A Political Economy of Pension Reform in Korea

Chang Lyul Jung

PhD Thesis

Department of Sociological Studies
The University of Sheffield

May 2009

Abstracts

This thesis is the first paper to take a political economy approach in exploring the fundamental factors of the 2007 Korean pension reform in a critical manner. The financial elements of the funded National Pension Scheme (NPS) inevitably created various interdependencies with the PAYG public pensions. As a result, the Korean pension reform process was executed in a different manner from that in Western pension-welfare state-economic regimes.

In contrast to the rapid growth in public welfare since the East Asia economic crisis, there were the drastic pension reforms in 1998 and 2007. In particular, the 2007 reform completely changed the basic foundations of the NPS at a time when there were massive cuts in benefits. Even though successive liberal governments since the economic crisis were welfare-friendly, the economic paradigm shifted towards neo-liberalism. The Korean pension reform in 2007 was a result of the gradual expansion of a neo-liberal economic regime that domestic neo-liberalists, who have enhanced the influences since the economic crisis, have developed.

Even though the public prefers the expansion of public welfare, the neo-liberal pension reform could be carried out due to the legacies of the NPS such as the discourse on pension fund exhaustion, the saving notion and the immaturity (or non-essential nature) of the system. The majority of the public regarded the NPS as means of savings and the discourse on pension fund exhaustion dwarfed all other important issues including the increasing poverty rate of older population and the immaturity increased the distrust towards the NPS. None the less, due to its low path dependence as well as the recent introduction of the occupational pension and noncontributory pension schemes, there seems to be room for development in the Korean pension regime.

Table of Contents Page Numbers

Chapter 1	**Introduction**	1-12
Chapter 2	**Globalization and Pension Reform**	13-42
Chapter 3	**Issues in Pension Reform**	43-79
Chapter 4	**Methodology and Methods**	80-94
Chapter 5	**The Korean Pension System**	95-125
Chapter 6	**The Korean Pension Fund**	126-144
Chapter 7	**Historical Background and Origins of Korean Pension System**	145-170
Chapter 8	**Political Economy of Korean Pension Reform**	171-193
Chapter 9	**Impact of Reforms on the Korean Pension System**	194-215
Chapter 10	**Conclusion**	216-226
Bibliography		227-259
Appendix		260-264
Glossary		265-270

List of Tables

Chapter 2

Table 2-1	Roll-back and Roll-out Neo-liberalization: Stylized Features	21
Figure 2-1	Influence of Globalization on the Welfare State	25
Table 2-2	Classification of Multilateral Institutions	27
Figure 2-2	Pillars of Old Age Income Security	39

Chapter 3

Table 3-1	Economic Effects under PAYG Scheme	49
Table 3-2	Economic Effects under Funded Schemes	50
Table 3-3	Goals and Types of Redistribution	63
Table 3-4	Essential Elements in Pension Reform	74

Chapter 5

Figure 5-1	Korean Pension System	96
Table 5-1	Trend in Membership of the NPS	97
Table 5-2	Trend in Payment Exemptions Among Regional Members	98
Table 5-3	Contribution Rates Among Occupational members	99
Table 5-4	Income Replacement Ratios Prior to and After the 2007 Reform	101
Table 5-5	Membership of the Specific Pension Schemes	103
Table 5-6	Contribution Rates in the GEPS	104
Table 5-7	Contribution Rates in the PSTPS	104
Table 5-8	Contribution Rates in the MPPS	104

Table 5-9	Recipients of the SPS	107
Table 5-10	Coverage in the LRA	109
Table 5-11	Total Contribution Rate	115
Table 5-12	Standard of Old Age Pension Benefit of the ILO and the NPS	116
Table 5-13	Income Source between 65 and 69 in OECD Countries	118
Table 5-14	Fund Estimation in Specific Pension Schemes	120
Table 5-15	Financial Estimation after the 2007 Reform	121
Table 5-16	Proportion of Self-employed in Total Employment	122
Table 5-17	Main Organisations in the Collection of the Social Insurance Contributions	123

Chapter 6

Table 6-1	Publicly-Mandated Pension Fund Reserves in Selected Countries	128
Table 6-2	Development of NPF	129
Table 6-3	Development of Investment by Category	131
Table 6-4	Earnings Rates between Sectors	132
Table 6-5	Investment According to Financial Category	133
Table 6-6	Foreign Investment of the NPF	134
Table 6-7	Development of Fund Accumulation	135
Table 6-8	Equity Volatility in Different countries (1990-2003)	137

Chapter 7

Table 7-1	Change in the Economic Growth between 1960 and 1970	146
Table 7-2	Expected Life Span at Birth (1960-1999)	147
Table 7-3	Speed of Ageing in various Countries	154
Table 7-4	Change in GDP Growth Rate in Four Countries	155

Table 7-5	Non-Standard Employees as a Percentage of Total Workfare	160
Table 7-6	Changes in the Gini Indicator	161
Table 7-7	Change in the Size of the Welfare Sector	164
Table 7-8	Social Spending in Selected OECD Countries	165

Chapter 8

Table 8-1	Change in the Poverty Ratio	172
Table 8-2	Changes in Absolute Poverty Ratio	173
Table 8-3	Changes in Relative Poverty Ratio	174
Table 8-4	Ten Biggest Pension Funds in the World	179
Table 8-5	Development of Investment by Category	180
Table 8-6	Investment of Pension Fund	183
Table 8-7	Trends in Pension Fund Earnings Rates	184
Table 8-8	Proportion of Stock Market Investment by Pension Funds	185
Table 8-9	Comparison between Investment Assets since the Economic Crisis	185
Table 8-10	International Comparison of the Proportion of Institutional Investors	186

Chapter 1

Introduction

Overview of Topic

This thesis explores the major causes of the recent (South) Korean pension reform by examining Korea's political economy and investigating the significance of the reforms. The pension reform in 2007 rapidly reduced the replacement ratio of the major public pension scheme (the National Pension Scheme), which had a major effect on overall old age income security. Pension reform is a major political issue in Western countries and requires a mediation of disputes among a wide range of stakeholders in any attempt to implement change. In contrast, the Korean pension reform was carried through without strong political resistance, even though it was more radical than those of Western nations. If the poverty of the older population in Korea had been low or its pension finance had been very unstable, such reforms might have been justified. In fact, poverty among the Korean older population has increased sharply over the last 10 years and the financial pressure on Korean pension plans was much weaker than in the cases of Western public pensions.[1] This thesis focuses on the unique Korean situation in which the public pension has been cut back even though welfare systems have been growing over the last 10 years.

To begin with, this research draws attention to the characteristics of Korean pension schemes. Just as pension reforms in many countries have been implemented on the basis of the tradition or the 'path' of existing schemes, Korean pension reform has also followed its unique path. The National Pension Scheme (NPS), the most important of them all, was designed as a (partial) funded scheme, excluding the existing older population. That is, the fund accumulation of the NPS, albeit a public one, has increased and will go on increasing like the Anglo-American occupational pension funds, and the interests and conflicts surrounding the huge funds have been a core variable in the Korean pension reforms. However, this perspective has hardly figured in previous academic research. Western public pensions were generally PAYG based on an intergenerational contract (solidarity), and these pension programmes are a form of tax-and-transfer system, akin to other elements of the public welfare programmes (Disney 2007). Accordingly, pension reforms in Western countries are essentially ones within welfare systems.[2] In contrast, the NPS has accumulated huge funds, which means that the Korean pension reform should not be regarded as a reform within a welfare system. As Estevez-Abe (2001) points out, the nature of funded welfare programs will depend on the interests and political influence of actors included in the negotiation. The sharp increase in the pension fund does not only have a quantitative value but also makes many interest groups, in particular financial institutions, pay attention to it. Considering that Western pension reforms have also set out to reduce PAYG public pensions and to extend (funded) private pensions, the Korean pension reform might have similar characteristics to the Western ones, with its focus on its fund. At the same time, existing accumulated fund and numerous disputes between stakeholders surrounding its management, suggest that the Korean pension reform should be regarded as a unique case.

By examining the characteristics of Korean pension schemes including the NPS, this research explores how the Korean pension system, which has both welfare and economic (financial) elements, has changed under a global external shock (the 1997 East Asian economic crisis) and the extended neo-liberal economic regime. In this regard, this research mainly takes a political economy perspective, which focuses on the primacy of production over relations of exchange, value theory, social classes and the interrelationship between the economic and the political spheres (Mavroudeas 2006). Following this comprehensive analysis, as a piece of practical policy research, it also focuses on the major pension reform issues from a more micro perspective.

Thus, this thesis explores the political economy of the Korean pension reform on the basis of the Korean socioeconomic/institutional background, which is significantly dissimilar to its Western counter parts. Chapters 2 and 3, the theoretical background, examine globalization (neo-liberalism) and major pension reform issues while chapter 4 deals with methodology for this research. Chapters 5 and 6 describe and analyze the Korean pension system in detail. Chapters 7 and 8 analyze the political economy of the Korean pension reform in a historical context, and chapter 9 adapts the major issues to the reform.

Background

Pensions is the largest component of national welfare system and many researchers such as Esping-Andersen (1990) have treated pension research as a miniature of welfare state research. In other words, pension is a core part of welfare states in both qualitative and quantitative terms.

However, many recent welfare state analyses, such as Esping-Andersen *et al.* (2002), focus on the new vulnerable groups (working poor, children and women) instead of the existing social security including pensions. Since the Second World War the older population had been the most vulnerable group exposed to social risks but, now, women and children are more vulnerable groups than older people. Accordingly, it is natural that the focus in welfare is shifting to accommodate these new groups. Much research in Western countries has recently dealt with welfare restructuring in connection with new social risks (Esping-Andersen 1999; Armingeon and Bonoli 2006; Taylor-Gooby and Zinn 2006), and these ideas have begun to permeate into and influence the policymaking process (Quilgars and Abbott 2000). The existing Western welfare systems based on income security designed after the War have not coped well with new risks such as changes in family structure and the working poor. Pensions are no exception. In the period after the Second World War retirement briefly became a predictable, age-patterned end to working life (Philipson 1999; Harper and Thane 1989). However, several changes such as early exit changed the concept of retirement. Age-based criteria as markers of the life course are declining (Guillemard 1997) and the concept of retirement has become more unpredictable and difficult to define (Vickerstaff and Cox 2005). After all, 'old age has been progressively displaced from the institutional framework created by retirement and the welfare state' (Philipson 2003: 2). This suggests the fundamental restructuring of the existing Western pension schemes. In addition to the restructuring of the lifespan, the consideration of child care in pension policy (Anderson and Meyer 2006) also demands modernization of pension systems. With the modernization of pension systems, the increase in pension expenditure brought forth pension reforms and it is now a top policy priority for European governments (Arza and Kohli *et al.* 2008). Considering that the average real income for older population has increased (Esping-Andersen and Myles 2007; Smeeding, Rainwater and Burtless 2001) and that the older population in Western countries is no longer considered to be the most vulnerable social group (Disney and Whitehouse 2001), and that the focus has instead moved to other areas such as children (Esping-Andersen *et al.* 2002), reform in public pensions may be said to have been justified.

Although the Korean economic level has increased to that of the Western countries (Korea's GDP is ranked 12th in the world), its welfare and pension development is still immature. To begin with, poverty among the older population in Korea is still very widespread. In contrast to the Western countries, where their poverty has been reduced over the last several decades, the older population in Korea is still the main poverty group and, what is more, their poverty is getting worse. Although the rapid increase in nonstandard workers and in female employment also demands the modernization of Korea's pension system, the major issue is still the lack of old age income, which means that traditional risks remain as an important consideration despite economic development.

As Clark (2007) and Ervik (2005) suggest, Western pension reforms originated not to demographic reasons but from globalization. Similarly, the Korean pension reform originated from this (neo-liberal) globalization and Korea has also suffered from the new social risks of post-industrial capitalism. Thus, the Korean pension reform is not radically different from Western pension reforms but it is more multi-dimensional in scope. The Korean welfare system, including pensions, which should regulate capitalism and social risks, not only needs a new management system for the new risks but should also protect those in traditional risks. Thus, contrary to cases in Western countries where new social risks appear out of traditional ones in serial order, the old and new ones in Korea currently coexist (Kim Yeon-Myung 2003a). Accordingly, the Korean welfare state has far more complex problems than Western welfare states because Korea has to develop a welfare system that regulates both old and new ones.

Next, in order to understand the path of the Korean pension policy, the Korean historical and cultural particularity should also be considered. Korea is a state with a long history stretching over 4,000 years and, except for the colonial period (1910-1945) under Japanese imperialism, it has been an independent state. Historically and culturally Korea has been strongly influenced by China for a long time and, in particular, Confucianism was the most important ideological foundation since the Chosun Dynasty (1392-1910). Korea had been a state of homogeneous race and language. After the end of the Second World War, however, it was divided into two countries with communist government, supported by the USSR, governing the northern Korean peninsula and the capitalist government supported by the USA, governing the southern Korean peninsula. The Korean War (1950-1953) was the first full-scale war in the Cold War period after the Second World War, with over 2 million people dead. Despite historical, cultural, racial and linguistic homogeneity, there have been the strong military tensions between the two Korean governments for the last 60 years and that homogeneity has vanished. Thus 'North Korea' is not dealt with in this thesis and every use of the term of 'Korea' means 'South Korea (Republic of Korea)'. When 'North Korea' is mentioned, it is denoted as 'North Korea (DPR Korea)'. Due to the military tensions a huge budget - about 15% of the national budget - is allocated for the national defense and every adult male has to complete 2 years of military service. The land area is about 99,000 ㎢ and the population amounts to about 48 million. The main religions are Buddhism and Protestantism. The strong hostility towards communism had prohibited the establishment of a leftist political group in Korea until recently and, for about 30 years until democratization in 1987, an authoritarian (military) government had coercively controlled the overall society and propelled economic growth. Under that regime Korea has fast transformed from an agricultural to an industrial country since the 1960s and has accomplished high economic growth, despite the complete lack of natural resources. After the people's revolution in 1987, democracy has started to work in concert with economic development. The entry into the OECD in 1996 meant that Korea became the first state to join it (an assembly of the developed countries) among those that declared independence since the Second World War.

Despite the long history of Korea, the idea that the government should operate public pension schemes had not existed until very recently. Whereas many Western countries had developed their autonomous pension schemes prior to the creation of the formal public pension schemes, there are no records in terms of the existence of local autonomous pension schemes in Korean history. However, this tradition does not mean that Korea had ignored old age income security; rather, the strong traditional paternalism based on Confucian ideas dictated that old age income be regarded as a private, domestic issue.

Korea had been one of the poorest countries in the world until the early 1960s but has achieved unprecedented high economic development by virtue of the government-oriented economic programme and high educational level. Also high economic development was accepted as a panacea for old age income. Although democratization was delayed until 1987, income inequality had not been high and, despite the continuous political turmoil, the overall quality of life had improved and the need for public welfare was not high. Thus, the government at that time was rather passive in introducing a welfare system and tried to make use of it as a supplementary method of economic development rather than a means to social protection. This was possible because the previous strong tradition of familism had performed the roles of social protection and because the public believed that economic development would increase overall income levels. However, the economic crisis in the late 1990s destroyed these fundamental assumptions, and the need for public welfare has increased explosively together with a rapid transition from dirigisme to neo-liberalism (Pirie 2008).

In addition, the funded design of the NPS makes the Korean pension reform unique. As mentioned above, funded pension is bound to have both economic and welfare characteristics, and the funded design of the NPS has had an impact on the Korean pension reform. Unlike the Western public pensions, which are generally regarded as a welfare system, the funded NPS has expanded the scope of stakeholders in terms of pension policy into financial institutions and big companies and, with the extension of neo-liberalism, the explosion of welfare needs and the advent of the strong neo-liberal actors make the relationship between pension-capitalism-welfare state extremely complex. That is, the Korean funded public pension should not be treated as a section of the welfare system because it has more complex features. Accordingly, it is also necessary to examine the 'Variety of Capitalism' perspective (a typology of capitalism) that Hall and Soskice (2001) or Ebbinghaus and Manow (2001) suggest. The classification of welfare states does not exactly correspond with that of capitalism yet but, considering that the variety of capitalism has institutional interactions with welfare states (Huber and Stephens 2001; Ebbinghaus and Manow 2001),[3] the Korean public pension which has both characteristics can be a good example for revealing the institutional interactions between the two.

This research, then, is not another case study which adapts the Western pension reform research method from similar demographic pressure, financial dilemma or system design from the Korean pension reform. Instead, it pays attention to its differences to the Western pension reforms and examines the political economy of the Korean pension reform. With the economic crisis and the following advent of the neo-liberal regime, Korea has sharply expanded its welfare systems, trying to solve the increasing old and new social risks. However, although the NPS had not been effective in solving both the new risk and old ones such as lack of income, its benefits have been reduced substantially. This shows that the funded welfare scheme must be dealt with in a different way from other welfare schemes and, therefore, that the political economy of the Korean pension reform cannot help but differ from those of the Western ones. In fact, research that analyzes the Korean pension reform in such a comprehensive perspective has been absent. Therefore, this thesis explores the essence of the Korean old age income security by examining the reform based on Korea's socioeconomic background.

Approach to the research

To examine the complex elements mentioned above, this research integrates pension finance and pension politics. As Whiteside (2007) indicates, most pension research is divided into global finance and pension politics - they have tended to remain academically separate. The former focuses on ageing and financial stabilization, stressing the inevitability of pension reform. In reality, the tendencies of Western pension reforms have been to reduce expenditure (Taylor-Gooby 1999; Myles and Quadagno 1997), but this can explain only a small part of the complex Western pension reforms. The latter, which emphasizes process, tries to explain institutional change through the interactions between existing institutions, policy-makers and social actors (Bonoli 2000; Immergut, Anderson and Schulze *et al.* 2007). In addition, sociological literature has examined the institutional structure of welfare states in terms of models for welfare provision (i.e. Esping-Andersen (1990)), including the goals and ideas of policy-makers, governments and society at large and the outcomes of policy on specific population groups and cleavages (Arza and Kohli 2008). This research tries to integrate the methods mentioned above, examining pension politics surrounding characteristics or management of pension funds. In other words, this thesis utilizes not only the methodology of Western pension reform research but also considers the unique situation of the Korean pension reform such as the funded design or the rapid spread of neo-liberalism.

As Bonoli (2000) indicates, studies dealing only with old age pensions have typically concentrated on the institutional design of the various systems and on their evolution in a historical perspective, so this research conducted its political economy analysis on the basis of system design and historical context. Also, a lot of quantitative (secondary) data or experiences of foreign countries have been utilized to supplement the context. Last but not least, the thesis discusses how neo-liberal actors such as mass media or governmental bureaucrats have distorted data and tried to change public opinion towards neo-liberal pension reform to examine the basal value or discourse of the reform.

