Introduction

Deepening inequality within countries is a worldwide trend. East Asia is no exception, where inequality has been increasing since the 1970s. Deepening inequality produces the marginalized groups and causes social conflicts that lead to division. Thus, it makes sustainable development difficult in the aspect of economy and society. Many countries face deepening inequality, but the responses to it are different. Among them, when a government actively responds to the deepening inequality by providing welfare, inequality is alleviated, and sustainable development is possible (Rueda 2008). In countries such as Korea and Taiwan, inequality began to increase as part of the process of globalization in the 1980s, and then increased further during the East Asian economic crisis in the 1990s and the global economic crisis in 2008 (Chi and Kwon 2012). Amidst the increase in inequality worldwide, the intensification of inequality in this region may be understood as simply a global trend. However, the causes and the processes of the deepening of inequality in East Asia and the countermeasures applied are significantly different from those in other regions, including Western countries.

In East Asia, Korea and Taiwan maintained equal societies before globalization. The Gini coefficients of Korea and Taiwan in 1990 were 0.2 and 0.3, respectively, and did not surpass 0.3 until 1988. This was a period in which Korea and Taiwan had high economic growth rates. Korea experienced its highest growth rates of 14.8 percent in the 1970s, and 13.2 percent in the early 1980s. Taiwan also experienced its highest growth rate of 12 percent in the 1980s. According to Kuznets, in an empirical case of the West, inequality intensifies in the early period of economic growth and then it tends to be alleviated after some degree of economic growth (Kuznets 1955). However, Korea and Taiwan have shown different trends. Both countries had the characteristic of “growth with equity;” that is, inequality did not intensify in the process of economic growth, but did so subsequent to this growth.

As a background to the intensification of income inequality, both countries experienced globalization and democratization. Globalization provided the cause that intensified the inequality. The market’s destructive property that characterizes the free movement of capital (Polanyi 1944) demolished the characteristic of “growth with equity” maintained under the authoritarian regime. In the midst of an economic slowdown, inequality in both countries began to intensify. As income inequality began to increase after the 1990s, it emerged as the most
pressing social and political issues. This thesis states that as income inequality deepened, “income disparity” (yag-guk-hwa) would increase in Korea (Kim 2008) and Taiwan would experience a “great U-turn” (Hung 1996). If labor flexibility due to globalization deepened income inequality as it brought increasing unemployment and a rise in the number of temporary jobs, democratization facilitated the growth of the labor force and contributed to the expansion of the welfare provision for disadvantaged victims of globalization (Ku 1997; Tang 2000). In Korea, the authoritarian military regime was replaced by a democratic competitive system in the late 1980s. Similarly, the authoritarian party in Taiwan also reformed to become a democratic and liberal government, which had free and fair elections during the 1990s. Democratized voices publicized the problems of inequality, and led to the respective governments providing solutions to these problems. That is, the two countries used their countermeasures and capabilities to determine their own income inequality levels.

Before globalization and democratization, Korea and Taiwan were characterized as “developmental states” (Johnson 1982; Wade 1990). Under the authoritarian regimes, developmental states achieved rapid economic growth, with clear goals and plans under strong state leadership. In addition, they maintained equal societies through fast economic growth and increased overall wealth (Gough 2008). However, as the economic strategy of developmental states reached its limits in the 1980s, they entered a process of seeking a new growth strategy. Taiwan turned to globalization in 1985, and Korea declared “sea-gae-wha” (globalization) in 1994. Even though globalization produced an unexpected increase in income inequality, the growth-oriented tendencies that were developed during the developmental state period facilitated strategies to sustain growth rather than distribution in the first stage. However, democratization required measures to protect the victims of wealth polarization and, as a result, measures to tackle income inequality in Korea and Taiwan were introduced. However, these were implemented in an ad hoc fashion, rather than resulting from clear goals and plans.

History

Developmental states and economic growth

In the 1960s and the 1970s, Korea and Taiwan achieved rapid economic growth by converting to export-oriented industrialization, acclaimed as the “East Asian economic miracle” (World Bank 1993). What made such economic growth possible was the role of the states. The developmental states in Korea and Taiwan had strong leadership and planned developmental strategies, which were fundamentally different to the Western economic development strategy of allowing a liberal market for economic development. While the growth of the market economy was facilitated by the role of the state, it was characterized as a “governed market,” managed by the states in the developmental state model (Wade 1990).

The developmental state model, unique in East Asia and Southeast Asia, originated in Japan’s economic model in the period of the Meiji restoration. Against the Western imperialist expansion, Japan promoted an economic growth strategy based on strong leadership. As such, the strategy was successful, and Japan was able to become a capitalist country on the basis of high economic growth. The successful developmental state is presented as an alternative form of capitalism to the Western model of laissez-faire capitalism (Johnson 1982). Korea and Taiwan’s developmental state theory was derived from Japan’s developmental model (Johnson 1987), and this model pursued economic growth through the nation’s export-oriented industrialization. This was made possible based on outstanding human resources and a high saving rate. Rather than adopting policies that suppressed inflation, Korea and Taiwan implemented a pro-investment
macroeconomic policy, strict controls on foreign direct investment, protection of infant industries, and an export promotion policy (Haggard and Kaufman 2008).

