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On the occasion of the 40th Anniversary of Diplomatic Relations between Canada and Korea, Canada-Korea Social Policy Collaborative Research was conducted in June – December 2003, followed by Canada-Korea Social Policy Symposium on 21 November 2003.

The Symposium was co-hosted by the Ministry of Health and Welfare, Korea and the Canadian Embassy in Korea, and organized by International Studies and Cooperation Office at Korea Institute for Health and Social Affairs (KIHASA) and the Canadian Embassy in Korea. It is sponsored by the National Health Insurance Corporation, Korea, the National Pension Corporation, Korea, and Air Canada.

This proceeding includes all the results of Collaborative Research and Symposium and has been prepared by the Korea Institute for Health and Social Affairs (KIHASA) and the Canadian Embassy in Korea.

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I. SUMMARY

BACKGROUND

Recognizing the potential benefits which could derive from a joint effort, the Canadian Ambassador and the Korean Minister of Health and Welfare signed an Arrangement on May 12th, 2003 to launch the Canada-Korea Social Policy Research Project. The ceremony was witnessed by Ministry of Health and Welfare senior officials as well as broadcast and print media both of which extensively covered the event. In accordance with the Arrangement, the Canadian Embassy and the Ministry of Health and Welfare held a Research Design Seminar in the form of a video-conference on June 13, 2003, to identify research areas of mutual interest and to determine the format of the bilateral symposium scheduled to take place from November 20-21, 2003. Scoping papers by the key researchers for both countries on three identified topic areas were exchanged in August 2003. Completed papers have been posted on the website shortly.

OBJECTIVES & ACTIVITIES

On the occasion of the 40th Anniversary of Diplomatic Relations between Canada and Korea, the Canadian Embassy and the Korean Ministry of Health and Welfare agreed to conduct collaborative research on emerging social policy issues at the bilateral level. Through this research project, followed by a bilateral symposium scheduled for November 20-21, 2003, we are hoping to address issues of mutual interest and benefit, to develop possible policy options to challenges faced by both countries and to prepare the ground for further bilateral cooperation. Collaboration in this social research project will also contribute to a better understanding of each other's country and strengthening of the ties which already exist between our two nations.

Korea, as one of the fastest aging societies in the world and Canada, which is already experiencing serious social and economic consequences of an aged society, have much to share and learn

from each other in the areas of community care for the elderly, family policy challenges, health care, pension system, and decreasing productivity due to reduced labour forces, etc.

The key objectives for the project would be:

- to promote further cooperation between Canada and Korea on emerging social policy issues where there is potential mutual benefit;
- to create a mechanism by which government and non-governmental communities of both countries will be encouraged to share ideas, knowledge, experience, and the best practices on social policy issues which a view to cultivating further research and practical cooperation; and
- To provide opportunities for increased collaboration in international institutions dealing with social policy matters and enhance our policy development capacities to better deal with the challenges of economic and societal changes.

RESEARCH OUTLINES

Introduction of Long-term Care Insurance in Korea by Dr. Byungho Tchoe

During the past 40 years, Korea has successfully established its status of a western style welfare state; in particular, in the area of social insurance. Governmental policies today cover national health insurance, national pension, workers injury compensation, and unemployment insurance. It is more encouraging that the government of Korea now plans to launch the fifth social insurance scheme, Long Term Care (LTC) insurance. LTC insurance is a today's hot issue.

The government of Korea urges the planning board to persist in the principle of LTC policy. The principle is as follows;

- Universal Coverage
- Respect for Consumer's Choice and Rights

- Diverse Participation including Government, Family, Provider, Regional society, and NGOs.
- Social Risk Pooling of Financing
- Sustainable System in Financing and Delivery

The government also pursues a cost-effective system. Hence, it mainly focuses on home care, and supplements it with institutional care.

This paper suggests several alternatives in order to finance LTC. Four types of LTC financing are (1) social insurance; (2) social service-either selective or universal coverage; (3) LTC saving; and (4) private insurance.

It is essential to evaluate the alternatives based on the following criteria;

1. Efficiency
2. Equity
3. Service Quality
4. Compatibility with the Current Social Welfare System.

Three interim options are proposed in conformity with the evaluation criteria. One option is to begin with social service and transform to social insurance. Another option is to combine social insurance with social assistance. The last alternative suggests social service type (tax financing).

In order to reflect diverse opinions, LTC policy planning included public hearing and survey. The public hearing of July, 2003 revealed that the public preferred social insurance type. A survey was conducted to obtain experts' ideas from September 30 to October 17, 2003. The results are as follows;

- Independent LTC scheme is preferred (68%)
- Appropriate time of introduction is the year 2007 (69%)
- It should be universal coverage (59%) and cover from the elderly to all ages (48%)
- Priority of care is severity (38%), absence of caregiver (25%), and low-income earners (23%)
- It should finance LTC through social insurance (55%)
- 30% of cost should be charged to the patients (median supporters)

- Revenue should consist of 60% premium and 40% tax subsidy (56%)
- Public assistance is vital to protect the poor (54%)

This paper presents a blueprint for LTC insurance in Korea.

- (1) Type: It combines social insurance with public assistance.
- (2) Recipients: It covers the aged over 65-year old at the initial stage, and extends gradually to the people of the age 45. Notably, priority is granted to those in urgent need.
- (3) Distribution of burden:
 - Insurance: Premium 50% + Tax 30% + OOP 20%
 - Public assistance: Tax 90%, OOP 10%
 - (Under poverty line: free)
- (4) Premium: National health insurance payers cover it.
- (5) Recipients of public assistance: Home care is provided for those under poverty line and rural residents. On the other hand, institutional care helps only the people under poverty line.
- (6) Prospective schedule:
 - 2007 ~ 08 : population coverage 30%
 - 2009 ~ 10 : population coverage 50%
 - 2011 ~ 12 : population coverage 100%
 - 2013 ~ : 45+ disabled covered

In spite of the well-organized plans, questions still remain. It is not obvious why LTC insurance covers only those over 45-year old. What is the reason to set the age of 45 as the standard? On the other side, it is also a difficult issue whether all ages should be included in the governmental LTC policies. Another debate arises from support for the disabled. LTC plans need to specify who gets the benefits; for example, whether physically or mentally disabled people are covered. Factors such as income level that determine the beneficiaries of assistance are a crucial issue as well. Financing structure has to deal with the level of OOP and allocation of insurance and tax. Last but not least, it is necessary to clarify administrative structure including the roles of NHI, LTCI, and central government.

Separation Reform 2000 in Korea and Rational Drug Use by Dr. Eui Kyung Lee

The Separation of Prescribing and Dispensing (SPD) provided the basic infrastructure for a desirable health care system by clearly defining the different roles of physicians and pharmacists. However, without having the specific programs to motivate cost-effective prescribing and dispensing, SPD's goals of rationalizing drug use and optimizing health care expenditure will not be achieved. Thus, the Korean government and health policy makers need to be more concerned about devising pharmacy benefit management programs and preparing effective strategies for successful implementation of the policy.

As Korea develops strategies for rational drug use, Canadian experience is of great value. This is not only because Canada has very effective and efficient drug management system, but also because the pharmaceutical environments of the two countries are similar in many ways. For example, both Korea and Canada did not have a strong R&D-based national pharmaceutical manufacturing sector, and have a general interest in having lower-priced drugs. By reviewing the Canadian system, we would like to get more detailed information on the following issues;

- how to monitor the appropriateness and cost effectiveness of drug therapy and prescribing patterns through the prospective computerized drug use review program
- how to increase awareness of the appropriate use of medication through health promotion strategies and PharmaNet
- how to promote optimal drug therapy through the development of evidence-based therapeutic guidelines by the TI
- how to make the best use of financial resources through evaluation of cost and social benefits of pharmaceutical products by the Pharmacoeconomic Initiative in deciding reimbursable drugs and their prices
- how to contain drug costs through a RBP, LCA policy, and generic substitution

Social goals for the drug policy include identifying cost-effective drugs, ensuring proper prescribing and utilization, and providing

cost-effective drugs and professional services at a reasonable and affordable price to those in medical and financial need. I hope to have more chances to learn the experience of Canada and to discuss how to apply it to Korea.

Elderly Long Term Care Policy in Ontario by Dr. Ito Peng

The long term care system in Canada underwent a series of reforms, along with other health care and social welfare reforms, during the 1980s and the 1990s. The motivations for the reforms were the systemic concern to make the system more coherent, the demographic pressures arising from the population ageing, and financial constraints resulting from economic down turn. The cuts in federal transfer payments and the shift to block funding continued throughout the 1990s. This in turn continued to put pressures on the provincial governments to make up the short fall. In Ontario, the conservative government which came into power in 1992 on the platform of the "common sense revolution" attempted to restructure the health care and social welfare by cutting back on social welfare services across the board, at the same time, streamlining health care delivery through hospital closures and mergers, regionalization of services, reduction in the length of hospital stay, and shifting people from institutional and hospital settings to home. Given the current context, long term care for the elderly will be an on-going policy concern for Ontario and Canada.

In 2002, the final report of the federal government's Commission on the Future of Health Care in Canada (Romanow Report) was released. Arguing that the Canadians value medicare as a "public good, a national symbol and a defining aspect of their citizenship", the report proposed a reform towards more comprehensive and integrated system of health care delivery. It suggested a greater integration of services, broadening the range of health care, and integrating community and hospital care. The proposal also recommended additional federal funding to cover provincial health care cost, and special targeted funding in five key areas, including a home care transfer. The proposal is remarkable not only in terms of the call for renewed effort and more funding for health care, but also in terms of its emphasis on the integration of hospital and

community. Similarly, in 2003, the Standing Senate Committee on Social Affairs, Science and Technology also released its Final Report on the State of Health Care System in Canada (Kirby Report), which also argued for similar changes. These proposals if followed will create new institutions and institutional framework for health care system in Canada, and may lead to a more comprehensive and better integrated long term care system for the country.

Given that the Korean government is planning to introduce a new long-term care system in 2007, it would be enormously valuable to compare how the two countries approach the issue. I hope to share with Korean colleagues our experience of long-term care system and its reform options in Canada, and at the same time, learn more about Korean debates over the proposed long-term care system.

Some of the preliminary research questions for researchers and policy makers in addressing long-term care system reform are as follows:

- 1) what are the basic data on long-term care in Canada and Korea and what are the future projections (e.g. what proportion of the elderly require care, what proportion receive care, what kind of care, etc.);
- 2) what policies and systems of long-term care exist in Canada and Korea;
- 3) how have policy makers responded to public demand for long-term care;
- 4) who are pushing for long-term care system or reform, and why;
- 5) how are the issue of long-term care framed;
- 6) what are the policy debates surrounding long-term care.

Dual-Earner Families Caught in a Liberal Welfare Regime? The Politics of Chile Care Policy in Canada by Dr. Rianne Mahon

Welfare state restructuring in Canada is following the broader OECD pattern, which involves the erosion of forms of social citizenship established in the postwar era and the introduction of reforms inspired by neo-liberal views of the proper relationship of

states, markets and citizens. Such restructuring involves not only cuts in social expenditures but also changes in the very structure of programmes. Thus one important example of the neo-liberal turn is the shift from universal, flat-rate programmes developed in the immediate postwar years, to measures based on negative income tax/guaranteed annual income (NIT/GAI), a shift which is even more pronounced in Canada than in the US. Welfare state restructuring is also implicated in the broader reconfiguration of relations among the different layers of the state (federal, provincial, municipal) and between state and civil society.

All of these trends are visible in the field of Canadian childcare policy but the latter occupies a special position in this process as a result of a change in the dominant family form - the erosion of the male breadwinner family form and the rise of the dual-earner family. This change poses new challenges for the welfare state. As elsewhere, the emergence of the time-pressed, dual-earner family has generated a need for support services like childcare. Yet, in Canada, this transformation has received, at best, limited support from the state. For the most part, governments have assumed that middle and upper-income families were able to look to the market to meet their needs, though limited relief has been available since 1971, in the form of the Child Care Expense Deduction. Between 1966 and 1996, however, subsidies were made available to those "in need or in danger of becoming in need" under the Canada Assistance Plan (CAP). Like most examples of the federal government's use of its spending powers, the CAP system left the initiative to the provinces, which allowed a very uneven development of childcare across the country, in coverage as well as form.

Such limited support is not surprising as Canada's childcare policy shares the liberal features of the broader welfare regime within which it is embedded. And, just as that larger edifice is undergoing major renovations, so too is Canadian childcare policy. Rather than a national childcare act, which several times has seemed within reach, in 1996 the Liberal government replaced CAP with the Canada Health and Services Transfer (CHST) - a reduced block grant which puts no requirement on the provinces to fund childcare services. Moreover, in the 1996 Speech from the Throne, the

federal government announced that its spending power would no longer be used to enter areas of exclusive provincial jurisdiction such as childcare thus seeming to close the door on a national childcare act. As part of Canada's broader family policy, however, childcare was one of the earliest areas subjected to experiments with versions of the negative income tax. Aimed at removing any disincentive to work, even at low wages, these programmes have provided lower income families tax credits which, inter alia, can be used to cover childcare expenses.

Yet the situation is more complex than this suggests. Thus the needs of the time-pressed dual-earner family, given voice by a well-developed coalition of childcare advocates, help to keep the issue of "accessible, affordable, high quality childcare" alive. At the same time, in Canada as in the US, the emergence of the dual-earner family can, in part, be seen as a response to a labour market increasingly characterized by polarization. Labour market polarization has, in turn, given rise to an anti-poverty discourse focused on children. While the childcare advocacy community and its supporters keep the vision of a national universal childcare policy alive, it is difficult for the latter to be heard over the anti-child poverty discourse whose claims are more readily translated into terms compatible with a (neo)liberal form of welfare state.

Families in Transition and the Family Welfare Policies in Korea
by Dr. Hyekyung Lee & Dr. Yeong-Ran Park

Family is the basic unit of society and a central building block in social welfare policy framework. However, the family in Korean is facing unprecedented changes not only in terms of the demographic profile of the nation, but also in the fundamental characteristics of the family. Decreasing fertility rate, rapid aging of population, escalating divorce rate and increasing women's labor force participation are a few indicators of structural changes of Korean family. These structural changes have also accompanied changes in family values, roles of women and men, relationship and function of family members as well. It is not surprising that family studies academia and relevant practitioners as well as government ministries and women's organizations are voicing the need for more

systematic and expanded intervention to prevent and to tackle the family issues, even though their perspectives in defining the problem and designing the solutions might not be consistent with each other.

On the other hand, the family welfare policy as a societal response aimed at strengthening families and helping them meet their needs and solve their real problems has long been of lower priority and of less coherence. Here the entrenched belief in the principle of family responsibility has been strongly interlocked with the deep rooted myth of robustness of family tradition as well as the gender division of labor. Until recently, social welfare policies addressing to diverse family problems such as economic crisis, marital conflict, divorce, violence, burden of care and education had received only a marginal attention. Even in the picture of welfare regime transition toward the democratic-welfare-capitalism, the notion of family policy does not have a place as a coherent policy area.

However, it has to be noted that the post-crisis Kim Dae Jung government and perhaps the Roh Moo Hyun government as well, have approached the family welfare policy more as a gender policy. The problem of violence, domestic and sexual, for instance, was a typical case in which the women's group initiated and lead the whole process, from issue raising, bill writing, and putting it through in the parliament and to the implementation. And the Rho Moo Hyun government's transfer of jurisdiction of the day care service programs for the children from the Ministry of Health and Welfare to the Ministry of Gender Equality is another example. The Ministry of Gender Equality is now pushing forward the revision of the Family Law, to engender the very basic legal frame of gender relations, with the strong support from the progressive women's organizations.

Family is a living, evolving social institution. And it is in the process of transformation. The main task of the social welfare policy makers today is to make the democratic-welfare-capitalism of the Productive Welfare more responsive to the demands of the 21st century policy environment. To be noted here is that the inner dynamics of three composite regime today would be far different from those in the 20th century. Capitalism today is globally integrated. It is no longer nation-state based. Huge amount of short-

term capital moves across national borders in short notice. Full employment and lifetime job, which is the precondition for the Keynesian welfare state is no longer the norm. The number of irregular workers is more than a half of the employed in Korea. The government is no longer only actor in policy making. Civil society, many stakeholders, and sometimes the international financial institutions join the decision making process. Moreover, the speed of population aging together with low prospects of economic growth threatens the future viability of present welfare commitments.

Changes in family structure and gender role are interrelated with changes not only in labor market structure, but also changes in the life cycle, their educational achievements and the pro-women policies themselves. And those changes are expected to bring about growing disjuncture between traditional modes of social protection and evolving needs and risks. By constructing the family welfare policies which can ameliorate and prevent these disjunctures, the welfare component of the democratic-welfare-capitalist regime will be stably institutionalized as a means to make democracy better able to withstand the failures inherent in the globalized market, and thereby to make democracy and market economy together sustainable in the 21st century Korea.

What can Korea Learn from Canadian Pension Reform Attempts? By Dr. Sang Kyun Kim

This study has reviewed the Canadian pension history in a framework of the historical approach and group theory. It was thus confirmed that the Canadian pension system is continuously undergoing an evolutionary reform and that a certain policy at a certain period is no more than a compromise between the conflicting interests of competing groups. Now, it is the time for us to draw some important lessons from the Canadian experiences. In general, Korea can learn a lot from Canada. This study, however, lines them up into ten items.

Firstly, from the beginning of the pension history, Canadian public pensions have consistently won enthusiastic support from the public, due mainly to the existence of the OAS, a universal pension

program, serving all individuals at retirement age and funded fully from the general government revenues. The genuineness of Canadian governments to provide a universal, flat-rate benefit made pension issues one of major national agenda and enabled Canadians to recognize more easily the state's role in providing income security for the elderly. This is reinforced by the fact that the poverty rate among elderly Canadians has declined significantly during the past decades, while that for all has slightly increased. And also, public pension programs (OAS/GIS and C/QPP), as a major income source, serve well to lower income groups; they provide 84 percent of the income of the poorest quintile group and 64 percent for the second poorest quintile group, whereas they provide only 18 percent of the income of the richest quintile group. Such roles of Canadian public pension have made the public confidence relatively solid. In Korea, there have never been universal benefits for all seniors. The existing partially funded earnings-related pension plan has totally failed to earn public trust from its inception and the situation seems to continue to aggravate. Therefore, it is worthwhile being seriously considered that the Korean government adopt a universal pension program into the public pension system.

Secondly, the public pension system in Canada, from its origin, has left a considerable room for the private sector to be involved, whereas the maximum level of public pension benefits was 40 percent of average earnings, which is relatively low by the ILO standards. Canadian governments thus could have bolstered the expansion of the third-tier retirement income system, consisting of occupational pensions and personal savings. The fact that the size of public pensions is rather small means that in planning their retirement incomes, Canadians' dependency on the government is not heavy, and that they could accept even more radical reform proposals. The Korean National Pension Scheme began with 70% of the replacement rate. At the moment, the government is struggling to reduce the current rate of 60 % to 50, but it seems extremely difficult, not only because most Korean people have no other means than public pensions for securing income in old age, but the private pensions industry has not fully developed and remains at an infant stage.

Thirdly, in the process of Canadian pension reforms, the active pressure role played by trade unions as well as organized interest groups was remarkable. They occasionally used an alliance tactics, for example, in the case of the Seniors Benefit proposal. The Retirement Income Coalition was formed among 21 groups against the Seniors Benefit proposal in 1996. During the long period of the pension evolution in Canada, one of the most prominent actors was the Canadian Labour Congress (CLC). The CLC is the representative organization in the Canadian labour movement, which has played a significant role as an advocate for public pensions. In Korea, recently various civic organizations and trade unions began to actively participate in social movements and raise their voices to protest against the government's proposals on pension reform. They also use very often the tactics of alliance in their efforts of protest against the government. The successful case of alliance in Canada can shed light on both civic organizations and the government in Korea.

Fourthly, the episode of 1985 Solange Denis versus Brian Mulroney, then-Prime Minister, is a good evidence that proved a decisive role played by the mass media to push the public opinion into a direction. Since the mass media inherently have some inclination to sensationalism, emotional appeal, excitement, and agitation, it tends to emboss deprived seniors, even with rational reform proposals. The political power of seniors, the "grey lobby", with a strategy to use the mass media, can drive the reform process into a "muddling through" rather than pursuing a rationality. In Korea, currently no pensioners' organizations are existent. But they are expected to emerge around 2010, after the first generation of the National Pension Scheme's participants is fully entitled to old age pension in 2008. As far as the Korean mass media is concerned, their role in pension reform process has been less conspicuous than generally imagined, due probably to their ignorance of the so-called "old age crisis."

Fifthly, the ideological cleavage among different political parties was less clearly cut in the pension reform. It is not surprising that all Canadian politicians in the political left or right get pressures from various pressure groups, particularly, older voters who are generally more active in elections than young people. Since the economic recession in the early of 1980s, the difference of positions between

the political left and right has been blurred, with regard especially to financial sustainability of the CPP. In Korea, political parties are usually not actively engaged in the pension reform process. Few parties have their own reform proposals and their role in the benefit-cut reform process is very often restricted to the role of veto.

Sixthly, the Canadian federal government's commitment to facilitate the preparation work for reform proposals - such as conducting research, publication of related data and discussion papers and so on - is very impressive. And also, the annual actuarial reports of the CPP have played a pivotal role in pushing the pension issue to the center of the Canadian politics. While the Canadian government is operating an office of Chief Actuary, there is not such a position in Korea. Nevertheless, Korea has just completed its first statutory procedure of the publication of actuarial report which is to appear once in every five years. The term of five-year, however, seems, to be too long. It seems imperative for the Korean government to spend more on pension research, publication of pension data, and training pension experts.

Seventhly, Canada has already institutionalized firmly a democratic process of policy making. The formula of federal-provincial amendment process is an outstanding example of the institutionalization. Building a consensus from not only federal and provincial governments but also the public and expert consultations was a major contributor to the agreements on the changes in the Canadian pension schemes. The politics of consultation in Canadian pension reform provides us with many know-hows for the development of Korean democracy, for instance, the value of dialogue and compromise, the attitudes of tolerance and patience, skills for competing and bargaining and so on. In Korea, even the Korea Tri-partite Commission, aimed to resolve the problems of industrial relations, is not working as smoothly as wanted. Korea desperately needs institutionalization of consultation in all parts of policy making including pension reform.

Eighthly, the 1980s' pension reforms in Canada demonstrated the importance of intellectual approach. The so-called "blame-avoidance" strategy and "the reform by stealth" functioned nicely for the government with elaborative or even arcane technology.

Since a visible attempt to cutting benefits in 1985 was confronted with the political risks, the pension policies have been developed and devised in the necessity of lowering visibility of changes to the benefits. In other words, this means that a number of researches and sufficient studies by many pension experts preceded strategies and tactics of the federal government. In Korea, there are currently only a handful of pension experts and their works are bound to be very restricted in quantity and quality as well. It is urgently needed for the Korean government to make long-term investment in education and training of pension specialists.

Ninthly, in accentuating the risk of financial sustainability under demographic and economic pressures, the Canadian governments had been preparing for the longer-term changes and thus raised the rationality in reforming the CPP by accelerating the legislated contribution rate increases. Thus, it was proved very effective that the governments, on a gloomy demographic projection, write the most pessimistic scenario and diffuse it.

Lastly but not least, the most important lesson that Korea can learn from the whole Canadian history of public pension reforms is its incremental or evolutionary (not revolutionary) process, in which various actors including federal, provincial, territorial governments, labour unions, women's groups, disability groups, business community, as well as pensioners, freely participated and continuous debates and negotiations took place. Thus even when they fiercely confronted with one another, the dialogue did not come to a halt. As far as democracy is concerned, Koreans require more time to adjust to democratic ways of life, because until the so-called "June, 1987 protest" Korean people had been ruled for long under authoritarian regimes.

Pension Reform in Canada in the 1990s: What lies Ahead by Mr. Bob Baldwin

Despite the vigour of debate on pension reform through the mid-1990s, Canadians reached a temporary political equilibrium at a place that was not much different from our starting point.

Over the period since 1998, there has been little impetus for change. One might say that the usual suspects, including the trade union

movement and the pension industry, are doing their usual thing but in a somewhat perfunctory fashion. But, we are not in an equilibrium that is beyond disturbance.

In the near future, I see one domestic source of disturbance and that is the financial difficulties faced by workplace pensions. They are required to be on track to be fully funded. In recent years, they have taken quite a financial beating. The asset side of their balance sheets has suffered as a result of poor stock market performance. At the same time, the liability side has been adversely affected by declining interest rates.

Presently, there are a number of groups at work reviewing the financing arrangements for these plans. If no solution is found to the excessive sensitivity of current arrangements to short-term changes in financial markets, I suspect we will see more plan windups and/or conversions of defined benefit plans to defined contribution plans.

This is one of a few possible reasons why income adequacy may retake center stage in pension reform debates.

There are three economic circumstances that are important in explaining the growth in the absolute and relative income situation of the elderly – namely: low inflation, high returns on financial assets, and low wage growth. High rates of return on financial assets are gone and likely gone for a long time. All things being equal, ageing and a related slow down in population growth should raise wages. Thus, the ability of the pre-funded parts of the pension system to keep delivering improved living standards will not likely maintain the pace it did in the latter part of the 20th century.

Finally, in Canada, there has been a decline in the portion of employed persons who belong to workplace pensions.

All of these developments could bring pension reform back on to the agenda, but with a focus on income adequacy. Of these developments, the only one that is likely to be a strong influence in the near term is the financing problems of workplace pensions.

There are also some severe challenges facing the new financing provisions of the CPP.

The CPP legislation now specifies that its financing objectives are to stabilize both the contribution rate and the fund to expenditure ratio. In a steady state world, doing both is plausible. But, in the real world of volatile investment returns, it is impossible to do both consistently. When the conflict between the two objectives emerges as it likely will in a year or two, there will likely be a little crisis that will revolve around whether and/or how to reconcile the two objectives. The legislation to amend the CPP did not address this issue and critics of the ability of governments to get things right will have fodder for their case.

In Canada, there are international institutions whose work could disturb the local equilibrium. The issuing of the World Bank report in 1994 contributed to the debate in Canada. The current efforts of the OECD to encourage later retirement is having some effect in bureaucratic circles. And, the apparent desire of the World Economic Forum to enter the pension debate might also have an effect on the Canadian equilibrium.

There are four very general thoughts on the ability of societies to cope with ageing populations.

- 1) Concerns about the impact of population ageing might focus on any or all of: the share of national income that will be claimed by pensioners; fiscal impacts of ageing; and/or the impact of ageing on payroll contribution rates and labour costs. It is important to be as clear as possible about which of these sources is most or least important, as the realm of possible responses is different from one source of concern to the next.
- 2) Because societies generally do much more of their income sharing with elderly through taxes and transfers, while they do much more of their income sharing with the young within private households, ageing may be more problematic politically than it is in terms of its impact on the standard of living of the working-age population.
- 3) The ability of societies to transfer increased income to the elderly without depressing the absolute standard of living of the working-age population is a direct function of labour productivity growth. In most countries, it will be possible to

keep up the transfers to a growing elderly population with no depression in the standard of living of the working-age population.

- 4) Finally, it is important to keep both the issues of affordability and income adequacy in focus and to keep all part of the retirement income system in focus. This is especially important since different parts of the system will be of greater or lesser importance to different parts of the population.

Social Citizenship, Governance and Social Policy by Dr. Jane Jenson

In the recent years both social citizenship and governance have become increasingly important matters for social policy debates in Canada. The notion of social citizenship implies rights and responsibilities accorded to individuals as members of a community, while governance involves the processes of governing by public policy networks that include both public and private sector actors. Social citizenship determines the access that individuals have to services and provisions, while governance relations may determine how these services and provisions are structured, provided, and organized.

The examples of the logics of social citizenship have shown that there is pressure within each to provide alternative forms of governance. Because Canada is a federal system all of these policies and programs have had consequences for intergovernmental relations, including their form and the level of conflict. But beyond these governance challenges are others. They relate to the role of non-state agents, and especially the Third Sector in the delivery and maintenance of programs of understood to provide social citizenship. Thus there are two questions:

- Are unwieldy and conflict-ridden governance practices in intergovernmental relations undermining social citizenship by prompting reductions?
- Is the turn to the Third Sector to deliver social programs a weakening of rights, both for the recipients and workers?

The answer with respect to intergovernmental relations is a complicated one. It is the case that the federal governments focus on reducing the deficit and certain provincial governments' enthusiasm for neo-liberalism has brought reductions in spending and rights. However, there is also evidence of significant redesign of social architecture, to meet new needs. Therefore, for the moment the jury is still out on the answer to the first question. With respect to new governance practices and the Third Sector, there is even more cause for concern.

In the case of anti-poverty strategies, the tendency is to increase the role of the Third Sector. While it has always existed, because non-profit agencies and associations have always provided services as charity or to supplement public services, enthusiasm for this type of off-loading has grown in recent years. As in the French discourse of social citizenship, associations in the Third Sector appear to provide possibilities for reviving active citizenship.

It is in many ways a vision of service provision that is the opposite of the professional, universal and centralized form of service that underpinned Canada's health care system in its heyday. If universal access to health care has come to represent the epitome of post-1945 social citizenship, a strengthened Third Sector is proposed by activists, academics and governments as a response to the job scarcity, poverty and social exclusion that characterizes the current situation. It is intended to provide access to services at a time of cutbacks in public spending while offering an alternative to fully marketized rules of access. Therefore, in both its service delivery and its governance structures, it is meant to foster a more inclusive citizenship.

Those who promote a strong Third Sector as a tool for citizenship building explicitly identify its implications for governance in two ways. First, fostering such activities directly indicates the importance of the not-for-profit sector. Proponents identify the organizations of the Third Sector as potentially even better positioned to address problems of unemployment and poverty, and of social exclusion and lack of full social citizenship. These organizations are often considered ideally located to respond to the needs of their local communities, by mobilizing community

resources to create jobs and social services that the market will not and the state is unwilling to provide. As well, the Third Sector has its own forms of governance – its principles are those of democratic participation, self-management, and maintaining links between workers and the broader community. It is therefore a decentralized form of service provision, which provides space for engagement and capacity building.

It is important to sound several notes of caution, however. Sometimes public services that had been provided as a right of citizenship are withdrawn in favour of services when a Third Sector agency is available and willing to provide them. This decentralization of service delivery to the private, albeit not-for-profit, sector can result in uneven and limited access. Organizations may provide access to services according to their own mandate and their own criteria, thereby transforming a citizenship right into a privilege. Therefore, many argue that the benefits of such new forms of governance must be coupled with a renewed state commitment to protecting broad social rights, and by assigning significant public resources to the goal of reducing inequalities among communities.

Moreover, a turn to service delivery via the Third Sector may generate new forms of social and economic inequities, despite the key goal being social inclusion. In effect, reducing state provision of services also means changing labour markets. When public services are provided by public servants, wages and working conditions tend to be good. In other words, a public sector job is often a means to improved life chances, especially for categories of the population that traditionally have difficulty accessing good jobs in the private sector. Jobs in the Third Sector, in contrast, may be lower-paid, while some significant portion of the labour may be provided for free, by volunteers. Thus, services such as home care, which, in the past might have been provided by a reasonably well-paid public employee, are now provided by an employee who may be working at the minimum wage or even below in order to gain experience and the skills needed to enable her insertion into the labour market or by a volunteer.

All of these concerns underline the fact that governance, social citizenship and social policy are closely connected. Changes to social policy and altered forms of governance must be assessed as to their consequences for social citizenship.

II. OPENING CEREMONY

Welcoming Remarks

H.E. Hwa-Joong Kim
Minister of Health and Welfare

여러분, 안녕하십니까? 모두 반갑습니다.

오늘 저희 보건복지부와 주한 캐나다 대사관이 공동으로 “한국-캐나다 사회정책 국제 심포지움”을 개최하게 되었습니다. 심포지움에 참석하기 위해 멀리 캐나다에서 한국을 방문해 주신 캐나다측 관계자 여러분을 진심으로 환영합니다.

심포지움을 위해 지난 봄부터 국제 화상회의 등 준비에 만전을 기해 오신 양국 관계자의 노력에 감사드리며, 양국의 정책 관계자와 관련 전문가 여러분을 모시고 귀중한 시간을 갖게 된 것을 기쁘게 생각합니다.

한국과 캐나다는 그동안 세계평화와 인류의 복지 증진을 실현하는데 있어서 많은 부분을 협력해 왔으며, 보건과 복지분야에서도 질병없는 건강한 사회와 행복한 삶을 위하여 긴밀히 협력해 왔습니다.

특히, 올해는 한국-캐나다 수교 40주년이 되는 해로서, 이미 고령사회로 진입한 캐나다의 정책과 경험을 토대로, 양국의 공동 관심사인 고령화 사회(Aging Society)와 관련된 주요 정책을 연구해 왔으며, 그 연구결과를 오늘 심포지움을 통하여 발표하고 토론하게 되었습니다.

이번 심포지움이 양국의 사회정책에 대한 정보와 지식의 교류, 관련분야 공동연구 등의 협력관계를 증진하고, 국제사회에서의 정책공조에 크게 기여할 것으로 기대합니다.

고령화 사회에 대한 대책은 한국 정부에 있어서도 매우 중요한 정책중의 하나입니다.

지금 우리는 고령화사회에 대비하여 국민연금제도를 안정적으로 운영하기 위한 개혁을 추진하고 있으며, 대통령

지속으로 '고령화 대책 기획단'을 설치 하였고, 논의의 일자리 창출을 위하여 '국민연금관리공단'에 '노인인력 운영센터'를 설치하여 운영하고, 또한 보건복지부내에 노인정책 담당부서를 확대할 계획입니다.

아무쪼록 오늘 이 심포지움이 한국정부의 이러한 노력에 큰 도움이 되기를 바랍니다. 참가자 여러분의 활발한 논의와 의미있는 제안들이 많이 제시되기를 기대합니다.

끝으로, 드니 꼬모(Denis Comeau) 주한 캐나다 대사님과 관계직원 여러분, 그리고 실무를 담당해 오신 한국보건사회연구원을 비롯하여 도와주신 많은 분들께 감사드립니다.

캐나다에서 오신 전문가 여러분들의 이번 한국 방문이 소중한 추억으로 간직되기를 바라며, 여러분 모두의 건강과 행운을 기원합니다.

감사합니다.

Congratulatory Remarks

*H.E. Denis Comeau
Ambassador of Canada*

Minister Kim, Hwa Jung, President Bark of KIHASA, Deputy Minister Moon, distinguished Researchers, guests, ladies and gentlemen.

First of all, I would like to congratulate everyone who has been involved in organizing this symposium. Since the idea of collaborating on social policy research was first broached by the Canadian Embassy just over a year ago, we have made significant progress, culminating in this first Canada-Korea Social Policy Symposium.

As many of you know, 2003 marks the 40th anniversary of diplomatic relations between our two nations. To commemorate this milestone, an 'arrangement' was signed in May 2003 between the Canadian Embassy and the Korean Ministry of Health and Welfare, to launch a collaborative research project on emerging social policy issues with a commitment to hold a bilateral symposium before the end of this year.

Korea, as one of the fastest aging societies in the world, and Canada, which has already, for sometime, been experiencing social and economic consequences of a rapidly aging society, have much to share and learn through collaboration, particularly in the areas of health and elderly care, family and childcare, pension schemes and governance.

By working together, it is recognized that mutually beneficial objectives could be achieved as this project would provide a mechanism by which governmental and non-governmental communities of both countries could share ideas and best practices which would lead to the development of a strong network of policy experts, further strengthening the people to people ties which already exist today.

A great deal of preparatory activity has gone into this project already. A 'research design seminar' via videoconferencing took

place in June which involved numerous academic and policy experts from both sides to determine the themes for research. Scoping papers were prepared, followed by the research itself which was conducted over the summer months. And today, we are gathered in Seoul, to hear and debate the results of the research. A new website has been developed at www.alumnicanada.or.kr/sprp. Please take the time to visit the site.

We have attracted the enthusiastic participation of top-notch experts and researchers from Canada and Korea, and therefore, I am confident that viable options to address some of the key policy issues challenging our nations today will be identified. Furthermore, I sincerely hope that the results of the research will be mutually beneficial, providing further justification for us to embark on continued collaboration.

In closing, I would like to thank minister Kim and the Ministry of Health and Welfare, President Bark and Korea Institute for Health and Social Affairs, the researchers as well as my staff for the tremendous efforts they have exerted to ensure the realization of this noteworthy endeavour.

Thank you.

Keynote Speech

Kyung Tae Moon

Deputy Minister

Ministry of Health and Welfare

Mr. Ambassador, Dr. Soon-il Bark, experts from Canada and Korea, ladies and gentlemen, I would like to thank all of you for your presence here this morning and particularly recognize the time and effort that the Canadian Embassy and the Korea Institute for Health and Social Affairs (KIHASA) have expended to put this Symposium together.

Also, I would like to acknowledge with sincere gratitude the work of the speakers, moderators, and discussants this morning.

I believe that today's Symposium has much to offer to Korea, which is facing a number of social policy issues, especially the issue of an aging population.

The government of Korea under President Roh emphasizes "participatory welfare" where the role and responsibility of the government are expanded and the general public increases its involvement in improving health and welfare services.

I hope that we will be able to leave this Symposium today with meaningful insights we can draw on to resolve these issues ahead of us and improve our social policy.

I also wish that the afternoon session will also prove as informative and productive as the one we had in the morning.

**III. SESSION I :
HEALTH POLICY**

Introduction of Long-term Care Insurance in Korea

Byongho Tchoe

Korea Institute for Health and Social Affairs

Introduction

During the past 40 years, Korea has successfully established its status of a western style welfare state; in particular, in the area of social insurance. Governmental policies today cover national health insurance, national pension, workers injury compensation, and unemployment insurance. It is more encouraging that the government of Korea now plans to launch the fifth social insurance scheme, Long Term Care (LTC) insurance. LTC insurance is a today's hot issue. This paper presents the related-subjects of which contents are based on the public hearing last week.

Need for Long-term Care

The need for LTC insurance attributes to the demographic trends in Korea. First of all, population aging is occurring at a rapid pace as Table 1 indicates. It is estimated that, by 2020, the share of the elderly in total population (over 65) will rise continuously, reaching 15.1 percent. Table 1 shows that the proportion of people at older ages will be almost doubled in 20 years.

Table 1. Rapidly Aging Society

Year	65 + (%)	80+ (%)
2000	7.2	1.0
2010	10.7	1.9
2020	15.1	3.6

Source: National Bureau of Statistics

What makes this trend more striking is the rapid pace at which aging occurs. It is expected to take 115 years for France to shift from an aging society (7%) to aged society (14%). 72 years in the U.S., 47 years in the UK, and 40 years in Germany will have elapsed to transform into an aged society. For Japan, to be an aged society costs 24 years whereas it does only 19 years for Korea. (UN, 2000)

Secondly, the structure of family supporting system has changed. Traditionally, caring for the elderly has been charge of family. However, this structure does not seem to be stable any more. Rather it is collapsing due to the factor of labor force. There has been significant increase in the labor force participation of Korean women as revealed in Table 2. During the period 1970 to 2000, the percentage of women's economic participation increased from 39.3 to 48.3. Accordingly, the proportion of three generation households dropped from 38.4 (1995) to 29.9 (2000).

Table 2. Increase in Women's Labor Force Participation

Year	1970	1980	1990	1995	2000
%	39.3	42.8	47.0	48.3	48.3

Source: National Bureau of Statistics (2001)

As an increasing number of women are participating in economic activities outside home, and the number of nuclear family is rising, the share of elderly households is growing as well. Table 3 shows that the percentage increased from 16.0 (1990) to 18.8 (2000).

Table 3. Share Increase of Elderly Households (over 65 yrs.) (%)

Year	1990	1995	2000
65+ total	23.1	33.7	41.8

Source: National Bureau of Statistics (2001)

In Table 4, Korea Institute for Health and Social Affairs (KIHASA) estimates that, by 2030, health care cost of the aged will be around 50% of the total national health expenditure. It is a remarkable increase comparing to the cost share in 2000 (20.3%).

Table 4. Health Care Cost of the Aged (%)

	2000	2010	2030
Population Share of 65+	7.2	10.7	23.1
Health Care Cost share of 65+	20.3	30.1	47.9

Source: KIHASA (2001)

Besides the demographic changes and increase in health care cost of the aged, other statistical data urge introduction of LTC insurance for the elderly in Korea. Table 5 indicates that around 590 old people have activities of daily living (ADL) disability in 2003. In 2030, however, the number will be doubled.

Table 5. Prospect for LTC Needy Elderly

(unit: thousand)

Year	2003	2030
Institutional Care	78	140
Home Care	519	1000

The estimation of LTC cost also suggests the need of LTC insurance. The share of total LTC cost in GDP is 0.67 amounting to 4 trillion Korean won in 2003. It is expected that, by 2020, the share will rise up to 1.34. (Table 6) Most of the costs will be born by in-family personal care.

Table 6. Potential Cost of LTC

Year	Cost
2003	- 4 Trillion Korean Won (340 Billion US\$) : Institutional Care Cost (1 Trillion Won) Home Care Cost (3 Trillion Won) - 0.67% of GDP
2020	- 8 Trillion Won (based on the price of 2002) - 1.34% of GDP

Current Status of LTC

Currently, the Korean public system for LTC only covers cost for the poor under the poverty line. Therefore, LTC for the elderly is mostly the burden of family. KIHASA statistics reports that 26% of the elderly in need of LTC do not have caregivers (Table 7). They

must take care of themselves. On the other hand, 50% of the aged find caregivers within their family members.

Table 7. Type of Caregiver for the Elderly

Absence of Caregiver	Outside of family	Family
26.0%	23.1%	50.9%

Source: KIHASA (2002)

Here, it is necessary to examine who are responsible for care of the elderly in need within the family. According to Table 8, most caregivers in charge of chronic disease patients are women, and more than half of them are over 55-year old. For the disabled, overall 70% of caregivers are family members. Spouses are the major helpers (34.2% for the ADL disabled, and 24.5% for the IADL disabled), and the elder sons or their wives are also in charge of caring (22.7% & 27.7%).

Table 8. Type of Caregiver in Family

Patients	Type of Caregiver in Family	
	Chronic Disease Patients	Women
55 +		56.3%
Employed		49.4%
ADL Disabled	Spouse	34.2%
	Elder son or his wife	22.7%
	The other sons or their wives	14.8%
IADL Disabled	Elder son or his wife	27.7%
	Spouse	24.5%
	The other sons or their wives	16.0%

Source: KIHASA (1999)

In addition, Table 9 presents the research result on prevalence rate of the disabled elderly by the type of caregiver. In general, 18.9 percent of the aged people have ADL disability in a greater or less degree at home. The proportion of the totally disabled among the elderly is 1.5%. 2.5 percent are single having no caregiver, whereas 60.7 percent of them are cared at institution.

In order to assess the current status of the Korean LTC system, it is desirable to compare it with that of other advanced countries. Table 10 provides the data comparison of LTC service and cost among Denmark, France, Germany, Japan, Sweden, the U.S., and Korea. In Korea, less than 1 percent of the elderly (65+) are under either home or institutional care. In contrast, all the other six countries report more than 5 percent. This result raises a concern in consideration of the population aging rate of the Korean society.

Table 9. LTC Needy Elderly by the Type of Caregiver

Degree of ADL disability	% of the elderly at Home	Single elderly without caregiver	Elderly with caregiver				% of the elderly at Institution
			Spouse's help		Children's help		
			70+	69+	Housewife	Working wife	
I	7.3	0.4	0.6	0.8	2.6	2.8	19.1
II	10.1	2.0	1.0	1.7	2.6	2.9	40.1
III	1.5	0.1	0.3	0.2	0.4	0.5	1.5
Total	18.9	2.5	1.9	2.7	5.6	0.4	60.7

Source: KIHASA (2001)

Note: Degree I = able with help, II = partially disabled,

III = totally disabled

Then, how the current LTC cost is organized in Korea? It is divided into public and private system. Medical service and social service systems also constitute the cost structure as in Table 11. LTC is spread out into public, private, and medical service system. Therefore, it is difficult to separate medical service and social service system

Table 10. Proportion of the Elderly with Public LTC Service and LTC cost

	65+ population(%)	65 + people		LTC Cost ('92~'95)
		% with home care	% with institutional care	% GDP
Korea	7.2	0.5	0.6	-
Japan	17.2	5	6	0.9
Germany	15.9	10	7	0.8
France	15.9	6	6	0.5
Denmark	14.7	20	7	2.2
Sweden	16.7	11	9	2.7
USA	12.4	16	6	0.7

Source: OECD Health Data (2003) & MOHW (2003)

Table 11. Current Structure of Bearing LTC Cost

	Public	Private
Medical Service	Health Insurance or Medicaid	Out-of-Pocket Payment
Social Service	Institution care Or Home care (Home helper, Short-stay, Day care)	Family care or Pay Institution
		Long-term Care

Principle of LTC Policy

The government of Korea urges the planning board to persist in the principle of LTC policy. The principle is as follows;

1. Universal Coverage
2. Respect for Consumer's Choice and Rights
3. Diverse Participation including Government, Family, Provider, Regional society, and NGOs.
4. Social Risk Pooling of Financing
5. Sustainable System in Financing and Delivery

The government also pursues a cost-effective system. Hence, it mainly focuses on home care, and supplements it with institutional care.

Government Action

- ✓ In 2000, governmental action for LTC policy began while initiating the first planning board. It devised basic and comprehensive plans.
- ✓ In 2001, the second planning board was organized, and they conducted basic research and national survey.
- ✓ During 2002, they pursued in-depth studies and took field trips to Germany and Japan.
- ✓ The third planning board was formed in 2003. It consists of the four sub-committees; financing, classification and assessment, fee and service, and infrastructure.

Alternatives for LTC Financing

This paper suggests several alternatives in order to finance LTC. Four types of LTC financing are (1) social insurance; (2) social service-either selective or universal coverage; (3) LTC saving; and (4) private insurance.

It is essential to evaluate the alternatives based on the following criteria;

1. Efficiency
2. Equity

3. Service Quality

4. Compatibility with the Current Social Welfare System.

Three interim options are proposed in conformity with the evaluation criteria. One option is to begin with social service and transform to social insurance. Another option is to combine social insurance with social assistance. The last alternative suggests social service type (tax financing).

In order to reflect diverse opinions, LTC policy planning included public hearing and survey. The public hearing of July, 2003 revealed that the public preferred social insurance type. A survey was conducted to obtain experts' ideas from September 30 to October 17, 2003. The results are as follows;

- Independent LTC scheme is preferred (68%)
- Appropriate time of introduction is the year 2007 (69%)
- It should be universal coverage (59%) and cover from the elderly to all ages (48%)
- Priority of care is severity (38%), absence of caregiver (25%), and low-income earners (23%)
- It should finance LTC through social insurance (55%)
- 30% of cost should be charged to the patients (median supporters)
- Revenue should consist of 60% premium and 40% tax subsidy (56%)
- Public assistance is vital to protect the poor (54%)

Design of LTC Insurance

As a conclusion, this paper presents a blueprint for LTC insurance in Korea.

- (1) Type: It combines social insurance with public assistance.
- (2) Recipients: It covers the aged over 65-year old at the initial stage, and extends gradually to the people of the age 45. Notably, priority is granted to those in urgent need.
- (3) Distribution of burden:
 - ✓ Insurance: Premium 50% + Tax 30% + OOP 20%

- ✓ Public assistance: Tax 90%, OOP 10%
(Under poverty line: free)
- (4) Premium: National health insurance payers cover it.
- (5) Recipients of public assistance: Home care is provided for those under poverty line and rural residents. On the other hand, institutional care helps only the people under poverty line.
- (6) Prospective schedule:
 - 2007 ~ 08 : population coverage 30%
 - 2009 ~ 10 : population coverage 50%
 - 2011 ~ 12 : population coverage 100%
 - 2013 ~ : 45+ disabled covered

Remaining Issues

In spite of the well-organized plans, questions still remain. It is not obvious why LTC insurance covers only those over 45-year old. What is the reason to set the age of 45 as the standard? On the other side, it is also a difficult issue whether all ages should be included in the governmental LTC policies. Another debate arises from support for the disabled. LTC plans need to specify who gets the benefits; for example, whether physically or mentally disabled people are covered. Factors such as income level that determine the beneficiaries of assistance are a crucial issue as well. Financing structure has to deal with the level of OOP and allocation of insurance and tax. Last but not least, it is necessary to clarify administrative structure including the roles of NHI, LTCI, and central government.

Separation Reform 2000 in Korea and Rational Drug Use

Eui-Kyung Lee

Korea Institute for Health and Social Affairs

I. Background of the Separation Reform

The Korean government carried out a health care reform, effective as of 1 July, 2000, by launching a new policy called the Separation of Prescribing and Dispensing (SPD). Before the enactment of SPD, physicians could prescribe and dispense drugs at their offices. Pharmacists, on the other hand, could sell any drug, even antibiotics, at the pharmacy. In addition, they even gave medical consultation to patients for minor diseases and dispensed some drugs on the basis of their own knowledge and experience, which was an extension of the deep-seated tradition of oriental medicine seen in China, Japan, Taiwan, and other East Asian countries.

The lack of role differentiation between physicians and pharmacists, however, was in urgent need of attention because it caused duplication of services provided and waste of health care resources. In particular, this lack of differentiation has resulted in overuse and misuse of medicines among Korean people. There was no check-and-balance between the two professions in providing medical services, and no legal restrictions for the pharmacists to sell prescription drugs. In addition, there was high profit margin for selling drugs in the competitive drug market. This economic incentive was one of the reasons why physicians and pharmacists tended to prescribe more drugs than necessary for patients.

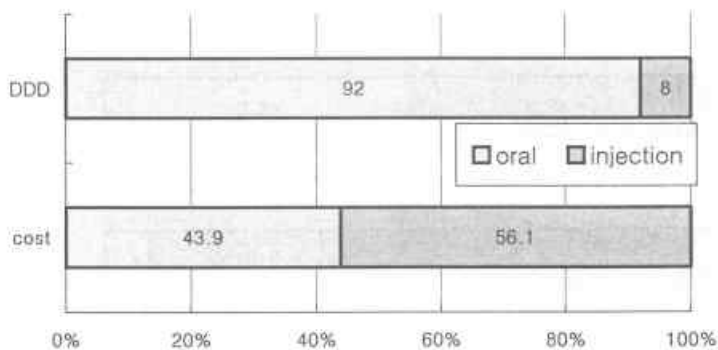
Several statistics document the overuse of drugs in Korea before SPD. First, the prescription rate was 85.8% based on National Health Insurance (NHI) claims data. According to the National Ambulatory Medical Care Survey in the USA, however, physicians in the US prescribed drugs for 65.1% of their patients. Physicians in Korea tended to prescribe drugs for more patients than the physicians did in the US. Second, Korean physicians prescribed 4.2 kinds of drugs per patient on average, whereas the WHO recommended one or two kinds of drugs per patient. According to the survey results of the NAMCS in 1998, two or less medications

were prescribed in 79.9% of visits to the physician. These figures show that Korean physicians tended to prescribe many kinds of drugs before SPD.

