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*Generative Balanced Model of  
Welfare*

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# **Chapter I. In Search of a New Welfare Model**

In the existing welfare states, unemployment and income disparity are severe problems and excessive welfare expenditure has threatened government finance, driving it towards a budget deficit crisis. Their over-generous welfare benefits have been criticized for diminishing welfare recipients' work incentive. To cope with these problems comprehensively, efforts need to be made to find a new welfare model. In the establishment of a new welfare state model, several essential elements are to be considered: unemployment, income inequality, financial crisis, stagnation and deteriorating work incentives.

The social democratic welfare model allows active governmental intervention in order to improve equality, thereby increasing the size of government. As a result, the expanded governmental function creates a burdensome bureaucracy and hampers effectiveness. Serious financial imbalances, primarily caused by over-generous benefit schemes that do not take into account the balance between contributions and benefits, creates a climate inimical to sustainable development, and the subsequent decline of work incentive and the withering investment motivation appear as clear signals of an unsuccessful model. Meanwhile, the neo-liberalist model seeks minimized governmental intervention and places priority on efficiency based on the free-market system. However, there are serious social problems resulting from this scheme, including massive unemployment, an aggravated poverty ratio and the increasing social isolation. These two welfare models play major roles in today's economies with starkly contrasting policy goals. However, they fail in effectively addressing several concerns, including continuing unemployment and the poverty gap.

Welfare models of advanced western countries have evolved over long periods; however, many problems such as excessive welfare dependency and bloated non-productive welfare expenditure have resulted. States working to downsize welfare expenditure have met resistance from welfare recipients and political elements. Korea has achieved a very compressed economic growth in contrast to other advanced countries. As a result, rapid income increases and explosive welfare demands may create a more severe welfare expansion crisis than that of advanced western countries. Therefore, to prevent problems experienced in the western welfare system, design of a new welfare system should set its priority on human development and active labor market operation. Productive Welfare's fundamental purpose lies in enhancing national competitiveness and further extending welfare capacity into cultural and environmental sectors to achieve improved quality of life

*Table 1-1 Comparisons of Welfare States*

	<b>Social ++Democracy</b>	<b>Neo Liberalism</b>	<b>A New Model</b>
Govt. Size	• Big govt.	• Small govt.	• Functionally efficient government
State Intervention	• Intervention increase	• Citizen autonomy	• Generative <sup>1)</sup> motivation
Market Economy	• Mixed economy	• Free market	• Mixed Economy
Labor Market	• Active labor policy	• Laissez-faire	• Active labor policy
Policy Target	• Income redistribution	• Supply economy	• Generative and balancing
Social Security (Quality of Life)	• Social Security System (active)	• Social Safety Net (passive)	• Social Safety Net (linking, generative)
- Unemployment	• unsolved	• unsolved	• Self actualization
- Income Disparity	• unsolved	• Deepened	• Poverty escape
- Financial Crisis	• Deepened	• n. a	• balancing resources <sup>2)</sup>

1) Generative  $\Rightarrow$  generation of income and quality of life

2) Balancing  $\Rightarrow$  Resources Supply = Resources Demand

Productive Welfare can be defined as an active welfare policy aiming at social productivity improvement through economic value creation, based on the fundamental welfare drive towards equality. That is, Productive Welfare begins on the firm premise in that every single citizen in the society should be guaranteed and secured basic livelihood as one of their basic rights. With this premise, Productive Welfare acknowledges and stresses human development and self-actualization by means of education and work opportunity. Combining these elements, it aims at balanced development of equality and efficiency.

While the existing social welfare system has been selective and temporary with a comparatively stronger function as a relief system, Productive Welfare aims at universal welfare based on civil right and both productive and contribution-oriented policies that provide self-support through human development and job creation. Furthermore, considering welfare expenditure as a productive investment, Productive Welfare supports continued human development through job mediation and continuing education, and promotes job creation through systematic self-support in conjunction with training and workfare programs.

In this study, Productive Welfare policy is going to be discussed from the point of view of its generative and balanced measures and will focus on the development of policies to achieve these aims. To this end, each chapter will cover important aspects of Productive Welfare policy. Chapter 2 will look at balanced resource distribution; Chapter 3 will address value generation; Chapter 4 will review generative balanced policy; and Chapter 5 covers Productive Welfare programs and evaluation of the scheme.



## Chapter II. A Balance-oriented Welfare Economy

Welfare economy balance occurs when there is equilibrium between resource supply and resource demand. Resources can be divided into two categories: material and non-material. The latter is composed of several components comprising the quality of life, knowledge, information, culture, patents, intellectual property rights, technologies and sports talent, to name a few.

Balance:  $\text{resource supply} = \text{resource demand}$

Balanced order accepts mankind's given resources as finite. Within this constraint, balanced order assesses resource demand and promotes optimal and efficient distribution of available resources. Resource supply is identified as the total amount of aggregated goods and services, which is equal to the sum of aggregated national income and national wealth.

### 1. Balanced Distribution of Resources

Under balanced distribution ( $RS=RD$ ), the economic structure should create balanced growth, and the economy can be stabilized without any inflationary gap or deflationary gap. Hence, efficient resource distribution can be executed and overall economic and societal quality can be improved.

For balanced distribution, the annual social welfare expenditure should be within annually utilizable resources (budget). The four major social insurance schemes including pension, medical insurance, employment insurance and work injury

insurance should maintain financial balance. Excessive borrowings from the next generation to satisfy the needs of the current generation may disrupt resource distribution between generations, resulting in economic stagnation and social decline.

Unbalanced allocation causes supply-demand imbalance followed by an inflationary gap or deflationary gap. Economic disruption caused by imbalances between Resources Supply and Resources demand distorts resource distribution and alters real price value. The major economic players face myriad external influences in their decision-making. If ineffective distribution becomes prevalent in the society as a whole, and altered terms of trade result, social disorder may occur.

Wage and interest rate policies are examples of balancing mechanisms related to Resources Supply. The former purports to balance labor supply and demand, and the latter to balance capital supply and demand. Low interest rates increase capital demand and investment opportunity, which stimulates production activity. In contrast, high interest rates reduce capital demand and depress investment, which results in declines in production activity. In relation to resource demand, consumption can change in accordance with price, consumption level, and interest rates. Government expenditure is determined by external factors and is composed of ordinary expenditure, treasury loan and investment, and social welfare expenditure.