Korea’s modernization and industrialization were promoted based on the developmental ideology of the 1960s. Before the developmental state, the Rhee Syng-man administration in the 1950s lacked the vision and concept of economic growth because it prioritized anti-Communism and unification with North Korea. During that time, the economic growth strategy was one of consumer-centered import-substitution industrialization, and relied on aid goods from the US. However, this strategy reached its limit due to a decrease in aid after a US policy change. Since then, the Park Chung-hee administration has criticized the anti-Communism stance of Rhee Syng-man, and has transformed the nation into a developmental state by prioritizing industrialization and economism. However, because the US aid policy changed during the period in which the full-fledged developmental state strategy was promoted, the government needed an independent economic growth strategy. In order to achieve this, the military government had to resolve the problem of a lack of capital and, thus, promoted policies to this effect; these included attracting foreign capital, encouraging savings, currency reform, and tax reform. In addition, the government controlled finance by nationalizing banks. Consequently, enormous amounts of foreign capital began to flow in, and economic growth began in earnest. However, the export-oriented light industry reached a limit to growth once again. Therefore, the authoritarian government in 1970 modified its developmental strategy to a heavy chemical industry, which enjoyed considerable success (Kim 2001).

Meanwhile, the Nationalistic government that withdrew to Taiwan in 1949 carried out economic reforms along with the state system modification, implementing currency reform and land reform. The original industrialization strategy was one of import-substitution industrialization, based on domestic demand. This strategy was initially successful. However, the import-substitution industry found consistent growth difficult due to the limited size of the domestic market based on the small population and the change in the US aid policy. Chiang Kai-Shek successfully modified the strategy to that of export-oriented industrialization in the 1960s. The government supported the export promotion policy through currency reforms, financial policy, a single exchange rate system, and export promotion. During the process, however, Chiang Kai-Shek still maintained partial protectionism to help major state enterprises, including intermediary goods, durable consumer goods, and transport equipment. Such growth was made possible by the intensification of the export promotion policy in the mid-1970s. During the recession in the early 1970s, developed countries regulated exports from Taiwan, a condition that was exacerbated by the oil crisis. The Taiwanese government needed a new strategy to resolve the vulnerability of its economic dependence on international markets. At that time, Taiwan was experiencing an external crisis. When Taiwan (the Republic of China) was removed from the UN in 1971, the nationalist government suffered serious damage to its legitimacy, and the number of countries maintaining diplomatic ties decreased rapidly. The KMT government needed a groundbreaking conceptual shift and power in order to maintain the growth. To achieve this, large-scale national projects were initiated in 1973, and the government attempted to promote heavy and chemical industrialization, based on shipbuilding and the expansion of social overhead capital. In addition, the government changed its private capital-based export strategy away from the existing labor-intensive industry to that of production, by adopting advanced technologies (Gold 1986).

During its development state era, Korea grew 10 percent in 1970, and maintained an annual average growth rate of around 10 percent during the 1970s. Then, despite negative growth in 1980, the economy recovered quickly. In addition, per capita income increased from USD $82 in 1961 to USD $1,647 in 1979. Taiwan experienced a serious trade deficit problem in 1975 due to the 1973–1974 oil crisis. However, it showed a growth rate of 5.4 percent in 1974, and maintained a high
average annual growth rate of around 8 percent during the 1970s. Furthermore, the GNP per capita rose from USD $393 in 1970 to USD $2,391 in 1980.

**Developmental welfare states and low social spending**

Korea and Taiwan were successful economic models by the 1980s due to their high economic growth. Furthermore, in contrast to the Kuznets effect, Korea and Taiwan showed “growth with equity.” That is, inequality did not intensify in the process of economic growth, and the developmental states were able to relieve inequality using their unique welfare models. After examining welfare states in the West and their developmental processes, Esping-Anderson suggested three types of welfare states: a liberal welfare regime; a corporatist welfare state; and a social democratic welfare state (Esping-Anderson 1990). However, welfare states in this period in Korea and Taiwan cannot be explained by Esping-Anderson’s three types, which are based on the concepts of decommodification and social stratification. There are two reasons for this. First, welfare states in the West developed to resolve the problems of inequality that appeared during economic growth. However, welfare states in East Asia developed during economic growth in which inequality was not a serious concern. That is, these two have different historical origins and paths. Second, the role of the labor classes was important in the developmental stage of Western capitalism in relieving inequality. However, the development of labor classes was suppressed in Korea and Taiwan due to anti-Communism and security problems. Thus, the role of the labor classes aiming to improve labor conditions and welfare had to be minimized in Korea and Taiwan.

Therefore, a new framework was required to explain East Asia’s unique welfare system that combines low inequality with growth. Above all, according to Esping-Anderson, it is essential to understand the major role of the state in order to understand the provision of the two countries’ welfare schemes instead of the labor classes. While Korea and Taiwan had led economic growth in the area of social policy, the state had played a major role in introducing and expanding welfare schemes. In addition, this role of the state was not the result of pressure from the labor classes, and it did not face strong opposition from labor or capital during implementation (Kwon 1997, 479). During the developmental state period, Korea and Taiwan demanded considerable funds to foster their heavy chemical industries and, thus, could not afford welfare financially. Moreover, such a developmental welfare system was basically the welfare for economic growth, but not for redistribution (Gough 2001; Kwon 2007). The system had institutionalized conservative welfare financial management that aimed to minimize government spending on welfare for the sake of economic growth. Furthermore, it showed reciprocal characteristics for groups that supported the developmental state. Hence, only a small number of groups benefited from the social welfare program, excluding most vulnerable classes. Therefore, the “developmental welfare system” in Korea and Taiwan corresponds to the developmental strategy of “developmental states,” and a welfare system in which expenditure on welfare is low and social policy is fundamentally dependent on an economic growth policy (Kwon 1997). In a similar vein, Holliday (2000, 2005) suggested the concept of “productivist welfare capitalism,” while Gough (2008) used the term “productivist welfare regime” to describe developmental welfare system.