Third, the prescription rate for the antibiotics was 58.9%, which meant physicians had prescribed antibiotics for 58.9 of 100 patients. In terms of expenditure, about one third of drug expenditure was for buying antibiotics. Antibiotics consumption level was reported to be as high as 33.2 DDDs (Defined Daily Dose)/1000persons/day, while the average antibiotics consumption of OECD countries was around 20 DDDs/1000persons/day, and that of Germany was 10 DDDs/1000persons/day. We spent 56% of antibiotics expenditure on injection, but only 8% of consumed antibiotics were injectable form. It means the price of injection is very high (Fig 1).

Before SPD, pharmacies were a major source for providing antibiotics because they sold them without requiring prescription. As a result of that, antibiotics expenditure that were sold without prescription at pharmacies was composed of 7% of total antibiotics expenditure in Korea before SPD. The consumption level as DDDs, however, was almost 50% before SPD. These figures imply that relatively cheap-priced antibiotics were sold at pharmacies without prescription for many patients (Figure 2).

Figure 1. Rate of antibiotics consumption and expenditure for oral and injection form before SPD

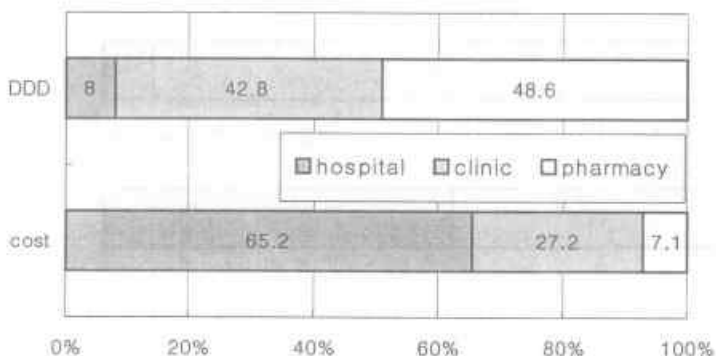


Drugs are an important part of patient care and are prescribed for patients at most medical visits, so overuse of drugs greatly affects drug expenditure. As the statistics on drug expenditure shows, the total drug expenditure as a percentage of healthcare spending was about 30% before SPD, a level much higher than the OECD average of 10~15%. Therefore, this issue became a priority in health care reform in Korea.

The separation reform was launched to achieve a couple of goals. The first goal was to reduce the overuse of pharmaceuticals with a view to improving the rationality of prescription. Physicians had incentives to dispense high margin drugs but not sufficient incentives to dispense the most appropriate ones. The reform was intended to remove provider's profit margins on drugs and thus their economic incentives to encourage overuse of pharmaceuticals.

The second goal was to enhance patient's rights to know. Physician's explanations about the type, quantity and the period of medication were often lacking. This lack of disclosure increased the asymmetry of information between physicians and patients, making them vulnerable to supplier-induced consumption. SPD was intended to increase patient's awareness and ability to check physician's prescription behaviors by opening the prescription to patients and pharmacists.

Figure 2. Rate of antibiotics consumption and expenditure at medical institutions and pharmacies before SPD



III. Outcomes of the Reform

1. Changes in Physician Prescribing Pattern

NHI reimbursement claim database shows that there has been a decrease in the number of drug items per outpatient prescription since the separation policy began. The number of drugs per claim was 6.04 before SPD, 5.56 in 2001 and 5.38 in 2002. Both the average number of oral drugs and injections were decreased after SPD (Table 1).

Table 1. Changes in the number of drugs per claim

Items	March 2000	March 2001	March 2002
No. of drugs per claim	6.04	5.56	5.38
No. of oral drugs per claim	5.17	4.85	4.76
No. of injections per claim	0.87	0.71	0.61

Prescription rate for outpatients was 95.78% before SPD, which meant that out of 100 outpatients more than 95 got drug prescriptions (Table 2). After SPD, the prescription rate decreased a little bit to 93.79% in January 2001, and to 93.25 in January 2002. Prescription rate in Korea stayed almost the same after SPD, and was still high compared with that in the USA (65.1%).

Injection rate for outpatients was 67.52% before SPD, which decreased to 55.10% after SPD. These figures indicate the positive effect of SPD in decreasing the number of claims with injections. At the onset of SPD, injection drugs were regulated under SPD, and patients with an injection prescription were required to visit pharmacies to purchase the prescribed injection, and come back to the physician's office to get injected. This back-and-forth procedure was an inconvenience for patients, and became the major factor to discourage the use of injections. At last injection was exempted from the control of SPD from November 2001, allowing physicians to provide injection shots directly without issuing prescription to patients.

Table 2. Changes in the Prescription Rate

Prescription Rate (PR)	March 2000 (A)	March 2001 (B)		March 2002 (C)	
			Change (B-A)		Change (C-B)
Drug PR	95.78	93.79	- 1.99	93.25	-0.54
Injection PR	67.52	55.10	-12.43	49.01	-6.08

2. Changes in the Use of Antibiotics

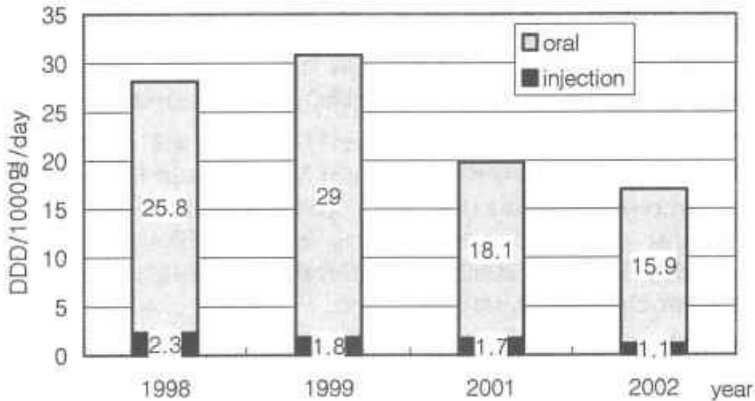
National Health Insurance (NHI) reimbursement claims also show that the proportion of antibiotic prescriptions in the total claim cases has decreased from 59.0% to 52.4%, and again to 48.4% since the separation policy (Table 3). The prescription rate has decreased for both oral and injection antibiotics.

Table 3. Changes in the Prescription Rate

Prescription Rate (PR)	March 2000 (A)	March 2001(B)		March 2002 (C)	
			Change (B-A)		Change (C-B)
Antibiotics PR	59.02	52.43	-6.58	48.41	-4.03
Oral antibiotics PR	56.08	49.77	-6.31	46.40	-3.37
Injection antibiotics PR	33.45	21.45	-12.00	14.04	-7.41

The amount of antibiotic use was measured as daily-defined dose (DDD) using sales data of IMS Korea between 1998 and 2002. Antibiotic use decreased from 28.08 DDD in 1998, and 30.80 DDD in 1999 to 19.79 DDD in 2001 and 17.0 DDD in 2002. After SPD in 2000 antibiotic consumption was reduced by 35.7% (Figure 3).

Figure 3. Change in the antibiotics use between 1998 and 2002



The volume of antibiotic consumption is considered to be the major selective pressure causing the changes in the frequency of resistance. In order to identify the relationship between the antibiotic resistance and the antibiotic use, antibiotic resistance in *S. aureus* isolated from nasopharynx of healthy volunteers (study results of KFDA) and antibiotic resistance in community acquired disease were examined in relation to community-based antibiotic prescribing.

Resistance rate among *S. aureus* isolated from nasopharyngeal samples of healthy volunteers by KFDA between 2000 and 2002 from 6 cities was examined. Also, resistance rate among *E. coli* isolated from urine samples of patients with community acquired urinary tract infections in Jeju Island between 2000 and 2002 was evaluated. The volume of antibiotic consumption was obtained from the National Health Insurance System database. Then, the relationship between the antibiotic use measured as daily defined dose (DDD) and resistance rate was studied.

MRSA rate among nasal carriers decreased from 3.5% in 2001 to 2.5% in 2002. Among *S. aureus*, resistance rate decreased from 93.7% to 84.7% for penicillin, 32.7% to 23.6% for erythromycin,

and 16.7% to 12.2% for tetracycline (Figure 4). Antibiotic use of beta-lactams excluding cephalosporins decreased from 16.00 DDD in 1999 to 7.37 DDD in 2001 and 6.11 DDD in 2002. Use of tetracycline also decreased from 5.87 DDD in 1999 to 2.53 DDD in 2001 and 2.01 DDD in 2002. The use of beta-lactams and tetracycline has shown a positive correlation with resistance rate.

Resistance rate of *E. coli* decreased from 85.54% in 2000 to 65.71% in 2002 for ampicillin and from 21.54% to 10.68% for first generation cephalosporins (Figure 5). The community-based use of beta-lactams including cephalosporins in Cheju Island decreased from 0.4816 DDD in 2000 to 0.2789 DDD in 2001, showing a positive correlation with resistance rate.

Trend of decreasing resistance rate was observed among *S. aureus* and *E. coli* isolates with decreasing antibiotic prescribing in the community after SPD.

Figure 4. Change in the antibiotics resistance rate among *S. aureus* between 2000 and 2002

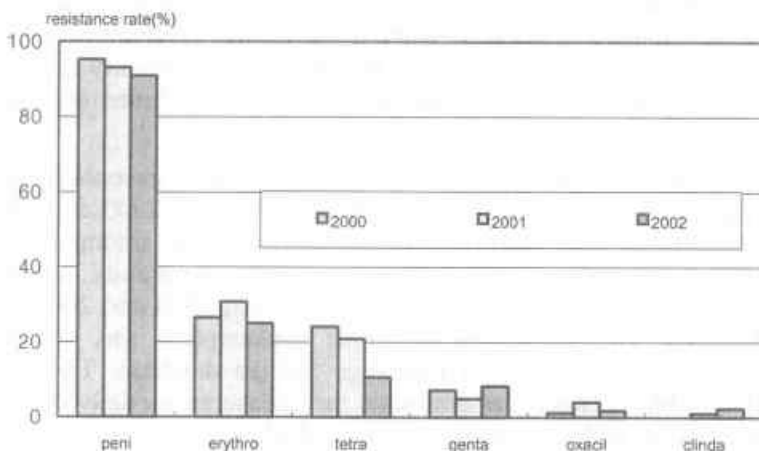
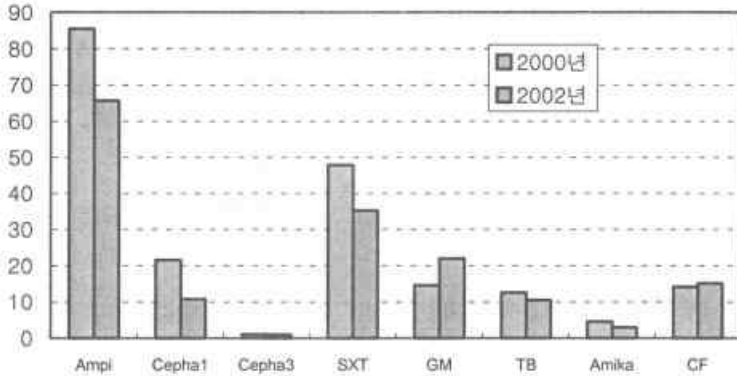


Figure 5. Change in the antibiotics resistance rate among *E.coli* between 2000 and 2002



3. Changes in Drug Expenditure

(1) Health Insurance Drug Expenditure

There has been an increase in the drug expenditure per claim after the implementation of the separation policy. In January 2000, drug expenditure per day was 1,151 won, which increased to 1,450 won in 2001 and 1,550 won in January 2002 (Table 4). This is partly because physicians are prescribing high-cost drugs more often than they used to before the implementation of the separation policy. Since the implementation of separation policy, the market share of highest-priced drugs has increased, while that of low-priced drugs has slightly decreased.

Foreign drug manufacturers seems to gain market shares after the reform. The sales of foreign drugs have increased while the market share of domestic companies shrank. This can be explained by the changes in incentives for physicians. While physicians were motivated to purchase and prescribe low-priced generics before SPD, they now prefer prescribing brand-name drugs which they consider to be more effective. This trend has been sustained by the establishment of an exclusive wholesale distributor of foreign drugs,

which has further weakened the market share of domestic manufacturers.

Table 4. Changes in health insurance drug expenditure

Items	March 2000	March 2001		March 2002	
Drug expenditure per day	(A)	(B)	rate of change (B-A) *100/A	(C)	rate of change (C-B) *100/B
	1,151	1,450	25.98	1,550	6.90
Ratio of highest-priced drug	(A)	(B)	Change (B-A)	(C)	Change (C-B)
	26.01	34.36	8.35	29.79	-4.57

(2) Drug expenditure for Self-medication and pharmacist consultation

Between the 1st half of 2000 and the 1st half of 2001, there was a decrease of 302 billion won in the total spending on the drugs purchased based on self-medication and pharmacist consultation. The rate of decrease was stunningly high at 39.5% compared with 2.2% before 1999 largely due to the new prohibition of prescription drug sales without physicians' prescription at pharmacies (Table 5). The spending on prescription drugs purchased based on self-medication or pharmacist consultation has virtually come to a halt. Also, there was a decrease of 18.6% in non-prescription drug spending, compared to the 2.5% before 1999.

Table 5. Changes in drug expenditure based on self-medication and RPh consultation

Self-medication RPh consultation (SM & RC)	short-term comparison before & after SPD (billion won)				Rate of change Before 1999
	2000 Jan. ~ June (A)	2001 Jan. ~ June (B)	Change (B-A)	rate of change (B-A) *100/A	
Total(SM & RC)	764	462	-302	-39.5%	-2.2%
- Prescription drugs	196	-	-196	-100.0%	-1.3%
- Non-prescription drugs	568	462	-106	-18.6%	-2.5%

(3) Changes in Total Drug expenditure

The reform was followed by a rapid increase in health expenditures within the scope of the NHI. The consequence has been a combination of the expected and the unexpected. The expected component includes the increase in the number of those who switched from self-medication or pharmacist consultation to a physician's prescription. The unexpected part, on the other hand, includes an increase in the price of brand name prescription drugs and the rise in the physician fee for service payments. The rate of 41% increase in fee for service, however, was offset by a 30% decrease in the reimbursement for the drugs under the NHI (Table 6).

Meanwhile, people came to face increased insurance premium, increased out of pocket payments due to the new regulation requiring them to see a physician even for a minor illness, and the inconvenience of having to see both a physician and a pharmacist.

The total spending on NHI-covered drugs was 1,474 billion won for the 1st half of 2000 and 1,885 billion won for the 1st half of 2001. The increasing rate, 27.7%, was higher than the 18.2% for the period before 1999. Meanwhile, the total spending on non-reimbursable drugs was reduced by 218.2 billion won over the period between 2000 and 2001.

From the comparison of the spending on drugs by dosage form for the period between the 1st half of 2000 and the 1st half of 2001, the rate of change in oral drug expenditure for the period between the 1st half of 2000 to the 1st half of 2001 (11.2%) was a little bit higher than that before 1999 (10.1%). The rate of increase in injection expenditure was 7.6% for the short-term comparison, lower than that before 1999, 14.6%.

Table 6. Changes in total drug expenditure

Spending on drugs	Comparison between before and after SPD (billion won)				Rate of change before 1999
	2000 Jan. ~ June (A)	2001 Jan. ~ June (B)	Change (B-A)	Rate of change (B-A) *100/A	
Total	2184	2377	193	8.8%	10.4%
- Insurance	1474	1885	411	27.7%	18.2%
- Non-insurance	710	492	-218	-30.7%	-2.5%
Total	2184	2377	193	8.8%	10.4%
- Oral	1428	1589	161	11.2%	10.1%
- Injection	500	538	38	7.6%	14.6%
- etc.	256	250	-6	-2.2%	4.6%

4. Effect of SPD on the patients' access to healthcare

(1) Patient's inconvenience

The reform inevitably created inconvenience for the patients, but the long-run gains should overcome initial discomfort. People who used to receive medical advice, treatment and pills directly from a physician, now have to make two visits, first to a physician and then to a pharmacist. Similarly, people who used to buy drugs, including antibiotics, directly over the counter, are now obliged to see a physician. Nonetheless, the reform will increase the appropriateness and the quality of prescribing. It clearly assigns physicians the central role of providing diagnosis and prescription.

It enhances patient's right to know about prescribed drugs. It encourages physicians to prescribe drugs more attentively. It gives the pharmacist the role of scrutinizing the quantity and type of drugs prescribed by the physician. Prescriptions can be checked both by the physician and the pharmacist, which means that patients can now have improved pharmaceutical services. The clinical benefits of SPD should be seen as outweighing the inconvenience it has been causing to patients.

(2) Pharmacies close to medical institutions and community pharmacies

Despite increased revenues, the drug retail market is highly fragmented and has only partially reorganized towards larger and more efficient pharmacies. SPD seems to have increased massively the average turnover of pharmacies but also created pressures to improve logistic arrangements. However, the gains of SPD seem to be unevenly distributed. Many pharmacies have experienced difficulties in management following the reform, and only few seem to have modernized their facilities. As a result, a small number of large pharmacies took a large share of the country's pharmaceutical dispensing market. According to KPA (Korea Pharmaceutical Association), 27.7% of retail pharmacies with over 100 prescriptions per day account for 61.2% of total prescriptions. Meanwhile, many small pharmacies moved closer to medical institutions and clinics with a view to making themselves to patients. Other pharmacies seem to have chosen to serve only the market for high margin herbal and general drugs. After SPD, the size of drug stores has got larger.

It is found that 19.3% of the pharmacies are those have received over 80% of their total prescriptions from one particular medical institution, and another 15.6% of pharmacies are known to have received 60~80% of their prescriptions from one particular medical institution. The average number of dispensing for per day was 44 for a pharmacy with one pharmacist, 87.9 for 1~2 pharmacists, and 139.9 for the pharmacy with 3 or more pharmacists. The daily average number of dispensing was in direct proportion to the number of pharmacists.

(3) Access to drug information

Drug use education by pharmacists is critical for improving drug compliance. Although pharmacists in Korea are legally required to provide such education to their customers, not many pharmacists are reported to have been following the law. According to a 6-day telephone survey conducted between February 23 and 28, 2001 by KIHASA on 1,000 patients (see table 13), 49.7% were provided with education about their regimen, 1.3% about drug name, 10.1% about the effect of their medication, and 9.5% about the possible adverse effect.

In summary, preliminary data on the impact of separation indicate both positive and negative outcomes. The separation of prescribing and dispensing promotes the professional specialization of physicians and pharmacists, similarly to common practice in other OECD countries. The reform seems also to have promoted a decrease in inappropriate prescription and created the potential for more informed consumption. However, it also eliminated the incentives for physicians to use low-priced, leading them to prescribe brand-name products. This lowered the cost-effectiveness in prescription and consumption of drugs. It also led to a sharp increase in health expenditure. Although SPD provided the basic infrastructure for a desirable system for controlling drug use, the Korean government and health policy makers need to develop policy measures to decrease health care expenditure for successful settlement of the policy.

III. Comparisons of Korean-Canadian systems for the rational drug use

Approaches to fostering rational drug use and pharmaceutical cost containment include various policies on drug supply and demand, such as restrictive lists of drugs, the setting of prices, prescription review and drug substitution. Both Korea and Canada have implemented such policies, but the details of the program seem to be different. In Canada pricing incentives or restrictions are achieved through policies such as lowest-cost alternative (LCA) among interchangeable products, maximum allowable cost (MAC)

for non-interchangeable products of the same chemical entity, and reference-based pricing (RBP) (Angus and Karpetz, 1998), which are not implemented in Korea. Claims payment database also represents an opportunity for implementing Drug Utilization Review (DUR) programs, which may be used to increase the safety and cost effectiveness of drug therapy (Soumerai and Lipton, 1995). Thus, this paper reviewed Korean and Canadian drug administration systems for rational drug use, and drew some important points worthy of further consideration.

1. Reimbursement listing and drug formularies

Drug reimbursement listing and formularies are used to limit the range of pharmaceuticals eligible for reimbursement. With the existence of a formulary to adhere to, the physician's choice of which medicines to prescribe is restricted to those that are judged to be clinically effective and cost-effective.

All formularies in Canada are positive lists. That is, they list the drugs which will be reimbursed and exclude others. Each provincial drug plan, except BC's Phamacare, employs a formulary to set out the drugs available for reimbursement. Management of the publicly funded drug budget is a provincial responsibility, and consequently, reimbursement of prescription medication is left to the discretion of each province. They act to contain pharmaceutical costs for provincial drug benefit plans and private insurers.

Provincial drug formularies do not, however, deny access to medicines. By requiring special authorisation for certain products, they discourage their use, without making them completely unavailable. With respect to the criteria of cost-effectiveness, provincial formularies are incorporating the results of pharmacoeconomic analyses in decisions concerning the formulary listing of drugs. Pharmacoeconomic Initiative (PI) performs PE analysis of new drug application.

All provincial drug benefit plans have prescribing guidelines and formularies that favour generic medicines. The cost saving potential of drug formularies is significantly impacted by the timely inclusion of generic medicines. In late 1998, CDMA and the Ontario government reached a new agreement to encourage more rapid

inclusion of newly regulated generic medicines in the Ontario Drug Formulary.

In Korea 14,052 drug products are eligible for reimbursement. Most of the drugs approved by the Korea Food and Drug Administration (KFDA) are being reimbursed by the national health insurance, except those used for preventive or self-medication purposes. Recently, the need for limiting the number of reimbursable drugs has been brought to the forefront as a way to promote appropriate drug therapy and contain drug cost. With a positive listing system like Canada's, Health Insurance Review Agency (HIRA) may be able to select a limited number of cost-effective drugs while balancing cost with quality objectives as well as controlling inventories at hospitals and community pharmacies. Also, Ministry of Health and Welfare (MOHW) plans to introduce pharmacoeconomic evaluations in selecting reimbursable drugs. Amended Official Notification (July 2002) stipulated the use of economic evaluations for decisions regarding the use of new medical technologies including drugs and medical devices. However, the use of economic evaluation is still not common in Korea due to the scarcity of professionals with necessary experience and the lack of reviewing capacity on the government's part. Currently, Health Insurance Review Agency (HIRA) is preparing an economic evaluation guideline. As Canada has long history of utilizing pharmacoeconomic evaluation studies, its accumulated knowledge and experience will be of great use for Korea.

2. Drug price control

The PMPRB (Patented Medicine Prices Review Board) is an independent quasi-judicial body, and regulates the price of each patented drug product. It protects consumer interests and contributes to Canadian health care by ensuring that prices charged by manufacturers of patented medicines are not excessive. The Patent Act stipulates those factors that the Board, during the course of a public hearing, must take into consideration when determining whether a medicine is being sold or has been sold at an excessive price.

The Board, in consultation with interested parties, has developed

various tests to determine whether the price of a drug is within the Guidelines. First, the reasonable relationship test considers the association between the strength and the price of the same medicine in the same or comparable dosage forms. The determination of reasonable relationship is based on one of three possible tests: same strength test, unit price linear relationship test, and different strength test. Second, the therapeutic class comparison test compares the price of the drug under review with the prices of drugs that are clinically equivalent and are sold in the same markets at prices that the Board considers not to be excessive. The Board considers it appropriate to compare the prices of comparable drug products taking into consideration the dosage regimen and other clinically relevant variables required to produce a clinically equivalent effect. Third, the international price comparison test compares the average transaction price of the drug under review with the publicly available ex-factory prices of the same medicine sold in countries listed in the regulations.

In Korea, the price of innovative new drug is set largely based on price comparison with A7 countries, whereas other new drugs are on a relative pricing scheme. There is argument that A7 countries' average price is not appropriate as their economic power is much stronger than Korea's. Also, it is still debatable whether it is appropriate to use a relative pricing scheme and identify comparable drugs in setting the price of a new product. In this regard, details on the various test developed in Canada will be of great use for Korea in deciding appropriate drug price. Also, as Korea is considering taking into account pharmacoeconomic evaluation in determining drug price, it would be beneficial to discuss the pros and cons of utilizing pharmacoeconomic evaluation in drug pricing.

With regards to multi-source drugs, Canada has established a system to set drug prices low. In Ontario new generic drugs come onto the Formulary at a maximum of 70% of the price of the originator drug. The second and subsequent products are added at a maximum 63 per cent of the original cost. In Korea the price of the first generic drug cannot exceed 80% of the existing drug's price, and from 2nd up to the 5th generic drugs prices must be lower than the lowest price of the existing products. After the 5th generic drugs,

drug price must not exceed 90% of the lowest price of the existing products. It will be valuable to compare the effect of generic drug pricing on drug expenditure and pharmaceutical industry between two countries.

3. Rationalizing payments under Reference Pricing and Least Cost Alternative (LCA)

Reference-based pricing (RBP) and least cost alternative (LCA) pricing are policies for containing drug expenditures. BSP involves establishing categories of therapeutically equivalent drugs and reimbursing patients for the cost of either the cheapest drug in the category, or some average price. It differs from LCA policies in that drugs in RBP categories need only be therapeutically equivalent, not chemically identical. LCA pricing is set among interchangeable products of the same chemical entity. Similar to generic substitution policies, RBP and LCA encourage substitution to cheaper drugs.

In British Columbia, Canada, RBP system was introduced in 1996 by the province Pharmacare drug benefit program. In this system, drugs which are used to treat the same clinical conditions are assigned to the same reference class, regardless if they are different in their chemical composition and mode of action, provided that the research literature supports the conclusion that they are equally effective. Reference pricing has also been introduced in the province of New Brunswick.

The Pharmacare programme in British Columbia also promotes the use of generics by only covering 'low-cost alternatives' where an alternative exists. Prior to 1994, British Columbia had in place a financial incentive system to encourage pharmacists to dispense lower cost products. They received a slightly higher fee on these products. In 1994, the policy of low cost alternative, restricting reimbursement to the lowest cost drug in each therapeutic category, was introduced. It limits coverage to the cost of the lowest cost alternative, and patient may choose to pay the difference. This policy change was seen as an attempt to introduce an incentive that would have a larger effect in increasing the use of lower cost medicines. The province of Alberta, Canada, also implemented LCA pricing for interchangeable drug products.

After the SPD in Korea, the use of expensive drugs has risen, thereby increasing drug expenditures. As a way to stop the unnecessary dispensing of expensive drugs, Korean government announced the reference pricing policy in May 2001, but it is no longer carried out because of the opposition from stakeholders such as multinational drug companies, doctors, and even consumers. Also, there have been contentious issues of how to establish categories of therapeutically equivalent drugs and how to set the reimbursement price for each category. Canadian experience on RBP and LCA pricing will be of great use in developing the specifics of RBP model for Korea.

4. Policies to influence the prescribing behavior

Physicians' prescribing practice is a crucial determinant of drug demand because prescriptions are written by physicians. Increasing evidence is suggesting that price is not an important factor for many physicians in their prescription decision. There are several reasons for this. First, physicians themselves do not pay for the drugs. As agents, they should consider costs the patient will have to bear. But a third party often covers some or all of the patient's bill, and out-of-pocket costs may in any case be far from the patient's mind at the time a prescription is written. Second, physicians often lack full information about drug prices. Kolassa (1995) reports the results of a survey that reveals a strong tendency for physicians to overestimate the cost of cheaper drugs, and underestimate the cost of more expensive drugs. Third, both habit and brand loyalty are known to be strong factors in prescribing practice. Physicians vary in their propensity to prescribe generic drugs (Hellerstein 1997), which are usually cheaper than their brand-name counterparts. Fourth, physicians are influenced by pharmaceutical company marketing efforts, a concern addressed by the NFH in its Recommendation. According to Anderson and Lexchin (1996) physicians consider commercial sources of information less useful than professional sources (medical schools, specialty societies that provide continuing medical education, scientific meeting and journals), but a large majority admits to using commercial information in making their prescription decisions.

In many countries, a variety of policies have been implemented or

proposed to improve prescribing practices such as auditing, developing guidelines, and fixing budgets. Apart from binding financial objectives, these policies have had limited economic effects, as physician behavior reveals strong habit components and is not amenable to economic incentives. It has been argued that inappropriate prescribing practice is better addressed through education than by prohibitions on certain drugs. Approaching the issue in terms of "Evidence-Based Medicine" may offer less arbitrary limits, but may also be perceived by physicians as a constraint in their medical decision making, as this offers the possibility of close surveillance of medical activity.

Pharmacare in Canada is moving away from local expert consensus to an evidence-based decision making process, and some innovative mechanisms for conveying information to doctors have recently been introduced. Drug use evaluation programs currently are in place in British Columbia and Ontario, and though designed to identify drug-related problems experienced by patients, they may also encourage the prescribing of lower cost generic drugs. Therapeutics Initiative (TI) provides best evidence-based drug information and guidelines for effective drug therapy. Prescription review program, which is administered by British Columbia College, identifies and changes inappropriate drug prescribing patterns, intervenes and encourages change as necessary, using the PharmaNet database.

PharmaNet is a computer network that links all community pharmacies in the province. Every prescription is processed on PharmaNet, which identifies drug interactions and dosage errors, and detects drug fraud and abuse. PharmaNet's objective is not only to streamline claims payments, but also to prevent over-consumption of prescription drugs such as unintended duplication, to prevent inappropriate therapies, to promote cost-effective use, and to improve standards of practice.

In Korea, MOHW introduced "Adequacy Evaluation of Drug Use Program (AEDUP)" in 2001, and has calculated various indices of drug use for each medical institution, including antibiotics use rate, injection use rate, expensive drug use rate, and index of drug expenditure. Korean AEDUP differs from Canadian DUR in that

the former is retrospective DUR, whereas the latter, based on PharmaNet, is prospective. Prospective DUR has strength in that it can check the possible drug use problems before patients get medicines at a pharmacy. We plan to facilitate the computerized prospective DUR, and Canadian experience will provide some ideas to improve it.

We also try to make evidence-based decisions on prescribing, but still do not have specialized institutions to conduct research and to provide the relevant information. TI in Canada seems to be a good model. In addition, the participation of the academia in the governmental DUR process is another excellent model to incorporate the relevant human resources. More detailed information on TI and academia connections will be of great use in improving Korean DUR system.

5. Generic substitution

Each province in Canada mandates generic substitution to some extent. The methods used are to either regulate substitution by pharmacists as mandatory, or the reimbursement conditions of the provincial plan may cover only the low cost alternative or reference based price, thus imposing a financial penalty, to be borne by the patient, if substitution does not occur. In the provinces where the pharmacist is forced by law to substitute, the pharmacist must substitute a cheaper generic drug where available, even if the physician has written the prescription for an originator drug or a generic drug. In instances where the physician writes the prescription using an INN, the pharmacist must dispense a cheaper product, whether generic or the original, where one is available.

In the provinces of Alberta, British Columbia, and Quebec the latter system is in place. In the cases of Alberta and British Columbia, if the physician deems that substitution should not place as a result of a specific diagnosis, a special authorization may be sought. If granted, the patient will be covered for the additional cost of the higher priced medicine.

In most of the provinces and territories, pharmacists may substitute a generic medicine without communicating with the physician, provided that the physician has not debarred substitution. Debarring

substitution may take the form of a hand written note on the prescription or may be verbally communicated to the pharmacist. In the province of Newfoundland, physicians are not permitted to debar generic substitution. In all provinces and the territories, neither physicians nor pharmacists are required to consult with the patient regarding potential substitution.

In Korea, pharmacists are allowed by law to substitute generic drugs for branded ones, but generic substitution rate is very low. There are several reasons for this. First, the number of approved bio-equivalent generic drugs is limited to 788 products. Second, both doctors and consumers showed low confidence in the equivalence of therapeutic effect of generic drugs. Third, pharmacists complained the inconvenience of having to notify the doctors of generic substitution. On the contrary, generic substitution seems more popular in Canada, and it would be useful to study the factors influencing generic substitution by pharmacists.

IV. Conclusions

SPD provided the basic infrastructure for a desirable health care system by clearly defining the different roles of physicians and pharmacists. However, without having the specific programs to motivate cost-effective prescribing and dispensing, SPD's goals of rationalizing drug use and optimizing health care expenditure will not be achieved. Thus, the Korean government and health policy makers need to be more concerned about devising pharmacy benefit management programs and preparing effective strategies for successful implementation of the policy.

As Korea develops strategies for rational drug use, Canadian experience is of great value. This is not only because Canada has very effective and efficient drug management system, but also because the pharmaceutical environments of the two countries are similar in many ways. For example, both Korea and Canada did not have a strong R&D-based national pharmaceutical manufacturing sector, and have a general interest in having lower-priced drugs. By reviewing the Canadian system, we would like to get more detailed information on the following issues;

- how to monitor the appropriateness and cost effectiveness of drug therapy and prescribing patterns through the prospective computerized drug use review program
- how to increase awareness of the appropriate use of medication through health promotion strategies and PharmaNet
- how to promote optimal drug therapy through the development of evidence-based therapeutic guidelines by the TI
- how to make the best use of financial resources through evaluation of cost and social benefits of pharmaceutical products by the Pharmacoeconomic Initiative in deciding reimbursable drugs and their prices
- how to contain drug costs through a RBP, LCA policy, and generic substitution

Social goals for the drug policy include identifying cost-effective drugs, ensuring proper prescribing and utilization, and providing cost-effective drugs and professional services at a reasonable and affordable price to those in medical and financial need. I hope to have more chances to learn the experience of Canada and to discuss how to apply it to Korea.

Elderly Long Term Care Policy in Ontario

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In Canada no other policy commands such a strong and sustained public support as the public health care. According to the public opinion survey nearly 90% of Canadians believe in a strong national system of publicly funded health care (Sullivan and Baranek, 2002).² The Canadian health care system is based on five principles that was established when the public medicare was first introduced the 1960s, and institutionalized in 1984 under the Canada Health Act. These principles are:

Universality: that the health care insurance plan must entitle 100% of the insured persons of the insured services, and that the services are provided on uniform basis;

Accessibility: that people should be able to access all needed services, in other word, there should be no user fees or over payments;

Comprehensiveness: that the provincial insurance plan must insure all insured health services provided by hospitals, medical practitioners or dentists where the law permits;

Portability: that the insurance must cover from one province to another, sometimes some overseas treatments; and

Public administration: that provincial health care insurance plan must be "administered and operated on a non-profit basis by a public authority appointed or designated by the province.

¹ This is a work in progress, please do not quote without the author's permission.

² In Canada, the national public health care system often refers to the system of publicly funded national medical insurance systems which are circumscribed by the Canada Health Act, which covers all the medically necessary services that are provided in the hospitals and in the doctors' offices.

The public health care system in Canada performs quite well internationally both in terms of efficiency and effectiveness. Compared to the American health care system, the health care coverage in Canada is near universal, Canadian people's health status is significantly higher, and the cost of the system is significantly lower. The health status of Canadians also compares favorably with other OECD countries, and the health care expenditure is similar to other OECD countries. In 2000 the total health expenditure in Canada was approximately 9% of GDP, as compared to 8% for OECD average and 14% for the US. According to the UN Human Development Index, Canada ranked amongst the top three countries in the world along with Norway and Sweden. The life expectancy of Canadians in 1999 was 75.4 years for men and 81.2 years for women. This puts Canada 5th among all the OECD countries in terms of life expectancy. In terms of the number of potential years of life lost, Canada ranked 8th position in comparison to all other OECD countries in 1998. Finally the infant mortality rate in Canada was 5.3 per 1,000 in 2000, which put it in 17th position amongst all OECD countries (see Romanow, 2002; Deber and Swan, 1999; Evans and Roos, 1999; and Evans, 1993, for further discussions on Canadian health care system).

Despite its positive record, however, Canadian health care faces a number of problems which have led to pressures for reform. First, the medicare system as envisioned in the 1960s is becoming outdated. For example, Canadian population, although not as rapidly ageing compared to Japan and some European countries, has nevertheless become much older than four decades ago. The impacts of demographic ageing are two-fold: first, it calls attention to the long-term economic sustainability of the health care; and second, it also highlights changes in the nature of health care delivery. The second pressure for health care reform is that Canada's federal political system has also resulted in a significant tension between the different levels of governments, particularly in terms of health care funding. In Canada, the delivery of health care services is a provincial jurisdiction, while the funding is shared between the federal and provincial governments. As

the politics and the parties have changed significantly at both the provincial and federal levels over the last couple of decades, the two levels of governments have been engaged in an on-going debate over how health care should be reformed, and how the cost of health care be shared. Since the 1970s, the federal share of health care funding has declined. In response to the decline in federal health care funding, and as well, to the fiscal pressures to contain costs, the provincial governments since the 1980s have been gradually “reforming” health care and social security systems by downloading responsibilities to the municipal governments, restructuring hospitals, and introducing greater public-private mix in the system (see Romanow, 2002; and Kirby, 2003, for more detailed discussions of the issue). The demographic, economic, and political pressures are now making health care reform a policy imperative.

This paper will focus on one of the emergent issues that are currently being discussed in Canada in relation to the health care reform and the future of health care - the demographic ageing and its impacts on the long term care of the elderly. The paper is organized as follows. First, I will briefly locate long term care in relation to the public health care system. I argue that the long term care issue is both urgent and complex because it intersects with health and social welfare, and as well, cuts across the issues of demographic ageing, family, and gender. While the importance of long term care is widely acknowledged, the policies have been ambivalent because it cross cuts many areas and that there is no consensus on the idea of social care. The second section will discuss Canadian health care system within the Canada’s federal political context. I argue that Canadian health care system is not a single unified system but rather an amalgam of different provincial health care systems. As a result the provisions of long term care vary from province to province. The third section will provide an overview of the demographic, family, and economic changes in Canada and particularly in Ontario in the recent years. This will be followed by a discussion on the development of long term care policy in Ontario and some of the policy debates today. This paper focuses on Ontario because it is the

largest province in Canada both in terms of population and economic sizes. Finally, the last section will examine the different policy options and identify potential future research agenda.

1. Long Term Care for the Elderly: theoretical issues

Long term care refers to a wide range of health and social services that are provided within institutional setting as well as within community and home setting. It includes acute and chronic care for the elderly who are ill in the hospital, nursing homes, and as well, community based and domiciliary care services such as home care services, day care, visiting nurse, meals on the wheel, and other social services. Long term care has become an increasingly important topic in health and social policy reform in the recent years because while long term care needs have expanded due to the ageing of the population, the policy responses to this issue have been slow and tentative. Long-term care intersects with health and social welfare, and as well, cuts across the issues of demographic ageing, family, and gender. It is precisely because long term care cross cuts many different institutional and social spheres, and because very few countries have a national consensus on social care, the policies affecting the care of the elderly are often unclear, ambivalent, and sometimes even contradictory. For example, in Canada the issue of long term elderly care may be considered health, social welfare, or a private family problem, depending on the elderly person's physical and mental conditions, household situation, and the availability of services. Since each of these institutional spheres operates on different principles as to what care means, how care should be provided, and who should be responsible for the care, there is no coherent and shared framework for the policies to address the issue.

To illustrate this point, Canadian health care system has always treated the long-term care issue with ambivalence. The Canadian public health care system is a system of public health insurance plans that provide universal coverage for in-patient hospital care (Hospital Insurance and Diagnostic Services Act, 1957) and services provided in the doctors' offices (Medical Care Act, 1966), which are cost-shared by the Federal

and Provincial governments. Because of its hospital and doctor-centered orientation, services that are provided to patients inside hospitals and doctors' offices are normally covered, while the same services that are provided outside of those settings are excluded from the insurance coverage. Long term and chronic care that are provided within the hospital setting are thus covered, while the same care provided in the community or in home setting are not covered by health care (that is, Canada Health Act). Notwithstanding this hospital – community dichotomy, over the last couple of decades, many provinces have cut the number of chronic care beds and hospitals and shifted such care to community and private homes as a part of the health care reform. Although many of these services are provided by the social welfare system and by the voluntary sector, these services are often means tested and, as well, are constantly in danger of being retrenched. Moreover, because social welfare is also a provincial jurisdiction, often provided at the municipal level, the provision of home care also vary from province to province, and from municipality to municipality, and in most cases the level of provisions have been cut as a result of welfare retrenchment at provincial level.

Long Term Care Expenditures

The expenditure data show that there has been a significant increase in the total public and private spending for long term and home care of the elderly. In 2001, the total provincial and territorial public expenditure for home care services (that is, health care services that are not covered under the health care insurance) was approximately \$2.7 billion, up from \$26 million in 1975. Similarly, public spending for institutions such as nursing homes was \$6.8 billion in 2001 as compared to \$800 million in 1975 (Romanow, 2002). This rise in expenditure is largely a reflection of the demographic ageing and the concomitant increase in the demand for long term care. Yet, despite the obvious increase in the public expenditure, the actual public share of expenditures for long term care and home care services fell during the 1980s and 1990s. For example, the annual rate of growth of public home care expenditure fell from 17.2% in the 1980s to 10.4% in the 1990s, at the same time, the

annual rate of growth of private share of home care expenditure rose from 9.4% in the 1980s to 13.0% in the 1990s. In terms of the cost, the total public home care expenditure in Canada in 1980/81 was approximately \$250 million as compared to \$2.7 billion in 2000/01; while the total private home care expenditures rose from less than \$100 million to approximately \$780 million, during the same time period. Currently the public sector share of home care expenditure is below 80% (Coyte, 2002). What this suggests is that while the overall public expenditures of long term and home care may have grown, they have not kept up with the demands, and that the overall cost of such care has instead shifted from the public sector to private individuals and families.

As illustrated above, long-term care for the elderly is a difficult problem for the family and policy makers because it rests on the intersection of health care and personal social welfare. Studies show that early active preventive support can lead to positive health outcomes for the elderly, which may help relieve the system of the costs of health care intervention later on. Yet, many of the community based preventive programs often fall outside of the public health care system and are therefore considered discretionary. Recent studies in Ontario show that on the one hand the public expectation for long term care has increased over the last couple of decades; on the other, the public satisfaction with the province' long term care services has declined (Spindel, 1996; Baranek et. al., 2000). Other studies also suggest that the government policies to restrain the increase in institutional care services by shifting care burden to the family and informal care system since the 1970s may have had adverse impact on the individuals and the family (Williams, 1996; Spindel, 1996; Baranek et. al., 2000; Cloutier-Fisher and Joseph, 2000), while other studies question the cost-effectiveness of the home care policies altogether (Parr, 1996; Weissert, 1985; Coyte, 2002). A more coherent and comprehensive policy for long term care is therefore necessary if we are to address the issue of public demand for long term care in the future, and the social and economic implications of demographic ageing.

2. Canadian Health Care System

Canadian health care system is not a single unified system; rather, it is an amalgam of different provincial health insurance plans which are circumscribed by the conditions set by the Canada Health Act. Because of its federal political system, the delivery of health care in Canada, which is largely a provincial jurisdiction, is variable depending on the province. While most of the health care services are likely to be covered by all the provincial health insurance plans, some specific services and treatments may or may not be covered. Long term care is one area in which provincial difference is very clear.

3. Structural Changes

Although the pace of the demographic ageing in Canada is not as rapid as Korea, there has been a progressive ageing of the Canadian population over the last several decades. Currently about 12% of the total population in Canada is 65+, and demographic projection estimates the proportion to increase to 20% by 2026, and 23% by 2041. In particular the proportion of people over the age of 85 is expected to increase at a rapid pace (Statistics Canada, 2003). In Canada the majority of the elderly people live either by themselves or with their spouses. According to Statistics Canada (1999 figure), 56% of people 65 and over lived with their spouses, 29% lived on their own, 7% lived with members of extended family, and another 7% lived in long-term care institution. This contrasts quite markedly with South Korea, where the majority of the elderly live with their adult children (the article on Social Policy and Admin Journal).

Despite the difference in the living arrangements, however, the elderly care in both countries have much in common. First, in both countries much of the elderly care is in fact provided by the family and friends. Most of the elderly in Canada who need care receive care at home, and the family members, and particularly women, are the main care givers (Chappell, 2001; Aronson and Neysmith, 1997). Contrary to the image of independent and self-sufficient elderly living condition, the reality is that the elderly people live independently while healthy, and are cared

for by their families and friends when frail – a picture not unlike many of the East Asian countries today. Secondly, in both North America and East Asia, the rise in the married women's labour market participation and the shift in the norms about women's work in the last couple of decades have resulted in a significant tension between work and family care. In the case of Canada, the welfare retrenchment since the 1980s has meant that the family, and particularly women, is under greater pressure to work and care for their children and elderly relatives at the same time.

4. Development of Long Term Care Policy in Ontario

The Early Expansionary Period: 1950 - 1980

Because of the hospital and doctor centered nature of the Canadian health care system, the policy responses to long term care needs of the elderly during the early phase of the development were primarily institutional. During the 1950s and the 1960s Ontario's economy was also prosperous and there were adequate funding for social welfare projects (White, 1998; William, 1996). During these decades, nearly 500 homes for the aged and nursing homes were constructed across Ontario, resulting in a rapid growth in institutional elder care (Deber and Williams, 1995; Williams, 1996). The increased availability of institutional health care resulted in an increased reliance on chronic hospitals and nursing home for those needing long term support (Williams, 1996; Spindle, 1996), and reinforced a historical tendency to equate long term care of the elderly with institutionalization, which in turn, implied both higher cost, and loss of independence for those seniors receiving such care (Deber and Williams, 1995). With the establishment of the Canada Assistance Plan Act (CAP) in 1966, the federal government also began to share the costs of social welfare programs, including care services for the elderly, which further led to growth in community based long term care such as Home Care Program as well (Williams, 1996; Aronson and Neysmith, 1997). Expenditures for long term care increased as the government gave priority to financing services in homes for the aged, chronic care

hospitals, and nursing homes. Between 1970 and 1980, provincial expenditure for community based programs, mainly home care, increased from \$10 million to \$40 million, while the expenditure for institutional care services rose from \$70 million to \$455 million (Williams, 1996).

The continuing economic growth of the postwar era came to an end with the oil crisis of 1973. With a sudden decline in economic growth, the government came under increasing pressure to contain costs. In 1977 the federal government replaced CAP with the Established Programs Financing Act (EPF) which changed the funding structure for social welfare services from 50:50 co-funding to block grants. In spite of the infusion of new money, the Ontario government was in already in a retrenchment mode. The Ontario government tried to contain the cost of institutional care by controlling the supply of long term care beds, and as a result the institutionalization of the elderly began to decline gradually (Kane and Kane, 1985; Spindel, 1996). While the approval of new nursing home beds to the for-profit sector was slowed, the approval for non-profit halted. As a result, the government came to rely increasingly on for-profit nursing homes to provide institutional care (Spindel, 1996). Part of the government strategies to improve greater efficiency also included the idea that home care would be a more cost efficient alternative to institutional care for the elderly (Williams, 1996). As a result the policy emphasis shifted from institutional care to home care.

In summary, as the 1970s came to a close, Ontario was faced with: 1) escalating long term care costs for both community based programs and institutional care services as the population aged and demand grew, even though approximately 80% of elderly care was being provided by family and friends through the informal care system (Williams, 1996; Spindel, 1996; Baranek, et. al, 2000; Cloutier-Fisher and Joseph, 2000); 2) reductions in federal support (Williams, 1996); 3) a slowing economy (White, 1998); and 4) mounting public dissatisfaction (Spindel, 1996; Baranek et. al., 2000).

Long term Care Reform Period: 1980 – Now

Long-term care went through a number reform in the 1980s and the 1990s. The pressures for reforms were largely three-fold: 1) system fragmentation; 2) demographic pressures; and 3) fiscal problem. First, by the end of the 1970s the long term care system in Ontario had evolved into a patchwork of wide ranging services, which were provided by a wide range of community and institutional service providers and funded by various Ministries and branches within Ministries. Across the province, services available in the community also had different costs and standards of care for purportedly equivalent services. Gaps in some services and duplications in others resulted in variability in services provision across the province. There was also variability in eligibility criteria, standards, and funding policies across and within service categories, and there were very little integration of health and social services, nor were there much continuity of care between institutional and community base care (Kane and Kane, 1985; Deber and Williams, 1995; Spindel, 1996; Baranek et. al., 2000; Cloutier-Fisher and Joseph, 2000). Private retirement homes, which were privately funded by care recipients, were also providing long term care for the elderly despite the fact that they were not licensed to provide nursing services, nor regulated under the provincial nursing home standards (Deber and Williams, 1995). Finally many service providers were also frustrated with the system because different standards and regulations were applied for for-profit and non-profit nursing homes, with different funding coming to these institutions from different ministries.

Beginning in the 1980s the government and the public was also beginning to come to understand the short and long term implications of the demographic shifts. The demographic projection suggested a steady population ageing in Ontario, and in particular, a near doubling of the number of the “old old” (those over 85) by the end of the century. While the demographic shifts pointed to the increase in levels of disability and associated demands for accommodation and care services, it was unclear whether the province would be able to continue to rely

on institutionally based services as a means of care for the elderly given the uncertain economic growth (Deber and Williams, 1995). Compounding this cost challenge was the fact that women's labour market participation rate had changed significantly since the 1960s. With majority of married women in labour force by early 1980s, it became increasingly evident that the supply of unpaid informal care givers, the majority of whom women, will gradually decline and that there would be a significant tension for women arising from the conflicts in family and work obligations. Furthermore, the erosion of the nuclear family over this period had also made family care an increasingly serious problem.

Finally, the fiscal pressure on the government continued. Ontario faced a number of economic crises in the 1980s and the 1990s. Ontario was faced with a serious recession in 1982 in which the economic growth dropped to -4%. Although the economy gradually recovered and by the mid-1980s the growth rate was at about 5%, the growth slowed down again from 1989 to 1991 (White, 1998). Negative economic cycles of this period led to mounting debts and deficits for both the provincial and federal governments, and as a consequence the federal government reduced transfer payments to provinces (Keating and Cook, 2001).

In summary, the long term care system in Ontario underwent a series of reforms, along with other health care and social welfare reforms, during the 1980s and the 1990s. The motivations for the reforms were the systemic concern to make the system more coherent, the demographic pressures arising from the population ageing, and financial constraints resulting from economic down turn. The cuts in federal transfer payments and the shift to block funding continued throughout the 1990s. This in turn continued to put pressures on the provincial governments to make up the short fall. In Ontario, the conservative government which came into power in 1992 on the platform of the "common sense revolution" attempted to restructure the health care and social welfare by cutting back on social welfare services across the board, at the same time, streamlining health care delivery through hospital closures and mergers, regionalization of services, reduction in the length of hospital

stay, and shifting people from institutional and hospital settings to home. Given the current context, long term care for the elderly will be an on-going policy concern for Ontario and Canada.

In 2002, the final report of the federal government's Commission on the Future of Health Care in Canada (Romanow Report) was released. Arguing that the Canadians value medicare as a "public good, a national symbol and a defining aspect of their citizenship", the report proposed a reform towards more comprehensive and integrated system of health care delivery. It suggested a greater integration of services, broadening the range of health care, and integrating community and hospital care. The proposal also recommended additional federal funding to cover provincial health care cost, and special targeted funding in five key areas, including a home care transfer. The proposal is remarkable not only in terms of the call for renewed effort and more funding for health care, but also in terms of its emphasis on the integration of hospital and community. Similarly, in 2003, the Standing Senate Committee on Social Affairs, Science and Technology also released its Final Report on the State of Health Care System in Canada (Kirby Report), which also argued for similar changes. These proposals if followed will create new institutions and institutional framework for health care system in Canada, and may lead to a more comprehensive and better integrated long term care system for the country.