Contributions of the thesis

To begin with, the integration of global finance and pension politics, which are usually considered separately, contributes to pension reform research. As Orenstein (2003) indicates, while since the Second World War the ILO (International Labor Organization) had taken the lead in the pension policy story, recently the influences of the neo-liberal organizations such as the World Bank have increased. This means that pension policy has evolved from the 'domestic social policy' to 'global social policy'. Accordingly pension policy, which was regarded as a politically acquired right, has sparked more debates regarding its economic elements, and it is now a complex subject that goes beyond being simply a welfare system for the older population. A significant element in pension policy is the particularity of the funded welfare system (Estevez-Abe 2001) and recently the debates concerning the relationship between the Western occupational pensions and financial markets have been increasing. Korea has an accumulated pension fund in public pension as well as its occupational pension and, with the rapid expansion of neo-liberalism, pension funds have become a core variable. Thus, the research in Korean pension policy should not be regarded as a microcosm of a welfare regime but instead should show the dynamic interactions concerning the relationship between pension (fund), welfare regime and capitalism. This approach did not figure much in Western research because public pensions in Western countries were usually designed under PAYG. Recent expansion of funded private pensions in Western countries, however, requires such dynamic interactions. This research, which deals with the more direct interactions in Korea due to the huge fund in public pension, will be able to contribute to the future Western research.

This thesis is the first instance of research which systematically analyzes the 2007 Korean pension reform. There have been several studies that analyze the political economy of the pension reform in 1998 and those that describe the change in system design in terms of the pension reform in 2007, but there is no analysis of the fundamental determinants of the reform. It is expected that this focus of the thesis, which reveals the fundamental causes of and interests in the Korean pension reform, will be particularly helpful to social policy analysis in other countries in assessing Korea's pension policy and suggesting alternatives.

Next, methodologically, this research makes use of a political economy perspective, focusing on the gradual penetration of neo-liberalism and on interaction between actors (and discourses) instead of the traditional perspectives such as class or political structure. In Western countries the political-institutional approach, which makes use of the constitution and political institutions, party and electoral system as well as voting results (Immergut and Anderson 2007; Bonoli 2000), has been very persuasive. However, the Korean case is not suitable for this approach because the Korean political system is immature and because its pension system has not been politically important. Instead this research examines interaction between (1) the socioeconomic background changes (the expansion of neo-liberalism) since the economic crisis, (2) the expansion of welfare needs, and (3) the funded pension which has financial elements. Pensions, in particular the funded pensions, are bound to have the compound characteristics of capitalism and welfare regime and so it is necessary to understand the essence of the reform to understand the Korean pension reform as an interaction between them. While the neo-liberal pension reforms in Latin American or Eastern European countries resulted from the direct intervention of global organizations such as the World Bank, Korea, which had refused the strong demand on the neo-liberal pension reform of the World Bank in the late 1990s, recently carried out the neo-liberal reform with the gradual penetration of neo-liberalism. Thus this research examines how domestic neo-liberal actors persuaded the public into accepting the implementation of neo-liberal changes that the strong global actors had failed to do. This approach is not common in Western pension reform research where the majority of public pensions are designed under PAYG but it will be useful in future Western research since funded welfare programmes, such as private pensions, are increasing.

Lastly, from a policy perspective this research contributes to broadening the understanding of the Korean old age income security based on the institutional and political economy perspectives. Applying the major issues concerning pension reforms to the Korean pension reform will help to elicit policy implications. It may not be appropriate for this research to suggest specific policy alternatives because it is not a governmental or organizational report, but deep examinations of the fundamental problems of the Korean pensions can serve as foundations for designing policy alternatives.

Overview of the Thesis

Chapter 2 deals with globalization and neo-liberalism as basal causes of the Korean pension reform, comparing and contrasting the World Bank with ILO, the most influential global actors on opposing ends, in terms of the comprehensive principles of pension reform. Pension reform is not only a problem resulting from demographic pressure but also a problem of globalization, and as such should not be limited in domestic policy. Many countries carried out pension reforms under financial supports of international organizations such as the World Bank and the influence of neo-liberal organizations has increased. Accordingly, to examine the spectrum of globalization, in particular the controversial neo-liberal globalization, is to provide a foundation for understanding pension reform in Korea where neo-liberalism has been expanded very rapidly since the economic crisis. Next, the principles of pension policy of the World Bank and ILO are compared and contrasted from a macro perspective, which will help in analyzing major pension reform issues as well as in understanding the overall tendency of pension policy.

Chapter 3 examines the major pension reform issues (financing, benefit assessment, management) in detail. A comprehensive understanding of pension policy or principle alone is not enough to develop policy alternatives and it is necessary to analyze the issues in detail. While a lot of existing research has not dealt with these issues in a systematic way (for example most research treats private pension as funded or DC scheme, which is erroneous), this research attempts to make a sharp distinction instead of the existing confused approaches. Otherwise, it would be impossible to elicit policy implications.

Chapter 4 discusses the methodology and research methods of this thesis. After examining the methodology of political economy perspective and the dominant methodology of the Western pension reform research, it discusses the speciality of the Korean pension reform and the specific research method.

Chapters 5 and 6 deal with the Korean pension schemes *per se* in detail prior to political economy analysis. Chapter 5 describes system development, coverage, contribution, benefits and management of each pension scheme in systematic ways and chapter 6 separately discusses pension funds. However, in addition to the exact description, these chapters critically analyze the characteristics of schemes. The analysis of schemes *per se* is not the main purpose of this research but such detailed description and critical analyses are very helpful for pension reform analysis handled in chapters 7, 8, and 9, and is necessary to make chapters 7 and 8 more consistent.

Chapter 7 deals with background knowledge for the political economy of the Korean pension reform. To begin with, the historical context is examined from economic development and introduction of social security schemes under the authoritarian government in the 1960s to the introduction of the NPS in the late 1980s. What is important in this chapter is to examine the original characteristics of the Korean social insurance system by using the concept of 'backwardness' by Gerschenkron (1962), a popular concept in economic history. The latter part of this chapter examines the 1997 East Asia economic crisis, which is called 'the first crisis of globalization'. The external shock was not only an economic recession but also an event which thoroughly changed all of the existing socioeconomic backgrounds in Korea and, the previous development country regime was rapidly transformed into a neo-liberal one.

Chapter 8 is the kernel of the thesis and deals with the political economy of the Korean pension reform. This chapter examines how the neo-liberal pension reform, which was rejected under the IMF regime in the late 1990s, was passed without any strong resistance with the rapid expansion of neo-liberalism. What is important in this chapter is why the Korean pension system has been reduced even though other welfare systems have been expanded since the economic crisis. That is, contrary to the experiences of Western countries, the Korean pension regime has deviated from the overall welfare regime trend. Thus this chapter pays attention to why Korean public pensions, which have both economic and welfare characteristics, do not correspond with the development of the welfare system. This chapter explores how the domestic neo-liberal actors dispersed distorted data and discourse in light of the 'pension finance crisis' and succeeded in persuading the public into supporting the neo-liberal reform instead of sound societal agreement or intergenerational reconciliation.

Chapter 9 focuses on the normative aspects of the Korean pension reform that the political economy perspective in chapter 8 is likely to ignore. In fact, the political economy perspective in chapter 8 is helpful to show the fundamental problem of the Korean pension policy, but it is too comprehensive to elicit policy implications. Thus, this chapter adjusts the major issues discussed in chapter 3 to the Korean pension reform, ultimately dealing with its foundation to suggest policy implications. As mentioned above, this thesis does not suggest specific policy alternatives because it is not a governmental or organizational report, but it closely examines the problems and causes of the Korean pension policy.

Chapter 10 reviews the main findings of this thesis and summarizes its analyses. On the basis of the analysis in chapters 5-9, a reform plan in Korea's old age income security is outlined. Finally, the need for further research is discussed.

Notes

[1] While the average 'old-age spending of GDP' in 23 OECD countries in 2001 was 7.4%, expenditure in Korea was only 1.1% (Whiteford and Whitehouse 2006).

[2] As Concialdi (2006) indicates, the main reason for the privatisation of pensions is to be found in financial business interests.

[3] Esping-Andersen (1990) classifies welfare states into liberal welfare states, conservative corporatism and social democratic welfare state, and Hall and Soskice (2001) divide capitalism into liberal market economy and coordinated market economy. In this regard, the liberal welfare state corresponds with the liberal market economy and conservative corporatism while the social democratic welfare state is partially similar to the coordinated market economy.

Chapter 2

Globalization and Pension Reform

Among the various internal and external elements which change welfare states, referred to in chapter 1, pensions are often believed to have been influenced by internal elements such as demographic ageing or the maturation of social entitlements. As Clark *et al.* (2007) criticize, many write as if retirement income systems are firmly ensconced behind the 'high walls' of national borders. However, if it is remembered that welfare states are strongly influenced by globalization, pension systems, a core part of the welfare state, are not exceptionally precluded and, as Clark *et al.* (2007), Ervik (2005) and ILO (2001) argue, globalization is a vital part of the pension story.

In Korea, the economic regime since the economic crisis in 1997 - which Robinson (2000) called 'the first crisis of globalization'- has shifted towards neo-liberalism with unprecedented speed. When the bail-out from the IMF (International Monetary Fund) and its following demands on structural adjustment were accepted, the existing development country model which had been pursued for about 35 years was given up, and instead a neo-liberal economy which only focuses on economic efficiency quickly replaced the previous system. The basis of this rapid change is neo-liberal ideology. In the process of the economic crisis and its following structural adjustment, neo-liberalism and its concomitant economic regime were regarded as the only path that could be chosen. Meanwhile, although a democratic liberal government replaced the existing authoritarian government, the internal diagnosis and remedy in terms of the crisis were thoroughly ignored and only the suggestions by the IMF and theoretical economists were accepted.[1] To use the theory of Putnam (1988), Korea positively elicited a globalization discourse in order to adopt the unpopular and reluctant neo-liberal policies which demand the unilateral sacrifice from the working people. This transition fundamentally influenced pension policy and as a theoretical background, neo-liberalism and its supporting globalization are examined in this chapter. Next, the pension reform debates between the World Bank and ILO, which are major global actors in pension policy in the globalization age, are examined.

Globalization

Definition

Opinions about globalization, which is seen as an anonymous force inevitably affecting all aspects of societies (Reich 1991), are numerous. While the World Bank (1995) indicates that globalization is inevitable and Micklethwait and Wooldridge (2000) say that it not only produces greater economic efficiency and prosperity but also extends the 'idea of liberty', Hirst and Thomson (1996) argue that globalization robs us of hope, Gray (2002) says that it is unsustainable because it ignores human needs for diversity and security and Gunter and Hoever (2004) indicate that globalization worsens unemployment, poverty and marginalization. Some see globalization as an opportunity while others regards it as a risk. In addition, globalization may be regarded as a historical process or a very recent trend. Likewise, even though it is obviously a single phenomenon, defining it is a very controversial task because it has several conceptual dimensions. According to George and Wilding (2002), the various theoretical and ideological debates on globalization can be grouped into four main positions: the technological enthusiasts; the Marxisant pessimists; the pluralist pragmatists; and the skeptic internationalists. [2] Excluding the extreme positions, this complicated phenomenon can be defined as 'the increasing interconnectedness of the world through the compression of time and space brought about by advances in knowledge and technology as well as by political events and decisions' (George and Wilding 2002: 19). Other scholars such as Held *et al.* (1999) define it in similar ways.

This definition involves manifold meanings. In particular, it means that globalization is a series of interrelated processes combined with economy, politics and cultures rather than the result of a single dominant element. Many agree that globalization embraces numerous dimensions including the economic, political, productive, and social culture (Deacon 2007). The growth in trade and increases in the power of global corporations seem to be regarded as the most visible elements of globalization but it also has very important meanings in politics and culture. The current globalization is a different process from the internationalization of the 19th and early 20th century such as the growth in trade and the former should be separated from the latter. Deacon (2007) classifies the aspects of globalization as follows: 'increased flows of foreign capital based on currency trading; significantly increased foreign direct investment in parts of the world; increased world trade with associated policies to reduce barriers to trade; increased share of production associated with transnational corporations; interconnectedness of production globally due to changes in technology;

increased movement of people for labour purposes, both legal and illegal; the global reach of forms of communication, including television and the Internet; and the globalization of 'Macdonaldisation' of cultural life' (Deacon 2007: 8). Ostensibly, because globalization would not have existed without technological advance and the development of capitalism, its economic process cannot be ignored and the political influence which this economic process triggers is also important. The economic dimension is what has had the greatest impact on welfare and pension systems and, therefore, should be the priority here (Walker and Deacon 2003).

Economic Globalization

To start with, advances in technology provide more opportunities to make greater use of foreign resources than in the past. For instance, there are agricultural products harvested in the southern hemisphere yesterday that are today sold in European cities. It would have been unimaginable without the development of distribution structures and transportation facilities. Globalization, the economic transnationalization as a result of technological advances, can be a win-win strategy that provides developed countries with cheap and good agricultural products while leaving developing countries with the better jobs and economic growth.[3]

Such a market expansion is a long-term historical process and seems irreversible; but in the short term globalization is the result of visible arbitrary decisions, made by political actors that might be blamed for its consequences (Vobruba 2001). Accordingly, it is natural that there have been a lot of different arguments regarding the economic effects of globalization. For example, growth in free trade can increase economic welfare, as the 'comparative advantage theory' of Ricardo or the 'factor proportion theory' of Heckscher-Ohlin suggest (Mankiw 2006). In contrast, the real benefits of free trade may not be as clear as economic theory and it cannot be claimed that growth in free trade has advanced living standards in the underdeveloped countries (UNDP 1999). Instead, globalization is bound to change the fundamentals of the existing economy, entailing the restructuring of the existing economic regime.

One form of restructuring within the globalized economy is to change the relationship between capital and labour. This means that the existing balance of power between capital and labour cannot be maintained any longer. Keynesian demand management policy, which had been the basis of the post-war welfare state, is no longer effective in the globalized, transnational market that pursues an open economy, a market where the bargaining power between capital and labour - based on full employment - has weakened significantly (Boyer and Drache 1996). Increased locational freedom with globalization has increased capital's power and globalization, has strengthened the hand of capital over that of labour (Farnsworth 2005). While labour is still located within the frame of a nation-state - although the labour mobility in EU has increased -, with the increased ease of exit for domestic capital towards foreign countries the government has gradually lost the ability from capital to demand social duty. This breaks down the horizontal relation between the capital and labour, and a new relationship in which capital dominates labour takes place. After all, globalization is accused of leading to deteriorating terms and conditions of work (Scholte 1996).

Such changes have contributed to the weakening of social partnerships that have supported existing European countries. As George and Wilding (2002) indicate, three forces - the weakening of labour, the international competitive pressures on capital and capital's ability to move investment elsewhere - entail the restructuring of the existing social partnership. That is, the forces aiming for economic efficiency do not seem to permit the partnership of the previous economy/society, instead demanding changes into the social partnership in accordance with a new relationship between capital and labour.

Thus, globalization is likely to increase economic inequality. Although the pattern is not uniform, globalization seems to act as a strong force in favour of inequality of income and wealth distribution (Mishra 1999). There are diverse opinions as to whether globalization has increased inequality or why inequality has increased. While theoretical economists such as Krugman (1995) tend to claim that the inequality that globalization triggers is tiny, Dicken (1998) and Wood (1995) indicate that international trade has contributed to the increasing inequality. According to the UNDP (1999), the worsening tendency for distribution structure between countries looks clear and the difference of income between the rich and the poor countries has deteriorated from 11:1 in 1913, to 35:1 in 1950 to 72:1 in 1992. The distributional structure within countries is also deteriorating. The speed of social polarization across much of the world in the final decades of the twentieth century (Atkinson 1996, 1999; Townsend 1999) seems to have been faster than at any previous era in recorded history (Townsend 2004). Esping-Andersen (2002b) also indicates that, in the current knowledge economy triggered by globalization and technological advances, the more we progress the higher the social cost for such inequalities. Nevertheless, the focal point should not be whether the poor are better off than they would have been had they excluded themselves from globalised interactions. The main issue is not whether to accept globalization itself but how to make good use of the remarkable benefits of economic intercourse and technological progress in a way that pays adequate attention to the interests of the deprived and the underdog (Sen 2002). That is, we do not set globalization itself as a phenomenon which can be given up, but focus on how the original contradiction in globalization can be modified. Although this perspective seems persuasive, it may be a fallacy which assumes economic globalization as a neutral concept. The reason why globalization is regarded as an important variable to welfare systems is that it is a process by which a specific ideology is realized. In other words, even though the improvement of distributional systems is of great importance in economic globalization, the aggravation of distributional structure may be not only an inevitable outcome under globalization but also the result that a specific group or country pursues for the sake of its own interests. Accordingly, if globalization is limited to an economic phenomenon, the essence of globalization would not be revealed.

Political Elements

Globalization is not only an economic phenomenon but also a sort of paradigm shift that causes qualitative changes in the international order, state form and democracy as well as politics and culture. As Rodriguez (2002) indicates, the ongoing change is not only technological but also institutional. Globalization is not only a passive change to demand the restructuring of economic inequality but also entails fundamental reform in terms of the assumptions and institutions that the existing welfare states have espoused. The real question, therefore, is how government can enforce the changes which are appropriate to the new circumstances.

The overall political effect of the globalization process is to constrain the state's role in economic and social policy. States have to present acceptable signals to international capital. This means ruling out certain policies deemed unacceptable to capital. Although domestic politics still matters a great deal, power has moved upwards to transnational bodies, sideways to functional bodies and downwards through decentralization (George and Wilding 2002). What reduces this process into economic logic is merely neo-liberal logic, and globalization is an indispensable result of political intervention and is closely related with the deregulation, flexibilization and privatization. According to Mishra (1999), globalization is not limited to be a market-driven economic phenomenon, rather it is a political/ideological process through which its reach is extended worldwide as a transnational ideology of neo-liberalism and it should be understood as an expansion and consolidation of neo-liberalism. This means an aggressive ideology that tries to replace the political preference of the transnational capital by market determinism.

The globalization logic which forces the existing nation-states' autonomy to be disorganized demands changes in their roles. This is because the globalization of financial capital and its high mobility remarkably weaken the ability and scope of the autonomous monetary and industrial policies of nation-states. As a result, globalization tends to restrict the autonomy of nation-states. As Farnsworth (2005) indicates, state provision is justified only if it contributes to economic growth or at least does not undermine it. An extreme position claims that globalization eliminates the economic role of the nation-state and that its role will be transformed into international organizations or transnational corporations (Omahe 1990). Such an extreme suggestion seems unacceptable but, it is clear that globalization inflicts strong restrictions on nation-states and demands changes in the existing welfare state regime. As Weiss (1997) indicates, differences in the history and institutions between nation-states may have different effects on each county in terms of globalization.

