for working-age households. The confluence of these factors sustains the a priori and tacit consensus among Koreans to stay as long as possible in the labor market. Now characterized as a "workaholic society," a "fatigued society," and a "cliff society," Korea is experiencing the repercussions of this obsession with work and the fierce competition among individuals and groups it engenders. Working-age households remain strongly and desperately attached to the labor market, which is the major reason their before-transfer (market income) poverty rate remains so low. Individuals and households that are forced out of the labor market or maintain precarious employment status with low wages face far steeper risks of becoming poor in the lack of income support from the Korean welfare regime.

Second, the lower the wage levels of male household heads, the more likely it is for their spouses to work in Korea. Women's economic participation rate among low-income

9) The number of long-term unemployed has reached 33.5 percent of all unemployed across the OECD.

households earning less than 50 percent of the median income has reached 80.7 percent, significantly higher than the 52.0 percent of women in households earning 150 percent or more of the median income and the 64.4 percent of women in households earning the median income (Yeo et al., 2013, pp. 176-177). While the overall female employment rate in Korea remains below the OECD average,¹⁰⁾ the employment rate of women from low-income households remains staggeringly high, helping to keep Korea's market income poverty rate relatively low.

Finally, the Korean public system for old-age income security remains in an underdeveloped stage, leaving it out of reach for many retirees. Accordingly, Koreans largely resort to private income transfers and post-retirement work for their old-age income. According to Kim (2011, Table 1), who analyzed the raw data of the Luxembourg Income Study (LIS) for the structure of old-age income, private transfers made up 32.7 percent of old-age income in Korea on average as of 2006, far higher than the 0.2 percent of the Anglo-American world, 0.1 percent of Northern Europe, and 1.0 percent of continental Europe. Earned wages and business income made up another 31.0 percent of old-age income in Korea, a proportion far greater than any of the compared countries. In contrast, public income

10) As of 2013, the female employment rate in Korea was 53.9 percent, 3.6 percentage points below the OECD average of 57.5 percent (e-Country Index, index.go.kr, accessed on October 30, 2016).

transfers made up only 24.8 percent of Koreans' ordinary old-age income, significantly less than the 51.7 percent of the Anglo-American world, 71.6 percent of Northern Europe, and 86.1 percent of continental Europe. Korean retirees' high dependency on private income transfers and earned income is what keeps the before-transfer poverty rate relatively lower at 5.84 percent, but the low level of public income transfers keeps the after-transfer poverty rate alarmingly high at 47.2 percent.

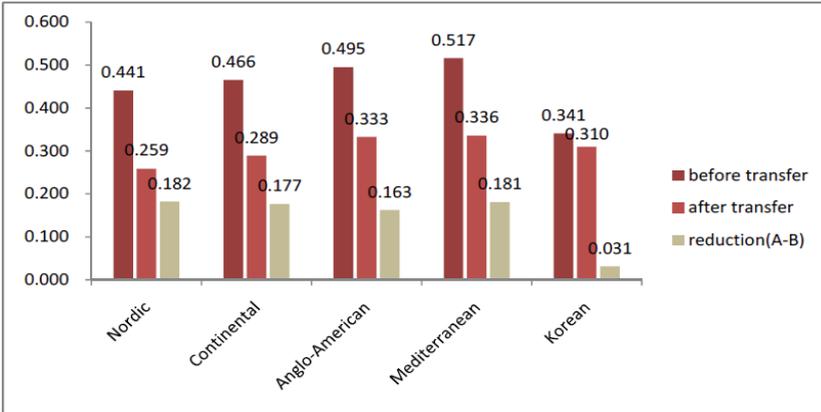
〈Table 6〉 Inequality-Reducing Effects of Welfare Regimes on Demographic Groups (As of 2010)¹⁾

	Type	Soc. Dem.	Conservative	Liberal	Mediterranean	Korean
Overall population	Market income (A)	0.441	0.466	0.495	0.517	0.341
	Disposable income (B)	0.259	0.289	0.333	0.336	0.310
	Reduction effect (A - B)	0.182	0.177	0.163	0.181	0.031
	Reduction effect (%)	41.3	37.9	32.8	35.0	9.1
Working-age population (15 to 65)	Market income (A)	0.393	0.405	0.452	0.459	0.321
	Disposable income (B)	0.261	0.287	0.330	0.334	0.297
	Reduction effect (A - B)	0.132	0.118	0.122	0.125	0.024
	Reduction effect (%)	33.6	29.1	27.1	27.1	7.5
retirement age population (66+)	Market income (A)	0.674	0.737	0.687	0.817	0.509
	Disposable income (B)	0.231	0.275	0.314	0.312	0.411
	Reduction effect (A - B)	0.443	0.462	0.373	0.505	0.098
	Reduction effect (%)	65.7	62.7	54.3	61.8	19.3

Note: 1) As of 2009 for Japan and 2011 for New Zealand and Switzerland.