5. Future Policy Research Agenda

Given that the Korean government is planning to introduce a new long-term care system in 2007, it would be enormously valuable to compare how the two countries approach the issue. I hope to share with Korean colleagues our experience of long-term care system and its reform options in Canada, and at the same time, learn more about Korean debates over the proposed long-term care system.

Some of the preliminary research questions for researchers and policy makers in addressing long-term care system reform are as follows:

- 1) what are the basic data on long-term care in Canada and Korea and

- what are the future projections (e.g. what proportion of the elderly require care, what proportion receive care, what kind of care, etc.);
- 2) what policies and systems of long-term care exist in Canada and Korea;
- 3) how have policy makers responded to public demand for long-term care;
- 4) who are pushing for long-term care system or reform, and why;
- 5) how are the issue of long-term care framed;
- 6) what are the policy debates surrounding long-term care.

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DISCUSSION

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Health Canada

Thank you very much. Good morning everyone and it's my great pleasure and privilege to be here this morning and I give my special thanks to H.E. Ambassador Comeau and my colleague Christine Nakamura. To me this is actually a déjà vu since we were in Japan together only three short years ago trying to make similar contacts and address public policy issues. I will begin by introducing my department to you. It's the federal department in Canada, called Health Canada. It used to be called Health and Welfare Canada. The welfare part got moved away and we now have a Department of Human Resources Development Canada that deals with most of the welfare issues. Our role is primarily policy in nature, and we also have a large regulatory function.

Basically, Dr. Peng has given you a brief description of Canadian health care system. It's a rather complex system in that it's not a unified system but an amalgamation of, as she called it, of ten provincial and three territorial systems. But I do have a fuller presentation that the Embassy has this morning so if anyone is interested in getting the details on how the system actually has evolved and how it works, please do contact my colleagues who I am sure will be happy to print you a copy.

This morning my task is to address the two issues that have been raised by my Korean colleagues – one on long term care and the other on pharmacy care. Dr. Tchoe, I will try and address some of the remaining issues that you raised in my presentation but I would also like to take the presentation that

Dr. Peng made one step further and tell you that our outgoing Prime Minister, Jean Chretien, held a meeting this past February 6th with the premiers of all provinces and the territorial leaders and have signed

what's called a Health Accord. Both LTC and pharmacy care, more precisely catastrophic drugs are high on the agenda. So what I am giving you this morning is the evolution of where things are and this is very much part of the public policy and health policy debate and decision making as we speak. So it's an opportune time that we are talking about these issues.

The governance basically as again Ito alluded to of long term services and calendar falls within provincial jurisdiction and are delivered by the provinces. But the province does this in accordance with legislation, governing the health insurance plan, which again is provincial in nature. And they have various acts in Ontario for example, there's a Long Term Care Act, the Nursing Home Act, the Homes for the Aged and Rest homes Act etc., so it's not a system that you can change and fell swoop because there are degrees of complexity that one needs to be cognizant about. Throughout the provinces a range of services are provided based on individual assessment. Most provinces provide assessment in case management, nursing services, including direct care for early discharge from hospitals, education for self care, family care and transfer of functions to home support workers. There's an ongoing monitoring, social work services that Ito alluded to and limited rehabilitative services; physiotherapy, occupational therapy, speech therapy, nutrition etc. Personal care activities for daily living are once again part of this system and community-based dialysis and oxygen therapy. I would like to talk about the eligibility criteria because you raised this in your presentation. The eligibility criteria across the country are similar. They are not the same but are similar in that all provinces require that any person regardless of age, because you posed the question of age 45. In Canada, it is regardless of age, but the person must be a resident of the province that they are applying for service in. The person must have a professional assessment of need for care, and the service plan, detailing the services to be provided which is usually developed in conjunction with case management people. In one province, New Brunswick, assessments are made on the length of time services will be required so there is some sense for the system to know

when the services actually begin and when the termination point might be, if there is such a thing. But if it's ongoing, of course that has to be factored in. There is also a protocol of co-payments. Co-payment charges vary throughout the country and this is something that I wasn't quite clear on how it works in Korea, and we might want to explore that further. In most provinces, co-payments are not charged for professional services, that is nursing and physiotherapy. However, depending on income, in all provinces there may be a daily charge for home support services, adult daycare services, and meal programs. And this is of course because of what Dr. Peng has alluded to, the dollars diminishing in the system and the transfer payment formula being readjusted because of growing pressure and growing need for health dollars. Also in some provinces particularly in British Columbia, clients are responsible for medications and medical supplies. There is special consideration however. Increasingly palliative care is being delivered in the home, and insured by the provinces because this is cheaper than doing it through institutional means. Traditionally provincial palliative care programs focused mainly on cancer patients. This is now however an extension of concepts to groups, other than, there is an extension beyond cancer patients – persons in the terminal phases of chronic or acute diseases, persons with AIDS, and elderly people with severe or permanent loss of autonomy. Palliative care is also being brought in to include not just the terminal phase, but all phases of diseases starting from diagnosis. This would give seriously ill patients quick access to care and support services. As I mentioned earlier, in 2003 the first ministers' Health Accord, agreed to by Prime Minister and premiers of Canada, recognized among other things that home care and catastrophic drug coverage are needed for long term sustainability of the public health care system in Canada. Therefore the government agreed to establish a Health Reform Fund, which will serve as dedicated funding to home care, catastrophic drug coverage, and primary health care. And I must also tell you that in addition to the two commissions that Dr. Peng referred to, the Romano Commission and the Kirby Commission, recently following the SARS episode in Canada particularly in Toronto, the Health Minister of Canada asked for advice from Dr. David Nailer,

who has just submitted his report to my Minister and it calls for a major overhaul of our public health care system, starting with the infrastructure but of course moving along to other issues. This is part of the debate at the moment and serious consideration being given to including some machinery changes in the government itself to set up a more focal public health enterprise.

The first ministers agreed to provide first dollar coverage. What I mean by first dollar coverage is 100% coverage to a basket of services for short-term acute home care including acute community mental health and palliative care, this was another question you had raised about mental health. What we are trying to do is, even though the systems are not the same, we are trying to streamline the system. The ministers of each of the provinces and territories are coming together with a notion of striking a common basket of home care services so that there is a minimum standard. And in Ontario we are privileged because we are the economic engine of the country and we have 45% of the population. The services we offer on the home care sets a benchmark for the rest of the country. Also the federal government and some provincial governments have introduced compassionate care benefits through their employment insurance programs. For those who need to temporarily leave their jobs to care for their very ill or dying child, parent, or spouse. This is a new introduction, and it was part of the federal budget earlier this year.

Just a quick analysis of the whole thing. Services provided in the home can often be more appropriate for patients and less expensive than acute hospital care. We also have to remember that Canada is very multi-cultural. In Ontario alone, we have 167 languages that we provide health and social services in. So home care you can appreciate is much preferred over an institutional setting where we struggle with our bilingual capacity. Much less with 167 languages.

Canada has seen a shift of health care delivery moving away from a hospital based system to a more community centred system, however the country is still experiencing enormous pressures in the areas of

health human resources and health system financing. We have a great shortage of physicians and nurses in Canada. One aspect of it is of course because of the brain drain to the United States. It's also so because we have not had in the last ten years enough people graduating out of medical schools. We had some short-sighted policies that actually drew down on the number of seats in medical schools so we are facing rather acute crisis vis-a- vis a health human resources.

I'd like to move on and I'd love to discuss on this issue more with you at some other time but I'd like to spend the remaining time that I have on the prescription drugs program in Canada. Dr. Lee you are highly knowledgeable about our system in Canada and you also alluded to the fact that we do have a therapeutic access strategy that we are working on at the moment. But the pharmaceuticals in Canada are also administered under the Canada Health Act. All other pharmaceuticals are insured by the provincial drug plans in accordance with their own relevant drug legislations. So that's a further layer of complexity. Prescription drugs that are insured or listed on the provincial drug formula tree as you alluded, which is drawn up by the provincial minister of health, on the advice of the medical experts within the provinces, the drug list usually also contains the supplies caveat by the drug administration. Each province's different programs in place deal with insurance of different drugs for specific diseases, for example prophylactic, chemotherapy, treatment of tuberculosis, palliative care, children's optical programs, etc. So there is a great deal of variety in the system and therefore it's very hard to tear that all apart and give you a simplistic answer. Examples of drugs that are covered are include those for multiple sclerosis, diabetes, transplant therapy, vaccines often have a co-payment system in Canada, cystic fibrosis, nutrition, etc, etc. What came out in the last first ministers' conference was a focus on catastrophic drugs. This is mainly AIDS therapy, therapy for other treatments for hepatitis, etc, which are long-term in nature and which are expensive protocols. Provincial pharmacare programs do not cover the cost of products which can be obtained without a prescription. The only time we make an exception is for our First Nations and Inuit

population. We have a supplementary drug program which is called the non-insured health benefit, and it's something that you might want to actually look at and see how we administer it. Non-prescription drugs including vitamins etc., are not covered. In exceptional cases however the provincial ministry of health may consider requests for coverage of drugs not listed as benefits. There have been exceptions. In Ontario, for example, a physician can request consideration for coverage of an unlisted drug for a particular patient provided that there is no formula alternative to treat severe life threatening or organ threatening conditions or diseases that otherwise cause severe debilitating effects. With respect to the acquisition of pharmaceuticals often standing offers, standing offer contracts are used to obtain the quantity of drugs. And as opposed to what I understand from your describing of your system, we do have availability of generic drugs. In fact we've started to attract the attention of our neighbour south of the border and one of the new phenomenon in Canada is what's called Internet Pharmacy, which has begun to be a bit worrisome for my minister particularly with respect to the shortage of pharmacies already in the system being attracted to the serve as internet pharmacies, rather a lucrative profession I understand. And of course the shortage of drugs for Canadians when we need to treat them with certain drugs. So this is a particular debate in North America and most of the northern governors in the northern states of the US have of course been pro-internet pharmacy dispensing and they managed to get it passed in Washington, D.C. So we will need to monitor that issue.

Eligibility benefits and cost-sharing varies in each province so nothing is again the same. All residents over the age of 65 received guaranteed income supplements from the federal government and registered with old age security are insured. Recipients who are qualified for social service benefits, who are residents of homes for special care, residents of long term care facilities and persons receiving home care benefits are automatically insured. So it's more income tested in that sense. Co-payments are charged in other instances. There are also supplementary insurance plans. For example, for us in the public service we have an

extended insurance plan that covers 80% of our drug costs and there are other private insurance plans in the private sector that do similar considerations. I'd like to end by saying that the premiers and Prime Minister agreed to further collaboration to promote optimal drug use, understand best practices in drug prescription and better manage the cost of all drugs including generic drugs, to ensure that the drugs are safe, effective, and accessible in a timely and cost-effective manner. Thank you.

Bong-min Yang
Seoul National University
Co-Chair

Thank you Dr. Srinivasan. Your comments are quite complimentary to the presentations and I guess there are no specific questions that are addressed although there are some question-like comments you have raised about co-payments and a few things but we can talk about this later during the open discussion session. Also, I have to tell you that I apologize to our Canadian colleagues for not knowing much about Health Canada. Now I know what it is. It's the Ministry of Health and Welfare in our sense.

Let us now move on to Dr. Kim Chang-yup as a discussant to comment on Dr. Peng's paper. Dr. Kim is a professor of Public Health at Seoul National University, and he is a 100% domestic product. Born in Korea, studied, and got his Ph.D. at SNU, but he is quite an international person. He is working internationally and his activities are quite extensive covering many international issues. Especially he is currently a leader of the international health group which is just formed in Korea. So let me introduce Dr. Kim to make comments on Dr. Peng's paper.

Chang-yup Kim
Seoul National University

Thank you. The podium is only for speakers and I am only a discussant so I have to keep my chair. I was a little confused that you provided some simultaneous translation when I entered this room, about whether I should discuss in Korean or in English but the general atmosphere is speaking in English so I will follow the tradition of speaking in English.

It is very honourable for me to discuss on Dr. Peng's presentation. First of all, I'd like to appreciate very informative presentation on the development and current issues on LTC in Ontario and in Canada. Because Canada has gone so far in terms of ageing and related policy making, discussions could be very meaningful lessons for us but at the moment I'd like to touch on some common issues between Canada and Korea. Due to the limitation of time, my discussion will focus on a couple of things. First of all, I have to indicate the critical issue of financing for long term care. Every country, no exception, even the wealthiest countries in the world are always suffering from the financial constraints. Even Canada, US, every time everywhere they are suffering and always speaking about the financial constraints. We are poor, we have no money and we have to have more money. Regarding funding for LTC in Korea, very different situation from Canada. We have to mobilize new sources of funding for public system of the LTC because we have not such a system in public sectors. It means that the taxpayers and premium payers would not easily accept the additional burdens whether we adapt tax-based system or social insurance system, every taxpayer and premium payer would not welcome the new system. Even though they are always saying that we need such a system, when they should pay money, they will not welcome the new system.

My personal expectation is that it is very highly probable that public system for LTC cannot be realized in the near future in Korea, even though that the government of Korea notices that the new system will start in 2007, but personally I do not think that this will be easily realized. In this regard, I do not believe that LTC has become a real

policy agenda in Korea from a social perspective and from the policy perspective. I don't think the LTC policy became the real policy agenda. So many people are not recognizing such a system and it is only within the academia and policy makers. It is a very critical issue to make LTC policy into a real social policy agenda in Korea. We have to hear more and more scandal regarding the misery or neglected elderly in the media. If we do not have a public LTC system this could become more complicated. And more and more private providers will participate in the emerging market, and behave just like profit enterprises because we have such a big demand from the consumers even though we have no public system. With growing power of private sectors, the government and consumers have only very narrow range of policy options. If we are a very big market, then the policy options could be very narrowly scoped. (tape change) I think if you surrender to the market, your government and enterprises have to pay more and more money in the long run, and strong temptation of privatization is observed everywhere in Canada and Korea. But I don't think privatized system could produce efficiency in the long run even though in the short run government could cut down on the budget or expenses. The long run story is very different. I hope Canada as well as Korea does not surrender to sweet of privatization of social and health care.

Second issue is for the community and facility care. Dr. Peng indicated the shift of LTC burden to family and friends with the governmental policy of cutting cost and emphasizing community and home care. But even theoretically, we have no sufficient evidence that community care is less costly than facility care. But many countries are trying to adapt and strengthen community and home care instead of facility care, trying to save the governmental money not total money. However if you do not have an appropriate measure to avoid more informal burden of family members, we have to be very careful not to over-emphasize the role of community and home care. In the long run, unreasonable deviation to community care could produce unexpected inefficiency. Like in the case of Japan, in which the cost for facility care is more rapidly increasing even with the strong drive of the gov't to invest more

money in home care. I believe that at the moment in Korea, more and more facility care should be provided even though Dr. Tchoe mentioned that the original plan is to invest more money in home care rather than facility care. But I think we have to be very careful to avoid the informal and hidden shift of care burden to families or friends. And as a related issue, I think we have to be very careful to consider whether the traditional family structures, which consist of a father, a mother, and a couple of children could be sustainable in the long run. So our system and the Canadian system are still strongly based on the traditional family ties regardless of new type of system such as same genders, or something like that. So we have to consider a very wide concept, a very wide framework.

As a third point, I'd like to address the issue of private providers. We Koreans already very well recognize the implications of absolute dominance of the private sector from the experience of health care. Our lesson is that if we do not have a meaningful share of the public sector, any measures to control the cost inflation could be useless and fail. We are trying to expand very rapidly the facility and human resources for LTC, however the government is suffering from the chronic deficit of finance like Canada, finance to invest. On the contrary, many private providers are waiting for the maturation of the market and the possibility of profit making. It means that we are going to again heavily dependent on the private sector for service provisions for LTC. The eventual result would be very easily expected, that it would replicate the experience of explosive expenditure increase of health care so we must be very careful. Also Canada should be very careful to privatize your health care system or long term care system.

And fourth and final comment is very simple. As all of us are recognizing that the LTC policy whether new social policy particularly compared to health care policy and health insurance policy, it means that stakeholders in this policy tend to be more sensitive to completely different situations in terms of policy making and stakeholders in policy making. More and more new stakeholders could emerge and participate in policy making. For example in Japan, feminist groups have had very

strong influence on the policy making such as cash benefit. In our case, we do not yet have very strong stakeholders or large voice from them. So I am very curious about how is the situation in the Canadian case. Who are speaking the voices for LTC - family members, elderly people, young people? I think we have to consider the new stakeholders. Finally I'd like to propose that we have a more wide scope of LTC policy analysis to include economic sphere. I don't know the Canadian situation but in Korea new introduction of LTC system by economist groups and some policy making groups also regarding it as an opportunity to produce new jobs such as caregivers. It means that some transfer of informal caregivers to formal caregivers, which is a kind of public workings. So it means that we can make many new jobs and new industry. New job creation is always a problem in Canada and Korea and new job creation could not be ignored in Korea especially after the crisis in 1998. But still we do not have some sound exploration/consideration for economic perspective for LTC policy and LTC systems. I think it is very clear that we need more comprehensive perspectives, not only from the perspectives of health care and social policies but also from perspective of economic policies, and the significance and implications of LTC policies. Thank you.

Bong-min Yang
Seoul National University
Co-Chair

Thank you Dr. Kim. Unlike me, he is still very young. And I like his comments very much and I think his comments are stimulating but on the other hand somewhat challenging. Let me ask Dr. Peng if she has any replies to his comments. There are few comments you could answer on.

Ito Peng
University of Toronto

Thank you very much for your very thoughtful comments. I think many of what you said is clearly true. I think we need a very careful analysis of the meaning of community care, shift from institutional to community care. What purpose that is serving and whose needs they are addressing. I think also your comments about LTC policy as a new social policy that may involve new stakeholders and new interest groups is very interesting point. The research which I have been doing for the last few years have been on the politics of LTC insurance in Japan. So I understand a lot of what you said Dr. Kim about looking at LTC issues not simply in terms of descriptive policy point of view but also in terms of understanding policy dynamics and policy players and looking at how the LTC actually intersects with some of the new economic opportunities in the increasingly liberal economic market. Certainly in the case of Japan's LTC policy, I do know that there was a very thoughtful but fairly strategic attempt to sell LTC in terms of new economic opportunities for women who were otherwise in terms of increasing the labour market participation for them, which in turn turns the whole things around and makes you think in a way that LTC insurance in at least in the case of Japan may be serving to basically marketize and commodify what otherwise would be an unpaid homecare within a certain institutional framework. I think I really buy your thoughts and comments about that. I'd like to really think more about these implications. Thank you.

Bong-min Yang
Seoul National University
Co-Chair

Thank you very much. Dr. Lee and Dr. Tchoe if there's any reaction to Dr. Srinivasan's comments? The original intention was to give a chance for the audience to ask questions to the Canadian presenters especially

those who are already working in the field. First session is over now. So let's have a ten-minute break and start the next session. Thank you for presenters and discussants.

IV. SESSION II :
FAMILY ISSUES & CHILD CARE

Dual-Earner Families Caught in a Liberal Welfare Regime? The Politics of Child Care Policy in Canada¹

Rianne Mahon & Susan Phillips
Carleton University

Welfare state restructuring in Canada is following the broader OECD pattern, which involves the erosion of forms of social citizenship established in the postwar era and the introduction of reforms inspired by neo-liberal views of the proper relationship of states, markets and citizens. Such restructuring involves not only cuts in social expenditures but also changes in the very structure of programmes. Thus one important example of the neo-liberal turn is the shift from universal, flat-rate programmes developed in the immediate postwar years, to measures based on negative income tax/guaranteed annual income (NIT/GAI), a shift which is even more pronounced in Canada than in the US. (Myles and Pierson, 1997). Welfare state restructuring is also implicated in the broader reconfiguration of relations among the different layers of the state (federal, provincial, municipal) and between state and civil society (Bach and Phillips, 1997).

All of these trends are visible in the field of Canadian childcare policy but the latter occupies a special position in this process as a result of a change in the dominant family form - the erosion of the male breadwinner family form and the rise of the dual-earner family. This change poses new challenges for the welfare state. As elsewhere, the emergence of the time-pressed, dual-earner family has generated a need for support services like childcare. Yet, in Canada, this transformation has received, at best, limited support from the state. For the most part, governments have assumed that middle and upper-income families were able to look to the market to meet their needs, though limited

¹ This is the first draft of the first sections of our contribution to *Gender and Welfare State Restructuring: Through the Lens of ChildCare*, edited by Rianne Mahon and Sonya Michel. To be published by Routledge (US).

relief has been available since 1971, in the form of the Child Care Expense Deduction. Between 1966 and 1996, however, subsidies were made available to those "in need or in danger of becoming in need" under the Canada Assistance Plan (CAP). Like most examples of the federal government's use of its spending powers, the CAP system left the initiative to the provinces, which allowed a very uneven development of childcare across the country, in coverage as well as form, as we shall see below.

Such limited support is not surprising as Canada's childcare policy shares the liberal features of the broader welfare regime within which it is embedded. And, just as that larger edifice is undergoing major renovations, so too is Canadian childcare policy. Rather than a national childcare act, which several times has seemed within reach, in 1996 the Liberal government replaced CAP with the Canada Health and Services Transfer (CHST) – a reduced block grant which puts no requirement on the provinces to fund childcare services. Moreover, in the 1996 Speech from the Throne, the federal government announced that its spending power would no longer be used to enter areas of exclusive provincial jurisdiction such as childcare thus seeming to close the door on a national childcare act. As part of Canada's broader family policy, however, childcare was one of the earliest areas subjected to experiments with versions of the negative income tax. Aimed at removing any disincentive to work, even at low wages, these programmes have provided lower income families tax credits which, *inter alia*, can be used to cover childcare expenses.

Yet the situation is more complex than this suggests. Thus the needs of the time-pressed dual-earner family, given voice by a well-developed coalition of childcare advocates, help to keep the issue of "accessible, affordable, high quality childcare" alive. At the same time, in Canada as in the US, the emergence of the dual-earner family can, in part, be seen as a response to a labour market increasingly characterized by polarization. Labour market polarization has, in turn, given rise to an anti-poverty discourse focused on children (McKeen, 1998). While the childcare advocacy community and its supporters keep the vision of a

national universal childcare policy alive, it is difficult for the latter to be heard over the anti-child poverty discourse whose claims are more readily translated into terms compatible with a (neo)liberal form of welfare state. These tensions and their reflections in policy terms will be explored in this chapter. The latter, however, needs to be set in context. We will, therefore, begin with a brief overview of childcare in Canada, followed by a discussion of the forces which shaped that system.

Child Care in Canada: Dimensions of a Challenge

Along with the United States and the social democratic regimes of Scandinavia, the shift from the male breadwinner to the dual-earner family form is most advanced in Canada. As a recent study noted, "Dual-earner families are now the norm. In 1994 both spouses worked in seven out of 10 married or common-law couples (under the age of 65), up significantly from about one-third of couples 30 years ago. Only one in five couples relied on a single male earner in 1994. Even among couples with children under the age of seven, 70 percent were dual-earners" (CCSD, 1999: 11). The shift began to occur in the 1960s and accelerated through the 1970s and 1980s. Another reflection of the decline of the male breadwinner family norm is the rise in the proportion of lone-parent families² and here again, Canada ranks with the US – and not far behind the Scandinavian countries – in the labour force participation rates of lone parents.³

² Lone-parent families rose from 11 percent to 20 percent of all families with children between 1961-1991 (Baker, 1995:63). Canada's divorce rate – 2.8 per 1000 population in 1992 – was behind that of the US (4.8) but above Sweden's (2.6). (Baker, 1995: 59: Table 2.8).

³ While in Sweden 88 percent of lone parent are in the labour force, in Canada and the US their labour force participation rate is just under 60 percent. In the UK and Australia, where the male breadwinner family form retains a stronger hold, only 43.7 and 35.3 percent respectively of single parents work. (O'Connor et al, 1999:71: Table 3.2).

As in the US and Scandinavia, women's rising labour force participation rates coincided with the shift to post-industrial employment.⁴ Nevertheless, whereas in Sweden the pattern of service sector growth – with strong growth in publicly provided social services, including childcare – has supported working parents, in Canada, as in the US, the post-industrial shift has been associated with a polarised labour market, with a concentration of “good jobs, bad jobs.”⁵ It has thus “pushed” women into the labour market as two incomes have become increasingly necessary to make ends meet. Among OECD countries in fact, Canada ranks second (after the US) in the share of low paid full time work (CCSD, 1999: 8). In both countries, moreover, the majority of part time jobs fall into the “bad jobs” category, with low skill requirements, low pay, limited hours and poor working conditions (O'Connor et al, 1999, 73). Young families – and lone parent families – have been especially hard hit.⁶

Canada's fertility rates have fallen from the baby boom highs of 4.0 (1959) to 2.5 in 1970 and 1.7 in 1992 (Baker, 1995: 47). This trend is also visible among other OECD countries but Canada's rate is now below that of both Sweden and the US (both 2.1). There is also a concomitant ageing of the population. As Beach et al note, “in 1961, the “aging” index, or the ratio of the population 65 or over to every 100

⁴ Between 1960 and 1990, the share of the labour force employed in services rose in Canada from 59.7% to 73.3 percent. Comparable figures for the US are 59.4 percent to 73.3 percent and for Sweden, 49.8 to 71.6 percent. (O'Connor et al, 1999: 68, Table 3.1)

⁵ The current debate on welfare states tends to blame labour market polarisation on the post-industrial turn. (See Iversen et al, 1998; Pierson, 1998: and Esping-Andersen, 1999). Yet both the Economic Council's original study and the subsequent studies done for Statistics Canada have been careful not to assign responsibility for polarization to post-industrialism per se. The same pattern of polarisation has appeared in the goods-producing sector.

⁶ The proportion of young families in the bottom decile increased from 17% in 1980 to 27% (CCSD, 1999: 7). Lone mothers have it even worse, going from 24% of the bottom decile in 1970 to 40% in 1995 (Stroick and Jenson, 1999: 11)

persons under 15 years of age, was 22.5. By 1993, the index had risen to 57.0, and by the year 2016, it is expected to be 108.3” (1998: 48). This demographic profile, which contributes to the travails of the postwar welfare state,⁷ cannot be “blamed” on the shift from the male breadwinner family to the dual-earner family as the dominant form as it is also visible in OECD countries where women’s labour force participation rates remain relatively low. Taken with the changes in family form, however, it does suggest that Canada clearly faces the set of challenges and opportunities highlighted by Esping-Andersen.

That is, the time-pressed, dual-earner (or lone parent) family needs help. A strong set of childcare arrangements, along the lines pioneered by the Scandinavian social democracies,⁸ could contribute such help and do so in a manner that would mitigate the tendency to labour market polarization. In particular, a high quality, accessible and affordable childcare system would provide an important measure of support for both dual-earner and lone parent families. It thus makes the decision to have children easier and thus could help improve the demographic picture. At the same time, a national programme aimed at providing affordable, high quality childcare, would create decent jobs, requiring post-secondary skills and commanding commensurate wages. This is not what Canada has at present.

According to a recent study, about half the children under 12 whose parents work or study are in some form of non-parental care, and the main form of childcare is unregulated care, provided by unlicensed

⁷ Demographics, along with the structure of the post-industrial labour market, are seen as important contributors to the current dilemmas faced by welfare states by authors Pierson, (1998), Iversen et al (1998), and Esping-Andersen (1999).

⁸SUSAN: I AM ASSUMING THAT THE ESPING-ANDERSEN PROBLEMATIC WILL HAVE BEEN SKETCHED IN THE INTRODUCTION, INCLUDING A SPECIFICATION OF THE DIFFERENT FORMS OF WELFARE REGIME.

caregivers outside the home or by nannies⁹ (Beach et al, 1998: 17). The rest have been able to find places either in licensed family childcare or in childcare centres but the latter concentrated in large urban areas.¹⁰ Moreover, childcare centres still tend to focus on the preschool group so spaces for infants and toddlers are scarce.¹¹ Half the children under twelve are looked after by their parents, despite the dramatic increase in the labour force participation rates of women, especially mothers, over the last thirty years.

The high rate of parent-provided care is not the result of a generous parental leave policy. As of 1999, parents of newborns, who met unemployment insurance eligibility rules could take paid leave for up to 25 weeks (10 weeks maternity leave and 15 weeks parental leave). Many women, however, do not qualify since changes were introduced in the mid-1990s. Although the new legislation covers part time work, the number of hours required for qualification have been increased. Nor are those involved in other forms of “nonstandard” work – temporary and self-employment – eligible.¹² For those who are eligible, the replacement rate has been cut to 55 percent and there is a cap of \$413 per week. In addition, those with annual family incomes above \$48,750 are subject to a claw-back (Stroick and Jenson, 1999: 74). The relatively high proportion of parental care, with parents arranging their work schedules so that they can fill gaps, thus reflects the lack of accessible, affordable, quality care.

⁹ According to Beach et al, in 1994, 34% of those under 12 whose parents were working or studying were in unregulated care and about 14 percent were being cared for at home by a nanny (1998:22 and 23).

¹⁰ Among children of working or studying parents, aged 0-6 and living in cities over 500,000, 24.8% had spaces in centres while in rural areas, only 13.7 were able to find spots in childcare centres.

¹¹ Varga argues that this trend was established as day nurseries began to adopt the “early child development” philosophies of psychologists like Gesell and Hall in the 1920s and 1930s (1997, chapter 2).

¹² Refer to CLC study showing women particularly affected by these changes.

One of the key problems is cost. Childcare is labour-intensive. Without public financial support, parents and caregivers are caught in a dilemma. Decent wages for childcare workers in childcare centres or license family daycare come at the expense of affordability. The Canadian policy of subsidizing only those in need has thus meant that many middle and upper-middle income families have to look to various forms of unlicensed care.¹³ Of course, since 1971, the latter have been able to deduct part of their childcare expenses under the ChildCare Expense Deduction provision but the latter requires receipts and the majority of unlicensed caregivers do not provide receipts.¹⁴ Thus the form of public support available in Canada has done little to improve the position of childcare workers. As Beach et al noted,

centre-based caregivers with a college diploma or certificate working full time and for the full year received less than 75% of the annual income of the average full-time, full-year female worker with the same education. This amounted to less than 60% of the annual income earned by the average full-time, full-year worker, male or female, with the same education. Yet, centre-based child care workers are better compensated than others in the child care workforce; regulated and unregulated family home caregivers and in-home caregivers are often less well paid than those in centre care. (1997: 77-78)

While caregivers in childcare centres are better paid than licensed and unlicensed home childcare providers, with average wages of \$19,000 in

¹³ In 1994, "31.1% of the children in families with incomes below \$30,000, compared to 17.2% of the children in families with incomes over \$30,000, were in centre-based care" (Beach et al, 1998:28). This is in marked contrast to Sweden where middle- and upper-middle income families are over-represented in child care centres (LO, 199).

¹⁴ According to Beach et al, only 35% of unlicensed caregivers provide receipts (1998:31).

1990, they still fell well kindergarten or elementary teachers (\$34,000 - with education equivalent to the care giver in a centre) (Beach et al, 1998: 9).

The Canadian system between 1966 and 1996 does need to be placed in broader perspective. Thus in keeping with the liberal orientation of the Canadian welfare state, Canadian support for the dual earner or lone parent family was not universal but rather focused on those less well off. At the same time, just as, in general, the Canadian welfare regime was marked by a stronger element of "social liberalism", blended with growing recognition of the links between family and market status (O'Connor et al, 1999: 198), so too in this area the Canadian state was prepared to do more to support dual-earner or lone parent families than its US counterpart. It did so, moreover, in a way that favoured non-market solutions. As Jenson and Stroick note,

a positive side of this [CAP] funding philosophy was that it legitimized the political actions of community groups which sought to develop childcare services in poor neighbourhoods and to use childcare centres as focal points for community development. Extra funds were even made available for such initiatives through the federal government's Local Initiative Projects. At the same time, relatively high cutoff points for defining "need" in some provinces meant that subsidies could reach upward toward the middle class. Further, all children in a daycare centre, regardless of family income, could benefit from the centre's operating grant. (199:64)

The effects are still visible in the relatively high proportion of daycare centres (approximately 60%) under non-profit auspices.

Nevertheless, the system fell far short national childcare provisions of the Scandinavian welfare regimes. While from the early 1970s, CAP allowed a fairly generous definition of "need," the 1986 Cooke Task Force found that **no** province or territory used an income or needs test

as generous as that established in federal guidelines (1986, 184). Moreover, while the financing route which secured federal contributions for operating costs as well as fee subsidies, was restricted to non-profit providers, the other "social assistance" route made funding available for spaces in commercial childcare centres.¹⁵ Richer provinces like Alberta, moreover, could afford to forego federal funds and construct a childcare system in which 80% of the places are in commercial centres. Finally, the CAP set no standards regulating the quality of care. Thus provisions for licensing, training and the rest vary widely across the country (Beach et al, 1998: 35-42)

As we shall see, childcare advocates have long fought to replace CAP with a genuine national childcare policy, one capable of ensuring that all families who need or want high quality childcare can afford it and that the childcare providers enjoy decent wages and working conditions. Yet when CAP came to an end, it was replaced not with a national childcare act but by a new system of block grants. The CHST puts no obligations on provinces to spend a share of the transfer on child care, and the National Child Tax Benefit, a form of NIT/GAI again leaves it to the provinces to decide whether, and in what form, childcare would receive public support.

The Making of Canadian Childcare Policy: Phase 1

The inclusion of childcare among the services eligible for federal cost-sharing grants under the Canada Assistance Plan (1966) coincided with

¹⁵ After 1972, CAP offered two funding routes. The most generous was the "welfare services" route which required an income test (administered through the tax system and thus less invasive) and provided federal funds for fee subsidies and a share of operating costs including salaries and fringe benefits, training, materials and supplies, but was only available to non-profit providers. The second was the "social assistance" route based on a traditional means test. Under this provision, federal funds simply cover 50% of the subsidy for those in need but the subsidy can be used in commercial as well as non-profit centres. See Cooke, 1986, section on CAP financing, for more details.

the appearance of the first signs that the family form was changing.¹⁶ Yet the connection between the two is tenuous. For the most part, neither policymakers nor the general public were conscious that mothers were working in ever-larger numbers when the terms of CAP were being worked out. Rather, CAP needs to be located as part of the last great wave of "social" liberal¹⁷ reforms, reforms which developed through, and built upon, the foundations of executive federalism laid in the 1930s and 1940s.¹⁸ Feminist subsequently played an important part in advancing the demand for universal childcare. In this they, and childcare advocates at the grassroots level, were aided by the state's

¹⁶ The studies commissioned by the Women's Bureau (1958, 1964) began to document the rise of women's (and mothers') labour force participation rates. A new feminist movement had begun to form and, in Quebec, the new *Fédération des Femmes du Québec* included universal daycare in their demands. Until the Royal Commission on the Status of Women, however, second wave feminism had little impact on the national agenda.

It should be noted that, as in the United States, the federal government did subsidise daycare during the second World War but cancelled the programme at the end of the war. Instead, the family allowance, spousal and dependent child tax allowances and housing supports supported the reassertion of the male breadwinner form. See Prentice (1993) for a richly detailed analysis of the war-time policy and the struggles to maintain daycare in Ontario after the war-time grants were terminated. There were fewer protests in Montreal, in part because the few centres then operative served minority anglophone communities. The Catholic Church maintained an implacable opposition to daycare and French Canadian mothers who worked (and many did in industries like textiles) relied on extended families (Desjardins, 1992:33).

¹⁷ As O'Connor et al recognise, liberalism has various facets including social liberalism (1999: 49-52). The latter not only accepts a more active role for the state vis-à-vis the economy (liberal variants of Keynesianism) but also the recognition the social citizenship complemented, rather than undermining, civil and political citizen rights.

¹⁸ Executive federalism is the term coined by Smiley (1976) to refer to the channels of intergovernmental bargaining that mushroomed in the post-war years. The foundations were laid in the 1930s, however, in the report of the Rowell-Sirois Commission.

acceptance that a vital democracy required public support for citizen groups (Jenson and Phillips, 1996).

Well before CAP was terminated in 1996, however, the tide had turned. Neo-liberalism had gained the ascendance, the federal system was in crisis, and the state had abandoned its commitment to public advocacy in favour of narrower "partnerships". The story of Canadian childcare policy from 1966 to 1993 in many respects reflects these broader trends. At the same time, it testifies to the state's difficulty in carrying out these changes, due to the strong tensions they have generated. In particular, it has found it harder to put the "advocacy" genie back in the bottle. Childcare advocates and their feminist and labour allies may have had to alter their tactics but they have not given up the battle for accessible, affordable childcare of high quality.

The move away from the male breadwinner as the paradigm exemplar of Canadian social policy began when labour markets were tight, job growth was increasingly concentrated in the service sector and women's labour force participation had begun to rise. This was also a time of new political openings to forces favourable to a deepening of the "social liberal" dimensions of Canada's welfare edifice. With the formation of the Canadian Labour Congress (CLC) and the latter's support for a renewed social democratic party (the New Democratic Party), the labour movement seemed poised to challenge the old line parties. The wave of wildcat strikes and the struggle of public sector workers for collective bargaining rights gave class-based issues a new salience. The New Left in anglophone Canada helped to spawn a movement for an independent, socialist Canada and, in Quebec, the unions and the fledgling women's movement helped to shape the visions that blossomed during the Quiet Revolution. In anglophone Canada, too, feminism was beginning to stir but neither movement was strong enough yet to put childcare on the agenda. Rather, the growing need for childcare was mainly being articulated within the network of local social workers constituted by the Canadian Welfare Council (CWC) (Finkel, 1995; Mahon, forthcoming). Their concerns, backed by the then-lone representative of working women's concerns in the

Canadian state, the Director of the Women's Bureau of the Department of Labour, remained marginal to those involved in hammering out the details of CAP.

The main target of federal and provincial welfare officials was the low income male breadwinner. Childcare was but one of the "rehabilitative services" whose primary aim was "to enable the individual to attain or regain the fullest measure of self support and independence of which he is capable."¹⁹ And the officials clearly meant "he." Thus as the then deputy minister argued, one of the main causes of poverty was that the male breadwinners had families too large in relation to their wages.²⁰ Thus CAP's main innovation was the introduction of the needs test which allowed officials to take the size and age of a man's family into account in determining whether and how much assistance to provide.

The issue of getting mothers off social assistance and into the labour market, which played such an important part in the American debates at that time was all but ignored in Canada. To be sure, under CAP, for the first time provincial mothers' pensions became eligible for cost sharing. Yet, as Little's (1998) work has shown, the prevailing attitude toward lone mothers at the time, while hardly lacking moralistic paternalism, was one that supported their right to stay at home with their children like their more fortunate (i.e. married to a male breadwinner) counterparts. For the then-Minister of Health and Welfare, federal contributions to daycare subsidies simply made it possible for mothers in low-income families to work.²¹

While the ultimate target was the low income male breadwinner family, CAP also aimed to add another layer to the intergovernmental

¹⁹ NAC, Records of the Department of National Health and Welfare, RG 29, vol. 1620, file "Canada Assistance Plan" nd, p. 1.

²⁰ NAC, RG 29, Records of the Department of national Health and Welfare, vol 868, file 20-C-215, part 1.

²¹ NAC, RG 29, Records of the Department of National Health and Welfare, vol. 1620, file 122-1, Speaking Notes for the Minister on second reading of the bill.

arrangements aimed at securing place-based equity and with it, pan-Canadian identity (Jenson and Phillips, 1996). The federal government aimed to guarantee that all Canadians, no matter where they lived, would have equivalent social rights. In this, it was building on the system of equalization payments to have-not provinces inaugurated in the 1950s to compensate for the latter's lower tax base, and hence their inability to provide services equivalent to those offered by their richer counterparts. Those who framed CAP were well aware of recent provincial inquiries that were redefining the relationship between provincial governments and the municipalities in recognition of the latter's inability to meet the growing demand for such services.²² CAP's provisions were designed to assist the provinces assuming these new responsibilities. Thus, in the name of place-based equity, CAP helped to build a nationally based set of "nesting" arrangements.²³ In the words of one federal official, the Act would "assist and enable the provinces to develop and maximize the potential of Canada's human resources by facilitating, for those Canadians now unable to do so, their participation, in and contribution to, the social and economic growth of their home, community, province and nation."²⁴ As we shall see, this system would begin to unravel but a decade later and its unravelling has affected the shape of Canada's childcare policy.

While CAP would become the main form of federal support for childcare, in the late 1960s and early 1970s, the most important federal support came in the form of grants to community groups provided

²² Health and Welfare's files explicitly refer to the Boucher inquiry in Quebec, the Bryne inquiry in Newfoundland and the Michener inquiry in Manitoba. RG 29 box17, 3203 - 2 part 1. Report on the Meeting of Ministers of Welfare, May, 1964 and Summary of Reports, DM of Welfare, 7.12.64.

²³ The reference to "nesting" is to Soja's metaphor for the relationship among different sites - "a mutable hierarchy of nested locales." One of the aspects of the crisis of the Keynesian welfare state is the disruption of the system of connections establishing that hierarchy.

²⁴ NAC, RG 29, Box 17 3203-2, part one. From the Director of Unemployment Assistance to the Deputy Minister of Health and Welfare, 25.1.65.

through programs like Opportunities for Youth and the Local Initiatives Programme. The latter, in turn, should be seen as part of the federal government's attempt to forge a new relationship with intermediate organisations in civil society, many of which were infused with the values of the new social movements. The latter not only had a role to play in providing community services but also as advocates. State support was thus partly motivated by the aim of fostering more equitable access to political power (Jenson and Phillips, 1996). And there are certainly important examples of this in local struggles for childcare. Thus for example, the Company of Young Canadians helped to finance the newsletter of a newly formed childcare advocacy group in Vancouver (Griffen?, 1992:28). In Ontario, the Toronto Day Care Organizing Committee founded in 1970, was funded by a LIP grant.²⁵ As Lero notes, the Committee "represented the kind of demand for child care voiced by [local] feminist groups of the time....the group produced a newsletter called Day Care for Everyone, operated a resource library and developed a slide show describing day care programs....by 1974 it had built a community network of support for non-profit child care and helped launch the group for Day Care Reform" (1992:371-2). In Montreal, too, LIP and OFY funds were being used by local activists to develop non-profit daycare (Desjardins, 1992:36). LIP funds also enabled an increase in the number of non-profit daycare centres, mainly in the Halifax-Dartmouth area, from 7 in 1971 to 34 in 1975 (Canning and Irwin, 1992).

In terms of the development of a demand for a *national* childcare policy, however, one of the federal government's most important initiatives was the appointment of the Royal Commission on the Status of Women. The Commission held hearings across the country, giving a

²⁵ The Statistics Canada study from which these examples are drawn provides a tantalizing glimpse of the role played by grass-roots organisations, often inspired by New Left and feminist ideas, which seized the initiative from the older networks constituted by the local welfare councils. The detailed stories have yet to be told. See Atkin (1998), however, for the one detailed scholarly account of one such initiative currently available.

new national visibility to what had hitherto largely remained a set of local, grass roots movements. Its final report, released December 1970, constituted the first attempt to codify a new understanding of gender relations. In it glimmered a vision of a future in which men and women would be able equally to participate in the worlds of paid work and parenting (Burt, 1986:117). Prominent in its list of the supports required for a post-patriarchal family form was the demand for a universal childcare system, available to “all families who need and wish to use it” (1970, 268 and 270).

The Commission’s demand for a national childcare policy was not met. Nevertheless, its report may have helped to bring about the 1971 introduction of the Child Care Expense Deduction and the changes to Unemployment Insurance to permit funded maternity leave. More importantly, the terms of CAP, applicable to childcare, were changed to allow subsidies to a wider income group and made available direct operating grants to non-profit centres, under the welfare services route. Here the Interdepartmental Committee on the Status of Women, and the first Coordinator for the Status of Women, Freyda Paltiel, played an important role (Mahon, forthcoming).

The absence of a strong childcare advocacy network at the national level at that time,²⁶ however, meant that the new femocrats were strong enough to secure modifications to CAP but not strong enough to create a new policy. As a result they needed to secure the support of the Department of Health and Welfare – the department in charge of CAP. The latter, in turn, was preparing to take the federal “nest-making” strategy one step further. Their representatives on the Interdepartmental Committee stressed the growing importance of community care

²⁶ In this regard, it is interesting to compare the results of the first national conference on daycare, held in Ottawa in 1971, with that of 1982. The latter not only drew back from demanding a new national childcare act. It also left the childcare advocacy community pretty much as it was – unevenly developed across provincial and even inter-city lines and with no national voice. The second national conference resulted in the creation of two strong childcare advocacy groups. See below.

services – “those functions or roles that have been culturally assigned to the family or that the individual, under normal circumstances, has been traditionally expected to perform for himself”.²⁷ In the past, families who could not perform these services had been able to look to local voluntary agencies, but the rapidly growing need for such services was straining the latter’s resources and those of the communities on which they relied. The time had come for greater federal support than could then be offered under CAP. CAP was thus revised to provide stronger incentives for the provinces to support community care services.

The 1972 revisions to CAP that resulted from these intra-governmental rules opened up the “welfare services” route. As noted above, the latter offered not only subsidies to those who met the more broadly defined income (rather than means) test. It also made it possible for the federal government to contribute to the direct operating costs of childcare centres and *only* those run by non-profit groups. A Day Care Information Centre was established to provide information and counsel to provinces, municipalities and local groups wishing to set up daycare operations and the first Day Care Counsellor appointed, Howard Clifford, would become an important force helping to give local and provincial groups a national voice. It did not, however, change childcare from an anti-poverty measure to become a social right, available to all.

Universal daycare in a sense remained on the federal government’s agenda through the social policy review initiated by the minority Liberal government in the mid-1970s. The review opened up the possibility that CAP and other pieces of federal social policy legislation would be replaced by a comprehensive act. Although the main focus was on income security and income support measures, employment and “community care” services were included and the latter held the

²⁷ NAC, RG 106, Record of the Coordinator, Office of the Status of Women, vol. 3, file Working Party IV, Background paper on revision of the Canada Assistance Plan – Community Care Services (Daycare and Homemaker Services).

possibility of federal support for all who want and need it. The reforms envisaged offering the provinces a range of different formulate from universality at no cost, to sliding fee scales that, unlike even the revised CAP, could encompass all (Haddow, 1993:154). As a letter to NAC representative from the then-Coordinator of the Status of Women, indicates, childcare was certainly one of the services that was intended to become universal in scope.²⁸

The social security reform, and with it, the possibility of an affordable and accessible child care programme, foundered, however, on the deepening crisis of the postwar order. That crisis has two aspects.

The first is the crisis of the “nesting” arrangements whereby the federal government used its spending powers to induce and support provincial social policies (with the latter, in turn, supporting municipalities and non-profit community care providers). The social services bill was withdrawn in the fall of 1977 to be replaced by a social service financing act that embraced the principle of block funding. The latter was seen as more in line with the provinces’ demand for greater autonomy. This move marked the beginning of a serious challenge to the postwar system of intergovernmental relations in which the growing clash of two national projects – the pan-Canadian one of old and Quebec’s newly minted sovereigntist claims, then given real force by the election of a Parti Quebecois government.

The second forms part of the broader crisis of the Keynesian-welfare state which, in turn, opened the way for the ascendance of neo- over social-liberalism. In August 1978, then Prime Minister Trudeau returned from a meeting in Bonn a convert to fiscal austerity. The Social Services Financing Act, which would have replaced CAP, was sacrificed in the interests of limiting cuts to the Established Programs Financing Act (Haddow, 1993:161). In addition, to soften the blow of cuts to the universal Family Allowance, a refundable tax credit

²⁸ NAC, RG 106, Records of the Coordinator of the Status of Women, vol. 68, file 1320, Julie Loranger, Coordinator, Status of Women, to Ruth Shaw, National Action Committee on the Status of Women, 18.11.76.

designed on NIT/GAI principles was introduced, targeted at low income families with children" (Myles and Pierson, 1997:455). The new tax credit can be seen as the product of the debates in which the GAI was conceived in terms of a deepening of social liberalism, that is, as a *supplement* to existing programmes. Subsequent reforms placed it clearly within a neo-liberal framework, as a *substitute* for universal programmes, from family allowances to childcare.

The issue of a national childcare programme did not, however, disappear despite these signs that the heyday of social liberalism had come to an end. In fact, it gained new impetus with the formation of a coalition of childcare advocates at the national level. During the 1970s, local childcare advocacy groups had started to come together at the provincial level²⁹ but there was still no national advocacy group. The federal government's childcare consultant, Howard Clifton, worked with the Canadian Council on Social Development (successor to the Canadian Welfare Council) to change that. In 1982 the second national

²⁹ The best known story is perhaps Ontario's in which the Toronto-based Action Day Care (1978) and the Ontario Coalition for Better Day Care (1981) play a key role (Prentice, 1988; Lero, 1992 and Friendly, 1994). Similar groups were emerging in a number of other provinces, however. In BC, the Vancouver-centered Child Care Federation (1973-76) and the Coalition for Improved Daycare Services (1976-78) were followed by the formation of the BC Daycare Action Coalition in 1981 (Griffen? 1992). By 1974 a childcare advocacy association had been formed in Manitoba, bringing together childcare workers, members of the boards of nonprofit childcare centres, parents and others. In 1981 the Association gained core funding from the Winnipeg Foundation (Humphrey? 1992). In Saskatchewan, Action Child Care developed out of the Saskatoon Community Development Programme (Nykyforuk, 1992) while the Day Care Committee of Halifax-Dartmouth Welfare Council laid the basis for the Citizens Day Care Action Committee and the Nova Scotia Child Care Council in Halifax (Canning, 1992). A 1973 conference on Citizens Rights and Freedoms in St. John's, Nfld, resulted in the formation of the Day Care Action Committee (Glassman, 1992). Most of these coalitions followed the same pattern, bringing parents, childcare workers, early childhood educators, and social agencies together with women's groups and unions. On the role of unions in the struggle for daycare in Canada, see Rothman and Kass, 1997).

conference on childcare, funded by national Health and Welfare (Clifton's office), was held in Winnipeg. The conference led to the creation of not one, but two, national childcare advocacy groups, each with funding from different federal agencies.³⁰ The first, the Canadian Day Care Advocacy Association (now Canadian Child Care Advocacy Association) backed the position articulated by Toronto-based Action Day Care at the conference, which called for universally accessible, comprehensive, high-quality day care to be provided under *public or non-profit* auspices. The second, the Canadian Daycare Federation (now Canadian Childcare Federation), whose members included operators of commercial childcare centres, favoured the extension of public funding to for-profit centres. This split in the childcare advocacy community would become important when the federal government again took up the question of a national childcare policy in 1986.