Under the stagnation period, a consumption stimulation policy can be adopted to boost aggregate demand, or a policy to lower interest rates can be applied to raise investment and consumption, or a financial policy can be adopted to increase government expenditure. All these policies can contribute to increased resources demand and stimulating production activity. Conversely, in an overheated phase, a resources demand restraint policy can be adopted, through which aggregate demand can be carefully regulated by monetary and fiscal policies.

One of the most difficult problems for advanced welfare states is that an overloaded financial burden due to social welfare allowances may put national finances in risky straits. Since The New Model aims at balancing resource supply and demand, finding balance of all segments is desirable only within the range of utilizable resources.

## 2. Value System for Balanced Order

Balanced order determines an optimal distribution arrangement where resource demand falls within resource availability. It assumes that excessive consumption beyond the limitations of available resources and exhaustive utilization of resources reserved for the next generation is a destructive practice. Rational order does not operate on the basis of resource utilization without constraint, deviating from optimal levels. Therefore, adhering to the concept of "balanced order" requiring supply and demand balance is a crucial requirement for rational order.

The value system of balanced order relies on respect for boundaries where individual interests exist within family and community interests. Likewise family interest should not override group interest and there can be no group interest beyond national interest. When any group brings a negative impact on national interest, sanctions should be imposed based on national law. Interests of a single state can be attained by respecting the interests of other nations; hence, violation of other nations' interests is likely to cause conflict. Therefore, there will be a global acknowledgement that abiding by international convention for coexistence brings mutual benefits.<sup>2)</sup>

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2) Individual Interests < Family Interests < Group Interests < National Interests < Global Coexistence < Coexistence with Nature. Individual interests should not precede group interests.

Even with the coexistence of the global community, endless human need will continuously demand inordinate exploitation of natural resources and thus adversely affect ecosystems, for it is part of human nature to pursue what is beyond our need. Possessed by the never satiable desire, we eat and drink to death, and take to excess. But what give one time and capability to work are lives of others in nature. Implicit here is the notion that playing havoc with nature is tantamount to destroying the source of our being. Also, one's neighbor is as much a part of nature as one is, for all humanity is interconnected: my root is my neighbor's and vice versa. It is one and the same root from which all humanity emerged, and we all live in a community of common-rooted individuals. This is what our ancestors, who held the Taoist Weltanschauung, a cosmology of common-rootedness, called "the oneness of heaven-earth-man."<sup>3)</sup>

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- 3) Taoism has been forming building blocks for a large part of value systems, ethos, and cultures in many parts of East Asia for well over two millennia. Here, the great influence of philosophical Taoism on people's understanding of interpersonal and environmental perceptions is worth a brief discussion. Many scholars define the term Tao as the "way" or, more aptly, as the way of nature. One of Taoism's quintessential tenets is that nature an inseparable whole, an interconnected organic unity, with all its manifestations operating according to a set of inexorable natural laws. This is to say that nothing stands unconnected from anything else, and nowhere is this idea of the interconnectedness of all life and manifestations is grasped more succinctly than in the notion of yin-yang, according to which seemingly opposing elements in nature are not in conflict but in a state of interdependent and complementary harmony, continually balancing one another. This runs antithetical to the traditional Western view that humans, separate from one another and from nature, can exercise manipulation and control over all situations and that with our intelligence we are able to have our environment in hand. Taoist views that the self-regulated mechanism of nature works toward harmony and balance, and any part of nature that develops inordinate qualities creates an imbalance that in turn triggers a corresponding reaction. There are abundant evidences in natural phenomena and human affairs that attest this. Imbalances in nature are counterbalanced by spontaneous reactions, and the more excessive the initial imbalance, the more powerful will be the reactionary force. The actions of individuals and collectives are

Balanced order can be achieved only when the needs of humanity and nature are in harmony. In other words, mankind's continued viability relies on individual or group interests being restrained by community interest and national interest is sought after within the coexisting boundary with other nations. Eventually coexisting with nature in harmony and respecting balanced order will rescue mankind.

### 3. Balanced States and Unbalanced States

A **Balanced State** is defined as a state equipped with an institutional arrangement for maintaining balanced order. When the balanced order is disrupted, or is non-existent, it is called as Unbalanced State. Many of today's problems can be traceable to unbalanced order. The ethical order of mankind and justification of the state are provided for within a balanced order, and an unbalanced state that threatens such elements cannot be supported. Breach of environmental convention, exclusion of other nations' interests, violent protests made by extremist groups, and other challenges to balanced order made by injuring the foundation of peace do not have ethical justification. Consequently, isolation will follow, ultimately leading to further difficulties by the groups or countries engaged in these activities.

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subject to similar principles of nature. Any individual or group that develops extreme qualities or that disturbs the natural harmony of the world will beget corresponding consequences, and the ultimate human goal is to realize consonance with one another and with nature.

*Table II-1 Comparison between Balanced and Unbalanced States*

Institutional Arrangement	Balanced State	Unbalanced State
① Resource distribution (resource conservation law)	• Efficient Equality	• Deepening inequality (gap between the rich and the poor, unemployment)
② Financial balance (budget law)	• Financial Stability	• Financial risk (economic depression, inflation)
③ Distributional equity (property law)	• Prevention of social risk	• Neglecting social risk
④ Intergenerational balance (property law)	• Intergenerational balanced distribution	• Debt increase in next generation
⑤ Interstate balance (international convention)	• Coexistence and co- prosperity among states	• International conflict
⑥ Ecosystematic balance (environmental treaty)	• Ecosystem protection	• Ecosystem Destruction/ Resource Depletion

\* Balance : resource supply = resource demand

The institutional arrangements of balanced order include several components: i) a budget system to maintain financial balance, ii) social security system for efficient resource distribution, iii) adherence to international conventions for peace and prosperity, iv) adherence to environmental conventions for protection of ecosystems and natural resources, v) property legislation for balance of intergenerational resource distribution.

Meanwhile, under unbalanced state conditions, several negative results can be observed such as a widening gap in income between the rich and the poor, increased unemployment, economic depression, and price instability. Also the incomplete social security arrangement for income redistribution will make people socially vulnerable, increase national debt, and cause resource depletion and ecosystem destruction.