Source: stats.oecd.org (Social Expenditure Statistics, retrieved on July 27, 2016).

[Figure 6] Inequality-Reducing Effects of Welfare Regimes on Overall Population (As of 2010)



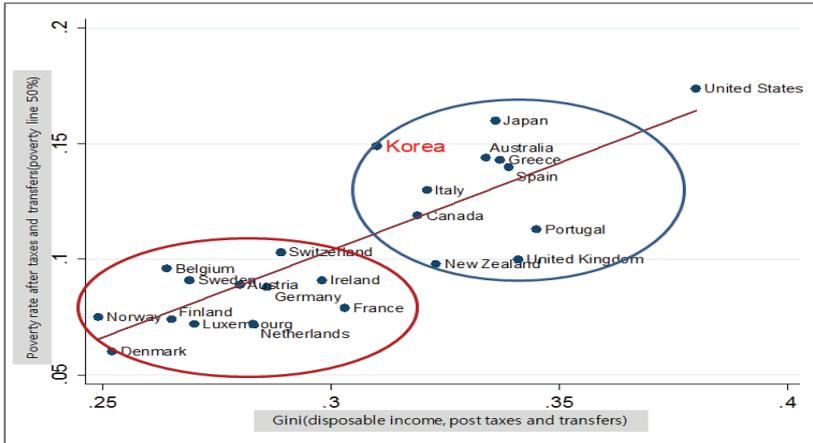
Note: 1) As of 2009 for Japan and 2011 for New Zealand and Switzerland.
 Source: stats.oecd.org (Social Expenditure Statistics, retrieved on July 27, 2016).

The market income inequality rate of the overall population in Korea remains significantly lower than those of other welfare states. Yet Korea is located between the conservative and liberal states in terms of the final (disposable income) inequality rate. Table 6, which shows the effect of each welfare regime on reducing the Gini coefficients, shows the social democratic states to be the most effective at reducing inequality. These states show the lowest market- and disposable-income inequality rates (0.441 and 0.259, respectively), and the greatest inequality-reducing effect (41.3 percent). The disposable-income inequality rate is lowest in the social democratic states, followed by the conservative states, the liberal states and the Southern European states, in that order. The same applies to

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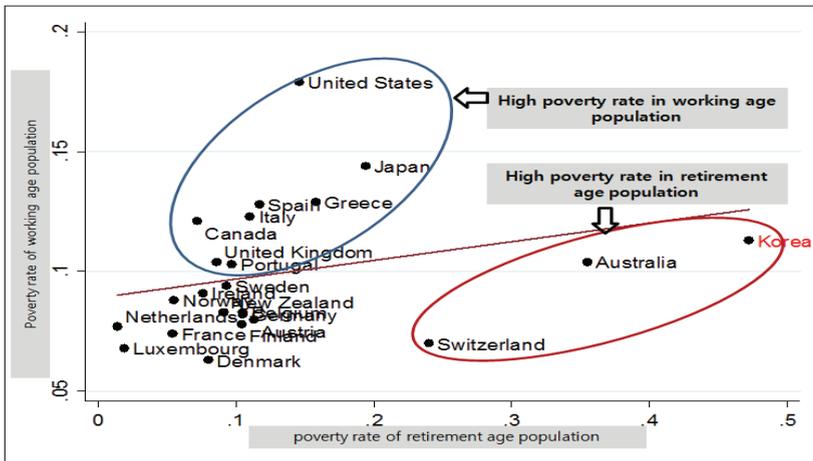
the inequality rates in working-age populations.

[Figure 7] Poverty & Inequality Rates: Disposable Income(As of 2010)



Note: 1) As of 2009 for Japan and 2011 for New Zealand and Switzerland.
 Source: stats.oecd.org (Social Expenditure Statistics, retrieved on July 27, 2016).

[Figure 8] Poverty Rates: Working-Age & Retirement-Age Populations(As of 2010)



Note: 1) As of 2009 for Japan and 2011 for New Zealand and Switzerland.
 Source: stats.oecd.org (Social Expenditure Statistics, retrieved on July 27, 2016).

The income distribution patterns analyzed so far do not exactly affirm Esping-Andersen's categorization of welfare states. As Figures 7 and 8 show, we can divide the welfare states—except for the United States—into two groups according to the indicators of disposable income distribution. Whereas the Nordic and continental European states maintain significantly low poverty and inequality rates, both the Anglo-American and Southern European states show higher rates. The United States shows the highest poverty and inequality rates. Among the states with higher poverty and inequality rates, the United States, Japan, Canada, and Southern European countries show higher working poverty rates, while Australia¹¹⁾ and Korea show higher elderly poverty rates. All other countries are concentrated in regions with low poverty rates for working-age and retirement age populations.