The issue of childcare was placed squarely on the government's agenda by the Abella Commission on Employment Equality³¹ and the Cooke Task Force on Childcare. Both strongly articulated the need for a national childcare act in the name of equality of the sexes. The two reports were commissioned by a Liberal government which retained enough of a social liberal orientation to make such an option plausible. Yet it was a Tory government that would be in a position to act and the latter took office in 1984 committed to pursuing a markedly neo-liberal agenda. Moreover, while there were feminists in the Tory party, the New Right was also well represented, as was evident in the support for REAL Women, an anti-feminist group, within the Tory caucus.

³⁰ The CDCAA received funding from an important site of feminist activity within the federal bureaucracy, Women's Branch of Secretary of State. See Findlay (1987) for more on the Women's Branch. Health and Welfare provided funds to support the Canadian Day Care Federation.

³¹ The Abella Commission argued that the term "childcare" should be substituted for "daycare" in recognition of the range of non-parental care needs, including childcare services oriented to meeting the needs of shift workers.

The Tories' proposed ChildCare Act would have replaced CAP as the vehicle for federal funding as many had long demanded. Federal funds could be used not only to cover 50% of operating costs but also to contribute 75% of capital costs. A top-up for poorer provinces, to allow them to catch up, was proposed (to a maximum of 90%). The move was not, however, greeted with acclaim by the CDCAA and its allies. The Tories' proposal would have allowed the federal government to put a ceiling on federal transfers (\$4 billion over the next seven years), something it could not then do under CAP.³² Nor did the Tories' bill attempt to specify any national standards of the sort which the Cooke Task Force had clearly demonstrated the need for. The issue which really divided the childcare advocacy community, however, was that auspice. Whereas under CAP, the federal government would not contribute to the operating costs of commercial childcare centres, the Canada ChildCare Act would have made the latter eligible (though not for capital costs).³³ While the smaller Canadian Day Care Federation approved this move, it was flatly rejected by the much larger CDCAA. The latter, working closely with the CLC, the National Action Committee on the Status of Women (NAC) and other popular groups to oppose the bill which died on the government's order paper when the 1988 election was called and was not revived.

Two other elements of the Tories childcare policy did make it through the House. The first, the Child Care Initiatives Fund, can almost be seen as a continuation of the 1970s programmes like LIP which had

³² In 1990 the Tories did put a cap on CAP for the three richest provinces, Ontario, Alberta and BC.

³³ The Cooke Task Force had also recommended this as an interim measure. While Cooke recommended that "good faith" and direct child care funding subsequently be limited to licensed centres operated under public or non-profit auspices (recommendation 6), it recommended that the government lift restrictions on contributions to operating grants for commercial centres under CAP (recommendation 15. Cooke, 1986:373-374).

helped fund some of the earlier grass roots childcare initiatives.³⁴ This time the focus was specifically on innovative childcare projects, with a particular emphasis on services for Aboriginal children, children with special needs, children of parents who work shift work or part time, and children in rural areas (CCF, 1995). In this sense, it sustained the spirit of those earlier initiatives. The second, however, harked back to a very different move from the 1970s: the introduction of an NIT/GAI –based approach to family policy. In this instance, however, neo-liberal ideas blended with the preferences of the New Right. Thus the Tories' refundable Child Tax Credit offered several billion dollars tax assistance to two groups of lower and middle-income parents. It offered some assistance to those who had to rely on unreceipted childcare. And, in line with REAL Women's demands, it provided tax relief for traditional male breadwinner families. In 1992, the Tories announced a new Child Tax Benefit who would replace previous tax credits as well as the last vestige of the postwar family policy, the once-universal family allowance.

³⁴ See the various provincial stories in the Pence (1992) collection for some interesting examples.

Families in Transition and the Family Welfare Policies in Korea¹

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I. Introduction: The Economic Crisis and the welfare Regime transformation

Korean society is experiencing significant transformation as the country faces the challenges of global integration. The Financial Crisis of 1997 was a rude, but costly wake up call alarming the degree of interconnectedness of the global economy. What was initially thought to be transitory instability in the foreign currency market, has deepened into economic crisis of massive proportions. The crisis forced the Korean government to turn to the IMF for emergency rescue loan. And the stewardship of the IMF destined to a whirlwind of reforms, bringing about deleterious social consequences. The Korean government, headed by a democrat and outsider who appealed to and sought to incorporate labor and the disadvantage, has faithfully followed suggestions attached to the IMF's lending program, which required comprehensive restructuring of the financial sector, increasing transparency in corporate governance, flexibility in the labor market.

For a country that thrived on expansion and growth over the past thirty years, a contraction of the economy by 5.8% in 1998, which meant an 11% contraction from the positive 5.5% for 1997, was a catastrophe. Some argue that this calamity was not unforeseeable, as the Korean government adopted macroeconomic measures of high interest rate regime and fiscal austerity as prescribed by IMF. As the crisis unfolded, the great and serious welfare lacuna was made obvious and the Korean government quickly acknowledged the need to provide social safety net and moved quite vigorously to expand it. Initiatives like temporary public works and workfare programs had been taken by all the countries seriously affected by the Asian Crisis.

¹ This is a work in progress. Please do not quote without the authors' permission.

The distinct feature of the Korean government's response to the crisis was the ability to move beyond the short-term temporary measures to address the broader issue of comprehensive social welfare policy.

The Kim Dae Jung government took the problems of social dislocations and human costs arising from its own restructuring policy reforms as the structural ones of good political significance. When the economy appeared to have turned the corner in 1999, the government declared its commitment to the Productive Welfare. The term 'productive welfare' itself incurred much of confusion, but the notion was soon substantiated by the comprehensive vision of the 21st century welfare state inclusive of a wide range of welfare thoughts and various welfare reform strategies. The right to decent life of Beveridgians, the right to work and participate of the Nordic corporatists, welfare pluralism and welfare to work of the neo liberals, human capital investment of the regulation theorists, are all included without attempting to order the priorities among these possibly contradicting principles. Notwithstanding the excessive comprehensiveness and incompleteness of 'Productive Welfare' as an action plan, the productive welfare signaled the coming of the new regime which took welfare as one of three main components.

In fact, the post-crisis Kim Dae Jung government entered into a series of commitment to expand eligibility and coverage of its (un)employment insurance, with assistance from the World Bank and Asian Development Bank, first to firms with 5 or more employees later to those with 1 or more employees, as were mandatory contributions to training and wage subsidy schemes. Same expansion of coverage was made with the Workmen's Compensation Insurance. The government also initiated a reform of the pension system, and offset the low coverage and benefit levels by increasing the allocation for the noncontributory means-tested social pension. More public attention was invited to the health insurance reform efforts to integrate the hundreds of health insurance societies into one National Health Insurance, strengthening the solidarity factor of health insurance. And the level of benefit and the number of recipients of the social assistance expanded fast and culminated into the introduction of the Basic Livelihood Security Act in 2000.

To recapitulate, the four major social insurance systems have

completed its population coverage expansion by law, and the public assistance was reformed into the statutory last resort for the poor, regardless of capability to work. Achievements in the field of social welfare services for the children, for the elderly, for the handicapped, were less impressive, but the progress was made in the protection of motherhood. Expenses for the paid maternity leave were incorporated into the Employment Insurance system. All these welfare reforms resulted in the formidable growth of social welfare expenditure. The total social welfare expenditure as percentage of GDP rose from 5.29% in 1996 to 9.77 % in 1999, and decreased to 9.14% in 2000 and to 9.18% in 2001.

Now, six years after the crisis, evaluations vary as to the result of intensive reform efforts undertaken at different fronts. But all agree that Korea today has departed from its earlier self. Both politics and market forces are already pushing toward some reorganization of the business-government relationship. In other words, the crisis and reforms ensued gave rise to general demands for, as well as the impetus for reforms of economic governance both at the level of the state and of the firm. The country's commitment to engagement in international economy is strengthened. And more importantly, the crisis and the inauguration of the President Kim Dae Jung did bring the subject of welfare reforms to the mainstream national policy agenda, as a means to make democracy better able to withstand shocks inherent in market economy.

Indeed, one of the most striking features of the post-crisis reforms in Korea is its adoption of "Productive Welfare," as the third pillar of national governance as added to the other two pillars, Democracy and Market Economy. For the first time in Korean history, welfare reforms came to be appreciated as an institutional means to keep democracy and market economy sustainable. This can be seen as a signal of regime transformation from the earlier pre-crisis "development state" regime in which the welfare component was residualized, to the one of democratic-welfare-capitalist regime, in which three components, democracy, market economy and welfare interact and reinforce each other.

The Kim Dae Jung Government demonstrated clearly its departure

from the pre-crisis developmental state model,² by locating the 'productive welfare' as one of three pillars of democratic capitalism. But it is not necessarily an abrupt discontinuity. In fact, well before the crisis, the pre-crisis 'developmental state' model had already been undergoing important changes. In politics, the 1992 presidential election was the de facto transition to democratic rule. And non-governmental actors began to voice their opinions and play a role in all aspects of important national decisions. On the economic front, it was since the mid-1980s that the US market opening pressure has been strengthened, and with the 1993 rice market opening as a watershed, the government began to liberalize trade and investment, deregulate markets, and reduce and reposition the state's role in the economy throughout the 1990s, in its own pace. In the area of social welfare, the authoritarian developmental state did introduce the social insurance schemes selectively when it was deemed instrumental to the authoritarian rule or economic growth. By the implementation of the Employment Insurance scheme in 1995, all four major social insurance schemes came to be in operation, though the population coverage and the level of benefits were limited. From this perspective, one may argue, the crisis accelerated the changes already underway and the regime transition seems not so abrupt a discontinuity.

Now the question is how to construct a new democratic-welfare-capitalist model which is sustainable and compatible with the 21st century Korean context. As is known, however, there are many versions of three pillar regime of democratic-welfare-capitalism, with different dynamic interaction patterns. And moreover, each of three composites has changed greatly since T H marshal (1961) called the post-War Keynesian welfare state as the composite of democratic-welfare-capitalism. From the point of view of path dependency (Esping Anderson, 2000), the late developing country

2. The key characteristic of the developmental state model is the authoritarian government as the single most significant actor. The government had the clear aim of rapid economic growth through industrialization and mobilized resources to achieve the goal. In addition, the government protect domestic firms from foreign competition as well as domestic latecomers. And in resolving social welfare questions, the government rely heavily upon growth and family, not on the formal social safety net.

like Korea has to scrutinize the possible options carefully in early stage of constructing the system. Bob Jessop (2002), on the other hand, argues that the Keynesian Welfare National State is no longer compatible with the globalized post-industrial society. He argues for the tendential shift toward the Schumpeterian workfare post national state, which focuses on innovation and competitiveness in open economies, and subordinates social policy to an expanded notion of economic policy.

As all the advanced welfare states are in the process of restructuring their welfare regimes in order to better adjust to the new environment, three broad lines of forces can be identified as demanding the new approach to welfare questions. One is global integration of economy which requires labor market flexibility and income inequality, the second is population aging and low growth rate, and the third is changes in family structure and increasing women's labor force participation. All forces are interrelated and work simultaneously, but this paper focuses on the last category, changes in family structure and increasing women's labor force participation.

The following chapter will delineates the changes in family structure as well as in gender roles, and in the third chapter, the current status of family welfare policy responses in Korea will be reviewed. The last chapter will discuss the problems and future directions for the development of robust family welfare policy in Korea.

II. Changing Korean Families

1. Diversification of Family Structure

Recent demographic profiles show that Korea has undergone significant transformations in family structure and have resulted in new family forms. Most notable changes in the past twenty-years have been decrease in family size and diversification of living arrangement. As table 1 shows, the average household member decreased from 4.5 in 1980 to 3.12 in 2000. In addition, there has been a dramatic increase in single person household from 4.8% in 1980 to 15.5% in 2000. Moreover, one-generation family increased to 14.2% in 2000 from 8.3% in 1980 while three-generation household shows a reverse trend. This is mainly due to an increase

of older population living apart from their children as well as living alone.

Another significant demographic change is a steady increase of female-headed households, which arose to 18.5% in 2000 from 14.7% in 1980 (Table 2). Figure I shows that for women, older age is associated with this trend. More women are living alone than men as the ratio remains around 6.4 in past twenty years. 22.2% of women aged 65 or over are living by themselves.

Table 2. Proportion of Household Heads by Sex

(Unit: Person, %)

Heads of Household	1980	1985	1990	1995	2000
Total	7,969,201 (100.0)	9,571,361 (100.0)	11,354,540 (100.0)	12,958,181 (100.0)	14,311,807 (100.0)
Female	1,168,538 (14.7)	1,501,377 (15.7)	1,786,755 (15.7)	2,146,859 (16.6)	2,653,010 (18.5)
Male	6,800,663 (85.3)	8,069,984 (84.3)	9,567,785 (84.3)	10,811,322 (83.4)	11,658,797 (81.5)

Source: National Statistical Office, Census

Figure 1. Ratio of Household Heads by Sex and Age

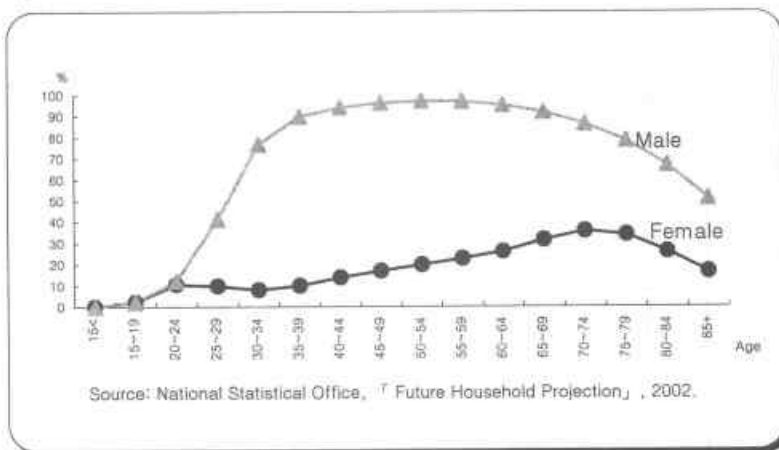


Table 1. Generational Makeup and Average Number of Household Members

(unit : 1,000 households, %, person)

Year	Total Number of Households	One generation	Two generations	Three generations	Four or more generations	Single Person	Non-familial	Average Household member
2000	14312 (100.0)	2034 (14.2)	8696 (60.8)	1176 (8.2)	22 (0.2)	2224 (15.5)	159 (1.1)	3.12
1995	12958 (100.0)	1640 (3.0)	8200 (63.0)	1266 (9.8)	26 (0.2)	1640 (12.7)	183 (1.4)	3.34
1990	11355 (100.0)	1220 (0.7)	7529 (66.3)	1383 (12.2)	35 (0.3)	1021 (9.0)	166 (1.5)	3.77
1985	9571 (100.0)	916 (.6)	6412 (67.0)	1383 (14.4)	40 (0.4)	661 (6.9)	160 (1.7)	4.16
1980	7969 (100.0)	658 (8.3)	5457 (68.5)	1312 (16.5)	42 (0.5)	383 (4.8)	114 (1.5)	4.50

2. Increasing Divorce and Single Parenthood

Korean families are experiencing more divorce nowadays than ever. Divorce rate reached 35.9% in 2000 and this is expected to increase to 50% in the year 2007(Chang and others, 2002). This dramatic increase of divorce rate of 5.9% in 1980 has received much attention, and the causes of divorce have been studied in order to gain insight for intervention. This is a serious challenge for many families because divorce results in issues of financial insecurity, childcare and many other lifetime issues. Remarriage has also increased to 4.1% for women and 6.4% for men in 1980 to 14% and 12.8% respectively in 1999.

Female-headed households are mostly composed of one person living alone or single parent families. In 1990, one-person household was 35.1% but it increased to 48.2% in 2000. Moreover, single parent families, which were counted as 26.9% in 1990, increased to 20.3% in 2000. These two groups pose some of the major policy issues for basic livelihood and care needs.

There has been a visible increase of female-headed households in Korea mainly due to increase of one-person households and women living alone due to loss of partners to death or divorce. Majority of single women raising children alone face high risk of poverty and heavy burden of family care.

3. Decreasing Fertility

Dramatic decrease of fertility rate has caught national attention in recent years and has led to a major shift in family planning policy. Korea is noted as one of the most successful countries in controlling the population growth in 1960s-1980s through national family planning programs. However, in 2003, the fertility rate reached 1.17, which is lower than most of the OECD countries, and it has emerged as one of the most notable indicators of demographic and societal changes (4.53 in 1970; 1.65 in 1995; 1.30 in 2001).

This phenomenon is associated with major changes in attitudes of women and men regarding marriage and children. Women tend to get married at older age than ever before, and they choose to have

far fewer children. Thus Korean government is looking for solutions to this 'crisis' by reaffirming the 'new population policy' and by forming a Presidential Taskforce on Population and Aging Issues. The new population policy is a major shift from the past population control to quality of life approach, which already was announced in mid 1990s and is regaining attention.

Along with low fertility trend, there still exist a sex imbalance in Korea. Sex ratio is expected to decrease to 111 from 112.3 in 2003. However, this is a phenomenon reflecting patriarchal values persistent in Korean families, and which might also cause harm to women's health and maternity protection.

4. Aging of Population

Korea has fast become an aging society, and is facing the challenges of eldercare as we approach a new century. In 1998, persons aged sixty-five and older made up 6.6% of the total population, and this proportion is expected to reach 13.2% in 2020. The life expectancy of Koreans was 73.5 in 1995 and showed a marked increase from 63.2 in 1970. Among the older population in Korea, 62.8% were female in 1998, and their average life expectancy was 77.4, which is 8 years longer than that of older men in Korea. As Figure 2 shows dependency rate is constantly on the rise.

Along with the rapid aging of the population, an ever-increasing proportion of the Korean elderly are living apart from their children. The proportion of the elderly who were living apart from children was 23.2% in 1985 but increased to 42.3% by 1995. This shift in the pattern of living arrangement has brought many changes in the traditional care giving system for dependent older persons, and has significant implications for the development of social care in Korea.

This year, the Ministry of Health and Welfare announced its plan to respond to the potential risks of aging society which included increasing need for long term care, medical care costs, and decreasing working population. This plan includes public long-term care system which will be implemented in 2007, health promotion of older population and creation of jobs for older workers. This plan

is considered along with population plan which will focus on increasing fertility rate.

Figure 2. Total Dependency Ratio and Index of Aging



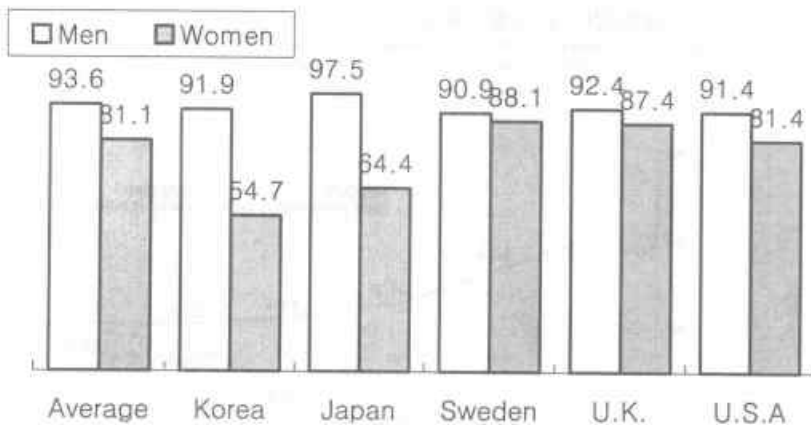
5. Changing Gender Roles: Paid and Unpaid Work of Women and Men

Another significant factor causing and affected by family changes is gender roles transformation. As noted earlier, more women are entering the labor market and the women's economic activity rate has increased from years past. It reached up to 49.7% in 2002 from 34.5% in 1963 when the industrialization started.³ The rate of men slightly decreased to 74.0% from 76.4% during the same period. However, the lower rate of economic participation appears in the higher educated women, contrary to the general expectation of the human capital theory. The economic activity rate of Korean

³ 42.8%(1980), 47.0%(1990), 48.3%(2000).

university women graduates was the lowest among OECD countries in 1999(Figure 3).

Figure 3. The Economic Active Rate of University Graduates in OECD (1999, %)



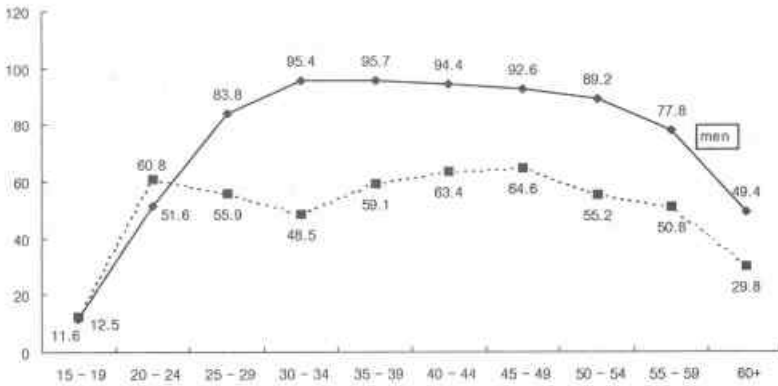
Source: OECD (2001), *Employment Outlook*.

Many women in labor market have the status of unpaid family workers and majority of them are clerks or sales and service workers. 53.9% of workingwomen were clerks, or service or sales workers in 2001, while the corresponding figure was 27.1% in male workers. Compared to the continuously increasing trend in women's economic participation, women's entry in managerial/executive positions is still stagnant Women's lower status was summarized in their lower wage level. In 2000, female-to-male ratio of average monthly wage was 62.9%. Although this has improved since 1985(46.7%), women still earn much less than men.

Meanwhile, women are expected to take care of housework, to protect children and the elderly, family labor, volunteer activities and other forms of unpaid labor. According to the Time Use Survey by the National Statistical Office that first began in 1999, it was found that the average time an individual spends for household

labor on a weekday is 200 minutes for women and 25 minutes for men. Although the survey revealed that women are burdened with unpaid labor, their contribution is far from being appreciated because the value of unpaid labor has not been measured in quantifiable terms.

Figure 4. Economic Activity Rate by Age and Sex (2000)



Source: National Statistical Office, *Annual Report on the Economically Active Population Survey in 2000*.

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III. Family Needs and Policy Response

According to a National Survey on so called "dismantled" families, some of the most difficult challenges face by contemporary Korean families were financial difficulties, child rearing, caregiving, emotional problems and lack of social support (Byun and others, 2000). This section will address three issues deserving particular attention due to their potentially significant implications for reconstructing family welfare policies in Korea. Poverty problems of single parent families, expanding needs for childcare and eldercare will be described and the ways in which the Korean government is responding to these needs will be reviewed.

1. Poverty of Single Parent Families and Social Safety Net

In recent years, economic crisis resulted in divorce in some families, and in extreme cases, it led to family suicides. Single-parent families are hit hard by economic hardship. This phenomenon is also related to the issue of 'feminization of poverty' because female-headed households on average are twice as likely to be poor as the male-headed households. Their average income is approximately 37% of that of male-heads. According to Lee (1998), 2/3 of the poor and 4/5 of the elderly poor in Korea are women.

- Public Assistance

Korean government has responded to the issues of poor mainly through the public assistance program started in 1961 as the Livelihood Protection Scheme. In the beginning, minimal income was provided to the recipients, but later on work program(1968), medical assistance(1978) and tuition assistance for middle school children(1979) were provided. In 1999, public assistance program was expanded to cover families whose income fall below the national minimum household income. This newly designed public assistance program is called the National Basic Livelihood Security System and it contains a 'workfare' component under the Self-Reliance Policy. The Self-Reliance Policy provides opportunity to participate in publicly arranged work programs, medical assistance, childcare and school fees and counseling services.

As the end of 2001, 1,345,526 persons received public assistance while 46,000 persons participated in the self-reliance program. Women make up 70% of the participants in the self-reliance program and half of them were middle aged single mothers (Table 3).

Numerous changes need to be made in order to enhance the system's effectiveness (Park and others, 2002). One of the most recent debates centers around the responsibility between family and state for support. Recently there was a hearing on the issues of expanding the coverage of the National Basic Livelihood Security System by removing the eligibility criteria for extended family responsibility. It suggested that family responsibility should be limited only between parents and children (and their spouses). This was suggested to reflect the sense of responsibility of current nuclear family and weakening values of informal familial support (KIHASA, 2003). It has become unrealistic for grandparents to be responsible for the well-being of their grandchildren and vice versa.

Table 3. Recipients of the National Basic Livelihood Security System by Age (December 2001)

(Unit: Persons)			
Age	Total	Female	Male
Total	1,345,526	778,501	567,025
Under 18	332,628	164,168	168,460
18-30	149,519	73,721	75,798
31-40	140,001	82,680	57,321
41-50	193,867	96,393	97,474
51-60	128,114	69,984	58,130
61-64	67,125	44,496	22,629
Above 65	334,272	247,059	87,213

Table 4. Number of Persons in Recipient Households (December 2001)

(Unit: Persons)

Total	Number of Person in Households					
	1	2	3	4	5	6+
698,075	353,437	149,106	105,980	62,126	19,966	7,460

- Mother-Father-Child Act

Recent studies on low income single mothers showed that most of them suffer from job insecurity, health problems, child rearing difficulties, housing problems and others (Park, 1999). In 1989, Mother-Child Welfare Act was legislated to support low-income single mother families. This Act was amended in 2002 and renamed as Mother-Father-Child Welfare Act to cover low-income single fathers who also need government assistance. The Act provides housing support, job training and employment assistance, child care and tuition assistance. However, while single parent families make up approximately 6% of total households, only about 7% of them are eligible for government support (Park, 1999).

Low-income single parents are the primary service targets of social workers in the public sector, community welfare agencies and women's organizations as they become more visible in our society. However, more systematic and integrated approach to providing services is needed in order to enhance the effectiveness of these services.

Recently, the issues of 'new poverty' entered the policy discourse, and the working poor families have emerged as a significant target for expanding social safety net. Current government announced "Welfare for All, Welfare by All" as a new vision for Korean welfare society, and is paying attention to more assertive poverty eradication measures.

2. Child Care Needs and Policy Response

Child care has been identified one of the most significant barriers to women's labor market participation. As dual income families increased in recent years, so has the number of child care services in Korea. However, day care services are limited to those between age 3 and 6, and there is a shortage of services for children under two years of age. Moreover, after school care is far more limited.

In 1991 Infant-Child Care Act was enacted to guide the establishment and operation of day care services. The purpose of the Act was to help family caregivers who could not take care of their own children because of either work or illness. For the first time in history, the central and local governments and the whole public had acknowledged the need to share the responsibility for childcare.

As Table 5 shows, the budget for childcare has grown almost ten times between 1991 and 2002. There were 22,147 daycare centers and 800,991 children attended them in 2002. This is almost three times as many children compared to that of 1995. However, only 6% of the daycare centers were public, and the rest were operated in private sector. Among the children using daycare services, 24.1%(192,762 children) received government assistance in either tuition aid or exemption form (free day care for 86,982 children).

Table 5. Budget for Child Care (1991~2002)

(Unit: won)

Year	Budget
1991	41,876,000,000
1995	177,402,000,000
2001	360,326,000,000
2002	436,903,000,000

Table 6. Number of Day Care Center

(Unit: Person (%))

Year	Total	Public	Private	Workplace	In-home	Number of Children
1995	9,085 (100.0)	1,029 (11.3)	4,125 (45.4)	87 (1.0)	3,844 (42.3)	293,747
1997	15,375 (100.0)	1,158 (7.5)	8,172 (53.2)	158 (1.0)	5,887 (38.3)	520,959
2000	19,276 (100.0)	1,295 (6.7)	11,304 (58.6)	204 (1.1)	6,473 (33.6)	686,000
2001	20,097 (100.0)	1,306 (6.5)	11,794 (58.7)	196 (1.0)	6,801 (33.8)	734,192
2002	22,147 (100.0)	1,330 (6)	12,679 (57)	199 (1)	7,939 (36)	800,991

Table 7. Number of Day Care Utilization

(Unit: Persons(%))

Year	Total Number of Children under 6	Children in Day Care
1995	3,977,000	293,747 (7.4%)
1997	4,002,000	520,959(13.0%)
2000	3,969,179	686,000(19.3%)
2001	3,854,184	734,192(19.0%)
2002	3,720,013	800,991(21.5%)*

* 0-2 year (11.6%)/ 3-5year (30.7%)

According to the Census of 2000, 41.8% of children under the elementary school age are taken care of by parents whereas 29.7% children of single parents are being taken care of at home during the day. Moreover, 9.1% of children of single parents are left alone during day compared to 2.6% of children of two-parent families. The number of children living with single parents has increased over the last decade from 2.8% in 1990 to 5% in 2000 (National Statistical Office, 2003). This indicates that children of single parent families are in greater need for social care.

Recent survey also showed that 32.3% of parents of elementary school age children expressed the need for after school care. However, as of 2001, there were only about one thousand after school care programs that offered care to 13,757 students. This is far below the actual need.

- Maternity Protection Scheme

In 2001, Maternity Protection legislation was amended to expand the coverage of maternity and childcare leave. This law is based upon three Acts (Equal Employment Act, Labor Standards Act and Employment Insurance Act), which provide benefits for maternity protection. Since the amendment, maternity leave was extended to 90 days from previous 60-day protection. 60 days are covered by the employer, and the rest is covered by the Employment Insurance and the general budget. Parents of children under 12 months can use paid childcare leave. The cost for childcare is covered by the Employment Insurance. The employee on leave is paid 300,000 won per month.

A sample survey done in the first year of the expanded maternity protection showed that 14% of the employees used childcare leave which is a slight increase from previous years (Table 8).

Maternity protection scheme is regarded as one of the ambitious family-friendly labor policy in Korea. However, only 25.9% of women in the irregular workforce are covered by employment insurance which means that majority of the female workforce still have very limited accessibility to maternity (National Statistical Office, 200).

Table 8. Proportion of Childcare Leave Users by Year

	Number of Employee who had children	Number of childcare leave user	%
1997-2000	250	28	11.2%
2001	116	16	13.8%
2002	86	12	14.0%
Total	452	56	12.4%

Source: J.Y. Chang (2002), *Survey of Maternity Leave and Childcare Leave Usage*, Ministry of Labor.

3. Eldercare Needs and Policy Priorities

Korea is still a relatively young nation compared to some Western societies and Japan, where the proportion of older population has reached more than 14%. However, it is projected that it will take only 22 years for Korea to move from an aging society to an aged society. Poverty, chronic health problems, isolation often characterize the lives of older persons in Korea.

Korean government enacted the Welfare Act for Older Persons in 1981 and has implemented various policies to provide benefits to the elderly and their families. Government budget for providing welfare services for elderly have expanded more than ten times over the past ten years (Table 9). Nonetheless, most of the budget is limited to covering residual programs for low-income elderly who are left alone without familial support.

Table 9. Budget for Elderly Welfare (1990~2003)

(Unit: won)

Year	Budget
1990	37,861,000,000
1995	61,807,000,000
2000	280,867,000,000
2003	407,767,000,000

Until recently most of the government budget for elderly welfare were spent on universal allowance for transportation and mean-tested supplemental income assistance called 'filial' allowance. In order to respond to the exploding need for eldercare services, the government is focusing on constructing a long-term care system of increased quality, access and affordability.

When the adults were asked about the primary person to be responsible for parent care, 89.9% of them said 'children', and 8.1% said 'elderly themselves'. People used to think that the siblings should have equal sharing, but recent survey showed that those with

more resources should have more responsibility. On the other hand, older Koreans tend to show a preference for living separate from children (67.8%), and they expect the government to provide more social services for older people and their families (Research and Research, 1999).

There is a significant gender difference in that older women tend to rely more on their children and public assistance than men. Although elderly persons are relying more and more on their own income sources these days, children continue to be the most important financial provider for them. For instance, 66.3% of elderly received financial assistance from their children in 1998 (KIHASA, 1998).

Twenty years ago, Butler stated that "the problems of old age in America are largely the problems of women"(Butler, 1979), and his statement holds true in Korea as well. Aging issues have been phrased as women's issues in Korea recently because women represent not only the majority of care receivers but also of caregivers. People have slowly begun to pay attention to the fact that women constitute the majority of Korea's growing numbers of older people. Moreover, informal care giving, mostly provided by women, is relied upon by both families and the government as the major source of support for dependent older people. According to a national survey, 70.7% of the primary caregivers of the bedridden elderly with long-term care needs were women. Most of them were the spouses of the care receiver, and almost 60% were older than 55 years of age (KIHASA, 1998)

Ministry of Health and Social Welfare has a plan to establish public long-term care system in year 2007, and the process of designing the best practice model is under way. In order to support the families who care for elderly either tax exemption or cash assistance schemes are also being considered. Moreover, services for caregivers such as education, counseling, self-help groups, family care leave and respite care are being introduced to alleviate the burden of family care.

Korean Institute for Health and Social Affairs (2002) estimates that almost 74,000 elderly need institutional care but in 2001, only 16,000 persons had been accommodated. Table 10 shows the

current status of the eldercare system in Korea.

In terms of community-based care, it is estimated that there are approximately 714,000 elderly who need services. In 2001, there were 16,663 elderly over 65 years of age who utilized community-based services (0.4% of elderly population). As Table 11 shows, there is definitely a shortage of social services for eldercare.

Table 10. Long-term Care Service Projection (2002)

(Unit: number of facilities, persons)

	Number of Facilities	
	Estimated Need	2001.12
Total	1,180 (74,364 estimated users)	195 (16,000 users)
Geriatric Hospitals (70 beds)	118	18
Skilled Nursing Care	354	57
Nursing Home	708	120

Source: KIHASA&MOHW (2001), *Survey of Long-Term Care Needs and Policy Direction*

Table 11. Community-based Long-Term Care Service Projection (2002)

(Unit: Number of facilities, persons)

	Number of facilities	
	Estimated Need (2002)	2001.12
Total	9,272 (305,042 estimated users)	322 (16,663 users)
Chore Service Agencies	4,012	143
Day Care	3,697	142
Short-Stay Care	1,563	37

Source: KIHASA&MOHW (2001), *Survey of Long-Term Care Needs and Policy*

IV. Conclusion and Recommendations

Needless to say, family is the basic unit of society and a central building block in social welfare policy framework. As shown above, however, the family in Korean is facing unprecedented changes not only in terms of the demographic profile of the nation, but also in the fundamental characteristics of the family. Decreasing fertility rate, rapid aging of population, escalating divorce rate and increasing women's labor force participation are a few indicators of structural changes of Korean family. These structural changes have also accompanied changes in family values, roles of women and men, relationship and function of family members as well. It is not surprising that family studies academia and relevant practitioners as well as government ministries and women's organizations are voicing the need for more systematic and expanded intervention to prevent and to tackle the family issues, even though their perspectives in defining the problem and designing the solutions might not be consistent with each other.

On the other hand, the family welfare policy as a societal response aimed at strengthening families and helping them meet their needs and solve their real problems has long been of lower priority and of less coherence. Here the entrenched belief in the principle of family responsibility has been strongly interlocked with the deep rooted myth of robustness of family tradition as well as the gender division of labor. Until recently, social welfare policies addressing to diverse family problems such as economic crisis, marital conflict, divorce, violence, burden of care and education had received only a marginal attention. Even in the picture of welfare regime transition toward the democratic-welfare-capitalism, the notion of family policy does not have a place as a coherent policy area.

However, it has to be noted that the post-crisis Kim Dae Jung government and perhaps the Roh Moo Hyun government as well, have approached the family welfare policy more as a gender policy. The problem of violence, domestic and sexual, for instance, was a typical case in which the women's group initiated and lead the whole process, from issue raising, bill writing, and putting it through in the parliament and to the implementation. And the Rho Moo Hyun government's transfer of jurisdiction of the day care service programs

for the children from the Ministry of Health and Welfare to the Ministry of Gender Equality is another example. The Ministry of Gender Equality is now pushing forward the revision of the Family Law, to engender the very basic legal frame of gender relations, with the strong support from the progressive women's organizations.

Family is a living, evolving social institution. And it is in the process of transformation. The main task of the social welfare policy makers today is to make the democratic-welfare-capitalism of the Productive Welfare more responsive to the demands of the 21st century policy environment. To be noted here is that the inner dynamics of three composite regime today would be far different from those in the 20th century. Capitalism today is globally integrated. It is no longer nation-state based. Huge amount of short-term capital moves across national borders in short notice. Full employment and lifetime job, which is the precondition for the Keynesian welfare state is no longer the norm. The number of irregular workers is more than a half of the employed in Korea. The government is no longer only actor in policy making. Civil society, many stakeholders, and sometimes the international financial institutions join the decision making process. Moreover, the speed of population aging together with low prospects of economic growth threatens the future viability of present welfare commitments.

Changes in family structure and gender role are interrelated with changes not only in labor market structure, but also changes in the life cycle, their educational achievements and the pro-women policies themselves. And those changes are expected to bring about growing disjuncture between traditional modes of social protection and evolving needs and risks. By constructing the family welfare policies which can ameliorate and prevent these disjunctures, the welfare component of the democratic-welfare-capitalist regime will be stably institutionalized as a means to make democracy better able to withstand the failures inherent in the globalized market, and thereby to make democracy and market economy together sustainable in the 21st century Korea.

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DISCUSSION

Bong-min Yang
Seoul National University
Co-Chair

Thank you Dr. Lee. In this session, we've heard two very interesting presentations. Dr. Mahon from the perspective of childcare as a social and economic investment. She introduced a political aspect of childcare policies in Canada which I think could have significant implication for Korea's future childcare policy. Also Dr. Lee, it's interesting to see from her presentation material how much Korean society is changing, very rapidly, and even hard to believe that some of the changes, statistics are so much different now than 10 or 20 years ago. So it's a very proper and pertinent subject that we can talk about at this memorable conference. Now we are pretty much on the schedule. Let's move on to the discussion. There are two discussants. First discussant will be commenting on Dr. Mahon's Canadian policy paper and the discussant is the co-author of the previous Korean paper, Dr. Park Yeongran from Korean Women's Development Institute. I guess the Canadian colleagues, you all have met her before so I don't have to re-introduce her I guess.

Yeong-Ran Park
Korean Women's Development Institute

Thank you very much. I am very honoured to be participating in this symposium on the issues of social policy comparing between Canada and Korea. Especially I was very impressed to read Dr. Rianne Mahon's paper about the development of childcare policy in Canada. I was quite surprised because I was ignorant about the Canadian situation and I had thought that Canada had a much better childcare system than in Korea because we usually look at Canada as more advanced in terms of not just economic development but also in social policy development. But I realize that Canada may be experiencing similar issues and problems as we do in Korea, and in fact I think Korea may be moving a little bit ahead of Canada at this

point, because just two days ago, there has been a big decision in the government, in the national parliament about moving the jurisdiction of childcare policy from the Ministry of Health and Welfare to the Minister of Gender Equality. I can't really say the political position on this issue, but I am hoping that this change would really make a difference in terms of how we approach childcare system in Korea because until now, due to not just lack of interest, but due to certain structural constraints of our welfare system in Korea which has been mostly very much residual in terms of the provisions of services and budgeting, due to short history of our welfare system, we have not been able to support or respond to the exploding need of childcare in Korea, because until now, childcare has been mainly responsibility of families as mentioned by previous speaker. But I think Dr. Rianne Mahon's paper and also her comments about why we should be caring about the issue of childcare, and also taking into a more bold approach and to expanding the government responsibility, we share that in common between Canada and Korea. So I'd like to talk a little bit about what the situation is in Korea at this moment and also some of the challenges that lie ahead of us.

First thing is that I think we are just in the beginning stage of developing a more universal type of childcare which was mentioned as national childcare initiatives in Canada which is still in progress. And at this point, some of the issues that we face, there are three points. First one is more financial support for a market-driven childcare system, and there has been a talk about instituting a sliding fee scale but we still haven't really designed in details how the system should work. The second, it should be improving the quality of childcare. And there is a move to have more accreditation system in place and also have more evaluation system constituted in order to monitor the quality of childcare. And also improving the salary of childcare service providers is another issue. And the third issue that we are faced with is the diversification of service types. Which means there are different types of needs for childcare and we should be responding to these different needs such as childcare for disabled children, childcare for parents who are working more than 24 hours a day. So all these things, we have so many things to do and maybe everybody wants things to happen quickly because these

are the problems that we have been struggling with for some time, but I think we should have a long term perspective and should try to design a system that could be more balancing in terms of expenditure from the government and also from the private sector as well. In order to sum up some of these issues I'd like to conclude by emphasizing two points which were mentioned by Professor Mahon. First one would be taking into a more egalitarian perspective, and maybe to that, would be a holistic perspective. And try to see the issue of childcare not as the family need but as the social need as well, because I think there is a point in that social economic investment is really important and we should look at the issue of childcare as a preventive issue as well because we are faced with a lot of children who are left at home alone at a early age, or even after school. They will be facing difficulties later in their lives as well. This is something that has not been really tested or empirically proven but we all know that this is happening around in the community. And the second point I'd like to emphasize is that we should really look at the issue of care from a different perspective at this point because as in the LC system, it's all related to childcare as well, and we are looking at LTC system from a very economic perspective. We want to contain the cost of medical and facility care but as Dr. Kim Chang Yup mentioned, we really don't know whether community care is less costly. We just hope that it's less costly. But I also like to say that we need to put the value of care into different perspective and maybe try to invest more at this point which will be related to the salary of all the caregivers in the long term care and childcare system as well. That's about it. Thank you very much.

Bong-min Yang
Seoul National University
Co-Chair

Thank you very much. Now we move on to Dr. Peng I don't have to reintroduce her to you. She's going to make comments on Dr. Lee's paper on Korean social changes.

Ito Peng
University of Toronto

It was a real pleasure to read Dr. Lee and Dr. Park's paper on the families in transition and the family welfare policies in Korea. In many ways, this paper really strikes a lot of accord with much of the kind of research which I have been doing in recent years, particularly with the Japanese case. And I see a lot of the resonance of the similar issues coming up. I also read this paper along with Dr. Rianne Mahon's paper, and with a thought of the idea of the changes and continuities in welfare state, welfare regime. For me, Dr. Lee and Dr. Park's paper really struck me as a paper about transformation of welfare regime mediated by economic and societal transformation. But at the same time, those transformations demanding the ideational changes in the way we understand welfare state and the way we begin to organize relationship between the state, family, and the labour market. So in that sense, this paper sort of harks back to something Dr. Mahon has talked about, the potential to break away from the notion of path dependency and looking more at the possibility of path breaking opportunities in welfare state. So in that sense it's very exciting. But of course not without some problems which I will get to little bit later.

Now I want to in reading this paper point out some of the important and common problems that I find that both Korea and Canada share. And that is that in both societies, I think there is a tremendous post-industrial pressures on the welfare state. In particular the changes in demographic pattern, changes in gender relations, changes in family structure, and also the pressures of the economic globalization. And at this point in our history, I think in both countries all these pressures are intersecting together and creating tremendous demand on the state to respond. But at the same time the intersections of these pressures are also creating new openings for opportunities for changes. So in that sense I see what's happening in both countries both in terms of sort a sense of urgency but also with some positive opportunities. What struck me particularly is in the case of Korea is the extent to which the welfare regime transformation has been mediated by the economic crisis of the 1997. I think for us who are in North America or Europe, we really don't have the same kind of

appreciation of the impact of the economic crisis as in many of the East Asian countries, both in terms of economic liberalization and democratic transformations, which in turn, feeds back to the expansion of the welfare state.

Now let me shift then to bringing up about three discussion points and questions about the paper. One is that I really very much liked this paper in terms of explaining why the changes were necessary and the trajectory of the changes. I guess what I wanted to know in addition to these was, in terms of new stake holders, Dr. Kim has mentioned in the earlier panel that in the new social policy, you have new stake holders and new interest groups that configure themselves to push for the changes. I guess in the case of the family policy in Korea, and as Dr. Lee has mentioned very briefly, I think the role of women's organizations, and certainly the political mobilization of women's and feminist groups have been very important. And I would like to know more about what impact those mobilizations had and how they were able to manage these opportunities to push forward, and/or maybe they may not have been able to push as much as they would have liked to have pushed for policy changes.

Second point that I thought very interesting was that at the same time this paper is very reveal us much changes in the family welfare policy in Korea. I also read caution in the paper in the sense that I think the transformation of the welfare regime in Korea has been real but the pace of the transformation has not been very even across all the programs. And I see that in many ways in the case of Korea, labour market and employment policies have definitely been given much greater privilege than the family policies perhaps. So in that sense, I would like to ask what you think will be the process of change in family policy area in the future for Korea. Where do you think the opportunities for changes might be coming from and what do you think might be the constraining factors for those changes. And the third point that I was struck, and this is really the reiteration of the issue that Dr. Park has just mentioned is that of the issue of care. And I think this is the same in Canada too, and that is we need to really rethink about the idea of care not simply the childcare, but also in elderly care in how we understand care in relation to the total framework of work and labour market. And

how do we value and compensate for those care that happens within the family and how do we bring those into more broader policy arenas and policy debate. So I guess again going back to fairly theoretical issue, how do we understand care in relation to work will be something that I will be interested in pursuing in terms of the debate. Thank you very much.

Bong-min Yang
Seoul National University
Co-Chair

Thank you. Since Dr. Lee and Dr. Park are co-authors for this paper, I think either of you can volunteer to respond to Dr. Peng's questions.

Hye Kyung Lee
Yonsei University

Ito, you raised really heavy questions. Let me start with the last question, the idea of care. What is going to be the solution. Maybe the first thing that coursed to my mind is that this is really the matter of gender division of labour. As mentioned, 25 minutes per day during the weekday of men's labour for management of household work, whereas 200 minutes for women. That sort of imbalance should be changed as more women participate in the formal sector. And also in policy area, in our maternity protection policy, both men and women can take this leave. That sort of idea has been taken in to policy. But still, when we run this, we don't have a very long experience of running such a program, but there is still, a patriarchal calculation is always there too a surprising extent. Let's come to the.. Dr. Park, if you have any additional points, I think the relationship between the labour market policies and the changes in the family policies really really important questions. Let me pass it to Dr. Park on this. Let me address the first question. There are many stakeholders. Of course in the changes of, we don't say in policy making, we don't believe that the actor is the government alone. The notion of stakeholder is quite common among policy makers. Particularly as the democracy proceeds, the

civil society organizations is really active. Particularly the policy proposal advocacy groups strikingly visible in these days and they are participating in all lines of policy making in all different levels and the government is inviting them into their decision making process. And feminist groups and women's organizations as interest groups, I think they have been very much successful in Korea. One reason which I often say is that the educational achievement of women is quite high. In 1948, Korean government started a notion that the education of children is the responsibility of the people. So with this notion, men and women have no difference in their chances to have education. I think that is the unexpected result of male policy makers that women have grown to have too much power these days, demanding equality. And in the area of family policy, the women's organizations in Korea are quite exemplar. Major bills and legislations, pro-women policies have been initiated and led by women's organizations.

Bong-min Yang
Seoul National University
Co-Chair

Thank you. I guess Dr. Park would like to make comments on the questions.

Yeong-Ran Park
Korean Women's Development Institute

I'd like to respond to Dr. Ito Peng's comments on two accounts. First one is that women in recently years have been very much strongly advocating on the issue of family policy, and the reason behind is that the family issue has been a private matter for long time and the women have begun to realize that unless we change the informal sphere of our relationship and also the structure of the traditional family, which has been very much patriarchally oriented, there is no way out to really fully exercise their human rights in a sense. So the women are voicing that family issues or policies

should be approached from a more gender sensitive perspective, so that's why women have become very strong stakeholders in the realm of social policy nowadays. And the second point is more complicated. I think the value of care at this point is, in a way, we are trying to account that and reflect it into our existing social welfare system such as the pension, where there has been a change in the pension to have a split pension at a later time when somebody goes into divorce, they can share a portion of pension. But that's not enough at this point so what women are also advocating is a credit system where women who have participated in the unpaid work for certain amount of time during childcare leave, they could be counted into the pension system. That to be reflected in the existing system but there is a whole other issue of how the society really values the value of unpaid works.

Hye Kyung Lee
Yonsei University

Let me add one more comment that is about labour market policies. The DJ government, as soon as he came to power, he tried to have a Tripartite Commission in which he and the new government wanted to have a great compromise, a new social contract, by which the labour market flexibilization was possible with that contract. But later on, the labour did not really conform to this cooperation thing so one of radical union came out and came in, quite turbulent. And because of this labour market flexibilization, the easiness of firing employees, in the process, women were the first victims to be fired during that process. So women's organizations, for them this was a chance to be united again to attack this approach. So that sort of contention is there and the liberal labour market policy together with the solidarity of welfare policy, the two different tracks have been pursued at the same time and that's the characteristics of Korean post-crisis government and social welfare regime. Whereas the other countries which have been struck by financial crisis they just went back to the very conservative welfare policies. Our task is whether we can pursue this line further and keep this track going on, but maybe we can come back to the other direction too. So this is a very important juncture.

Bong-min Yang
Seoul National University
Co-Chair

Ok. Thank you. Dr. Rianne, do you have any reaction to?

Rianne Mahon
Carleton University

I have a question. Actually I didn't talk at all about the kind of advocacy work which has been so important for keeping childcare on the agenda in Canada. Certainly the women's movement has been part of that. But not the women's movement acting outside but also women's movement within the trade unions. Because trade union movement has been important all along as a crucial support in carrying it forward. And it's partly because the feminists have organized inside the trade union movement not just outside. So I was wondering is there any link between the women's movement and trade unions? So you actually begin to think about linking those two tracks.

Hye Kyung Lee
Yonsei University

In Korea, there are two lines which is well interconnected with labour union and the other feminist groups. The women's question and class question is two different questions among the feminists. So in Korea, this question is not really settled but as I see it now, they are in cooperative positions.

Rianne Mahon
Carleton University

Because it's just not important in Canada but also in Sweden, it's really been kind of crucial linking those two questions.

Hye Kyung Lee
Yonsei University

So in the main stream feminist movement in Korea, it's been pretty much egalitarian approach.

Bong-min Yang
Seoul National University
Co-Chair

So far, so much. I guess we still have a few minutes left. I'd like to invite any questions from the audience.

Question from the audience

Dr. Lee you know the divorce rate charts? Can you tell me what the general age group margin was for the increase from 5.9% in 1980s to 35.9% in 2000, is there certain age group of divorces that really skyrocketed?

Yeong-Ran Park
Korean Women's Development Institute

I don't really remember the details but recently the divorces have really been occurring between 30s, 40s, and some divorces occurring right after the marriage, so really young people getting married and divorced. I think about two days ago there was a report that 50% for recently married couples get divorced, and I really couldn't believe it.

