



■ Working Paper 2014-11

## Comparative Study on Policies linking Welfare and Work in Korea, China and Japan

Dae-Myung No

Comparative Study on Policies linking  
Welfare and Work in Korea, China and Japan

Dae-Myung No, Research Fellow

© 2014

Korea Institute for Health and Social Affairs

All rights reserved. No Part of this book may  
be reproduced in any form without permission  
in writing from the publisher

Korea Institute for Health and Social Affairs  
Jinhungro 235, Eunpyeong-gu, Seoul 122-705,  
Korea

<http://www.kihasa.re.kr>

ISBN: 978-89-6827-215-8 93330

---

# Contents

## CHAPTER 1

<b>Introduction</b> .....	<b>1</b>
---------------------------	----------

## CHAPTER 2

<b>Theoretical Review</b> .....	<b>7</b>
1. The reality and policy aggiornamento .....	9
2. Two aspects of linkage between work and welfare .....	12
3. LWW policies of developed and new emerging countries ..	14
4. LWW policies of Korea, China and Japan .....	14
5. Workfare policies of Korea, China and Japan .....	14

## CHAPTER 3

<b>Review of LWW Policy Environment</b> .....	<b>19</b>
1. Success case of a development-focused model: Upside and downside .....	21
2. The rise of the working poor and issues facing social security system .....	22
3. Comparison of employment and welfare policies of Korea, China and Japan .....	14

---

CHAPTER 4

**Comparison of LWW Policies of Korea, China and Japan** ..... 35

1. Similarities and differences in LWW policies of Korea, China and Japan ..... 37
2. Reform direction of social insurance system ..... 40
3. Characteristics of public assistance system and the working poor problem ..... 41
4. Characteristics of LWW system and its reform direction ... 44

CHAPTER 5

**Conclusion** ..... 49

**Reference** ..... 61

## List of Tables

〈Table 1〉 Establishment of Various Levels of Quality of Life and Selection of Index .....	24
〈Table 2〉 Quality of Life Individual Indicators at Various Levels .....	26
〈Table 3〉 Distribution of Individual Index and Relative Weight .....	30
〈Table 3〉 Continued .....	31
〈Table 4〉 Age-specific Scores by Item .....	38
〈Table 4〉 to be continued .....	39
〈Table 5〉 Distribution of Age Group-specific Quality of Life Composite Scores .....	41
〈Table 5〉 Age Group-specific Type Distribution .....	45
〈Table 6〉 Type Distribution by Age Group .....	48

## List of Picture

[Picture 1] Quality of Life Index System for Middle and Old Age and Classification Efforts Progress .....	22
--	----





# Chapter 1

## Introduction





# 1

## Introduction <<

This study compares the policies linking Welfare and Work (LWW) in Korea, China and Japan from the historical perspective.<sup>1)</sup> The LWW policies refer to the package of policies that encourage the working poor to exit from joblessness and poverty, and that compel welfare recipients to exit from welfare. This package generally consists of following components : 1) welfare benefits, 2) social services, 3) financial incentives and 4) employment services. The LWW of a country is certainly a product of unique combination of welfare policies and employment policies. Therefore, it is natural that the three countries have different LWW models.

These countries have similar social problems such as unemployment, low-wage work, job insecurity, income disparity, and poverty. However these problems grew from different political and economic contexts according to the country. In

---

1) The policies linking welfare and work called 'Workfare policies' in U.S., 'Welfare to Work policies' in U.K., and 'Activation policies' in some European countries. According to the strict definition, these concepts have different meanings. Someone highlights the impacts of sanctions and incentives on the behaviour of welfare recipients concerning the exit from welfare enroll and the entry into the labor market, while the others emphasize the impacts of policies linking welfare services and employment services. We can find however the common point in these concepts : linkage between welfare and work..

Japan and Korea, these problems were originated in external economic shocks, de-industrialization and low economic growth rate during 1970's and 1990's, while the same problems were occurred in China in the context of industrialization and high economic growth rate.

Concerning the LWW policies, Japan and Korea have elaborated their self-sufficiency programs for the workables among welfare recipients since 2000 (Korea) and 2005 (Japan). And the two countries have continued modification of the policy package. China don't have their own LWW model in a narrow sense, in the absence of law concerning public assistance and welfare to work policies. This is why it will be difficult therefore to compare the LWW models of the three countries.

More important is that the existing LWW models in these countries are not functioning properly amidst the changing environment. The welfare at a low level was endurable with economic growth rate and job creation, but now the circumstances are different. It is difficult to maintain a virtuous cycle of distribution and growth, or a healthy interaction of welfare and work, at a juncture of low economic growth rate and of job penury. An increase of working poor in these countries signify the end of the existing LWW models, and the necessity of new LWW models.

Korea, China and Japan are at an important crossroads, which calls for new and creative policy efforts to address the

working poor issue. New LWW strategies are required amidst the unfavorable conditions of labor market leading to widening income gap then to vulnerable welfare systems. This is where comparative studies shall be conducted in the long term. This study places the importance on laying the basis for future comparative studies.





## Chapter 2

# Theoretical Review

1. The reality and policy aggiornamento
2. Two aspects of linkage between work and welfare
3. LWW policies of developed and new emerging countries
4. LWW policies of Korea, China and Japan
5. Workfare policies of Korea, China and Japan



# 2

## Theoretical Review ‹‹

Employment policies and welfare policies are reckoned to be two pillars that support a society. With changes in the socio-economic conditions, the way that employment structure is combined with welfare institutions changes inevitably. The institutional re-arrangement is necessary for production, distribution and redistribution in a society. This study defines the LWW policies and briefly examines how the definition came to reach an agreement in this comparative study of Korea, China and Japan.

### **1. The reality and policy aggiornamento**

There are three pillars supporting every society, which are the working-age group responsible for production, children who would lead the future and the elderly who contributed to the making of the present. The society can be maintained in the stable manner only when the well-being of these groups is guaranteed. This is dependent on how well the system of production, distribution and redistribution functions. In this respect, the linkage between work and welfare is unique by time or by country because its approach is bound to be distinctive

depending on a country's political, industrial and social structures.

As the political, industrial and social conditions change, however, it is also inevitable to see changes in the way work and welfare are linked. Just as the Industrial Revolution did in the 18th century, industrial changes observed in the 21st century also call for changes in the way production, distribution and redistribution are linked. Of course, the issue of "poor workers" is invariably at the core of this problem. This is so-called the issue of the working poor who are trapped in poverty. The majority of the working poor is consisted of job-less people who used to work in the now fallen industrial districts and the young generation in developed countries, of low-wage workers of the manufacturing sector in developing countries and of workers employed by the farming and mining sectors in under-developed countries. These people are the working poor in different countries at both ends of the globalization spectrum.

For each nation to solve the working poor issue, a realistic approach to the Linkage between Work and Welfare (LWW) shall be pursued in line with the changing environment. In short, *Aggiornamento*<sup>2)</sup> is required. Figuratively speaking, ad-

---

2) The Italian word, *Aggiornamento*, is a term that became popular after Pope Jean XXIII used it. It means "updated" in English and "mis à jour" in French. It is used here to mean realistic policies in line with the changing environment.



justments to the political and social structures are necessary in tandem with the changing economic and industrial structures established during the Industrial Revolution. Yet, it is clearly different from the Industrial Revolution in the 18th century in terms of the following aspects. First, influence is exerted by the globalization that comes with the precondition of time-space compression<sup>3)</sup>. No nation is free from the globalization anymore. The politics still remains within the border, but spheres of industry, employment and welfare go beyond the territorial boundaries to be gradually under the influence of the globalization. A nation has less autonomy in terms of policy-making. This is because of the necessity to understand labor costs paid by companies and welfare expenses in the context of the globalization. Second, the population is aging in the historically unprecedented manner. Many countries are experiencing a serious problem of the aging population as the average life expectancy gets longer. This leads to an inevitable need for changing the system of production, distribution and redistribution as the working-age population is required to support more dependents. Principles and institutions, which were established in the 20th century for resource allocation among generations, are going through a transitional period. Third, a social security system is used as a medium, which is an official

---

3) This expression was used by David Harvey, who is an author of "The Conditions of Post-Modernity"(1990).

system for redistribution. Even though employment protection measures, a minimum wage protection system, social insurance programs and public assistance programs often receive criticism for concealing the nature of problems while deceiving the poor, they have become important political and policy measures aimed at solving problems of production and distribution found in the modern society. As such, there are many lessons learned through the history. Still, a new paradigm is required in this 21st century to link work and welfare in the different context.

And, the LWW in the three countries of Korea, China and Japan is needed to tackle the issue of the working poor that became a problem after each nation experienced rapid growth in the mid and late 20th century. Such growth brought about industrialization as well as deindustrialization thereafter, which in turn resulted in unemployment and low wage.

## **2. Two aspects of linkage between work and welfare**

Work and welfare are just like two sides of a coin. The prerequisite for supporting a society is a model for production, distribution and redistribution. In this respect, it is fair to say that the LWW exists in all the societies. This term, however, was reckoned to refer to a particular policy or policy direction

after the 1990s. In short, it includes a series of policies that promote employment of the working-age population or workables. It also includes diverse policies that were not included in the previous social policies. In other words, diverse policies are included, such as policies for employment, welfare as well as taxation, for promoting the employment.

It is necessary to define the LWW policies in a broad sense as well as in a narrow sense. In the broad sense, the LWW policies refer to realistic policies for employment and welfare in line with socioeconomic changes. This is to narrow the gap between the reality and policies, which has widened due to the globalization, changing industrial structures and the aging population. Specific policy examples would be: (1) realistic minimum wage; (2) enhanced legislation for employment protection; (3) stronger Active Labor Market Policies (ALMP); (4) encourage the employed to subscribe to social insurance; and (5) encourage welfare recipients to seek employment. This implies that the LWW policies do not pass on problems related to industrial structure, the labor market and other areas over to welfare policies.

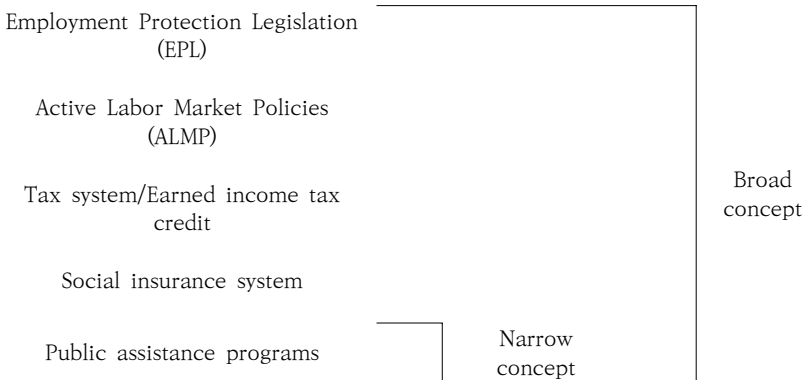
In the narrow sense, the LWW policies refer to a series of policies or policy direction, which aim to facilitate the employment of beneficiaries of public assistance or unemployment assistance. Concepts, such as workfare policies or activation policies, have the same meaning. These policies may take a

punitive form in some countries in order to deter beneficiaries to depend on given benefits for a long time. Sometimes, they focus on providing supports for employment to help recipients find a job and break out of poverty. A representative case of a policy with a punitive form is Temporary Assistance for Needy Families (TANF) of the United States. This limits a benefit period to be to five years in one's life-time while providing Earned Income Tax Credit (EITC) for the employed. In short, this is a carrot-and-stick approach. As for the United Kingdom, the conservative government recently announced new workfare policies with explicit emphasis on the employment of welfare beneficiaries.<sup>4)</sup> There also exist relatively less punitive workfare policies, mostly found in welfare states on the European Continent. It is clear, however, that a growing number of countries tend to restrict beneficiaries more of late. Such policies also become apparent in East Asian countries after the late 1990s.