2. Quality of Society: the OECD's Better Life Index

With the realization that GDP growth cannot and should not

11) The particularity of the Australian public old-age income security system is the main source of the high elderly poverty rate when calculated at 50 percent of median income level in Australia. The Australian government provides Age Pension benefits, a semi-universal public assistance system, for 70 percent or so of seniors, but the pension amounts do not reach 50 percent of median income. If we use 40 percent of the median income as the poverty line, Australia's elderly poverty rate drops radically to 8.0 percent (as of 2010), significantly lower than Korea's 30.5 percent (as of 2006) (LIS Key Figures, www.lisdatacenter.org, accessed on October 30, 2016).

be the sole purpose of economic development, researchers worldwide are increasingly attempting to assess welfare states not only in terms of their redistribution effects, but also in terms of the quality of society they support on the macro-level. Examples include Stiglitz et al. (2009) that sought to develop diverse indicators of material wellbeing, the OECD's Society at a Glance: Social Indicators, and the OECD's Better Life Index (BLI).¹²⁾

This section examines and measures, using the BLI, to what effect the diverse welfare states have employed their policy programs.¹³⁾

Table 7 captures the correlations between each welfare state's total BLI score (representing overall quality of the given society), life satisfaction score, and lower-level indicators. The

12) The concept, "quality of society," is more commonly used in studies on social exclusion and cohesion. It is widely understood as referring to "the extent to which citizens can participate in the social and economic life of their community, under conditions that could improve their welfare and personal potentials" (Beck et al., 1997, p. 3; quoted in Jeong, 2013, p. 238).

13) The BLI consists of 11 dimensions (housing, income, work, community, education, the environment, civic participation, health, satisfaction with life, safety, and work-life balance). This study combines two of these dimensions, i.e., civic participation and community, together and assesses the quality of society in each welfare state using 10 dimensions. Each dimension includes one to four lower-level indicators that use diverse units and measures. This study standardizes the units of lower-level indicators using a zero-to-one parameter and combines them together to find standardized scores. As a result, the country that scores the lowest across the 10 dimensions is given the final score of zero, and the country that scores the highest across the 10 dimensions is given the final score of 10. The total BLI scores represent the simple sums of the score that each country is given on each dimension.

total BLI score and life satisfaction score show a strong correlation (0.926) and are almost identical. The greater the quality of a given society, the greater the individual citizens' satisfaction with their lives.

<Table 7> Total BLI Scores, Life Satisfaction Scores & Lower-Level Indicators

Variables	Definitions	Correlations with	
		Quality of Society (total BLI Score)	Life Satisfaction Score
		1.000	
Life satisfaction	Life Satisfaction	0.926	1.000
Jobs	Personal earnings	0.762	0.753
Jobs	Employment rate	0.756	0.691
Environment	Water quality	0.751	0.713
Housing	Rooms per person	0.654	0.587
Jobs	Long-term unemployment rate	-0.636	-0.579
Income	Household net adjusted disposable income	0.610	0.557
Health	Self-reported health	0.603	0.674
Community	Quality of support networks	0.574	0.638
Jobs	Job security	-0.567	-0.532
Safety	Assault rate	0.549	0.610
Education	Educational attainment	0.543	0.563
Environment	Air pollution	-0.425	-0.411
Housing	Dwellings without basic facilities	-0.374	-0.448
Civic participation	Consultation on rule-making	0.365	0.362
Work-life balance	Employees working very long hours	-0.354	-0.430
Civic participation	Voter turnout	0.305	0.325
Income	Household net financial wealth	0.280	0.264
Education	Student skills	0.230	0.358
Education	Years in education	0.211	0.195
Housing	Housing expenditure	-0.199	-0.049
Work-life balance	Time devoted to leisure and personal care	0.106	0.170
Health	Life expectancy	-0.039	-0.163
Safety	Homicide rate	0.009	0.039

Source: stats.oecd.org (Social Expenditure Statistics, retrieved on August 10, 2016).

The table below lists the total BLI scores (sums of the scores for the 10 dimensions) and the subjective life satisfaction scores¹⁴⁾ by country and welfare regime type.

In general, the social democratic states show a high average total BLI score (6.12) and life satisfaction score (7.5), followed by the liberal states (5.20 and 7.1, respectively), the conservative states (4.90 and 7.0, respectively), the East Asian states (2.87 and 5.9, respectively), and the Southern European states (2.00 and 5.7, respectively). The quality of society within each regime type, however, varies significantly from country to country. Norway's total BLI score, for example, is 7.14, significantly higher than Finland's 5.11. The total BLI scores of the conservative states also range widely, from Switzerland's 6.89 to France's 3.48. Also within the liberal group, the scores vary widely from Canada's 6.72 to the United Kingdom's 3.39. The total BLI scores remain generally low in Southern Europe, from Italy's 1.78 to Portugal's 1.52 and to Greece's 1.27, except for Spain, whose score was 3.44. With Japan and Korea scoring 3.16 and 2.57, respectively, no significant difference was observed.