Ito Peng
University of Toronto

I just wanted to answer that question not for Korea, but this is really interesting. In the case of Japan, where similar kind of family structural change is happening, and divorce rate has been increasing

significantly over the last decade or two. What's very striking about the Japanese divorce case is that the majority of the divorces are happening at the two end spectrums of married couples. So divorce rate is very high, close to 50% for people who were married for less than 5 years or something, and then there has been an increasing number of divorces for the people who have been married for more than 25 years. And the major cause of that divorce is that these are the people who have reached an age where, basically, women are now facing the prospect of having to look after and care for their ageing parents and parent-in-laws, and their husbands about to retire, and fearing that they may have to care for their husbands as well. And so this is a very interesting dimension to new family pattern.

Bong-min Yang
Seoul National University
Co-Chair

Thank you very much. Any further questions? I think there are a lot of research topics actually we covered today, and a lot of research papers could be generated from this kind of discussions and materials we covered. I think the sociologists have a lot to do from now on, in both countries. I just want to make sure that a photograph is taken of all of us here. We all know that these four ladies are world class researchers, and it's actually a kind of a once in a life kind of luck that you can sit in the middle of these four world class ladies, and as a single male on the table. So I just want to make sure that a picture is taken and I will keep that for my life.

Thank you very much for your wonderful participation.

V. SESSION III :
NATIONAL PENSION

What can Korea Learn from Canadian Pension Reform Attempts?

Sang Kyun Kim
Seoul National University

I. Introduction

Korean public pension system has undergone a series of reform process. The first reform effort in 1997 was launched by the government aiming mainly to cut benefits and was partially successful. The second one in 1998 was an abortive attempt to alter the basic structure of the whole Korean pension system, initiated jointly by the International Monetary Fund and World Bank. For the third attempt, the government has recently submitted an Amendment Bill of the National Pension Act to the National Assembly. Its main objective is to curtail benefits once again and raise contributions to resolve the problem of financial instability.

In the case of pension retrenchment, almost every government in the world comes under fire from the public. The current Korean government cannot be an exception. It now faces a threat of general strike from the trade unions and continuous protests from civic groups. The government is thus in dilemma. Sustainability of the pension system is almost irresistible, whereas there exists no easy solution except retrenchment. Under the circumstances, turning our attention to other countries might be a way for getting out of the dilemma.

Considering that many developed countries have already experienced similar difficulties, we can draw some lessons from them by asking a number of fundamental questions. For instance, in a political democracy, how can governments educate people to understand the importance of pension reform? How can governments reach consensus on retrenchment? How should governments respond when a considerable number of the public are opposed to government's reform proposals? In the process of looking for the answers, invaluable findings might come out.

In selecting the country suitable for our study, Canada is a strong

candidate. It is widely acknowledged that Canada succeeded in both reducing the poverty of older people and increasing the financial stability through the pension reform in 1998. In addition, Canada can provide us with ample insight into the complicated policy process in regards to pension reform, because the current Canadian pension system is no more than the outcome of protracted reform attempts over the last five decades.

In so far as research frame-work is concerned, this study adopts two methods: one is the group theory and the other is the historical approach. Given that the group theory explains why, from the experts' perspective, the most reasonable policy options are not selected under political democracy, it can be the most appropriate for analyzing the Canadian reform process. Group theorists generally consider public policy as a compromise between the conflicting interests of competing groups and the policy process is essentially incremental rather than rational (Richardson and Jordan, 1979, p. 3).

The historical approach enables us systematically to review a series of changes having taken place for a long period and to contrast many distinct differences to each other. This study divides the history of the Canadian pension system into four distinctive stages: the first of the establishing stage (1959 ~ 1967); the second of the Great Pension Debate (mid 1970s ~ early 1980s); the third of a new Conservative direction (mid 1980s ~ early 1990s); and the fourth of Liberal's Reform (mid 1990s ~).

The analysis of the pension reform process will be proceeded within the structure of 1) policy environment and agenda, 2) initiators, participating groups and their voices, 3) results and analytical review.

II. The First Stage: The Establishment of Public Pension System in Canada (1950 ~ 1967)

II-1. Old Age Security in 1952

1. Policy Environment and Agenda

Following the 1942 Beveridge Report¹, which took the social insurance principle as a main tool for the eradication of poverty, Canada produced, as part of a post-World War II construction plan, its own *Report on Social Security* written by Dr. Marsh for the government's review early in 1943. Marsh differentiated between what he called "universal risks," the category into which old age pensions fell, and "employment risks." Flat-rate benefits were suggested for the former with the purpose of establishing a basic minimum that individuals could supplement as their circumstances permitted and their preferences decreed.²

Since then, a growing number of Canadians were interested in putting the basic minimum doctrine into a serious public debate. As Canada's economy grew over the 1950s and early 1960s, national pensions became an important political issue.

2. Initiators, Participating Groups and their Voices

Although the Liberals won a narrow victory in the June 1945 election with the platform pledging a contributory pension plan, the Liberal government was faced almost immediately with a federal-provincial conference on post-World War II construction, scheduled for August. Federal authorities' preparation for the conference had been under way before the election was called. These preparations were commissioned to two parallel committees - one consisting of key ministers, the other of key civil servants. After several months of hard work, a green book was published, and it contained the federal government's proposals³ to the provinces. According to

¹ Beveridge, Sir William(1942), *Social Insurance and Allied Services*, Cmnd, 6404, London: HMSO.

² Advisory Committee on Reconstruction, *Special Committee on Social Security (1943)*, *Report on Social Security prepared by Dr. L. Marsh*, Ottawa: King's Printer, quoted in Bryden, 1974, p. 110.

³ Dominion-Provincial Conference on Reconstruction (1945). *Proposals of the*

Kenneth Bryden (1974), the key concept of the proposals was that the federal government should take the initiative in the maintenance of employment and income and that the alternatives to means-tests should be sought. For the Canadian pension system, however, it was a radical change, because until then the 1927 Old Age Pensions Act had permitted the federal government only to play a subsidiary role in the provision of pensions based on means-tests with Old Age Security (OAS) tax. (p. 115)

In 1950, a Joint Parliamentary Committee was appointed to look into old age provisions in Canada and other countries and to make recommendations to the government. The Parliamentary committee recommended that there should be a program of flat-rate benefits for everyone aged 70 and over, subject only to residence requirements.⁴

Full-fledged debates in the House of Commons came in 1951. In the debates, the OAS tax was the major source of cleavage and division of opinion. Kenneth Bryden (1974) categorized the participants of the debates into two categories. On the one hand, there were actors who were primarily "cost conscious" such as business organizations arguing for a relatively low benefit level and high eligible age. On the other hand, there were those who were "welfare conscious", such as trade unions advocating for the opposite position. (pp. 190-193)

Political parties showed a similar though less clear-cut dichotomy. The Cooperative Commonwealth Federation (CCF) - New Democratic Party (NDP), Social Credit, and Creditistes took a more expansive position on benefit levels and the eligible age than the traditional parties.

Behind the scene, there were conflicting influences from two principal advisers to the Parliamentary committee - George Davidson and Mitchell F. Sharp, both were apparently seen as reflecting the position of the Ministries of Welfare and Finance respectively. Davidson was in favor of a non-contributory universal

Government of Canada. Ottawa: King's Printer, quoted in Bryden, 1974, pp. 114-115.

⁴ http://www.civilization.ca/hist/pensions/cpp-a28-pe_e.html

pension on the ground that the contributory principle is cumbersome and ineffective. Sharp preferred to a contributory scheme emphasizing the importance of the adequate control over costs.⁵

Regarding another important subjective, the age of eligibility, the committee faced the same problem as the group which had prepared the Green Book. The CCF members wanted to extend it from 70 years of age to 65 and Conservatives wanted to maintain what it had been at 70, while Liberals were anxious to avoid a recommendation that would financially unacceptable to the government.⁶

3. Results and Analytical Review - Successful

The dominant motive of most of the Parliamentary committee members was to abolish the means-test and establish a universal system instead as soon as possible. So, Sharp's case for contributory principle was bound to fail. (Bryden, 1974, p. 122) The biggest change came in 1951 with the enactment of the national and universal pension paid under the Old Age Security Act, supplemented by the means-tested, cost-shared benefits made available under the Old Age Assistance Act. These two acts replaced the 1927 Old Age Pensions Act and came into force on January 1, 1952. Therefore, both an universal pension at seventy and a means-test pension at sixty-five, based on the prevailing figures of a month, constituted a compromise which all accepted.

Because a national, universal pension program was considered at that time to be beyond the statutory powers of the federal government, a Constitutional amendment was required before the Old Age Security Act was introduced. This was the second Constitutional amendment adopted in Canada's history concerning division of powers.⁷

At the time, the universality principle was considered to be so important that the compromise could be reached around that

⁵ Bryden, Kenneth (1974), *Op. Cit.*, pp. 121-122.

⁶ *Ibid.*

⁷ http://www.civilization.ca/hist/pensions/cpp-a28-pe_e.html

principle. In the process of compromise, we can find two groups competing each other in order to make the pension system more in their favor - the welfare-conscious group (trade unions, the Ministry of Welfare, and Conservatives) and the cost-conscious group (business community, the Ministry of Finance, and Liberals) (Bryden, 1974, pp. 190-193). Therefore, the final outcome of the bargaining implies that the welfare-conscious group gained predominance over the cost-conscious group.

II-2. The Contributory Canada and Quebec Pension Plans in 1966 and the Guaranteed Income Supplement in 1967

1. Policy Environment and Agenda

By the late 1950s, the influential Beveridge's principle of comprehensive system of social security had remained very popular. The growing number of people began to call for a new public pension program that would no longer be merely supplemental, but that would provide people with an income on which they could live.⁸

The idea of earnings-related pension benefits began to gain favor in the late 1950s and early 1960s as a method of supplementing, rather than as a substitute for the universal pension.

2. Initiators, Participating Groups and their Voices

The move to increase the amount of pensions came to be materialized in 1957, when the monthly OAS benefits increased twice. Benefits rose in July from \$40 to \$46 per month. The first increase, under the Liberal government of Louis St-Laurent, was allegedly an attempt to win votes during the June 1957 election campaign. However, this did not prove much effective and the Liberals lost the election. The newly elected Conservative government led by Prime Minister John Diefenbaker further raised Old Age Security benefits, this time in November, by \$9 to \$55 per

⁸ At that time the Old Age Security pension was not an income replacement measure; it was a safety net that conferred on all seniors who met the residency requirements a basic amount of support.

month.⁹

Having been looking for alternatives to the OAS benefits, the government commissioned Dr. Clark, an Economics professor at the University of British Columbia, to conduct a study of the American system.¹⁰ His study concluded that the American system would not work in Canada because of demographic and economic differences between the two countries. Nonetheless, Clark praised the United States' inclusion of disability and survivor benefits,¹¹ and this led Diefenbaker's government to make those benefits a part of its reform proposals. In addition, an income tax exemption was introduced for self-employed people who put money aside for retirement in the form of contributions to a Registered Retirement Savings Plan.¹²

By the end of the Conservative government's term, all the other political parties had already developed proposals for a national, contributory pension system. Thus, in early 1963, when the Liberal Party returned to power under Prime Minister Pearson, contributory pensions had become such a prominent issue that the new government introduced a plan for a contributory program within a few months.¹³

For the next two years, the issue was studied by a Senate committee led by Senator David Croll, and was discussed between the federal Minister of Health and Welfare, Judy LaMarsh and the provincial governments, among the various political parties, and in public consultations.¹⁴ Amid affluence of talks, however, no progress was made on contributory scheme.

A breakthrough in the talks came in April 1964. In March of that

⁹ <http://www.civilization.ca/hist/pensions/>

¹⁰ In Feb. 1958, the Diefenbaker government honored its election pledge by commissioning R. M. Clark (Bryden, 1974, p. 141).

¹¹ Clark, Robert M. (1960). *Economic Security for the Aged in the United States and Canada: A Report prepared for the Government of Canada*, Ottawa: Queen's Printer, quoted in *Ibid.*, p. 141.

¹² <http://www.civilization.ca/hist/pensions>

¹³ *Ibid.*

¹⁴ *Ibid.*

year, Premier Jean Lesage of Quebec announced his intention to introduce a provincial contributory pension plan. It was a surprise to the federal government as well as the other provinces, because it was more comprehensive than the federal plan, including disability and survivor benefits, larger benefits for everyone involved, and more funding from the provincial government. This was the first time a provincial government sought to take on additional responsibility for the social security since the Old Age Pensions Act had been enacted in 1927.¹⁵

3. Results and Analytical Review - Successful

After days of negotiation, an agreement was reached between the province of Quebec and the federal government that Quebec would have its own the Quebec Pension Plan (QPP) separated from but closely coordinated with the Canada Pension Plan (CPP) administered by the federal government. Thus, both the QPP and CPP recipients became to receive benefits based on the amounts they had contributed.

Basically, the advent of contributory pensions in Canada was an outcome of compromise between the federal government and provinces after a long period of study on the principle of contribution by various interested groups including governments, the Senate, the academia, and so on.

Another important point of the federal-provincial agreement on the CPP was, as explained earlier in page 6, the defining of its amendment process.¹⁶ Two-thirds of the "included" provinces must agree on changes to the Plan, and these provinces must contain two-thirds of Canada's total population. Such an agreement symbolizes the core characteristics of the Canadian pension reform process, i.e., "incrementalism".

The C/QPP finally were enacted in 1966. A Guaranteed Income Supplement followed in 1967 was available only to those who qualified for the universal old age security pension, the sense of stigma-free benefit embedded in OAS (Guest, 1997, p. 145).

¹⁵ Ibid.

¹⁶ Ibid.

In retrospect, the success of the OAS and the C/QPP was possible, owing in large part to pressures from various federal and provincial politicians as well as from the welfare-conscious actors and labour groups. Widespread public support for initiatives helped to influence the federal government's decision to seek an increase in the monthly OAS benefits and a Constitutional amendment to be able to include people with disabilities along with younger survivors of contributors to the CPP. (Bryden, 1974, p. 136)

The existence of two plans (C/QPP) stemmed from the desire of the Quebec government to retain primacy in the social welfare field in that province and to have control of pension fund reserves for investment in provincial development.¹⁷

III. The great pension debate: mid-1970s ~ early-1980s

1. Policy environment and agenda

In the 1960s, Canadians had somewhat optimistic view that the economy would continue to grow and any expansion of the pension system would not be excessively burdensome.¹⁸ However, since the oil crisis in 1973, a number of economic recessions occurred. Canada faced such economic difficulties as hyperinflation, double-digit unemployment, trade imbalances, and substantial increase in the national debt.

The first comprehensive review and reform of pensions came under the situation of recession in the form of the so-called "Great Pension Debate" starting in the mid-1970s until early-1980s. The main issues during this debate were the limitation of the private pension system and the underdevelopment of the public pension system.

Initiatives undertaken in pension programs were to mitigate the negative effects of inflation on the income of older people. At that

¹⁷ Administration of the Quebec Pension Plan is in the hands of a board established specially for the purpose (Quebec Pension Board) and the provincial Department of Revenue (Bryden, 1974, p. 137).

¹⁸ <http://www.civilization.ca/hist/pensions>

time, the private pension system had many problems in coverage, portability and indexing. Therefore, public interests in using the public pension system to ameliorate income security had been increased.

2. Initiators, Participating groups and their voices

In January 1973, the federal government called for a joint federal-provincial review of Canada's total social security system. In this political context, a *Working Paper on Social Security in Canada* was issued by the Minister of National Health and Welfare, Marc Lalonde, in April 1973.¹⁹ The Paper recommended five strategies to improve the social security system and among them was the social insurance. The social insurance strategy meant that social insurance should be the first line of defense against income insecurity caused by retirement, disability or the death of breadwinner. In order to improve social insurance as a first line, certain positive changes were necessary in the C/QPP. The most significant improvement was to raise the years maximum pensionable earnings (YMPE) on which contributions and benefits were calculated until it equalled the average of industrial wages in Canada. Another improvement was to remove the ceiling on cost-of-living increases for the C/QPP benefits. (Guest, 1997, pp. 172-173)

But, as Dennis Guest (1997) illustrates, many critics argued that more fundamental changes in C/QPP were required to improve their adequacy and equity as income security measures. For example, criticism of the C/QPP by the Royal Commission on the Status of Women in Canada resulted in some changes during the review. The Canadian Council on Social Development's 1975 report on retirement policies in Canada criticized the social insurance strategy for countenancing the inadequate benefit levels of the C/QPP and urging Canadians to use savings and other private arrangement to supplement their social insurance and old age security benefits.²⁰ In 1975, the Canadian Labor Congress (CLC) advanced a proposal to

¹⁹ Minister of National Health and Welfare (1973). *Working paper on social security in Canada*, Ottawa, quoted in Guest, 1997, p. 172.

²⁰ Brown, Joan C. (1975). *How Much Choice? Retirement Politics in Canada*, Ottawa: Canadian Council on Social Development, quoted in Guest, 1997, p. 174.

increase pension benefits from the existing 25% to 75% of earnings, to lower the retirement age from sixty-five to sixty by 1981, and to abolish the YMPE so that pension benefits and contributions would be based on each person's full earnings. This proposal of the CLC played a decisive role in launching the so-called "Great Pension Debate." (Guest, 1997, pp. 174-175; Béland & Myles, 2004).

Since the proposal of the CLC, a series of studies and reports have been issued with recommendations for the reform of the C/QPP. In the spring of 1981, representatives of the pension industry, business, labor, provincial governments, pensioners groups, women's groups, and members of Parliament and the Senate were invited to Ottawa for a national conference on pensions called by the federal government to share their ideas on pension reform. The conference intended to encourage a private market solution to the problems of the pension system, which were the result of growing concern over the government deficit. Dennis Guest, therefore, commented on the conference that "there was the philosophical bias in favor of a private market approach on the part of a majority of the federal cabinet and several of the provinces, notably Ontario." (Guest, 1997, p.199)

According to Dennis Guest (1997), from the beginning of the Great Pension Debate, attitudes of the groups on the pension reform were divided into two: supporting the expansion of the C/QPP, and opposing the expansion of C/QPP or favouring a private market solution. The groups supporting the expansion were composed of labour unions, welfare organizations, women's groups, the Senate Report, the Quebec and Saskatchewan governments, and one of the four options proposed by the federal task force on *The Retirement Income System in Canada (1980)*, and the groups opposing it included representatives of business groups, the Economic council of Canada, the pension industry, the provinces of Ontario and British Columbia, and three of the four options offered by the federal task force on pensions. (Guest, 1997, pp.200-204)

Despite the heated debates on the expansion of the C/QPP, the reform movement suddenly began to subside with the onset of economic recession in 1982. The government's green paper in December 1982 argued that while there was a high degree of

agreement on the nature of the problems in the retirement income system, there was still a lack of consensus on appropriate solutions. So the government referred this matter to a Commons committee. When the Parliamentary Task Force on Pension Reform finally reported in December 1983, a majority recommended that the focus of reform be on the private pension sector. (Guest, 1997, p.205)

3. Result and critical review - Not successful

The pressure for improving the prevailing social security system produced some fruitful results. From January 1974, pension benefits were to be adjusted annually for the full increase in the consumer price index. Equality of status between men and women in relation to survivor's benefits was implemented. And a proposal of the Royal Commission on the Status of Women in Canada to enable contributors to leave the labour force to raise children, in order to drop the absent period from the calculation of their benefit, was eventually accepted in 1983.

Although many welfare-conscious groups clearly supported a widespread expansion of the C/QPP to meet the needs of Canadian workers, the level of the C/QPP pensions had remained intact.²¹ The reasons for that can be summarized as follows: Firstly, as shown above, there were so many opposition groups who supported a private market solution and opposed any expansion of the C/QPP. But the inability of the business sector to reach consensus on a private sector solution contributed to the ideological success of the public solution. While large firms were willing to accept mandatory private pension to put an end to the coverage problem, small businesses opposed this option. (Myles, 1988, p.46)

Secondly, during the debate, the pro-business conservative government of Ontario, the Canada's largest province, opposed any

²¹ Amendments to the CPP, effective 1 January 1987 resulted in improvements in the areas of the coverage, vesting, portability, and inflation-proofing. But according to the amendments, there was no increase in the income replacement rate for the C/QPP (Deaton, 1989). But these improvements did not happen during the Great Pension Debate, so this review does not regard these improvements as a result of the Great Pension Debate.

attempt to significantly expand the C/QPP.²² Because the federal and provincial governments share constitutional responsibility for this program, the federal government must reach an agreement with at least two-thirds of the provinces representing two-thirds of the Canadian population before enacting a reform.²³

Thirdly, labour unions took a somewhat ambiguous position at the 1981 conference in Ottawa (Guest, 1997, p.201). Unionized workers were twice as likely to be covered by private pension plans that were considerably richer in benefits than non-union workers. In this context, the CLC delayed the expression of its own position and suggested more study and review. Fourthly, the economic recession in 1982 poured cold water on the debate. All hope for quick action on pension reform was thus set aside.

The great pension debate shows us that the strong power and influence exercised by the welfare-conscious groups of the 1960's had eclipsed under the dire economic circumstances at the arrival of the oil crisis. Then, the predominance of state expansionism in pension schemes was superseded by the newly strengthened contractionism. Nevertheless, the cost-conscious groups could not be united into one voice, because of the position differences in promoting private market solutions, particularly, the conflicts between large and small firms. Conflicts and the lack of solidarity also erupted between unionized and non-unionized workers in regards to private pension schemes.

²² Banting, Keith G. (1987). "Institutional Conservatism: Federalism and Pension Reform" in Jacqueline S. Ismael(ed.), *Canadian Social Welfare Policy: Federal and Provincial Dimensions*, Kinston: McGill-Queen's University Press, 48-74, quoted in *ibid*.

²³ Battle, Ken (1997). "Pension Reform in Canada", *Canadian Journal of Aging*, 16(3), 519-552, quoted in Béland and Myles, 2004.

IV. The Third Stage: A New Conservative Direction for Canada (mid-1980s ~ early-1990s)

1. Policy Environment and Agenda

Canadian society was aging rapidly as the huge baby boom generation advanced in years and the national birthrate declined. With slow economic growth, serious deficit and debt pressures raised the sustainability problem. The capacity to expand and improve governmental programs had dwindled during the 1980s because of the sluggish economy and the urgent need to reduce the debt.

Throughout the 1980s, the federal government increasingly sought to reduce its expenditures. By the end of the 1980s, the sustainability of Canada's public pension system had become a major concern as Canada's senior population continued to increase.

2. Initiators, Participating Groups and their Voices

Upon taking office in 1984, Mulroney's Conservative government identified four weaknesses in Canada's social security system: the level of social spending was too high; programs were not sufficiently targeted to those in greatest need; public assistance had become a substitute for earned income; and income security programs had weakened work incentives and self-reliance.²⁴ In order to address these weaknesses, the government set the goal of reducing the federal deficit - and thus reducing the role of government in pension provision, employing strategies such as partial indexing of social security benefits and the clawback of universal benefits (Guest, 1997, p. 220).

In his first full-scale budget in May 1985, the Minister of Finance, Michael Wilson announced that the OAS pensions, which were then fully indexed to the cost of living, would be partially indexed.²⁵

²⁴ Ross, David Ross and Shillington, Richard (1986), *Background Documents on Social Reform: Work and Income in the Nineties*, Ottawa: Canadian Council on Social Development, 3, quoted in Guest, 1997, p. 220.

²⁵ According to this partial de-indexation proposal, OAS benefits would be adjusted only for the amount of inflation over three percent. This means that benefits would decline by the amount of inflation less three percent (Battle, 1997,

The federal government's attempt to reduce the cost of the public pension programs in 1985 unveiled the power of seniors. Pensioners' organizations became furious and participated actively in the two-month campaign with labor unions and anti-poverty groups. Solange Denis, an Ottawa pensioner, became a symbol of grey power when she confronted the Prime Minister Mulroney on Parliament Hill and forced the government to drop the plans to limit inflation protection for old age pensions. (Caragata, 1995)

3. Results and Analytical Review - A success by stealth

The Conservative government reversed its decision to adjust partial indexation to the OAS in order to recover such political damage caused by the Parliament Hill confrontation. This incidence clearly proved the power of seniors as well as the political risks resulting from attacking such universal program as the OAS.

After the abortive 1985 attempt at partial indexation, the Conservative government altered their strategy to one of "blame-avoidance" in order to lessen political risks (Béland and Myles, 2004). In 1989, the Conservatives put an end to the principle of "universality", which had been cherished since 1952, by successfully implementing a clawback of the OAS benefits from very high income seniors.²⁶ Ken Battle (1990) thus dubbed it "social policy by stealth".²⁷ In short, the blame-avoidance strategy can be an excellent example of the incremental model of the policy making process.

Another technical example of social policy by stealth was that the threshold where the clawback would come into effect was partially indexed to inflation over three percent, which means that it fell

pp. 530-531), quoted in Béland and Myles, 2004.

²⁶ According to Béland and Myles (2004), during the 1984 federal elections, the Conservatives tried to attack the universality of OAS by publicly questioning OAS universal coverage. Facing oppositions from social movements including old-age organizations and labor unions, the Conservative government proposed the partial de-indexation rather than abolish universal benefits. After this attempt came to fail, the Conservatives again tried to "end universality through the back door".

²⁷ Ken Battle used the term "social policy by stealth" to characterize the Conservatives' style and technique of policy reform (Battle, 2003).

steadily each year in value, reaching more and more pensioners. Since the majority of the elderly were unaffected at the time of implementation, few politicians or journalists understood the longer-term implications of the reform. (Battle, 1990, p. 2003)

Under the Conservative government, the political climate for pension reform significantly changed, like many other welfare states struggling with demographic and economic pressures. The Conservatives established the direction, substance, and mechanism of pension reform and paved the way for further changes under the Liberals who gained power in 1994.

V. The Fourth Stage: Liberal's Reform Attempts at Universality and Sustainability (mid-1990s ~)

V-1. A Reform Attempt at OAS/GIS: the Seniors Benefit

1. Policy Environment and Agenda

The sustainability of the CPP and OAS program was the major issue in the 1990s. Seniors were making up an increasing proportion of the total population as life expectancy continued to rise and health standards improved. In addition, the political atmosphere on the beginning of 1990s was not amicable to the welfare-conscious group. Prior to 1993 federal election, all parties had proposals for reducing the debt and deficit. Dennis Guest (1997) describes the differences among different parties that while the Conservatives and the Reform Party placed more emphasis on the financial issue, the other three parties - the Liberal Party, the NDP, and the Bloc Québécois Party - took a moderate stance. (Guest, 1997, pp. 248-249)

According to Guest's observation, after winning the right-wing Conservatives in the 1993 federal election, the Liberals appeared to move to the political right in order to weaken the influence of the Reform Party, a real winner of that election (Guest, 1997, p. 250). The budget statement of February 1994 indicated possible cuts to Canada's public pension programs. The Minister of Finance, Paul Martin, in his budget speech of 1995, again expressed his concern

for the sustainability of the public pension system. All Canadians thus recognized the word of 'sustainability' as cutting benefits. (Guest, 1997, p. 282)

2. Initiators, Participating Groups and their Voices

In his 1996 budget speech, Paul Martin eventually proposed a new Seniors Benefit, which would replace the universal OAS and GIS beginning in the year 2001. With an income-tested element, the proposed program was designed to support the low income seniors in order to slow the growth of costs. The main features of the Seniors Benefit are: the maximum benefit will be \$120 per year, per household, higher than the existing OAS/GIS; the amount of benefit will be based on family income, not individual income as under as OAS. (Guest, 1997, p. 285)

To minimize the political risk of counteraction from the old age population, the Minister of Finance, Paul Martin emphasized that current pensioners would not be affected by the reform. Despite these efforts at blame-avoidance, however, organized groups including professional associations and investment firms as well as pensioners' organization had slowly united against the proposal. (Béland and Myles, 2004)

According to Ken Battle (2003), the proposed reform was challenged on two main features. The first attack was on its use of a family income test and its alleged disincentive for private saving for retirement. In their fight against the Seniors Benefit, women's groups developed the "poor wives with rich husbands" argument. Not only housewives but also working women would be affected by the change to a family income-tested Seniors Benefit.

The second criticism was on the universality such that the Seniors Benefit would be even worse than the clawback of OAS in reducing or denying benefits to better-off seniors. The CLC, Canada's largest labor organization, contended that "a family income test would transform a long-standing entitlement into what amounts to a form of social assistance, severely damaging the retirement income system overall."²⁸

²⁸ Canadian Labour Congress (1995). The Upcoming Debate on Public Pensions:

At the beginning of 1997, the Retirement Income Coalition was formed as an alliance among the groups including the Canadian Teachers' Federation, the Investment Dealers Association, and the Canadian Association of Retired Persons. This new coalition and the Reform Party criticized the potential disincentive of the reform on savings behavior. (Béland and Myles, 2004)

3. Results and Analytical Review - A failure

The Seniors Benefit faced strong criticism from both the left and right of the political spectrum, whereas the federal government was passive to defend or implement its proposal (Battle, 2003). The reform eventually was withdrawn in July 1998, two and a half years after its introduction in the March 1996 budget.

It seemed that there was more politics than economics in the decision to withdraw a reform proposal. The forces of opposition united, while the public remained largely unknowing, in the absence of an active soliciting campaign from the federal government. The attacks from universalists and the right-wing advocates psychologically threatened the members of Parliament, especially the most Liberal members of the ruling party who were nervous about going into the next election (Battle, 2003).

Those attacks from the political left and right were magnified by mass media - which is eager to criticize governments. This proved the necessity and importance of public education campaigns to inform and solicit the public about reform proposals. (Béland and Myles, 2004; Battle, 2003)

In conclusion, the Liberals' backdown of the Seniors Benefit proposal shows us a typical case of the incremental process of reform attempts in the sense that without compromise or acquiescence from opposition groups, any government cannot push forward their unpopular retrenchment proposals.

Issues as Seen by the Federal Government, the Reform Party and the CLC, Ottawa: CLC, quoted in Battle, 2003.

V-2. Securing the Sustainability of CPP

1. Policy Environment and Agenda

The uncertainty about the sustainability of Canada's public pensions grew into an important political issue in the 1990s. Life expectancy was increasing and seniors were composing a greater share of the population.²⁹

In the mid-1990's, Canada's public debt and annual deficit peaked at \$583 billion and \$42 billion respectively. In 1995, the publication of the *Fifteenth Actuarial Report of the CPP* suddenly pushed this program to the center of the policy agenda. The Report projected a higher schedule for future contributions than anticipated by the previous actuarial report, due to a significant increase in disability benefits and the impact of the economic recession. (Béland and Myles, 2004)

Accordingly, the sustainability of the public pension system became a growing concern. In response to this growing concern, the Government of Canada and the provinces agreed to make changes to the CPP in 1998.

2. Initiators, Participating Groups and their Voices

While the Reform Party and conservative think tank such as the CD Howe Institute responded with proposals to replace the public pay-as-you-go system with private sector alternatives (Battle, 1997, p. 538), the Liberal government launched a consultative process aimed at reforming the CPP in an incremental manner. This consultative tactics seems to have emerged in a bid, not only to win support from the proponents group but also to weaken the counter-attacks from the opponents group.

In regards to the government's attempt at cutting benefits, Dennis Guest (1997) identified two clearly divided groups: proponents and opponents (pp. 288-292). Proponents were the Canadian Chamber of Commerce, and conservative provincial governments in Ontario and Alberta. But Quebec was in the opposition group. In Toronto,

²⁹ <http://www.civilization.ca/hist/pensions/>

both labor and business representatives objected because this would disrupt company pension plans that had been developed over the past thirty years. The CLC said that "concerns about program costs have to be balanced by equal concerns about the adequacy of retirement incomes."³⁰ Women's groups denounced the proposal and many were critical that the discussion paper did not include a gender analysis of options. Disability groups also opposed reducing benefits for the disabled. Interestingly enough, however, some experts from the financial community who backed a shift to partial funding did not support significant reductions in the CPP benefits.

Although many and varied groups and individuals differed on specific options for reform, there was, in general, opposition to major benefits reductions and support for a change from pay-as-you-go to partial funding. The Canadian Association of Retired Persons, a non-profit organization with close to 400,000 members, advocated the establishment of a body of investment experts, taking charge of managing the CPP's funds³¹.

The conservative Canadian Alliance party and Alberta's Conservative party disseminated a claim to move from social insurance to individual savings accounts. But their advocacy was far more diffuse in Canada than in the United States. Despite the fact that neo-liberal economists and politicians had exploited the demographic fears caused by population aging, public support for the CPP remained little harmed. (Townson, 2001, p. 195)

Both *the Seventeenth and the Eighteenth actuarial reports on the CPP* confirmed that the 9.9 per cent combined employer-employee contribution rate (which would be reached in 2003) would be sufficient to sustain the CPP, although larger numbers of Canadians reach retirement age.³²

In 1997, the Liberal government negotiated a deal with the provincial and territorial governments that would have impact on

³⁰ National Council of Welfare (1996). *A Pension Primer*, Ottawa: Minister of Supply and Services 1996, quoted in Guest, 1997, p. 289.

³¹ <http://www.fiftyplus.net>

³² <http://www.civilization.ca/hist/pensions/>

financing heavily but on benefit reductions lightly. Finally enacted in January 1998, Bill C-2 included partial funding³³ and other minor modifications aimed at improving the long-term financial situation of the CPP. To help ensure that the CPP would have enough funds to provide pensions for future generations, four changes³⁴ were made.

3. Results and Analytical Review - Partially successful³⁵

The story of the change from pay-as-you-go to a partial funding indicates that basically the emerging consensus from public and expert consultations could produce 1997 C-2 Bill which came into implementation in 1998. In the process of pension reform, the Liberal government's employment of the consultation tactics extremely well epitomizes the key feature of an incremental way of reform efforts, that is, reaching an agreement through dialogues, discussions and compromise. The establishment of a body of investment experts to manage the funds of the CPP, which came to fruition in 1997 with the creation of the CPP Investment Board³⁶, was a product of a non-profit organization's strong advocacy.

Finally, we can find out some incremental aspects of significance from the results produced at the last reform efforts. The 1997 reform reaffirmed that any attempt radically breaking from the historical path of the program has little chance to be successful in a fundamentally negotiating formula. In order to win the support from the public, therefore, both the federal government and Parliament should continue close consultations with provinces, trade unions and a large number of interest groups and senior citizens' organizations across Canada.

³³ Partial funding was termed as 'fuller funding' in An Information Paper for Consultations on the Canada Pension Plan.

³⁴ (1) increasing contribution rates for both employers and employees, (2) restraining modestly the future costs of some benefit types, (3) creating a new investment strategy; and (4) strengthening the governance and accountability structure of the Plan, quoted in <http://www.civilization.ca/hist/pensions/>

³⁵ "Partially successful" means that it is successful to make the solid financial ground, but failed in reducing benefits.

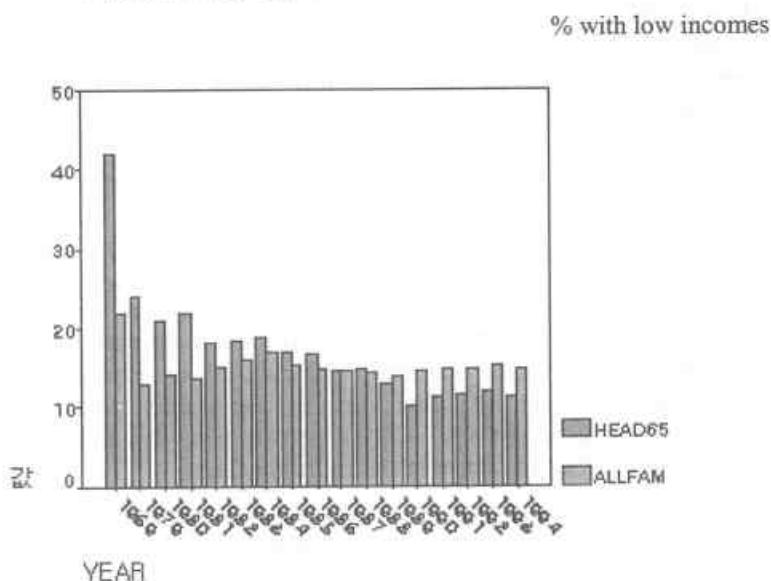
³⁶ For more information on the CPP Investment Board visit at <http://www.cppib.ca>

VI. Conclusion: Ten Lessons from Canadian Pension Reform Attempts

So far, this study has reviewed the Canadian pension history in a frame-work of the historical approach and group theory. It was thus confirmed that the Canadian pension system is continuously undergoing an evolutionary reform and that a certain policy at a certain period is no more than a compromise between the conflicting interests of competing groups. Now, it is the time for us to draw some important lessons from the Canadian experiences. In general, Korea can learn a lot from Canada. This study, however, lines them up into ten items.

Firstly, from the beginning of the pension history, Canadian public pensions have consistently won enthusiastic support from the public, due mainly to the existence of the OAS, a universal pension program, serving all individuals at retirement age and funded fully from the general government revenues. The genuineness of Canadian governments to provide a universal, flat-rate benefit made pension issues one of major national agenda and enabled Canadians to recognize more easily the state's role in providing income security for the elderly. This is reinforced by the fact that as Figure 1 demonstrates, the poverty rate among elderly Canadians has declined significantly during the past decades, while that for all has slightly increased. And also, as Table 1 indicates, public pension programs (OAS/GIS and C/QPP), as a major income source, serve well to lower income groups; they provide 84 percent of the income of the poorest quintile group and 64 percent for the second poorest quintile group, whereas they provide only 18 percent of the income of the richest quintile group. Such roles of Canadian public pension have made the public confidence relatively solid. (Banting and Boadway, 1997, p. 6; Battle, 2003) In Korea, there have never been universal benefits for all seniors. The existing partially funded earnings-related pension plan has totally failed to earn public trust from its inception and the situation seems to continue to aggravate. Therefore, it is worthwhile being seriously considered that the Korean government adopt a universal pension program into the public pension system.

Figure 1. Poverty Rates, Families with Aged Heads (65+) and All Families 1969-1994



Source: Statistics, Canada, quoted in Banting & Noadway, 1996, p.7.

Table 1. Sources of Income of the Current Elderly

Source	Percentage of Income by Source and Quintle Group, 1992 (Lone Persons and Couples Combined)					Total
	Q1	Q2	Q3	Q4	Q5	
OAS/GIS	67	41	22	16	9	30
C/QPP	17	23	20	15	9	18
Pensions	3	14	26	30	24	20
Employment	0	3	7	13	18	8
Investment	5	2	18	21	36	18
Other Income	8	7	7	5	5	6

Source: Statistics Canada, *Survey of Consumer Finance*, quoted in Banting and Boadway, 1996, p.6.

Secondly, the public pension system in Canada, from its origin, has left a considerable room for the private sector to be involved, whereas the maximum level of public pension benefits was 40 percent of average earnings, which is relatively low by the ILO standards. Canadian governments thus could have bolstered the expansion of the third-tier retirement income system, consisting of occupational pensions and personal savings (Banting and Boadway, 1997, p.4). The fact that the size of public pensions is rather small means that in planning their retirement incomes, Canadians' dependency on the government is not heavy, and that they could accept even more radical reform proposals. The Korean National Pension Scheme began with 70% of the replacement rate. At the moment, the government is struggling to reduce the current rate of 60 % to 50, but it seems extremely difficult, not only because most Korean people have no other means than public pensions for securing income in old age, but the private pensions industry has not fully developed and remains at an infant stage.

Thirdly, in the process of Canadian pension reforms, the active pressure role played by trade unions as well as organized interest groups was remarkable. They occasionally used an alliance tactics, for example, in the case of the Seniors Benefit proposal. The Retirement Income Coalition was formed among 21 groups against the Seniors Benefit proposal in 1996. During the long period of the pension evolution in Canada, one of the most prominent actors was the Canadian Labour Congress (CLC). The CLC is the representative organization in the Canadian labour movement, which has played a significant role as an advocate for public pensions. In Korea, recently various civic organizations and trade unions began to actively participate in social movements and raise their voices to protest against the government's proposals on pension reform. They also use very often the tactics of alliance in their efforts of protest against the government. The successful case of alliance in Canada can shed light on both civic organizations and the government in Korea.

Fourthly, the episode of 1985 Solange Denis versus Brian Mulroney, then-Prime Minister, is a good evidence that proved a decisive role played by the mass media to push the public opinion into a direction. Since the mass media inherently have some inclination to

sensationalism, emotional appeal, excitement, and agitation, it tends to emboss deprived seniors, even with rational reform proposals. The political power of seniors, the "grey lobby", with a strategy to use the mass media, can drive the reform process into a "muddling through" rather than pursuing a rationality. In Korea, currently no pensioners' organizations are existent. But they are expected to emerge around 2010, after the first generation of the National Pension Scheme's participants is fully entitled to old age pension in 2008. As far as the Korean mass media is concerned, their role in pension reform process has been less conspicuous than generally imagined, due probably to their ignorance of the so-called "old age crisis."

Fifthly, the ideological cleavage among different political parties was less clearly cut in the pension reform. It is not surprising that all Canadian politicians in the political left or right get pressures from various pressure groups, particularly, older voters who are generally more active in elections than young people. Since the economic recession in the early of 1980s, the difference of positions between the political left and right has been blurred, with regard especially to financial sustainability of the CPP. In Korea, political parties are usually not actively engaged in the pension reform process. Few parties have their own reform proposals and their role in the benefit-cut reform process is very often restricted to the role of veto.

Sixthly, the Canadian federal government's commitment to facilitate the preparation work for reform proposals - such as conducting research, publication of related data and discussion papers and so on - is very impressive. And also, the annual actuarial reports of the CPP have played a pivotal role in pushing the pension issue to the center of the Canadian politics. While the Canadian government is operating an office of Chief Actuary, there is not such a position in Korea. Nevertheless, Korea has just completed its' first statutory procedure of the publication of actuarial report which is to appear once in every five years. The term of five-year, however, seems to be too long. It seems imperative for the Korean government to spend more on pension research, publication of pension data, and training pension experts.

Seventhly, Canada has already institutionalized firmly a democratic process of policy making. The formula of federal-provincial amendment process is an outstanding example of the institutionalization. Building a consensus from not only federal and provincial governments but also the public and expert consultations was a major contributor to the agreements on the changes in the Canadian pension schemes. The politics of consultation in Canadian pension reform provides us with many know-hows for the development of Korean democracy, for instance, the value of dialogue and compromise, the attitudes of tolerance and patience, skills for competing and bargaining and so on. In Korea, even the Korea Tri-partite Commission, aimed to resolve the problems of industrial relations, is not working as smoothly as wanted. Korea desperately needs institutionalization of consultation in all parts of policy making including pension reform.

Eighthly, the 1980s' pension reforms in Canada demonstrated the importance of intellectual approach. The so-called "blame-avoidance" strategy and "the reform by stealth" functioned nicely for the government with elaborative or even arcane technology. Since a visible attempt to cutting benefits in 1985 was confronted with the political risks, the pension policies have been developed and devised in the necessity of lowering visibility of changes to the benefits (Béland and Myles, 2004). In other words, this means that a number of researches and sufficient studies by many pension experts preceded strategies and tactics of the federal government. In Korea, there are currently only a handful of pension experts and their works are bound to be very restricted in quantity and quality as well. It is urgently needed for the Korean government to make long-term investment in education and training of pension specialists.

Ninthly, in accentuating the risk of financial sustainability under demographic and economic pressures, the Canadian governments had been preparing for the longer-term changes and thus raised the rationality in reforming the CPP by accelerating the legislated contribution rate increases.³⁷ Thus, it was proved very effective that

³⁷ It is one of major changes in the 1997 reform of the CPP.

the governments, on a gloomy demographic projection, write the most pessimistic scenario and diffuse it (Guest, 1997, pp. 284-286).

Lastly but not least, the most important lesson that Korea can learn from the whole Canadian history of public pension reforms is its incremental or evolutionary (not revolutionary) process, in which various actors including federal, provincial, territorial governments, labour unions, women's groups, disability groups, business community, as well as pensioners, freely participated and continuous debates and negotiations took place. Thus even when they fiercely confronted with one another, the dialogue did not come to a halt. As far as democracy is concerned, Koreans require more time to adjust to democratic ways of life, because until the so-called "June, 1987 protest" Korean people had been ruled for long under authoritarian regimes.

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Attachment I. The Summary of Public Pension History of Canada

- 1927 The *Old Age Pensions Act* was enacted, permitting the federal government to give assistance to provinces that provided a pension to British subjects 70 and older.
- 1952 The *Old Age Security Act* came into force, establishing a federally funded pension. It replaced the 1927 legislation that required the federal government to share the cost of provincially run, means-tested old age benefits.
- 1965 Amendments to the *Old Age Security Act* lowered the eligible age for the OAS pension to 65, one year at a time, starting in 1966 at the age of 69.
- 1966 The CPP and QPP came into force on January 1, 1966.
- 1967 The Guaranteed Income Supplement was established under the Old Age Security program.
- 1972 Full annual cost-of-living indexation was introduced for OAS.
- 1973 Quarterly indexation was introduced for the Old Age Security program.
- 1974 Full annual cost-of-living indexation was introduced for the CPP.
- 1975 The Spouse's Allowance was established as part of the Old Age Security program.
- 1975 The same Canada Pension Plan benefits became available to male and female contributors, as well as to their surviving spouses or common-law partners and dependent children.
- 1975 The retirement and employment earnings test for Canada Pension Plan retirement pensions at the age of 65 was eliminated (a contributor can, upon application, receive his or her retirement pension the month following his or her 65th birthday, but can no longer contribute to the CPP).
- 1977 The payment of partial Old Age Security pensions was permitted, based on years of residence in Canada.
- 1978 Periods of zero or low earnings while caring for the contributor's child under the age of seven were excluded from the calculation of Canada Pension Plan benefits.
- 1978 Canada Pension Plan pension credits could be split between spouses in the event of a marriage breakdown (CPP credit splitting).

- 1985 Under OAS, the Spouse's Allowance was extended to all low-income widows and widowers aged 60 to 64.
- 1987 Several new CPP provisions came into effect, including:
- flexible retirement benefits payable as early as the age of 60;
 - increased disability benefits;
 - continuation of survivor benefits if the survivor remarries;
 - sharing of retirement pensions between spouses or common-law partners;
 - expansion of credit splitting to cover the separation of married or common-law partners.
- 1989 The repayment of OAS benefits or "claw back" was introduced.
- 1991 Legislation was passed to assist those people who were denied CPP credit splitting as a result of a spousal agreement entered into prior to June 4, 1986.
- 1992 Three major amendments to the CPP came into effect:
- A new 25-year schedule for employer-employee contribution rates was established.
 - Children's benefits were increased.
 - Provision was made for individuals who were denied disability benefits because of late application.
- 1995
- The period of retroactivity for OAS benefits changed from five years to one year.
 - Individuals were permitted to request that their OAS benefits be cancelled.
- 1998
- The CPP moved from pay-as-you-go financing to fuller funding.
 - Contribution rates were increased.
 - A new investment policy was introduced.
- 2000 All OAS and CPP benefits and obligations were extended to same-sex, common-law couples.

Source: <http://www.civilization.ca/hist/pensions>

Attachment II. Korea Pension Scheme and Reform

This is an extract from an article written by the same author (S.K. Kim). It illustrates main features of the Korean National Pension Scheme and a brief history of Korean pension reform. It is thus hoped to provide Canadian readers with more information on the Korean system. The author want it to be attached to the paper, entitled What can Korea learn from Canadian Pension Reform Attempts?

1. Public pension schemes in Korea are largely divided into two groups: one is the Special Occupational Pension Schemes (SOPS) for government employees, military personnel and private school teachers and employees and the other is the National Pension System (NPS) for the rest of the people. Both the SOPS and NPS have been facing a serious problem of financial sustainability arising a great deal from a structural imbalance between low contributions and overly generous benefits. This paper concentrates on the NPS because the NPS may provide us with more insight into the policy process of reform efforts.

As far as official reform efforts by the government are concerned, there have so far been three cases existent. The first attempt was made when the Social Security Council chaired by the Prime Minister nominated the members of the National Pension Reform Board to review the problems of the NPS and prepare for their solutions in May 1997. The board submitted three alternatives of reform proposals to the government in the end of the year. The revision of the National Pensions Act (1998) was passed with the initiatives of the government following those proposals.

The second effort came amid the economic crisis beginning in November 1997. The government and the World Bank agreed, in the context of Structural Adjustment Loans, to take a critical look at the public and private pension system and to draft a white paper on pension reform. A new Pension Reform Task Force was commissioned to outline it in December 1998. The task force proposed four options of reform strategy in its white paper published in August 2000. No further legislative action, however, was followed by the government this time.

The third attempt started with setting up a committee by the

Minister of Health and Welfare for actuarial estimate and institutional reform of the NPS, named the National Pension Schemes Development Committee, in March 2002. The committee suggested in its report three kinds of policy mix for the government to take for financial sustainability in June 2003. After reviewing the report, the government has recently submitted an Amendment Bill to the National Assembly in a bid to revise the National Pension Act by the end of this year.

2. Current Status and Pending Issues of the NPS

This section outlines the main features of the NPS and its pending issues.

1) Main Features of the NPS

Since its inception, the finance of the NPS has been partially funded and the benefits are calculated on a defined benefit (DB) system. In regards to the main features, four items are illustrated: coverage, benefit level, contribution rate and the state of its fund.

① Coverage

The coverage of the scheme is mandatory to all Koreans aged 18-60, with monthly income of W220,000 or more (upper limit W3.6million). Current pensionable age is set at 60 and it is gradually to increase until 65 in 2033. As of the end of 2002, a total of about 16.499 million persons, including 6.288 million employed workers and 10.004 million self-employed participants, are covered by the NPS. (National Pension Corporation, National Pension Statistical Yearbook, 2003, pp.22-3) Out of the 10.004 million 5.754 million self-employed, only about 57.5% declared and reported their income and made required contributions and the remaining 42.5% were exempt from contributions. As a result, the number of persons effectively made contributions was only 12.042 million (less than 75% of the target population). Even in the case of the self-employed participants, many are suspected to have under-reported their income, which leads to the problem of low-rate compliance of the NPS. The number of beneficiaries is 1,059.4 thousands, 67.8% of whom received old-age pension benefits and the rest received survivor's pension (16.1 %) or disability pension(3.3%). This figure clearly indicates that the NPS is still

unmatured.

② Benefits Level

Pension benefits are determined largely on the basis of contributions, differentiated by income class (45 classes altogether), with government contribution only for the low-income rural area residents. The benefit formula for the full old-age pension is as follows: $0.18 (A+B) \times (1+0.05n)$

A: the revaluated (price-indexed) average monthly incomes for the last previous three years before benefit entitlement begins

B: the revaluated (price-indexed) monthly incomes of the participant during the whole contribution period

n: (≥ 1)=years of contribution - 20 years

1.8:a coefficient which makes the replacement rate 30% (60%) for average wage earners with 20 years (40 years) contribution

0.05:an additional ratio for every one year beyond 20 years of contribution

The benefit formula of the NPS is consisted of two parts: redistributive part (A) and earnings-related part (B). Given the required contribution rate based upon workers' payroll or declared incomes of the self-employed, the former redistributes pension income among income-level classes (redistributive portion) and the latter reflects participant's earnings history (earnings-related portion). Pension benefits are indexed to consumer price and special tax concessions are also provided.