Welfare expenditure in a developmental welfare system was fundamentally different from being egalitarian. In Korea, the first social welfare framework was formed under the Park Chung-hee administration. The laws for social welfare, such as the Public Officials Pension Act and the Veterans Pension Act, were established between 1960 and 1963. However, they provided no substantive benefit due to the lack of budget. Although a national welfare pension system was introduced in 1974, it was more of a forced saving in order to supply financial resources for the heavy chemical industrialization at the time. During this process, the groups protected by the social welfare laws
were the core labor manpower needed during the industrialization and the special groups needed for the management of the state, such as military servicemen, public servants, and teachers (Chung 2007, 283–289). The same was true in Taiwan. The social welfare system targets in Taiwan were the clients of the nationalist regime. Hence, military servicemen, government employees, veterans, and retired members of Parliament accounted for 75 percent of the overall welfare expense. Farmers and laborers took about only 9 percent and less than 1 percent, respectively (Ku 1997). Although it was fundamentally far from being egalitarian and was not intended to promote redistribution, Korea and Taiwan were able to realize a comparatively egalitarian society during the period of economic growth. This was due to their rapid economic growth, which increased their overall social wealth and, consequently, the substantive expense for welfare (Gough 2008). Although the government did not increase the proportion of welfare expenditure, the existing welfare expenditure increased as the state’s wealth accumulated as a result of economic growth.

In fact, most members of society were excluded from the welfare benefit provided by the state, except special groups. However, the developmental welfare regime had a “residual form” of relying more on family support or livelihood protection than on the state’s protection. In other words, in developmental welfare states, the role of the state as a welfare provider decreases, and the role of the family increases. In Korea and Taiwan, the family was the main provider of welfare during modernization. In this model, the man functions as the breadwinner, and the woman and children become dependents. The provision of family-oriented welfare further reduces the role of the state in welfare provision. At the same time, the saving mobilization and tax policy of the developmental state became the foundation of guaranteeing a family’s income, as well as the funding base for industrialization. The developmental state enforced savings in order to appropriate sufficient funds during the industrialization stage. These funds were also utilized for family education, housing funds, and old-age security. This saving mobilization, along with the low tax burden for households, contributed significantly to the formation of the developmental welfare system (Kim 2012).

Thus, expenditure on welfare in Korea and Taiwan was low, which received much attention from researchers of East Asian welfare systems (Haggard and Kaufman 2008). This low rate of welfare expenditure was maintained during the rapid economic growth experienced by Korea and Taiwan. This trend continued after the end of the developmental state. Table 12.1 illustrates the public social spending after 1990 in Korea and net expenditure on social welfare after 1985 in

<table>
<thead>
<tr>
<th>Year</th>
<th>Public Social Spending (as of GDP)</th>
<th>Net Expenditure on Social Welfare (as of GNI)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td>17.0 kcal</td>
<td>n/a</td>
</tr>
<tr>
<td>1990</td>
<td>17.5 kcal</td>
<td>2.0 kcal</td>
</tr>
<tr>
<td>1995</td>
<td>19.3 kcal</td>
<td>3.4 kcal</td>
</tr>
<tr>
<td>2000</td>
<td>18.6 kcal</td>
<td>4.8 kcal</td>
</tr>
<tr>
<td>2005</td>
<td>19.4 kcal</td>
<td>6.5 kcal</td>
</tr>
<tr>
<td>2010</td>
<td>21.7 kcal</td>
<td>9.6 kcal</td>
</tr>
<tr>
<td>2012</td>
<td>21.6 kcal</td>
<td>10.4 kcal</td>
</tr>
<tr>
<td>2014</td>
<td>21.6 kcal</td>
<td>10.4 kcal</td>
</tr>
</tbody>
</table>

Taiwan. The OECD’s average public social spending was 17.0 percent in 1985, 19.3 percent in 1995, 18.6 percent in 2000, and 21.6 percent in 2014. In comparison, Korea’s public social spending was 2.8 percent in 1990, 3.2 percent in 1995, 4.8 percent in 2000, 9 percent in 2010, and 10.4 percent in 2014. The index in 2010 is about three times as much as that in 1990, illustrating that expenditure on welfare in Korea increased considerably. However, it is still far lower than the OECD average. For example, although public social spending in 2000, just after the financial crisis, was 4.8 percent, or 1.6 percent higher than in 1995, it was far below the OECD average of 18.6 percent. However, allowing for the difference of measurements, the discrepancy is more pronounced in Taiwan. Taiwan’s net expenditure on welfare in 1985 was 1.4 percent, and increased to 3.1 percent in 1995 and 5.46 percent in 2000. However, it decreased at the beginning of the period of intensification in wealth inequality, falling to 2.92 percent in 2010, and remaining at 3.1 percent in 2014.