14) While satisfaction with life is one of the BLI dimensions, it merits independent treatment in that it represents citizens' subjective feelings in this realm, while all other dimensions measure an objective quality of life.

(Table 8) Quality of Society & Life Satisfaction Scores by Welfare Regime Type

Type	Country	Quality of Society (total BLI score)	Satisfaction with Life
Soc. dem.	Norway	7.14	7.6
	Sweden	6.47	7.3
	Denmark	5.77	7.5
	Finland	5.11	7.4
	Average	6.12	7.5
Conservative	Switzerland	6.89	7.6
	Netherlands	5.63	7.3
	Luxembourg	5.51	6.7
	Germany	4.81	7.0
	Belgium	4.31	6.9
	Austria	3.70	7.1
	France	3.48	6.4
Average	4.90	7.0	
Liberal	Canada	6.72	7.4
	Australia	6.40	7.3
	New Zealand	5.81	7.4
	United States	4.62	6.9
	Ireland	4.26	6.8
	United Kingdom	3.39	6.5
Average	5.20	7.1	
S. European	Spain	3.44	6.4
	Italy	1.78	5.8
	Portugal	1.52	5.1
	Greece	1.27	5.6
	Average	2.00	5.7
East Asian	Japan	3.16	5.9
	Korea	2.57	5.8
	Average	2.87	5.9

Source: stats.oecd.org (Social Expenditure Statistics, retrieved on August 10, 2016).

Aside from the common typology of welfare states, the total BLI score is highest in Norway, followed by Switzerland, Canada, Sweden, Australia, and Finland, in that order. The

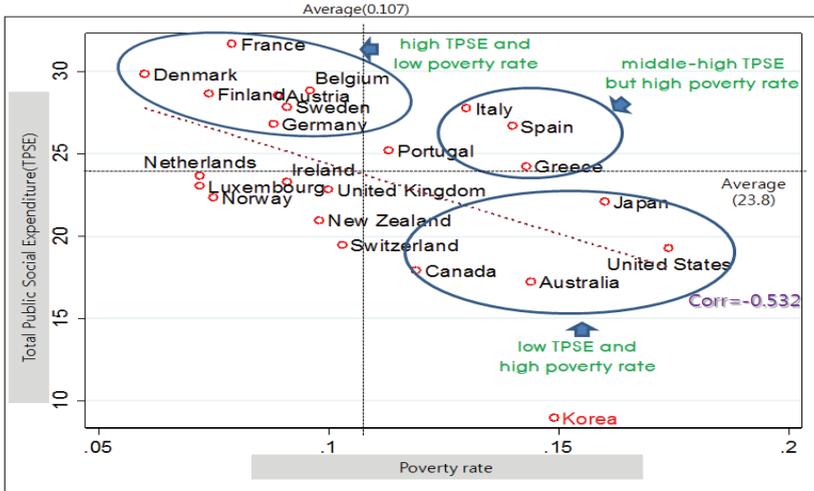
scores of Italy, Portugal and Greece are quite low, and also stand in descending order. With respect to life satisfaction scores, the Nordic countries are again ranked near the top, while the Southern European countries are again ranked near the bottom. The social democratic states in general tend to show high BLI and life satisfaction scores, while the Southern European states in general tend to show low BLI and life satisfaction scores. Yet the rankings of these countries by BLI and life satisfaction scores and the extent of their welfare regimes are not always consistent.

3. Efforts & Outcomes of Welfare States: FSITA and Re-Categorization

Now, let us review the findings on public social spending levels, poverty-reducing effects, and the quality of society of welfare states and consider whether they can be re-categorized.

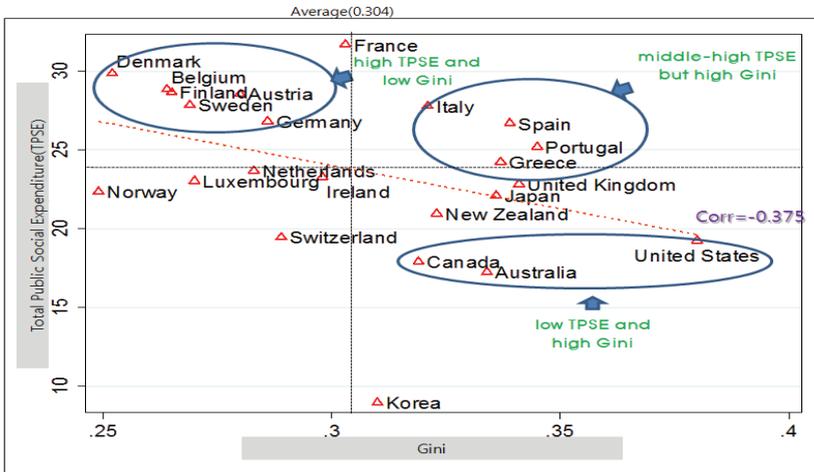
Figure 9 illustrates the correlation between public social spending levels and poverty rates in welfare states in 2010. Not surprisingly, there is a strong correlation between the two (-0.53). In the second quadrant are the Nordic and continental European states (Denmark, Finland, Sweden, France, Germany, and Belgium), which typically have high public social spending levels and low poverty rates.