③ Contribution Rates

Contributions are running at the rate of 9.0%, equally divided between the employer and employee, and 7% (annually increased until 9%) for the self-employed respectively.

Full old age pension is targeted to replace 60% of the pre-retirement earned income in the case of average wage workers with 40 years' contribution. The basis of contribution is the standard monthly income of the previous year which is determined by dividing the total yearly income declared and reported by 12 excluding any non-taxable income specified in the Income Tax Act. The standard

monthly income is then classified into 45 income-class categories which run from the bottom category 1 (W 222,000) to the top category 45 (W 3,600,000) which is applicable to both workers and the self-employed alike. The current rate for the employed sector is set at 9% of the standard monthly wage of the participant, and for the self-employed 7% which is scheduled to hike to 8% in August 2004 and again to 9% in August 2005.

④ The State of the NPS Fund

The total inflow of to the NPS fund since its inception in 1988, amounted to 103.7 trillion won (\$ 878.8 billion US) as of 31 July 2003: 870.2 trillion from contributions and 349.1 trillion from operational profits. The total outflow from the fund amounted to 18.2 trillion Won: 17.3 trillion won for benefit payments and 5.8trillion won for administration cost. The total reserve fund of 103.7 trillion won is allocated into three sector: 82.9 trillion won (80.0%) into finance sector; 20.3 trillion won (19.5%) into public sector; and 492.9 billion wom (4.8%)to welfare secur respectively.(National Pension Corporation, "national Pension", no.107, 2003, p.15)

2) Pending Issues with the NPS

Critics point out so many shortcomings of the NPS that drawing up an exhausted list of the pending issues is almost impossible. This study thus picks up only four issues deemed most serious: financial instability, the low effective participation rate, inefficient management of funds and insufficiency of pension benefits.

① Long-term financial instability

According to the report of the National Pension Schemes Development Committee, if the current NPS format is kept unchanged, it is projected to run deficit from 2036 and be depleted by 2047. Otherwise, the NPS contribution rate should be ultimately raised up to 30.0% by 2050 and 39.1% by 2070 respectively. (pp.14-5) Besides the structural imbalance between contributions and benefits, the expected rapid transition to an aged society is another threatening factor to the NPS' future.

② Large 'pension hollow'

The extended coverage of the NPS in 1999 incorporated more than 10 million new potential participants from the urban self-employed sector. But only about 5.3 million or 49% of them were found to be practicably participating and contributing to the NPS. The rest of them were all classified as 'exempt' for contribution due to unemployment, non-gainful working, being economically inactive, no-confidence in the NPS and so on. (National Pension Corporation, National Pension Statistical Yearbook, 2003, pp.22-3) A large proportion of the self-employed, workers at small firms and women are not actively participating nor contributing to the NPS. A rough estimation hints us that no less than 40% of the old-aged Koreans would be out of the NPS benefits even in the year 2008 when the NPS is fully matured.

As of April 2003, the average reported income of the self-employed participants was 1,022,230 won as compared to 1,441,728 won reported by the employed participants (National Pension Schemes Development Committee, 2003, p.133) If the problem of system avoidance, i.e. underreporting income or no report is not to be much improved in the near future, this between-sector imbalance problem will be turned into an unfair intra-generational inequity between the employed and the self-employed sector.

③ Ineffective and inefficient fund management

As the NPS is being operated as a partially funded system, its fund will keep growing for next 20 or 30 years from now. It is projected that the NPS reserves would grow as large as 50%-100% of the GDP depending on the rate of contribution increases, which is a figure unprecedented in the international history of the public pension fund. The sheer size of the cumulating fund is threatening, whether it is invested in SOC or in equity market or public bond. This would obviously raise important questions about the role of the NPS in the capital market, corporate governance and potential conflicts of interest for the government in its role as institutional investor and the regulator of industry and financial markets (World Bank, p.20)

④ Law level of pension benefits

The target income replacement rate of the NPS for the average wage workers is 60% for 40 year's continuous contribution. Contribution to the NPS occurs only when the participants are working with income. There are numerous negative factors within Korean economy and industry that work against the participants' good contribution history and good pension benefits accrued: high turn-over rate and short average tenure especially in the small and medium enterprises sector which takes up more than 90% of the total employment; large number of involuntary early retirement (at age 45-55); relatively late entry into the labour market caused by mandatory service in army. A considerable proportion of the active participants are, therefore, feared not to satisfy the minimum contribution period (10 years).

In addition, since there are large differences in participation rate and contribution level between adult men and women, a large proportion of the eligible women would end up with a very poor pension benefit when they get old. Only a very small proportion of the participants would be lucky enough to be continuously working with a job for 40 years; most of them would end up working less than 30 years.

3. The First Effort for the NPS Reform

(1) Policy Environment and Agenda

Despite its relatively high-income level, Korea has a young public pension scheme. In 1973, the National Welfare Pension Act was promulgated but was delayed due to the 1973 oil crisis. It eventually came into effect under the name of the NPS in 1988, fourteen years later than was originally planned.

The National Pension Act (1986) established a scheme that covered all firms with more than 10 employees, the number of those covered as of December 1988 was about 4.4 million but the coverage rate remained below 30%. Considering the long period of postponement, it is understandable that the Government had adopted raising the NPS' coverage rate as the first priority of the public pension policy. In 1992, the compulsory coverage was extended to those firms with 5 or more employees. It was enlarged

further in 1995 to farmers, fishermen and the self-employed who resided in rural areas and finally in April 1999, to the self-employed in urban areas.

From the early 1990's experts in academia began to point out the structural weakness and financial instability of public pension schemes. In 1990, a research team at Korea Institute for Health and Social Affairs led by Dr. K.B. Chung published a book (in Korean) entitled 'Expansion of the National Pension Scheme and Its Actuarial Estimate'. They projected in the book that the NPS' reserves would be dissipated by 2038, if the original scheme had expanded to cover those firms with 5 to 9 employees. The team's second book of its kind, 'The Financial Stability of the NPS and Optimal Fund Management' was published in 1991. Their 1991 prediction was almost same with that of the previous year, i.e., the scheme would have run deficits in 2028 and the reserves would have been extinguished by 2039. Subsequently, they recommended a fundamental reform of the system. But the issue of financial instability had often been overshadowed by the magnitude of coverage expansion and the discussion had lingered mainly in the intellectual arena.

In 1995, President Y.S. Kim declared 'globalization of quality of life' as part of his globalization policy and ordered to form a combined governmental and non-governmental commission, called the Globalization Promotion Commission which was to enhance and oversee the whole process of globalization under the control of the Chief Presidential Secretary for Policy Planning. A task force was set up in the commission in order to take a thorough examination into social welfare policy in general.

In February 1996, the post of the Secretary for Policy Planning was abolished and the tasks related with welfare were transferred to the newly created Chief Presidential Secretary for Social Welfare (CPSSW). Soon afterwards, the Office of the CPSSW embarked on drafting a long-term plan for the development of public pensions. Their argument echoed the academia's findings that the financial vulnerability stems from its structural imbalance between low contributions and overly generous benefits. The initial benefit level was set at 70 percent (currently 60 % since 1999) of the lifetime

average income for persons with 40 years of contribution. This high level of benefit requires contribution rates of 22- 24 percent, which are far above the current level of 9 percent. In the end, they concluded that restructuring of the public pension system should precede the NPS' expansion to the urban self-employed, scheduled in 1998.

Nevertheless, three Ministries, who were in charge of the administration of the Special Occupational Pension Schemes (SOPS) for government employees, military personnel and private school teachers and employees respectively, were strongly opposed to the idea of restructuring and the fact that SOPS were not treated differently from the NPS. The CPSSW's plan for restructuring made little progress and the CPSSW eventually backed down and diminished the scope of pension reform, limiting to cover only the NPS and excluding the SOPS.

In a separate move from the CPSSW, the Ministry of Health and Welfare (MOHW) began in January 1997 to make administrative preparation for the expansion of the NPS to the urban self-employed, as the scheduled date approached. Acknowledging that the prevailing NPS had many shortcomings, the Ministry started to work on their own reform proposals. Initiated by the CPSSW and later followed by the MOHW, the preparation work had been merged into the Office of the Prime Minister, when a meeting of the Social Security Council was held at his invitation in May 1997. At the meeting, the National Pension Reform Board (NPRB) was born.

Fewer than ten years after the implementation of the NPS, the NPRB was convened to deal with many of those unresolved issues. Among them was there financial instability. The NPRB was thus assigned to recommend measures that would provide long term financial sustainability. The establishment of the NPRB was a direct result of that consideration. Since then, financial problem have firmly moved into the fore of pension policy agenda, finally replacing the objective of coverage extension.

In December 1997, the NPRB produced a detailed report that included financial projections of three reform alternatives. While certain measures were agreed, the three proposals that emerged differed substantially. The first proposal entailed scaling back the

existing benefit formula. The second proposal would have split the scheme into a basic pension and an earnings-related pension in addition to reducing the target benefit. Finally, a third proposal would have instituted a system of funded, individual, defined contribution accounts. Compared with the first proposal, the last two proposals were more restructuring and radical in their nature. Moreover, they would have opened the possibility to private management of the funds, although these plans were not fully elaborated.

The final recommendation of the majority was the second proposal. The most notable proposal was the reduction in the target replacement rate for average wageworkers with full contribution history from 70 to 40%. This figure was based on the desire to prevent an excessive increase in the required contribution rate. Simultaneously, control of the investment policy of the pension reserves was to be removed from the central government (and in particular, the Ministry of Finance). If the assumed improvement in returns took place, the revamped scheme would be financially sustainable through the year 2080.

The presidential election of December 17, 1997 provided the MOHW with a momentum to turn policy environment into its favour. In the election, D.J. Kim, who was the candidate of the major opposition party, was elected and his transition team had several meetings with the MOHW to consult pension reform. In those consultations, the MOHW strongly recommended not to accept the NPRB's second proposal (two-tier system). The transition team was eventually persuaded by the MOHW and came to the conclusion that the government should extend the compulsory coverage of the NPS to the urban self-employed during 1998 as originally planned without any kind of change in its structure.

Not surprisingly, the NPRB's recommendations were not accepted in their entirety. Instead, after public hearings, the MOHW submitted a revised reform proposal on May 8, 1998, which included some elements of the NPRB proposal but more closely resembled the minority view (a parametric reform). This proposal set the ultimate pension at 55 percent that was half way between the

40 percent proposed by the NPRB and the former 70 percent.

Most of the measures recommended by the MOHW were eventually submitted to the National Assembly where the National Pension Act was amended on December 31, 1998. The Assembly made several important changes, however. Two points are worth being stressed here: ①the target replacement rate for an average worker was raised from 55 to 60 percent and ②the gradual increase in the contribution rate was not legislated, although five-year actuarial reviews were mandated.

4. The Second Effort for the NPS Reform

(1) Policy Environment and Agenda

In the wake of the financial crisis in November 1997, the Y.S. Kim administration decided to apply for a loan of \$2 billion to the World Bank. The nation thus fell under the IMF's bailout programs. Accordingly, the World Bank became involved in various areas of policy-making including the pension system. In the context of two structural adjustment loans (SAL), the World Bank advised the Korean government to review not only the NPS, but the entire pension system. The Structural Adjustment Accord stipulates that the Korean government should launch a public pensions reform as part of fixing safety net along with restructuring of the labour market.(p.73) Even though the World Bank did not elaborate any details of the pension reform, it was hinted that the Bank had a strong preference for a multi-pillar pension system and an independent Investment Advisory Board for the management of public pensions funds.(1)

In December 1998, the Prime Minister, the chairman of the Social Security Council, established a new Pension Reform Task Force (PRTF). It was commissioned to draft a White Paper that would outline an integrated pension reform strategy and serve as the basis for new legislation. The major issues to be addressed included: appropriate level of pension benefit and required but affordable contribution rates, an efficient and viable division of role between public and private pensions for old-age income security, a reform strategy for the existing retirement allowance scheme, integration of the occupational schemes with the NPS, and a reform strategy for the SOPS. From the experts' perspective, the issues were so

comprehensive and complicated that a radical restructuring seemed inevitable. A serious consideration was thus given once again to the two-layered system which had been proposed by the NPRB in 1997, and failed to be implemented by the authorities.

In the end of 2000, PRTF issued a White Paper which addressed issues relating to the public pensions and their long-term financing in some depth but without any detailed, practical reform measures. Four macro-level reform models for the public-private pension scheme were suggested. In regards to the reform of the NPS, the major components of the four models can be described as follows (Phang, 2003: 21-4):

a. Reform Model A: Partial Parametric Reform

The basic idea of the option A is to keep the original framework of the current system and instead to undertake parametric reforms to improve the public pension's financial status. Under this option, the level of pension benefits will be adjusted downward and the contribution rate upward.

Reform Measures for the NPS

- The income distribution functions will be maintained
- The pensionable age will be automatically adjusted to life expectancy increases
- Contribution credit will be granted to the unemployed, the poor, students and soldiers to facilitate their pension rights
- The upward adjustment of contribution rate on the gradual basis to 15.24%(then final deficit will not occur until 2080 and the size of reserve fund will be 6.4 times of the expected expenditures)

b. Reform Model B: the NPS as a basic pension and the CP/new SOP as the second pillar

The basic ideas of the reform proposal B is to reform and integrate part of the SOP into the reduced NPS as a base pension for all pension groups. The remaining part of the SOP will be reformed into a new SOP similar to the corporate pension which is proposed to take place of the Retirement Allowance System (RAS).

Reform Measures for the NPS

- The current replacement rate of 60% will be adjusted downward to 45% for single and 50% for couple by gradually reducing the rate between 2006 and 2030
- The total replaced rate by the NPS and the to-be mandatory corporate pension combined will be about 70%
- The contribution credit will be granted to those unemployed, low income earners, and those in military service, men on maternal leave for child birth and care
- The contribution rate should be gradually raised from 9% to 15.24% between 2010 and 2030 to secure a long-term financial stability

c. Reform Model C: Conversion to a Two-Tiered NPS

The basic idea of the reform option C is to split the NPS into two tiers: a basic pension and earnings-related pension, which will be financed separately. The first tier basic pension shall be universal, minimum pension covering literally all population groups, thereby achieving 'one pension for one person'. The second tier earnings-related pension shall be a fully-funded, DB scheme and the pension benefit will be 100% contribution-based. The SOP scheme should also be reformed so that the participants of the SOP scheme could join the first tier basic pension and that new SOP scheme could be set up as a reduced earnings-related DB scheme. Corporate pension will be introduced but remain as a voluntary system for a while, which means that conversion of the RAS into corporate pension should be left to the discretion of the company concerned.

Reform of the NPS

- The basic NPS will be operated as a tax-based PAYG scheme with the target replacement rate set at 20% of the average income of all participants
- The earnings-related NPS will be operated as a fully funded DB scheme with the target replacement rate set at 20% of the participant's average lifetime income
- The contribution rate for the basic pension should be around 1.9% in 2002, 2.7% in 2020, 8.4% in 2040 and 10.5% in 2080

· The contribution rate for the earnings-related pension will be around 6%

d. Reform Model D: Consolidating the Above Three Options into One

Although Model D intends to devise a unified model from the previous three options, its basic structure resembles Model B. So, more details about Model D are not presented here.

Requested by the PRTF to officially receive the White Paper, the Office of the Prime Minister, which had made the original order to draft it, showed no clear response with obliquity. While the White paper was under embargo, waiting for further procedures, the Korean government announced that the final redemption (\$140 million out of total \$19.5 billion) of the SAL was made on August 23, 2001. The completion of repayment meant that the nation finally graduated from the IMF-arranged bailout programs and retrieved its economic sovereignty. On the other hand, the World Bank's influence on the Korean government had rapidly dwindled. Subsequently, no more legislative steps were taken by the government, in the end, the fate of the White Paper fell to oblivion.

5. The Third Effort for the NPS Reform

(1) Policy Environment and Agenda

Article 4 of the NPS Act, 1998 stipulates that the Minister of Health and Welfare should conduct an actuarial estimation on incomings and outgoings of the NPS every 5 years, make an administrative master plan including outlook of its financial situation and adjustment of contribution rates and the plan should follow a series of official procedure such as approval by the President and submission to the National Assembly. The year 2003 is the first year of that kind. As the year 2003, which had been designated as the first year of actuarial estimation, drew near, the D.J. Kim administration began to prepare for it.

In March 2002, the Minister of Health and Welfare set up the National Pension Scheme Development Committee (NPSDC) in order to draft a research report on actuarial estimation and related policy proposals. By the time it was widely recognized that the prevailing NPS had three basic problems: financial instability

stemming from the structural imbalance between contributions and benefits; lack of coverage for the majority of the poor people; and difficulty of assessing the incomes of the self-employed. The coming actuarial estimate was thus anticipated to arrest these problems. After a year of hard work, the NPSDC unveiled their research results and findings in the form of interim report in June 2003. In its report, the NPSDC made it clear that all their policy proposals are devised based on the current framework of the NPS and any consideration of structural change such as a multi-pillar system, linkage system between different public pensions and so on, would be left to a further in-depth study until the next 5-year projection (2008).

According to their long-term projection, if the current NPS format is kept unchanged, it is expected to run deficit from 2036 and be depleted by 2047. Otherwise, the NPS contribution rate should be ultimately raised up to 30.0% by 2050 and 39.1% by 2070 respectively. (pp.14-5) In order to maintain financial stability, therefore, the NPSDC set three basic assumptions; ①the NPS reserve fund should be kept at least two times as much as needed to pay all expenditures in the year of 2070; ②the benefit level of the average wage earners with average year of contribution (21.7 year) should be higher than the minimum living standard; ③the tolerable contribution rate could be gradually increased into at maximum 18% from the current 9 %. As a result, most of the NPSDC's work had been concentrated into devising a balanced contribution-benefit formula which can assure the NPS' financial stability.

For their policy recommendation, the NPSDC made a variety of suggestions including reform of funds management and benefit improvements for reduced old-age pension, partitioned pension for women, early-retirement pension, disabled and survivors' pension and so on. However, most controversial was the policy options on the replacement rate and contribution rate. Three options provided by the NPSDC were as follows: The final policy options proposed by the NPSDC were three as follows:

- a. Reform Option A: the replacement rate of 60% with the contribution rate of 19.85%

The contribution rate would go up 2.17% every five year from 2010 until 2030 and remained 19.85% thereafter until 2070. While the targeted contribution rate is to some extent higher than assumed (18%), the benefit level would be maintained as same with the current one (9%).

- b. Reform Option B: the replacement rate of 50% with the contribution rate of 15.85%

The contribution rate would go up 1.37% every five year from 2010 until 2030 and remained 15.85% thereafter until 2070. While the targeted contribution rate is within the assumed range, the benefit level would be substantially lowered from the current 60% to 50 from 2004.

- c. Reform Option C: the replacement rate of 40% with the contribution rate of 11.85%

The contribution rate would go up 0.57% every five year from 2010 until 2030 and remained 11.85% thereafter until 2070. While the targeted contribution rate falls far short of that assumed, the benefit level would be abruptly dropped from the current 60% to 40 from 2004.

After having examined the NPSDC's proposals, the MOHW announced a new proposal which resembled but slightly revised the Reform Option B. The replacement rate would thus be downward from the current 60% eventually to 50% in 2008, but transitionally 55% would be applied in the period between 2004 and 2007. For next step towards legislation, the MOHW held a public hearing on its reform measures in August 2003. At the moment, the government has submitted an Amendment Bill to the National Assembly after the decision of the Cabinet Councils in a bid to let the Bill passed before the end of its regular session (November 30th).

Pension Reform in Canada in the 1990s: What Was Accomplished, What Lies Ahead?

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I will divide my remarks into four distinct parts:

- First, I will give you a brief outline of the main sources of retirement income in Canada.
- Second, I will talk about the income situation of older Canadians and how it has evolved over the years.
- Third, I will describe the attempts that were made to reform the Canadian retirement income system in the 1990s.
- Finally, I will offer some thoughts on what might lie ahead and some general considerations in dealing with ageing issues.

In outlining the main components of Canada's retirement income system, I will begin with an account of three publicly administered programs: the Old Age Security program, the Guaranteed Income Supplement, and the Canada Pension Plans.

The Old Age Security (OAS) program provides a uniform flat rate benefit to all Canadians over 65 who meet residency requirements. Presently, the benefit is just over \$460 Canadian per month, or just in excess of \$5,500 Canadian per year. To put these amounts in context, the annual benefit is roughly equal to 14 per cent of average wages and salaries. OAS benefits are taxable. Benefits are adjusted quarterly to reflect changes in consumer prices.

Since 1989, older Canadians with incomes above a threshold amount have been required to pay a surtax of 15 per cent on incomes above the threshold, up to the amount of a full OAS benefit. The income threshold above which the surtax is paid was about \$57,000 for tax year 2002. At an income of just over \$90,000, the full amount of the OAS benefit is effectively taxed away.

Despite its history as a universal program for older Canadians, it has clearly taken on an income-tested character. Again, to create

context, the income threshold at which OAS benefits begin to be taxed back to is just over 1.25 times average wages and salaries.

The OAS program has operated since 1952 and required a constitutional amendment to allow the national or federal government to create and administer the program. The program is paid for out of general revenues of the Government of Canada and expenditures show up on the expenditure side of the federal government's budget.

The second of the publicly administered programs of note is the Guaranteed Income Supplement (GIS). In law, the GIS is a component of OAS program.

The GIS is an income-tested benefit. A maximum benefit is created for the single elderly and for elderly couples. The maximum benefit for couples is less than twice that for the single elderly. Maximum benefits are paid to the elderly with no income except OAS. Then benefits are reduced by 50 cents per dollar of income from sources other than OAS. Presently, the maximum benefit for the single elderly is just under \$550 per month. The maximum benefits are adjusted quarterly to reflect changes in consumer prices. GIS benefits are not taxable.

The GIS was created in 1966 as a small program to compensate the elderly of that time for the fact that they would not get to participate in the Canada and Quebec Pension Plan that were being created at that time. Like the OAS, the GIS is administered by the Government of Canada. It is paid for out of the general revenues of the government of Canada, and GIS expenditures show up in the federal government's budget.

In combination, OAS and GIS provide a minimum income floor for older Canadians. For the single elderly, the floor currently amounts to about \$12,100 per year. This is more than \$6,500 below the low income line for a single person in a large urban center as established by Canada's national statistical agency, Statistics Canada. For an elderly couple, the minimum income guarantee is about \$19,400, which is more than \$4,000 below the low income line for a large city. As is commonly the case elsewhere, too, the single elderly in Canada are overwhelmingly women.

The Canada Pension Plan (CPP) is the third of the three major publicly administered programs. It is a compulsory earnings-related program that provides benefits to the employed and the self-employed. In addition to retirement benefits that are provided by the CPP, the plan also provides survivor and disability benefits, a death benefit and benefits to the children of disabled and deceased contributors.

The retirement benefit is the core benefit of the program currently accounting for more than two-thirds of CPP expenditures. It provides 25 per cent of pre-retirement earnings. But, it only does so on earnings up to the rough equivalent of average wages and salaries. The amount of new benefits tracks the movement in average wages, while benefits in pay are indexed annually to changes in consumer prices.

The normal age of entitlement to CPP benefits is ages 65. Actuarially reduced benefits are available at age 60 and actuarially increased benefits can begin as late as age 70.

The CPP is the one program that is designed specifically to contribute to earnings replacement objectives. But, the flat rate OAS contributes to this objective as well. In combination, the OAS and CPP replace approximately 40 per cent of average wages.

The replacement rate provided by these two programs is higher at lower levels of earnings because of the flat rate nature of OAS. Thus, at half the average wage, OAS and CPP replace just over half of pre-retirement earnings.

At earnings above the average, both OAS and CPP are fixed amounts and replace declining portions of earnings. Thus, at twice average wages and salaries, OAS and CPP replace about 20 per cent of pre-retirement earnings.

The CPP has always been financed on a modified pay-as-you-go basis. Thus contributions by employers, employees and the self-employed have always been the primary source of CPP revenue. Contributions are made on earnings up to a yearly maximum which approximates average wages and salaries. A level of exempt earnings adds a small element of progressivity to the scale of contributions. I will say more about recent changes in financing

arrangements later.

Presently, the employer and employee contributions are each 4.95 per cent of contributory earnings. The self-employed contribute the combined amount of employer and employee contributions.

CPP benefits are taxable income and the contributions to the Plan are tax deductible under the personal income tax. But, the revenues and expenditures under the program are not part of the federal governments budgetary revenues and expenditures.

The creation of the CPP required a number of compromises between the federal and provincial levels of government.

The constitutional amendment that allowed the federal government to establish the OAS was worded in a manner that allowed provincial governments to establish retirement income programs that would supercede federal programs in the event that federal and provincial programs were in conflict. The Government of Quebec used this constitutional reality to declare its intent to establish its won version of the CPP when the federal government announced its intention to create the CPP. Thus we have both a Canada and a Quebec Pension Plan (C/QPP) in Canada with virtually identical benefits, identical contribution rates and full portability between the two plans.

The creation of the Quebec Pension Plan (QPP) had important influences on the CPP.

The QPP was designed to include survivor and disability benefits. These benefits were not part of the original Canada plan, but were adopted by it. In addition, the Quebec plan was to include a reserve fund of a significant size that was to be invested to promote economic and social development in Quebec. Thus, the CPP began with a contribution rate that was well above the pay-go-level.

Bearing in mind that the Government of Quebec had access to the reserve fund under the QPP, other provinces asked for and got the right to borrow the reserve fund under the CPP. Borrowing rights under the CPP were allocated among the provinces in proportion to contributions, and provinces got to borrow from the CPP fund at the going yield on Government of Canada bonds of twenty years or more to maturity.

The governance structure of the CPP bore the very heavy imprint of federal provincial compromise. The ongoing administration of the Plan was the responsibility of the federal government. But, decisions affecting benefits and contributions required the agreement of the Government of Canada, the two-thirds of the provinces with two-thirds of the population.

Two things about this amending formula are important to note: first, Quebec is a province for purposes of the 2/3, 2/3 formula; and, because of its large population, the province of Ontario has veto over amendments to the CPP.

In addition to the three programs I have described, there are some smaller income transfer programs at both the federal and provincial levels, and a number of age-related tax measures as well. These programs and measures are important to establish a comprehensive picture of public programs for the elderly. But, their relative impact on the economic and social situation of the elderly allows them to be ignored for purposes of this discussion.

There is a good deal of room for debate about the appropriate benchmark against which to compare Canada's publicly administered pension arrangements. Compared to the arrangements that prevail in continental Europe, several points of distinction stand out:

- 1) the overall size of Canada's public pension programs is relatively small; presently public program expenditures on the elderly are about half of the OECD average;
- 2) Canadian arrangements include a rather strong minimum income guarantee, but a rather weak provision for earnings replacement; in fact, because of the offsetting influences of the GIS and the C/QPP, the distribution of benefits among the elderly is close to a flat amount;
- 3) Despite the federal-provincial complexity of the CPP decision-making structure, both the administration and decision-making with respect to public pensions is very government-centred; there is no provision for participation of the social partners; indeed, the CPP Advisory Board, which had existed since 1996, was eliminated in 1998; and, finally,

- 4) There is a mix of general revenue financing and payroll contribution financing in the Canadian system; payroll contributions to the Canada and Quebec pension plans were approximately \$30 billion in 2001-2002, compared to general revenue expenditures of about \$25 billion on the OAS and GIS.

With respect to the relatively small size of Canadian public pensions, it should be noted that this is intentional. In the mid-1960s, when the basic structure of existing arrangements was put in place, the government was quite emphatic that it wanted to leave room for privately administered retirement income arrangements. Again, in the mid-1980s, when a decade-long pension debate was brought to conclusion, the government of the day emphasized its desire to leave room for privately administered arrangements.

The privately administered arrangements are of two basic varieties; workplace pensions that provide pensions to employees of particular workplaces, and individual retirement saving accounts.

For employers in the private sector, there is no legal obligation to establish a workplace pension. Plans are brought into being in order to recruit and retain employees, and under the negotiating pressure of trade unions. Plans are usually established for particular groups of employees at the level of the firm or establishment. Workplace pensions for government employees are often established by statute.

Just under half of all workplace pension plans with approximately 85 per cent of all members are of the defined benefit variety. A large number of small plans are of the defined contribution type. The defined contribution plans are prevalent in small workplaces.

The benefit levels provided by workplace pensions vary greatly. In combination with public pension benefits, many provide for very comfortable retirements, and others do not. It is striking that since the Canada and Quebec Pension Plans were created, workplace pensions have shifted some of their emphasis to the provision of benefits prior to age 65.

Workplace pensions have suffered from a number of weaknesses as a means of delivering retirement income.

The most obvious problem has been the limited participation of

employed persons in workplace pensions. In 1998, 40 per cent of employed Canadians belonged to workplace pensions. This is actually down from 45 per cent in 1992. It is noteworthy, too, that traditionally employed women have been less likely than employed men to participate in workplace pensions. Thus, in 1992, only 42 per cent of employed women compared to 48 per cent of employed men belonged to workplace pensions. By 1998, this gender difference had narrowed; 39 per cent of employed women and 41 per cent of employed men belonged to workplace pension plans.

The likelihood of someone participating in a workplace pension varies with a number of social and economic characteristics. Generally speaking, the odds of participation increase with income, level of educational attainment and size of employer. However, the characteristic that is most decisive is union membership. Overall, 80 percent of union member belong to workplace pensions compared to 27 per cent of non-union members. Even in workplaces of 20 employees or less, 70 per cent of union members belong to workplace pensions compared to 13 per cent of non-union members.

In addition to the problem of limited coverage, defined benefit pension plans have tended to shortchange plan members who leave their employer before reaching retirement age. Moreover, it is only a minority of plan members who have access to even partial adjustment for inflation. Finally, it goes without saying that defined contribution plans expose plan members to high degrees of unpredictability with respect to the basic amount of their pension benefit.

Generally, workplace pensions are administered unilaterally by employers subject to the constraints imposed by labour market conditions, collective bargaining and regulatory law.

The regulatory law is quite extensive and exists in all but one Canadian jurisdiction. It covers such matters as: minimum benefit protections including vesting rules, survivor benefits and eligibility requirements; plan member rights to information about the plans; investment rules; and, financing rules.

All workplace pensions are required to follow rules of full advance funding. Tus each year's contributions have to equal the value of

new benefits accruing that year, and assets in a pension fund that is arm's length from the employer must have assets of equal value to the value of pension plan promises. If assets fall short of liabilities, special payments have to be made to eliminate the shortfall. Given the recent performance of financial markets, these rules are under close scrutiny.

The operation of workplace pension plans is supported by an extensive network of professional service providers: most notably, pension fund managers and actuaries. This group is large and cohesive enough that it identifies itself as the "pension industry." It has interests that are distinctly its own, and it plays an influential role in pension policy deliberations.

Without second guessing the general pattern I have described with respect to workplace pension, I do want to note two important departures from the general pattern with respect to who takes responsibility for the operation of workplace pensions.

First, the law in the province of Quebec requires that workplace pensions be administered by a committee, and the committee must include one voting and one non-voting member representing the active plan members. It must also include a voting member representing the pensioners.

Second there are a number of workplace pension plans in Canada that are administered by boards on which trade unions share decision-making power with employer representatives, or in a minority of cases, they administer the plans on their own. Until the recent past, almost all cases of direct union involvement in the administration of workplace pension were in the private sector. Recently, a number of examples have been created in the public or near public sector. Generally, unions have taken the initiative to create these plans in sectors of the economy where there are large numbers of small employers and it is not practical to create defined benefit pensions at each individual place of employment.

In addition to the basic regulatory law, workplace pensions have to conform to basic criteria in order to qualify for tax support. Tax support takes the form of the tax deductibility of contributions and the non-taxation of the income of pension funds. Benefits paid are taxable income. Defined contribution plans face contribution limits

and defined benefit plans face limits on the amounts of benefits payable and the age at which they can be paid.

Tax support is also offered to individual retirement savings schemes known as Registered Retirement Savings Plans (RRSPs).

For the self-employed and for employees who do not belong to workplace pension, RRSPs may be the only means of adding to the modest benefits of Canada's public pensions. For employees who belong to workplace pensions plans, tax supported contributions can be made to RRSPs that are inversely related to the generosity of the workplace pension plan.

In recent years, a number of employers have begun to make contributions to employees' RRSPs as an alternative to a formal pension arrangement. By doing so, they avoid various regulatory requirements.

Two things are noteworthy about the use of RRSPs in Canada.

- First, their use is strongly and positively related to income levels. Looking at data for 1997, we can see that three out of four tax filers with incomes above \$60,000 made RRSP contributions, compared to only 40 per cent with incomes between \$0,000 and \$ 30,000. At lower levels of income, even smaller percentages contributed to RRSPs.
- Secondly, very few people use all of the room that is available to them to make tax assisted RRSP contributions.

Having spent some time describing the main components of Canada's retirement income system, I want to turn attention to the income situation of the Canada's elderly. In doing so, I will rely primarily on data in a paper that I prepared with a colleague several years ago, titled "Incomes of Older Canadians: Amounts and Sources, 1973 to 1996."

The latter part of the twentieth century was a period of rapid income improvement for older Canadians. The real incomes of elderly households increased by 50 per cent over the period from 1973 to 1996. Among the elderly, incomes at the low end of the spectrum increased more rapidly than higher incomes. Real average incomes in the first decile increased by more than 70 per cent.

Poverty rates among the elderly also fell substantially, from 20 per cent to 8 per cent for elderly couples over the period from 1973 to 1996 and from 67 to 48 per cent for unattached individuals over the same period. Again, the single elderly are overwhelmingly women.

Not only did the incomes of the elderly increase in purchasing power, but the incomes of the elderly relative to younger age groups increased as well. Thus, from 1973 to 1996, the average income of elderly households increased from 47 per cent to 61 per cent. After adjusting for differences in household size, the average income of elderly households reached 80 per cent of non-elderly households in 1996.

Over the period from the mid-1970s to the mid-1990s, two sources of income of the elderly grew particularly rapidly – namely income from the Canada and Quebec Pension Plans and income from workplace pensions. Thus the C/QPP share of total income grew from 2.8 per cent in 1973 to 17.8 per cent in 1996. Workplace pension income increased from 10.4 per cent to 22.3 per cent over the period. The rapid growth in C/QPP income and workplace pension reflect the maturing of these systems over the period involved.

At the same time, it is striking that the income of OAS/GIS, investment income and earnings from employment declined as a share of the total. Employment income declined from 34.3 per cent of total income of elderly households to 16.5 per cent.

Clearly, but not surprisingly, income from different sources varies in both the portion of the elderly population that receives it, and its importance among different income groups.

In 1996, 98.9 per cent of elderly households received income from OAS/GIS and 86.5 per cent received income from the C/QPP, up from only 28.4 per cent only 23 years earlier.

In 1996, 53.2 per cent of elderly households received workplace pension income, 57.9 per cent received some investment income, and only 20.3 per cent received some employment income.

The patterns of receiving income from different sources and the portion of total income received from different sources varied dramatically by income group. In the lower deciles of the

distribution, income from the publicly administered programs is of decisive importance. Thus, in all of the first six deciles, income from OAS and C/QPP accounts for more than half of all income received. One has to get up to the tenth decile before income from these sources accounts to less than 30 per cent of all income.

Income from workplace pensions is particularly important in deciles six through nine. It is a source of income that is largely missing from the lowest deciles of the distribution. At the very top of the distribution, it tends to lose relative importance to income from employment. Of the sources of retirement income that are potentially available to middle income Canadians, workplace pension income is the one source that seems capable of lifting people from adequacy to comfort in old age.

Before concluding these purely descriptive comments on the incomes of older Canadians, I should note two things about the incomes of older men and older women. The first thing to note is that there is a substantial and persistent income gap between men and women, with the average income of individual women being 62 per cent of men's.

Second, there were striking differences in terms of sources as well. OAS/GIS and investment income were more important for women and C/QPP and workplace pensions for men. While one might have expected these differences to show up in the average data, they also exist if we compare men and women in the same deciles of their distribution and at the same dollar level of income.

Among commentators who have looked at the income situation of the elderly in Canada, there have been quite different interpretations. One prominent actuary and sometimes spokesperson for the private pension industry has argued that the elderly have more income than they need. The OECD has commented quite favourably on the income situation of older Canadians while allowing that for some subgroups in the population, like single elderly women, there may be problems of income inadequacy.

While there is much to be said about the debate on the adequacy of incomes of older Canadians, three things that point in a less optimistic direction are worth noting:

- 1) although it is true that the percentage of the elderly with incomes below the low income lines has dropped, incomes are still very strongly clustered just above the low income line;
- 2) in 1996, the average income of the over-65 households had reached 80 per cent of that of younger households after adjusting for differences in household size, but if one restricted the comparison to older households with no earnings from employment, those older households only had 65 per cent of the income of younger households even after adjusting for family size (among other things, this points to the danger in using the over-65 population as a proxy for the retired population);
- 3) the strong growth in the absolute and relative incomes of older households reflected not only the maturing of the pension system, it reflected its interaction with a particular set of economic circumstances: low inflation, very high rates of return on financial assets and low wage growth.

At the risk of stating the obvious, some of the advance in retirees' incomes over the latter part of the twentieth century is at risk with the reversal of those economic circumstances. This is especially so of the income based on individual or collective savings.

The substantial improvement in the incomes of the elderly mean that the central preoccupation of the pension reform debate in the 1990s would be very different than the debate that raged for ten years starting in the mid-1970s. The earlier debate was premised on the need to increase incomes of older Canadians. The debate in the 1990s was virtually silent on the adequacy of incomes of older Canadians. Implicitly it was dealt with as a problem that had been solved.

The debate in the 1990s took place against the backdrop of the World Bank's report "Averting the Old Age Crisis" which had been highly critical of earnings-related pay-as-you-go plans like the CPP. It had championed the cause of mandatory individual retirement saving accounts as had been introduced in Chile.

Scrapping the CPP in favour of individual accounts soon had a

political following in Canada. One of the most influential newspapers in the country denounced the CPP and proposed individual accounts in series of articles. Business-backed research institutes jumped on the bandwagon and so did the political party which has become the main opposition party in Parliament following a name and leadership change.

All of these criticisms of the CPP took as a point of departure the idea that the CPP would not be financially sustainable in an ageing society. The idea that the CPP was in trouble took deep root, even if the proposal to solve the problem with individual accounts did not.

The World Bank report added fuel to the fire of controversy about the CPP that was triggered by the publication of the Fifteenth Actuarial Report on the CPP in December 1993. The report concluded that the CPP would require widely cited as evidence of the CPP having uncontrolled expenditures and being in deep trouble. The fact that the report was successfully linked to the prospective problems of the CPP in an ageing society is interesting given that the reason for the higher estimate of future CPP expenditures in the report had nothing to do with population ageing.

The actuarial report included a revised and higher estimate of future rates of disability and that is what caused the estimated rate of future contributions to be higher. This situation is even more ironic in that by the time the report became public, administrative measures had already been taken that would curb CPP disability expenditures.

In thinking about the context in which pension changes were considered, it is also relevant to note the fiscal situation of the federal government.

The federal government ran budgetary deficits in every year from 1969-70 to 1997-98. The debt of the federal government increased dramatically in the early 1990s/ Relatively high interest rates were adding to debt service charges which rose from about 2.0 per cent of GDP in the late 1960s to 5.6 per cent of GDP in the mid-1990s. This increase in debt service charges exceeded the expenditures on OAS/GIS.

A new Liberal government was elected in November 1993 and

made it a very high priority to gain control of the deficit and debt. In the Budget speech of February 1995, the Minister of Finance announced the government's commitment to preserving Canada's public pension programs and announced that action would be taken to make them sustainable over the long run in the face of population ageing.

A document tabled with the Budget that year summarized the situation as follows:

- Canada's population is ageing ... the percentage of the population over age 65 will nearly double over the next 40 years.
- Expenditures on Old Age Security ... and the Canada and Quebec Pension Plans, which have been rising steadily, will continue to increase significantly as a share of the economy over the next 40 years – from 5.3 per cent in 1993 to more than 8 per cent in 2030.
- Canadians have expressed concerns that the rising costs of our public pension system are placing their pensions at risk.
- This Budget begins action to put Canada's retirement income system on a fairer and sustainable basis.

In this quotation, it is striking that OAS and CPP expenditures were projected to increase as a share of GDP by 50 per cent over a period of time when the over-65 population would double a share of the population. This implies a decline in OAS and CPP benefits compared to average incomes, and this decline can be explained by the decline in the relative value of price-indexed benefits in the face of real income growth. The point is worth stopping on because it highlights the complete obliviousness of the debate to issues of income adequacy.

The February 1995 Budget also promised that the government would make public a document on population ageing and what to do about it. This document was never forthcoming and has been the subject of endless speculation in some quarters as to why that was the case.

Following the February 1995 Budget, separate reform proposals

and processes were launched for each of the CPP and the OAS/GIS programs. Each will be described separately.

Given the structure of CPP decision-making, the CPP process was a federal/provincial process in which Ontario had a veto. Ontario made it clear early on in the process that it would not agree to a CPP contribution rate in excess of 10 per cent, and it was joined in this view by the province of Alberta, which also showed support for replacing the CPP with individual accounts.

To put the 10 per cent figure in context, the Chief Actuary estimated that the pure pay-go contribution rate to the CPP would reach 14.2 per cent by 2030. The 14.2 per cent contribution rate in 2030 came to symbolize, for many, the need to reform the CPP. In fact, though, with the reserve fund that was legislated at that time, the contribution rate would likely have reached 13.9 per cent in 2030. Given the level of exempt earnings under the Plan, maximum contributions would have been about 12.5 per cent of earnings.

In February 1996, the two levels of government jointly issued an "Information Paper for Consultations on the Canada Pension Plan." The Information Paper cast the problems facing the CPP in the following way:

- The basic challenge facing Canadians today is one of fairness and equity. If no changes are made to the CPP and the way it is financed, our children and grandchildren will be asked to pay two to three times more than we are paying for the same pensions from the CPP.
- Will they be able to do so? Will they be willing to do so?
- To ensure the sustainability of the CPP, steps must be taken to be as fair to future generations as possible ...
- The Government of Canada and the Governments of the provinces ... believe that all reasonable steps should be taken now to ensure that future generations are not faced with unreasonable burdens ...
- If the problems of the CPP faced squarely now, fairness can be resorted, and the CPP can be sustained not only for today's seniors, but for tomorrow's as well.

The Information Paper then went on to describe reforms to the CPP of three general types in order to address the problems of the CPP.

First, it proposed to build up the size of the reserve fund under the CPP from roughly two to five or six years' annual expenditures. This would be achieved by increasing contribution rates in the near future at a more rapid rate than had been planned. In a related vein, this larger reserve fund would be invested in the public securities markets. The larger reserve fund and the higher returns it would generate would allow the CPP contribution rate to be stabilized at 9.9 per cent if the other broad measures it called for were adopted.

A second area of proposed change was to freeze the dollar amount of the level of exempt earnings under the plan. In the near term, this would have little effect. But, this somewhat obscure measure would clearly broaden the contributory earnings base with the passage of time. The Chief Actuary estimated that this would reduce the stable contribution rate by 1.4 percentage points.

Third and finally, the Information Paper included a menu of benefit cuts. Each possible cut carried with it an estimate of the extent to which it would lower CPP expenditures by 2030, and the extent to which it would reduce the required contribution rate. Readers of the Information Paper were invited to identify the cuts they thought most appropriate. The Information Paper was clear that in total, 10 to 15 per cent of the estimate of expenditures in 2030 had to be cut.

A very substantial public consultation was constructed around the Information Paper. The Paper and the related process was roundly criticized by pension experts of the left side of the political spectrum. At the same time, the Information Paper basically meant that individual accounts were not an option for CPP reform. Moreover, there seemed to be a broadly based willingness to play by the rules of the Information Paper.

The proposals with respect to the larger reserve fund and the broadening of the contributory earnings base remained largely intact through the consultation and implementation process. The chief concern with regard to these proposals was to keep the management of the larger reserve fund at arm's length from government. But, the manner in which the cuts to benefit proposals evolved was somewhat unpredictable.

One of the possible changes to the CPP benefits that was included in the Information Paper was a proposal to raise the age of eligibility for CPP benefits to age 67. The Information Paper had barely been released when the Minister of Finance was challenged about his plan to raise the age of eligibility for CPP benefits. The Minister effectively killed that possibility on the spot.

Then, in the summer of 1996, the Government of Quebec issued a consultation paper that purported to be about changes to the Quebec Pension Plan. But, in its paper, the Government of Quebec ruled out all of the changes to retirement benefits that had appeared in the Information Paper on the CPP. This was important because Quebec's cooperation was essential if the federal government was to line up two-thirds of the provinces with two-thirds of the population in support of its proposals. The federal government faced the risk that Quebec would joint forces with British Columbia and Saskatchewan that had social democratic governments and opposed benefit cuts.

There was also a problem of arithmetic. Retirement benefits were projected to account for more than 70 per cent of the benefit payments in 2030. If they were out of bounds for benefit cuts, steeper cuts would have to be made elsewhere. Not surprisingly, then, the benefit cuts that were agreed to fell overwhelmingly on disability and survivor benefits. One relatively small change was made to retirement benefits and it was rather trivial in its effect.

Although the package of changes had several key dimensions to it, the enlargement of the size of the fund and the move to invest in public securities markets through an arms' length CPP Investment Board attracted virtually all of the public attention.

At the time the changes were adopted, there was still some criticism coming from the left and the right. The left focused on what it saw as unnecessary benefit cuts and it questioned what was really accomplished by the financing changes. Some on the right complained of the contribution rate increases that were required to build up the fund.

That having been said, there was a surprisingly widespread willingness to describe the CPP changes as having saved the CPP. Even members of the pension industry who had been major

detractors of the program joined the chorus. It has to be conceded, too, that nothing has been heard in the recent past about the desirability of replacing the CPP with individual accounts.

The possibility for reform of the OAS/GIS took quite a different track. After a rather lengthy period of debate and discussion within the federal government's bureaucracy, the federal government unveiled a proposal to replace the OAS/GIS program with a Seniors' Benefit. The proposed Seniors' Benefit would have the characteristics of the OAS and the GIS and the clawback of OAS benefits built into a single program.

A maximum benefit would be established and would be paid to people with no income but the Seniors' Benefit. Moreover, this maximum was to be paid to be \$120 per year higher than the existing maximum under OAS/GIS. The Seniors' Benefit would be reduced by 50 cents on the dollar as is the current GIS. There would be an income range on which there would be no further tax-back of the benefit, just as there is a range of income at which people presently are eligible for OAS but not GIS. Finally, the Seniors' Benefit would have had a twenty per cent tax-back rate beyond a certain income level, just as there is presently a 15 per cent tax-back on incomes above a certain level.

Aside from the somewhat higher tax-back rate at the top end, the Senior's Benefit is also distinct in that: it would be subject to a family-based income test; the income range over which there would be no tax-back would be much smaller than at present; and, the benefit would be non-taxable. The Seniors' Benefit was designed to reduce net program expenditures by 10.7 per cent in 2030.

In defence of the Seniors' Benefit, it was more progressive than existing arrangements, and it would eliminate certain horizontal equity problems among couples with the same total income that was divided differently between individuals within the couple.

But, the Seniors' Benefit also has severe critics who said, in effect, there are issues that are more important than those it addressed. Initially, criticism came primarily from the left and focused on the needless benefit cuts, the fact that the elimination of OAS made it more difficult to plan workplace pension arrangements, and the fact that OAS provided older married women with a pension in their

own right – even if they never entered the labour force.

This line of criticism struck a responsive chord among some Members of Parliament in the governing party. But, the tide began to move strongly against the Senior's Benefit when conservative critics in the pension industry joined in the criticism of the Seniors' Benefit. Their basic concern was that the 20 per cent tax-back rate under the Seniors' Benefit, when layered on top of positive rates of personal income tax, would undermine the incentive to save for retirement.

In July 1998, the Minister of Finance quietly announced that the government was dropping plans to introduce the Seniors' Benefit. The Minister's press release was summarize as follows by one of the proponents of the Seniors' Benefit. "The Finance Minister ... cited Canada's improving fiscal and economic health as a reason for not proceeding with reform; the federal deficit was under control, the debt-to-GDP ratio was on the way down, productivity and investment were improving, and prospects for long-term economic growth were deemed to be "very positive."

Despite the vigour of debate on pension reform through the mid-1990s, Canadians reached a temporary political equilibrium at a place that was not much different from our starting point.

Over the period since 1998, there has been little impetus for change. One might say that the usual suspects, including the trade union movement and the pension industry, are doing their usual thing but in a somewhat perfunctory fashion. But, we are not in an equilibrium that is beyond disturbance. I thought that a useful way to conclude my remarks might be to talk about potential sources of disturbance to the equilibrium.

In the near future, I see one domestic source of disturbance and that is the financial difficulties faced by workplace pensions. As I noted earlier, they are required to be on track to be fully funded. In recent years, they have taken quite a financial beating. The asset side of their balance sheets has suffered as a result of poor stock market performance. At the same time, the liability side has been adversely affected by declining interest rates.

Presently, there are a number of groups at work reviewing the

financing arrangements for these plans. If no solution is found to the excessive sensitivity of current arrangements to short-term changes in financial markets, I suspect we will see more plan windups and/or conversions of defined benefit plans to defined contribution plans.

This is one of a few possible reasons why income adequacy may retake center stage in pension reform debates.

Earlier on, I noted three economic circumstances that are important in explaining the growth in the absolute and relative income situation of the elderly – namely: low inflation, high returns on financial assets, and low wage growth. High rates of return on financial assets are gone and likely gone for a long time. All things being equal, ageing and a related slow down in population growth should raise wages. Thus, the ability of the pre-funded parts of the pension system to keep delivering improved living standards will not likely maintain the pace it did in the latter part of the 20th century.

Finally, in Canada, there has been a decline in the portion of employed persons who belong to workplace pensions.

All of these developments could bring pension reform back on to the agenda, but with a focus on income adequacy. Of these developments, the only one that is likely to be a strong influence in the near term is the financing problems of workplace pensions.

There are also some severe challenges facing the new financing provisions of the CPP.

The CPP legislation now specifies that its financing objectives are to stabilize both the contribution rate and the fund to expenditure ratio. In a steady state world, doing both is plausible. But, in the real world of volatile investment returns, it is impossible to do both consistently. When the conflict between the two objectives emerges as it likely will in a year or two, there will likely be a little crisis that will revolve around whether and/or how to reconcile the two objectives. The legislation to amend the CPP did not address this issue and critics of the ability of governments to get things right will have fodder for their case.

Over the longer term there is also a real question about whether the

expected advantage of partial funding of the CPP can be realized.

The later part of the 20th century encouraged a view that the basic trajectory for returns on financial assets could be different from, and substantially superior to rates of real economic growth. Thus, very pessimistic growth scenarios were invoked when discussion focused on pay-go public pension plans, while returns on financial assets were discussed as if the future would be just like the past.