## Chapter III. Generating Quality of Life

The term "generative" applies to economic development and quality of life improvement. Economic development contains both economic growth and qualitative improvement of the economy. Quality of life, the element providing satisfaction at the level of consciousness, covers security, self-respect, self-actualization<sup>4</sup>), environmental elements and administrative service, etc. The latter is related to subjective consciousness, whereas the former is a material element. Considering this, material elements cannot replace human security, self-respect, and self-actualization; thus anyone lacking quality-of-life elements cannot find well-rounded wellbeing.

Our value is related to providing satisfaction through material goods, or satisfaction through quality of life. Total supply of value means total supply of both material value, including goods and services, and quality of life provided by self-satisfaction. Meanwhile, material value can bring satisfaction only when it contributes to mankind's spiritual satisfaction. Hence, the former is a necessary element for achieving the latter. In this sense, proper provision for quality of life may become as significant as economic and material supply.

In the welfare state, achievement of equality is set as its supreme goal (Titmuss, Giddens). However, equality as a result of social welfare system makes mankind a passive recipient, which in turn hampers satisfaction from self-actualization using given capabilities and potentialities. Therefore, welfare recipients cannot effectively escape poverty, and their overall work incentive

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4) Giddens, A. 1994. *Beyond left and right. The future of radical politics.* Cambridge: Polity Press, P.190.

deteriorates. Setting equality as one of the goals of the social system is important, as is reducing inequality in the area of self-choice; however both are inferior compared to the satisfaction gained from self-actualization. Since value generation is aimed at material income creation and spiritual quality of life creation concurrently, new assessment in the welfare state will be required.

## 1. Generative Process

Under the social welfare system, recipients are provided with welfare benefits from the state, and these often serve to decrease people's work incentive, creating passivity. Many advanced welfare states in the West have been struggling with low productivity, stagnation, a widening poverty gap and severe unemployment issues that are attributable to recipients' "passive psychology.<sup>5)</sup>" Mankind has survived because of the presence of competition and subsequent honing of ability. Secured income may deprive people of competitiveness and vitality, and the potential risk for the depression of the entire social structure, as has occurred in many socialist countries, may result.

A new paradigm for the welfare system requires a "generative motives system": The "generative" force is defined as generative innovation which aims at bringing new productivity increases and quality of life improvements by means of new technology, new markets, new resources, new information and new services, etc.

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5) Difficulties with the welfare state (distributional equality / passivity):

- Welfare recipients passivity work evasion poverty trap;
- Equality does not always ensure satisfaction. Other elements such as security, self-respect,
- and self-actualization can also influence the satisfaction of mankind.
- The maximum point of self-satisfaction does not lie in equality but in opportunities for choice. One who achieves goals through their own choosing is superior to one loaded with external burden under an equitable state.



Generative innovation<sup>6)</sup> can be classified into two areas: the material and the quality of life innovations. Quality of life innovation comes through better information and knowledge, education and physical exercise, sightseeing and entertainment, and system innovation through new management skills and structural efficiency. New welfare states need to introduce a "generative motivation system" to escape from growth depression.

A "generative motivation system" should streamline the associated legal system for investment motivation, technology innovation, capacity building, social service, and quality of life improvement. Along with this work, it should focus on developing a comprehensive institutional arrangement to systematically link financial policy, monetary policy and administrative service. Stimulated profit-making motivation increases investment and input. Consequently, this will increase employment and capital goods consumption, which will eventually increase gross national production.

*Table III-1 Generative Motivation Policies*

Policies	Targets	Instruments
• Investment Inducement Policy	• Income Generating	• Interest Rate Policy
• Technology Innovation Policy	• Productivity Improvement	• Secure Profit
• Human Development Policy	• Capacity Improvement	• Training and Education
• Work Incentive	• Self-actualization	• Low Income Saving
• Voluntary Work	• Social Solidarity	• Service-time Saving
• QOL (Culture, Sports, Leisure, Education)	• Welfare improvement	• Cultural Improvement

6)

Generative Innovation	<ul style="list-style-type: none"> <li>• Material Innovation new technology, new market, new resources</li> <li>• Quality of Life Innovation Better Service, Information/Knowledge Service, Cultural Education/Physical Exercise, Sightseeing, Entertainment</li> <li>• System Improvement New Management Skill, Structural Efficiency</li> </ul>
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## 2. Generative Policy for Degenerative Society

The community establishes national legal order based on the social contract and creates common interests by yielding part of its private interests to others. However, social development will be deterred, and a degenerative process will be accelerated, in cases where exclusive group interest is stressed and legal order is violated by emphasizing individual interest and specific group interest over public interest and national interest.

The deterioration of states and organizations occurs when specialized group interest precedes community interest. When the fundamental regulation of community is unstable, due to conflict of group interests, regional conflict, political feuds, corruption, legal order violation, public order disturbance, it becomes very difficult to address structural inefficiencies that add to social costs. Deterioration results in the loss of national competitiveness and causes economic stagnation that brings on economic crises. Economic recession and the social degenerative process are cyclical processes.

To block the social degenerative process<sup>7)</sup>, an institutional arrangement to effectively address different group interests is required. Under the three-tier coordination scheme<sup>8)</sup>, an interest adjustment committee, such as a "Tripartite Coordination Committee," executes the first step of coordination. Pending issues are brought to the "public interest protection committee" within the constitutional court and go through the second coordination

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7)

Degenerative Process					
Interest Group	Public Interest	Destruction	Social Disorder	Insecurity	
Inefficiency	Loss of Competitiveness	Disinvestment	Income Reduction		
Degenerative Stagnation					

- 8) Three-Tier Coordination Scheme: TCS  
 = (I.Tripartite Coordination Committee) + (II. Public Interest Protection Committee in the Constitutional Court) + (III. Referendum)

process. The most serious conflicts, which cannot be resolved at the second tier, become a subject of the third coordination scheme that requires a referendum to make a final decision and creates legislation to solve the conflict.

Lack of committed effort made to secure social order affects the overall structure of the society. Especially in Korean society, there has been a plague of social disorder, and people have a deep-rooted negative perception towards societal/governmental/labor processes because consultation, negotiation and coordination are not expected, and group interest suppresses national interest and public interest. Such a negative perception originated in our long history of suffering from numerous foreign invasions and financial crises causing massive layoffs. Therefore, only balanced social order can remedy the prevalent social pathology and bring stability into society in order that we may recover rationality.