---

4) The British government announced its new workfare policy that is implemented in April 2014. This is named "Help for Work" program with conditions and rules stricter than those of existing policies.

〈Table 1〉 Two aspects of LWW policies



### 3. LWW policies of developed and new emerging countries

Objectives of LWW policies may differ depending on nation or ideological inclinations held by the authorities. However, schematically speaking, the LWW policies of advanced and emerging countries are responsible for strategically controlling expenses. Even though the LWW policies of developed countries claim to focus on restoring the robustness of a welfare system and on supporting independence of the working poor, their primary objective by nature is to reduce expenses incurred by a social insurance system and public assistance programs. And, the LWW policies of new emerging countries are also responsible for strategically controlling expenses by adjusting the pace at which the welfare is expanding amidst the

generally low-level social expenditure. Such a choice is unavoidable for new emerging nations. It is not easy to disregard negative perception towards welfare beneficiaries who are deemed to be workables<sup>5)</sup> while there is no other choice due to the socioeconomic conditions: (1) great proportion of low-wage workers and the jobless; (2) huge informal sector; (3) under-development of a social security system; (4) vulnerabilities of a tax administration system; and (5) lack of a public delivery system of welfare.

The LWW policy direction is a strategy that can help new emerging countries kill two birds with one stone. Or is it? For countries lagging behind the welfare states, it is challenging to introduce social insurance or to expand public assistance. Even though a country manages to expand welfare, it is unavoidable to see polarized welfare benefits for a considerable period of time. Except urban workers with permanent positions in the formal sector, many workers would be deserted due to the loopholes that can be found in the social insurance, which would serve as the source for social conflicts since protection for the vulnerable exposed to low wage and job insecurity is being put on hold. However, there are also concerns for cautioning against the expansion of welfare benefits offered to the working poor. Under the circumstances, a solution is being ex-

---

5) Regarding this, policymakers of new emerging nations emphasize on the growth paradigm while holding negative perception towards the welfare, which is known to exert significant influence.

plored to satisfy multiple objectives of expansion of welfare beneficiaries, control of welfare expenditure and prevention of moral hazard all at once. Efforts are targeted at establishing a series of pro-employment policies while expanding welfare supports for groups unprotected due to the loopholes of social insurance, especially the poor out of employment. This is to find rationales justifying welfare expansion, control the pace of the welfare expansion and to prepare safety measures for potential moral hazard. This is why the LWW policies are deemed to be a strategy that can kill two birds with one stone. Yet, opinions differ regarding whether there are outcomes that actually meet the expectation.

For both developed and developing countries, the LWW policies are faced with the issue of an institutional reform. Decisions shall be made about how to structure social insurance as well as unemployment and public assistance programs and how to reform respective system. Most of developed nations pursue strategies that reinforce qualification criteria applied to the exiting unemployment insurance system and that enhance the workfare for beneficiaries of unemployment and public assistance programs. During this process, unemployment assistance programs and public assistance programs can be combined to generate maximum policy impact just as the U. K. and Germany have done. On the other hand, developing nations adopt strategies that introduce social insurance or a com-

parable system or introduce a public assistance system for the working poor or a comparable support system. For reference, some Latin countries institutionalized public pension or unemployment insurance intended for the working-age population through individual saving accounts while offering a public assistance system for the elderly and children and adopting an assistance system for the working poor for a limited period (Vodopivec, 2006).

〈Table 2〉 Comparison of LWW policy characteristics between developed and developing countries

Type	Developed countries (pro-downscale)	Developing countries (pro-expansion)
public pension	- Stabilize fiscal conditions (extend payment period/ adjust benefit)	- More coverage - control corporate and individual burden
unemployment insurance	- control expenditure - encourage employment/ improve moral hazard	- more coverage/raise salary - prevent moral hazard
unemployment assistance	- control expenditure - encourage employment/ improve moral hazard	- consider whether to introduce a system - prevent moral hazard/ encourage employment
public assistance	- control expenditure - encourage employment/ improve moral hazard	- consider whether to introduce a system (limited expansion) - prevent moral hazard/encourage employment

Source: Partial revision to a table presented by Lee Deok-jae et al. (2012)



## 4. LWW policies of Korea, China and Japan

How can social security systems and LWW policies of Korea, China and Japan be compared? First, it is necessary to mention realistic difficulties: (1) It is difficult to utilize theories backing existing welfare regimes. The Esping-Andersen's welfare state regime does not give an answer to which type East Asian countries are classified as. This is a challenge that needs to be resolved. Of course, a number of scholars suggested various theories, such as development-focused, family-focused and Confucianism-focused welfare models, which have limitations to represent these countries. In some respect, it might be fair to say that Korea, China and Japan have three different welfare regimes; (2) There are significant limitations in terms of literature needed for the comparative analysis. The literature on Korea and Japan is relatively more accessible than that on China, about which the amount of official statistics is greatly lacking. Among OECD member nations, Korea shows the fastest rate of social expenditure increases since 2000 while China experiences rapid changes in terms of its social security system after the enactment of its social insurance act in 2010. Japan is also in the process of reforming its entire social security system after the government passed a bill to reform its social security and taxation systems in 2012. In this respect, the limited information accessibility is reckoned to be the biggest obstacle to

comparing social security systems of Korea, China and Japan.

What is clear is that the three countries of Korea, China and Japan have developed in the different manner compared to welfare states of the West, and their redistribution strategies also differ greatly. In the mid 20th century, Japan's production system and welfare system developed differently from those of the Western countries. It is just the same for Korea and China. As for Korea, the economy posted growth led by conglomerates or chaebol under the authoritarian administration in the 1980s. And, the Chinese economy is growing rapidly through a unique combination of a socialist political system and a capitalistic economic system since the 1990s. The common thread of these countries is that the LWW approach was used or is being used to control welfare demand in line with strategies for expanding employment and increasing income. Even though they have disparate political and economic systems in different global environments (at different times), they stabilized their systems by expanding the middle class backed by increases in earned income and by job security through phases of their economic development. It is fair to say that they are small welfare states that achieved rapid economic growth.

To be sure, the three countries of Korea, China and Japan may appear to be closely related in that a second mover can enjoy the benefit of policy implications from a first mover's failures. This signifies that these countries are not intended for

one-to-one comparison as if they are classified as the same category but are just comparison objects at different developmental phases. They go through similar experiences in the consecutive order of Japan to Korea then to China in terms of economic and social security system development. Actually, the three countries have exchanged or imported a number of models related to economic and social security policies among themselves. As for economic policies, for instance, Japan's plan for doubling the national income<sup>6)</sup>, which was formulated in the 1980s, has greatly influenced Korea in the 1980s and China in 2010 in terms of their policies designed for expanding the middle class. It is similar for welfare policies since Japan's livelihood protection system or its long-term care insurance had big impact on Korea's public assistance system or long-term care insurance to be built up. During the process of industrialization and deindustrialization, Japan experienced the issue of dualistic welfare, which would present a number of implications for Korea and China when they pursue LWW policies and welfare reform.

Many social issues facing the three countries of late make this comparative study more interesting. Cases may be extreme, but these countries have all made to the top ten list in

---

6) The Ikeda Cabinet of Japan accepted a proposal made by the economist Shimomura Osamu in 1960, which resulted in the adoption of a plan for doubling the national income so as to enhance the public's purchasing power. And, the Japanese national income actually more than doubled in the late 1960s.

terms of both economic growth rate as well as suicide rate. In addition, They already have or are highly likely to have the issue of a dualistic or dual-structured social security system. It was possible to maintain the status of a small welfare state by expanding employment and increasing earned income during the times of industrialization and rapid growth. However, the globalization, deindustrialization and low growth are underway while the labor becomes dualistic. Also, the income gap is widening while the population is aging quite fast. It is difficult to weather the current conditions as a small welfare state. Japan tried to tackle its dualistic social security system in the 1970s, which resulted in vain. Korea has also taken a strategic direction to expand its social security since the 1990s but is still faced with issues of dualism and systemic loopholes. China has similar issues as well. Therefore, this points to a need to enhance new LWW policies that promote employment of the vulnerable and to take preemptive measures that address diverse problems arising from the welfare expansion.

The table below classifies major social security systems into social insurance, public assistance programs and social services while providing details about how each system has been introduced and reformed by the three countries of Korea, China and Japan. Of course, the table does not include all the major systems pursued by each country or all the trends related to welfare reform. Still, the table offers insights into how to un-

derstand social security systems of the three countries from perspectives of respective developmental phase or recent issues.

〈Table 3〉 Structure and introduced year of social security systems of Korea, China and Japan

	Korea	China	Japan
Social insurance	Public pension - National pension (88) - Pension for specialized workers · Pension for government employees (60) · Pension for teachers (75) · Pension for military personnel (63)	Endowment insurance - Basic endowment insurance for urban employees (97) - National/corporate endowment insurance - Endowment insurance for urban residents - New endowment insurance for the rural community	Public pension - Welfare - Insurance (the employed, 41) - National pension (the self-employed, 61) - Pension deduction (public officials, 41)
	Health insurance (63) - employed subscriber - district subscriber	Medical insurance - Basic medical insurance for urban employees (98) - Medical system at public expenses (52) - Basic medical insurance for urban residents - New and cooperative medical care for the rural community (03)	Health insurance - Health insurance (the employed, 22) - Private health insurance (the self-employed, 38)
	Occupational health and safety insurance (63)	Industrial accident insurance (51)	Labor insurance (Worker compensation insurance, 47)
	Unemployment insurance (93)	Unemployment insurance (86) Maternity insurance (51) - Maternity insurance for urban employees (94) - Maternity insurance for urban residents (09) - Planned maternity insurance (07)	Labor insurance (Unemployment insurance, 47)
	Long-term care insurance for the elderly (08)	-	Long-term care insurance (00)
Public assistance	Livelihood Protection Act (61) -> Basic Livelihood Security Act (99) Medical Care Assistance Act (01)	livelihood protection - urban: Minimum livelihood protection (95) - rural: System to support orphans, the elderly, the handicapped and children	Livelihood Protection Act (46) Revised Livelihood Protection Act (46)

24 Comparative Study on Policies linking Welfare and Work in Korea, China and Japan

	Korea	China	Japan
	Emergency Aid and Support Act (06)	with clothing, food, housing, healthcare and funeral (56), Minimum livelihood protection system (04) Emergency assistance (natural disaster, temporary assistance) Special purpose assistance (healthcare/education/housing)	
Social service and social benefit	Social service - Welfare service for the elderly - Welfare service for the handicapped - Welfare service for children - Housing support service, etc.	Social service - Welfare service for the elderly - Welfare service for the handicapped - Welfare service for children - Housing support service, etc.	Social service - Welfare service for the elderly - Welfare service for the handicapped - Welfare service for children
	Social benefit - Basic pension for the elderly (08) - Pension for the handicapped (10), benefit for the handicapped with mild disabilities, benefit for the handicapped children - Child-rearing benefits (09)	Social benefit - Welfare benefits for the elderly, etc.	Social benefit - benefits for children - benefits for the handicapped

Source: Dae-Myung No & Jee-Hyun Chun (2012). Partial revision to the table.

Some say that social insurance is over while others say that social insurance is the only alternative. However, it is clear that the current social insurance system is accompanied with systemic loopholes that are huge and unfair. Social insurance is strongly supported by people who enjoy the most benefits but is being challenged continuously. At the same time, it is irresponsible to argue that an individual shall be responsible for own life. With rapid structural changes in industries and labor

markets in the 21st century, an individual's fate is no longer decided by oneself. Under this backdrop, it is immoral to adopt an approach of personal savings as a means for individuals to be responsible for their own life. This is a common challenge facing countries of the non-West at the moment. It is difficult to raise the rate of social insurance subscription up to 90% just as European countries managed to do in the mid 20th century. This calls for another alternative to solve issues of job insecurity and low wage, which are being observed in the labor market, as well as loopholes within the welfare system.