Globalization and the increase in income inequality

As the developmental economic strategy reached its limit after the mid-1980s, Korea and Taiwan started to seek new growth strategies. Both states chose a market liberalization strategy called “globalization,” which allowed the opening of markets and the free flow of capital. In Korea, market liberalization began during the Chun Du-hwan authoritarian regime in the mid-1980s. As the export-oriented industrialization reached its limit, the military regime promoted passive enterprises via a new economic strategy so that they could compete in the global market through import liberalization and financial liberalization. The Kim Young-sam administration, which took office in 1993, officially pursued its “globalization” initiative and applied for admission to the OECD as part of its strategy. In addition, the Kim Young-sam administration passed a new labor law to fulfill the global standard for labor, as requested by the OECD and the ILO, and to cope with the impact of globalization. The labor law in 1995 was unilaterally passed by the government, without consultation with or agreement from labor unions or the opposition party, and so had a considerable social impact at the time. The new labor law increased the flexibility of labor by introducing a layoff system, flexible working time, and a no-labor-no pay system. The financial crisis in 1997 led to enterprise restructuring and labor flexibility measures, as required by the IMF in exchange for its bailout. As a result, the number of low-wage temporary workers began to increase, which contributed to the deepening of income inequality in Korea.

In Taiwan, the economy was opening in a step-by-step manner. Taiwan’s open trade and capital liquidity increased after the 1950s. However, until the 1980s, trade liberalization was passive, because it was limited to exports in order to protect the domestic market. After declaring a globalization policy in 1985, the government passed a new labor law that would meet the standards of globalization and reflect the reality of labor management. In contrast to the Korean case, Taiwan’s labor law was a mechanism to mitigate income inequality by protecting the rights and interests of workers. However, the pro-labor law instead led to an increase in unemployment. After the 1980s, the expansion of foreign direct investment (FDI) as part of globalization resulted in an exodus of businesses that had lost profits under the strengthened labor law. As a result, the unemployment rate increased. Then, as wages later froze, this intensified the level of income inequality. In particular, the expansion of FDI had a negative effect on the bottom 20 percent of wage earners in Taiwan (Lue 2010, 9; Tsai and Huang 2007, 1864–1868).

Globalization in Korea and Taiwan introduced issues that they had not experienced under the developmental state. This resulted in the intensification of competition and an increase in inequality, which are regarded as characteristics of neoliberalism. As shown in Table 12.2, the Gini coefficients of Korea and Taiwan and the quintile ratios have increased since globalization.
Korea’s Gini coefficient rose from 0.256 in 1990 to 0.302 in 2014. Taiwan’s Gini coefficient also increased, from 0.312 in 1990 to 0.338 in 2012. However, the change in the quintile ratio is more significant. Korea recorded an increase from 3.72 in 1990 to 4.55 in 1998, with a highest figure of 5.75 in 2008. Taiwan recorded a quintile ratio of 5.18 in 1990, 6.16 in 2002, and 6.19 in 2010. In the case of Korea and Taiwan, the similarity between the two indicators is evident. This shows a similar increase in inequality in both states, including in wages and income from the workplace and in household income (Chi and Kwon 2012).

At the same time, globalization resulted in increased unemployment. Korea and Taiwan both had achieved their goals of full employment under the developmental state. However, Korea’s unemployment rate, which was around 2 percent before 1997, reached a peak of 7 percent immediately after the financial crisis in 1997. As the unemployment rate decreased again after 1999, it was maintained between 3 percent and 3.5 percent. Taiwan’s unemployment rate was 1.7 percent in 1990 and 1.5 percent in 1992. It then increased to 2.6 percent in 1996 and 2.7 percent in 1998. And then, due to a serious economic downturn in exports and the decline of the economic growth rate, the unemployment rate suddenly increased to 5.2 percent in 2002. After that, it decreased to 3.9 percent in 2006, but increased again to 5.2 percent in 2010 (see Table 12.3). With regard to unemployment, Taiwan is in a more serious situation than is Korea, and it is known that the increase in unemployment is correlated with the increase in income inequality (Kenworthy and Pontusson 2005).

In sum, globalization has created social gaps in Korea and Taiwan, including income inequality and an increase in the unemployment rate. According to Rueda (2008), when facing market liberalization, states have two options. They can choose to protect victims by actively expanding social spending when economic openness leads to inequality, or they can protect businesses in order to become more competitive in the global market. In the latter case, expenditure on social welfare decreases, and income inequality intensifies. Most developing countries choose the second option, as did Korea and Taiwan, which did so in the early stage of

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**Table 12.2 Income inequality in Korea and Taiwan**

<table>
<thead>
<tr>
<th>Year</th>
<th>Gini coefficient</th>
<th>Quintile ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Korea</td>
<td>Taiwan</td>
</tr>
<tr>
<td>1990</td>
<td>0.256</td>
<td>0.312</td>
</tr>
<tr>
<td>1992</td>
<td>0.245</td>
<td>0.312</td>
</tr>
<tr>
<td>1994</td>
<td>0.248</td>
<td>0.318</td>
</tr>
<tr>
<td>1996</td>
<td>0.257</td>
<td>0.317</td>
</tr>
<tr>
<td>1998</td>
<td>0.285</td>
<td>0.324</td>
</tr>
<tr>
<td>2000</td>
<td>0.266</td>
<td>0.326</td>
</tr>
<tr>
<td>2002</td>
<td>0.279</td>
<td>0.345</td>
</tr>
<tr>
<td>2004</td>
<td>0.277</td>
<td>0.338</td>
</tr>
<tr>
<td>2006</td>
<td>0.285</td>
<td>0.339</td>
</tr>
<tr>
<td>2008</td>
<td>0.294</td>
<td>0.341</td>
</tr>
<tr>
<td>2010</td>
<td>0.289</td>
<td>0.342</td>
</tr>
<tr>
<td>2012</td>
<td>0.307</td>
<td>0.338</td>
</tr>
<tr>
<td>2014</td>
<td>0.302</td>
<td>n/a</td>
</tr>
</tbody>
</table>

globalization. Korea and Taiwan protected businesses and requested that workers make sacrifices for the sake of economic regeneration and development. A possible reason for this decision was the absence of a labor party in both countries. Political party activities were restricted under the authoritarian regime, and labor movements had been suppressed for security reasons. As a result, there was no labor party in the Legislature to support workers during the process of globalization in Korea and Taiwan. Consequently, the amendment of the labor law in Korea did not sufficiently secure laborers’ rights and interests. In Taiwan, there were reviews of the ripple effect that an amendment of the labor law would bring about, but it was not conducted sufficiently well.