Several preconditions should be satisfied to convert degenerative society into generative society: clear policy targets, active and productive welfare economic policies, efficient and improved social systems.

Table III-2: Generative Balanced Policies

Degenerative Society ⇒	Generative Balanced Policies
I. Policy Targets: Confused ⇒	I. Policy Targets: Clear
<ul style="list-style-type: none"> <li>• Social Instability (Social conflict, QOL deterioration)</li> <li>• Economic Growth/Economic Depression</li> <li>• Deepened poverty gap, increased unemployment</li> </ul>	<ul style="list-style-type: none"> <li>• Social Stability (QOL improvement with social welfare)</li> <li>• Balanced Growth (Balanced economic growth and stability)</li> <li>• Coexistence of the rich and the poor; Resource conservation; Ecosystem Protection</li> </ul>
II. Passive Welfare Economic Policy ⇒	II. Active Welfare Economic Policy
<p>Incomplete Basic Security lack of SSN</p> <ul style="list-style-type: none"> <li>- Income Security(State Dependent)</li> <li>- Medical Security(Increasing self-burden)</li> </ul> <p>Poverty Trap, Poor Living condition</p> <ul style="list-style-type: none"> <li>- Depending on the Passive welfare allowance</li> <li>- Insufficient Education and Training</li> <li>- Insufficient Innovative Investment</li> <li>- Lack of technology innovative and investment opportunities</li> <li>- Low social investment</li> </ul> <p>Financial Crisis from finance exhaustion</p> <ul style="list-style-type: none"> <li>- Benefit-defined Social Insurance</li> <li>- Harming work incentive by basic income security system</li> </ul> <p>Economic Depression Economic Instability</p> <ul style="list-style-type: none"> <li>- RD <math>\gg</math> RS</li> <li>- Increased Unemployment, Increased</li> </ul>	<p>Basic Security Policy (SSN) Income</p> <ul style="list-style-type: none"> <li>- Security (stimulate self-help effort)</li> <li>- Medical Security (Completed)</li> </ul> <p>Active Program for poverty escaping</p> <ul style="list-style-type: none"> <li>- Self-supported improvement (Social Sector Job Creation Network)</li> <li>- Lifelong Improvement Network</li> </ul> <p>Innovative Investment</p> <ul style="list-style-type: none"> <li>- Investment for Technology innovation, Management Innovation</li> <li>- Social Investment, QOL Improvement</li> </ul> <p>Finance Balancing Policy</p> <ul style="list-style-type: none"> <li>- Contribution-defined social insurance</li> <li>- Generative Basic Income Security</li> </ul> <p>Attaining Economic Balance</p> <ul style="list-style-type: none"> <li>- RD = RS</li> <li>- Unemployment, Price, Stable distribution</li> </ul>
III. Adverse Function of Social System ⇒	III. Social System Improvement
<p>Incomplete social order</p> <ul style="list-style-type: none"> <li>- Confusion of Basic Social Order</li> <li>- Lack of Rule of Law</li> </ul> <p>Intense Group Interest</p> <ul style="list-style-type: none"> <li>- Insufficient Public interest seeking</li> <li>- Prioritization on group interest</li> </ul> <p>Bureaucracy</p> <ul style="list-style-type: none"> <li>- Inefficient Bureaucrat</li> <li>- Bureaucratic Corruption</li> </ul> <p>Inefficient Society</p> <ul style="list-style-type: none"> <li>- Inefficient social system</li> <li>- High cost structure by inefficiency</li> </ul>	<p>Securing Basic Order</p> <ul style="list-style-type: none"> <li>- Rearrangement of basic order</li> <li>- Rule of Law</li> </ul> <p>Coordination of group interest</p> <ul style="list-style-type: none"> <li>- Interest coordination among groups</li> <li>- Priority in Public Interest</li> </ul> <p>Efficient Government</p> <ul style="list-style-type: none"> <li>- Efficient Government, Service oriented</li> <li>- Administrative transparency</li> </ul> <p>Efficient social system and QOL Improvement</p> <ul style="list-style-type: none"> <li>- Effective linkage to social system</li> <li>- Cost retrenchment by efficiency</li> </ul>

## **Chapter IV. Generative Balancing Policies**

### **1. Generative Balanced Policies Program**

Generative Balanced Policies aim at attaining distributional equality and productive efficiency through productive interaction between balanced resource distribution and development motives.

$\text{Generative Balanced Policies} = \text{Balancing Element} + \text{Generative Element}$
--

Balanced distribution occurs when resources supply and demand balance, resulting in optimal resource distribution. The term "balance" can be seen in two ways: quantitative balance and power balance. Generative elements include investment, technology, human resource development, etc., and resulting income creation and employment levels are dependent on the size and effectiveness of such generative elements.

For the discussion of generative balancing policies, specific policy goals including poverty escape, human resource development, employment policy, financial stabilization, investment facilitation are to be explained as comprising two elements: balancing and generative. The Generative Social Safety Net is designed to assist people to escape poverty through policies aimed at providing basic security and helping welfare recipients achieve self-support through work and training programs. As a result, wage levels decrease allowing increased investment and subsequently, the development process is actively spurred. The Human Resource Development Network is designed to improve labor efficiency and productivity through education and training. Human resource development can help people escape poverty and

results in productivity improvement, which is an essential element for national competitiveness. Basic livelihood security for trainees and special education for adjustment to the labor market are required for successful policy implementation. Active employment policy provides substantial assistance for the unemployed and subsidies provide minimum livelihood compensation when they are employed. It is a generative policy aimed at promoting active job placement. **Social Insurance Finance Stabilizer** entails a fixed contribution system that makes payment contingent upon the insurance fee collected from workers. The Reserve Fund will provide a long-term income guarantee through market investment.

*Table IV-1: Generative Balancing Policies*

Policies	Generative Features	Balancing Features	Policy Instruments
① Poverty Escape Policy	Activating/ Empowering	Independence	Social Safety net - Income Maintenance Programs - Low Income Business - Low Income Skill Training
② Human Resources Dev. Policy	Factor of production	Increase in Distribution	· Retraining Programs · Continuing Education
③ Full Employment Policy	Income Generation	Increase in Wage Income	· Labor Net Working - Unemployed, Elderly, Women, Handicapped
④ Financial Balancing For Social Insurance	Funding for investment	Income Transfer	· Social Insurances (HI, PL, UI, WI) · Defined Contribution
⑤ Social Investment Policy	Employment Increase	Income Increase	· Training/ Education · SOC, Parks, Libraries, Social SVC.