Recent policy trends found in the three countries of Korea, China and Japan confirm that there are more supports for the working poor or the vulnerable, which is being attested by Japan's support system for job seekers, China's support system for rural migrant workers in urban cities and Korea's earned income credit. This clearly shows that policy efforts are being intensified to close loopholes of the social insurance system.

## **5. Workfare policies of Korea, China and Japan**

The emergence of the working poor in Korea, China and Japan is driven by similar forces found in welfare states of the West, such as deindustrialization, deepening job insecurity, changing family structure, poverty and income inequality. It is

necessary for the three countries, however, to make considerations of workfare policies just as the West has done. Welfare benefits for the working poor provided by the three countries are not as expansive as those by the West. In this respect, it is worth considering whether a conditional support program is really a negative thing. Even if conditionality that comes with negative connotation is preconditioned, offering welfare benefits can be regarded more positive.<sup>7)</sup> On the other hand, it is doubtful whether a conditional approach would generate expected outcomes of employment support in countries where the working poor are not heavily dependent on the welfare.

The following four aspects can offer insights into these issues. First, public assistance systems of East Asian welfare states are not generous enough to cause moral hazard among welfare beneficiaries considering the size of beneficiaries and the level of benefits. As of 2010, there are 3 million to 4 million beneficiaries of public support or unemployment support systems out of the entire working poor in France or Germany. And, more than half of the beneficiaries are out of employment for a long time. The strength of the welfare system can be at

---

7) For welfare states of the West, conditionality focuses on encouraging the adult unemployed to find employment. On the other hand, Conditional Cash Transfer Programmes (CCTs) of underdeveloped countries or new emerging countries can be understood differently than those found in the West in that such programmes are preconditioned not to allow beneficiaries to work or to pay educational expenses for their children. Examples are programs, such as *Oportunidades* of Mexico and *Bolsa Familia* of Brazil.



the center of political and social controversies. On the contrary, public assistance systems of Korea, China and Japan do not easily grant beneficiary entitlement to the working poor. For reference, Korea's basic protection system provides the beneficiary entitlement even to workables. But, the number of beneficiaries just stands at about 260,000 people as of 2012, which accounts for just 10% of the entire working poor. Second, it is hard to say that the working poor has weak commitment to employment. This can be confirmed by the ratio of the long-term unemployed among the welfare beneficiaries. Of late, the number of the long-term unemployed is rising in Japan, which does not mean the ratio of the long-term unemployed among welfare beneficiaries. This is due to the fact that there are not many welfare beneficiaries among the working poor. Even in the case of Korea, the proportion of the unemployed among the working poor receiving welfare benefits is significantly small, much of whom demonstrate quite limited capabilities in terms of finding employment. If looked at from a different angle, this means that certain beneficiaries, such as workables or even the handicapped or the elderly, have to work to supplement lacking income amidst a situation where it is difficult to sustain a life just by depending on a very small amount of welfare benefits. Third, East Asian countries have already taken strong measures for their public assistance systems to prevent moral hazard. This is related to the way a duty to

support is applied, which is adopted by all the three countries of Korea, China and Japan. Korea and Japan specifies criteria applied to a person with duty to support under their Basic Livelihood Protection Act and Livelihood Protection Act while there is no law related to the public assistance system in China. Still, China decides a beneficiary's eligibility based on the existence of family members or relatives, which could be deemed as de-facto criteria applied to a person with a duty to support. Fourth, the level of welfare benefits in each country is not high, which is also an issue in most of countries. This signifies that it is hard to sustain a minimum level of livelihood just by depending on welfare benefits. With the low level of benefits or a small amount of benefits, one has to find work even in the informal sector in order to sustain livelihood. This shows that the conditions were not ripe for East Asian countries to introduce a workfare system for the workables. Nevertheless, most of East Asian countries introduced a workfare system. Of course, how the system was institutionalized differs by country. But, a strategy was chosen to encourage the workables to find employment and to wean off the welfare benefits. Korea enacted National Basic Livelihood Protection Act in 1999, which led to the introduction of a workfare system that provides allowance to beneficiaries of a public assistance system with the capabilities to work on the condition of their labor force participation. If the conditions are not met, then the allowance

is partially slashed. This is similar to existing welfare systems and is also similar to Temporary Assistance for Needy Families (TANF) of the United States. And, Japan has developed policies to support the unemployed by establishing Job Seeker Support Programme (JSSP) in 2001. The way the workfare system functions is not based on the existing livelihood protection system but is based on a separate system for the unemployed. Unlike Korea and Japan, China does not have a nationwide workfare policy in place while some local governments pursue workfare policies separately. Some Asian countries have even taken a measure to limit a benefit period.

However, criticism against workfare systems of East Asian countries is also intense (Chak et. al., 2012 : 163). The criticism is mainly about the following. Unlike the Western welfare states, East Asian countries pursue workfare policies not to reduce welfare dependency but to prevent the dependency. This is heavily driven by strong labor ethics of Asian countries and especially by the notion that people who can work have to work to be independent. In fact, a workfare system can become effective depending on the quality of a program that gives new job opportunities to the unemployed, qualified manpower to provide welfare support, comprehensive legislation of employment protection and the government's commitment to job creation. To this end, sufficient investments are required. In this respect, a workfare system is a social policy program that

incurs high costs. Still, many workfare systems of East Asian countries are not preconditioned on sufficient financial support to encourage the working poor to find employment and to escape poverty. For these countries, a workfare system is an employment promotion program that comes at a cheap price and is just being used as a rationale to justify a vulnerable public assistance system. And, the purpose of such program is clear. It aims to force the working poor to find low wage jobs or to get family support instead of governmental support. In terms of employment policy, this is to control wage by expanding or maintaining low-paid labor supply in the labor market. And, in the aspect of welfare policy, this is to encourage the working poor to give up on workfare benefits through stigmatization. In this respect, the workfare is being used as a new rationale for justifying the suppressive stance taken on the poor. For this reason, it is not surprising to see that the workfare system is not making any practical contribution to improving the employment rate of heads of single-parent households, the homeless, the long-term unemployed and others or to increasing the rate of people moving out of poverty. This is because workfare is reckoned to have emerged in East Asian countries not for redressing the issue of welfare dependency but for justifying insufficient welfare.



## Chapter 3

# Review of Lww Policy Environment

1. Success case of a development-focused model:  
Upside and downside
2. The rise of the working poor and issues facing  
social security system
3. Comparison of employment and welfare policies  
of Korea, China and Japan



# 3

## Review of Lww Policy << Environment

No country can ensure the stability of its social system unless it is built on a close relationship between work and welfare since the Linkage between Work and Welfare (LWW) illustrates how production, distribution, and redistribution are organized. What is problematic is that an increasing number of countries are experiencing an imbalance between work and welfare in the 21<sup>st</sup> century. In reality, the issue translates into the growing population of the working poor. Korea, China, and Japan, of course, are no exceptions to this trend, which calls for strengthening of LWW policies.

However, these policies vary in their nature depending on the country, and the difference may be explained from the following three perspectives.

First is a historical perspective of industrialization and deindustrialization. Japan and Korea had not seen the necessity to strengthen their social security systems as long as the virtuous cycle of growth and distribution or “industrialization → increases in employment → increases in earned income → expansion of the middle class → decreases in poverty rate” continued. However, the start of deindustrialization and the spread of unemployment and job insecurity led to the rise of

the working poor or the fall of the middle class. Japan was first to encounter the issue, which is now common in Korea as well. In the case of China, industrialization is still underway and the formation of the middle class is still at an early stage. This indicates that the LWW policies of Korea, China, and Japan are closely related to the degree of deindustrialization.

Second perspective is from the angle of social security system that encompasses labor market policies as well as welfare policies. The approach examines the characteristics of the labor market and welfare policies of each country as they experience deindustrialization, more flexibility in their labor market and aging population. While insecurity exacerbates in the Korean, Chinese, and Japanese labor markets, it appears that relevant policy intervention is yet to take place. Likewise, intervention in terms of welfare policies will be accompanied with the issue of dualization. The globalization, increased flexibility in the labor market and aging population undermine the sustainability of the social insurance-based social security system. In other words, welfare expenditure is on the rise driven by the aging population, unemployment and poverty while financial expansion through the social insurance system falls short of expectation. In order to address this issue, it seems inevitable to seek measures to strengthen the linkage between the social insurance system financed by contribution and the public assistance system financed by taxation.



Third is a perspective of comparing the LWW policies of Korea, China, and Japan to identify similarities and differences. It seems that welfare states in East Asia have long shared common denominators of low-level welfare and labor-centered policies. These characteristics were demonstrated through the development of the welfare systems in East Asian countries. However, the welfare states in East Asia now appear to stand at a crossroads. They can either reinforce the workfare strategy by applying stricter conditions to welfare beneficiaries amidst the low-level welfare environment or adopt a new LWW strategy that controls a range of factors generating the working poor. At the moment, it is difficult for Korea, China, and Japan to avoid the rising welfare expenditure. Due to the aging population and the dissolution of traditional units of family, demand for welfare is on the rise. Furthermore, worsening structure of employment and income distribution is only fuelling the demand. Against this background, policy directions addressing the working poor would serve as a yardstick that determines future growth strategies.

## **1. Success case of a development-focused model: Upside and downside**

For Korea, China and Japan, it is not an overstatement to say that “traditional” LWW policies are actually low-level welfare

policies with the focus on growth and employment. Welfare policies held an insignificant position in the East Asian developmentalism model aimed at expanding investments and creating jobs. This is reflected in the expression that says “Jobs are the best welfare program.” This is often quoted by politicians in Asian countries, such as Korea, Taiwan, Japan, and China, and even by European politicians.

The significance of growth and job creation cannot be overrated. Undoubtedly, it forms the basis of a welfare state. Under the virtuous cycle of (economic growth → job creation → income distribution), there is no substantial increase in welfare demand, which ensures sufficient fiscal capacity to expand welfare programs. However, the expansion of the social security system is highly unlikely during a rapid growth period, for there is no urgency to do so. Therefore, many countries tend to make a decision to expand their social security systems only when the virtuous cycle of growth and distribution is broken. This is when welfare demand rises and fiscal revenues decline. This is what Japan and Korea are faced with at the moment.

(Table 4) Per capita GDP and its growth rate of Korea, China, and Japan

	US dollars per capita				% change per capita		
	1990	2000	2005	2010	90-00	00-05	05-10
China	464	1,130	1,746	2,895	9.3	9.1	10.6
Japan	31,035	33,931	36,016	36,184	0.9	1.2	0.1
Korea	8,383	14,749	17,959	21,119	5.8	4.0	3.3
Europe	18,957	22,946	24,953	25,731	1.9	1.7	0.6
N. America	31,004	38,827	41,627	41,296	2.3	1.4	-0.2
World	5,681	6,463	7,002	7,365	1.3	1.6	1.0

Source: OECD Statistics

Korea and Japan achieved rapid growth in the 20<sup>th</sup> century, which was globally unprecedented, and experienced the virtuous cycle of growth and distribution by expanding the middle class<sup>8)</sup>. In the 20<sup>th</sup> century, the middle class played a critical role, both politically and economically. They are the driving forces behind political stability, hold strong purchasing power and support the social security system by reducing welfare demand while paying taxes. In this respect, the growth of the middle class was an integral part of the virtuous cycle of growth, distribution, and redistribution.