What cannot be ignored in relation to the adjustment of the nation-state role is the role of the United States. As Ney (2002) indicates, the US influence on globalization is absolute. The USA plays a central role in all dimensions of contemporary globalization. Since the end of the Cold War, the economic power of the US benefited both from the related ascendance of market ideology and the reduction of protectionism. As Ney (2002) argues, globalization is regarded as a network with an American hub and is a process of reaching out to the rest of the world. After all, being the hub conveys hegemony and benefits to the USA. Moreover, the US has realized neo-liberal globalization throughout other powerful disciplines and organizations such as economics and IFIs (International Financial Institutions) - the World Bank and IMF. Neo-liberalism is an ideology embedded in globalization and the current globalization is the process by which neo-liberalism is realized. Thus it is not easy to clearly divide the two. However, it is necessary to examine neo-liberalism, which is the ideological basis of the present globalization.

Neo-liberalism

There is a recognition that neo-liberalism is anything but a hermetically sealed monolithic structure (Larner 2003) because it straddles a wide range of social, political and economic phenomena at different levels of complexity (Saad-Filho and Johnston 2005). It is a dominant economic ideology shaping our world today but simultaneously, as Dumenil and Levy (2005) claim, it is a new social order and regarded as a sort of political drive. In addition, it is a similar idea to conservative economic philosophy such as the monetarist or rational expectation school. Often neo-liberalism tends to be described as an idea based on the firm belief that the free market will provide the capitalist economy with the optimal organizing mechanism as opposed to active government intervention – Keynesianism. However, this does not include all attributes of neo-liberalism, which should be differentiated from the laissez-faire or conservative economists of the 19^{th} century. The most important reason why it should be distinguished from theoretical economics is that the top priority for neo-liberals is to maximize wealth (Dumenil and Levy 2005) and that they see the free market not an objective but a means to do so.

One of the reasons why it is difficult to define neo-liberalism is that many of its features are the same as those of globalization – and imperialism. Although neo-liberalism did not cause capitalist globalization, it is firmly embedded in the globalization process and a lot of the features of globalization are the same as those of the neo-liberalism. As Saad-Filho and Johnston (2005) indicate, the process of globalization is merely the international face of neo-liberalism. The recognition that globalization is inevitable also forces uncompromising neo-liberalism to be accepted and, as Colas (2005: 70) indicates, 'much of this neo-liberal onslaught has been justified with recourse to the notion of globalization'. Even though there is no reason why globalization should be a process by which neo-liberalism is realized (George and Wilding 2002), and it cannot be asserted that future globalization will proceed under the neo-liberal ideology, globalization up to now seems to have been a series of processes by which the neo-liberal values are realized.

Theories regarding the origins of neo-liberalism also vary. For example, whereas some adopted the 19^{th} century Manchester system as its origin (Palley 2005), Peck and Tickell (2007) regard it as Hayek as the origin. However, what is apparent is that regardless of its origin, it became a major form of capitalism since the late 1970s and now it has become a dominant social order that espouses US hegemony. If so, why and how has neo-liberalism replaced the post-war Keynesian economic regime?

The rise of neo-liberalism began in the 1970s as inflation, unemployment and corporate failures were engulfing advanced western industrial economies (Robinson 2006). The oil shock, a sort of supply crisis, made the Keynesian adjustment between inflation and unemployment rate useless and the abolition of a fixed exchange rate system prevented the government from making use of the Keynesian financial policy. Accordingly, Keynesian economic policies which had dominated for the post-war years was replaced by conservative economic policies (monetarist or rational expectation school) and, the neo-liberal economic regime based on it became the dominant economic regime in developed countries - in particular, the UK and USA. That is, Anglo-Saxon capitalists abandoned the Keynesian compromise in the face of a falling rate of profits, under the assumption that neo-liberalism could improve their profit and accumulation performance (Campbell 2005). In this transformation process the role of a handful of conservative and pro-market think tanks was very important (Beland and Waddan 2000; Micklethwaite and Wooldridge 2004). They had been in operation since the 1940s and 1950s, principally in Britain and the United States, and their political influence and number mushroomed after the mid 1970s.

From the 1970s to the 1980s initial neo-liberalism was the follow-up regime to Keynesianism and it outwardly stressed the free market principle. At that time the typical neo-liberal policies included deregulation of financial markets, privatization, weakening of institutions of social protection, weakening of labour unions and labour market protection, shrinking of government, cutting of top tax rates, opening up of international goods and capital markets, and abandonment of full employment under the guise of the natural rate (Palley 2005). It was based on the belief that the free market is a complete mechanism, which suggests that every regulation to block free markets should be harmful. So the initial neo-liberals asserted that free markets would not let valuable factors of production go to waste and that redistributive mechanisms such as welfare systems would be harmful to the economy. In other words, in their perspective the cause of unemployment, poverty and economic crisis was the lack of market openness.

However, neo-liberalism was to be more than just a reincarnation of the laissez-faire sentiment or a simple neo-classical attachment to the idea of the inherent efficiency of the market. The neo-liberals refer to 'depoliticization' or 'economic priority', but it is rhetoric and they have tried to realize their own political interests in new ways. It is achieved by means of social, economic and political transformation imposed by internal forces such as the coalition between financial interests, leading industrialists, traders and exporters, media barons, big landowners, local political chieftains, the top echelons of the civil service and the military, and their intellectual and political proxies (Saad-Filho and Johnston 2005). These internal forces generally reflect the interests of the capitalists and the neo-liberal think tanks mentioned above also support their interests. Accordingly, neo-liberalism can be interpreted as an attempt by the wealthiest fraction of the population to stem the comparative decline of the 1970s (Dumenil and Levy 2005). That is, neo-liberalism is not an ideology with the firm principles or rules but an ideology to maximize the wealth/income for the minority (capitalists, creditors or shareholders). Accordingly, they modified their principles *per se* whenever the path to increase their own wealth/income changed.

After all, it is no wonder that the principle of non-intervention, which early neo-liberalism had pursued, was abolished in the 1990s. As Peck and Tickell (2002) argue, once the natural limits of the negative phase of neo-liberalism had been reached, a more 'positive' or proactive policy was called for. Thus, the neo-liberal project itself gradually metamorphosed into more socially interventionist and ameliorative forms by the Third Way of the Clinton and Blair administrations.[4] Simply extending the logic of the market through liberalization and commodification was no longer sufficient and the neo-liberal project had to be extended to the social domain with issues such as welfare reform. Neo-liberalism since the 1990s no longer espoused non-intervention as a basic philosophy and instead pursued new intervention. As Peck and Tickell (2007) indicate, only rhetorically does neo-liberalism mean 'less state'.

Table 2-1 Roll-back and Roll-out Neo-liberalization: Stylized Features

	Roll-back Neo-liberalization	Roll-out Neo-liberalization
Mode of intervention	State withdrawal	Governance
Market regulation	Deregulation	Experimental re-regulation
Political Style	Ideological conviction	Pragmatic learning
Change agents	Vanguardist politicians	Technopols
Ideological program	Explicitly programmatic	Institutionally embedded
Front line	Economic policy	Social and penal policy
Taxation	Selective givebacks	System regression
Monetary policy	'Cold-bath' monetarism	Prudence
Public expenditure	Cuts	Fiscal responsibility
Labour-market regime	Mass unemployment	Full employability
Employment relations	Deunionization	Flexibility
Social Policy	Retrenchment	Workfare
Financial regulation	Liberalization	Standards and codes
Development ethos	Structural adjustment	Social capital

Source: Peck and Tickell (2007)

In reality, it entails a thoroughgoing reorganization of governmental systems and state-economy relations. Accordingly, the objective of neo-liberalism is no longer economic deregulation or private initiative. As neo-liberalism has been extended and deepened, there has been a roll-out of new state forms, new modes of regulation, and new regimes of governance, all of whose aim was to consolidated and manage both marketization and its consequences (Peck and Tickell 2007). As a market-building project, then, neo-liberalization involves the simultaneous and iterative roll-back of institutional and social forms (especially those associated with Keynesianism) together with the roll-out of restructured institutional and state forms. Table 2-1 shows the ambivalent neo-liberal policies.

Nevertheless, their first principle that the economy should maximize the profits of the ruling class has not changed but, tactically, they changed their intervention principle because a more positive/proactive policy is a refined method to accomplish their objectives. For example, if they could obtain their wealth in foreign countries they positively made use of it. This is no more than neo-liberal globalization. In this process, society is transformed into the image of the market and the state itself is now marketised, or, as Cerny puts it in developing his model of the 'competition state', the biggest duty of the state is to contribute to state wealth (Cerny 2002). This competition state model is no longer geared towards national economic development but, rather, towards the promotion of neo-liberalism on a global level. Thus the political arena of the nation-state restructured and the old divide between 'inside' the nation-state and 'outside' is eroded (Munck 2005).

It is natural that neo-liberal policy makers espouse the transformation towards the neo-liberal economic regime of other developing or developed countries to maximize their profits and one of the central instruments for extending neo-liberal reform into developing and post-crisis economies has been the corps of professional economists and bureaucrats working within key economic/financial ministries and agencies (Robinson 2006). They have also made positive made use of IFIs such as the IMF or World Bank to disperse their neo-liberal ideology worldwide. These institutions have forced developing and post-crisis economies to introduce neo-liberal policy at the cost of their bails-out, and these supports have made neo-liberalism a dominant economic ideology. However, they did not seem to benefit the countries. Rich countries did not become rich by following neo-liberal policies (Chang Ha-Joon 2002): periods of rapid growth in both rich and poor countries have not coincided with neo-liberalism. It can again be confirmed that neo-liberalism is a mechanism devised for the capitalists' interests.

In conclusion, neo-liberalism is substantially defined by its antipathy to Keynesianism (Peet *et al.* 2003) and its topography is always shifting (Peck and Tickell 2007). However, what has not been changed is the fact that neo-liberalism was beneficial to a few and detrimental to many. It is not a mode of production but a trial to increase the wealth/income for the minority and, as Dumenil and Levy (2005) indicate, its objective was achieved successfully to a certain degree. However, the policies that have been suggested to meet their needs have been those of anti-welfare nature such as labour market flexibilization or privatization. Accordingly, the countries that adopted the neo-liberal economic regime have experienced the deterioration of income distribution without exception and social polarization became a big social issue. Whenever neo-liberalism was criticized, it was said that the globalization process is inevitable. As Putnam (1988) indicates, it was a trial to cover the adoption of unpopular policies by using the logic of globalization. However, its basis was an ideology for enhancing the profits of a specific class known as neo-liberalism.

Recently, neo-liberalism gave up the existing opposition to state welfare and demanded a more modern type of welfare. However, the basic thought that 'above-minimum welfare' is harmful to the economy still remains unchanged and neo-liberalism strongly influences existing welfare states. Next, the effect of globalization, in which neo-liberalism is embedded, will be examined.

Influence of the Globalization on the Welfare State

Since the discourse on the 'welfare state crisis', there has been a lot of research concerning the changes in welfare states. Jessop (1993; 2000) defines it from 'Keynesian welfare state' to 'Schumpeterian workfare regime', Peck (2001) from 'Welfare state' to 'Workfare state' and Gilbert (2002) regards it as change from a 'Welfare state' to an 'Enabling state'. Although there are different perspectives in terms of the changes in welfare states, globalization is a major variable in most research.

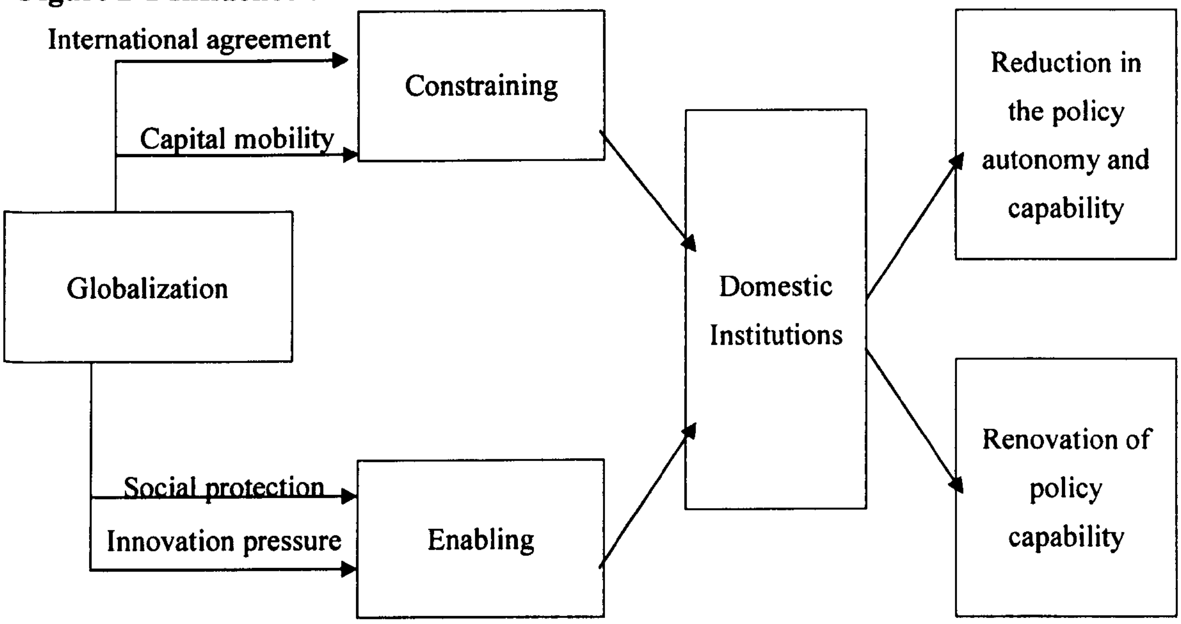
Many agree that globalization will have negative effects on welfare states (Mishra 1999; Neufeld 1999). They claim that it decreases the capability of the existing nation-state to elicit social solidarity and leads to competitive nation-states through social dumping and a race to the bottom. They raise questions as to what type of welfare state suits international competitiveness without undermining social solidarity (Scharpf and Schimidt 2000). If globalization fundamentally not only limits the latitude of policy alternatives for a nation-state but also urges it to accept global investment and to transform towards pro-market policies, the roles of states are inevitably restricted. Thus, change or reduction in welfare systems in individual states is inevitable and factors that reduce the expenditure of the social welfare, strengthen the labour market flexibilization and facilitates transformation towards the market-friendly welfare system are regarded as ways to enhance the competitive power of states. As a result, globalization will enhance the principle of economic efficiency – the neo-liberal ideology – and force the states to undermine social solidarity, the basis of the welfare state. Accordingly globalization, which changes the relationship between the market and state, will weaken the capability of countries to manage the national economy and to modify its inequitable distribution of income and wealth. Even though globalization is not the only variable to explain the restructuring of the welfare state,[5] as an external pressure it will induce de-industrialisation, tax competition and a decrease in the autonomy of national macroeconomic policy, considerably damaging the legitimacy of the welfare state.

The objectives of competitive states the (neo-liberal) globalization triggers are to weaken the structure of social solidarity and its policy programmes. The flexibility of international capital spoils the corporate frame of the welfare state and forces the flexibility of labour market to be enhanced. Thus, welfare policy develops a market-friendly tendency and pursues labour incentive and efficiency (Mishra 1999). Mishra (1999) criticizes globalization as follows: First, globalization undermines the ability of national governments to pursue the objectives of full employment and economic growth through reflationary policies. Second, globalization results in an increasing inequality in wages and working conditions. Third, globalization exerts a downward pressure on systems of social protection and social expenditure. Fourth, globalization weakens the ideological underpinning of social protection – national solidarity. Fifth, globalization weakens the basis of social partnership and tripartism. Sixth, globalization constrains the policy options of nations. Seventh, the logic of globalization comes into conflict with the logic of national community and democratic politics. These negative effects may not be spread in the short term nor happen in the same way in every country and they look apparent to the liberal welfare states - Anglo-American countries. However, what is clear is that the pressure of globalization is a big obstacle to maintaining the existing welfare states.

In contrast, Pierson (1996) and Kuhnle (1999) insist that welfare states will last because globalization induces the contradiction between the reduction in welfare states' capability and the increase in welfare demands in addition to the regulation of new social risks or tensions that globalization triggers. This is generally called the compensation hypothesis and, interpreting the influence on globalization of the welfare state, it has enhanced the intervention of the welfare sectors in the individual countries (Garrett and Mitchell 2001). According to this perspective, while the profits throughout economic openness could be maximized through the expansion of the redistributive function, individual countries that are exposed to social risks by globalization are likely to enhance state intervention for welfare problems to strengthen social buffer. This perspective indicates that the state can take pertinent actions for welfare demands because globalization enhances the base of support rather than weakens it. For example, some countries such as Sweden and the Netherlands that began pursuing a globalization policy early on also developed the welfare systems to tackle the problems that the open economy caused. In addition, Rodrik (1998) shows in his empirical research on 23 OECD countries that there is significant positive relationship between government expenditure and international openness. It suggests that globalization will emphasize the demand for welfare benefits with the expansion of recognition for economic instability. Because welfare benefits contribute the political stability which the investors prefer, globalization increases the demand on welfare expenditure (Garrett and Mitchell 1996).

From an institutional perspective the effects that globalization have on welfare states are decided by the nation-states' institutional features and degrees of political intervention. Therefore, the influence on globalization is not huge, and if they exist, it is indirectly reflected through the institutional characteristics or policy responses of the individual countries (Palier and Sykes 2001; Weiss *eds*. 2003). It argues that the expenditure constraint on welfare finance is due to the domestic circumstances in individual countries rather than the results of globalization. This suggests that domestic political institutions are still important elements for policy making and that different political elements between states have different effects on globalization.

Figure 2-1 Influence of Globalization on the Welfare State



Source: Weiss *eds*. (2003)

As a result, even though globalization is a very important variable to analyze in the welfare state regime, its influences are likely to be different between countries. Accordingly, as Gough (2000) indicates, it must be difficult to explicitly set the relationships between cause and effect. The effects of globalization may happen with a time-lag in some countries and may differ according to the welfare regime of individual states and domestic/international circumstances. In other words, the effects on the welfare states of globalization may not be universal or explicit and there may be huge varieties between individual states according to institutional legacy, structure of welfare programmes, characteristics of political system or employment/tax structure (Pierson 1996). Figure 2-1 describes this process.