## 2. Generative Social Safety Net (GSSN)

Social Safety Nets have three areas of operation: The first area of safety net operation includes the social insurance system; the second area addresses social assistance; and the third area of

safety net activity covers public work, social-sector job creation and emergency aid. Although social safety nets provide basic security, those unemployed with working capacity, or the elderly in good physical condition with work experience; may actively seek-and desire-more active working opportunities. This will add to their self-actualization and enhance quality of life. Social safety nets have created a passive attitude in many welfare recipients. Because of this phenomenon, the motivation to work of welfare recipients is diminishing, and also, concern is growing that income creation may pull those welfare recipients just out of the reach of social assistance programs.

Surmounting these difficulties require, inter alia, Generative Social Safety Net, a social safety net enriched with two additional elements: Productive WorkNet and Generative Motivation System.

A national network keyed toward increasing employment by providing job information and job training opportunities for the capable unemployed and the socially marginalized alike, Productive WorkNet combines several categories including employment network, social sector job network, aged labor force network and social volunteer network. This is an organic information system in which an individual can easily access to job market depending on his/her job-skill development and cumulative work experience over time.

In western welfare states, the concept of "equality" can create a passive attitude that may directly link to economic depression. Therefore, stimulating the major motivation for economic development is required to effectively coordinate "development and balance" for the enhancement of national competitiveness. Generative Motivation System can satisfy self-actualization needs by providing self-support works for low-income workers. Specifically, the system should concentrate on extending its capacity to support wage assistance, education assistance, skill-set advancement, paid social volunteer work, self-support community activity, and seek to build linkages between them. Adding

Generative Motivation System to the social safety net results in the Generative Social Safety Net aiming at converting passive recipients of basic security into active participants. Through such a process, the Generative Balanced Model can be completed for balanced development of society as a whole and improved quality of life.

The ultimate goal of working lies in maximizing satisfaction by attaining self-satisfaction, self-respect, and self-actualization, as well as income creation. Providing an unemployed, skilled labor force with comparatively lower-skill jobs may increase self-satisfaction through working though their wages are insufficient. Currently, a number of retirees have been participating in social volunteer work aimed at generating self-satisfaction, not creating income.

When a nation provides basic livelihood security to its people, numerous jobs including low-skill work, social sector jobs or social volunteer work can be included as part of the total national economic unit. Considering this, any incentive that induces free exchange among sub-units can contribute to increased total labor (L) of a nation and results in increased income creation and self-satisfaction.<sup>9)</sup>

Generative Social Safety Net establishment: In western welfare states, the concept of "equality" can create a passive attitude that may directly link to economic depression. Therefore, stimulating the major motivation for economic development is required to effectively coordinate "development and balance" for the enhancement of national competitiveness.

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9) Total Labor Supply (L) = Ls (Specialized Labor Force) + Lu (Low Skill)  
+ Ld (Simple Work) + Lv (Social Sector Volunteer)



Table IV-2: *Generative Social Safety Net*

Goal	Elements
• <b>Generative Social Safety Net</b>	• <b>Social Safety Net + Productive WorkNet + Generative Motives</b>
① Social Safety Net	Basic Security, Social Insurance, Emergency Aid
② Productive Work Net	Employment Network, Social Sector Job Network, Aged Labor Force Network, Social Volunteer Network
③ Generative Motivation	Investment Motivation, Technology Innovation, Human Resource Development, Work Incentive, QOL Improvement

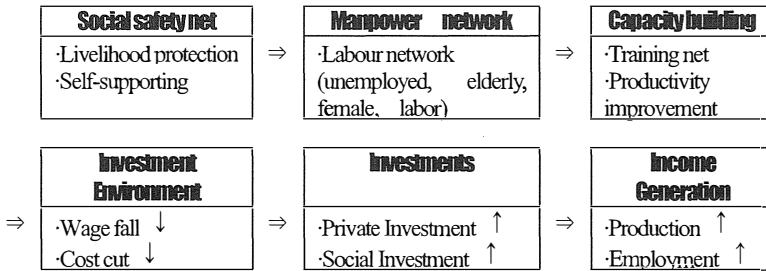
Note: SSN → Productive WorkNet → Increased Labor Supply → Decreased Wage level → Stimulate Investment Motivation → Innovation, Development

### 3. Income Generation Process of Generative Social Safety Net

Having the minimal national living standard provided by the social safety net, the low-skilled unemployed can work for low wages (workfare), and the income generated can then be reserved under the self-support preparation savings system. This, in turn, not only protects the income deduction system, but also brings an increase in the real income by raising total labor, lowering wage s<sup>10)</sup> and resulting in price reduction. Increased income is reflected in increased consumption, stimulating production. A fall in wages and prices expands the window of profit opportunity, bringing increased investment along with increased employment, this then leads to the increased demand for high-skilled laborers and boosts income.

10) Torfing, Jacob. 1999. "Workfare with Welfare: Recent reforms of the Danish Welfare State".

*Journal of European Social Policy*. Vol. 9(1): 5~28. London: SAGE Publications.



SSN support results in an increase of low-skilled workers. Income increase leads to increased demand for mid-level managers and young adults in the labor force. Increased labor supply decreases wages and increases investment, employment and high-skilled labor. The previously illustrated cycle is based on the generative process. Problems associated with the aging society and long-term unemployment can be also solved with the same policy.

#### 4. Experience of OECD Countries

The aim of activation strategies is to encourage the unemployed to be more active in job search and keep more in touch with the labor market. Such strategies range from attempts to provide more effective job-search assistance to the unemployed and monitoring their search activity at one end of the spectrum to making it obligatory on the unemployed to satisfy work tests or participate in active programs or in education and training if they are to continue to draw benefits. Such activation strategies are becoming quite common for young people in OECD countries (e.g. Australia, Denmark, Ireland, United Kingdom), and they are even being extended to other groups of the unemployed in some countries. The recent U.S. welfare reform, with its emphasis on work requirements, time limits for benefits and sanctions for non-compliance, can be viewed as an extreme example of this approach (Martin, 1999).