Japan is a typical example of a country that has achieved the virtuous cycle of growth and distribution by expanding its mid-

8) The middle class can be defined in two ways - subjective to self-assessment by individuals or an income-based analysis. But the problem lies in how to define the income standard for the middle class. There are two measures to address this - household with earnings of 50% to 150% of median income or those with daily spending of between \$10 and \$100 (OECD) can be considered as the middle class. For the global comparison, both measures can be used.

dle class. Its growth model greatly affected Korea and China. As widely noted, by the mid-1960s, Japan became a society with “100 million social members who are reckoned to be the middle income class (1億總中流社會).” This is a society where 90% of the Japanese identified themselves as the middle class. This growth model was based on robust saving and investment paired with education and good-quality and cheap labor during the industrialization era. However, from a different viewpoint, the model was also built on the intrinsic linkage between work and welfare. The contribution-based social insurance system served as the backbone of the model, which emphasized self-reliance through labor and the role of the family. Korea, too, adopted this model in the 1970s. Certainly, those who consider themselves as the middle class in Korea are believed to be less than 90%. However, the middle class grew at a rapid pace from the mid-1980s, reaching 75.4% of the total population by 1990. This corresponds to the trend towards declining poverty rates and improving income inequality. In other words, Korea and Japan have established a LWW model of the industrialization era or a low-level welfare linkage model.

However, the winning streak faced a challenge. The oil shock in the 1980s followed by the globalization and deindustrialization in the 1990s triggered a number of problems including the loss of high quality jobs, widened wage gap between regular and non-regular workers and serious income inequality in

general. The country entered the so-called “classed society.” The collapse or the decline of the middle class also took place in Korea during the 1997 Asian financial crisis. The size of the middle class quickly shrank from 75.4% in 1990 to 67.7% in 2011, which triggered the so-called polarization debates.<sup>9)</sup> Rapid changes in the employment structure due to deindustrialization aggravated poverty and income inequality. However, Korean and Japanese social security systems of the time were somewhat vulnerable to handle these issues. This can be attributed to the dual structure of their social security systems, which only further worsened the income gap and poverty instead of redressing them. It is challenging to address these issues through a low-level welfare strategy that controls welfare demand by employment, a social insurance system that is preconditioned on good-quality and standardized jobs and a limited role given to the public assistance system. This calls for a new strategy that introduces new types of jobs, links social insurance with public assistance while connecting welfare with work.

What about China? Does the country adopt a traditional growth strategy similar to those implemented by Korea and Japan? Recent increases in the minimum wage and policies for boosting income in China seem to mirror Japan’s policies that have expanded its middle class in the 1960s. China needs to

---

9) Kim Dong-yeol (2011), <Structural Changes of the Middle Class in Korea>, Hyundai Research Institute

expand its middle class who have the purchasing power in order to shift away from the industrialization stage to a domestic demand-based growth model. The expansion of the middle class is also necessary to achieve the virtuous cycle of growth and distribution. The growth of the middle class, however, has fallen short of expectations until recently. Many expected that China's middle class would rise at a rapid speed, but the current size of the middle class has failed to meet these expectations.<sup>10)</sup> According to the report by the Brookings Institution, the Chinese middle class reached 160 million. Still, it only accounts for just 10% of the entire population. By 2030, however, China will become a society where the middle class represents 70% of its total population.<sup>11)</sup> But, the country is currently experiencing worsening income inequality. The Gini coefficient slightly decreased in OECD countries in the mid and late 2000s. On the contrary, the figures of Korea, China, and Japan showed slight increases. In particular, China's Gini coefficient rose dramatically, from 0.439 in the mid 2000s to 0.469 in the late 2000s. The already high level of income inequality exacerbated to a serious level in the mid 2000s. In another data, China's income inequality (Gini coefficient) reportedly grew almost by 53%, from 0.32 in 1992 to 0.49 in 2009. The widened income gap between the urban and rural pop-

---

10) See Chapter 5 of this study.

11) Homi Kharas(2011), <The Emerging Middle Class in Developing Countries>, Brookings Institution

ulation as well as the gap between rural migrant workers and urban dwellers are believed to have left major impact. In this respect, it is fair to say that China is at a crossroads – whether to retain the dualization of the social security system under the low-level welfare strategy that just stresses job creation, or to develop a new LWW strategy that can address current this situation.

The LWW policies of Korea, China, and Japan should be considered in the context of the globalization and (de)industrialization. While being under the same environment of the globalization, the industrial structure of each country is at two different stages of industrialization or deindustrialization. A basic direction for the LWW policies is being affected. The globalization in the 21<sup>st</sup> century is a massive trend, which affects all the countries. The trend drives a huge amount of capital and a great number of companies to move from advanced nations to new emerging countries, such as China, India, and Brazil. Developed countries see the deindustrialization picking up its speed, which leads to less workers in the manufacturing sector and more workers in the service sector. On the other hand, new emerging countries experiences more workers in the manufacturing sector and massively more people as the middle class during the industrialization process. From this perspective, the LWW policies bear different meanings to Korea, Japan, and China. Korea and Japan should seek a new strategy linking work and welfare in consideration of low growth and

deindustrialization. As for China, it needs to pursue a LWW strategy built on high growth and industrialization. However, China should learn from the two countries' mistakes, meaning it needs to develop a strategy that advocates growth while addressing job insecurity, income gap and the dualization of a social security system.

〈Table 5〉 Changes in employment rate by industry of Korea, China, and Japan

		1991	2000	2005	2010
China	Agriculture	59.7	50.0	44.8	-
	Industry	21.4	22.5	23.8	-
	Services	18.9	27.5	31.3	-
Japan	Agriculture	6.7	5.1	4.4	3.7
	Industry	34.4	31.2	27.9	25.3
	Services	58.4	63.1	66.4	69.7
Korea	Agriculture	16.4	10.6	7.9	6.6
	Industry	36.0	28.1	26.8	17.0
	Services	47.7	61.2	65.2	76.4

Note: % of sectoral employment in the total employment

Source: UNESCAP, Statistical Yearbook for Asia and the Pacific 2012

Past successes often deter changes to be introduced to policy paradigms. The belief that “jobs are the best welfare program” is definitely a valid point. However, it should be noted that the statement is valid at a specific time in a certain environment. In an era where the globalization facilitates the capital mobility and makes the labor market more flexible and where the deindustrialization churns out low-pay, non-regular jobs in the service sector, the situation might be exacerbated without im-



proving anything if fixated on previous successes. In fact, the LWW policies of Korea in the 21<sup>st</sup> century shall not be based on the existing methods of solving problems just by job creation and employment facilitation. A new approach is required, through which welfare expansion is conducive to job creation and employment facilitation. It literally calls for the linkage between work and welfare. Having said that, an argument that jobs are still the best welfare program may be read as political rhetoric to avoid welfare expansion or as attempts to replace welfare policies with low-cost job programs. This is not irrelevant with the tendency to see the LWW policies in the same light as the workfare policies that force welfare beneficiaries to find employment.

## **2. The rise of the working poor and issues facing social security system**

Given large loopholes in the social insurance system, a number of institutional approaches to protect the working poor are necessary. It is critical to root out the causes behind the emergence of the working poor at the outset through the minimum wage system or employment protection act. In addition, efforts should be made to encourage reemployment before unemployed workers remain jobless for a long time and fall into poverty. Outcomes can be expected when unemployment ben-

efits are offered in combination with active labor market policies and various labor incentives. As for the already impoverished groups, they should be adequately protected through a public assistance system. However, this case also calls for stronger strategies intended to facilitate employment. The reason for this lengthy explanation is to emphasize that western approaches to the linkage between work and welfare are not necessarily desirable in that such approaches provide stronger income grantee for the working poor through public assistance programs and set conditions accordingly.

Currently, the problem of the working poor in Korea, China, and Japan have one thing in common – the considerably low unemployment rate. The unemployment rate in Korea drifted upward immediately following the 1997 Asian financial crisis and 2008 global financial crisis. However, the unemployment rate in 2012 was significantly low at 3%. Japan, too, experienced a climb in unemployment rate in the aftermath of the 2008 global financial crisis. However, its employment rate in 2012 stood at a mere 4%. China's unemployment rate in 2012 was also about 4%. Having noted that, the unemployment rate may not be the best indicator to represent the reality facing the working poor. In fact, the issue that the three countries are encountering is the high poverty rate despite the low unemployment rate. This indicates that the growth of the working poor is not only attributable to unemployment but also to job in-

security as well as low wage.

Then, how can one explain the characteristics of the problem of the working poor in Korea, China, and Japan and those of relevant social security systems? In this regards, the environment that created the working poor may be examined in the context of labor market conditions. Then, as policy interventions against it, the state of labor market policies and welfare policies can be reviewed. The following table is a brief summary that compares economic conditions, employment conditions, income distribution structure as well as the characteristics of labor market and welfare policies of Korea, China and Japan. In general, the dualization is underway in terms of earned income and the social security systems. In other words, those who are highly vulnerable to unemployment in relative terms are paid less for their labor and are marginalized in the welfare system as well. This indicates a need to focus on LWW that prevents job insecurity from spreading in the labor market, brings the minimum wage to the market price, facilitates subscription of social insurance and expands support for the working poor through the public assistance system.

Needless to say, it is a question of combining policies rather than opting for a particular policy. While minimizing the occurrence of poverty in the labor market and facilitating subscription to social insurance, it is necessary to connect the public assistance system with overall policies that provide strong

work support to help protect the working poor created regardless of such efforts. In the cold light of day, Korea and Japan may face limitations in boosting social insurance coverage with China being no exception. Against this backdrop, it is not a stretch to say that what is required as a policy is a new LWW policy that enhances the linkage between the social insurance system, public assistance system and work support programs.

〈Table 6〉 Environment and characteristics of LWW policies of Korea, China and Japan

		Korea	China	Japan
Economic and social conditions	Average economic growth rate (2000s)	4.6%	10.3%	0.9%
	Level of deindustrialization (employees in the service industry)(2008)	67.8%	33.2%	67.3%
	Unemployment rate (2012)	3%	4%	4%
	Percentage of non-regular workers (2011)	23.8%	-	13.7%
	Relative poverty rate (late 2000s)	15.0%	-	15.7%
Labor market factors	Employment protection for temporary workers (EPL)	2.13	1.75	0.88
	Minimum wage to average wage	34.5%	-	33.3%
Welfare policy factors	Unemployment insurance coverage	67% (2011)	18.7% (2012)	75% (2005)
	Public assistance take-up rate (2012)	5%	6.6%	1.7%
Level of social expenditures	Public social expenditure (2010)	9.2%	6.5% (2007)	22.3%
	Unemployment benefit as a percentage of GDP (2009)	0.4%	-	0.4%
	ALMP as a percentage of GDP (2009)	0.6%	-	0.4%

Source: OECD.stat ; OECD Factbook 2011 ; ADB statistical yearbook 2012 ; China Statistical Yearbook 2012 ; UNESCAP Statistical Yearbook for Asia and the Pacific 2011

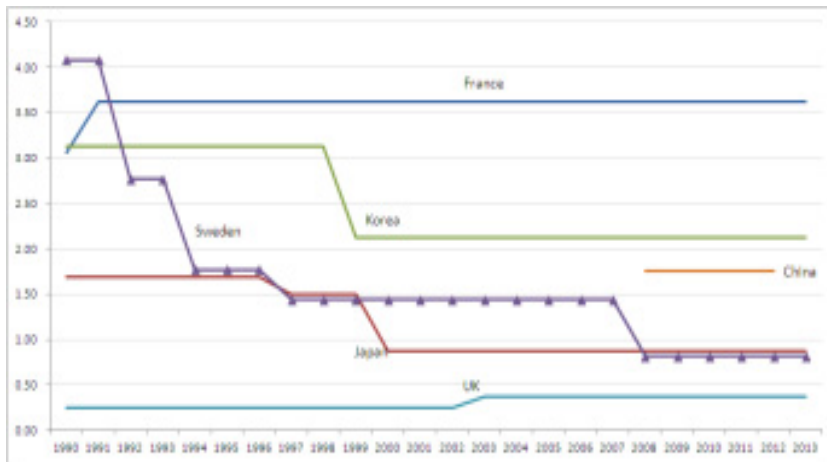
### **3. Comparison of employment and welfare policies of Korea, China and Japan**

In-depth comparison of the labor market policies of Korea, China and Japan is as follows.