After all, despite the importance of globalization, its influences on welfare states may depend on the response of domestic institutions. Some elements that have decisive effects on the changes in domestic institutions in this research will be omitted in this thesis because it is beyond the scope of this research, but we should consider the influencing power of international organizations, an actor in global social policy, which Deacon (2007) emphasizes. In particular, the widespread diffusion of neo-liberal policies that the IMF and World Bank have promoted is likely to have decisive effects on the changes in domestic institutions.

Global Social Policy

Global organizations (multilateral institutions) have affected the changes in domestic institutions and few doubt their power and influence. As Deacon (2007) indicates, they have generated a global discourse regarding desirable national social policy. Accordingly, to consider the multilateral institutions seems to be a key element in understanding discussions in terms of globalization and of the changes in welfare states. Those that have the so-called hegemonic power[6] (as defined by Gramsci (1971), including the USA,[7] economists and other powerful entities such as the IMF exercise their power largely by 'framing' (Boas and McNeil 2004a). Multilateral institutions realize the ideas they pursue through two distinct but partly related forces - the neo-liberal ideology and economic-technocratic nexus.

All IFIs propagate that they are, of necessity, technocratic and value-neutral to give the most pertinent help to the developing/developed countries which want the support. However, since the 1970s the essential function in international organizations has been the justification and defense of a particular politico-economic project (Cox 1989) and their ideas, which the transnational (neo-liberal) elites pursue, have achieved hegemonic status on how best to restructure political and economic life (Taylor 2004). Hegemony frames thought and thereby circumscribes action (Cox 1992) and to achieve hegemony in terms of a particular set of ideas is dependent upon their success on a broader ideological battleground, limiting the boundaries around which legitimate and realistic policies may be formulated (Taylor 2004). The active intervention by international institutions favourable to neo-liberalism was shown in the economic crisis in East Asia in the late 1990s (Higgot 2000). The IMF strongly demanded changes from the existing economic systems into Anglo-American style capitalism on the basis of neo-liberalism without any consideration of the historical developmental process in each country. After all, the adjustment packages of the IMF were designed not only to restore stability to the market and to reform banking systems but also to contest the nature of the political process. Accordingly, the idea and action of the IFIs take on the form of a passive revolution whereby particular elites (neo-liberals) easily attain power.

Table 2-2 Classification of Multilateral Institutions

	Donor control	Power	Neo-liberalism	Economics
WTO	High	High	High	High
IMF	High	High	High	High
World Bank	High	High	High-medium	High
UNDP	Low	Low	Medium-low	Medium-low
ILO	Low	Low	Low	Medium-low

Source: Boas and McNeil (2004b)

Not all multilateral institutions are based on neo-liberalism. As Table 2-2 shows, the UNDP (United Nations Development Programme) and ILO are not organizations dominated by the neo-liberal ideology and economic technocratic nexus.[8] As Deacon (2007: 16) indicates, 'powerful states (notably the USA), powerful organizations (such as the IMF) and powerful disciplines (economics) contend with other powerful states (notably the EU, China, Brazil), other powerful organizations (such as the ILO) and other disciplines (such as social and political science) to engage in a war position regarding the content of global policy.' The mission of the ILO is to set and uphold common international social standards (Deacon *et al.* 1997). The ILO, contrary to the World Bank and IMF based on neo-liberalism, has had interests in and played the leading role in labour standards and social security. However, as the World Bank, which took over the global leadership role in the 1980s and 1990s, has participated in those divisions, the ILO could no longer be regarded as a bulwark against Breton Woods policies because the influencing power of the IMF or World Bank which has the financial capability – for example, donor control - is much bigger than others.

Both the World Bank and IMF were originally formed at Breton Woods in 1945, as twin pillars of the post-war capitalism dispensation (Helleiner 1994). The World Bank, which was founded as an organization for world 'development' after the Second World War, was an approximation of the idea suggested by the Saint-Simonians (Nustad 2004) who proposed a system of banks, headed by a national bank that would control the means of production (Cowen and Shenton 1996). Even though there are differences between the two, the World Bank, like the Saint-Simonians' suggestion, was set up to lend money to developing countries. In the 1950s and 1960s the lending was operated on the basis of this principle. However, it ran out of countries to lend to. The predicament of the Bank led to a change in policy: it moved into a wider field of economic policy, directly seeking to influence the economic policy of its customers. Moreover, the idea of 'development' lost its hegemonic position in the 1970s (Nustad 2004) with the expansion of monetarism. Since the oil crisis, the agents in the multilateral system appear to have been more concerned with stabilizing the world market than actually attempting to alleviate poverty. To prevent an international crisis by defaulting loans, the structural adjustment programmes of the 1980s and 1990s sought to stabilize the situation by supplying further loans to pay off interest on debt, although this went directly against the original aim of the Bank. The granting of these programmes was conditional on a restructuring of economic policy to make it in line with present neo-liberal economic theory. The objective of the Bank's operation has changed quite dramatically. Even though its basic objective has changed, this does not mean that the World Bank opposes all social welfare policies. As Deacon (2007) indicates, it demands a reform of the social safety net - a legacy of the American social policy – as condition for bails-out for developing countries.

While the World Bank's role was to promote post-war reconstruction, the IMF was conceived as a protector of the capitalist global economy, promoting international trade and regulating national exchange rates. In addition, it provided short-term financing for states experiencing currency problems and failing to satisfy their trade obligations. By the way, its main mission of the national exchange rate regulation became obsolete with the demise of regulated exchange rates in the 1970s and the IMF lost its main raison d'être. Instead, over the last decade it has adopted the language of 'good governance', 'participatory development' and 'empowerment' through civic associations to give greater credence to its policy agendas and to fend off its critics. Moreover, the IMF has maintained its influencing power through bails-out. The IMF had had less interest in social problems such as poverty relief than the World Bank. Whereas the involvement of the World Bank over the best way to alleviate poverty has been evident, the role of the IMF in the global discourse was relatively small. This has not been a clear IMF objective until recently. Likewise, the thrust of publicly stated IMF social policy in the mid-1990s was the 'safety net' (Deacon 2007).[9]

It is not believed that the policies of the World Bank or IMF have contributed to the development of these client countries. It is unlikely that the World Bank and IMF teams, which seem to have lacked both the necessary expertise and appreciation (Townsend 2004), provided the correct diagnosis and prescription. Many scholars such as Oorschot (1999) point out that their policy (means-tests) has a number of negative outcomes, being poor in coverage, administratively expensive and complex, and provoking social divisions. Moreover, the IMF's own work shows its failure in assessing social and economic consequences (Kolko 1999).

As a result, it can be said that these organizations made use of social policies such as poverty relief measures to stabilize the world market rather than to positively solve them. That is, to adapt Figure 2-1, the neo-liberal policies which were forcibly introduced in countries that received relief funds from IFIs became the means to activate the world market rather than to regulate the problem of capitalism. Thus the programmes of the World Bank or IMF which are influenced by the USA was not helpful in prioritizing its economic developments or interests over those of countries that received the relief funds.

So, unlike the claims of those organizations that most of the policies and statements from these institutions are founded on the functionalist logic that technical economic questions can be separated from politics, every question concerned with development is one concerned with planned social change and thereby also necessarily a political question (Boas and McNeil 2004a). Accordingly, the poverty and income inequality that globalization triggers cannot be reduced to economic problems and the following increase in social risks and welfare demands should be tackled as well.

Conclusion

Economic globalization is closely related with neo-liberalism, but the more globalization proceeds, the more regulations it entails and so the importance of social policy is getting greater. Social policy is a precondition for successful participation in the globalization process (Vobruba 2001), and recently the neo-liberal international organizations stress the importance of social policy (Deacon 2007). However, as noted above, it is reported that the structural adjustment policy and residual welfare policy (social safety net) of these organizations theoretically or empirically, accelerate inequality. Thus, it can be alleged that the neo-liberal social policy, which suggest the abolition of existing social solidarity and of the Rawlsian principle, is not the right perspective.

Globalization seems inevitable and irreversible. Accordingly, even if there are side effects that globalization triggers, globalization *per se* cannot be given up and the welfare policy will become more important. We have noted that the globalization, which forces decrease in welfare as a means to increase competitive power, is an externality that increases welfare demands. If so, how can social policy be developed without lagging behind international competition and without undermining existing cherished values? Among many policies, how have pensions, a core welfare program, been affected?

Pension Reform Debates

It is a mistake to regard pensions as a purely domestic issue unrelated to globalization (Clark *et al.* 2007). Pension reform is generally regarded as an internal issue originating from demographic ageing (Pierson 2001) but, as Clark (2007) or Ervik (2005) indicate, it is also a process of globalization. There are many issues which were recognized as domestic issues but are now considered international issues and global policy advocates appear to be a major force in the interregional diffusion of policy ideas (Orenstein 2003). Pension policy is not an exception and, since the publication of the World Bank's book in 1994, *Averting the Old Age Crisis*, pensions have no longer been a domestic issue; in particular, neo-liberal multilateral organizations such as the World Bank have strengthened their influence over pensions. Considering that the activities of the ILO had been a major factor in the export of pension ideas to the rest of the world, particularly after the Second World War (Orenstein 2003), the enhancement of influence by the neo-liberal multilateral organizations has caused big changes in pension debates. As Estevez-Abe (2001) indicates, pensions have the characteristics of financial as well as welfare policies and so, the IFIs have had an interest in pension policy because pension funds can be a base from which to realize the macroeconomic policy they espouse. Accordingly, with globalization the discourse on pensions is changing from the past. However, this does not mean that neo-liberals such as the World Bank totally dominate pension policy debates, as the ILO has still been an export of the major pension idea. That is, the World Bank and ILO have spread different principles in terms of the ambivalent pension policies. The battle for pension policy in post-communist countries between the World Bank and the ILO is a classic example, and there were almost vicious struggles between the Bank's advisors and those of the ILO (Deacon

2007; Holzmann, Orenstein and Rutowski 2003). The comprehensive principles and designs of the two organizations will be dealt with after examining other socioeconomic backgrounds apart from globalization.

Changes in Socioeconomic Backgrounds Demanding New Pension Schemes

Most of the current Western pension schemes were designed on the basis of socioeconomic background immediately after the Second World War. The brutal war caused people to think much of their own securities and to improve state social security schemes.[10] The collective experience of the war had reinforced social bonds and most countries had to confront the need to rebuild devastated economies with very limited resources (Reynaud 2000). However, the socioeconomic background has since been changed completely (Reynaud 2000) and, by the late twentieth century, three major socioeconomic changes (population ageing, rising female labour force participation and changing family structures) began to pose a major challenge for public pension systems worldwide (Holzmann and Hinz 2005). In addition, because the recent changes in labour patterns is an important issue in new pension schemes (Engelen 2007), and because most public and private pensions - except for some citizenship or means-testing pensions - are based on labour, the changes in labour should also be examined.

Demographic Change

It is not unfamiliar to express demographic ageing as the 'demographic time bomb' and, more prosaically, as the 'old age crisis'. Lutz *et al.* (2004) predict that the twenty-first century is likely to see the end of world population growth and become the century of population ageing, in contrast to the explosive population growth witnessed in the twentieth century. Although the increase in human life span and the improvement in the state of health for the old clearly resulted from human advances in science, technology and hygiene, the increase in older populations - demographic ageing - has been recognized as a threat to the sustainability of existing pension schemes and a major rationale for pension reform.

The increase in expected life span is a prevalent phenomenon in the developed countries. The average life span in developed countries has increased by 0.2 year per year for the last few decades (Vaupel and Oeppen 2002). According to the UN (2004), while the proportion of persons over 60 years old in 1950 was 12 percent in the developed countries, in 2000 the figure (19 percent) had overtaken that of children aged 0-14 years (18 percent). By 2050 it is expected to be double that of children.

However, the increase in life expectancy is only a part of the cause of demographic changes; decreases in fertility ratio should be considered as well. Fertility has fallen since the 1970s (McGillivray 2007) and, according to the UN (United Nations) (2004), total fertility rate for developed regions is expected to be 1.56 in 2005-2010. 28 out of 48 developed countries are concerned about the persistence of below-replacement fertility. Because the change in fertility ratio is generally more volatile than that of expected life expectancy,[11] it is the more important element in demographic changes (Ogawa and Takayama 2007).

Pension studies often regard demographic pressure or change as the increase in expected life span or decrease in fertility ratio but, if the proportion of working population does not decline despite demographic changes, the working population could have the ability to support the older population because the responsibility to raise children would decline as a result of the decrease in the fertility ratio. Accordingly, the essence of demographic pressure in pension issues is not the increase in the expected life span or decrease in fertility ratio but a concern that the decreasing working population may not provide the increasing number of pensioners with appropriate benefits and that it could undermine the socioeconomic foundations in these countries. Thus, policy alternatives should be examined in a comprehensive perspective that considers older retirement age or a new intergenerational contract, rather than makeshift methods such as reductions in benefits. After all, although demographic ageing is a crucial element in the demand restructuring pension policies, it should not be overestimated as a negative element.

Change in Labour

For the past several decades the patterns and characteristics of labour have changed. Because pension benefits tend to be related to contributions on the basis of labour, the change in labour is likely to influence pension schemes. The existing pension schemes were based on stable employment relations and low job mobility (Rosanvallon 2000). However, these assumptions have gradually weakened after the 'golden age of capitalism' in the 1960s.

First, the Fordist settlement has been transformed into a service-oriented industry and it becomes more difficult and complex to define patterns of labour. After the Second World War, large manufacturing firms dominated domestic markets and were able to insulate workers and retirees from the vicissitudes of market competition by virtue of their oligopolistic status (Clark *et al.* 2007) and the typical labourer would have one job for one's working life. The existing pension schemes assumed that a person starts work in one's early 20s, continues to work in one company untile one's late 50s or early 60s, and receives pension benefits after retirement. However, the recent social and economic changes have disrupted the traditional modern life course and the pattern of work can no longer be standardized (Vickerstaff 2006). That is, recently in the developed countries the cycle of education, leisure, and work has changed because of labour market flexibility and reeducation. The educational period has extended and training for adult employees is more common than in the past. As Esping-Andersen *et al.* (2002) indicate, post-industrial career patterns are much more diverse and unstable. Such growing non-linear career patterns prevent participants from paying contributions without interruption, which is out of keeping with the assumption of existing pension schemes based on continuous contributions.

Second, the increased dynamism of contemporary labour markets has caused a decline in job tenure and a concomitant rise in job mobility (Engelen 2007), and the proportion of nonstandard works which give access to marginal social security rights only is increasing (EC 2004). As Blake (2003) indicates, the average British person changes one's job 6 times in one's lifetime, and this is no longer considered unusual.[12] This shows that the existing public or private pension schemes are precarious for old age income security and that existing ones do not correspond with current socioeconomic elements. For instance, the decline in job tenure and the concomitant rise in job mobility demand that the design of existing occupational pension schemes should be changed because they were designed under the assumption of the lifelong job. The benefits of occupational pensions which have mainly been assessed based on final salary and working period have not assumed the frequent job changes. Next, nonstandard workers in many countries have been excluded in social security. However, according to the EC (2004), in some countries such as the Netherlands over half of all workers hold nonstandard jobs, and this trend is likely to continue. Thus it seems important to realize the principle of appropriate old age income when covering workers with public pension schemes.

Third, for the last several decades, early exit from the labour market has been widespread in the European countries. This early exit has been a sort of temporary policy to replace the unemployment problem in Europe. The early exit of older workers from the labour force was one of the 'bloodless' ways of coping with unemployment (Kohli and Rein 1991). For a while, this was an attractive policy for employers who wanted to decrease expenditure for older employees, for employees who wanted to obtain substantial benefits without hard works and for the government that wanted to solve the youth unemployment problem (Guillemard, and Van Gunsteren 1991). These policies had reduced labour force participation among those aged 60 and 64 between the

1960s and 1990s. However, this policy, which was made by tripartite agreement, was not designed to fundamentally solve unemployment problem but was rather a mere makeshift to delay it. It did not demand a big financial cost to most European countries which operated PAYG public pension schemes in the late 1960s or the early 1970s, when it was first introduced. However, it is obvious that early exit aggravates pension finance due to the increase in the number of pensioners in proportion to the working population. So, many Western countries have recently changed their policy to limit early exit and no longer encourage it. According to Wise (2007), since 1995 there has been a reverse tendency from early exit in some Western countries such as the UK. The level is still higher than that of the early 1960s but there seems to have been a substantial change.

Rising Female Labour Force Participation, and Changing Family Structures

Rising female labour force participation and changing family structures have demanded changes in the existing social security design. By the late twentieth century, pension schemes were designed under assumption that the typical family consists of a male breadwinner - full-time worker - , a housewife and children. However, nowadays these socioeconomic assumptions are no longer effective.

The biggest change has been the sharp increase in female employment. According to the ONS (Office for National Statistics) (2002b), while the economic activity rate of working-age men (16-64) in the UK declined from 94 to 79% between 1959 and 2000, that of working age women (16-59) rose from 47 to 70% over the same period. Ginn, Street and Arber *et al.* (2001), Engelen (2007) and Crouch (1999) show that in developed countries the female employment ratio has consistently increased and that the gap between the male and female employment ratios has reduced. Thus, it is necessary to change the existing social security systems which have assumed women as dependents.

However, this does not mean that, due to the increased female employment women, have only to obtain individual pension rights instead of the existing derived pension rights.[13] The main reason is that female labour is different from that of men. Despite the increase in female labour and the trend towards independence from male breadwinners, women still tend to take care of household affairs and raise children (Gershuny *et al.* 1994). The female dual responsibilities of both paid labour and caring responsibility prevent women from having the same working pattern as men. In contrast to men, women taking responsibility for caring are likely to have an intermittent working career, whether voluntarily or not. Hence, most of the current pension schemes based on full-time working structurally exclude majority of women. This structural exclusion is amplified with the change in family structure. Marriage in developed countries is no longer a universal course of life, and motherhood outside of marriage has increased. For example, in the UK, among women aged 16-59 with dependent children, only two thirds were married in 2001 (ONS, 2002a), while motherhood outside marriage has risen due to divorce, cohabitation and unpartnered pregnancy. Births outside marriage rose from 7% in the early 1970s to 38% in 1998, with over 60% of these births registered by cohabiting couples (ONS 1999). This implies that women who are excluded from the derived pension rights as well as individual pension rights can increase in number. Such socioeconomic change may increase poverty among the female older population[14] and require a re-examination of existing pension schemes.

In addition to globalization these four major socioeconomic changes have demanded new pension schemes to solve new problems that existing schemes cannot. However, despite such strong drives towards pension reforms concrete designs or suggestions vary. Next, the overall designs of the two major organizationss (the World Bank and ILO) in terms of pension reform are examined.