[Figure 9] Correlation between Public Social Spending Levels & Poverty Rates, 2010



Source: stats.oecd.org (Social Expenditure Statistics, retrieved on August 10, 2016).

[Figure 10] Correlation between Public Social Spending Levels & Inequality Rates, 2010



Source: stats.oecd.org (Social Expenditure Statistics, retrieved on August 10, 2016).

The liberal states, including the United States, Australia, and Canada, and Japan and Korea show relatively below-average public social spending levels and above-average poverty rates. Italy, Spain, Greece, and Portugal, on the other hand, show both above-average public social spending levels and above-average poverty rates, suggesting inefficiencies in their welfare systems. The rest of the welfare states are located in the third quadrant, with below-average public social spending levels and below-average poverty rates.

Similar patterns are observed in the correlation between public social spending levels and inequality rates (Gini coefficients). There exists a strong negative correlation between the two, with Denmark, Finland, Sweden, Belgium, and Germany again showing high public social spending levels and high equality rates. Contrasting these European countries are the liberal states of the United States, Canada, and Australia, which show low public social spending levels and low equality rates. Italy, Spain, Portugal, and Greece again show relatively high inequality rates despite their relatively high public social spending levels. Norway is an exceptional case that shows a high equality rate despite its relatively low public social spending level.

The next two figures illustrate the correlation between public social spending levels and total BLI scores. The fact that the examined welfare states are evenly distributed across all four quadrants suggests that there is little correlation between the

two.¹⁵⁾ Their positions on the quadrants indicate that Norway, Switzerland, Canada, Australia, and New Zealand are countries with high quality of society scores notwithstanding their relatively low public social spending levels. Their opposites, i.e., Portugal, Greece, and Italy, show the lowest quality of society scores despite their public social spending levels being above the OECD average. Sweden, Denmark, Finland, and the Netherlands show high public social spending levels and high quality of society scores. Korea shows a significantly low public social spending level and a low quality of society score, but its quality of society score hovers above those of the Southern European states except Spain.

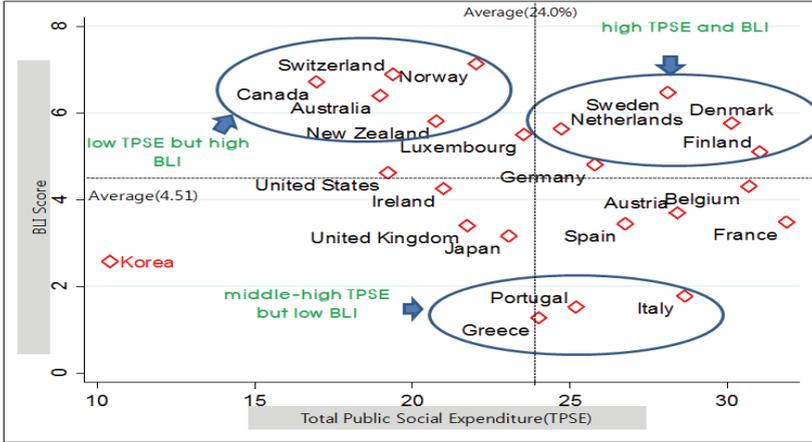
There is a strong negative correlation between the quality of society and inequality (0.488).¹⁶⁾ The more egalitarian a society, the greater its quality, or vice versa. Norway, Sweden, Denmark, Switzerland, the Netherlands, Luxembourg, and Finland are highly egalitarian societies with high quality of society scores. Italy, Portugal, and Greece, on the other hand, are inegalitarian societies with low quality of society scores. Canada, Australia, and New Zealand, however, show relatively high levels of inequality and also high quality of society scores. Korea shows an inequality rate slightly above the average, and a below-average quality of society score.

15) The simple correlation between them was -0.1318.

16) The lower-level indicators of the BLI scores do not include poverty and inequality rates.