**Democratization and the responses of governments**

In the late 1980s, Korea and Taiwan experienced a democratic transition. A new democratic system was established, and the authoritarian military dictatorship fell. The democratic movements in Korea had been carried out by students and workers under the leadership of the opposition party. However, the process of democratization in Taiwan involved the interaction between the Kuomintang (KMT)’s liberalization policy and the demand for democratization by the Democratic Progressive Party (DPP), the opposition party. Democratization led to the following changes (Ku 2009).

First, democratization changed the power structure from vertical command relationships in the previous top-down command system to horizontal relationships of collaboration and governance. After democratization, opinions and requests were collected from the bottom and, at the same time, cooperation and the governance of various actors and states became important. Thus, the state’s unilateral developmental strategy, which suggested and preceded the economic developmental strategy during the developmental state period, became impossible. Second, democratization revealed diverse social issues, such as environment, gender issues and inequality. Such a change was able to adapt to the dismantling of developmental states that had been growth oriented in the past. Furthermore, the gap between the rich and poor, the provision of welfare, and the issues of temporary workers and unemployment became important in the two new democracies.

Table 12.3 Unemployment rate in Korea and Taiwan

<table>
<thead>
<tr>
<th>Year</th>
<th>Korea</th>
<th>Taiwan</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>2.4</td>
<td>1.7</td>
</tr>
<tr>
<td>1992</td>
<td>2.5</td>
<td>1.5</td>
</tr>
<tr>
<td>1994</td>
<td>2.5</td>
<td>1.6</td>
</tr>
<tr>
<td>1996</td>
<td>2.0</td>
<td>2.6</td>
</tr>
<tr>
<td>1998</td>
<td>7.0</td>
<td>2.7</td>
</tr>
<tr>
<td>2000</td>
<td>4.4</td>
<td>3.0</td>
</tr>
<tr>
<td>2002</td>
<td>3.3</td>
<td>5.2</td>
</tr>
<tr>
<td>2004</td>
<td>3.7</td>
<td>4.4</td>
</tr>
<tr>
<td>2006</td>
<td>3.5</td>
<td>3.9</td>
</tr>
<tr>
<td>2008</td>
<td>3.2</td>
<td>4.1</td>
</tr>
<tr>
<td>2010</td>
<td>3.0</td>
<td>5.2</td>
</tr>
<tr>
<td>2012</td>
<td>3.2</td>
<td>4.2</td>
</tr>
<tr>
<td>2014</td>
<td>3.5</td>
<td>4.0</td>
</tr>
</tbody>
</table>

During the process of democratization, the labor movement, which had been suppressed because of anti-Communism, erupted due to the change in the power structure in Korea and Taiwan. In the mid-1980s in Korea, labor movements began to develop as part of the pro-democracy movement, and emerged as a significant social force after democratization. The labor force organized the Korea Workers Council in 1990, and led a large-scale labor–management dispute in a relaxed social atmosphere. Subsequently, Korean workers formed the labor party and succeeded to have seats in National Assembly in 2001. At the same time, labor unions were organized in Taiwan during its democratization. The National Federation of Independent Trade Unions was organized in 1988, and the Labor Rights Association was organized in 1989. Although the labor force organized the labor party in 1989, it failed to have seats in the Legislative Yuan because it was unable to secure sufficient votes. The labor force that became highly active in Korea and Taiwan after democratization tried various ways of enhancing laborers’ status, which had become disadvantageous under the developmental state’s planned economy. At the same time, “the developmental welfare system” could no longer be maintained under the democratized society because welfare was provided to special groups for economic growth, and most of the disadvantaged were excluded from the provision. However, democratization features the universalization and inclusion of welfare. As a result, the democratization of Korea and Taiwan brought about the change in the developmental welfare system (Kwon 2007) and the expansion of welfare provision (Ku 2009).

Changes in the labor market

The labor market system is known to be the major determinant of wage levels, and can be largely divided into the American and English liberal market economy, the coordinated market economy of Europe, and the social market economy in northern Europe. While the liberal market economy is characterized by enterprise-specific bargaining, the coordinated market economy is characterized by industry-specific bargaining, and the social market economy is characterized by centralized bargaining (Hall and Soskice 2001; Esping-Anderson 1990). Given each case, the most important factor that creates economic inequality is related to the centralization of the labor market system (Rueda and Pontusson 2000; Wallerstein 1999). The wage gap reduces if wage bargaining takes place at a centralized level. But the wage gap increases when wage bargaining takes place in the market. In addition, when wage bargaining takes place within companies, the wage gap within these companies reduces, but a wage gap between companies increases. When wage bargaining takes place within an industry, the wage gap within that industry decreases, but a wage gap between industries increases (Wallerstein 1999). In the case of northern European countries, which have a system of Nordic corporatism, and where income inequality is low, most wage bargaining is centralized and, thus, these countries show a more equal distribution of income and wages.