Pension Reform Design: World Bank vs ILO

Since a controversial book - *Averting the Old Age Crisis* - was published by the World Bank in 1994, there have been a lot of debates surrounding pension reform over the world and they have been comprehensive from overall design to specific issues. Globalization and socioeconomic changes mentioned above demanded the reform of existing pension schemes regardless of the World Bank or ILO. This section examines the overall principles and system design concerning pension policies of the World Bank and ILO, which pursue the different values. Specific issues will be dealt with in chapter 3.

Principle of Pension Reform

While activities of the ILO were major factors in the export of pension ideas to the rest of the world, particularly after the Second World War, recently the World Bank has dominated the spread of pension ideas, reflecting shifts in global discourse on social and economic policy (Orenstein 2003). The World Bank has assisted pension reforms in 51 countries from 1994 to 2004, a testament to its strong influence (Deacon 2007). The World Bank and ILO have competed to be the main organization for spreading different pension ideas. Although Holzmann and Stiglitz (2001) indicate that their ideas have converged, they still have different principles and assumptions in terms of old age income security.

The World Bank (1994) suggested two major criteria for pension policy. First, the pension system should help the old and, second, it should help the broader economy. The former criterion is set to (1) facilitate people's efforts to shift some of their income from their active working years to old age, by saving or by other means; (2) redistribute additional income to the old who are lifetime poor, but avoiding perverse intragenerational redistributions and unintended intergenerational redistribution; and (3) provide insurance against the many risks to which the old are especially vulnerable. The latter is set to (1) minimize hidden costs that impede growth - such as reduced labour employment, reduced saving, excessive fiscal burdens, misallocated capital, heavy administrative expenses, and evasion; (2) be sustainable, based on long-term planning that takes account of expected changes in economic and demographic conditions, some of which may be induced by the old age system itself; and (3) be transparent, to enable workers, citizens, and policymakers to make informed choices, and insulated from political manipulations that lead to poor economic outcomes. These principles of the World Bank's pension policy reveal that it espouses economic values as well as old age income security. The recent argument (Holzmann and Hinz 2005) of the World Bank does not change, regarding 'the contribution to economic growth' as a second goal.

On the other hand, the reform strategy of the ILO is based on the five basic social security principles (Gillion 2000; Gillion, Turner, Baily and Latulippe 2000). First, pensions should cover all people. Second, all people should be protected from poverty originating from ageing. Third, the income loss which comes from retirement should be predictable. Fourth, the provision should be supplemented in the form of a guaranteed pension. Fifth, capital and labour should take part in the management of the pension system together and should manage it democratically. The European Commission (2001) also announced the EU's ten principles for pension reform, which also suggests similar principles to the ILO in that it does not regard the pension policy as a means of economic growth.

These discrepancies between the two organizations reveal the differences in assumptions in terms of pension policy design. The following two assumptions seem conspicuous: demographic concern and the relationship between a pension scheme and economic growth. Both organizations agree that the demographic element demands change in the existing pension schemes. However, while the World Bank regards it as a given element and does not regard the increase in benefit entitlement age or old age labour activation as major policy alternatives, the ILO suggests that the financial difficulty of PAYG should be remedied through an increase in benefit entitlement age or old age labour activation because, as Sunden (2007) indicates, these days the old are healthy and there are a lot of suitable jobs for them.

The increase in benefit entitlement age that the ILO suggests could be a fundamental solution not only for pension policy but also for many other social policies. However, its success is likely to entail many socioeconomic prerequisites and it is necessary to examine whether it is a realistic alternative given the trend in European countries whereby real retirement age has decreased for the last 30 years[15] (Guillemard and Van Gunsteren 1991) even though there are recently signs of a reverse in the existing trends in some countries (Wise 2007).

The World Bank (1994) argues that pension systems should help economic growth, which was a radical argument that warranted changes from the previous philosophy about pension system. This new perspective from the World Bank (1994) which relates pension reform with economic growth, has still not changed in the recent view of Holzmann and Hinz (2005). On the other hand, Gillion (2000) of the ILO shows that the five social security principles do not focus on the overall influence on the economy of the pension system, arguing that the five principles should be accomplished 'in the level that does not reach minimum distortion and bad effect in the overall economy' (Gillion 2000:58). The differences of opinion in terms of economic growth could cause huge differences in the real policy implementation.

Pension Scheme Design

Although both the World Bank and ILO seem to agree on the necessity for change in existing pension schemes, the differences in the principles are bound to reflect actual system designs. The existing public pension schemes in many countries have integrated the saving, redistribution and insurance functions into a single system. This design induced the higher earners to participate in saving and the lower earners to inspire solidarity. According to the World Bank (1994), when a system is immature and its dependency ratio is low, the existing scheme can be attractive. However, as it matures and the dependency ratio becomes high, it entails higher contributions and can cause contribution evasion, while employers may decrease their hiring. The existing system design could decrease national output and induce early exit. Accordingly, the World Bank (1994) suggested the transition into a multi-pillar pension structure and that it should be effective because such separate provisions can help to solve a lot of dilemmas under the existing schemes.

This multi-pillar pension structure is not only favoured by the Bank. The ILO, which sets different principles to the World Bank, also suggests it as a major alternative (Gillion 2000; Gillion *et al.* 2000) even though the ILO uses the term 'multi-tier' instead of 'multi-pillar'. Even though there are differences between two organizations in terms of specific system designs, both organizations suggest that the major alternative should be a multi-pillar scheme. The multi-pillar pension scheme is in fact not a new concept as some European countries, such as UK and Switzerland, have already operated what is called as a 3-tier pension scheme - consisting of public basic/earnings-related pension, occupational pension and personal pension - prior to the suggestion of the World Bank,[16] the recent suggestion towards the multi-pillar pension schemes is noteworthy because it demands a sort of paradigm transition from the existing old age income security. The multi-pillar schemes have spread over the world and Clark (2003a) and Engelen (2007) point out that most developed economies have evolved a three-pillar model of pension provision. Thus, although there are different principles and assumptions to address pension reform between the World Bank and ILO, both organizations agree on the multi-pillar structure. However, their detailed designs within the multi-pillar schemes are very different.

First, the suggestion of the World Bank (1994) can be summarized as shown in figure 2-2. It suggests that various options be available in each pillar. For instance, the public (first) pillar can be selected from a wide range of alternatives. Many public pension schemes, can become the first pillar. That is, different public pensions (means-testing, citizenship, contribution-based and earnings-related pension scheme) which have different purposes can be the first pillar. The second pillar includes not only occupational pension schemes - the traditional private pensions – (Shalev 1996) but also mandatory individual account schemes. As a result, the multi-pillar scheme proposed by the World Bank seems a more flexible scheme than the standardized one. Holzmann (2001) also indicates that the multi-pillar pension system is a good reference model, but that it does not always apply in all cases blindly and that it can be adjusted taking into consideration (1) preference and environment of the country and (2) the adaptation of the reform principle. Although the Bank admits these differences in terms of pension policy, it reveals its own preference. The World Bank (1994) indicates that the choice of the earnings-related scheme in the first pillar is a poor choice on several grounds and that traditional occupational pension scheme in the second pillar is an inferior choice to personal pension schemes. To put it another way, the Bank prefers a more direct redistributive-oriented system design in the first pillar and the funded personal pensions, rather than the traditional occupational pensions, in the second pillar.

Figure 2-2 Pillars of Old Age Income Security.

Objectives	Redistributive Plus coinsurance	Savings Plus coinsurance	Savings Plus Coinsurance
Form	Means-tested, minimum pension guarantee, or flat	Personal Saving plan or Occupational plan	Personal Saving plan or Occupational plan
Financing	Tax-financed	Regulated fully funded	Fully funded
	Mandatory Publicly managed Pillar	Mandatory Private managed Pillar	Voluntary Pillar

Source: World Bank (1994:15)

To understand the multi-pillar schemes we should know how the size of each pillar should be organized in the multi-pillar system. According to Fox and Palmer (2001), this depends on the dependency ratio in each country. Accordingly, the ideal size of each pillar should be examined on the basis of the current system in each country. Nevertheless, the Bank's suggestions demand a radical change, which focuses on the funded private schemes, from the existing typical pension schemes. The Bank suggests not only the enhancement of private pensions to solve the dilemmas of existing schemes but also a more radical scheme - the Chilean scheme - which consists of the mandatory private pension scheme only as just another alternative. After all, the Bank insists that the new 'funded DC private pension' schemes should replace the traditional 'PAYG DB public' pension ones. To sum up, the World Bank (1994) suggests a transition towards the multi-pillar scheme with funded private pension schemes as a centre of the transition.

Although its detailed design has seen incremental changes, Fox and Palmer (2001) or Holzmann and Hinz (2005) from the Bank still prefer the private pension-centred multi-pillar scheme. The recent design of Holzmann and Hinz (2005) seems more sophisticated. It consists of more complex pillars: (1) a noncontributory or "zero pillar"; (2) a "first-pillar" contributory system that is linked in varying degrees to earnings and seeks to replace some portion of income; (3) a mandatory "second pillar" that is essentially an individual savings account; (4) a voluntary "third-pillar" arrangement that can take many forms but is essentially flexible and discretionary in nature; and (5) informal intrafamily or intergenerational sources of both financial and nonfinancial support to the elderly, including access to health care and housing.

The zero pillars address the risk of lifetime poverty and liquidity constraints.

First pillars address the risk of individual myopia, low earnings even within the formal economy and inappropriate planning horizons due to the uncertainty of life expectancies and financial market risks. They are typically financed on a PAYG basis and can be designed in various types including flat rate benefit, earning-related and non-financial DC schemes. Mandatory second pillars address myopia and, if effectively designed and operated can better insulate individual from political risks. It can be also designed in many ways including DC, DB or book reserve schemes. Third pillars compensate for rigidities in the design of other systems but entail financial and agency risks as a result of the private management of assets.

Although it also suggests a multi-tier scheme, the ILO opposes a radical transformation towards private pension schemes. The ILO insists that the Bank's strategy breaks the principle that old age pension should be predictable and that its provision should be guaranteed. Instead, the ILO recommended other strategies (Gillion *et al.* 2000). To begin with, in contrast to the Bank, the ILO still focuses on the central role of public pensions. Its first tier is similar to the first pillar of the Bank's multi-pillar scheme. Accordingly, the aim of the first tier is to redistribute to the poor older people through a flat-rate basic pension. However, unlike the Bank's second pillar the ILO's second tier is to provide the PAYG (earnings-related) public pension. The third-tier provides mandatory fully private pension similar to the second pillar that the Bank espouses, while the fourth-tier provides the voluntary fully funded private pension equivalent to the Bank's third pillar. Similar to the multi-pillar plan of the Bank, the ILO's multi-tier plan also suggests that the multi-tier plan, rather than a single tier plan, is a more advanced scheme for coping with the recent changes in socioeconomic foundations. However, while the Bank insists that private pensions should be a core factor in the new era, the ILO still focuses on the role of public pension schemes for social protection.

Just as the World Bank (1994) regards the Chilean private pension scheme as a second major alternative, Gillion *et al.* (2000) of the ILO also suggest a second alternative, the Notional Defined Contribution (NDC) pension scheme. This new scheme targets some countries that have difficulty in increasing the funded private pension scheme, suggesting benefit assessment from the existing DB to DC schemes without the transition to the funded scheme. It is also not a new idea and has already been operated in Sweden and Italy prior to the ILO's suggestion.

Recently the Bank, which did not mention the NDC scheme in the 1994 report, also acknowledged it as a major alternative for pension reform, paying attention to this new scheme (Holzmann and Palmer *eds.* 2006). Despite the strong recommendations and the political power of the Bank, few developed countries have followed the (private pension-centred) model of the World Bank during the wave of pension reforms in the late 1990s because the suggestion of the World Bank was too radical and many scholars refuted its proposals. Under such circumstances the Bank adopted the NDC scheme as the second-best policy, but it stuck to the existing private pension-centred pension reform as a top priority.

In conclusion, the different perspectives of the World Bank and ILO have recently converged to some degree. Both the ILO (Gillion 2000; Gillion *et al.* 2000) and World Bank (Fox and Palmer 2001; Holzmann and Hinz 2005) agree to the principle of a multi-pillar/tier system and regard the NDC scheme as a good alternative. However, it is clear that they have different perspectives on the basis of different values in pension policy. Thus, their possible convergence towards a multi-pillar system or an NDC scheme should not be overestimated because the two organizations, with their many divergent values and ideology regarding a multi-pillar system or an NDC scheme, can compete fiercely with each other.

Notes

[1] See chapter 7 for details.
[2] See George and Wilding (2002) for details. Held and McGrew (2002) define a typology of political positions regarding globalization as follows: neo-liberals; liberal internationalists; institutional reformers; global transformers; statists/protectionists; and two kinds of radicals, Marxists and localists.
[3] As a result of expansion and the development of IT industries, the existing industrial economy is being transformed towards a 'knowledge-based economy'. This term, which stresses technological/economic implications more than globalization, is used interchangeably with globalization.
[4] The system of 'social neo-liberalism' (Cerny 2004) redefines citizenship in terms of the right to participate in the market and equality as access to market rather than redistribution of income.
[5] According to Gough (2000), the major pressures on welfare states are globalization - external pressure - and post-industrialization - internal pressure.
[6] Hegemonic power is of a different type than that usually associated with pure material dominance, and is linked to 'intellectual and moral leadership' via ideology, which has the 'same energy as a material force' (Gramsci 1971:377).
[7] According to Oatley and Yackee (2000) - quoted by Ranis, Vreeland and Kosack (2006) -, the USA foreign policy and financial interests play a role in IMF lending. Stone (2002; 2004) indicates that countries important to the USA's interests are likely to receive favourable treatment from the IMF.
[8] In addition, the role of global civil society actors such as INGOs (International Non-government Organizations) is getting larger. See Kaldor (2003) or Deacon (2007) for details.
[9] Safety net could 'comprise targeted subsides, cash compensation in lieu of subsidies, improved distribution of essentials such as medicine, temporary price controls for essential commodities severance pay and retaining for retrenched public sector employees, employment through public works, and adoption of permanent social security arrangement to protect the poorest' (IMF 1995:15).
[10] Social security systems have been established or extended whenever an economy has had to experience the effects of an adverse event such as war or a depression (De Deken, Ponds and Van Riel 2007).
[11] In particular, East Asian countries, which are expected to face very rapid population ageing in the next 50 years, have experienced an unprecedented rapid decrease in fertility. In case of Japan, total fertility rate declined by 50 percent, from 4.5 children in 1947 to 2.0 children in 1957. Comparable reductions in fertility were recorded in Singapore from 1966 to 1976, the Korean from 1971 to 1981, and China from 1973 to 1983 (UN 2004).
[12] See Jousten and Pestieau (2002) for a recent issue in mobility.
[13] While individual pension rights are based on right regardless of marital status or family situation (ILO 1990), derived pension rights apply irrespective of whether the beneficiary's employment opportunities have been constrained by raising children or caring for other family members (Ginn 2003).
[14] The magnitude of women's pension inequalities varies across the countries. As Walker and Maltby (1997) note, in the 1990s older women's pension income as a proportion of men's was approximately 66% in Italy, 56% in France and 42% in Germany. In Britain it was about 60%.
[15] In almost half of the OECD countries, public pension benefits are available at age 60 or earlier and in these countries less than half of men aged 55 to 64 participate in the labour force (OECD 2004).
[16] Since the reference of the World Bank (1994), this typical division has not abolished yet. For example, Willmore (2001) classifies pension as public, occupational and personal pension.

Chapter 3

Issues in Pension Reform

This chapter examines the differences in addressing major issues regarding pension policy (or reform) between groups focusing on economic factors in pension policy and those emphasizing the social protection function of pension policy. It would be inappropriate to deal with all issues here because pension policies are very comprehensive; instead, the most important issues - financing, risk sharing (benefit assessment) and management (administration) - are explained in detail. Immergut and Anderson (2007) classify the major issues into the coverage, benefits, financing and administration. Despite its historic importance, coverage has recently faded away from major pension reform debates in some developing countries. Thus this chapter examines these three major issues concerning pension reform. Most discussions of pension reform tend to conflate management, financing and benefit assessment (Orszarg and Stiglitz 2001), but the separate approach taken in this research is not only helpful to expose the essence of pension reforms but also is necessary to make the appropriate policy suggestions.

PAYG vs. Funded

Financing has been the most controversial issue in pension reform debates. As Ervik (2005) summarizes the arguments of the World Bank and ILO as 'the crisis of PAYG financing' and 'PAYG – challenge but still viable' respectively, financing has been a major issue in pension reform debates. Theoretically pension financing is classified as follows: A PAYG (Pay-As-You-Go) scheme in which current contributions are used to pay current beneficiaries, and a funded scheme through which funds are accumulated while employed and is spent during retirement. While the World Bank (1994) points out that a PAYG scheme, which is exposed to demographic risk (ageing), is not sustainable any longer and that a funded scheme is superior to the PAYG one, Barr (2001; 2004), Orszarg and Stiglitz (2001) and McGillivray (2007) argue that the demographic risks of PAYG are often exaggerated and that the question of whether funded scheme is superior to PAYG is completely different from the transformation from the existing PAYG scheme to the funded scheme

Even though the PAYG or funded debate is the most controversial issue in pension reform, the real classification between them is not as clear as that of pure theory; few PAYG schemes have no pension reserves and few funded schemes have fully funded reserves (Fox and Palmer 2001). Accordingly, both fully funded and fully PAYG schemes may not be applied to real pension schemes in many countries. Nevertheless, the analysis based on theory could help to develop a more comprehensive perspective.

Many debates concerning financing are often mixed with risk sharing or management. The debate over PAYG and funded scheme addresses questions regarding financing and is not directly related to benefit assessment or management. These confusions originate from mistakes that regard the three major issues as one system. As McGillivray (2007) indicates, public pensions in Europe are often the DB PAYGs and this tradition may result in placing the three issues that are independent into one category. Also, the World Bank (1994) set the 'funded private DC scheme' as a major alternative in pension policy debates with a tendency to deal with it as a set rather than to classify them as separate issues and analyze their pros and cons separately. However, it should not be standardized because it reflects ideas of the Anglo-Saxon pension reforms. That is, the 'funded private DC scheme' is no more than an Anglo-Saxon private pension scheme, which is not a major type of pension scheme in many other countries. Accordingly, the analysis of the 'funded private DC scheme' cannot correspond with the study on funding.

Although it is difficult to standardize financing methods because public pension designs are very different, it is generally accepted that public pensions were introduced under implicit agreement to tackle old age poverty. It is no wonder that PAYG schemes, which could quickly achieve an aim of pensions (poverty relief), were preferred to the funded schemes, under which one waits for several decades until maturity. To put it another way, whether public pensions should be PAYG or funded scheme had not been a major issue in pension policy in Western countries.