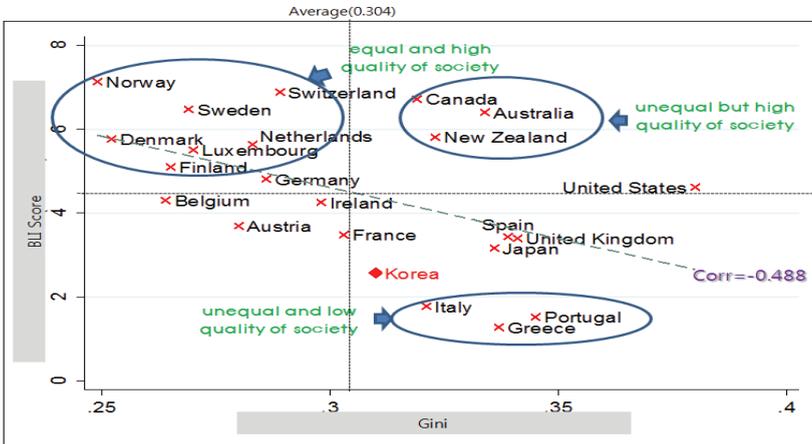
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[Figure 11] Correlation between Public Social Spending Levels (2014) & BLI Scores (2016)



Source: stats.oecd.org (Social Expenditure Statistics, retrieved on August 10, 2016).

[Figure 12] Correlation between Inequality Rates (2010) & BLI Scores (2016)



Source: stats.oecd.org (Social Expenditure Statistics, retrieved on August 16, 2016).

The results of the FSITA on the public social spending levels, BLI scores, poverty rates, and Gini coefficients of the compared countries are listed in Table 8-8. The social democratic states and some of the conservative states (the Netherlands and Germany) have successfully improved the quality of their societies and the egalitarianism of their redistribution with high public social spending levels. Exceptionally, Norway and Luxembourg have achieved the desired outcomes—high quality of society and egalitarianism in redistribution—withstanding their relatively low public social spending levels.¹⁷⁾ The Southern European states stand in stark contrast to this, showing lower quality of society scores and income inequality despite their relatively high spending levels. The liberal welfare states, except Ireland, can be divided into two subgroups. Both subgroups show relatively low public social spending levels and relatively high poverty and inequality rates. One subgroup (Australia, New Zealand, and Canada), however, shows relatively high BLI scores, while the other (the United Kingdom and the United States) shows low BLI scores. Korea and Japan, like the United Kingdom and the United States, show low public social spending levels, low BLI scores, and low equality.

17) For two different reasons—the oil reserves in the North Sea for Norway and the concentration of international organizations for Luxembourg—the two countries maintain very high GNI per capita, which enable them to afford relatively low public social spending levels.

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〈Table 9〉 FSITA on Public Social Spending Levels, Quality of Society & Distribution

Type	Country	Combination	Characteristics
Soc. dem.	Denmark	ABcd	high spending*high QoS*low poverty*low inequality
	Finland	ABcd	high spending*high QoS*low poverty*low inequality
	Norway	aBcd	low spending*high QoS*low poverty*low inequality
	Sweden	ABcd	high spending*high QoS*low poverty*low inequality
Conser vative	Netherlands	ABcd	high spending*high QoS*low poverty*low inequality
	Germany	ABcd	high spending*high QoS*low poverty*low inequality
	Austria	Abcd	high spending*low QoS*low poverty*low inequality
	Belgium	Abcd	high spending*low QoS*low poverty*low inequality
	France	- ¹⁾	high spending*low QoS*low poverty*low inequality
	Luxembourg	aBcd	low spending*high QoS*low poverty*low inequality
	Switzerland	aBCd	low spending*high QoS*high poverty*low inequality
Liberal	Ireland	abcd	low spending*low QoS*low poverty*low inequality
	Australia	aBCD	low spending*high QoS*high poverty*high inequality
	Canada	aBCD	low spending*high QoS*high poverty*high inequality
	New Zealand	- ¹⁾	low spending*high QoS*high poverty*high inequality
	United Kingdom	abCD	low spending*low QoS*high poverty*high inequality
	United States	- ¹⁾	low spending*low QoS*high poverty*high inequality
E. Asian	Japan	abCD	low spending*low QoS*high poverty*high inequality
	Korea	abCD	low spending*low QoS*high poverty*high inequality
S. European	Greece	- ¹⁾	high spending*low QoS*high poverty*high inequality
	Italy	AbCD	high spending*low QoS*high poverty*high inequality
	Portugal	AbCD	high spending*low QoS*high poverty*high inequality
	Spain	AbCD	high spending*low QoS*high poverty*high inequality

Note: 1) Countries whose characteristics combinations are the author's own based on their scores.