First, Employment Protection Legislation (EPL) of Korea, China and Japan has greatly contributed and is contributing to job dualization. Korea and Japan saw steady increases in the number of non-regular workers in the 1990s, and the employment protection measures have been discriminately applied to regular works and non-regular workers. In fact, employment protection for temporary or dispatched workers has been rapidly incapacitated in practice. Recently, however, there is a move on the part of governments to introduce a variety of policies designed to protect non-regular workers. Still, more measures are greatly desired. China also has highly stringent employment protection for regular workers, but a number of laborers in the private sector are still unprotected. Yao Jianping thinks that China is struggling with the working poor problem, which is driven by the rise in the number of non-regular workers hired mostly by the private sector rather than state owned enterprises. It is straightforward that all the three countries have experienced labor dualization in terms of earned income and job security since the 1990s and that groups exposed to relative job insecurity and low wage mostly turn into the work-

ing poor (Goishi, 2011; Osawa et. al, 2012; Yao Jianping, 2011; No Dae-Myeong et al., 2011).

[Figure 1] Employment protection index for temporary workers in Korea, China and Japan

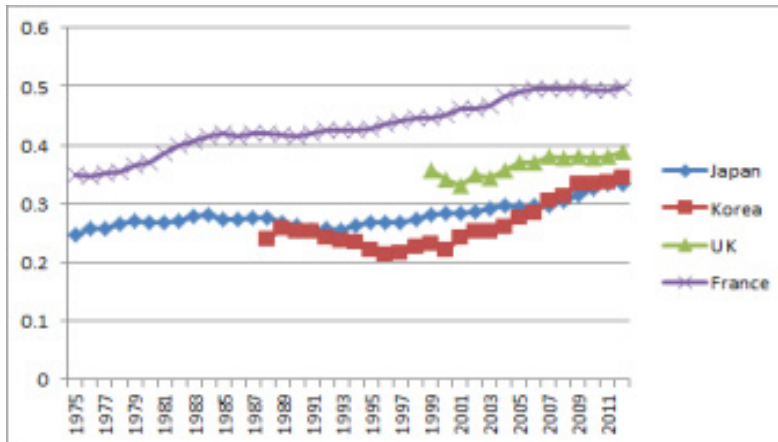


Source: OECD indicators of Employment protection

Second, the minimum wage is insufficient to tackle poverty in Korea, China and Japan. Of course, some people might oppose to this by saying that raising the minimum wage as a policy may exacerbate unemployment and the working poor issue. Moreover, an hourly wage as well as the scope of its application are important when it comes to the minimum wage since the lack of legally binding power may lead to loopholes in application. Having mentioned this, the level of the minimum wage and its application still bear significant importance. The minimum wage in Korea and Japan as a percentage of average

wage of full-time employees is relatively lower than that of major European countries. In the Figure below, the minimum wage in France is close to 50% of the average wage of full-time employees and in Britain it is also nearing 40%. In contrast, the minimum wage in Korea and Japan stands at 35% and 33% of average wage of full-time employees respectively as of 2012. Lacking nationwide data, China's minimum wage varies from region to region with steep increases of about 11%~20% in the past few years. However, it may compensate the stagnant rise in the minimum wage in contrast to the historic economic growth rates.

[Figure 2] Changes in minimum wage as a percentage of average wage of full-time employees in major countries



Source: OECD.stat

Third, the scope of application of the unemployment insurance system designed to ensure income guarantee for the unemployed is different. It matters how the unemployed is protected when they lose their jobs. It is evident that the percentage of non-regular workers affects coverage of the unemployment insurance and take-up rate of unemployment benefits. Korea, China and Japan witnessed a rise in the number of non-regular workers in the late 1990s, which suppressed coverage of the unemployment insurance to the great extent. In fact, the number of subscribers of the unemployment insurance among workers aged between 15 and 64 climbed down from 80% in 1995 to 75% in 2005 in Japan. The unemployment insurance coverage of non-regular workers is recorded approximately at 67% (Duell et al., 2010 : 87). According to the National Bureau of Statistics of China, the number of wage earners stood at 764.2 million in urban and rural areas. Of them, approximately 143.17 million are covered by the unemployment insurance.<sup>12)</sup> This means that about 18.7% of wage earners are protected by the unemployment insurance. However, it should be noted that China underwent crucial reforms then to enact Social Insurance Law in 2010. This means that a sharp rise in the unemployment insurance coverage is expected afterwards. Nevertheless, taking into account China's industry and labor structures, the social insurance coverage

---

12) See table 4-2 in the China Statistical Yearbook 2012.



stalling at a certain level may be a probable outcome. In Korea, there are two reasons why the role of the unemployment insurance is fairly limited. One reason is that the self-employed account for a large proportion of the employed, limiting the function of the unemployment insurance to protect those out of jobs. For reference, the percentage of the self-employed is more than two times greater than those of Japan or China.<sup>13)</sup> The other reason is that the number of those not covered by the unemployment insurance is extremely large as the number of non-regular workers is on the rise. In the Figure below, the unemployment insurance coverage for non-regular workers in 2011 is considerably low at 42.3% compared to that of regular workers, which is improving very slowly.

〈Table 7〉 Changes in social insurance coverage by occupational status of wage earners in Korea

		04.08	05.08	06.08	07.08	08.08	09.08	10.08	11.08
National pension (Workplace)	Regular	72.5	75.7	76.1	76.3	77.3	78.9	78.4	79.1
	Non-regular	37.5	36.6	38.2	40.0	39.0	38.2	38.1	38.2
Health insurance (Workplace)	Regular	73.8	75.9	76.1	76.7	78.0	79.8	79.5	80.9
	Non-regular	40.1	37.7	40.0	42.5	41.5	43.4	42.1	44.1
Employment insurance	Regular	61.5	63.8	64.7	64.3	65.8	67.6	75.7	77.4
	Non-regular	36.1	34.5	36.3	39.2	39.2	42.7	41.0	42.3

Source: Statistics Korea, KOSIS

13) In 2009, the self-employed is estimated to account for 30.0% in Korea, 15.3% in China and 12.1% in Japan. Figures for Korea and Japan are based on OECD.stat data and that of China is calculated based on the China Statistical Yearbook 2010.

Fourth, it concerns the scope and role of the public assistance system as the safety net of the last resort, which the working poor will depend upon. Since the 1990s, the working poor has continued to expand. From 1997 to 2002, the working poor in Japan is estimated to have jumped up to 6.2% from 3.9% (Goishi, 2011 ; Murakami, 2011). In addition, the working poor (the employed poor) in Korea is considered to have climbed up from 9.5% in 1997 to 11.1% in 2011 (No Dae-Myung, 2013).<sup>14)</sup> China faces a unique problem regarding the working poor. As the absolute poverty rate has seen a sharp decline in the past decade, the number of the poor among workers is considered to have significantly dropped compared to the past. With low income earners mainly consisting of rural migrant workers and students entering the scene, it is necessary to strengthen support for the working poor in the future. However, policies supporting the working poor may take a different form from those of Korea or Japan in terms of economic situation and employment structure.

Then, how many of the working poor are covered by the public assistance system in Korea, China and Japan? Focusing on the livelihood allowance system, this study will also look at the number of recipients of welfare system for the low income class as far as data allows. It should be noted that the Figure

---

14) The growth of the working poor is estimated to increase further if the unemployed poor and one-person households are counted as well.

below needs to be supplemented as it does not cover entire public assistance systems of each country. First, Japan's public assistance system protects about 2.13 million or 1.67% of the total population as of July 2012.<sup>15)</sup> As of 2013, Korea's basic livelihood guarantee system covers approximately 3% of the total population. The figure rises up to about 5% of the total population if the recipients of the low income welfare system are factored in.<sup>16)</sup> As of 2010, China's public assistance system is estimated to cover 6.0% of the total population when factoring in recipients of both the minimum livelihood guarantee system and the system to support orphans, the elderly, the handicapped and children with clothing, food, housing, healthcare and funeral. The figure rises to approximately 6.64% if recipients of all the other temporary assistance systems in urban and rural areas are all considered.<sup>17)</sup>

Do the public assistance systems of each country adequately

---

15) Akiko S. Oishi(2013), "Child Support and the Poverty of Single-Mother Households in Japan", (IPSS Discussion Paper Series), National Institute of Population and Social Security Research

16) The basic livelihood guarantee system of Korea protects approximately 1.36 million or 3.0% of the total population as of 2013. When recipients of numerous low income support systems are factored in, the figure is estimated to reach about 5%~6%.

17) According to the Statistical Yearbook by the National Bureau of Statistics of China, the number of the recipients of both the minimum livelihood guarantee system in urban and rural areas and the system to support orphans, the elderly, the handicapped and children with clothing, food, housing, healthcare and funeral in rural areas is expected to record approximately 80.81 million. The figure increases to 89.07 million when those covered by numerous other temporary assistance systems are considered as well. They account for 6.03% and 6.64% of total population respectively.

protect the working poor? Each country has a different set of selected criteria (such as income and property standards as well as provider standards), level of benefits and other related standards applied to the workables. In Japan, poor workables have difficulty in becoming eligible beneficiaries of the livelihood protection system. Among those receiving benefits under the livelihood protection system for 10 years from 2002 to 2012, nevertheless, the number of other households, namely the generation with a high proportion of the working poor, has risen fourfold from 72,403 to 287,968.<sup>18)</sup> This indicates that the rising number of the working poor resulted in changes in Japan's livelihood protection system in terms of increased number of benefiting households. In China, no detailed data is collected regarding the number of poor workables receiving benefits of the public assistance system. In Korea, there is no explicit discrimination against poor workables in determining eligibility for the public assistance system. In 2012, the beneficiaries of the basic livelihood guarantee system amounted to about 1.41 million. Among them, approximately 260,000 or 18.4% are workables. If family members supported by these people are factored in, the figure reaches about 40%. The employed totalled about 120,000, which implies that 46% of the workables are participating in the labor activities (No

---

18) This figure is quoted from analysis results of a research on the protected (November of Heisei Year 24) by the Ministry of Health, Labour and Welfare.

Dae-Myung, 2013b). It is interesting that the working poor in Korea continued to grow while the recipients among the working poor shrank slightly in size. The workables amounted to about 310,000 in the mid 2000s then to drop down to 260,000 in 2012.





## Chapter 4

# Comparison of LWW Policies of Korea, China and Japan

1. Similarities and differences in LWW policies of Korea, China and Japan
2. Reform direction of social insurance system
3. Characteristics of public assistance system and the working poor problem
4. Characteristics of LWW system and its reform direction





# 4

## Comparison of LWW Policies of Korea, China and Japan <<

The following summarizes the LWW policies of Korea, China and Japan with focus on a couple of points as listed below. First, similarities and differences between Korea, China and Japan will be discussed in terms of causes for the working poor and relevant policies.