Theoretical Approach of Financing

PAYG can be interpreted from an economic viewpoint or an aggregate viewpoint. While the former is a promise from a nation - if I contribute when I work, I will receive benefits after I retire - the latter is simply a transfer of tax from one group to another (Barr 2004). As mentioned above, PAYG schemes, which reflect social solidarity, have been more common than funded schemes in Western countries.

However, the World Bank (1994) started to criticize PAYG schemes based on social solidarity instead of economic elements, and its criticism originated from economic formula. The theoretical approach on PAYG and funded scheme of World Bank (1994) is as follows.

As the equation C=BD (C: contribution rate, B: target benefit rate, D: system dependency ratio) determines benefit under PAYG, the ageing population (increase in D) is likely to increase contributions or to reduce benefits. In contrast, the contribution and benefit under funded scheme, if the interest rate is the same as the rate of wage growth, is determined by the equation C= B(m/n) (m: retirement years, n: working years, m/n: passivity ratio). If the retirement period becomes longer, contribution rate or period should increase or benefits should be cut. Moreover, if the interest rate is lower than the rate of wage growth, the contribution rate should be higher than B(m/n). In conclusion, (1) when the dependency ratio equals the passivity ratio and interest rate equals the rate of wage growth, PAYG and fully funded plans require the same contribution rates; (2) when interest rate exceeds the rate of wage growth, fully funded plans have a cost advantage over PAYG plans; (3) when the dependency ratio is smaller than the passivity ratio, PAYG plans require a lower contribution rate than fully funded plans; and (4) fully funding costs less (or yields a higher rate of return) than PAYG schemes if interest rate is higher than the rate of wage growth plus the rate of population growth.

The conclusion of the World Bank (1994) reveals its favourite policy alternatives. First, due to the changes in demographic structure in developed countries, the dependency ratio is likely to be higher than the passivity ratio, which results in a preference for funded plans over PAYG. Next, the World Bank (1994) provides corroborative evidence that the interest rate is higher than the rate of wage growth in most countries and that due to the low rate of population growth the interest rate is higher than the rate of wage growth plus the rate of population growth in many countries, which makes funded schemes more favourable. Therefore, the Bank insists that funded plans are more advantageous to the recent socioeconomic backgrounds or financial markets.

Prior to the suggestions of the Bank, some economists already argued that PAYG did harm to national economies. Feldstein (1974) indicates that the US social security system (PAYG public pension) reduced personal savings by about 50%, thereby reducing capital stock by 38% below what it would have been in the absence of a social security system. The World Bank (1994) also refers to the possibility that funded schemes will cause an increase in savings, even though it does not provide conclusive evidence that funded schemes will cause increase in savings and even indicates that it cannot be concluded that PAYG plans directly reduce savings. James (1995; 2001) and Feldstein (1998) also support the Bank's perspective that funded individual accounts will lead to an increase in national savings.

However, the preference for funded schemes, which the Bank and some economists display, has been criticized in many ways. First, the empirical analysis that the interest rate is higher than the rate of wage growth cannot be generalized and what is calculated with the assumption of 50% bond and 50% equities should be adjusted (Orszarg and Stiglitz 2001) based on the relevant financial environment in each country. In addition, it should be considered that the earnings rate in an equity market can collapse rapidly when many pension funds simultaneously surge into the market due to high interest rates. Moreover, while the World Bank (1994) insists that the decrease in the earnings rate happens due to fundamental problems in the PAYG scheme *per se*, according to the theory of Samuelson (1958),[1] if there is enough technical progress - real economy growth - and enough labour demand, there are no reasons to lose the attraction of PAYG schemes. Geanakoplos, Mitchell and Zeldes (1998) also indicate that the decrease in the earnings rate is not a fundamental problem of the PAYG scheme but a problem of the implementation process. So, the introduction of an individual account scheme does not always solve this problem (Orszag and Stiglitz 2001).

Next, the Bank's analysis that funded schemes are more advantageous than PAYG under population ageing has been also criticized. Both economic and policy criticisms are made. The former, by Barr (2001; 2004) and ILO (2001), criticize that both funded and PAYG schemes are exposed to financial pressure that the increase in beneficiaries (ageing) causes. That is, Barr[2] (2001; 2004) indicates that a funded scheme is not superior to PAYG under population ageing and that the widely held (but false) view that funded schemes are inherently 'safer' than PAYG is an example of the fallacy of composition. For example, if there is a large accumulation of pension funds when the work force is declining, the high level of spending by pensioners out of their accumulated savings will reduce the savings rate, leading to aggregate dissaving. Net pensioner consumption is greater than saving by workers; and at full employment this causes demand inflation, which erodes the purchasing power of pensioners' accumulated funds and, hence their consumption.

The policy criticism raises a fundamental objection to the recognition in terms of ageing, which refers to the increase in older population and older workers in developed countries. The perspective demands a paradigm shift from a fixed idea that growth in older population increases dependent population. Dependency ratio is often defined as the old age population (pensioner) to working population - of course, there are several kinds of dependency ratios - but both old age population and children should be categorized together to assess the proportion of real social responsibility or family responsibility. The proportion of older population is increasing, but the young population is decreasing due to decreases in fertility rates. Thus, the increase in the rate of the demographic dependency ratio is just one-quarter or one-third – even though there are differences among countries - than the increase rate of old age dependency ratio in the prediction between 1995 and 2020 (Concialdi 2000). Accordingly, considering social cost - including children - it would be a misrepresentation to focus solely on the increase in cost due to PAYG schemes, and negative effects of the growth of the older population should not be exaggerated. A more fundamental question is about whether pensionable age (the age from which pensions are paid) should be fixed. The ILO (2001) points out that an ageing society need not face any crisis as long as it provides jobs for its ageing workforce. The continuous increase in the expected life span and improvement of their health provide conditions to increase pensionable age, which can be a fundamental solution to solve financial problem in PAYG schemes (Barr 2004), despite its political unpopularity. The OECD (2001d) estimates that a ten-month postponement is financially equivalent to a 10 percent cut in pension benefit. If this alternative continues to go unconsidered due to other external conditions, the dilemma of pension financing will never be solved. As McGillivray (2007) indicates, the key to cost of any pension scheme is the pensionable age. Nonetheless, early exit has been widespread in the Western countries (Kohli, Rein, Guillemard, and Van Gunsteren *eds.* 1991) as mentioned above, and pension financings require comprehensive examinations with different economic and social policies beyond pensions *per se*.

Next, the idea that funded schemes increase national savings and investment and help national economies has also been criticized. The suggestion that funded schemes increase the savings ratio and help economic growth is based on the belief that the increase in savings will cause economic growth. Accordingly, more important is whether fund accumulation can cause economic growth through an increase in savings. However, according to Barr (2001), it is not always guaranteed. If any increase in mandatory savings is offset by a reduction in voluntary savings, the introduction of a funded scheme cannot increase national savings. In addition, even if the introduction of funded scheme increases national savings, there will be no guarantee that the resulting higher savings would be translated into more and better investments. Even if this were true, there will be no guarantee that the resulting higher investments lead to an increase in output. The effects on the increase in savings under funded schemes mentioned above have been refuted by many empirical studies. Hughes (2000: 51-56) summarizes the econometric research on the differences of savings effects according to different financing methods from Feldstein's classical research and indicates that the opinions of many researchers' conclusions are ambivalent as to whether the PAYG scheme induces a decrease in the total individual savings. It is reported that the expansion of funded schemes in some countries reduce national saving rates. For example, the national saving rate in the UK has fallen from about 17.9% in 1970s to about 13.8 % in 1990-92 when pension assets were increased to 70% of GNP. Similar observations were made in Ireland and the USA (Hughes, 2000). In addition, Hughes (2000) indicates upon examining many countries that there is no relationship between national savings and GDP and between pension assets and GDP. Dilnot, Disney, Johnson and Whitehouse (1994) insist that it is hard to explain the relatively low national savings rates in the UK and the US, which have relatively high degrees of private funded provisions.

Therefore, the superiority of funded to PAYG financing that the Bank insists on is based on a biased perspective which cannot be generalised. Nevertheless, except for the relationship between savings and GDP, the differences of the total economic effects that funded and PAYG schemes cause has hardly been given a serious look.

Economic Effect

The arguments of the Bank and many economists criticising PAYG schemes are as follows: when a PAYG scheme starts, the first generation, which has never contributed and yet reaps the benefit (Diamond and Orszarg 2004), receives a windfall and does harm to the economy through an unproductive transfer of wealth to the older population. This argument may be no more than an simplified analysis of the real effects and it is necessary to take more broad views.

It is true that windfalls happen when PAYG schemes are introduced. However, it is not clear whether it always has negative effects on national economy. For example, let us designate the generation receiving windfalls as 'S1' and its next generation as 'S2'. Firstly, S1 can obtain income beyond its expectation and can increase its expenditure. Considering that consumption is the biggest element for economic growth in most economies, it would not be right to allege that the increase in consumption does harm to the national economy. On the contrary, when a country does not have enough demand to change savings into investment, the plethora of savings causes lower interest rates and decreases real profits. The effects that an increase in consumption and a decrease in savings have on economic growth totally depend on the economic circumstances in each country. Secondly, S1 can inherit more money than previous generations due to the unexpected increase in income. The unexpected pension benefit gives them extra income, as it is transferred to S2. Accordingly, this transferred money may compensate S2 for the increased contribution to a certain degree. In addition, the increase in savings by S1 can offset the decrease in savings by S2 to a degree.

For the S2, first, even though the introduction of PAYG, which causes the increase in contribution, which has the feature of a quasi-tax, reduces the capability of consumption, the introduction of a funded scheme also has the same effects. Moreover, if its dependency ratio is low when it was introduced, the low contribution of PAYG schemes can reduce the decrease in consumption and benefit the economy more than that of the funded scheme. Secondly, although it seems true that S2 decreases savings under PAYG, this decrease is transferred to the parents' generation, which could reduce family transfer that must have been important prior to its introduction. So, it seems not to be a big negative effect. In addition, as mentioned above, S2 can obtain more inheritance from S1 and some compensation for the increase in contributions. Last but not least, the introduction of PAYG schemes can lower government expenditure for old age poverty which can lead to lower taxes or higher real income.

Even though it is very difficult to judge the total economic effects of PAYG schemes as table 3-1 indicates, it seems as though there are no negative effects except for the decrease in the savings of S2. As long as the negative effects in terms of the decrease in savings of S2 are not greater than the positive effects of all other elements, the assumption that PAYG has negative economic effects seems imprudent. The decrease in savings may be negative in countries which require a lot of investment capital, but the argument that PAYG schemes always have bad effects on the national economy should be reconsidered.

Table 3-1 Economic Effects under PAYG Scheme

Object	Contents	Economic effect
S1	Increase in consumption	Positive effect
	Saving maintenance	Positive effect
S2	Decrease in saving	Negative effects
	Decrease in consumption	Positive effects (in comparison of funded one)
	Increase in income by inheritance	Positive effects
Government	Decrease in expenditure to relieve poverty	Positive effects
Total		?

On the other hand, if a funded scheme is introduced, it would be necessary to set a long-term reserve period. During the period, S1 does not receive any pension benefits and its consumption capability after retirement may be the same as that of the previous generation. That is, even though some older populations have savings to meet their needs in old age, others should depend on financial help from their offspring and the older population in a funded scheme is more likely to suffer from poverty than the older population under PAYG. This means that the government must spend a lot of money for poverty relief of the older generation under funded schemes. It is clear that continued unproductive national expenditure for poverty relief has a very negative effect on a nation's economy. Moreover, S2 confronts the 'double payment' problems, which mean that S2 members have the responsibility to accumulate their own pension funds and to support their parents (S1) when it works. As it causes S2 to decrease its consumption, it has negative effects in a nation's economy. As mentioned above, compulsory funded pension schemes obviously cause pension fund accumulation, but Barr (2001; 2004) insists that if it crowds out individual saving there are no economic effects. In addition, under the full funded scheme it is very difficult to find a definitive solution for managing huge amounts of pension fund. (table 3-2)

Table 3-2 Economic Effects under Funded Schemes

Object	Contents	Economic effect
S1	Intrafamily transfer	Same to the previous generations
S2	Decrease in consumption	Big negative effects
	Increase in saving	Ambivalent
Government	Increase in expenditure for poverty relief	Negative effects
Total		Maybe negative

This kind of practical research surrounding economic effects is not easy. First of all, classification in terms of generation is complex and such a simplification can lead to some distortions. In addition, the effect would be more complex for successive generations such as the S3. More crucially, various partially funded schemes, in lieu of full funding or full PAYG, can exist. Compared with the above two tables, funded schemes do not seem superior to PAYG, even though more practical research is necessary for an accurate assessment. Even if funded schemes are superior to PAYG from an economic perspective, the gap between the two would be small. The effects can be very different according to the different existing national institutions. Some countries can make much account of the increase in domestic savings while others can focus on the growth of consumption, which depends on their own foundations. Moreover, it is doubtful whether funded scheme, which does not place top priority on the solution of the poverty for the existing older population, is better in a social point of view. That is, when it comes to the solution of the poverty for the existing older population, PAYG schemes, which can quickly implement a poverty relief policy for the existing old, is superior to funded schemes, which cannot.

Furthermore, the superiority of PAYG schemes on inflation should not be ignored. Because funded schemes depend on investment performance, hyperinflation can make the pension provision near zero. Because there is nothing more important than the guarantee of benefits in public pensions, the mechanism to protect benefits from inflation is important, which is only possible under PAYG. Barr (2004) indicates that predictability is important under inflation. While predictable inflations are not risky, unpredictable inflations become uninsurable risks. It can be solved through international investment diversification and maximum indexation to a certain degree, but it is just partial. The bigger problems are that (1) this damage is permanent; (2) people who worry about future hyperinflation may retire early. Even though PAYG is not totally immune to inflation risk, the government can index benefits under PAYG while funded schemes cannot guarantee benefits.

In conclusion, the Bank focusing on the economic effects of pensions regards prefunding as a core aspect in pension reform debates and, even if its emphasis has been recently reduced, Holzmann and Hinz (2005) do not give up this principle. However, it is not clear whether the funded scheme will increase national savings or help economic growth (Barr 2001). Moreover, funded schemes are not more financially sustainable than the PAYG under the current demographic change (Barr 2001; McGillivray 2007), thereby not guaranteeing the higher earnings rate. Of course, funded schemes have different risks from PAYG schemes and, instead of the single pillar that cannot escape its own risks, the introduction of a multi-pillar system that can diversify risks seems to be a good alternative. A mixture of surplus labour supply and slow economic growth from which many countries have recently suffered may make the dominant single PAYG scheme less attractive.

However, the real problem in terms of pension financing does not pertain to which type of scheme is superior but rather as to whether the existing PAYG scheme can be transformed to a funded scheme. As Fox and Palmer (2001) and Holzmann and Hinz (2005) indicate, no OECD countries have implemented a sweeping reform into a fully funded scheme, which is closely related to a 'double payment' problem. The important thing is the size of the double payment, which totally depends on the dependency ratio. In changing into the funded scheme, the working population should both pay their own contribution and contribute for the old together. Accordingly, as the dependency ratio increases, funded scheme also needs additional contributions like PAYG. The sweeping reforms in some countries such as Chile in the 1980s and 1990s were available owing to their low dependency ratio. If sweeping reforms are implemented in Western developed countries with high dependency ratios, working populations will face an increase in contribution rates to level beyond their capability. What is called the transformation from 'implicit debt' to 'explicit debt' entails too expensive an opportunity cost to the developed countries. Nevertheless, the neo-liberals including the Bank, who emphasize low tax and high savings, have focused on pension fund accumulation. It means not only the replacement in financing method but also a demand for what is called the change in pension policy story from existing solidarity to savings. While the 'double payment' prevents developed countries from sweeping transformations towards funded schemes, a new device of 'generational accounting' exaggerate the unsustainability of the existing PAYG scheme.

Generational Accounting and Long-term Financial Estimation

Generational accounting is an important tool to illustrate the future lack of sustainability of the PAYG system (Auerbach *et al.* 1994). While in a system designed under a full-funded scheme all accumulated funds become assets and net value is not negative, under PAYG the net value becomes negative and the growth of beneficiaries increases negative net value. The negative value, which is often called an 'implicit pension debt' and which is not revealed under intergenerational contract, is explicitly exposed under generational accounting. The fundamental budget constraint presented by the approach is as follows (Auerbach *et al.* 1994): present value of remaining net tax payments (taxes paid – transfers received) of existing generations + present values of net tax payments of future generations = present value of all future government consumption – government net wealth.

In the case of pensions, the largest welfare system, this introduction of a new mechanism makes the public feel that pensions are financially unsustainable. For example, in Italy public pension debt was estimated to be about 400% of GNP in 1992 (Pizzuti 2000) and its pension reform was an attempt to reduce it. Ervik (2005: 31) indicates its attributes well:

It has contributed to the image of PAYG financing of pensions as being unsustainable and hence inherently insecure. Second, it has shaped the view of a basically unfair system in which existing and previous generations have and are exploiting future ones by leaving an unpaid bill for later generation. Third, by undermining the confidence in PAYG public financing of pension, it has raised awareness of and possibly increased confidence in non-public funded systems of old age provision as sustainable, secure and fair.

Does generational accounting reveal the disadvantages that PAYG conceals on purpose? Will the increase in implicit debt prevent our development in future? Here we should consider the essence of the intergenerational contract and demographic ageing again. An implicit assumption in the intergenerational contract is that the contract is based on what is called an 'indefinite game'. That is, the 'last generation', which must take responsibility for both itself and its parents' generation, does not exist. Thus, unless the intergenerational contract is very unfair to a certain generation, the implicit debt, which does not exist in reality and is revealed in generational accounting, is no more than a fabrication. Some may insist that the increase in implicit debt through ageing makes the PAYG scheme unsustainable, but this is clearly a logical fallacy. As already mentioned, ageing through increase in life span is never related with pension finance and can be solved by policy alternatives such as the adjustment of pensionable age. Also, if the low fertility ratio of the current working generation is a main reason for ageing, the pensions to be expected by them would have to be cut to reflect a lower number of children. Also an imposition of extra taxes on this generation would be required because they would save on child rearing expenses (Sinn 2000). Consequently, generational accounting is a makeshift device which concentrates on the generational transfers through the government budget and does not provide a fundamental solution.