IV

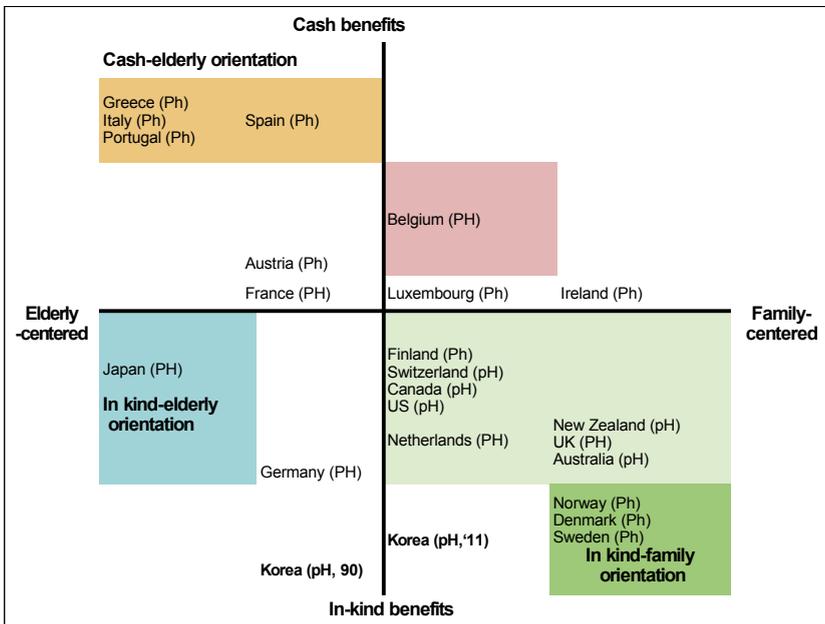
Conclusion:
Current Status of the
Korean Welfare State

IV

Conclusion: << Current Status of the Korean Welfare State

Welfare states employ and combine diverse policy measures and instruments in an effort to enhance the financial security of various age groups, fight and reduce poverty, and support the human dignity of their citizens. The existing structure of power and political dynamics in these states lead them to adopt and prioritize different policy programs and combinations.

[Figure 13] Coordinates of Social Spending (2011)



Note: (PH) = high overall public spending, high healthcare spending; (Ph) = high overall public spending, low healthcare spending; (pH) = low overall public spending, high healthcare spending; (ph) = low overall public spending, low healthcare spending.

As the figure above shows, the most striking contrast is found between the Nordic states (Norway, Denmark, and Sweden) that emphasize in-kind benefits and family-centered programs, on the one hand, and the Southern European states (Greece, Italy, Portugal, and Spain) that focus on cash benefits and elderly programs. Both these types spend 25 percent or so of their GDP on public social programs and relatively little of their GDP on public healthcare. Yet the Nordic states feature greater proportions of family support and universal social services, while the Southern European states show greater proportions of public pension programs. The Commonwealth states such as the United Kingdom, New Zealand, and Australia, also show relatively well-developed social services and family support programs, like the Nordic states, but maintain relatively lower overall public social spending levels and relatively higher healthcare spending levels. The Nordic states provide universal benefits, such as childcare allowances, while the Anglo-American states tend to focus on providing residual public assistance. The continental European states remain well-balanced around the center. Japan places emphasis on elderly care, but distinctly maintains a high healthcare spending level and a relatively greater proportion of in-kind benefits.

Korea maintains a generally low public social spending level, with a relatively high healthcare spending level. In the 1990s, the country showed greater focus on elderly care and cash ben-

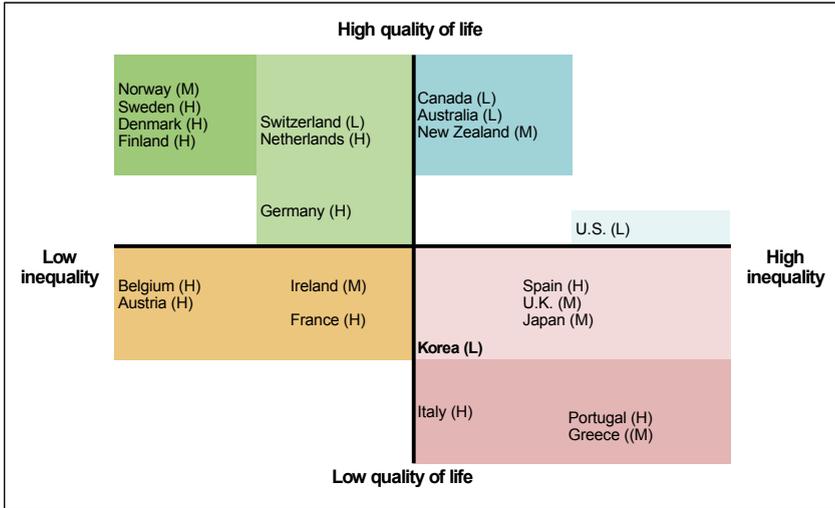
efits than the OECD average. By 2011, however, the focus had shifted closer to family support and in-kind benefits. This is because public spending on childcare and social services has been rising steeply in Korea even while its public pension system remains in a formative stage. Nevertheless, Korea's overall public social spending level barely exceeds 10 percent of the country's GDP and is less than half of the OECD average. In the meantime, the rapid aging of its population and the alarmingly high elderly poverty rate continues to exert pressure on Korean policymakers to strengthen the public old-age income security programs, including public and basic pension programs. The demand for pension programs, in turn, could again move Korea closer to elderly care and cash benefits. Nevertheless, the very low birth rate, the high unemployment rate among young people, and the growing insecurity of employment for all ages are also raising the demand for greater government investment in children, family, work-family balance policies, and employment security measures, while the demand for social services, such as the LTCIS, will continue to increase in the future. The demand coming in from this opposite direction could thus either keep Korea in the current position or move it even closer to family support and in-kind benefits. In which direction will ultimately depend on which social risk(s) emerge as more serious.