### **1. Similarities and differences in LWW policies of Korea, China and Japan**

Similarities in the LWW policies of Korea, China and Japan can be summarized into following three points. First, labor becomes dualistic at a rapid rate, meaning that while regular employees working at large companies enjoy a high level of job security, non-regular workers suffer from low wage and severe job insecurity. Second, all three nations are, in relative terms, strongly inclined to place high value on economic and social independence through labor and hold negative preception towards the welfare expansion. This is well demonstrated through the low level of political pressure on the welfare expansion even in the face of exacerbating issues of employment and

poverty. Third, there is strong tendency to view welfare supports for poor workables negatively. This shows why the LWW policies of Korea, China and Japan tend to be very punitive with measures to control payment rather than providing supports and investments in the effective manner to encourage people to find employment and to escape poverty.

Also, there are differences between Korea, China and Japan. First, each nation is at a varying stage of industrialization. Deindustrialization has progressed relatively much in Korea and Japan, wielding heavy influence on structures of employment and income distribution in both nations. In contrast, China is still undergoing industrialization. Such differences explain why the way employment policies and welfare policies are linked should differ from country to country. Second, the level of maturity of social insurance varies by country. Much difference is found between Japan, Korea and China in terms of coverage and benefit level of social insurance. In Japan, the proportion of non-regular employees is relatively low while its coverage ratio of social insurance is high. China faces serious job insecurity with a small number of people covered by social insurance as a whole. This points out a need to focus primarily on boosting social insurance in linking work and welfare in the case of Korea and China. Third, policy stability differs depending on a political regime. For several years, regime changes in Korea and Japan have always led to changes in the direction of

their LWW policies, shifting between the LWW policies stressing relative welfare expansion and the LWW policies emphasizing employment. On the other hand, the direction of the LWW policies remains stable for China thanks to its unique political system.

## **2. Reform direction of social insurance system**

Problems of employment and welfare facing the three countries of Korea, China and Japan are same in nature since this is the question of how to work and how to distribute/redistribute income. As policies aimed at strengthening job security or increasing the social security tax may have great impact on industries and corporations, the globalization directly restricts the autonomy of national policy-making. Against this backdrop, numerous countries are witnessing rising non-regular employees and worsening income inequality with Korea, China and Japan being no exception. However, the situation may vary by country depending on the level of deindustrialization and aging population. For example, financial burden due to the aging population may result in a conservative approach to other programs that entail financial expenditure, or industrial investments may attract more funds than welfare programs in order to create jobs and boost the middle class in the process of

industrialization.

In this context, Japan seems to have reconstructed its social security policies targeting mainly the marginalized including low-income families, the aged and the handicapped and to focus more about taking stronger measures to reduce expenditures incurred by medical coverage and pension system. In this respect, Comprehensive Reform of Social Security and Tax adopted in 2012 holds its significance as it is designed to reform the overall social security and tax systems including consumption tax hike. Inevitably, such reform plan tends to have its emphasis on the LWW policies to better help the working poor land jobs and stand on their own feet. When examined closely, however, practical policies, such as appropriating additional budget for income guarantee and work support to assist the working poor, seem yet to be materialized. This signifies that urgency lies in securing more funding or reducing budget rather than experimenting with new LWW policies.

Korea seems to be faced with a multiple of issues related to its social security policies taking place all at once. Although the problems are not full-fledged yet, the country should handle a hike in social expenditure, such as medical expense due to the aging society, reform the overall income guarantee system in order to address poverty and income inequality that have exacerbated rapidly in the past decade and strengthen the LWW policies for the working poor. Of those, the most urgent chal-

lenge is about the fact that the social insurance coverage and income replacement rates are both still low even after ten years since the adoption of the social insurance system. This reveals big loopholes existing not only in the income guarantee system for the poor elderly but also in the welfare policies for the working poor including non-regular workers. The problem lies in that securing income and providing medical services for the poor elderly tend to overwhelm other policies while there is a tendency to avoid policy intervention on the factors that generate the working poor in the labor market. Without correcting the labor market's structural problems leading to a massive number of low-paid and non-regular workers, it is hardly possible to expect improvement in the coverage ratio of social insurance. Given the situation, expanding the public assistance system to the great extent in order to handle these problems is considered undesirable.

In China, social security policies have gone through a series of minor and major institutional changes since its reform and opening-up in the 1990s. In particular, China established a system that is binding in terms of coverage and collection as it adopted Social Insurance Law in 2010, which legalized various social security systems that had largely remained as guidelines until recently. Steep increases in the number of people covered by social insurance seem to suggest a significant change in the development progress of the social security system in China.

Moreover, much change is observed in the public assistance system as well. Public assistance policies had centered on cities until the early 2000s, and it was only in the late 2000s when policies aimed at bridging the gap between urban and rural areas were introduced. At the moment, China seems to take numerous measures to sophisticate its public assistance system. Although the central government has yet to provide standards, it is striking that China uses the concept of minimum living standards and has attempted to enact national public assistance law. Considering that it takes a fairly long time for the social insurance system to mature, all-out efforts are required to discuss how the role of the public assistance system should be extended in the future. Against this backdrop, it would be impossible to leave out the paradigm of the LWW policies. Closing the gap between urban and rural areas and improving treatment for rural migrant workers are more dependent on the public assistance policies that are based on taxation than social insurance, and the linkage with regional development or employment policies may hold more significance. This indicates that an investment strategy for balanced development among regions is important.

While Japan is concerned with the issue of financial sustainability of its social security system, Korea is battling against stagnant coverage of its social insurance system. It is likely that the coverage will not exceed a certain level and remain at the

same level for an extended period of time even after the social insurance system was adopted and its coverage was expanded to include the entire public. In practice, there are situations where it is impossible to force people to subscribe to social insurance if there is a disproportionately high portion of people working in the farming sector and people not on the payroll or of small-sized businesses. In addition, there are obstacles emerged by the low level of administrative management capabilities, advanced means test and service-linking system, which are all required for the expansion of the social insurance system. As China is at the early stage of improving its social insurance system, priority seems to be placed not on policies that incur more expenses but on the LWW policies that link job creation as well as regional development with public assistance policies.

### **3. Characteristics of public assistance system and the working poor problem**

The public assistance system plays a crucial role in Korea, China and Japan. This is only natural considering that the social insurance system fails to provide sufficient protection to the working poor. It settles into the system in different forms from country to country depending on political regime, finan-

cial conditions and cultural awareness. In this study, the public assistance system is examined in the following three perspectives: 1) selection criteria, 2) benefit level, and 3) ways to support the workables. The table below provides a summary.

〈표 8〉 Characteristic comparison of public assistance system between Korea, China and Japan

Criteria 1	Criteria 2	China	Japan	Korea
Coverage	Income criteria	Absolute	Relative	Combined
	Property criteria	Strict	Strict	Very strict
	Duty to Support criteria	Very strict	Strict	Very strict
Benefit level	Legally binding	No law	Guaranteed by law	Guaranteed by law
	Terminology	Minimum cost of living	Minimum cost of living	Minimum cost of maintenance
	Ceiling	Different by region	Different by grade of area	Single national standard
Workability	Support for workables	Excluded	Excluded	Support provided
	Conditions	N/A	N/A	Conditions attached
	Punitive measures	N/A	N/A	Lukewarm

The first perspective is the selection criteria that are divided into the following three subcategories: 1) income criteria; 2) property criteria; and 3) provider criteria. It is important whether countries concerned officially announce the income criteria as part of the selection criteria applied to the public assistance system. Interestingly, Korea, China and Japan specify their income criteria using such terms as the minimum cost



of living or the minimum cost of maintenance. Most countries tend to be strict with their property criteria. Korea is applying the income conversion method applied to property. Although it seems highly lenient at a glance, the method is extremely stringent in that it cuts wages after considering the converted value of one's property into income. One of the most noteworthy characteristics found in the three nations is the provider criteria. Unlike welfare states of the West, Korea, China and Japan apply rigorous criteria to the duty to support when granting public assistance. In Japan, households are protected under the livelihood protection system in case where a person responsible for supporting neglects his or her obligation. In contrast, Korea is taking a highly strict position in determining a provider's ability to support then to decide whether those not qualified shall be excluded from the payment roll. It is fair to say that Korea enforces relatively stringent policies. China also mandates families with the duty to support in the fairly rigid manner in accordance with the Constitution and the Law on Protection of the Rights and Interests of the Elderly. The concern is that numerous social controversies stem from the provider criteria. In 2012, a celebrity's failure to perform the duty to support dependents turned into a political turmoil in Japan. In Korea, there were some extreme cases of some senior citizens who took their own life after they lost their beneficiary status after being categorized as a dependent for a person ca-

pable to support. This demonstrates the chasm between the value that people uphold and the reality of the weakening <supporter - supported relationship>.

The second perspective is the level of benefits in the public assistance system. The most ideal method to compare the level of benefits between Korea, China and Japan is to convert all allowances into cash and compare them as a certain percentage of median income. As this requires a vast amount of data and sufficient time for research<sup>19)</sup> in reality, focusing on the livelihood allowance to compare the level of benefits is regarded as the best alternative. It is aimed at examining whether an adequate level of benefits is provided through the public assistance system in order to maintain the minimum standard of living. Regarding this, the livelihood protection system of Japan sets a certain percentage of expenditures spent by the paid-worker household as the minimum living cost and pays a relatively high level of benefits among the three countries. In Korea, the basic livelihood guarantee system determines the minimum cost of maintenance by household size through the market basket measurement, which stands at approximately 40% of the median income as of 2012. The minimum cost of maintenance is denounced for being insufficient to sustain the minimum standard of living for a month.<sup>20)</sup> In China, the mini-

---

19) Detailed comparison of the level of public assistance benefits between Korea, China and Japan remains as the subject for future research.

20) From a different perspective, the level of benefits for households protected

imum living cost differs by local government, making it difficult to compare the appropriateness of the level of allowance nationwide. This means that it largely depends on the will of local governments to operate the system given that there is no law put into practice regarding the public assistance system. In addition, the minimum living cost is linked to the minimum wage or unemployment benefits. In the case of Beijing, the unemployment benefit is set at 70% of the minimum wage while the minimum living cost is set at 40% of the minimum wage. In this case, the minimum living cost is in terms of a single person.<sup>21)</sup> However, previous research efforts find that the level of allowance in the public assistance system is not sufficient. This is demonstrated in the fact that a significant proportion of recipients of the public assistance system is required to work to sustain their living (Chack et. al., 2012).

The last perspective is whether the poor has the ability to work, through which it would be possible to understand how the public assistance systems of Korea, China and Japan aim to guarantee income for the working poor and how they approach employment support policies to the further extent. If the work-

---

under the basic livelihood guarantee system has increased to the great extent compared to other allowances granted to low-income families in the past decade. This signifies that fairness with other groups of the poor is as important as sufficiency of the benefit level.

21) The method to calculate the minimum cost of living in the Beijing region is confirmed during an interview with representatives from the federation of trade unions in Beijing in June 2013.

ing poor or the employed poor is not protected under the income guarantee system, such as the livelihood allowance, it is safe to say that work-first policies are enforced rather than the LWW policies are strengthened. However, it is also necessary to investigate cases where the working poor are adequately protected by the unemployment assistance or other welfare systems. The public assistance systems of western countries are divided into the following three categories: (1) the working poor is provided with income guarantee through the unemployment assistance system; (2) the working poor is provided with income guarantee through the public assistance system; or (3) the working poor is provided with income guarantee through both the unemployment assistance system and the public assistance system. Among the three nations, Korea seems to be the only country to grant benefits even to the poor workables just as it does to the elderly or the handicapped through its public assistance system. Nevertheless, the number of public assistance beneficiaries among the poor workables in Korea, China and Japan does not show a stark difference.