In the foregoing section we could not find crucial evidence as to whether funded schemes are superior to PAYG in their economic effects. The introduction of generational accounting generates the elimination of solidarity which has been importantly assumed in the existing (PAYG) public pensions and urges the public to regard the existing public pensions as unfair. Here we should refer to generational equity. It is true that horizontal equity - that people who pay the same contribution should receive the same benefits - is figured into every scheme. However, it is not clear whether, under a social security system rather than a saving system, standardized horizontal equity between generations should always be the top priority. Many Western social security systems were designed to reduce increased social risks after the Second

World War and to compensate for the suffered generations from the war. If later generations are expected to have a better endowment, justice requires to redistribute in favour of earlier generations (Schokkaert and Van Parijs 2003) and, therefore, it must not be alleged that it is unfair that the earlier generations were provided with the privileges or windfalls beyond the horizontal equity.

However, generational accounting which concentrates exclusively on the generational transfers through government budgets and which neglects the crucial problem of intragenerational distribution (Schokkaert and Van Parijs 2003) generates the (spurious) fear of a pension finance crisis, urging the public to treat the existing PAYG as an unsustainable scheme. Consequently, generational accounting may promote the increase in distrust towards the existing PAYG and persuade the public into preferring a funded scheme. Even though it seems to be a value-free technical means, the generational accounting became a very strong device for the pension reform towards the funded scheme that neo-liberals espouse, demanding to dissolve social solidarity and governmental compensation which were embedded in the Western PAYG pensions. After all, it successfully helped to destroy the philosophy of pension policy and the ideological foundation of the Western public PAYG pensions (Blackburn 2002b).

The long-term financial estimation is another version of generational accounting for countries which operate partial funded public schemes instead of PAYG scheme. Those countries make use of the long-term financial estimation based on a number of assumptions such as fertility ratio and economic growth rate. Even if it is designed under a funded scheme, public pensions tend to set the earnings rate over 1 because they are not a saving but a distributive means, which means that pension funds will be exhausted in the long run. In this situation, the neo-liberals demand a focus on financial sustainability based on this estimation. At the same time, as Bonoli (2000) and Johnson and Falkingham (1992) indicate, the demographic estimation or the accumulation estimation on the basis of this estimation can be trusted for up to 20 years into the future and so, the long-term financial estimation is a very efficient device for neo-liberals to achieve their purpose of making the public feel that existing pensions are financially unsustainable.[3]

In conclusion, as Blackburn (2002b) indicates, 'generational accounting' represents a particular logic of capital that mercilessly reduces the possibilities of the future. In fact, in contrast to the national debt whose negative economic effects are clear, the assessment of implicit debt is no more than a device to increase the unnecessary fear of the future. As Pizzuti (2000) indicates, it is often used inappropriately as an indicator of the economic sustainability of pension systems.

The generational accounting inspired thinking has represented a critique of the deep core beliefs of what has been called the traditional pension orthodoxy of the ILO (Müller 2003). In combination with ageing, funded scheme and generational accounting, neo-liberalism has succeeded in the expansion of discourse on pension reform that they prefer. Who on earth is it for? This will be examined in the following chapters in detail. In the meantime, we should not ignore the criticism of Minns (2001) that only financial institutions get the advantage of pension funding and that their arguments serve only to maximize their own profits.

Summary

In the spectrum of funding, pure PAYG indicates 0 percent funding and the fully funded scheme, 100 percent funding. Each country can choose any one point in this funding spectrum. In reality, most of public pensions around the world are located in a point between the two extremes instead of on either extreme points. Consequently, it appears imprudent to analyze various pension schemes through either the PAYG or funded scheme theory, as every country is bound to have its own specific condition in terms of pension financing.

In conclusion, PAYG and the funded schemes tend to face different risks. Thus, a partial replacement is good because it enables risk diversification (Hausner 2001). It seems irrational to choose one scheme as superior over another. It is generally accepted that a multi-pillar scheme can relieve the disadvantage of each scheme because both the fully funded and full PAYG schemes are sustainable under the current socioeconomic transition. However, the multi-pillar scheme should be established for the sake of stabilization and development of old age income security. As mentioned above, a funded scheme is never a panacea for economic stagnation and old age income security should not be undermined by other motives such as expansion of financial markets.

DC vs. DB

Along with financing, risk sharing (or benefit assessment) is the most important issue in the pension reform debates because the public tends to pay particular attention to their amount of benefits. Except for some private pensions, the DB (defined benefit) method in public and occupational pensions had been the dominant approach for a long time. Under a DB scheme, benefits are determined beforehand; hence, the old age income is more predictable. Benefits under a DC (defined contribution) scheme, on the other hand, are determined based on investment result and are therefore more volatile. Western public or private (occupational) pensions were traditionally designed as DB to stabilize old age income for their members. However, the World Bank (1994) criticizes this because existing DB schemes have aggravated pension finance due to the imbalance between contribution and benefit, suggesting that DC designed under actuarial principles should be a better alternative. The Bank, which regards the pension plan as a means of economic growth, is afraid of the reduction in economic growth from financial pressure, which existing DB schemes have caused, and accepts the spread of DC as a solution. In contrast, the ILO, which focuses on social protection, tends to make much of the income security function and does not give up the importance of the existing DB schemes.

Although recent socioeconomic changes help the spread of DC schemes (Engelen 2007; Munnel 2007), public pensions in Western countries have been generally modified within the existing DB schemes (McGillivray 2007). Are DB and DC schemes risk-sharing mechanisms on opposing extremities that cannot be reconciled at all?

Definition

A key distinction between DB/DC schemes is the bearer of risks. While DB places the responsibility on the shoulders of government or employers, DC scheme allocates the risk to members and their generation (Fox and Palmer 2001). They also take risks on old age income. However, while DB has difficulty in adjusting to certain changes and shocks, it is easy under DC. Diamond (2001) indicates that while DC makes the financing more salient and the outcome more opaque, DB makes the financing more opaque and the outcome clearer. Traditionally, it is recognized that while DC is a good method for future generations, DB is a good method for the poor within the same cohort. The preference between the two depends on the values each country espouses (Diamond 2001).

In the debates over DB or DC schemes, the World Bank (1994) prefers DC on the grounds that (1) it increases the adaptability of the system by decreasing the characteristic of taxes and (2) it has a high labour incentive. Despite its preference, the World Bank (1994) does not suggest a sweeping transition towards DC. Instead, it suggests that the first pillar should still guarantee the income security of members beyond subsistence level through DB schemes - means-testing, the flat rate or the minimum pension guarantee. It emphasizes that the dominant tendency towards DB existing in European countries should be modified.

As mentioned above, the Bank suggests a more towards DC schemes which focuses on the roles of the second and third pillars. In addition, a Chilean pension scheme that the World Bank (1994) regards as a good example consist solely of DC scheme, which reveals that the Bank takes into account old age income security without DB in some countries.

The ILO takes a different view. Gillion (2000) and Gillion *et al.* (2000) of the ILO recommend that the first pillar should be a basic pension (a sort of DB scheme) and that the second pillar also should be a PAYG public pension (the DB scheme) with 40-50% income replacement rate. The ILO, which assumes the second pillar as the core of pension reform, focuses on adjustments within the existing DB scheme.

Debates over DB and DC schemes are less clear than other issues such as financing and administration. DC and DB schemes, which are contrasted as benefit assessment methods on opposing ends, cannot be regarded as completely different methods. The DC scheme can be defined as a method by which to closely relate contribution and benefit - actuarial principles - and it can be defined as a standardized method. However, a pure DB scheme can be designed very differently. For example, a DB scheme providing '50% of life average earnings when contributing for 30 years' can be very similar to a DC scheme in terms of amount of contribution. Overbye (2002) indicates that by extending the number of contribution years and using career average, rather than final salary, as the reference period, defined benefit schemes become more similar to defined contribution schemes as far as the relationship between life-cycle earnings and pension benefits in concerned. Although under DB the employers or government take the risks, it does not mean that DB schemes always provide higher benefits (earnings rates) than DC. Even if it hardly exists, some DB benefits can be lower than DC benefits. DB or DC schemes may be an opposing ends as to who bears risks. However, with regard to benefit assessment or amount of benefits, it cannot be claimed that any one scheme is necessarily more favourable to employers (or government) or members.

Therefore, the conceptual difference between DB and DC schemes does not correspond with that of PAYG and funded schemes, which is assumed to be on a sort of spectrum. Whereas PAYG is clearly on the opposite end from funding, the relationship between DB and DC is more complex and, according to the system design, the employers (or governments) who bear risks under DB may spend less expenditure. In addition, the benefits in some DC schemes are modified through devices such as minimum earnings rate. Accordingly, the focus of DC or DB scheme should not be, whether either employers (or governments) or members bears all of the risk, but how to reduce the members' risks under DC or how to relieve the employers' risks under DB.

Alternatives to Relieve Risks

Both DB and DC schemes are bound to confront risks. While DC schemes whose benefits depend on investment performances, risk insufficient old age income security when investment performances are low, some DB schemes can suffer from financial pressures due to the imbalance between contribution and benefits. In addition, the unprecedented rapid increase in the expected life span also demands partial modifications of the existing DB or DC scheme.

The most classical alternative is the 'FRP (Fixed Relative Position)' that Musgrave (1986) suggests and, Myles (2002) and Esping-Andersen and Myles (2007) advocate on the assumption that both DB and DC are not sustainable politically and realistically in an era of ageing society. The FRP is a method to fix the proportion of net income per person of working population and the net benefit per person of the retired, which is a system in which contributions and benefit are automatically altered with the changes in demographic structure. For instance, as the ageing populations increase, the contribution rate automatically increases and the real benefit continues to decrease. Myles (2002) insists that this method is better than DC or DB scheme, which has a sort of 'lock-in' effect. This seems to be an attractive suggestion which makes the risk smooth as automatic adjustment can decrease financial risk that the imbalance between contribution and benefit causes, but it may be politically unpopular to both the working population and the retired.

Alho, Lassila and Valkonen (2006) also indicate that the demographic uncertainty in pension debates should not be ignored. Accordingly, the mechanisms to automatically reflect the change in the expected life span appear effective to prevent the financial deterioration of pension plans. Recently this idea is called the 'automatic balancing mechanism', which is introduced to adjust pension benefits to respond flexibly to never-ending changes in demographic and economic conditions (Heller 2003; Takayama 2005). The 'sustainability factor' introduced in the German public DB pension reform is for the sake of automatic adjustment, taking into consideration not only developments in life expectancy but also demographic change as a whole (including changes in migration and notably in birth rates), as well as developments in the labour market.[4] The ABM (Automatic Balancing Mechanism) introduced in the Swedish NDC (Notional Defined Contribution) scheme also has the mechanism to inherently control economic/demographic fluctuation (Palmer 2006b). These security mechanisms can be adopted under both DB and DC schemes.

It is generally accepted that the members are in a disadvantageous position under the DC scheme and they require the security devices to stabilize their benefits. The first method would be to guarantee the minimum earnings rate. The occupational pension in Switzerland has established the minimum earnings rate of 4 percent under its DC scheme - 3.25 percent in 2003, 2.25 percent in 2004. The method disperses risks under the DC, forcing some financial institutions below a certain profit to leave occupational pension management, which contributes to the dispersion of risks. The Swedish NDC scheme noted above is a method to guarantee earnings rate under DC schemes, even though it is not clear whether this is a DC scheme as it does not accumulate and invest funds. After all, benefit assessment is not to choose between the two. The selection of one of the alternatives forces either the capital or labour to unilaterally be damaged, which is likely to cause social conflicts. Thus, the recent tendency is towards finding the appropriate mixture between DB and DC schemes, rather than the selection of one of the alternatives.

Here, we can obtain a clue through the NDC scheme that many countries have recently paid attention to. Chapter 2 indicated that the NDC scheme seems to reconcile the Bank's value with that of the ILO. The NDC pension system is a system which is in force in Sweden, Italy and Latvia, and in it characteristics of DC scheme and PAYG are mixed (Palmer 2000; Cichon 1999; Disney 1999a). According to Börsch-Supan (2004a), the NDC is an accounting method which treats PAYG as a DC scheme. Because the real fund is not invested, the market earnings rate cannot be used and many countries adopting the NDC make use of various indexes. Sweden uses the ABM, Italy the GDP index and, Latvia, Kyrgyzstan and Poland have adopted different methods to assess their earnings rates (Palmer 2006b). Thus, under the NDC the risks are dispersed from members despite it being a DC scheme.

These characteristics of the NDC seem to help to reconcile the value of the Bank with that of the ILO. It appears contradictory that the ILO, focusing on income protection, regards the NDC scheme as a second best, but in reality, the NDC is the same as the German public (DB) pension (Börsch-Supan 2004b). Although the Bank set the funded scheme as a top priority, no developed countries have implemented the sweeping reform towards (private funded) DC schemes. The NDC scheme, which relieves the 'lock-in' effects for financial stabilization, seems to be accepted as a second best. Thus, the ambiguous characteristics of the NDC or the intrinsic unclearness of the DC or the DB seems to reconcile two opposite organizations in pension reform debates.

In fact, the issue of risk sharing in pension reform debates lies in determining how to guarantee risks. For example, the previous public earnings-related DB pensions in Sweden demanded excessive expenditure and the government could not guarantee their provisions in the long run. Occupational DC pensions in the UK and US are also unstable because they do not guarantee investment failure. The NDC scheme mentioned above is one of many guarantee methods, and the focus should not be the selection of one of the alternatives (DB or DC) but how to disperse risks and how to provide stable and predictable old age income for the sake of both capital and labour. More concretely, DB schemes should make earnings rates financially sustainable and DC schemes should prepare guarantee mechanisms as safeguards against investment failure.

Labour-market Incentive Effects

In addition to the essential issues in terms of DB and DC schemes, there are many issues surrounding benefit assessment. Among them, the effects on labour incentive, which are closely related to economic characteristics and redistribution, cannot be ignored.

There has been much debate regarding the effect of pension on labour market. According to Barr (2004), some studies conclude that pensions (both public and private) reduce labour supply, while others maintain that pensions have little or no effect on work effort. However, labour incentive cannot be a major issue in the overall old age income security. It is usually possible to provide more redistribution only at the cost of weakened incentives (Orszag and Stiglitz 2001). That is, a certain degree of decrease in labour incentive is the opportunity cost for obtaining welfare, because its ultimate objective is not increasing labour supply but promoting welfare. Orszag and Stiglitz (2001) conclude that there is no simple dominance of one system over another in terms of labour market incentives.

Nonetheless, one of the reasons why the Bank focuses on the superiority of DC schemes is due to its labour-market incentive. James (2001) points out that a core rationale for the multi-pillar recommendation is that DC provides good labour market incentives, especially regarding retirement age. The World Bank (1994) claims that because DC schemes do not have any incentive to induce early exit they are superior to DB schemes, criticized due to its labour disincentive. The DC scheme, which is closely related to contribution and benefit, causes employees to work more. In some DB schemes, for example the previous public earnings-related pension in Sweden, additional labour over a given period of time (30 years) does not affect pension benefits at all. Moreover, the expansion of early exit has urged members to retire early even if they had the capability to work longer. That is, some DB schemes have had negative effects on labour incentives. Existing DB schemes have aggravated the dependency ratio and worsened pension financing. On the other hand, when the relationship between contributions and benefits is close, such as in a DC scheme, early retirement is likely to mean reduced pension benefits. Disney (2007) and Wise (2007) suggest that departure from actuarial neutrality in terms of retirement incentives may have adverse effects on the activity rates of older people and Feldstein (1998) also indicates that DC schemes are superior to DB schemes because the former minimizes deadweight loss. There seems to be universal consensus regarding the ineffectiveness of the existing DB schemes in terms of labour incentives. Moynagh and Worsley (2004) also indicate that the move from DB to DC will encourage workers not to stop working because they will have a stronger incentive to remain in employment in DC schemes.

However, the labour market incentive in pensions is a question of how to design the system rather than a question of whether DC schemes are superior to DB ones. Badly designed pension schemes, whether public or private, can adversely affect labour supply (Barr 2001), but a system designed without establishing the ceiling of number of contribution years while considering the entire contribution period in calculating pension benefits would help to resolve the disincentives of the DB scheme. In other words, if it is concluded that the DB scheme reduces labour incentives after comparing a badly designed DB with a DC, it would be wrong. The DB scheme may also eliminate labour disincentives by system design, which means that the transformation towards DC is not the necessary and sufficient condition to eliminate labour disincentives. Accordingly, the real issue of labour incentives in pension is not whether benefit assessment method is DB or DC, but how to design the benefit structure in each scheme without distorting the labour market.

Instead of simple comparisons in terms of labour incentives between the DB and DC schemes, the focus should be whether a certain system is favourable in current circumstances. This issue is mainly dealt with in occupational rather than public pensions because this phenomenon is conspicuous in occupational pension and because, as McGillivray (2007) indicates, public pensions in most developed countries are still DB schemes. As mentioned in chapter 2, since the Second World War the typical worker stayed in one job for one's entire working life. The existing designs of DB plans were well-suited to the environment then. However, after the transformation from Fordism to post-Fordism (Burrows and Loader 1994), labour mobility has increased very rapidly, and so the DB occupational pension designed on the concept of a lifetime job had an effect on reducing labour immobility. In other words, defenders of DB plans pursue the interest of well-vested 'insiders' only at the cost of those of marginal 'outsiders' (Engelen 2007). It cannot be solved in specific system designs, which is a fundamental problem that occupational DB schemes have. The members who have had the same earnings patterns and paid the same contributions will obtain quite different pension benefits according to the number of changes in occupations. This reduces the fairness of old age income security, and the increase in nonstandard workers to comprise over one-third of the total workforce (Bajtelsmit 2007) makes it unsuit for modern labour markets. The only way to ensure that there is no impediment to labour mobility is through full transferability of accrued rights between pension schemes (Barr 2001), but it is contradictory to the philosophy of occupational pensions based on differentiated system designs. In other words, if pursuing a standardized system design, occupational pensions should be changed into public earnings-related pensions. After all, the recent increase in labour mobility undermines the rationale of DB occupational pensions. In contrast, the DC scheme is likely to solve the problem of fairness, which the recent increase in labour mobility causes, in terms of old age income security through new methods such as individual accounts (Barr 2001).

Although the DB scheme is still the dominant risk sharing method in public pensions (McGillivray 2007), DC scheme in Western old age income security has been increasing (Clark 2003b; Engelen 2007; Munnel 2007; Sunden 2007), in particular in occupational and personal pensions. In addition to labour incentives, this tendency is very important in redistribution, another major issue in pension debates because as De Deken, Ponds and Van Riel (2007) indicate, it means a sort of paradigm shift that the collective risk-sharing is transformed towards individual risk-taking, which requires the restructuring of redistribution in pension debates.