Hence, under the triangular relation amongst the state, market, and labor, workers receive the most even wage when the state arbitrates for labor. The labor movement in Korea was highly active before democratization, and the most essential issue was a wage increase. However, labor was at a disadvantage in a labor market that featured a negative social atmosphere and a labor movement market type. Hence, the labor–management relations before democratization were of the market type, and wages were decided unilaterally by employers within each firm. Along with the growth of the labor force, the mechanism of determining wages changed around 1987. Although it generally featured the market type, the mechanism by which wages or working conditions were decided unilaterally by employers under the state of suppression of autonomous union movement changed, and began to reflect the opinions of workers. The Kim Young-sam
administration in the 1990s guaranteed the neutrality of labor–management relations and legitimate labor–management activities. However, when the government realized that a wage increase could threaten its export-oriented growth model, it switched its attitude to determining wages through agreement between the representatives of labor and management (Park 2005, 235). As a result, after 1987, as the labor movement developed and large companies started to recognize trade unions, major working conditions began to be determined by collective bargaining between labor and management. However, such collective bargaining mostly took place within companies, and coordination between bargaining units was weak. Furthermore, as the ability of companies to make payments and the power relations between labor and management came to play important roles in the process of wage determination, large wage gaps between companies occurred. As this tendency expanded further after the financial crisis in 1997, wage gaps began to increase even between identical industries with similar working conditions and between companies of a similar size (Jung 2006, 126–127). The 1997 financial crisis aggravated the situation.

The labor–management relations in Taiwan featured the market type. However, the wage gap by firm size was smaller than that in Korea, and the gap did not increase much after the 1990s. Taiwan’s social movements were completely suppressed for a long time under martial law. In addition, the small and medium-sized enterprise-oriented economic structure made it difficult for a labor class to form. However, the Taiwan Confederation of Trade Unions was formed by workers during democratization, and the number of labor disputes increased significantly. Moreover, the unionization rate increased; the industrial unionization rate reached 20.9 percent in 2000, and the craft unionization rate reached 49.2 percent in the same year. Still, unions did not grow into a force that could impact the labor market in terms of deciding labor conditions. The reasons are as follows. First, the revision of the labor law that influenced labor conditions was led mainly by the KMT after democratization. Taiwan’s labor law was enacted in 1920, and did not practically reflect labor conditions. The KMT led the revision of the labor law for the necessity of globalization and for the welfare of workers (Lee 2007, 16). Second, the labor force in Taiwan was still vulnerable. Taiwan’s industrial union was actually operated as the craft union. Most wage negotiations incorporated just the union representative’s proposal to the employers. Moreover, those that practically concluded a collective agreement were few because the features of collective agreements were very weak. Third, and most importantly, the purpose of the labor movement in Taiwan was not to increase wages. After democratization, an average of 1,700 strikes occurred annually between 1987 and 1991 in Taiwan, but they were mostly related to individual labor–management relations, such as dismissal, unfair dismissal, delayed payment of wages, and accident compensation (Chu 1996, 501–504). Lastly, an occupation-specific labor union, formed in Taiwan, functioned as a gateway for workers to register for health insurance rather than as a labor union for collective bargaining. With regard to collective bargaining, agreements to improve wages and working conditions were few. Accordingly, Taiwan’s labor–management relations are still close to being a market type, in which labor unions and collective bargaining do not have a significant effect in determining working conditions (Jung 2006, 127–128). However, industry-specific labor unions and globalization further intensified the dissimilarities between various industrial sectors and between company-specific divisions surrounding interests (Lue 2010).

Although the labor force grew considerably, the labor markets after democratization in Korea and Taiwan did not show a noticeable change. Korea and Taiwan could not escape the basic market-type labor market. In addition, wage decisions took place within individual firms in Korea. As a result, Korea witnessed its greatest overall inequality and the biggest wage gaps by company size (Jung 2006, 126–127). The market-type labor market in Taiwan before and after democratization meant that the labor force was vulnerable and fragmented compared to that in
Korea. Under such a structure, group action for wage improvement was impossible, and income inequality in Taiwan could not be relieved via the labor market. In Korea, there was an attempt to implement a Northern European social market economy, featuring centralized bargaining. Due to the financial crisis in 1997, Korea had to secure the restructuring of firms and labor flexibility in order to receive an IMF bailout program. For this, the Kim Dae-jung administration organized the Korea Tripartite Commission, in which a labor representative, firm representative, Minister of Labor, Minister of Finance, and party representative participated. However, the government, firm, and party representatives all took a hostile position against labor and, thus, labor left the Commission. As a result, the labor force, while its request was not accepted, had to accept the restructuring of firms and labor flexibility that were suggested by the government (Park 2005, 241). In Taiwan, under the market-type labor market structure, workers’ welfare improved considerably during democratization. The government and political party were responsive to workers’ demands, and labor conditions and welfare were reflected considerably in the process of democratization. However, a practical benefit to labor was not guaranteed with the reason that the labor market was fragmented. The minimum wage in Taiwan had stagnated between 1997 and 2006, during which income inequality intensified. In addition, real wages were stagnant. Hence, the labor market structures in Korea and Taiwan after democratization were still disadvantageous to labor.