Next, it is time to examine the different social, economic,

and demographic effects that different welfare regimes have, using the well-known indicators of redistribution and quality of society. As Figure 14 shows, the social democratic welfare states, such as Sweden, Norway, Denmark, and Finland, generally have low levels of inequality and high quality of society. These states return significant portions of their economic growth to enhancing the welfare and quality of life for citizens, thereby improving the overall quality of their human capital, which, in turn, sustains and strengthens economic development. This is the virtuous cycle of economic growth and welfare.

A clear contrast to the Nordic pattern is found in the Southern European welfare states. While these welfare states spend almost 25 percent of their GDP on public social programs, their massive social investment has failed to achieve successful redistribution or improve the quality of life for citizens. These states, as a result, show high levels of inequality and low quality of society. The dual structure of labor markets, the internal labor market-oriented social welfare systems, the relatively low rates of employment among women, and severe elderly poverty despite high spending on elderly service programs are characteristic of these states. Economic integration under the European Union experiment has also embroiled these states in an ongoing economic crisis, which keeps their economic growth rates low and youth unemployment rates high.

[Figure 14] Coordinates of Inequality & Quality of Society



Note: (H) = spending 25% and upwards of GDP on public social programs; (M) = spending 20 to 25% of GDP on public social programs; (L) = spending 20 percent or below of GDP on public social programs.

Some of the Anglo-American liberal welfare states, such as Canada, New Zealand, and Australia, show low-to-medium public social spending levels, high quality of society, and inequality levels slightly above the average. These states form the New World, colonized and pioneered by immigrants from the Old World. Unlike the United States, however, these states had only weak or no slavery systems, and have been able to implement relatively egalitarian ALMPs based on their abundant natural resources and solidarity (primarily of the white race). Australia and New Zealand, in particular, are also nicknamed “wage earner welfare states,” as they stood at the forefront of the minimum wage movement worldwide, and provide

semi-universal old-age pension programs that are mixtures of public assistance and demogrants. Other countries, such as Korea, may envy these states, but their success in large part owes to the abundance of natural resources, freedom from the Old World's rigid class system, and strong racial solidarity—natural, historic, and cultural conditions that are almost non-existent in other countries.

Korea boasts almost the lowest market income poverty rate and inequality level. Yet it is an exceptional case whose disposable income poverty rate and final inequality level remain quite high due to the failure of its welfare system to redistribute market income. Korea also ranks low on quality of society indicators except for education and work, and thus shows a low total BLI score only slightly above those of the Southern European states.

We should be mindful of the illusory factors that present the poverty and inequality levels in Korea lower than they actually are. Korea maintains its poverty and inequality relatively low not because the earned income here is egalitarian, but because it has a relatively smaller retirement age population compared to other welfare states and because retirees and women of low-income households participate relatively extensively in the labor market. As a matter of fact, among OECD member states, Korea ranks behind only Chile, Israel, Ireland, and Poland in terms of inequality measured by personal earned income

(OECD, 2012, p. 185). As Korea's retiree population continues to grow and women's economic participation rate rises, even the market income inequality rate will likely go up. The current income-redistribution system will thus fail to stem the rise of inequality measured by disposable income. Korea's public social spending on welfare will likely increase in the future, over and beyond the margin tied to the inflation rate, but the redistribution effect thereof will significantly differ depending on its policy priorities. Should the growing dual structure of the labor market exert increasingly strong effects on citizens' right to social welfare, i.e., should the spending programs increase with a central emphasis on social insurances that primarily benefit people with secure, full-time jobs, these spending programs will ultimately fail to reduce poverty and inequality in the country. This is why Korean policymakers ought to pay attention not only to the absolute amount of spending, but also to the composition and prioritization of spending programs. While the Korean welfare state will likely continue to expand the reach of social insurances, such expansion alone will not prevent inequality from growing, considering the Korean labor market is divided between full-time employees, on the one hand, and irregular workers and precarious self-employed business owners, on the other. Given this particularity, it is critical to expand the universal welfare programs. In order to improve the quality of Korean society, welfare policies should

also focus upon enhancing the citizenry's capability to participate, strengthening society-wide trust, and encouraging the discovery of more eco-friendly and sustainable solutions to social problems.

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