The role of active labor market policies changes subtly in the context of activation strategy. They can be viewed as a vehicle for enforcing a work test on the unemployed, especially in cases where the supply of jobs is low. In such cases, continued receipt of unemployment benefits becomes conditional on program participation, as in the case in Denmark or Switzerland, and/or by offering a sufficiently wide range of programs so that a maximum number the unemployed will choose to enter them voluntarily. In a related manner, there is a growing interest in many countries to implement effective activation strategies to promote job-search activities and curb benefit abuse by claimants of unemployment benefits. As noted in the previous section, the evaluation literature suggests that these strategies, if used intelligently and supported by effective sanctions, can help stimulate job search and serve to keep benefit claimants in touch with the labor market.<sup>11)</sup>

The introduction of workfare policies in Denmark is inspired by the workfare strategies which re-emerged in the UK and the US in the late 1980s. However, the Danish government has, inspired by the Swedish experience, managed to detach workfare from its neo-liberal 'origin' and to reformulate its contents in accordance with the sociopolitical legacy in Denmark. As such, the Danish workfare strategy is an offensive rather than a defensive strategy. The offensive Danish workfare strategy puts emphasis on: (1) activation rather than benefit and wage reductions; (2) improving the skills and work experience of the unemployed rather than merely increasing their mobility and job-searching efficiency; (3) training and education rather than work-for-the-benefit; (4) empowerment rather than control and punishment; (5) more inclusive workfare programs rather than programs which only target the unemployed (Martin, 1999).

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11) Martin, John P. and Grubb, David 2001. "What works and for whom: a review of OECD countries' experiences with active labour market policies", unpublished

## 5. Generative Balanced State (GBS)

A **New Model** of welfare seeks income creation, improved quality of life and balanced resource allocation in order to reach the ultimate goal of producing a welfare economy with a combination of efficiency and equality. A new model must be a Generative Balanced Model for Welfare Economy as a alternative of welfare state (GBS).

Firstly, a new model calls for dynamic balance between welfare benefits and current societal and economic conditions. In other words, the model constantly alters the size and pattern of resource allocation in welfare sectors in response to ever-changing conditions such as technology innovation, aging population growth, family disbanding, etc. Also, a new model may be applicable to all conditions since it transcends a specific society or time period.

Secondly, a new model is a system in which all people can coexist in peace and harmony. Human society needs a balanced order of competition and coexistence similar to a natural ecosystem. Mere competition emphasizing effectiveness, or distribution that stresses only equality, cannot sustain human society. The balanced combination of "equality" as a social value and "efficiency" as an economic value can play a crucial role in sustaining human society.

Thirdly, a new model requires an institutional arrangement to reach social agreement for the balance of interests. Determining "the optimal balance point" for coexistence under incessant social change should involve all aspects of society. Therefore, a proper institutional arrangement involving the opinions and concerns of corporations, labor, professionals, civil servants, government, civil groups, unions, NGOs, etc. is necessary for the successful implementation of the balanced welfare model.

Fourthly, a new model needs to supports the self-actualization motivation of mankind. Through positive self-actualization motivation of welfare recipients, it aims at promoting an active and

voluntary welfare policy. Further, it emphasizes the incubator role of the welfare system, with a final goal towards returning the unemployed to active economic and social activities.

Table IV-2 describes the new model of generative balanced state as compared to other three state categories, namely, degenerative unbalanced (DGUB), degenerative balanced (DGB), and generative unbalanced (GUB) states. A degenerative unbalanced state is a country where its resource demand outstrips its resource supply, thereby leading into socioeconomic problems involving stagnation, inflation, and income disparity. Countries of this type usually have passive and reactive, rather than active and proactive, social safety nets. Russia, North Korea, and some South American countries are examples in point.

In degenerative balanced states, resource supply is less than or equal to resource demand. Typical socioeconomic problems these countries-Cuba, Iran and Iraq for example-face include stagflation and deficit growth, and, like their degenerative unbalanced counterparts, their social safety nets are usually passive.

Meanwhile, the category of generative unbalanced states includes European countries, the United States and Japan whose resource supply is either larger or smaller than resource demand. It is characteristic of these countries that they face problems of inflation and social conflicts ensuing from their unbalanced growth and inefficient social safety nets.

A Generative balanced state, on the other hand, is an economy whose resource demand is more or less equal to its resource supply. The best example of this category is Singapore. With its social safety net highly generative in character, the country has been making significant headway toward creating balanced growth and continuous improvement in quality of life.

Table IV-3: Generative Balancing State

Allocation <sup>2)</sup> Value added <sup>3)</sup>	Unbalanced	Balanced <sup>1)</sup>
Generative <sup>4)</sup>	<ul style="list-style-type: none"> <li>• <math>RS \neq RD</math></li> <li>• Unbalanced growth, inflation, social conflict</li> <li>• Generative SSN</li> <li>• GUB (Europe, US, Japan)</li> </ul>	<ul style="list-style-type: none"> <li>• <math>RS = RD</math></li> <li>• Balanced growth (Growth, Quality of Life)</li> <li>• Generative SSN</li> <li>• GBS (Singapore)</li> </ul>
Degenerative	<ul style="list-style-type: none"> <li>• <math>RS \ll RD</math></li> <li>• Stagnation, inflation, income disparity</li> <li>• Passive SSN</li> <li>• DGUB (Argentina, North Korea)</li> </ul>	<ul style="list-style-type: none"> <li>• <math>RS \leq RD</math></li> <li>• Stagflation, Deficit growing</li> <li>• Passive SSN</li> <li>• DGB (Cuba, Iran, Iraq)</li> </ul>

1. Aggregate Supply/Aggregate Demand = Material + Quality of Life
2. Resources Allocation: balanced  $\Rightarrow AS = AD$ , unbalanced  $\Rightarrow AS \gtrless AD$
3. Value Added: generative  $\Rightarrow$  Income Creation + QOL Improvement  
 $\therefore$  generative = Income {Productivity [Investment Labor Skill] Security}  
degenerative  $\Rightarrow$  Decrease in Income & QOL
4. Generative process: Active Income Creation & QOL improvement  
Development motivation  $\uparrow \Rightarrow$  Factor Input  $\uparrow$  Investment Increase (L, K)  $\Rightarrow$  Productivity increase  $\uparrow$   
 $\Rightarrow$  Income Creation  $\uparrow$  QOL  $\uparrow$

Productivity improvement by balanced resource distribution, human resource development, and self-actualization can eventually contribute to making our society better and stronger. And also, further emphasis should be given to achieving common peace and prosperity by establishing strong commitments towards coexistence with nature as well as among nations.