This inconsistent view of the future manifest itself in actuarial reports in the gap between assumed investment returns on the one hand, and wage growth assumptions on the other. In the Canadian case, I would not say that the gap has gone over the believable edge, but I would say it is pretty close to it. It is assumed that real rates of return on the new fund will be 4.25 per cent, while real aggregate wage growth will be 1.5 per cent. If the wage growth assumption is right, the CPP Investment Boards will face a real challenge in earning 4.25 per cent real over the long-term.

The investment program of the CPP Investment Board will face real challenges that could disturb the existing equilibrium.

The CPP Investment Board is investing a fund that is very large within the Canadian securities market. This creates a couple of special problems right off the bat. In many cases, the Board will not be in a position to express its dissatisfaction with corporate management by selling its shares. It will have to be an active shareholder and this is bound to become politically problematic. (By the way, this is also a problem with a number of large government employee pension funds in Canada.) It also creates pressure to invest outside of Canada which is also politically contentious.

Intermittently, the CPP investment program has been challenged in terms of what it is contributing to income and employment growth in Canada and/or its social, environmental, or labour objectives. This area of concern will persist.

While some of these issues can be seen as having a left or right flavour to them, my sense is that the serious reopening of the investment issues could lead in quite unpredictable directions.

Let me close this catalogue of potential sources of disturbance

arising from Canadian sources by noting the effect of a possible return to deficits in the budget of the federal government. In the future, the OAS/GIS programs will absorb a growing part of the federal expenditure budget and will become an increasingly attractive target for budget-cutting should deficits make that seem necessary.

I have reviewed some of the internal developments that could disturb the temporary equilibrium that we have achieved on pension policy.

In Canada – and I would guess here in Korea, too – there are international institutions whose work could disturb the local equilibrium. The issuing of the World Bank report in 1994 contributed to the debate in Canada. The current efforts of the OECD to encourage later retirement is having some effect in bureaucratic circles. And, the apparent desire of the World Economic Forum to enter the pension debate might also have an effect on the Canadian equilibrium.

I will close with four very general thoughts on the ability of societies to cope with ageing populations.

- 1) Concerns about the impact of population ageing might focus on any or all of: the share of national income that will be claimed by pensioners; fiscal impacts of ageing; and/or the impact of ageing on payroll contribution rates and labour costs. It is important to be as clear as possible about which of these sources is most or least important, as the realm of possible responses is different from one source of concern to the next.
- 2) Because societies generally do much more of their income sharing with elderly through taxes and transfers, while they do much more of their income sharing with the young within private households, ageing may be more problematic politically than it is in terms of its impact on the standard of living of the working-age population.
- 3) The ability of societies to transfer increased income to the elderly without depressing the absolute standard of living of the working-age population is a direct function of labour

productivity growth. In most countries, it will be possible to keep up the transfers to a growing elderly population with no depression in the standard of living of the working-age population.

- 4) Finally, it is important to keep both the issues of affordability and income adequacy in focus and to keep all part of the retirement income system in focus. This is especially important since different parts of the system will be of greater or lesser importance to different parts of the population.

DISCUSSION

Ito Peng
University of Toronto
Co-Chair

Thank you very much, Bob, and thank you for keeping the time. Now I would like to turn to the discussion. I would like to first ask Rianne Mahon to comment on Dr. Kim's presentation.

Rianne Mahon
Carleton University

With pleasure. I wanted to say that I am very glad that you decided to take the topic that you did. Because although I read few of the sources you had, I ever had chances to go through them so systematically, so I learned a lot about my own pension system from your paper. I also want to draw attention to something that he did not have the chance to show. A wonderful summary at the end, all of the changes, big and small that happened in the pension system. That is particularly valuable. But I did not come simply to appraise you, and I also have some comments. I have really 4 comments and a question. The first one is, I would like the way you set up each of the period by talking about the policy contexts, but I think it would be useful if it goes beyond the particular ways you cast which focuses on so much on that policy area and kind of also locate in a kind of larger development. For example, in 1945 when the liberal just had a minority government, they were really being challenged by both communists and social democrats. And that is a very important part of what kind gave impetus to move beyond the original means-tested programme. There is also, actually if you go through the changes you mapped in 1970s, those are unthinkable without a sort of larger context of mobilization around the world commission on the status of women. Which gave a whole set of feminist issues that are kind of promising and brought about certain changes within the federal decision making system to push some of these issues forward. So you want to think about the larger civil society mobilizations and the ways, which they are interceptive

with the party system and a little bit more to about changes in federal provincial relations, which are so crucial. And they are beyond the pensions they are playing into the social policy debate. That is number one. The context is great, but locate it in a little bit more on a larger context. Number two. As you might have guessed, I share your interest and emphasis on the role play by interests. But as one of the great classic student across the national learning, it is not just about a question of powering but also puzzling. It is really useful to bring out the importance of ideas as well. If you brought that more specifically, then you could also set up some of points that you want to make toward the end of the role of experts and the end of knowledge. So that is the second point. The third one is that I really love the question that you asked. What can Korea learn? I am not going to say just from Canada, but what can Korea learn? One of the reasons that I am interested in that is again because of the point that I made this morning about the importance of going beyond very kind of rigid interpretation of incrementalism as kind of a path dependent. Something that you go back to the spirit of Charles opens up the possibility of quite new ideas coming into the process and leading to incremental changes which moves off that kind of path. I think you can do more to highlight the importance of the questions you are asking. You take it for granted. I suggest you do more. Fourth, I would like to learn a little bit more about in what context is Korea interested in learning. You said that very briefly, but I thought you cast it too narrowly as I read it in your paper. It seems like Korea was simply retrenching. That did not fit with what... I read a little bit more about what is happening... it is both retrenching in terms of benefit levels, but also an expansion in term of who has been in compass. I think that again is the larger context of what is happening in Korea. On one hand, Korea has been pushed to transform relationships between the state and markets opening up following the new of IMF. Transforming in financial system is of course relevant to pensions, and at the same time, there's the democratization. So I think you might want to flash out that part a little bit more. And my last question is how one think about learning from whom, there is a great book edited by one of the big authors in social policy frame called Families of nations. And quite often the reasons why things continue on a particular way is that one keeps learning from the same family. We in Canada have

a misfortune of learning primarily from the British and American's. You have the misfortune learning primarily from the Japanese. And I was thinking this morning when the paper was being presented on the long-term care, I was really struck at one point that there was a table, which indicates figures of the United States and Denmark and Sweden etc. When your mission went abroad, you went to two places, Japan and Germany. So it is interesting in what circumstances would Korea really be interested in learning from Canada or other countries. Those are my comments.

Ito Peng

*University of Toronto
Co-Chair*

Thank you. That was very nice and succinct discussion. Now I would like to ask Dr. Yun to comment on Bob Baldwin's presentation.

Sukmyung Yun

National Pension Research Center

Thank you for chairperson and all of you who are here. As a researcher having special interests on pension scheme, I am very pleased to have this great opportunity to comment on Mr. Baldwin's excellent paper. Now I have to say a little about his paper. It is very well organized and further successfully presented of the Canadian retirement income support system. The distinct view of Bob Baldwin provided some appropriate framework for examining and exchanging views on the main issue. Although your paper covers so many parts of the Canadian retirement income support system, frankly speaking, I cannot cover all of them, so I would like to focus on the publicly managed retirement income support system and the present process and the lesson from your reforms. First, as Mr. Baldwin mentioned earlier, Canada's major publicly administered programmes, OAS and GIS and CPP. In Canada, the OAS programme provides a uniform flat rate benefit to all

Canadians over 65 from its residence requirements. On the contrary, the GIS of Canada is an income-tested benefit. The GIS of Canada was created as you mentioned to compensate the elderly that they would get to participate in CPP /QPP that would be created at that time. Now let me turn to outline the Korean programme as the counterpart, especially in the prospective of basic income guarantee for the elderly. Korean's elderly pension programme financed by the federal government is generally very similar with your GIS in financing method. However, its coverage is very limited for the elderly who is over 65 and who is exposed to a very low level of income. Further gradually it will fade out as the MPS is approached to the mature stage. That means, in other words, this is a temporary programme for the elderly who cannot meet the minimum insured periods. In the start of page of MPS. Since the MPS of Korea is basically a benefit paying programme based on the insured period. So there is no minimum income guarantee for the elderly. Accordingly, that will be one of main differences in retirement income support system of two countries. Later I will describe more about the MPS of Korea. Now let me talk about CPP, which is a compulsory earnings related programme that provides 25% of pre-retirement earnings as you mentioned. In combination, the OAS and CPP replace approximately 40% of the average wage. The similarity between CPP and MPS of Korea is in the financing method. The CPP has always as you mentioned financed of pay-as-you-go system like the MPS. Presently a total contribution rate of CPP is about 9.9%. In case of MPS, the contribution rate is 9%. So the contribution rate is very similar. As you pointed out in your paper, the overall size of Canadian public pension programme is relatively small, from it is compared with other OECD countries. According to your paper, the size is about the half of the OECD average. However, the replacement rate of MPS is far higher than yours. Presently, the replacement rate of MPS is 60% of average wages, in case of covering 40 years. Now I think it is a right time to note that a small size of CPP benefit level is intentional as you mentioned. In the mid 1960s when the CPP was put in, the Canadian government wanted to leave a room for private managed pension plans. So I think it is very important for us. At present in Korea, individual pension accounts managed by the private sector have failed to play an important role in providing for the old age

income. To lessen the burden of the public sector, private sector savings should play a larger role than at present. To attain this goal, Korea's MPS needs to be downsized. In this respect, Korea can get a lesson from the Canadian retirement income support system, I think. One more thing that I would like to mention is the expansion process of benefit and burden level. The CPP has been expanded gradually both in benefit and contribution rate. In other words, it started from the low burden and low benefit scheme. Then gradually extended to the high burden and high benefit scheme. But in case of Korea, the scheme expansion past is a little different from you. Initially, the MPS was implemented as the low burden and high benefit scheme so now it is expected to transform as the relatively high burden and low benefit scheme compared to the past to get to the financial stability. So that suggests that in case of Korea, there might be a relatively strong opposition of the interest group and the government makes an effort to implement reform proposals such as cut benefit and increasing the contribution rate. According to the government's task force report this year, the partially funded MPS is suffering from serious financial problems reflecting structure between the contribution rate and pension benefits. It is projected that the contribution rate for MPS will have to rise from the current 9% to 30% during the next few decades to reach the financial stability. Currently, there are issues of fairness in both between and within generations. So establishing a pension framework that is universal and provides adequate benefits is one the most urgent issues in our country. So let me close this comment by describing the necessity of social dialogue in the pension reform process. In Korea like other countries, there is an intense debate on which is the best approach to the pension reform. In Korea, recent efforts have been dedicated to the problematic approach rather than the systematic approach. To maintain and strengthen the present structure of pension system, that means the measures have been introduced within the current structure. So presently, the reform bill has been admitted in the national assembly, but our government faces threats of generous strikes from the trade unions and continuous protests from NGO groups. So in addition, law makers of national assembly hesitate to pass the reform bill mainly due to the general election that will be held next year. As we can see in the reform process of recent Korea, one of the most important factors in

pension reform would be the social dialogue between the government and the interest groups. In your paper, you well described the roles of the federal and local governments in the reform process and for the actual report and international institutions in disturbing the local equilibrium. To implement the reform plan successfully, Korea needs to get a lesson from the Canadian reform process in the 1990s in the prospective of social dialogue, especially of the Canadian government and civic groups, international institutions such as the World Bank and OECD. Before closing my comments, I would like to ask one question. As I already mentioned, in Korea, there is an intense debate on future reform direction. To be more specific, one issue is which one would be better for Korea and systematic reform. Another issue is the timing of the reform. That means if there is any necessity of delay the reform to reach the social consensus. I would like to hear from you about that. Thank you.

Ito Peng
University of Toronto
Co-Chair

Thank you very much. And thank you for both discussants. And I would like to ask now the presenters to comment back on the questions or points raised by discussants.

Sang Kyun Kim
Seoul National University

Thank you very much, Dr Mahon. Your comments reminded me of the past era when I was a student and preparing for my dissertation. You pointed out to write in very correct and relevant issues. Generally, you pointed out four points, but in general, I accept your basic viewpoint, particularly your demand to enlarge the basic framework for this study, I think, this is a very useful comment, particularly in relation to the policy context. Next time, from now on, if I continue to work on Canadian pension reform process, then I have to enlarge the context simply the interest groups competition to political and economic, societal circumstances. I need related

information. I would like to enrich and mix up with this one and finally to enlarge that framework. And also your comment on my narrow point of view particularly concentrating on interest groups, knowledge, political ware or ideology. These things are also very important factors to play the important role in the process of policy making. So from now on, I will have to look more closely on this kind of knowledge, ware and ideology and something like this one connected with pension reform in Canada. OK. Incrementalism in Korea, since 1987, Korea really started a democratization movement, and until then, we had been living for quite a long time under the authoritarian regime. So such a group theory cannot be applied to that time, but I think from 1990s, the policy making process, some parts of our Korean policy making process we can apply this kind of frame of group theory or incremenatlism can be applied to quite a recent time. So I will try to adopt this framework with the Korean pension reform process. I will explain one thing in the Korean history. We started from 3% contribution rate and by steps, it has increased to the current 9%. On the other hand, the coverage expansion got through two or three stages. Exactly four stages. Nowadays, legally it is universal, but there is a big hole in more than four million people are exempt. That is a great problem. Next time we have to resolve. So actually, as far as incrementalism concerned in the Korean pension reform, the trend is a retrenchment, rather than expansion. Expansion is only for coverage, not pension amount. That is the Korean situation. We have been quite heavily dependent upon Japan case or American case rather than Canada actually. In this sense, today's symposium is very important for us to diversify, or to amplify our learning from other countries. You're quite right. We have to diversify our information resources particularly in such globalization period. Generally, I accept your points. It is very helpful for the further study. Thank you very much.

Rianne Mahon
Carleton University

First of all, Dr. Yun, thank you for your kind remarks, but I will turn directly to the questions about the social consensus versus reform now. I want to say few things about the burden of pension

expenditures in the face of aging population, which was the central concern in your remarks. There are several things I want to note. First, obvious, which we all have to try to balance our concerns about burden with, concerns about income adequacy, and distribution impact on different parts of system. Secondly, clearly a part of what is driving your aging process is, pretty much everywhere, is a huge decline in infertility rate. And part of what is going along with that, in fact, is that the significant decline in private transfers from working age population to dependent children. It is politically problematic to transfers from private household sphere into public sphere, redirecting from young people to old people. But it should remind us that we maybe facing a bigger political problem than we are probably facing on the working age population. The other thing is that clearly, people are going to be asked to contribute a larger share of their earnings to public pension programmes, but they are going to contribute a larger share of larger earnings too. I think that one wants to keep their eye not only on what is going to happen to the share of earning that is going into this programme, but what is happening to the trajectory of after contribution earnings. I think I am on to this because if you look at what has been said in several occasions to the day today, a rapid economic growth is widely recognized as to facilitate a lot of social progress. As long as we can continue to sustain it, we may find that the trade off of the working age population is not to them so psychologically. On another generation aspect of the burden, I will say two things. One is that one of the demographic trans that you noted here, so similar with what's at home. So we have a lot of discussions at home about is the baby boom generation being unfair of it, the age cohort coming immediately after. The fact of matter is that those age cohort coming after the baby boom are going to enjoy the same standards of living and retirement as the baby boom. They will have to ask the same thing of their children and their grand children. That is worth bearing it in mind. The other thing that I was thinking when we get into the generation issues, it is always very important to look beyond the dollar exchangers between the cohorts and think about some of the things in a real economic that is very important to leave to younger generations and about the size of public and private capitals are very important in skills, knowledge, and the quality of

environment. The question whether they lead to social peace. Those are the things at the end of the day really important for younger generations to get from the older generations. And sometimes, our concerns about the financial sides, younger generation inadequacy, we end up squeezing. But the things that really need to be left from one generation to the next. I invite you to think about those things as you are thinking about the burden. On the question on consensus versus reform now. Let me speak both sides of my mouth. On one hand, it is absolutely true that there are certain groups in a society that are always almost come down on unpredictable sides of the debate. And they are people who look at the public pension programme as a market opportunity lost. And there are people like myself that this is a primary way of solving. And those attitudes won't change. Having said that, I think what you would find through a big public consultation process is that nothing else that you brought on the base of understanding in society what's at stake. And I think that can only help you even if it does not actually bring into a consensus at the end of the day.

Ito Peng
University of Toronto
Co-Chair

Thank you very much.

VI. SESSION IV :
CITIZENSHIP, GOVERNANCE
& SOCIAL POLICY

Social Citizenship, Governance and Social Policy

Jane Jenson
University of Montreal

1.0 Introduction

In the recent years both social citizenship and governance have become increasingly important matters for social policy debates in Canada. The notion of social citizenship implies rights and responsibilities accorded to individuals as members of a community, while governance involves the processes of governing by public policy networks that include both public and private sector actors. Social citizenship determines the access that individuals have to services and provisions, while governance relations may determine how these services and provisions are structured, provided, and organized.

The interconnections of these two matters can be seen in the way that Human Resources Development Canada (HRDC) defines its work. HRDC has been a principal in refocusing attention onto the needs of families with children via *the National Children's Agenda*, the *National Child Benefit* and *Early Childhood Development Agreements* with provincial and territorial governments. In addition, it is responsible for the flagship income security program, *Employment Insurance*, and has played a major role in the *Social Union Framework Agreement* (SUFA), as well as in imagining new ways to meet the needs of *key categories* of the Canadian population, including Aboriginal peoples, Canadians living with disabilities, and youth. Its recent Business Plan¹ seeks to empower HRDC to continue to play a leading role at the interface of economic and social development, with an agenda focused on skills and learning, and on modernizing services. Both are described in the Business Plan as ones that would potentially "reorient many of our traditional programs and services to a more integrated and citizen-centred perspective."

¹ See <http://www.hrdc-drhc.ca/dept/busplan/2002/chap2.shtml>.

Another example of the links between governance and citizenship is provided by the pledges made in the *Social Union Framework Agreement* signed by 13 Canadian governments in 1999. It explicitly promises greater involvement in social policy decisions, as well as transparency and accountability. The Agreement states: "Canada's Social Union can be strengthened by enhancing each government's transparency and accountability to its constituents." At the same time, it made commitments to participation, by promising to "ensure effective mechanisms for Canadians to participate in developing social priorities and reviewing outcomes." All of this was to be undertaken in the name of the fundamental principle, that is, that "Canada's social union should reflect and give expression to the fundamental values of Canadians – equality, respect for diversity, fairness, individual dignity and responsibility, and mutual aid and our responsibilities for one another."²

This paper examines the way some of these matters have been addressed by policy communities in Canada, focusing both on the changing content of social citizenship and the alterations in governance practices implied by a move towards what is termed an integrated and citizen-centred perspective. It proceeds in the following steps. In Section 2 it examines the several goals of social policy, ones that can be pursued in a variety of political regimes, and the meaning of the concept itself. In particular, this section compares two traditions of social citizenship. These are: the "British" tradition described by T.H. Marshall and the "French" tradition inherited from the revolutionary struggles of 18th and 19th century France. Then, it presents in Section 3 some current challenges to social citizenship in Canada, while Section 4 describes some of the emerging responses, including the shift towards new partnerships in governance involved in the kind of "citizen-centred" perspective promoted by, among many others, the Government of Canada. The paper concludes in Section 5 with a brief assessment of this process.

² These quotations are from *A Framework to Improve the Social Union for Canadians: An Agreement between the Government of Canada and the Governments of the Provinces and Territories* (4 February 1999), available at <http://www.socialunion.gc.ca>.

2.0 Social Citizenship as a Policy Mix

Social policy has been used in the past to achieve a range of goals. Most countries employ a mix of goals, thereby providing a “policy mix” rather than a clear single model. Therefore, we will use the metaphor of a social citizenship *policy mix* rather than of social policy regime (see Appendix A for the reasons why).

2.1 A Range of Goals for Social Policy

Historically, probably the most common goal of social policy – shared by many types of political regimes, democratic or not – has been to ensure social peace. We call this the goal of social cohesion. “England was the first country to adopt a clearly *social* policy, in the form of the Poor Laws (1563, 1601, 1834), in which the crown established and enforced the first national program for the management of poverty through redistribution” (White, 2003: 55). Canadian social policy, until well into the 1960s, was shaped by this British heritage of the Poor Laws (Boychuk, 1998). Such social policy was not, however, an expression of social citizenship. Rather, the Poor Laws applied to those *excluded* from the rights of citizenship.

In Canada as well as Britain, such social policy goals remained influential through the 19th and 20th centuries, but the goal of social peace was eventually modified, although still focussed on poverty. British social policy was deployed to construct a social safety net, providing “residual social rights” to those who were unable, for one reason or another, to make their way successfully in a market society (White, 2003: 56; Titmuss, 1974).³

To use T.H. Marshall’s (1949) metaphor, the goal of British (and Canadian) social policy was very like that of public health. Just as people’s survival depended on instituting a measure of “smoke abatement” in polluted industrial cities, the goal of social rights was

³ In addition to G. Esping-Andersen, Richard M. Titmuss (1974) has made important contributions to conceptualizations of different forms of welfare systems. He identified a “residual” model of the welfare state, in which “the state intervenes only when the market, family or community fails, and this intervention is characterised by the selectivity of its approach” (Fawcett and Papadopoulos, 1997: 5).

“class abatement,” that is smoothing over the inherent tensions within a market economy due to the inequalities generated by markets. Social policy could serve to alter initial endowments as well as providing for old age and protect against the “bad luck” of illness. By the mid-20th century, then, this social policy had become an expression of social citizenship, available precisely *because of* one’s status as a member of the national community.

By the late 19th century, another social policy model was emerging alongside the residual British one. This was the social insurance regime constructed in conservative Germany, again to protect an industrial society facing “the potential for class war,” at least as perceived by Chancellor Otto von Bismarck and his colleagues. Providing protection via social insurance resonated in many countries of continental Europe, where mutual societies were already active; having the state as guarantor simply made the schemes more sustainable.

Such insurance-based systems – termed conservative-corporatist (or sometimes “continental”) in the literature on welfare regimes – did not focus on the margins of society. Rather, they were designed to provide, in sickness, unemployment and at retirement, a benefit commensurate with one’s social standing. These would be achieved by providing benefits at replacement level, and not at minimum, flat-rates as was the case when fighting poverty was the principal goal.

Being centred on occupational standing – one’s corporate status – the assumption was that all workers (and their families) would be protected, precisely because they were in employment. If by some chance a worker fell victim to a social risk, such as unemployment or ill-health, he would reap the benefits of his – compulsory – frugality, and receive a benefit from the insurance fund. Canadian Unemployment (later Employment) Insurance, instituted in 1941, is an example of such an insurance-based social program. Inclusion was not considered to be a problem, because everyone – at least all men – was assumed to be in work.⁴ This supposedly universal

⁴ These conservative-corporatist regimes maintain very small social assistance programs for those who, for one reason or another, fall out of the insurance-based system. In contrast to social policy regimes modeled

coverage made such insurance-based social policy an expression of social citizenship as well.

By the mid-20th century, yet a third kind of social policy had come into existence. This is one that uses the state and tax revenues to ensure security for the whole population and does so via a commitment to equality. In this universalist model, benefits are distributed on the basis of citizenship (or residence); there is neither means-testing nor the requirement of having paid into an insurance regime. National integration – that is, social cohesion – is to be assured by the solidarity generated by common rights, shared institutions, generous benefits, while inclusion (coverage) is automatic. In Canada, health care and education, including post-secondary education, provide such a universal right.

Universal programs of this kind are most obviously an expression of social citizenship, being available to everyone. However, it is important to understand that – depending on their design – targeted and insurance-based social policy can also provide the social rights of citizenship. Moreover, in most countries, the social protection system is a mixed one, borrowing elements from each approach. In Canada, for example, our perspective on social assistance comes from the safety-net and means-tested social citizenship tradition of Britain. Employment insurance and its predecessor Unemployment Insurance follow the principles of conservative-corporatist insuring, using payroll contributions as the financing mechanism. The program often described as the best expression of Canadian identity and national goals – the public health care system – follows the principle of universality, giving access to all citizens and permanent residents.

on residual benefits (such as Britain, Canada, Australia, New Zealand, and so on) and where means-tested social assistance programs cover about 17 percent of the population, in the rest of the OECD world such forms of social assistance cover only about four percent of the population (Eardley *et al.*, 1996).

2.2 The Marshallian Tradition of Social Citizenship

There is general agreement that the concept of social citizenship in the English-language literature was given its current persona, if not invented, by the British sociologist, T.H. Marshall in his reflections on the British situation just after World War II. Of course other visions of social citizenship also exist. France has also significantly influenced the European discussions of citizenship, and has influenced the design of social policy in Canada too.

Marshall's Definition of Social Rights

T.H. Marshall (1949) was a man of his time. Social rights were on the agenda around the post-1945 world. Article 22 of the 1948 United Nations *Universal Declaration of Human Rights* guaranteed that everyone, "as a member of society, has the right to social security." Reflecting not only on this international discourse, but also the deep distress of the British working population in the 1930s and the visions of change embodied in programs such as those proposed by William Lord Beveridge, Marshall defined social citizenship in two general ways right at the start of his essay: "the right to a modicum of economic welfare and security" and "the right to live the life of a civilized being."

Marshall's understanding of rights, however, was far from what, in the American tradition, have been termed entitlements. "What Marshall meant by social rights was not that these would be individually enforceable but that the state had a general duty to provide *collective* services in the fields of health, education and welfare; he did not envisage that these would yield individual entitlements" (Harris, 1999: 916).

Within the Social Liberal Tradition

For Marshall, there was never any question that the market economy and the capitalist system would remain in place. He advocated "class abatement," not a classless society. T.H. Marshall located his analysis clearly in the tradition of social liberalism, a perspective which, along with Fabianism and labourism, profoundly shaped the actions of the first British Labour governments in the 1940s and 1950s. It also spilled over directly into Canada via the influential Marsh Report and social liberalism embedded in parts of

the Liberal Party of Canada as well as in the work of sociologists such as John Porter.⁵

What was this social liberalism? Perhaps it is most useful to quote L.T. Hobhouse's *Liberalism*, which served as a sort of manifesto for the New Liberals (social liberals) in the inter-war years. Hobhouse wrote (quoted in White, 2000: 511):

The function of the State is to secure conditions upon which its citizens are able to win by their own efforts all that is necessary to a full civic efficiency. It is not for the State to feed, house or clothe them. It is for the State to take care that the economic conditions are such that the normal man who is not defective in mind or body or will can by useful labour feed, house, and clothe himself and his family... [In this sense the] 'right to work' and the 'right to a living wage' are just as valid as the rights of person or property.

We see in this quotation that social rights – to work and to earn an adequate wage – were put on the same level by social liberals as the civil rights fought over in the 18th and 19th centuries.

British and Canadian thinkers and policy-makers (as well as those in many other countries) understood the limits of civil rights, important as they are (Jenson and Papillon, 2000: 35). They “recognized that in a market economy many citizens will lack reasonable access, ... to certain vital resources. The state, on their view has a responsibility to ensure that all citizens do have reasonable access to these resources” (White, 2000: 511). Thus, the right to work and earn a living wage were being defined as social rights.

Responsibilities as Well as Rights

In return, citizens have duties. T.H. Marshall was quite clear that citizenship implied responsibilities. Already familiar was the duty to bear arms, but in elaborating his vision of *social* citizenship he mentioned explicitly: “the duty to pay taxes and insurance

⁵ For a discussion of social liberalism and some of its consequences in Canada, see Jenson, Mahon and Phillips (2003).

contributions” while the duty to work was of “paramount importance” (Marshall, 1949: 78; 80).⁶

In addition, but not to undermine the former, Marshall argued that citizens had collective obligations for each other’s welfare. The institution that could ensure this obligation was met was the State; only it could provide a balance to the market, which was incapable of guaranteeing services to all citizens. As Marshall (1949: 11) said:

By the social element I mean the whole range from the right to a modicum of economic welfare and security to the right to share to the full in the social heritage and to live the life of a civilised being according to the standards prevailing in the society. The institutions most closely connected with it are the educational system and the social services.⁷

Attention to Social Cohesion Too

For T.H. Marshall, “the inequalities of the market had to be contained by the state in order to promote social stability, balancing the socially divisive effects of market-based inequalities by the integrative experience of solidarity generated by social citizenship rights” (Harris, 1999: 916). The willingness to share that he felt characterized post-1945 Britain was evidence that British society had moved from the “naked cash nexus” towards a much more stable situation.⁸

He was not, however, a subscriber to the notion that social policy should simply be concerned with ensuring social inclusion. Marshall’s optimistic summary was “that state welfare provision had moved from being targeted towards the ‘helpless and hopeless

⁶ For overviews of the “rights and duties” dimensions of Marshall’s work, as well as of Beveridge, see Powell (2002: 236ff).

⁷ This emphasis on the role and importance of education partly accounts for the interest in the notion of social citizenship held for the pre-eminent Canadian sociologist of the 1960s and 1970s, John Porter. In addition to his debt to T.H. Marshall, he also drew on Hobhouse (O’Connor, 1998: 182).

⁸ This use of the concept “naked cash nexus” is quoted by Harris (1999: 917).

of the population' ... and was now extended to all citizens" (Harris, 1999: 917).

2.3 French Traditions of Republicanism and Solidarisme: An Alternative to Marshall

T.H. Marshall has profoundly influenced the ways many analysts think about the social architecture of the past and present, but his is not the only tradition of social citizenship. French political thought has had its own conceptualization of social citizenship, quite different from that of British social liberalism. It is worth examining because it has influenced the shape of debates in Europe as well as in Canada. It builds on citizenship-based justifications of redistribution and definitions of social solidarity (Béland and Hansen, 2000: 47; Jenson, 1998: 22-26). In addition, it pays significant attention to governance, especially the dimension of citizen participation.

Canadians Daniel Béland and Randall Hansen (2000: especially 50ff) provide an instructive presentation of French thinking on social citizenship and the paragraphs that follow draw liberally on their work.

Notions of Participation, Social Solidarity and Interdependence

Notions of citizenship after 1789 in France originally designated a category of "active citizens" who enjoyed all rights. The status was reserved for the wealthy and educated and was contrasted to "passive citizens," that is the mass of poor and uneducated French working men (no women here...!) who held only civil citizenship. This distinction disappeared with the institution of universal manhood suffrage in 1848, when *participation by all* became a foundational principle of republican citizenship.

Debate began only in the Third Republic and, therefore, beginning in the 1870s, about the ideas to which Béland and Hansen (following T.H. Marshall) affix the label social citizenship. A first influence was sociologist Émile Durkheim and his ideas about solidarity and, especially, the organic solidarity of the modern division of labour. A second was the movement of *solidarisme*, initiated by Léon Bourgeois, who emphasized the dependence of everyone on all others. One principle that derived directly from the

idea of interdependence was that people had a right, *as citizens*, to expressions of solidarity in the form of *assistance*. The latter tended to be quite minimalist but it was both a right and an expression of collective ties. Therefore, the French system was generating *assistance publique* as a social right, at a time when British Poor Laws still denied recipients of assistance political citizenship.

Social Insurance as the Design for Social Protection

This philosophical position, developed in opposition to Marxism, social democracy and liberalism, also generated a particular view of social policy design and delivery. Social issues were conceptualized as *risks* to which anyone might fall victim and for which the best protection was a social insurance program, rather than social assistance. Thus, risks of ill-health, unemployment, maternity, and old age were insured in occupationally-based regimes, managed by social partners and financed by insurance contributions (eventually payroll contributions) by workers and employers. Train engineers, managers, public servants, agricultural workers, the self-employed, and so on, all claimed their social rights via their professional *régimes*, of which there are still a great number. Thus forms of governance, by associations of workers, were embedded directly in this French-style thinking about social citizenship.

A Key Assumption – Inclusion Via Work

In this system, access to social protection depended on having paid into one's insurance and such payments are a portion of earnings (exactly as are Canada's Employment Insurance payments). The benefits provided are not only for the risk of unemployment, but also health, and so on. Therefore, in this vision of social citizenship, work and rights are inseparable. Nor is there an issue of responsibility; access depends upon having paid into the regime.

The Achilles Heel of this Vision of Social Citizenship

Social rights in France worked as expected as long as there was virtually full employment or at least one member of the family was in work. That meant that workers and their families were insured. However, as unemployment rates rose, and hit particular categories harder than others (thereby failing to distribute risk evenly), the principles of insurance-based social protection were undermined.

Many people were left without social protection, and discussions began to be preoccupied by those citizens who were excluded. Young people, women, the long-term unemployed and other categories were at risk of *exclusion* because they could not get into work, and therefore could not accumulate rights to health insurance, pensions, and so on. Lack of work had consequences far beyond lack of income; it could mean isolation on the margins of society. This marginalization, in and of itself, was sufficient to demand a response phrased in terms of citizenship, because republican citizenship demanded solidarity (*fraternité*) for all, as well as liberty and equality (Béland and Hansen, 1998: 921).

An Obvious Citizenship Link: Participation and Social Inclusion

The language of citizenship has recently been invoked again to handle a specific problem, that is, the new risks of exclusion. “Given the importance of participation to French republican thought and to republican citizenship, the existence of large numbers of excluded is not only an economic problem but also a problem of citizenship (a crisis of participation)” (Béland and Hansen, 2000: 49). Again, we see a policy mix around two goals – a universalistic commitment to citizen participation and social inclusion.

Another Notion of Citizen Duties

The result of this combination of principles is that French policy (and other Europeans who share a similar republican and/or corporatist tradition and set of challenges) has been able to move towards work requirements and notions of exchange without passing through the waters of neo-liberalism. Programs are grounded, “at least ideologically – in society’s responsibility to ensure the individual’s integration into society and the labour market, rather than the individual’s responsibility to pay for welfare benefits with his or her labour” (Béland and Hansen, 2000: 57).

3.0 Current Challenges to Social Citizenship and Governance Designed for an Earlier Era

Much social policy still in place is out-of-phase with the times. It was designed to address situations that no longer exist. It depends on visions developed in the decades between 1945 and 1970 and its

was intended to respond to the needs of “typical” homes and workplaces, as well as the risks faced by citizens who, for one reason or another, might not fall into the “typical” situation that were prevalent at that time. Up-dating is needed, and as Section 4 documents, is going on.

3.1 Post-1945 Notions of Socio-Economic Realities

The sketch in Box 1 (adapted from Jenson, 2001a: 10) reflects assumptions made in Canada when social policies such as Unemployment Insurance, Canada/Quebec pensions, post-secondary public education systems, and the universal health care system (Medicare) as well as the social safety net of social assistance were designed.

Box 1

A New Pattern: Two Traditions Meet

The French notion of social citizenship has embedded in it, then, a vision of governance – focused on citizen participation – right from the beginning, whereas the Marshallian tradition separates social rights from political rights. A shift in thinking has been occurring, even in countries that are built on the social liberal tradition (such as Canada), however. This is to think about social policy governance in a new way, by emphasising the importance of citizen participation, both as individuals and via their associations, in ensuring social citizenship. There is increasingly, in other words, a meshing of these two intellectual traditions.

The encounter of these two traditions is seen in Quebec, for example, where the social economy has become an important social partner in discussions of social policy reform.⁹ But has also been influential in the rest of Canada (anglophone Canada), where the Third Sector, including religiously-based groups, have been accepted as legitimate partners with the state, and called upon to provide social services.¹⁰

⁹ For a discussion of the social economy tradition in Quebec see Shragge, Graefe, and Fontain (2001).

¹⁰ One result is a clear differentiation between Canada and the USA. In the latter, President George W. Bush’s reliance on faith-based organizations to deliver social programs is contested as non-Constitutional, whereas in Canada faith-based – and other groups – have long been partners with the State.

The need for reform is clear. As Box 2 shows, the vision simply does not reflect the reality of most peoples' circumstances.

The *governance assumptions* in these post-war decades can also be uncovered. The federal government in the first three decades after 1945 was flexing its muscles, seeking to shape provincial policy by using its powers to tax and to spend, even in areas which the Constitution defined as falling within provincial responsibility.

Moreover, there was little attention to the role that other types of institutions might play in social policy governance. While the voluntary sector was actually quite actively involved in social policy in the 1950s and 1960s, little *attention* was devoted to its role or contribution. For example, the fact that the Children's Aid Society was delivering virtually all child protection services in some provinces, that the Victorian Order of Nurses provided publicly financed home care, or that the Canada Assistance Plan (CAP) required that non-profit associations deliver much of publicly subsidized child care did not attract a great deal of attention. Governance was assumed to involve only governments.

3.2 Socio-Economic and Political Realities at the Beginning of the 21st Century

In large part such thinking has been necessary because of four kinds of changes. We now all live in a society that is significantly different from that for which much social policy was designed between the 1940s and the 1960s, and which has provoked pressures for change. Table 1 maps some of them.

These social changes can be summarized as four trends:

An ageing society. Figure 1 presents the basic information which causes many people to describe Canada, as much of the OECD world, as an ageing society. The median age of the population reached an all-time high of 37.6 years in 2001, a jump of 2.3 years since the last census. It is expected to reach 41 by 2011. This population is composed of fewer young people, and more older working people. The median of the working age (20-64) population rose to 41.3 in 2001, and is expected to reach 43.7 by 2011 (Statistics Canada, 2002a: 4).

Box 2

Notions of *Typical* Homes and Workplaces Underpinning the Post-1945 Design of Social Citizenship

Typical homes were composed of two parents, several children and perhaps an elderly relative. The baby boom after World War II meant that many families had three or more children. The divorce rate was low, and births to unmarried women rare. In Canada, for example, if 10 percent of families with children were lone-parent ones from the 1940s to 1960s, these families were largely created by the death of a spouse. In the 1940s and then the 1960s and 1970s, when the basic social protection programs were being designed, lone parents were still overwhelmingly widowed wives. In most other homes, the male breadwinner model predominated; women's labour force participation rates were low, because they tended to stay home to care for their children, the house, and perhaps their elderly kin.

From the 1940s to the 1980s, the age structure of the population was one in which youth predominated. The segment of the population that was older than 65 remained below 10 percent. In Canada, for example, although it was growing, the increase was slow, rising less than five percentage points in the eight decades between 1921 and 1981, and less than two percent between 1951 and 1981. However, Canadian women born in the first two decades of the 20th century had unusually high rates of childlessness and low rates of fertility, as well as low rates of labour force participation. By the 1960s, elderly women were significantly at-risk of poverty and the pensioner imagined by those designing the public system was very often a woman living alone. The CPP (and QPP) was designed to meet her needs.

There were also ideas about typical patterns of employment. The post-war boom created a labour market in which employment provided protection against poverty. Wages were sufficiently high that having a job brought the capacity to support oneself and one's family. Therefore, those at-risk of low income were men temporarily without work, that is, those who were unemployed because of job turnover or for structural reasons such as seasonal work. Unemployment Insurance responded to this risk. The categories of the population at-risk of poverty were those unable to work, because they were disabled or considered otherwise occupied (raising children, for example). Family allowances and other transfers in continental European countries or social assistance in Canada existed for them.

Such patterns of social knowledge led policy intellectuals to design social and employment programs that maintained a clear distinction between being "in" and being "out" of the labour force, and with different programs for each group. Access to social protection was clearly organized according to one's relationship to the labour force, while the labour market functioned as the best safety net of all.

Behind these basic statistics are important cohort patterns as well. The group that was the fastest growing was Canadians older than 80; it increased by 41 percent. If the cohort of “young retirees” grew by only six percent since the census of 1991, the next two decades are projected to see this group increase by fully 31 percent. At the other end of the life cycle, the cohort of young workers, aged 25-34 declined in size, falling 18 percent in the last decade (Statistics Canada, 2002a: 28). Similarly, the number of children aged 0 to 4 declined 11 percent between 1991 and 2001.

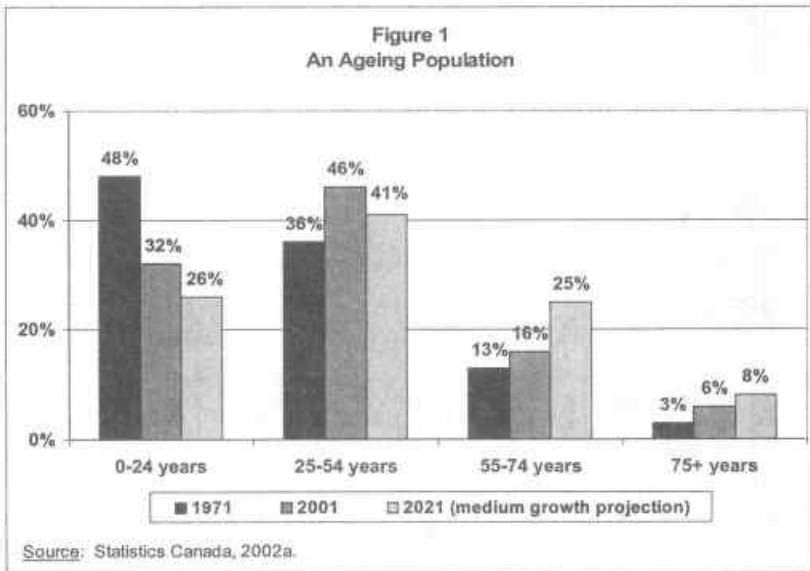


Table 1. Patterns of Social Change over Time in Canada

	1941	1951	1961	1971	1981	1991	2001 ⁴
Total fertility rate ¹	2.8	3.5	3.8	2.1	1.7	1.7	1.51
Divorces per 100,000 married couples ¹	-	180	180	600	1180	1235	1222*
Births to non-married women, as a percent of all births ¹	4.0	3.8	4.5	9.0	16.7	28.6	36.3*
Lone-parent families, as a percent of all families with children ¹	9.8	9.8	11.4	13.2	16.6	20.0	24.7
Women's labour force participation, as a percent of women over 15 ²	20.7	24.1	29.5	38.7	51.9	58.4	59.7
Men's labour force participation, as a percent of men over 15 ²	85.8	83.8	77.7	77.3	78.7	75.1	72.5
Population over 65 as a percent of total population ³	6.7	7.8	7.6	8.0	9.6	11.4	13.0
Population over 85 as a percent of the population over 65 ³	4.7	4.8	5.8	7.9	8.2	9.8	10.7
Persons over 65 living with their extended family, as a percent of those over 65 ³	-	-	-	16	11	8	13
Persons over 65 living alone, as a percent of those over 65 ³	-	-	12.4	18.3	26	28.2	26.9
Population reporting Aboriginal ancestry (origin), percent of total population ⁴	1.4	1.2	1.2	1.5	2.0	3.6	4.4
Proportion of immigrants born in Europe or the United States ⁵			94.4	75.5	42.9	29.6	22.3
Proportion of immigrants born in Asia ⁵							
Urban population	54.3	61.6	69.6	76.0	75.7	76.6	79.4

Notes: 1. Data in these rows (with the exception of 2001) are from Beaujot (2000: Table 4).

2. Statistics Canada (1999).

3. Health Canada (2000).

4. Data in this column are from Statistics Canada Web site, <http://www.statcan.ca/>. *Statistics for 1996.

5. The dates are not census dates, but are the following: before 1961; 1961-70; 1971-80; 1981-90; 1991-2001. Statistics Canada (2003: 39). Statistics Canada includes the Middle East in "Asia."

Changing family structures. We have noted that the social knowledge of the first post-1945 decades relied extensively on the vision of the typical family as living in a home, separate from the work place and being composed of two married adults with several children and perhaps a senior relative, dependent on a male breadwinner. Since then, none of these assumptions describes the actual situation. Homes are occupied differently, family structures are changing, and an adequate income often requires two earners.

The number of one-parent and recomposed families is climbing. In addition, declining fertility, difficulties balancing work and family life, costs of raising children and other pressures mean that parents are choosing significantly smaller families. This has intergenerational impacts; the “bean-pole” family is becoming a reality.

One result of the kinds of changes in family structures mapped in Figure 2 is that more children are living in poor families. Even recently there is some evidence of a reduction in child poverty, as the most recent *National Child Benefit Progress Report* described the situation, a child poverty rate at “17.2 percent is still above the [rate] of 14.6 percent achieved in 1989,”¹¹ when the House of Commons unanimously voted “to end child poverty by 2000.” Of course, the chance of being poor varies significantly by family type, as Figure 3 documents.

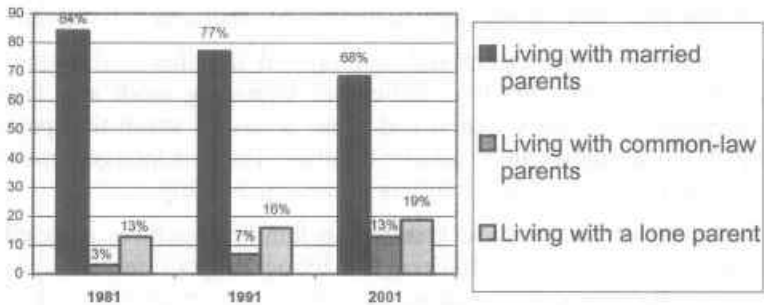
The average number of children per family has also declined, to make families smaller than in the decades before 1945. As in many other countries, we can identify a plummeting Canadian fertility rate. It was 3.8 in 1960 and fell to 1.7 in 1990, with a further decline to 1.5 in 2001.¹² Part of the diagnosis for this decline is the postponement of child-bearing, linked to the length of time it takes young adults to achieve financial independence and stability. Since 1944 the average age of mothers at the birth of their first child has risen from 25 to 27 years, and in the mid-1990s the proportion of

¹¹ See <http://www.nationalchildbenefit.ca/ncb/NCB-2002/summary.html>.

¹² The 2001 Canadian birth rate actually reflected a slight increase, for the first time in a decade, and after a record low in 2000. It rose from 1.49 to 1.51, with the biggest increases being in Quebec and Ontario (*The Daily*, 11 August 2001).

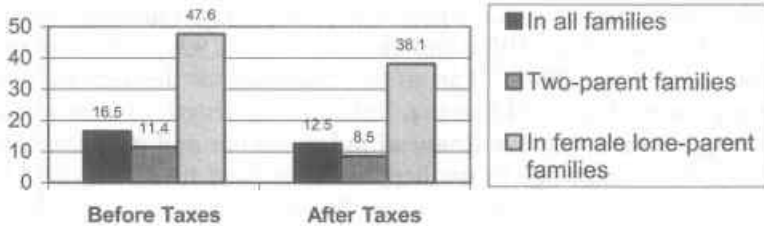
women in their 40s giving birth surpassed the proportion of those 15-19 (HRDC/Manitoba, 2003: 2).

Figure 2
Distribution of Children Aged 0-14
by Family Structure, Canada (1981-2001)



Source: Statistics Canada, 2002b.

Figure 3
Prevalence of Canadian Children* in Low-income Families,
Before and After Taxes, by Family Types (2000)



* Person under 18 years of age. Statistics Canada produces two sets of low income cut-offs and corresponding rates of income (i.e., income including government transfers, before the deduction of income taxes) and those based on after tax total income, which includes government transfers, less income tax. It may also be called income after tax.

Source: Statistics Canada, 2002c.

A diverse society. Immigration is changing the face of many countries, including Canada. Higher rates of immigration or general population mobility are posing challenges to definitions of citizenship rights. The foreign-born population rose to 18.4 percent, up from the 14.7 percent in 1951 (Statistics Canada, 2003: 5). Second, the 2001 census found 13.4 percent of the total population identified as a visible minority, up from 4.7 percent in 1981. Those of Chinese ancestry formed the largest minority group in Canada, 26 percent of the visible-minority population. One in every four persons of Chinese ethnic origin was born in Canada (Statistics Canada, 2003: 10-11).

There has also been a concentration of newcomers, rather than their dispersal across the country. While 36 percent of the Canadian population lives in areas other than the Census Metropolitan Areas (CMAs), only 6 percent of immigrants and refugees in the 1990s settled in non-CMAs. Three cities are the locations of choice for newcomers. Toronto received 43 percent of all immigrants in the 1990s (79 percent of these being visible minorities), Vancouver 18 percent, and Montreal 12 percent.

A society at risk of poverty or social exclusion. Poverty affects approximately one in six persons, with a rate substantially higher in some communities or types of families. Many people, even working full-time and with two market incomes, do not earn enough to support themselves and their families, thereby creating a social category termed the “working poor.” Low-paid work is often also non-standard or contingent, thereby not providing full access either to rights or benefits.

In particular, we note that the rates of low-income are increasing among the youngest and the oldest working age families, as Figure 4 documents.

Numerous studies of the distributional effects of the 1990s labour market exist. Some of the changes (Heisz *et al*, 2002: 25) are:

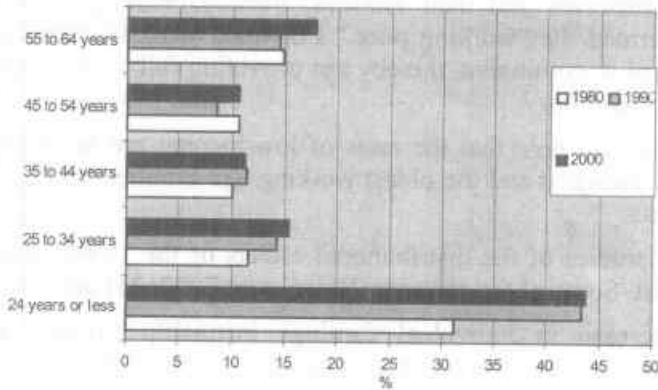
- No increase in individual earnings inequality overall, but important increases in earnings inequality among men.
- An increase in earnings inequality among families in the 1990s.
- Little change in family disposable income inequality over the 1970s, 1980s, to the mid 1990s as the tax/transfer system

served to mitigate the polarization of family earnings. There is evidence that family disposable income inequality may have increased at the end of the 1990s.

- A significant improvement in the labour market outcomes for women, and a general deterioration for men.
- A higher low-income rate in the late 1990s than during the 1980s.
- Deterioration during the 1990s in the average depth of low-income, even during the strong economic recovery to 1998.

These socio-economic changes have provoked a significant amount of re-thinking about how best to meet countries' solidaristic commitment and provide social citizenship. In doing so, and often justified by fears of fiscal crisis, public finance deficits, and high debt loads, as well concerns about citizen disengagement, more and more attention has gone to identifying new practices of social policy and governance.