Expansion of welfare provision

During the developmental state periods, the welfare regimes in Korea and Taiwan were weak. Welfare regimes remained subsidiary to economic and industrial development policies. Until the 1980s, Korean and Taiwanese social welfare focused on pensions and health care schemes for specific groups. Those who were excluded from this protection had no choice but to rely on family support or livelihood protection. The state’s role in terms of welfare provision during the developmental state was vulnerable, which was well illustrated in the low government expenditure and lack of social programs. When the change to a horizontal power structure occurred and the welfare issue became important after democratization, the demand for the government’s role and for expenditure on welfare began to increase. Moreover, the intensification of labor flexibility and the increase in unemployment caused by the economic crisis in East Asia produced the disadvantaged and, thus, the state emphasized protecting these groups. However, the development of social welfare programs in Korea and Taiwan were adapted mainly in response to immediate political and economic conditions, rather than as part of a coherent plan (Peng and Wong 2008, 200–208). This is well reflected in the introductory phases of the Korean and Taiwanese national health insurance systems and pension systems.

In introducing comprehensive national health insurance (NHI) systems, both countries extended the health care system to cover most people, and then integrated diverse social insurance schemes that had been present previously. The targets of health insurance during the developmental state were also restricted. In Korea, the first health insurance scheme introduced in 1974 was mostly for the recipients of livelihood programs, although the scope of the target expanded in 1977 to include workers from businesses with more than 500 people. The targets (i.e., major companies with more than 500 workers) were large companies in the heavy chemical industry based on the industrial policy of the developmental state. Then, health insurance was extended further in 1979 to include civil servants and private school teachers. There was demand in Korea to expand the provision of welfare during the process of democratization in 1986, and the Chun Doo-whan administration promised to expand the health insurance to cover rural areas in 1988. As a result, the first national health insurance was carried out in 1989. It was only after the
opposition party seized power that health insurance was effectively expanded and applied. In 2000, the Kim Dae-jung administration integrated and applied the health insurance organizations that were previously fragmented. Finally, most of all citizens received health insurance and medical social security via medical care assistance.

Taiwan also introduced its national health insurance in 1995 which targeted all citizens after the democratic transition. After its introduction, about 97 percent of the population received medical treatment and health care equally. The important change was that the various types of insurance were integrated into a single system. In contrast to Korea, Taiwan provided health care insurance in the 1950s, with insurance for workers in 1950, and for civil servants in 1958. It was then extended as farmers’ health insurance in 1985, and as a low-income household insurance in 1990. The reason for providing the insurance to small-income earners and farmers, along with special groups, during the developmental state period was the socialistic article specified in the Constitution of the Republic of China. However, most of the population, except special groups, small-income earners, and farmers, were excluded from the insurance. As a result of the demands of the DPP and of citizens after democratic transition, Taiwan introduced a universal health system in 1995, and increased insurance premiums to meet the increased demand. However, the fact that the national health insurance was operated by the state brought considerable controversy. In particular, the DPP was concerned that the system would cause moral laxity in recipients, and that it would further strengthen the government’s power. Hence, a second-generation national health system was introduced in 2002. As the DPP came to power, a turning point seemed to have been reached; however, the basic form of the national health system was retained (Lue 2010, 30–32; Wong 2003).

Another axis of social security is the pension reform. Similar to the health care insurance, Korea’s pension concentrated mainly on protecting the benefits of special groups under the developmental state. The civil servant pension scheme, introduced in 1960, is the oldest public pension scheme. In 1963, the military personnel pension was separated from the civil servant pension scheme. Then, the private school teacher pension scheme was introduced in 1973. The support for civil servants, soldiers, and teachers led them to being loyal to the developmental state. Although the National Pension Act, which targeted the whole population, was prepared in 1973, it was delayed indefinitely because of the economic recession caused by the first-world oil shock. However, due to the demand for democracy in 1986, the Chun Doo–whan administration promised to operate a national pension scheme, and did so effectively in 1988, just after the democratic transition. The national pension scheme is the most important public pension scheme, as well as the most significant social security program in Korea. However, numerous vulnerable groups are still excluded, although comprehensive coverage is possible through the national pension scheme by law.

In Korea, the national pension scheme that began just after democratization targeted workshops with more than 10 workers. In 1992, it expanded its coverage to workshops with more than five people, and then further included farmers, fishermen, and the self-employed in rural areas in 1995. The expanded policy struggled for a while because of the economic crisis in 1997, but it was expanded further to include the self-employed in urban areas in April 1999 (Chung 2007). One of the major changes related to the welfare policies is that political parties began to use welfare issues in election campaigns. In particular, as the number of temporary workers and low-income workers increased after the financial crisis in 1997, the provision of a social safety net became an important issue. Each party provided welfare issues competitively. During the presidential election in 2000, the National Congress for New Politics and the United Liberal Democrats, the opposition parties, suggested unifying the administration of the pension scheme and increasing the welfare budget. On the other hand, the Grand National Party, the ruling party, suggested expanding the coverage...
of existing insurance schemes and the substantiality of providing effective service. However, the pledge by the ruling party did not make a practical difference in terms of the welfare policy. In addition, a bigger problem was that, although securing the welfare budget was most urgent, political parties were not suggesting any specific plans to achieve this. Practically, a detailed proposal for pension reform does not exist in Korea, and there is no direction for pension reform. The ruling party is utilizing the welfare policy to maximize political votes.