Generative Balanced State (GBS) aims to pursue the above-mentioned goals; they are:

- A Basic Security System including all people in the society in a balanced manner
- A Basic Security pursuing co-prosperity and coexistence;
- Resource-saving balanced development satisfying resource demand within the limits of resource supply;
- Generative Motives encouraging work and further development;
- Human Resource Development, developing human capability and boosting productivity;
- International Convention securing equal coexistence among states;
- Environmental Convention aimed at protecting ecosystems.

## **Chapter V. Assessment of Productive Welfare Program**

Productive Welfare is largely composed of four components: establishment of basic social safety net; establishment of self-support system for socially vulnerable classes; job creation, social investment, human development; and welfare system streamlining and modernization. All four components are essential to Productive Welfare and cannot be pursued independently, but should be closely associated, maintaining a mutually complimentary relationship. In other words, effective self-support assistance can be provided only on the basis of a solid basic social safety net system. Human development and job creation will also be facilitated when society is well equipped with a basic social safety net system. Furthermore, self-support, human development, job creation and institutional streamlining can eventually reduce social burden and function as building blocks for a stronger industrial foundation. Additionally, these elements can foster improvement of the basic livelihood security system of all people in the society. As mentioned previously, all four Productive Welfare pillars when combined create a synergistic effect, contributing to quality of life and national productivity improvement. Therefore, when all four programs are fulfilling their roles effectively, Productive Welfare supports social development and balances resource demand and supply.

Establishment of a basic social safety net is the most fundamental prerequisite of Productive Welfare for promoting social solidarity. Centerpieces of the basic social safety net are basic livelihood security, basic welfare service provision, and human resource development.

The National Minimum Living Standards Security Act aims at protecting people's basic livelihood. In order to achieve this, a range of efforts is underway with a view to efficiently providing basic income, healthcare, and educational opportunities. The Korean government executed a comprehensive and general revision of the Livelihood Protection Act and introduced the National Minimum Living Standards Security Act in October 2000. Under this Act, the Government will ensure that basic needs are met for all people living below minimum living standards regardless of their work capability. As result, the number of beneficiaries of Basic Livelihood Security reached 1.55 million, three percent of total population and three times the number of people covered before the Act.

The Act seeks to secure a "homelike" society by implementing various programs to strengthen family function and to ensure that people have at-home welfare services they need. To achieve this goal, a multi-layered and organic social support system should be established to strengthen family self-care system; at the same time, in the spirit of social solidarity society should implement non-governmental caring mechanisms for those needing social protection. To this end, family-support service delivery systems should be extended to complement diversified family arrangements. Introduction of a tax benefit system and incentives for protection providers should be actively reviewed for enhanced family protection.



Table V-1: Productive Welfare Policy: Programs and Assessment

Policies	Goals	Programs	Assessment
I. Basic Social Safety Net			
• Basic Livelihood Security	• Livelihood security	• Basic income/health/housing/education • Simultaneous and sufficient benefit provision required	• System framework is completed (1.55 million beneficiaries)
• Basic Service Provision	• Homelike society	• At-home welfare service, strengthening function) • Caregiver allowance	• Service delivery system is in need of improvement
• Overhauling of Social Safety Net	• Social integration	• Primary safety net (social insurance) — secondary safety net (social assistance) — tertiary safety net (emergency aid)	• System framework is completed
• Human Resources Development	• Functional capacity improvement	• Vocational training, social education/lifelong education • Caseworker retraining	• In need of further improvements in education/training system in connection with job provision
II. Self-support Policies			
• Anti-poverty Measures	• Poverty eradication	• Community-based voluntary works/self-support project/creation of social jobs • Anti-poverty support	• Progressive anti-poverty measures required
• Productive Welfare Policy for the Elderly	• Utilization of elderly expertise and skills	• Job information service and small business incubator programs • Support for paid community volunteer workers	• Elderly manpower network is required
• Productive Welfare Policy for Women	• Utilization of women manpower	• Women manpower development, public educare programs, women manpower network	• Women manpower network is required

II. Self-support Policies			
• Self-support Policy for the Disabled	• Increasing self-support ability of the disabled	• Education programs, vocational training, and small business incubator program, disabled workforce network	• Rehabilitation projects are in need of further substantiation
III. Job Creation and Social Investment(Healthcare/Education/Housing/Culture)			
• Employment Network	• Employment enhancement • Increase work incentives	• Employment network, productive welfare network • Wage-assisted employment	• Unemployment network is completed
• Creation of Social Jobs	• Creation of social jobs that serve public interest	• Home helpers and community-based volunteer workers, community cleaning works, environment protection project, public project, public enterprises (cooperatives)	• In need of increasing social investment
• Investment in Preventive Healthcare	• Health promotion/disease prevention	• Health education center/Health Expo/ health zone	• Health investment plan is under establishment
• Health and Welfare Industries	• Knowledge-based, high value-added industry	• New medical instruments and drug development, food and cosmetics, and biotechnology & information technology	• In need of concentrated investment in health and biotechnology industries
IV. Improvement of System Efficiency			
• Financial Stabilization for Social Insurance	• Financial balance	• Financial stabilization of the National Pension • Financial stabilization of the National Health Insurance	• In need of long-term measures for financial stabilization
• Informatization of Social Insurance Sector	• Information accessibility	• Health/welfare cards • Health/welfare information infrastructure	• Informatization project is underway
• Linking Various Social Insurance Schemes	• Efficiency of management and operation	• Institutional link among the four major social insurance schemes	• Efforts are underway to link social insurance schemes
• Performance-based Management	• Increased efficiency and responsibility in management	• Health/welfare service evaluation system • Performance-based management of social insurance organizations	• In need of further institutional measures

The Social Safety Net has a three-tier structure. The first tier consists of four social insurance schemes including medical insurance, national pension, employment insurance and industrial-injury insurance. The Korean government has introduced these social insurance schemes and through rapid expansion has established universal coverage of the social insurance scheme. The second tier represents social assistance for people under the poverty line. In Korea's case, introduction of the National Minimum Living Standards Security Act has allowed all people living under the poverty line to receive social assistance benefits. The third tier is emergency aid to provide prompt assistance at the time of an emergency situation including natural disaster, war, economic crisis and massive unemployment. Emergency food aid and medical service are good examples of third tier of social safety net programs.