#### **4. Characteristics of LWW system and its reform direction**

Previously, the LWW policies have been determined both in the broad and narrow sense. Narrowly speaking, these policies

refer to the workfare programs forcing employment as a condition for the welfare provision to beneficiaries of the public assistance system. Key elements to understand the system are whether the workables are included as public assistance beneficiaries, whether the system explicitly prescribes the duty to work and how a failure to perform the duty is handled. In this study, the LWW policies will be examined in the broad sense. Comparison of the three countries will be made to understand whether there is a public assistance system or unemployment assistance system as a means to guarantee income, whether there is a work incentive system, such as EITC of the United States, or a support system to help pay social insurance premium just as in the case of Europe, and whether there are proactive labor market policies for the unemployed poor.

### **A. Characteristics of LWW policies of Korea, China and Japan**

The characteristics and recent trends of the LWW policies of Korea, China and Japan are summarized as follows.

First, Japan seems to prefer providing support focusing on the unemployed through its support system for job seekers rather than through the public assistance system with regard to the workfare for the working poor. In addition, it is known to prepare separate laws to support the needy, such as the vulnerable including the homeless. This is considered as a more real-

istic alternative than supporting the working poor by expanding the pool of recipients of the livelihood protection system, which is already being criticized for doling out a high level of allowance.

In Korea, efforts are underway to revise the basic livelihood guarantee system, which has been the nation's most representative public assistance system, and to adopt policies to help the poor escape poverty through labor. Such efforts have two goals: one is to increase the number of eligible recipients of main welfare benefits, such as the livelihood allowance and the housing allowance, and the other is to enhance work support for the working poor. However, these separate income guarantee system and work support system are yet to be linked at the institutional level. This means that Korea is faced with a dilemma, in which it can neither separate the public assistance system for the working poor nor adopt the unemployment assistance system given that the country already embraced the working poor as eligible recipients of its public assistance system.

Lastly, China has not enacted any law governing the public assistance system. Although there is a recent move to enact such a law, it is carried out independently by local governments. What is striking is that the Chinese public assistance system is undergoing rapid changes as demonstrated in the adoption of the concept of minimum living costs. Some local governments of China are said to have put into place the

workfare system, but expanding the system seems to be a strenuous task as the working poor takes up only a small proportion of recipients of the public assistance system while the level of allowance is low. All these fail to provide incentives to work. Against this backdrop, China is faced with challenges to increase the number of beneficiaries and the level of benefits.

### **B. Component comparison of LWW policies of Korea, China and Japan**

There are limitations to explaining the characteristics of the LWW policies just in terms of the existence of a formal system. Therefore, it is necessary to assess how many of the working poor the system is taking care of, whether the level of benefits and other supports are adequate, how well the work support program is working in practice and whether there is a delivery system set up for operating these programs.

First, with respect to income guarantee, it is important to look at whether cash allowance is paid to the working poor through the public assistance system or the unemployment assistance system. As Korea, China and Japan do not have the unemployment assistance system in place, what matters is whether the workables are accepted as beneficiaries of the public assistance system. While Korea explicitly allows this, Japan and China tend to take a relatively reluctant or negative

stance. In reality, there are both tangible and intangible obstacles that hinder public assistance benefits to be given to the workables.<sup>22)</sup> In fact, a significant number of administrative managers responsible for the management of the public assistance system oppose providing cash benefits to workables or argue for stricter management.<sup>23)</sup> A regulation attached with conditions explicitly states that the workables are allowed to receive public assistance benefits. Among the three countries, Korea is the only one with such regulation in place. Japan is known to have eliminated a rule that requires female breadwinners to register themselves as job seekers on the livelihood protection system. Needless to say, there are income guarantee programs designed to protect the working poor other than the public assistance system given that the income guarantee system can take various forms. As a matter of fact, Japan has a couple of benefit programs for the working poor currently in operation. Moreover, the Chinese Federation of Trade Unions is carrying out a pilot project to provide supplementary living allowance to the working poor in an effort to close the loop-

---

22) Japan is criticized for asking applicants of the livelihood protection system to sign for the consent of a means test, which is thought to deter people from applying for allowance. China uses the expression known as the "Three No's", which means that the protection under the public assistance system is provided only for individuals without children, income and capability to work.

23) Between May and July of 2013, many civil servants and professionals expressed such opinions on the public assistance system in interviews conducted in Tokyo and Osaka of Japan as well as in Beijing and Hangzhou of China



holes in the public assistance system.

Second, it is necessary to examine whether financial incentives or social services are provided to facilitate employment of the working poor. In this study, work incentives will be looked into from the following three perspectives: (1) incentive policies in terms of labor supply; (2) incentive policies in terms of demand; and (3) policies supporting social services. Incentive policies in terms of labor supply is one of the most noteworthy policies among the LWW policies in the Western countries. The cases in point are Earned Income Tax Credit (EITC) of the U.S. and Working Families' Tax Credit (WFTC) of the U.K., which are aimed at maintaining the supply of low-wage labor by compensating for the insufficient income of low-paid workers. Several Western European countries have put a work incentive system in place since they adopted a similar system ten years ago. What is interesting is that numerous contrasting views are suggested recently concerning the effectiveness of the system although it was in the limelight in the late 1990s. Among the three nations, Korea is the only country to adopt a similar system known as EITC for the working poor. Opposite to the EITC system, there exists a policy to encourage employment in order to increase labor supply. This policy aims to encourage the unemployed with low skills to find employment by lessening the burden of social insurance premium contributed by the employer, which has been widely adopted

by Western European countries. Currently, Korea is implementing a similar project named “Durunuri.” Lastly, a variety of social services including child care and nursing service are needed to facilitate employment for the poor without jobs as many households struggle with these problems, which are obstacles to finding a job. At the moment, Japan is said to have relatively well-linked social services in place. Korea seeks to expand the supply of social services through “Welfare Support Team for Hope” although its role is still somewhat limited. In China, local governments located along the coastline are leading the efforts of connecting such services by organizing support entities at a local level yet to be at a national level.

Third, it is necessary to look at how a work support program is operated to assist the unemployed poor. Specifically, it concerns whether the work-first strategy is implemented, whether the public work program is operated and whether it is linked to the social economy. In Korea, direct job creation programs<sup>24)</sup> had accounted for the most of the work support programs until 2010. Since then, there is a growing number of programs that focus on the entry into the labor market. These programs include Hope Ribbon Project or Successful Employment Package Program. In Japan, various work support programs including a

---

24) It is a comprehensive term to include a series of programs, such as public work, work for hope, work for self-support and all the other employment projects. The government supplements a fixed amount of daily labor costs for these programs. It is referred to as public work programs or direct job creation programs as part of active labor market policies.

work-first program and a public work program are carried out by employment centers managed by the Ministry of Health, Labour and Welfare. They are namely Hello Work or Job Café, which are run by local governments. Furthermore, it is important to examine whether the work support program for the working poor is closely related to bodies of the social economy. Concerning this, numerous non-profit private organizations in Korea and Japan are making efforts to create social enterprises and cooperatives in order to help the poor find a job. These include diverse employment and self-employment programs by private non-profit organizations, which offer job opportunities to the unemployed poor. Consumers' cooperatives are already very active in Japan while these support programs are under development in Korea through its Social Enterprise Promotion Act in 2006 and Fundamental Law on Cooperatives in 2012.

Fourth, one of the most contentious issues regarding policies for supporting the working poor is how to construct a delivery system respectively for employment services and for welfare services. In fact, it is common in the Western welfare states to integrate offices for employment and welfare together or to physically situate these offices in the same place. It is evident that the delivery system is reformed in a way that enhances cooperation between the two entities. In the same vein, some argue that employment centers, which are the delivery system for the employment service, and welfare offices of local govern-

ments should be integrated in Korea as well. As local governments have significantly expanded work support agencies for the low-income class and the marginalized, experimental efforts are underway to operate employment centers and welfare agencies in the same place.<sup>25)</sup> Regardless of the consensus for such need, conflicting interests among departments remain to be unsolved. Japan managed to succeed in such convergence at the central government level by integrating the Ministry of Labour and the Ministry of Welfare into one unified Ministry. The country is said to carry out various experiments to converge employment, health and welfare services. Still, integration of Hello Work, which are employment service centers, and welfare offices is yet to be completed. Local governments, such as the Osaka authorities, are testing integration through a separate delivery system. Lastly, the Korean case could be cited for the private delivery system. Korea supports non-profit private organizations, which are responsible for case management, employment and self-employment services for the working poor. They are local self-support centers. They help beneficiaries of the basic security system, who are unemployed but are workables, and the unemployed with low income in terms of finding government-funded jobs and jobs at self-support companies or private companies.

---

25) An experiment to converge employment services and welfare services is currently led by Namyangju City in Gyeonggi Province.

## Comparison of LWW Policies of Korea, China and Japan 79

〈Table 9〉 Institutional structure of policies for supporting the working poor  
in Korea, China and Japan

		China	Japan	Korea
Guarantee income	Public assistance system	△	△	○
	Unemployment assistance system	×	×	×
	Conditional rules and regulations	×	×	○
Provide incentive to work	Earned Income Tax Credit (EITC)	×	×	○
	Supporting social insurance premium	×	×	○
	Providing social services	△	○	△
Support for finding employment	Work-first strategy	-	△	○
	Government-funded jobs	×	○	○
	Linking the social economy	×	○	○
Delivery system	Integrating employment/welfare offices	×	×	×
	Supports of local governments for finding a job	△	○	△
	Cooperation with the private sector	△	○	○





# Chapter 5

## Conclusion





# 5

## Conclusion <<

Amidst the heightened volatility in the global economy and internal labor markets, it is extremely important to strengthen support for the working-age population. The issue of aging population has already put significant pressure that drives up expenditures for income guarantee or health insurance for the elderly. Nevertheless, questions linger as to how to cope with the rising expenditures. It is inevitable for the working-age population to assume the tax burden to buffer the impact from the aging population. Additional tax burdens shall also be assumed by this group especially when the social insurance system is either dualized or not matured. The question is whether the working-age population is faring well. Unfortunately, they are delaying marriage due to job insecurity and low income. Given the situation, it would be difficult for them to buffer the impact from the aging population by having more children and paying additional taxes.

In the case of Korea and China where social security systems are yet to reach their maturity, there are limitations to protecting the working-age population effectively just through the systems alone. It would be hard to raise the social insurance coverage just by increasing the number of qualified individuals.

Also, the group exposed to risks of unemployment, low wage and job insecurity is highly likely to see more risks. A more fundamental problem is that the social insurance system is becoming dualistic in terms of its benefits since it protects workers enjoying a relatively higher level of job security while excluding the marginalized, such as non-regular workers, who participate in the labor force. This signifies a possibility of seeing a widened gap between income classes by granting more welfare benefits to those earning more. In fact, this is exactly what Korea, China and Japan are experiencing at the moment. This is why transitional strategies are needed until the social insurance system matures.

Needless to say, it is important to take measures to control the poverty risk in the labor market in order to solve the problem of the working poor. Furthermore, welfare policies are required to encourage the working poor to subscribe to the social insurance. Still, there are many limitations to pursuing these policies in reality. This is why new LWW policies are required for integrating labor market policies with the social insurance system and the public assistance system with social services. This is not irrelevant with the negative perception held by the public and policy makers of Korea, China and Japan towards raising welfare benefits for the working poor. However, the underlying reason is to facilitate employment as a solution to the working poor problem of the 21<sup>st</sup> century, which calls for

stronger linkage with the welfare. Forcing employment when conditions are not established will not result in expected outcomes. These are the implications for a number of nations, which experimented on workfare policies for the past 20 years. Sophisticated system design is necessary, however, to avoid moral hazard on the part of beneficiaries or social criticism.