Figure 4
Families in Low Income by Age of Major Income Earner

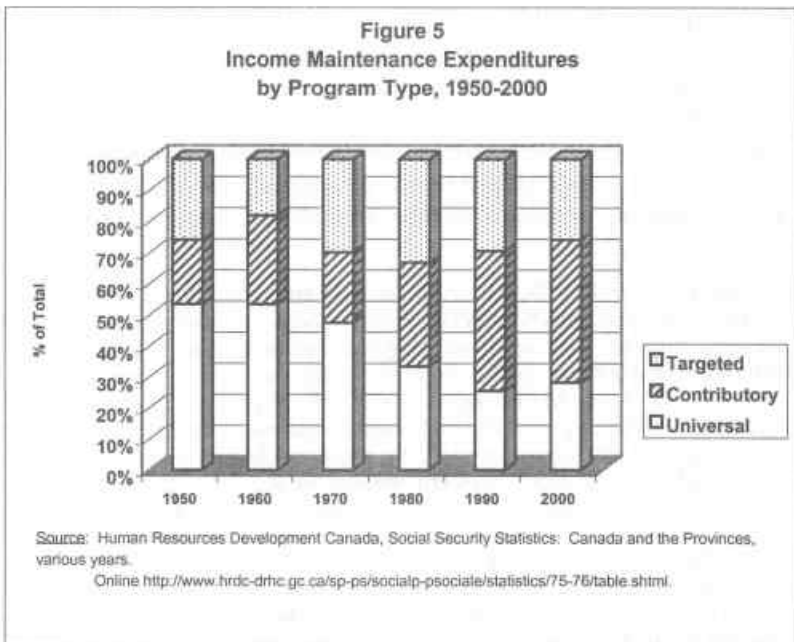


Source: Statistics Canada (2002c).

4.0 What is Being Done?

Section 2 identified three components of the social citizenship policy mix – social assistance to fight poverty, social insurance to replace lost income, and universal programs available to all. Section 4 provides an example of a program of each kind and the reforms being undertaken. Over the past decade, the policy mix has clearly changed, with universal programs becoming less important to overall spending on income maintenance, and spending within contributory programs growing in importance, as Figure 5 shows (from Boychuk, 2003: 30). Universal social citizenship rights are being replaced by social programs that are targeted to specific kinds of persons, deemed in need (or worthy) of receiving them.

As we will also see, changes to the social citizenship policy mix also prompted changes in governance practices, focusing more attention on partnerships and on the role of non-governmental agencies, as well as altered intergovernmental relations.



4.1 Fighting Poverty – A Focus on Children

Being a liberal welfare regime, albeit a social liberal one, Canada has devoted most attention to social citizenship rights intended to provide a social safety net. Moreover, in addressing poverty, by far the most attention *recently* has gone to families with children under 18 years old.¹³

At first, in the 1950s and 1960s income security for families was supposed to be provided in one of two – universally available – ways. Beginning in 1919 the federal government provided a tax-deduction for an adult supporting a dependent child. Then in the 1940s, it began to pay a benefit to families with children, the Family Allowance. Both of these programs were universally available to all families with children, and Family Allowances were not an insignificant public expenditure. Indeed, in “1960, income maintenance was comprised basically of three major programs of comparable size (universal family allowances, universal old age security, and unemployment insurance) ...” (Boychuk, 2003: 12).

By the 1970s, however, provincial social assistance as a program targeted to low-income persons outside of the labour force for a legitimate reason (including lone-parents with a young child or two-parent families unable to find sufficient work) eclipsed family allowances in the policy mix as the way to ensure adequate income. This program was delivered by the provinces, albeit with 50 percent of the financing coming from the federal government. At the same

¹³ In the 1960s and 1970s the major focus in anti-poverty policy was on the elderly, and particularly elderly women who did not have access to pensions through their previous employment contracts. Canadian policy had significant effects in this area, reducing the poverty rate of persons over 65. As John Myles says (2000: 19): “By standards of OECD countries, Canadian public expenditures on income security for seniors are quite modest and are projected to peak at levels *well* below those anticipated in most other Western nations in the next century.... At the same time, low-income rates among Canadian seniors have been brought down to levels that are enviable by international standards. Unlike the United States, where declining poverty rates among seniors have taken place against a background of *rising* inequality, a significant element in the rising living standards at the lower end of the Canadian old age income distribution is a product of redistribution that has taken place *within* the elderly population.

time, the federal government began its efforts to shift Family Allowances from a universal to a targeted program.

In order to understand the way Canada now deals with income security for families with children, it is necessary to follow the story of both federal tax deductions/Family Allowances and provincial social assistance. They are the result of several decades of movement towards targeted benefits. Without going into detail on all the twists and turns, we can say that post-war universal benefits, such as Family Allowances and tax exemptions, were eliminated in the 1980s. In their place came the Working Income Supplement (WIS) created in 1993 to provide a "top-up" to families whose earned income was low, while the Child Tax Benefit (CTB) went to low and middle-income adults with children under 18.

This was the state of play in 1995, when the Minister of Finance, Paul Martin, bought in a budget that provoked a fundamental change in the mechanisms for providing income security and its goals as well as forms of governance. The 1995 federal budget unilaterally abolished the principle of equality in cost-sharing with the provinces for social assistance, by abolishing the Canada Assistance Plan. This was the shared-cost program that had shaped income security since the 1960s. In its place, Ottawa provided the Canada Health and Social Transfer (CHST) as the mechanism for transferring funds to the province. Without going into all the financing details, suffice it to say that the trade-off offered provincial governments more independence in spending decisions against a reduction of several billion of dollars of transfers.

This exchange did not please the provinces. When the Premiers met in the summers of 1995 and 1996 to craft their demands to Ottawa about federalism and social policy, social assistance reform was high on the agenda. The Provincial/Territorial Council on Social Policy Renewal was the arena in which ideas about innovations in social policy were considered. One important initiative was designated as a tool for addressing child poverty. A double-barrelled strategy was adopted to achieve this: income transfers and employability programs.

The National Child Benefit was agreed to by all Canadian governments except Quebec. While the funds initially committed to

the programs under the NCB did not increase, the principles changed significantly (see Figure 6). The federal portion is composed of two benefits, the Canada Child Tax Credit (CCTB) which goes to about 84 percent of all families (albeit on a sliding scale) and the National Child Benefit Supplement (NCBS) which goes to families with the lowest incomes, whether from employment or social assistance. The provincial governments provide services under the National Child Benefit program (although several also pay their own child benefits to employed parents) (Beauvais and Jenson, 2001 describes the program in detail).

The National Child Benefit (NCB) (in effect since July 1998) was designed to serve two purposes: to prevent and reduce the depth of child poverty and to promote parents' attachment to the workforce by ensuring that families will always be better off as the result of working.¹⁴ It seeks to create a more stable base of income for low-income families that face frequent job changes or who move on and off social assistance. The notion underlying the NCB is sometimes described as "taking children off social assistance." The idea is that "by making more income and other benefits and services available outside the welfare system for families with children, many low-income families will find it easier to support their children while in the labour force." The NCB has two principal goals: to reduce the *depth* of child poverty and to promote attachment to the labour force by ensuring that parents are always better off by working. In other words, the NCB was designed to overcome blockages to parental employment as well as to redistribute income.¹⁵

¹⁴See the numerous documents, dating since 1997, on <http://www.socialunion.gc.ca/ncb>.

¹⁵ This is how the Canadian governments described the National Child Benefit in July 1999: "Families receiving social assistance often find it difficult to make the transition from welfare to work without losing benefits for their children. Compared to families on welfare, low-income working families may not be eligible for benefits and services provided through social assistance, such as free dental and prescription drug coverage. Wages earned through employment are not always enough to replace these lost benefits and pay increased employment costs, such as transportation, child care and work clothing. These barriers to employment form a 'welfare wall,' which prevents some families from leaving social assistance and makes it difficult for working families to obtain the

Governments are not indifferent to whether parents seek work; they are committed to fostering labour force participation. They continue to lower the age of the child whose care exempts single mothers on social assistance from seeking employment. In Manitoba, for example, “the assistance system ensured the *right* for deserving single mothers to *full* support until the child reached the age of majority” (Boychuk, 1998: 65), even into the 1980s. This is no longer the case. In all provinces, single parents on social assistance who have school-age children are considered employable, while in some cases, even the parents of infants are considered available for work or training. The range for the “age of exemption” is now from six months to six years (Beauvais and Jenson, 2001: Appendix).

The second way provinces exhibited attention to parental employment was in their stance with respect to the NCB. When the NCB was created, all but two provincial governments decided to *reduce* (known as a claw-back) the income portion of social assistance, so that parents receiving social assistance would not have higher incomes as a result of receiving the NCB.

Finally, the program is meant to foster federal-provincial collaboration in order to improve governance. Hence the attention to negotiations, compromise and the solidification of basic principles of transparency and accountability.

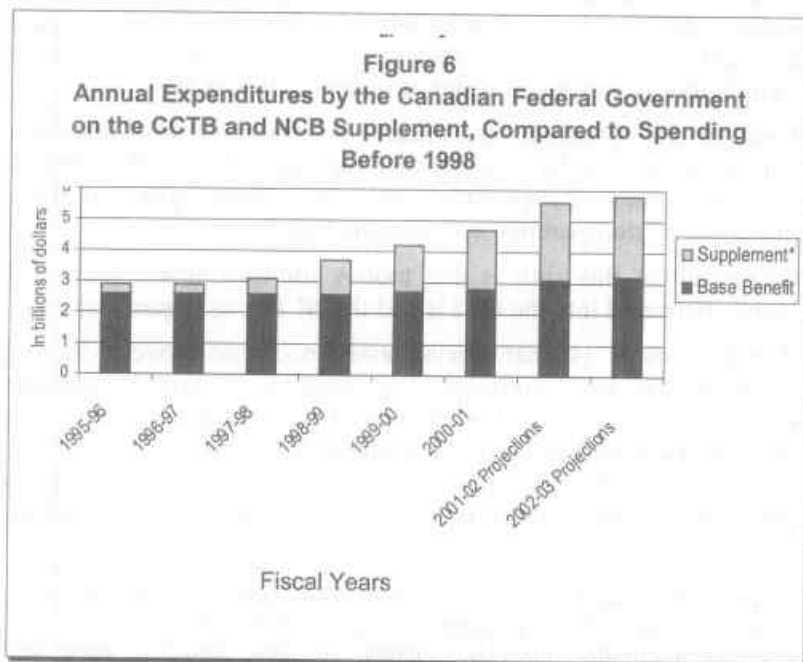
One result of this shift is that money for low-income persons is being channeled into the CCTB and the NCBS, as Figure 6 shows.

Another result is that social assistance, the poverty-fighting program, has lost significantly in legitimacy. Social assistance expenditures and rates of reciprocity of social assistance have both been in sharp decline since the mid-1990s (Boychuk, 2003: Figure 9, p. 33). Benefits have been reduced for all categories (with the partial exception of persons with disabilities) of persons who are

supports they need for their children. The National Child Benefit is helping to ensure that low-income families are better off in jobs. The NCB provides additional financial supports for these families, along with benefits and services to help them stay in the workforce. The NCB has also begun to move child benefits out of the welfare system, so that when parents leave social assistance for work, they keep these benefits for their children.” See http://socialunion.gc.ca/ncb/ncb_e19.html.

not employed. In addition, the pressure to seek employment has increased significantly.

This shift in perspective has also been accompanied by a change in governance. Some provinces have developed compulsory work programs and all have training programs in which they call upon the Third Sector to deliver programs. Thus, the YMCA in many provinces and other community associations of all sorts hold contracts with the federal or provincial government to provide jobs, to provide training, and so on. In addition, the reduction of social assistance benefits has meant an increase in homelessness and loss of food security, so that the Third Sector is also being called upon to provide new services such as food banks and homeless shelters, some of which receive public funds and some of which operate as charities.



4.2 From Unemployment Insurance to Employment Insurance

Unemployment Insurance began in 1941, with the goal being to provide some replacement income to workers temporarily out of work. In order to qualify for benefits, the laid-off person needs to have been a contributor to the insurance, but most importantly needs to have met the “time in work” requirement.¹⁶ This is, in other words, a social program that was intended to operate according to an insurance model.

In the 1970s, Unemployment Insurance (UI) was used to achieve a wide variety of goals, by opening benefits to workers not previously eligible. One example is fishing benefits, made available to persons working in the seasonal fishing industry. UI was also the place for benefits recognizing the increase in women’s labour force participation, that is paid maternity and then parental leaves.

The 1990s brought a significant change in perspective, when the program changed its name to Employment Insurance. First, changes in the 1990s served to significantly limit the scope of benefit coverage. This shift is evident in dramatic declines in the ratio of beneficiaries to the total number of unemployed, as well as in total EI benefits paid relative to the total number of unemployed. In other words, more unemployed people are now *ineligible* to receive EI replacement income (Boychuk, 2003: Figure 8, 32).

While the shift to EI did extend coverage to part-time workers, it remains difficult for certain types of part-time workers – especially part-time workers in high unemployment areas and new entrants to the labour market working part-time to access benefits; young people and women are particularly affected by the restrictions (Boychuk, 2003: 14).

At the same time, other goals than income replacement have been added to this program, often in conjunction with spending coming from social assistance funds and other sources. There has been a move in Canada, as in many other OECD countries, to Active Labour

¹⁶ The number of hours needed to qualify depends on the region of residency and its unemployment rate. The range of hours worked (in the last 52 weeks) is 450 hours for regions with an unemployment rate of 13 percent or higher to 700 hours if the rate is six percent or less.

Market Strategies. The shift to EI was accompanied by modifications in active labour market programs, such as Employment Benefits and Supports Measures (EBSMs), including targeted wage subsidies for private sector employment and subsidized employment in the public or non-profit sector, training, and self-employment initiatives. In this way, the Third Sector (much more than the private sector) became a visible and necessary partner for the labour market policies of the employability era; governance was significantly altered. An indicator of this change in governance came from intergovernmental relations. About one-third of identifiable expenditures on active measures takes place under labour market training initiatives (the responsibility of the provincial governments that have signed Labour Market Development Agreements with the federal government) while about one-sixth was used to subsidize employment (Boychuk, 2003: 17).

With this shift, there has been a blurring of the distinction between EI and social assistance to some extent, with recipients of both programs mixed together for training. Most importantly for our purposes here, however, is the observation that EI appears less as an insurance right, available because one has made one's contribution. Many people who contribute (because it is compulsory from the first day of employment) are not eligible to receive benefits, because they have not worked long enough, while those who do receive the benefit find that it comes increasingly with the expectation of engaging in some form of training.

4.3 Universal Programs under Pressure: Ageing and Health Care

When Canadian social citizenship was first constructed, that is in the decades of the 1940s and 1950s, two universal social programs existed: family allowances (1946) and Old-Age Security (OAS) (1952). These were intended to provide a minimum of income security for the youngest and the oldest residents of the country. Then in 1957 a third universal program was instituted, hospital insurance. While Family Allowances were eventually eliminated, as seen above, the other two continued to develop, albeit in different directions.

For seniors, two components were added in the 1960s: the Guaranteed Income Supplement (GIS) created in 1966 and targeted to low-income seniors and the Canada Pension Plan and Quebec

Pension Plan (CPP/QPP). These are contribution-based systems, dependent on payments by employees and employers. In the 1980s the OAS was clawed back from high-income seniors, but 95 percent of all seniors receive the full benefit. Therefore, analysts tend to describe it as quasi-universal (Boychuk, 2003: 13).

Expenditures on old-age pensions are rising. While the income-tested benefit increased in 1970s and 1980s, spending on it is substantially less than on the CPP/QPP and OAS. Indeed, maturation of the contributory pension program has resulted in a situation in which spending on the insurance portion of the public pension system is about the same as that for the (quasi) universal portion, that is the OAS (Boychuk, 2003: Table 7, 31).

As John Myles (2000: i) puts it:

The expanded role of pensions in the 1980s and 1990s is largely the result of changes that occurred in the 1950s and 1960s. The Canada and Quebec Pension Plans (C/QPP) were implemented in 1966 and the first cohort to receive full C/QPP benefits turned 65 in 1976. Cohorts retiring after this period were also the beneficiaries of the expansion of private occupational pensions that took place between the 1950s and the 1970s. I rely on a detailed decomposition of income by source to show that not only did the maturation of these earnings related programs (public and private pensions) produce a substantial increase in average real incomes but also to a substantial reduction in income inequality among the elderly, due mainly to C/QPP benefits. Rising real incomes went disproportionately to lower income seniors contributing to the well-known decline in low-income rates among the elderly.

Thus, beginning only with a universal component, the public retirement income regime in Canada came to have a complete mix of social citizenship components: programs to fight poverty (GIS); quasi-universal entitlements (OAS); and insurance (CPP/QPP).¹⁷ Its

¹⁷ It also has a tax expenditure component that provides the most benefit to middle- and upper-income earners and seniors, that is those with enough

relative resilience in the face of an ageing society is sometimes attributed to this mix.

The second major program that emerged in the 1960s out of the universal ones of the 1950s is the pan-Canadian health care system, passed into federal law in 1968. It incorporated the 1957 hospital insurance scheme, extending it to cover primary care of all sorts.

Governance issues were important in the decision to establish a pan-Canadian health system in 1966, as was a sense that this system was an expression of common citizenship (Maioni, 2001: 74).

Part of the federal government's rationale for engaging in cost sharing and limiting decentralization was to avoid the development of a "crazy quilt" of provincial health insurance programs by making federal money contingent upon the provinces' upholding certain principles of universality, comprehensiveness, portability and public funding. The goal was to ensure that Canadian taxpayers' money would be used to help finance publicly accountable health insurance systems that ensured the *same basic* social protection among Canadian citizens, regardless of their province of residence. An additional idea was implicit in this health care model: that social benefits, including health benefits, contributed to regional equity in Canada and reflected a "common Canadian citizenship."

This connection to citizenship reappears frequently in current debates about Canadian identity as well (Maioni, 2001: 72).¹⁸

When Canadians are asked what sets them apart from Americans, a substantial number invariably mention the health care system as a distinctive feature of the

disposable income to take advantage of tax exemptions under the Registered Retirement Savings Plan (RRSP). Such tax expenditures are also accessed by the self-employed or others, who do not have a private pension plan linked to an employment contract.

¹⁸ Public opinion polling in 1999 found 89 percent of Canadians felt that *universality* is "very important," 81 percent said the same for *accessibility*, and 79 percent for *portability* (Maioni, 2001: 72).

Canadian identity (National Forum on Health, 1997). Most Canadians consider health care, in common parlance, a right of citizenship. Even though health care is a provincial responsibility, the presence of the *Canada Health Act* reinforces the symbolic link between being "Canadian" and being a recipient of health care services. Indeed, the principles outlined in the legislation (accessibility, comprehensiveness, portability, public administration, and universality) are considered the "norms" of the health care system. In particular, the emphasis on universal coverage, equal access and portable benefits has come to define the citizenship dimensions of health provision in Canada.

This said, however, it is important to recognize that while health services in Canada are considered universal benefits, there is no constitutional requirement for governments in Canada – either provincial or federal – to offer such benefits to citizens. They are legislated, not constitutional. The result for governance is that the federal government is obliged to offer financial incentives (and the threat of financial penalty) to ensure provincial compliance with its preferences expressed in the *Canada Health Act*.

Canadians are having difficulty coming to terms with pressures and demands for new forms of governance in the health care sector. Four different issues of governance have come to the fore. These are: (1) the respective roles the federal and provincial governments, that is, governance across levels; (2) the extent to which governance should include market-based decision-making; (3) the ways to decentralize service delivery to meet local needs; and (4) the allocation of powers and decision-making capacity within the system.

The original program designed in the late 1960s was one for which the federal government assumed a great deal of responsibility by agreeing to fund half the cost, in exchange for setting certain minimum standards that were common across the country. Over time, it has reduced its role by cutting back substantially on its financial contribution. By setting limits on how much money it is willing to inject into the system, the federal government has forced

provinces to take responsibility for hard policy choices about which kinds of services to provide, to whom, and under what conditions. Governments have also called more and more on the Third Sector to provide services such as home care, which in Canada were never part of the public regime.

This form of governance makes the universal benefit a fragile one, and helps to explain why as the recent Commission on the Future of Health Care in Canada (the Romanow Report) among others found, Canadians feel threatened by the move toward greater privatization of the system as well as by cutbacks in funding undertaken by the federal government, such as the major reduction associated with the introduction of CHST in 1995. This is a concern that difficulties in governance are undermining social citizenship.

5.0 Governance and Citizenship – Concluding Remarks

These examples of three logics of social citizenship have shown that there is pressure within each to provide alternative forms of governance. Because Canada is a federal system all of these policies and programs have had consequences for intergovernmental relations, including their form and the level of conflict. But beyond these governance challenges are others. They relate to the role of non-state agents, and especially the Third Sector in the delivery and maintenance of programs of understood to provide social citizenship. Thus there are two questions:

- Are unwieldy and conflict-ridden governance practices in intergovernmental relations undermining social citizenship by prompting reductions?
- Is the turn to the Third Sector to deliver social programs a weakening of rights, both for the recipients and workers?

The answer with respect to intergovernmental relations is a complicated one. It is the case that the federal governments focus on reducing the deficit and certain provincial governments' enthusiasm for neo-liberalism has brought reductions in spending and rights. However, there is also evidence of significant redesign of social architecture, to meet new needs. Therefore, for the moment the jury is still out on the answer to the first question. With

respect to new governance practices and the Third Sector, there is even more cause for concern.

In the case of anti-poverty strategies, the tendency is to increase the role of the Third Sector. While it has always existed, because non-profit agencies and associations have always provided services as charity or to supplement public services, enthusiasm for this type of off-loading has grown in recent years. As in the French discourse of social citizenship, associations in the Third Sector appear to provide possibilities for reviving active citizenship.

It is in many ways a vision of service provision that is the opposite of the professional, universal and centralized form of service that underpinned Canada's health care system in its heyday. If universal access to health care has come to represent the epitome of post-1945 social citizenship, a strengthened Third Sector is proposed by activists, academics and governments as a response to the job scarcity, poverty and social exclusion that characterizes the current situation (see Section 3). It is intended to provide access to services at a time of cutbacks in public spending while offering an alternative to fully marketized rules of access. Therefore, in both its service delivery and its governance structures, it is meant to foster a more inclusive citizenship.

Those who promote a strong Third Sector as a tool for citizenship building explicitly identify its implications for governance in two ways (Jenson, 2001b: 12-13). First, fostering such activities directly indicates the importance of the not-for-profit sector. Proponents identify the organizations of the Third Sector as potentially even better positioned to address problems of unemployment and poverty, and of social exclusion and lack of full social citizenship. These organizations are often considered ideally located to respond to the needs of their local communities, by mobilizing community resources to create jobs and social services that the market will not and the state is unwilling to provide. As well, the Third Sector has its own forms of governance – its principles are those of democratic participation, self-management, and maintaining links between workers and the broader community. It is therefore a decentralized form of service provision, which provides space for engagement and capacity building.

It is important to sound several notes of caution, however (Shragge, Graefe, and Fontan, 2001). Sometimes public services that had been provided as a right of citizenship are withdrawn in favour of services when a Third Sector agency is available and willing to provide them. This decentralization of service delivery to the private, albeit not-for-profit, sector can result in uneven and limited access. Organizations may provide access to services according to their own mandate and their own criteria, thereby transforming a citizenship right into a privilege. Therefore, many argue that the benefits of such new forms of governance must be coupled with a renewed state commitment to protecting broad social rights, and by assigning significant public resources to the goal of reducing inequalities among communities.

Moreover, a turn to service delivery via the Third Sector may generate new forms of social and economic inequities, despite the key goal being social inclusion. In effect, reducing state provision of services also means changing labour markets. When public services are provided by public servants, wages and working conditions tend to be good. In other words, a public sector job is often a means to improved life chances, especially for categories of the population that traditionally have difficulty accessing good jobs in the private sector. Jobs in the Third Sector, in contrast, may be lower-paid, while some significant portion of the labour may be provided for free, by volunteers. Thus, services such as home care, which, in the past might have been provided by a reasonably well-paid public employee, are now provided by an employee who may be working at the minimum wage or even below in order to gain experience and the skills needed to enable her insertion into the labour market or by a volunteer.

All of these concerns underline the fact that governance, social citizenship and social policy are closely connected. Changes to social policy and altered forms of governance must be assessed as to their consequences for social citizenship.

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Appendix A.

Why We Will Not Simply Adopt the Usual Conceptual Framework of Three Welfare Regimes

In the last 15 years, analysis of social policy has almost universally adopted the typology of welfare regimes developed by Gøsta Esping-Andersen (1990). In his work, he identified three ideal-types:

- The liberal welfare regime, which is the category into which Canada falls, along with the United Kingdom, the United States and a number of other countries. These regimes, focused on fighting poverty, use means-tested and targeted programs to do so, and general taxation as the resource basis. The state has responsibility for redistribution and equity, but only in a selective fashion.
- The conservative-corporatist regime, which is the category into which France falls, along with several other countries of continental Europe. Such a regime seeks to respond to risks to income security by replacing lost revenues, and they use social insurance programs to do so. Therefore, workers and employers share responsibility for redistribution and equity, both by their payroll contributions and their management of the insurance system, even if the requirement to maintain a regime is established by law.
- The social-democratic regime, which is the category into which the Nordic countries fall. In this regime, the goal is to ensure more or less equal income and services to everyone, and programs are based on universal access for all citizens or residents. Funding is from general taxation.

This typology is very useful but we will not adopt it as the organizing notion here for several reasons:

1. There are other labels and names that have been used, and they are equally interesting. For example, Jenson, Mahon and Phillips (2003) treat Canada as “social “liberal.”

2. A number of experts are now arguing that particular countries, as they reform their regimes in response to the socio-economic shifts discussed in Section 4, are generating “hybrid regimes” (Hemerijck, 2002: 213), and these might lead to new policy mixes.
3. All agree, including the creator of the classic typology, that this is a moment of potentially immense change, and that “we are heading towards yet another historical regime shift” comparable to those at the end of the 19th century and in the 1930s-1940s (Esping-Andersen *et al.*, 2002: 2; 1). We might call this a time of paradigm change (Jenson, 2001a).

Many welfare regimes, including Canada’s, are involved in what Anton Hemerijck (2002) calls “self-transformation.” By this he means that governments and the institutions of governance in Europe are actively and consciously engaged in “recasting” or redesigning their policy mix in order to “modernise social protection.” They are thinking through and debating options, policy learning is going on, and new institutions are coming into being.

Given that attention to “modernizing” and reform are similarly at the source of this document, the notion of *policy mix*, rather than regime, seems useful in this context of change.

DISCUSSION

Ito Peng
University of Toronto
Co-Chair

Thank you very much Dr. Jenson. This time, I would like to ask Dr. Lee to comment on Dr. Jenson's presentation.

Yeonho Lee
Carleton University

Thank you Dr. Peng. I was requested by chairpersons to limit my discussion within ten minutes so I will do my best.

To the eyes of Korean people and policy makers certainly, the Canadian case is a quite wonderful and impressive case. We understand Canada has successfully combined the European tradition with a neo-liberal and liberal American tradition. So I think that's why we picked the Canadian case in the process of reforming, our own reform of welfare process. I think as a large, the overhaul comment of the paper, my impression is that the paper is quite wonderfully written. It is quite succinct and the message is quite clear, and although for those who do not have much knowledge of Canada, if you read this paper, you will be enlightened. So you must read it. And also the details and macros are quite well balanced so it is a quite well written paper and I learned a lot. Thank you very much.

Before I engage in raising some questions as another overhaul, large comment of the paper, after I read the paper, what I envied Canada the most was that in Canadian social history, I learned that in your paper, you have had a quite firm ground of social philosophy on which you could build up the system of welfare. So I think that is a quite important aspect of Canada. Actually that part is missing in South Korea and many other Asian countries, which are suffering from the weak, lean

social safety net problem. As a discussant of the paper, I am a political scientist, and also in the morning session and early afternoon session, we have touched on many details and technical stuffs but at the same time, also we need to talk about some macro image of social welfare system of Canada because that's what we need when we make a direction. In the title, the citizenship was provided and I think that's important because in the western society, the welfare system was provided as part of the nation-building project. In the early stage of, particularly in the case of Britain, the Elizabethan Poor Law was in a sense a part of a project for nation-building because the government and the state must, it had to provide a reason to the people to live in that territory. So welfare system is the outcome of modernization process of the western society. Although the idea has changed in the 19th century when liberalism emerged, many modifications have been made but nevertheless in the process of modernizations, you had a firm ground on which you could debate and modify the welfare system. Of course in the paper, you have mentioned the influence of the new liberalism represented by Marshall and also as a supplement to Marshall's idea, the paper mentioned about the French collective, solidarity oriented approach. So I think, although these two traditions conflict with each other nevertheless those formed a firm foundation on which the Canadian welfare system was established. But in the case of Korea, we are now talking about the welfare reform, establishment of welfare system after the outbreak of the 1997 financial crisis. Because as we all know, under the developmental state, we didn't have enough welfare system. But we learned certainly, and quite accidentally, that we need a social safety net because we need to take care of the workers who are sacrificed by a flexible market. The striking difference between of Korea, Canada, and other European countries is that neo-liberal reform and market-oriented reform was conducted with the decline of the welfare state. That is to say, the neo-liberal reform and market liberalization was possible because you have had a stage of welfare state. But in South Korea, we didn't have that stage. As I said under the developmental state, we didn't have a social safety net. But abruptly we learned that we needed that system to make our market more flexible.

That's why I think our system, our problem is much more complicated and much more difficult to sort out.

I will now move on to raising some questions. I have prepared about six or seven questions but I will skip couple of them. My first question, this paper is a service to describe the macro picture of Canada. After reading your paper, the first question I came to have was that your Canadian system is largely step by step, moving toward Americanized or market-oriented. So in your presentation the universal provision of service has decreased and also the central government's role has declined. So given those facts, I am quite interested in to which direction is Canada moving toward. And also before I came to the conference I thought there should be a Canadian standard of welfare system in Canada. Is it possible to define a Canadian system, whether that exists or not? Second question is, in your presentation Dr. Jenson, in 1990 poverty and exclusion has rather deepened. Listening to that, I was quite interested in whether that trend was related to the rise of NAFTA. In 1994, NAFTA was concluded and also as a result of the conclusion of NAFTA, Canada was also forced to quicken their process of market liberalization. I wish to know is there any relationship between that trend and the trade liberalization. I think that is quite important because South Korea is trying to conclude a couple of more free trade agreements with some other countries. And also, the next question is, you mentioned about governance and increasing role of the third sector. We also have similar problems. But I do not want to mention all the problems of the third sector. However, as a student to this subject, I would like to know, with a rise of the governance pattern in delivering the welfare system, whether your third sector is participating in the delivery social welfare, and in terms of number, size, magnitude, whether the third sector in Canada has increased or decreased. In other words, what is the trend in the third sector before and after the rise of the governance pattern? Also in your paper, the other point which is quite important but nevertheless missing, why the rise of governance pattern and marketization? The paper has produced an ample explanation of the process of the rise of governance pattern

and marketization, but we are quite interested in, of course as a general, if I have to borrow the experience of another country, maybe neo-liberal reform, globalization is one of the reason for the rise of governance pattern and the marketization trend for Canada but I want to know whether that is still applicable to the case of Canada. Also final question if I may, this is rather a simple question. Some Canadian scholars pointed out that Canadian welfare system is relatively richer than the United States system. The problem that occurs in Canada is well-educated young people, professionals, after finishing their education, they rather move to the United States. The space is filled up by new immigrants from other Asian or development countries. I am not sure whether that observation is accurate or not. I am not sure whether that type of Canadian system is sustainable. That's my final question.

Ito Peng
University of Toronto
Co-Chair

Thank you very much, Dr. Lee. I wonder if I could be rude to ask Dr. Jenson to address Dr. Lee's questions within five minutes. Because I want to save time for the last open discussions and wrap up.

Jane Jenson
University of Montreal

Thank you very much for your careful reading of the paper and your comments. I will answer these questions very quickly because each of them deserves almost a full paper. But let me start with the question of, it came up a number of times, the use of the term marketization and neo-liberal. And I think that if I had to make a periodization of the post-war period, I would say that there was a long period from the later part of the 40s but let's say the 50s and 60s, many of the programs that I talked about were put into place and they stayed in place through the

1970s. And then we had the rise of neo-liberalism which began to raise questions about these programs, and it's that period where some of the targeting was developed. In order to control costs, a choice was made to move from universal to targeted programs, to try and really put the money where it was needed. But I think that we are now in a third period and it's important to understand that we moved out of the period of neo-liberalism, and I was very surprised and wanted to ask the question but I didn't have time this morning, when Dr. Lee mentioned the influence of Tony Giddens in Korea. Because Tony Giddens has been very influential not only in United Kingdom where he came from but also in Canada in thinking about what we should be doing, the question is not simply about cutting, retrenching, getting rid of it, rather it's about redesigning, remaking, making new choices, to face new challenges. So I think that the message that I want to give is not that the Canadian system is one that's moving toward marketization, but rather it's one that's moving toward change, perhaps transformation, perhaps a paradigm shift, perhaps not or perhaps just adjustments. But there's more about change than it is to between a big choice of just the market or just the state. But we are kind of re-jigging the mix. Which then moves me to a brief answer to the second part of the question about is there a Canadian system? I don't think that there's a Canadian system but I think that there is a particular mix in Canada, a mix of policy logics and ways of doing and we make changes in some that has consequences in other areas but that we are really dealing with a policy mix rather than some kind of box, which we can say is a system. So that's why I prefer to call it a policy mix than a welfare regime or something. And in my paper, I have an appendix about why I think it's a good thing to do. The question about NAFTA is very very interesting. I don't have time to go into that here. I would just signal it as being a very interesting question. But I think that you can explain certainly the poverty rise that I mentioned. You can explain that much more easily simply by reference to the changes in the labour force, changes in the family structure and the rise of new kinds of low paid work, and the fact that now in many Canadian cities it takes two people working almost full time at the minimum wage to get above the low income cut

off, whereas in the 1950s and 1960s, it took one person working, full time, at minimum wage to get above the low income. So that's a change in the labour force which may ultimately be related to NAFTA or may not be. But you can analyze it quite easily so that therefore as a number of lone parent families has increased where there's only one person to put into the labour force, obviously there's a difficulty there in terms of earning enough. Whether the third sector has increased or not, is again a large question and a huge amount of work has been done in Canada on what we call the voluntary sector which is another name for the third sector. We can't quite settle on what we should call it.

But basically whether it's increased in size or not, you can go and have a look at the numbers but what has increased clearly is its role as a visible and preferred delivery mechanism for social programs. So it plays a double role. It is not only an advocacy group but it's also a delivery group and that makes a tension in what it can do and the space that it can do it.

Ito Peng
University of Toronto
Co-Chair

Thank you very much and that was within five minutes. With this, I would like to end this session and I would like to pass the microphone to Dr. Jenson and Dr. Yang for the next session. I would like to thank Dr. Jenson for her presentation and Dr. Lee for his discussion. Thank you.

VII. OPEN DISCUSSION & WRAP UP

Ito Peng
University of Toronto
Co-Chair

Well, we have about half an hour left to open the discussion and do the wrap up. I wonder if I could ask Dr. Yang and Dr. Jenson to start this session.

Bong-min Yang
Seoul National University
Co-Chair

Well, I don't know what to start with. This is for administration purposes. They say this place has to be vacated by five o'clock because the next event is coming. So they said they prefer by four but it's too early. So we have time until five o'clock.

Other than that, I just want to invite any questions from the floor because in the first and second sessions, we didn't have enough time to ask questions about the issues raised during the presentations by both presenters and discussants. Are there any questions?

Seokpyo Hong
Korea Institute for Health and Social Affairs

Yes, I would like to ask a couple of questions if you allow me. The first question is about the health system. My understanding is that pan-Canadian health system is often seen as a uniquely Canadian expression of social citizenship and governance especially in contrast to American health system. I believe that Canadians fully supported a universal health care service, considering it a right of citizenship. My understanding is that yet such a right is not on constitution in Canada, and Ottawa is rolling back its responsibility and forcing provincial governments to take responsibilities for policy choices. I believe Dr. Jenson commented that such a shift makes the universal benefits and then, the Canadians are uneasy about the gravity of the privatization, which is taking place at the

same time. Would you, Canadian researchers, say that the famous Canadian health system is being threatened to become Americanized? And my second question is, I believe in 1995 the CAP was gone. The principle of equality in cost-sharing with provinces for social assistance was abandoned and Canada Health and Social Transfer (CHST) replaced the Canadian Assistance Plan and I think the provincials governments obtained, according to the paper, more independence in spending decisions although the amount of transfer was reduced. And in what ways did provincial governments become more independent and how such a shift affected provincial social safety net for low income people? Thank you.

Jane Jenson

University of Montreal

I will just say something briefly about the health system because perhaps Dr. Peng wants to speak to that. I think that part of the reason that the health system is discussed so much is precisely for what you pointed to. It is seen as a major nation-building program in the way that Dr. Lee mentioned, the importance of social citizenship as a nation-building tool and for various reasons Canadians have settled on health care as the major distinguishing factor between them and the US. If there is a danger to the health care system, it's related to the issues we talked about this morning, the new challenges and necessities of deciding whether care that's provided outside the hospitals and outside the doctors' offices should also be included in the system because that's where the fear about privatization comes from. It's around the questions of medication costs and non-insured services. So it's a design question of what should be incorporated and what should be covered as much as it is a principle question of whether it should be the market or the state. In terms of the CHST, you are absolutely right to point to that as a defining moment. If I had to pick the moment in Canadian social policy, or even the moment in Canadian history, it's been the most important in the last 30 years. I would say it was the 1995 budget when the CHST was invented that, health and social transfer was invented. And it was important because it was done

unilaterally by the federal government. Because it made a trade off to the provincial governments of cutting the transfer substantially in exchange for saying that you won't have to have anything overseen any more. Then the federal government had to scramble to try and remain an actor and a player and had to define what its role would be in the situation where it sort of had given away, its right to organize and to lead provincial actions. So what we saw immediately was the work around the social union framework agreement and one big part of which is a National Child Benefit. You see this goes to your point about how they are more autonomous. What you see is that the provinces under the National Child Benefit have to report on their spending. They just have to say we spent it this way, this way, and this way. And that's it. So they can choose where they are going to spend it under what programs. We talked this morning about the childcare accord and this was a very difficult agreement to come to in which the provinces would actually agree to spend the childcare money on childcare. Because now all they have to say is what they are going to spend the money on and report in a very general way. So that's where there's more autonomy.

Ito Peng
University of Toronto
Co-Chair

I will just add to Dr. Jenson's answer. You asked if Canadian system is becoming more Americanized. My impression is that at least, if you look at the latest health care commission reports such as Romano report, there is a very clear indications that Canadians still value the public health care system as it is, and would like to maintain that system. The question is as Dr. Jenson said, in redesigning that system to make it more sustainable and comprehensive. So my impression is that I don't think there is a shared consensus that we should move toward an American model or anything, I think we want our model but we want to make it more effective, efficient, and more sustainable.

Jane Jenson
University of Montreal

And the other thing is that you have to be careful because one of the things that's happening is that the United States is inching towards a much greater coverage as a result of the welfare reforms after 1996, and so there actually is a greater coverage in the United States than there was because they are including children, and then the parents of children, and all kinds of things like that, which we tend not to talk about.

Ito Peng
University of Toronto
Co-Chair

Any other question? I think people could ask in Korean as well as in English.

Soon-il Bark
Korea Institute for Health and Social Affairs

오늘 주제에서 잘 다뤄지지 않았는데 캐나다가 고령화사회로 가면서 노동력이 감소했을 것이고, 또 노동의 생산성이 떨어져 갈 것 이다. 고령화사회로 가면서, 그것에 대해서 소위 potential economic growth rate을 유지하기 위해서 어떠한 전략들을 경제정책측면이던 사회정책측면이던 어떠한 정책들을 취했는지 좀 설명해주시기바랍니다.

Bob Baldwin
Canadian Labour Congress

I guess that I don't see the consequences of ageing in exactly the same way as you do. What I do take and agree with you on is that labour force growth in Canada should drop to about zero, somewhere between 2010 and 2020. And it's true as a result that all economic growth will stem from productivity growth rather than expansion of labour force. I think what I don't agree though is on

the impact of ageing on productivity. In date, if anything, I think one should expect that a relative shortage of labour and in fact may attract further capital investment and enhanced productivity going ahead in addition to which the labour supply of the future will certainly have a higher level of education attainment than it was true in the past. And just putting those things together I don't see a decline in productivity growth. Although I do worry about overall rates of the economic growth because productivity will be its only source going forward.

Bong-min Yang
Seoul National University
Co-Chair

노령화가 되면서 life-long에 대한 투자를 늘이고, 교육에 대한 투자를 늘이게 되고, 또 saving을 많이 하게 됩니다. 이 saving 이 증가하면서 투자가 늘게 되어서 생산성은 떨어질지 모르지만 Mr. Baldwin 이 말씀하신 것처럼 capital investment 가 전체적인 생산성을 make up 하는 메커니즘으로 가게 되더라고요. 그래서 아마 캐나다에서도 결과적으로 생산성의 큰 손실이 없이 사회가 지탱하게 되는게 아닌가 생각이 됩니다.

Rianne Mahon
Carleton University

I just might add though that I was very struck when I was reading before I came here about, once again, even though Korea is supposed to be liberalizing and letting more market determinations, more global market determinations, that there still is industrial strategy. And that's something that Canadians have given up. So we have something to learn from you, maybe less in social policy but maybe more in industrial policy.

Question from the audience

발표를 매우 잘 들었습니다. 그리고 끝까지 앉아 있던 보람을 느낍니다. 왜냐하면 Jane Jenson 교수님의 사회정책에 대한 발표가 저한테 새롭게 다가왔기 때문입니다. 그럼에도 불구하고 오늘 전반적인 발표를 보면서 캐나다 복지정책을 보니 많은 부분이 정부에서 가정으로 이양되어 가고 있다는 느낌을 받았습니다. 그러면서 한편으로는 매우 깜짝놀라기도 했구요. 지금 한국에서는 가족들이 굉장히 빠르게 해체되어 가고 있습니다. 아까 이해경교수님이 발표하신 것처럼 이혼률의 속도가 굉장히 가속화되어서 놀랍게 변화하고 있습니다. 그럼에도 불구하고 오늘 캐나다사회정책에서는 이혼에 관한 문제가 논의되지 않았던거 같습니다. 이혼과, 해체되어 가는 가정과, 그리고 노인에 대한 또는 빈곤에 대한 부담이 가족에게 전가되는 데는 어떤 관련성이라던가 또는 대안이 있지 않을까 하는면에 대해서 언급해주시기 바랍니다.

Jane Jenson

University of Montreal

The way that Canada deals with divorce is by talking about lone parent families. So we take divorce to be something that exists in private sphere but has consequences by production of increasing numbers of single parent families most of which are headed by women and which have a very substantial risk of living in low income. So that many of the mechanisms which are directed towards dealing with low-income and facing up to low incomes, are in fact, you can trace back to the changes in family structures whether it's divorce or other changes. In terms of the care for the elderly, which has family dimensions, it's not so much putting things back into the families because they have always been there. Most of the LTC for dependent elderly persons is provided and has always been provided in the family with the exception of that percentage of people who were in institutions. So that the family

has always had a major responsibility for providing for the elderly people. The question is, will we continue to leave that responsibility to the family or will we think of other ways of confronting the fact that people need homecare or other kinds of care as they get older. And as we heard this morning, the discussion has not advanced very far. It's been raised, some changes have been made and some mechanisms are in place but it would be hard to say that Canada is on the leading edge of dealing with the questions of LTC in the face of new demographic and new family circumstances. That's not a place to look for a model. If you are looking for a model other than Germany and Japan, you would want to look at the Nordic countries, you would want to look at Austria, or even at the Netherlands and Australia. Because they have much more interesting solutions to that. But I think that your major point is absolutely key which is that all these issues are interrelated. And if you just take one and don't talk about the whole package, then you are likely to make an error in program design. So if you just talk about ageing without talking about fertility, women's work, and the availability of childcare spaces, you are not going to deal with the ageing issue satisfactorily.

Ito Peng
University of Toronto
Co-Chair

Thank you very much. I am very mindful of the time and the fact that we have to clear out of here by five o'clock. I wonder at this point if I could ask Dr. Jane Jenson to wrap up and summarize today's symposium.

Jane Jenson
University of Montreal

I am not going to summarize because otherwise we are going to be here all day. I do want to make a couple of points because I think it's important. I want to stress a point which I heard, and I think quite correctly, from H. E. Denis Comeau this morning when he

said that the purpose today is not for Koreans to learn from Canada but for the learning to go in both directions, and I think that's absolutely key that we have to think of this as something that goes in both directions. And so what I want to emphasize that in a couple of ways is by saying a few words. When it was first suggested that I would participate in this group, I thought, well, going to Seoul would be nice but what will we talk about? What could we possibly have in common? But what I discovered as I prepared for this presentation and as I heard these presentations, is that it's amazing how much similarities there are. And while we are at different points in the process as a number of people have pointed out most recently Dr. Lee, the challenges that Canada and Korea faces are very similar. I will just run through the list to remind you. The ones that we've been talking about are ageing, falling fertility, new technologies, new technologies in health which make the cost of health care rise but also the need to prepare both young people and life-long learning for work in the post-industrial service sector. One of the things that's common to both Canada and Korea, and I think this is new if we were thinking about if we were here in 1945, would we be talking like this? I think not. I think what's new for both places is the starting point which is to talk about families and the relationship between families and welfare, and families and work and the importance that we place on that. And why is this? It's because the assumptions both Canada and Korea worked with about what families could do and what families could provide are no longer true. You assumed, you made assumptions about elder sons and their wives; we made assumptions about the privacy of the family. But in neither case do they work any more so we start the discussion in both cases by talking about families and these are similar challenges, very common to both. And we also have common, internal challenges. Littler ones. What will we do about financing? How much burden can we bear? Should we talk in terms of burden? What about privatization? What about the new stakeholders? We have new stakeholders, you have new stakeholders. So that discussion is very similar. Given these similarities, what I really learned and I think that it was made very clearly by Dr. Peng this morning is that we are maybe talking here about a process of transformation. You identified this transformation because you've lived through so much so intensely

in the last decade or so in the crisis and the democratization. So you are opened to thinking about this as a transformation. Whereas in Canada, and to a lesser extent but still in Europe, you have to convince people that there's some kind of changes needed and some kind of transformation may be going on. So that in fact what I see from is a way of thinking about transformation which is much more open minded, than the usual discussions where I have to argue with people that changes are happening before we could get on with it. And so just on that, I think that it would be really interesting to talk about Korea and Canada but also to put it into context of thinking about what the Europeans are talking about as well. Because I notice in some of the papers that their references were to European debates. And I think that the three regions are really trying to face up to the question of what kinds of change, and what are we doing. What should we be doing and I want to end, because I know that time is running out, on two points. The first point is that, if we are talking about transformation we are talking about choice. We heard a bit about, don't fall into the path dependency idea but it's really important to understand that we are thinking about choice. And to position ourselves the way that a number of people talked about, think of ourselves as being equivalent of Marshall, or equivalent of Weber, equivalent of Bismarck, or equivalent of these people who said this is what we need, this is how we should get there, rather than saying how come we fiddle this little design and make this little change, but I think the time now is one of thinking about choices. But that said, the other thing that comes through in both comparisons that we've done, is the absolute importance of design. Because the way that you design the program is going to have all sorts of consequences whether they are intended or unintended down the road. And so that we have possible options for making these choices. And the choices are ones that are interconnected. I think that is my third final point. That we can't forget about the interconnections between health and social welfare. You have it in your name. Canada separated it. But I'd be strongly suspicious that in your department you have health and social welfare. And that may be there needs to be more intersection. But certainly, intersection of social and education. If we are talking about the knowledge based and new technologies, we need to think about education and the social and that's where childcare as well as

life-long learning fit in. And the final thing which I am going to take home and see if I can make it fly in the think tank where I work for, is the notion of productive welfare. Because the Canadian government cannot get a clear idea about how the social and the economic are linked. They keep saying they are linked, they are linked, but we don't have a really good way of talking about those links. It seems like that you've made some strides in placing social programs in the big context of democracy, of market economies, interventions, industrial strategies as well as social strategies. So we will try and see whether the federal government will like productive welfare or not.

Ito Peng
University of Toronto
Co-Chair

Thank you very much Dr. Jenson. It's been a very long day and very arduous day for all of you and I really would like to thank on behalf of organizers for your participation and interest, and for staying with us to the end. And with that, thank you very much.

VIII. APPENDIX



Commemorating the 40th Anniversary of Diplomatic Relations
Fêter quarante ans de relations diplomatiques



Canada Korea Social Policy Research project

Canada-Corée project de recherche en politique sociale

Canada-Korea Social Policy Symposium **Canada-Corée - Symposium en politique sociale**

Date: Friday, November 21st, 2003, 08:30 –17:00
Emerald Room, 2nd Floor, Lotte Hotel (Sogong), Seoul

Hosted by: Canadian Embassy in Seoul & ROK Ministry of Health and Welfare

Organized by: Canadian Embassy in Seoul & Korea Institute for Health and Social Affairs

Sponsored by: National Health Insurance Corporation, National Pension Corporation & Air Canada

Friday, November 21, 2003 – Social Policy Symposium

MC: Dr. Seokpyo Hong,

Director of International Studies & Cooperation, KIHASA

Co-Chairs: Dr. Bong-min Yang (Korea) & Dr. Ito Peng (Canada)

- 08:30 Registration
- 09:00 Opening Ceremony
 Welcoming Remarks: H.E. Hwa Jung Kim, Minister of Health and Welfare
 Congratulatory Remarks: H.E. Denis Comeau, Ambassador of Canada
- 09:15 **SESSION I: Health Policy (Chair: Dr. Yang)**
 1) Presentation by Dr. Byongho Tchoe (KIHASA) & Dr. Eui Kyung Lee (KIHASA)
 2) Presentation by Dr. Ito Peng (University of Toronto)
- 10:05 Discussion
 1) Dr. Vasanthi Srinivasan (Health Canada)
 2) Dr. Chang Yeop Kim (Seoul National University)
- 10:45 Health Break
- 11:00 **SESSION II: Family Issues & Child Care (Chair: Dr. Yang)**
 1) Presentation by Dr. Rianne Mahon (Carleton University)
 2) Presentation by Dr. Hyekyung Lee (Yonsei University) & Dr. Yeong-Ran Park (Korea Women's Development Institute)
- 11:50 Discussion
 1) Dr. Yeong-Ran Park
 2) Dr. Peng

- 12:30 Luncheon jointly hosted by Canada & Korea
Venue: Crystal Ballroom, 2nd Floor
- Keynote Speech: Mr. Kyung Tae Moon,
Deputy Minister, MOHW
- 13:45 **SESSION III: National Pension (Chair: Dr. Peng)**
1) Presentation by Dr. Sang Kyun Kim (Seoul National University)
2) Presentation by Dr. Bob Baldwin (Canadian Labour Congress)
- 14:35 Discussion
1) Dr. Mahon
2) Dr. Sukmyung Yun
- 15:15 Health Break
- 15:30 **SESSION IV: Citizenship, Governance & Social Policy (Chair: Dr. Peng)**
1) Presentation by Dr. Jane Jenson (Université de Montréal and Canadian Policy Research Networks)
- 15:50 Discussion
1) Dr. Yeonho Lee (Yonsei University)
- 16:10 Open Discussion & Wrap up
(by: Dr. Yang & Dr. Jenson)
- 17:00 End