Self-support policy can be divided into counter-poverty measures on one hand, and supporting instruments for the socially vulnerable such as the elderly, women and the disabled on the other. Although counter-poverty efforts are underway to create community-based volunteer jobs, social jobs and self-support small businesses, more active and progressive measures are required to help the poor to climb out of the poverty trap.

Productive welfare policies for the elderly aim at utilizing their expertise and skills. Related efforts include a number of programs that provide support for elderly business startups, elderly job searchers, and paid volunteers. To make the policy more efficient, a full-scale elderly workforce network is required. Productive Welfare policies for women should be directed toward full utilization of women's labor through development of women-oriented programs. Currently, a far-reaching network for women manpower and human resource development are required along with childcare assistance programs aimed at activating women's participation in the economic sector. The new policies aim also to promote rehabilitation of all persons with disabilities by implementing a range of pro-disabled programs. Vocational

rehabilitation education and business incubator programs are available to the disabled.

Job creation measures and social investment seek to counter unemployment, create social-sector jobs, increase the incentive for people to work, and create impetus for greater labor flexibility.

Some of the existing measures include an employment network, productive welfare networks, and wage-assistance employment. Also, a number of programs are in place to create social jobs that serve public interest, including the home-helper project, community-based volunteer works, community cleaning, environmental protection works, public projects, and public enterprise development. However, a greater investment is required to improve the performance of these programs.

The social investment policy on preventive health care seeks to achieve increased productivity by promoting health and preventing diseases through health education centers, health expositions, and health zones.

Health/welfare industry policy aims to transform this industry into a knowledge-based and high value-added industry. A comprehensive set of strategies is under preparation with a view to fostering new innovations in drugs, medical instruments, food, cosmetics, information technology and biotechnology. Health and biotechnology industries require further concentrated investment.

The existing welfare system will achieve greater efficiency with current efforts to stabilize social insurance finances, formulate a social insurance information infrastructure, build linkages among social insurance schemes, establish improved delivery mechanisms, and invigorate performance-based management. Currently, a comprehensive set of financial measures is under preparation to ensure long-term stability of social insurance funds.

To ensure wider public accessibility to social insurance information, an array of new programs are under development,

among them an individual health/welfare card, and establishing a national healthcare/welfare information infrastructure. The efficiency of the social insurance system will be further improved with additional measures to be taken to establish linkages among the four social insurance schemes.

To achieve increased efficiency in the service delivery system and health/welfare management, further efforts are required to initiate health/welfare service evaluation and implement performance-based management systems for social insurance agencies.

## Chapter VI. Conclusion

Although the development of science and technology has considerably enhanced industrial productivity and brought affluence to people around the globe, welfare state models including neo-liberalism and social democracy have failed to establish welfare systems which fulfill the fundamental goal of peaceful coexistence between human beings. A considerable number of the unemployed has been excluded from regular social activities, and the problem of income disparity has not been adequately addressed. The socially underprivileged and poor populations have been dependent on welfare allowances provided by the state, and have struggled against the vicious cycle of poverty. Income disparity between nations has been widened, leaving some nations fighting against famine and struggling to protect natural resources and ecosystems.

The recent trend toward globalization has driven nations around the world into an arena of unrestrained competition. While many nations have been making great leaps in technological innovation and efficiency increases for improved national competitiveness, they have also provided active assistance for excluded populations by means of social safety net systems that ultimately help them re-enter the job market. In the wake of the 1997 financial crisis, Korea has improved its social safety net to aid crisis recovery, and has stressed the leading role of the state in financial recovery and protecting the unemployed by putting them back in the job market.

The Social Safety Net is an institutional arrangement aimed at protecting all people in the society from social risks including unemployment, aging, disease, natural disaster, and death. Social Safety Nets can provide resource redistribution for the poor including the socially vulnerable and help achieve social

equality and maintain balanced resource distribution. Balanced resource distribution can be defined as a process of finding balance between supply and demand of resources. Within the scope of total resource use and allocation, Social Safety Nets seek to ensure the coexistence of rich and poor and improve equality and efficiency through effective resource distribution.

Human beings have throughout time adapted to the natural environment and produced survival techniques from food gathering in the wild to making and improving technology. Noteworthy technological developments brought mass production and wealth. However, to survive international competition amid globalization, nations should combine continuous growth and social development, and any nation excluded from this competition may fall onto a degenerative path. To continue productive and generative growth, generative incentive policy for social development is necessary. Generative policies can provide investment incentive through productivity enhancements such as human development, technology development, capital productivity improvement aimed at economic development. These steps should result in quality of life improvement.

A Generative Balanced Model of welfare based on the combination of growth factors for balance and improved productivity resulting in coexistence is required. Problems seen in Western welfare states such as unemployment, economic downturn, income disparity and budget deficit can be linked to social safety nets and development motives that maximize productivity. Minimum living standards are guaranteed by the social safety net, and people with the ability to work are helped to become self-supportive and independent. The balance of supply and demand for the unemployed, elderly, females and disabled human resources is maintained with the help of the establishment of an employment network. Skill training is provided to unskilled people for capacity building. This in turn brings an increase in the labor supply, a wage hike and the reduction of costs. As result, the investment climate is improved encouraging more

investment. Production and employment are increased creating income, and ultimately, sustained growth and development of a society can take place.

A Generative Balanced Model which combines balanced elements and productive elements can make it possible to perform comparative analysis between welfare economic status and social development levels, and further can be utilized in the evaluation of Korea's Productive Welfare system. Productive Welfare is equipped with systems such as a basic social safety net and training programs to enhance human resources and to help people to be self-supporting and independent. Job opportunities are expanded due to increased investment, and the supply of human resources is regulated through the employment network. Moreover, balanced combination of efficiency and advanced information sharing of social security system can improve effectiveness and reduce cost. Productive Welfare has made the minimum living standard security comprehensive, thereby improving the self-support and training programs. However, given the fact that Productive Welfare aims at the harmony of equality and effectiveness, much time is required in order to achieve the financial stability of the social insurance system through systematic reform in stages.



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