While Korea’s social insurance, which was fragmented based on the type of benefit, such as medical insurance, pension insurance, and unemployment insurance, was being independently introduced, Taiwan’s insurance developed mainly in terms of jobs and their classifications. Taiwan’s labor insurance is operated by securing medical treatment and pension, death, and disability insurance for laborers and the fund is managed in an integrated way. Just as in Korea, the most important part of Taiwan’s social insurance under the developmental state was the government employee insurance that, until the late 1970s, targeted workers, including soldiers, civil servants, and teachers. The DPP strongly criticized the undeveloped pension scheme during the process of democratization. The DPP argued that the systematized pension scheme that targeted all citizens and the allowance programs that targeted the disadvantaged elderly must be implemented during the transition period. In particular, the area pointed out as being the most important during the process of pension reform was guaranteeing the economic security of the elderly. The most undeveloped part of Taiwan’s social insurance system was the support for the elderly, most of whom needed private savings or family support after their retirement. The ruling Nationalist Party was very responsive to the DPP’s demand, implementing the elderly living allowance for low-income families, welfare subsidies for elderly farmers, subsidies for the elderly, and living allowances for veterans. Moreover, the KMT integrated the fragmented pension schemes in 1994, and organized a task force for better systematic operation. However, it failed in its legalization due to the election failure in 2001. The DPP that won the election in 2000 then reorganized the social policies, although these were no more extensive or systematic than those of the KMT. The DPP’s social policies focused more on providing a welfare service (e.g., a monthly living allowance for people older than 62, free medical care for children under three years old, interest rates as low as 3 percent for first-time home buyers, etc.) than on the institutionalization of a social security system. Along with the labor insurance and the civil servant insurance targeting soldiers, civil servants, and teachers, the private enterprise insurance currently provides retirement benefits as well (Lue 2010).

Consequently, in terms of health insurance and pension insurance in Korea and Taiwan, there was a demand to expand the provision of welfare during the process of democratic transition, which occurred as the government and the ruling party accommodated it. Hence, the democratization, which represented structural change, created the demand for welfare, and this resulted in the expanded provision of welfare. However, after democratization, rather than the role of labor, the role of the state was still important, as was that of the ruling party. Although the fact that the universal health care scheme was implemented in these two cases was a considerable achievement, this was the result of the ruling party’s political maneuvering, rather than of accommodating the demands from the bottom. In Korea, the expansion of universal health security in 1989 was a result of a high economic growth rate in the late 1980s and the military regime’s political calculation for securing political legitimacy. The case of Taiwan is similar to that of Korea. Here, the expansion of health security was promoted by the conservative KMT, whose social base became weak after democratization, and sought to build support through people-friendly health care policies.

After a considerable progress of democratization, the expansion of welfare provision became the foundation for gaining votes in party competition. Each party pledged to provide greater welfare in order to attract voters. Although the expansion of various types of welfare during this process was a positive aspect, the absence of clear goals and plans for welfare provision led them to
be integrated. In addition, because parties’ pledges in Korea and Taiwan were made without sufficient consideration of available funds, policies’ sustainability was being questioned, even if a particular policy was selected. Furthermore, the support for special groups organized during the developmental state period, such as civil servants, soldiers, and teachers, continued, and the social security they receive is a burden on the overall welfare budget. This has caused problems in terms of support for other groups and fairness, and is a task that Korea and Taiwan must resolve.

Conclusion

When a government actively responds to the crippling effects of globalization, income inequality can be alleviated (Garrett 1998; Katzenstein 1985; Rodrik 1998). Complementing certain parts of inequality that occur as a result of market conditions is the role of the welfare state. If the market is a mechanism that creates inequality, the welfare state is the institutional and political realization of “politics against markets” (Kenworthy and Pontusson 2005; Moene and Wallerstein 2001, 2003; Rueda and Pontusson 2000; Wallerstein 1999). Korea and Taiwan chose to open their markets when the developmental state’s economic growth strategy reached a limit, and this led to an intensification of income inequality that they had not experienced during economic growth. Although there was an attempt to protect the disadvantaged by popularizing welfare in the late period of the developmental state, Korea and Taiwan could not overcome the fundamental limitations of the developmental state. Democratization has highlighted income inequality as a social issue, and has laid a new milestone in resolving this issue by making the governance of various groups possible. However, the labor force that grew during the process of democratization did not play an important role in revising the labor laws and improving the labor market, and is still at a disadvantage in terms of wage negotiations. Although Korea and Taiwan’s welfare provision, including health and pension insurance, is increasing under the social structure in which the state and the ruling party are still superior, the scale of support is still limited. Furthermore, the support for special groups that have been protected since the developmental state period and the relative gap have remained intact.

Notes

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2 This family-centered welfare system in East Asia is interpreted as the result of the influence of Confucianism, which is deeply rooted in society. As the “Confucian Welfare State” in East Asia actively draws the family into the welfare state, it is regarded as a cause that consequently introduced conservative corporatism without the participation of laborers, charity without church involvement, equality without solidarity, and laissez-faire without liberalism (Peng and Wong 2008; Jones 1990).
3 Kim (2012) further argued that this mobilization of savings in family units strengthened the importance of familism in terms of welfare provision.
4 Social Expenditure Database (SOCX) does not provide Taiwan index of public social spending. For a comparison, we use Net Expenditure on Social Welfare provided by Statistical Yearbook of the Republic of China. Net expenditure for social welfare covered social insurance, social relief, benefit service, nationwide employment service, medical care and community development, and environmental protection. But, since 1990, it excluded expenditure on community development, environmental protection and expenditures for pension and survivors’ benefits.

References


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