Realistically speaking, it seems like a daunting task for the three countries to adopt the income guarantee system, the work support system and the EITC system for the working poor and integrate them into a single LWW policy. The conditions are not ripe for expanding the public assistance system for the working poor numbering three to four million and for taking the next step to strengthen the linkage between work and welfare just as the Western welfare states have done. The situation has changed from the mid 20th century when the economic growth, full employment, lifetime employment and high social insurance coverage were considered prerequisites. Also, it is not wise to dodge the issue of the working poverty by applying the narrow definition of workfare policies. It is not desirable to expand programs that force low-paid labor by offering small in-work benefits, either. The working poor in Korea, China and Japan call for an adequate level of guaranteed income, well-linked welfare services and employment supports. The LWW policies are bound to be costly programs if they are designed to assist the working poor to maintain the minimum

standard of living as a human being, to be employed and to stand on their own feet. This implies that programs that offer low-paid and low-quality jobs while stigmatizing beneficiaries are not actually intended for encouraging people to become self-reliant through the LWW. They are programs just for the low-level welfare.

As Korea, China and Japan are greatly different in terms of their economic conditions, industry and labor market situations and the level of maturity of welfare policies, it is only natural for each country to opt for separate LWW policies in terms of policy directions or implementation strategies. However, it requires further investigation into how to handle the problem of the working poor and to allocate required resources. Extensive research efforts and discussion by and between experts in the three countries are necessary in the future.

Key findings from this study can be summarized as follows.

The first finding is about limitations involved with the existing discussion on the welfare regimes of Korea, China and Japan. It is true that these countries do not differ much compared to Western welfare states. In this context, Korea, China and Japan can be referred to as development-focused welfare states. However, such conclusion might have been drawn at the outset of the study with the limited amount of information. This is why attention should be paid to differences between these nations and reasons for such differences. From this per-

spective, a new theory is required to identify the characteristics of the welfare regimes in countries including Korea, China and Japan, which would serve as a rationale to decide whether they fall under the same category or the different one. It is deemed that such study outcomes are mainly related to how to formulate the LWW policies.

Second, similarities in the growth strategies of Korea, China and Japan have significant impact on formulation and development of welfare policies in each country. Korea and Japan lacked efforts to expand their welfare systems while their respective economy and the middle class were growing quickly during the industrialization. Belated attempts at strengthening the welfare system failed in the face of external economic conditions.<sup>26)</sup> It is important to keep in mind that rapid economic development leads to a strong sense of national pride that might become an obstacle in implementing timely and adequate reform for the welfare expansion as shown in the case of Korea and Japan and probably China. In the case of Korea, each generation with different historical experiences have conflicting political influence on discussion surrounding the welfare expansion. As it becomes evident that job creation is clearly not a panacea to all the problems, the continued em-

---

26) Japan failed to carry out extensive reforms for welfare expansion due to the oil shock in the 1970s whereas Korea had to expand its welfare driven by outside forces during the Asian Financial Crisis whilst preparing for a blueprint for the welfare expansion during the Kim Young-sam administration.

phasis on the growth and job creation would only lead to reluctance towards the welfare expansion in the end.

Third, the public assistance systems of Korea, China and Japan share many things in common in terms of details although they seem to vary greatly at a glance. For example, Korea is different from Japan or China in that it provides cash benefits to workable beneficiaries of the public assistance system through the basic livelihood guarantee system. In fact, it can be said that there is no big difference in the number of the working poor protected under the public assistance system or other welfare systems for the low-income class. Paradoxically, Korea's basic livelihood guarantee system seems to have strengthened its protection for the working poor although the number of the working poor beneficiaries has steadily declined for the past 14 years while subtle discriminations persist in terms of selection and payment. Regardless of the level of institutionalization, there is a mechanism put in place for controlling the payment of welfare benefits to the working poor in Korea, China and Japan.

The fourth finding is about the probability of the number of the working poor protected under the public assistance systems of Korea and Japan to grow or not in the mid-to-long term. Considering the current situation, a hike in the number of welfare beneficiaries among the working poor in Korea, China and Japan is not a likely outcome. This is predictable since there is

a significant number of the public as well as politicians, welfare policy experts and even first-line officials responsible for the welfare affairs, all of whom have the negative perception towards the workables receiving the welfare benefits. It may take long before the proportion of the working poor receiving welfare benefits reaches 5%~10% of the total population as in the Western welfare states. However, it did not take long for the Western welfare states to see a rise in the long-term unemployed among the welfare beneficiaries. In addition, the understanding of the public and the working poor about the welfare may change as fast as the changing circumstances.

Fifth, the LWW policies of Korea, China and Japan stigmatize workable beneficiaries, thereby deterring qualified applicants from receiving the welfare benefits. Unlike stated in numerous campaign pledges or policy slogans, policies supporting the working poor have been extremely passive in actually expanding investments. This might be partially due to financial constraints resulting from the aging population. Another factor would be the belief towards the welfare benefits, which make people think that such benefits exert negative impact on the economic growth and on the willingness of the poor workables to self-support. It is also shown in the way governments invested in highly visible employment promotion policies with the aim to promote employment of the working poor in the relatively generous manner. This is also in line with the prefer-

ence expressed by experts and policy makers towards EITC in Korea.

Sixth, the LWW policies of Korea, China and Japan call for a new policy paradigm that integrates income guarantee, work support and financial incentives. For many years, welfare states in Europe have revised the income guarantee system for the working poor and have been keen on connecting the system to work support or an employment incentive system through new policies. This may seem like the distant future for countries that are hesitant at guaranteeing the minimum income for the working poor. However, it seems inevitable to strengthen minimum income guarantee as the number of the working poor increases. It remains to be seen whether it shall be enhanced through the existing public assistance system, the unemployment assistance system or a new form of minimum income guarantee system. It is clear that it would be difficult to take either the traditional approach of enhancing unemployment assistance or the approach of expanding the public assistance without identifying the workables especially when the working poor situation is grave. It is required to take measures of any type to link employment more closely in return for stronger income guarantee.



## References

- Aspalter, Christian(2008), "The welfare state in cross-cultural perspective", *International Social Work*, Vol.51, No.6, pp.777-789
- Bonnet, Florence & Ellen Ehmke & Krzysztof Hagemejer(2010), "Social security in times of crisis", *International Social Security Review*, Vol. 63, 2/2010
- Bonoli, G.(1997), "Classifying Welfare States : a Two-dimension Approach", *Journal of Social Policy*, vol. 26(3)
- Bruce W Klein & Philip L. Rones . A Profile of the Working Poor [J] . *Monthly Labor Review* , 1989 , 112(10) : 4 .
- C. Jones(1993). "The pacific challenge: Confucian welfare states", in C. Jones (Ed.), *New perspectives on the welfare state in Europe*. London & New York: Routledge
- Charles Craypo & David Rormier . Job Restructuring as a Determinant of Wage Inequality and Working-poor Household[J] . *Journal of Economic Issues*, 2000 , 34 (1) : 21 .
- Dolls & Fuest & Peichl(2010), "Social Protection as an Automatic Stabilizer", IZA Policy Paper No. 18
- Duell, Niciola, David Grubb, Shruti Singh, Peter Tergeist(2010), *Activation policies in Japan*, OECD Social Employment and Migration working papers NO.113
- Escap(2012), *Statistical Yearbook for Asia & Pacific 2011*
- Esping-Andersen G.(1999), *Social Foundations of Post-industrial Economies*, Oxford Univ. Press
- Esping-Andersen, G.(1990), *The Three Worlds of Welfare Capitalism*, Polity Press

- Fujimura Masayuki(2009), "Social Change and Social Policy in Japan",  
International Journal of Japanese Sociology, 2009, Number 18
- Furceri, David(2009), "Stabilization Effects of Social Spending:  
Empirical Evidence from a Panel of OECD Countries", OECD  
Economics Department Working Paper No.675
- Ian Holliday & Paul Wilding ed.(2003), Welfare Capitalism in East Asia  
: Social Policy in the Tiger Economies, Palgrave Macmillan
- Iversen, Torben & Anne Wren(1998), "Equality, Employment, and  
Budgetary Restraint: The Trilemma of the Service Economy",  
World Politics 50.4 (1998) 507-546
- Jay. L Zagsky .Health and the Working Poor[J] . Eastern Economic  
Journal , 1999 , 25(2) : 171 .
- KIHASA(2012)a, Social Protection System in selected countries : China  
(Korean)
- KIHASA(2012)b, Social Protection System in selected countries : Korea  
(Korean)
- Kim Byung-Chul(2008), Chinese Public Assistance divided into urban  
and rural areas : focusing on the minimum income protection  
system. Review of Social Welfare Policies, Vol.35. pp.61-86
- Kim Byung-Chul(2011), Reform of Chinese Social Protection System  
and their strategies, International Labor Brief, vol.9, tome 9, KLI
- Lee Byung-Hee et al.(2010), Working Poor : reality and policies, KLI
- Lee Deok-jae et al. (2012), Study on the policies to reinforce the  
linkage between work and welfare, KEIS
- Lim Wan-Seob & No Dae-Myung(2013), Statistical Annual Report on  
Poverty in 2013, KIHASA
- Machiko Osawa, Myoung Jung Kim, Jeff Kingston(2012), "Precarious Work  
in Japan", *American Behavioral Scientist*, vol.XX, tome X, pp.1-26

- Marlene Kim & Thanos Mergoupiss. The Working Poor and Welfare Recipiency, Participation, Evidence and Policy Directions[J]. Journal of Economic Issue, 1997, 31(3) : 709.
- Marlene Kim, "The working poor: lousy jobs or lazy workers?", Journal of Economic Issues, vol.32, no.1, 1998, p.65.
- Marlene Kim: "Are the Working poor Lazy", Challenge, vol.41, no.3, 1998, pp.97-98.
- Masatoshi Murakami(2011), "A Statistical Comparative Study of the Working Poor in Japan and Canada", American Journal of Economics and Business Administration, vol.3. tome 2, pp.316-332
- Myles, J. & J. Guadagno(2002), "Political Theories of the Welfare State", Social Science Review, march 2002
- No Dae-Myung et al.(2006), Reform of Social Protection System in the long-term perspective, KIHASA
- No Dae-Myung et al.(2008), Study of Welfare Model in Korea : universality and specificity, KIHASA
- No Dae-Myung et al.(2009)b, Study on the Reform of Welfare Policies for Working Poor, KIHASA
- No Dae-Myung(2013)a, Reform of Welfare to Work Policies in Europe, Forum for Health and Welfare, vol.195, KIHASA
- Norimichi Goishi(2011), "Social safety net for the working poor in Japan, Korea and Taiwan", in Gyu-Jin Hwang ed.(2011), New welfare states in East Asia : Global Challenges and Restructuring, Edward Elgar
- Ray Brooks & Ran Tao. China's Labor Market Performance and Challenges[J]. International Monetary Fund Working Paper, 2003, 210 : 5-7.

- Sawada, Yasuyuki & Kazumitsu Nawata & Masako II & Mark Lee(2011), "Did the Financial Crisis in Japan Affect Household Welfare Seriously?", *Pacific Economic Review*, 16:2 (2011)
- Wang, Xiaobing & Jenifer Piesse(2010), "Inequality and the Urban-Rural Divide in China: Effects of Regressive Taxation", *China & World Economy*, Vol. 18, No. 6, 2010
- Wang, Yanzhong(2011), China's fiscal expenditure on Social Security since 1978, *China: An International Journal*
- Wilding, Paul(2008), "Is the East Asian Welfare Model still productive?", *Journal of Asian Public Policy*, Vol. 1, No. 1, March 2008, 18-31
- Wood, Geof & Ian Gough(2006), "A Comparative Welfare Regime Approach to Global Social Policy", *World Development*, Vol.34, No.10
- Yao Jianping(2011), "Working Poor in Chinese Urban Area : Problems Development, Group Characteristic and Positive Social Policy", *Social Security Studies*, 2011 vol.1