Redistribution

Barr (2004) indicates that poverty relief is one of the main objectives in pensions, which means that pensions pursue redistribution. Redistribution is extremely complex and there are the numerous types. Moreover, it is fundamentally a value-oriented issue and can be assessed very differently. Many in the twehntieth century such as Rawls (1971), Nozick (1974), Arther and Shaw (1978) and Harsanyi (1953) suggested different principles in terms of the correct redistribution.

Redistribution is a multi-dimensional concept that can be classified in the following manner: redistribution over the life cycle; redistribution from rich to poor; redistribution from young to old; redistribution from men to women; redistribution between household of different size. According to the focus, the effects on redistribution can be very different and a system design which increases a certain redistribution effect may decrease other redistribution effects. This chapter cannot deal with all issues of redistribution and, according to the classification of Schmähl (2000; 2002), two types (redistribution over the life cycle and redistribution from the rich to poor) are examined here. Schmähl (2000; 2002) classifies it as intertemporal redistribution and interpersonal redistribution. As table 3-3 indicates, it is the classification that makes use of DC and DB scheme.

Table 3-3 Goals and Types of Redistribution

Type of redistribution / Goal	Interpersonal redistribution	Intertemporal redistribution
Avoiding poverty	Flat-rate pension means-tested or income transfer payment (A)	Minimum pension based on contribution payments (B)
Income-related	Social insurance based on weak contribution-benefit link (C)	Social insurance with strong contribution-benefit link (D)
	Defined benefit ↔	Defined contribution

Source: Schmähl (2002:18)

In principle, intertemporal redistribution (over the life cycle) appears to be a function of individual income smoothing rather than income redistribution. (B) can be understood as a basic pension scheme under the flat rate contribution/ benefits, while (D) seems similar to general savings or private pensions without intragenerational redistribution. They are type of insurance schemes that regard longevity as a risk, which pursues redistribution based on actuarial principles from members with short lives to those who live long ones. The current tendency towards the DC scheme seems to strengthen actuarial principles because every program in the developed countries in practice contains some departures from 'actuarial fairness' (Disney 2007). It is not clear whether actuarial principles mean fairness. Considering that European social policy has pursued the Rawlsian ethos rather than paretian principle (Esping-Andersen 2002a), the actuarial principle, an economic perspective, which set the paretian principle as a top priority does not seem reasonable. As Esping-Andersen and Myles (2007) indicate, beginning with actuarialism is like putting the cart before the horse. In reality, overemphasis on actuarial principles in pension debates has many problems. For example, if the expected life span of the poor is lower than that of the rich (Barr 2004), actuarial principles can cause regressive redistributions. Thus, a hasty conclusion that actuarial redistribution is fair is not correct; overall redistributive effects are complex and results are far from definitive. The actuarial principle (intertemporal redistribution) is a small part of the entire redistribution concept and its excessive emphasis could cause the essence of redistribution to be distorted. After all, the core of redistribution in pension reforms should be interpersonal redistribution.

(A) pursues more direct redistribution from the rich to poor. It can be designed in different ways, including: the means-testing pension in Australia, the (previous) citizenship basic pension in Sweden, the (current) minimum pension guarantee in Sweden, and contributory basic state pension schemes in the UK and Switzerland. Each scheme can be also designed differently. It cannot be easily said whether a certain scheme is the most redistributive. For example, the flat benefits seem to have high redistributive effects, but if the upper ceiling of contribution is low like the UK, the effects may be low. In contrast, even though benefits have (weak) earnings-related characteristics, if there is no ceiling for contribution, like the Swiss basic pension, the redistributive effect would be very high. In addition, even if redistributive effects are large, the means-test is clearly an inferior scheme as it causes stigma and allocational distortion (Sen 1995).

(C) can be also classified very comprehensively, corresponding to public earnings-related pensions, NDC and many DB occupational schemes. These schemes explicitly pursue income smoothing, another objective of pensions (Barr 2004), but it can also have some redistributive effects according to various system designs.

The issues of redistribution on the basis of classification by Schmähl (2000; 2002) were examined. However, his classification does not contain comprehensive characteristics in terms of redistribution and omits generational redistribution, an important type of redistribution. In fact, generational redistribution happens not through benefit assessment but through financing. However, it is embedded in all parts in the above table except for (D). For example, in the flat-rate basic pension under the PAYG, different demographic structures are bound to change contribution rates, which is a sort of generational redistribution. Likewise, redistribution in pension debates is a very complex phenomenon which happens in very different dimensions and cannot be explained in a simplified manner.

There are a lot of issues in terms of redistribution that is omitted above, but the next two issues should not be ignored. The first is redistribution between men and women. The majority of poor older people, indeed of all older people, have always been and continue to be female (Thane 2007). Considering that private pensions are unfavourable to women (Ginn 2003), current pension reform that raises the significance of private personal savings runs the risk of exacerbating an already visible gender gap in the future income security of elder men and women (Clark and Whiteside 2003). The next issue is the redistribution through tax expenditures. These often make use of the expansion of private pensions and seem to be a sort of privilege to supplementing old age income, but they are a major mechanism for regressive redistribution. Agulnik and Le Grand (1998) indicate that at least half of the tax subsidies on contributions alone goes to the richest 10 percent of tax payers, with a quarter going to the top 2.5 per cent. Curry and O'Connel (2004) insist that the extra pension income generated by tax relief on pension contributions may be offset by the means-testing trap. After all, as Sinfield (2003) indicates, tax relief is not a 'victimless privilege' as it is often taken from people who are not rich.

Conclusion

Existing DB schemes increase the financial cost of employers (or government) for the sake of the old age income guarantee of members while the DC schemes can cause instability because they do not guarantee old age income of members. However, as mentioned above, DB and DC schemes are not opposite concepts, in principle or in practice. While the DC scheme can implement the old age income guarantee of members through the minimum return guarantee, the DB scheme can decrease the financial cost of employers (or government) through adjustment of the earnings ratio. Of course, even though the guarantee is not perfect, it does prevent any one entity from bearing all risks.

Consequently, restructuring of risk sharing is not a question of choosing between the DB and DC schemes but of who, what and how to guarantee. In contrast to private or public and PAYG or funded schemes, the DB or DC scheme is not the opposite benefit assessment as mentioned above. That is, their ambiguous qualities induce the two benefit assessment methods to be reconciled and it seems to be in a similar context that both the Bank and ILO set the NDC as a second-best policy. The Bank, which stresses the DC based on actuarial principles, can accept it and the ILO, which focuses on the DB, can regard the NDC, a de facto DB scheme, as a second-best policy. This thesis does not insist that the NDC should be an ideal alternative but that the issue surrounding risk sharing (or benefit assessment) should focus on how to guarantee unstable old age income or excessive expenditure. This demands an examination of 'fairness', a fundamental issue in income redistribution.

Public vs. Private

Many recent arguments about public/private management have been mixed up with the financing method - PAYG or funding - and the risk sharing method (benefit assessment) - DB or DC. Many others, such as Ebbinghaus (2007), indicate that there has been a tendency towards 'privatization' in pension reform but this 'privatization' often includes not only private management but also funded financing and DC benefit assessment. That is, the meaning of privatization has often been used to contrast with existing public pension - PAYG DB - scheme. Thus the motto of 'strengthening private pensions' that the Bank suggests is also meant to include the funded or DC scheme as well as private management. Considering that the majority of private pensions (occupational pensions) in European countries have been DB schemes, the motto of 'strengthening private pension' is not likely to indicate existing private pension (occupational pension), but instead the privately-managed funded DC scheme. After all, although whether a pension is private or public determines the main body of its management, this is frequently mixed up with financing or benefit assessment.

Changes in Public-private Pension Mix

In fact, the classification of the main body in old age income provision is more complex than that between the public and private provision. According to Turner and Watanabe (1996), Bodie and Mitchell (1996) and Pestieau (1992), as the main income source for non-working older people, many scholars label the social security provided by the government, the occupational pension provided by employers, and household saving as the 'three legged stools'.

Historically, the government was not the first main body in old age income provision. The first pension in human history was devised for medieval Catholic Priests, which shows that the schemes by occupational organizations have the longest history in the provision of pension benefits. Thane (2000; 2007) and Johnson and Thane (1998) show that, prior to the introduction of the public pension in the early twentieth century, pension schemes that the companies and local societies provided were widespread. While local society pension schemes provided benefits at subsistence level, occupational pensions have been used historically to buy the loyalty of the workforce in order to discourage job mobility and reap the returns on investments in schooling and training (Engelen 2007; Jackson 2003).[5]

However, voluntary provision prior to the introduction of public pensions had not been universal and government intervention was necessary. The introduction of public pensions in Europe in the late nineteenth or early twentieth centuries instituted the role of the state as a main provider of pension benefits. The dominant pension schemes in Western countries have been public pensions, and the size of the occupational pensions in overall retirement income was relatively small even though the development of occupational pensions varied across countries (Behrendt 2000).[6] In addition, private pensions in Western countries mean occupational pensions (Shalev *eds.* 1996) and personal pension has only been developed in special cases such as in the UK or Switzerland in the late twentieth century.

However, since the late twentieth century, this tendency has changed. At first, Chile in 1981 abolished the existing public pension system and carried out a sweeping reform to transform into a personal pension scheme to be operated privately. Afterwards the World Bank (1994) suggested private pensions as an alternative for solving the 'unsustainability' of current pension schemes. As mentioned above, many private schemes (occupational pensions) are generally DB, underfunded or book reserve schemes which are related to internal investment without funding. By the way, the Bank broke the fixed notion that private pension equals occupational pension and started to treat personal pension as a typical private pension scheme. To the Bank, which tends to focus on the economic elements and investment, labour incentives and actuarial principles in particular, personal pension schemes, in the form of a funded DC scheme, appeared to be superior to the traditional private pension (occupational pension). Thus, the Bank tried to transform the notion of public-private mix from the traditional choice between public and occupational pension towards a choice between public and personal pensions. Accepting the functions of public pensions such trials, aim to transfer the collective-risk sharing in occupational pensions towards individual risk-taking in personal pensions. That is, while the traditional three-tier pension scheme consisted of the public, occupational and personal pension - whose size relatively very small – prior to the Bank's publication in 1994, the World Bank (1994) and Holzmann and Hinz (2005) classify the multi-pillar pension scheme into the public, mandatory private and voluntary private pensions.

Meanwhile, the ILO does not suggest such a paradigm shift and, as mentioned above, Gillion (2000) and Gillion *et al.* (2000) from the ILO emphasize the proportion of public pension in the entire pension system. The ILO, which claims that the first and second pillar should be operated in public, suggests that the first pillar should be provided as basic pension and that the second pillar should have the income replacement rate of 40-50 percent. Considering the current level of private pensions in

European countries, the ILO also appears to agree with the increase in private pension, but it still suggests that public pension schemes occupy two-thirds of the national pension provision.

However, as Orenstein (2003; 2005) indicates, the influence of the Bank in pension policy has been increasing, and such changes altered even the meaning of the traditional public-private mix. Considering that pensions represent institutionalized compromises rooted in agreed principles of social justice (Whiteside 2005), the abolition of the traditional private pension - based on the loyalty of the workforce - and a transition into personal pension - based on the pure savings function that the Bank espouses - represent not only the transition of the main body in the pension provision but also a paradigm shift of the old age income security itself. As the Bank argues, occupational (DB) arrangements have lost appeal for many reasons that include the need for greater mobility of labour. However, there has also been a more general trend towards the transfer of risk from employers to employees (Laboul and Yermo 2007), and the current neo-liberal trend, which includes reluctance of companies in spending additional expenditures due to new pressures such as globalization, seems to help change main private pension from traditional DB occupational to DC personal pension schemes.

From the perspective of pension beneficiaries, private or public pension may not be an important issue if considering the level of pension benefit or real welfare. According to Barr (2001) and Esping-Andersen and Myles (2007), public and private pensions are simply alternative ways for working-age individuals to register a claim on future production. In addition, the existing fixed idea - private increases inequality (Esping-Andersen 1996) - is negated by Esping-Andersen (Esping-Andersen *et al.* 2002). Rein and Turner (2004) also show that the degree of inequality is not high in some countries that developed private pensions. Next, let's examine the rationale and criticisms why some support the expansion of private pension while others prefer public responsibility.

The Rationale and Criticisms in Private Pensions

As mentioned above, the concept of 'private pension' is still confusing but, none the less, we should understand why the Bank and ILO support private and public pensions respectively. Even prior to the radical suggestion of the Bank towards personal pensions,[7] the dominant private pension (occupational pension) was a target of criticism for social policy scholars.

This reflects their negative perspective towards private occupational welfare.

There are several reasons for this. First, the private plan is negative in terms of guaranteeing civil rights. Secondly, private plans conflict with state welfare (Esping-Andersen 1996). Esping-Andersen (1996) indicates that the traditional social democratic model will define the relationship between private and public social protection in zero-sum terms. However, according to Rein and Wadensjö (1997), the relationship between public and private pension is more complex, with three patterns: (1) cross over towards the occupational pension; (2) offset by the increase in occupational pension and the decrease in public pension; and (3) parallel development. What is more important is that, despite such controversies, there has recently been a clear tendency towards private pension schemes in the developed countries (Myles and Pierson 2001). Moreover, the World Bank (1994) and Holzmann and Hinz (2005) prefer personal pensions to occupational pensions because they believe that the former are better under the current socioeconomic circumstances. If so, why does the Bank support the paradigm shift towards personal pension-oriented private pension schemes?

First is the problem of individual selection. Theoretical economists prefer to expand individual choice in terms of goods and services. According to the Life-Cycle Hypothesis theory of Modigliani and Brumberg (1954), individuals make an investment on the grounds of voluntary and rational behavior. Accordingly, they suppose that the optimized old age income can be achieved not by public compulsion but by rational individual choices through personal pension schemes. Secondly, privately managed companies have an incentive to keep track of cost while publicly managed programmes may omit some inputs and may receive others at below-market rates (World Bank 1994). Public pension schemes are short of incentives to pursue high earnings rates and so they are bound to have a lower earnings rate than private pensions, which invest actively. Moreover, on empirical grounds, the World Bank (1994) insists that many developing countries have suffered from huge administrative costs when managing public funded pension schemes. That is, public pension schemes have fewer incentives to decrease administrative costs than private ones. Third, private pension schemes have a higher earnings rate (World Bank 1994). Palacios and Whitehouse (1998) insist that high earnings rates under private schemes are an important reason for pension reform. That is, in theoretical economics, interest rates are bound to be higher than economic growth rates (Abel *et al.* 1989), which is a firm foundation that they prefer personal pension schemes to PAYG public ones.

However, these arguments have been criticized, and the following are typical of such criticism. First of all, with regard to the individual choice, vast amounts of empirical data do not support the Life-Cycle Hypothesis theory that people act rationally (Legros 2007). In addition, insurance products are difficult for the general public to understand. Munnel (2007) indicates that most individuals lack the experience or training to make wise savings, investment, and withdrawal decisions and, according to Orszarg and Stiglitz (2001), more than half of all Americans do not know the difference between a stock and a bond. The experiences of the UK in the 1980s and 1990s also show that the expansion of individual choices did not result in the correct choices (Blake 2003). The effect of financial education from childhood is not clear by Creighton and Pihhott (2007). While Bernheim *et al.* (1997) suggest that there is some evidence that this can be effective, Munnell (2007) and Herbertsson (2007) indicate that financial education might help some but that research suggests the gains are modest. If individuals can be subject to too much choice, their interest would be negative (Sethi-Iyengar 2003).

Second, it is true that personal pensions have more incentives to cut expenditure such as administration costs. However, under personal pension schemes, costs tend to be significantly higher because of advertising expenses, loss of economies of scale, competitive returns on financial company capital, and various other additional costs (Orszarg and Striglitz 2001). Thus Orszag and Stiglitz (2001) argue that a well-run public pension system could deliver results that are as good as, or better than, those produced by a well-run private system. In particular, because a pension requires a very long period of investment, a small fee will become a huge expenditure in the long run. According to Creighton and Piggott (2007), a 1 percent asset charge over 35 years is equivalent to an ongoing contributions charge of around 22 percent. Many fees and charges increase administrative costs and Blackburn (2006) has estimated that administrative costs can amount to 20 percent of total savings, while penalties for switching amount to as much as 40 to 50 percent. In addition, according to Murthi *et al.* (2001), in the UK the historical level of cost for a typical personal pension account holder is assessed to be over 40 percent. Gill *et al.* (2004) and Diamond (1993) also point out that management fees have remained high in almost all personal pension schemes in the Latin American countries. It is clear that poor-managed public pension schemes cause unnecessary waste but the estimate of administrative cost in some public pensions by the World Bank (1994) is overestimated and wrong (Orszarg and Stiglitz 2001). Moreover, well-run public ones can be cost-effective by using the existing infrastructure and the individualized private pension schemes, which require marketing costs or various other additional costs, are bound to provoke manifold administrative problems.

Third, it may be true in an efficient economy that real interest rates exceed growth rate (Palacios and Whitehouse 1998) and, as Creighton and Piggott (2007) indicate, investment returns will prove to be a crucial determinant of the success and spread of personal pension schemes. However, when dealing with the high earnings rate of private pensions, administrative costs as well as high investment earnings rate should be considered simultaneously. Orszag and Stiglitz (2001) indicate that the analysis by Palacios and Whitehouse (1998) is not reasonable when considering administrative and transition costs. No matter how high the earnings rate of the direct investment, the profit of the earnings rate might be offset if administrative cost amounts to 20-50%, as noted above. In addition, risky assets such as equities may make high profits but are likely to be volatile. Although according to the theories they are believed to be stable in the long run (Creightton and Piggott 2007), they are bound to create winners and losers through the results of asset management, and it is doubtful that it is appropriate to the basic principle of old age income security.

Evolution of the World Bank in Terms of the Private Pension

As noted above, individualized personal pension schemes, which the neo-liberal organizations such as the World Bank or neo-classical economists espouse, became a target of theoretical criticisms, but the criticisms were not refuted. Such criticisms were not stopped in academia and, empirically, the transaction costs of the Chilean or UK schemes, where individualized personal pensions were adopted, is much higher than those of Bolivia or Sweden (Herbertsson 2007). The Bank finally accepted these criticisms, and James *et al.* (2001) and Holzmann and Hinz (2005) have modified their arguments. Even though they have not changed their preference towards private pensions, the individual principle, the expansion of choices and the independence of the government in the personal pension scheme were dropped of their own accord. Fox and Palmer (2001) and James *et al.* (2001), who represent the position of the Bank, demonstrate the change in the Bank's perspective.

The administration of personal pensions, as James *et al.* (2001) indicate, is divided into the institutional approach (partially centralized) and retail approach (decentralized). While under the institutional approach small individual accounts are aggregated to form large pension pools with fees negotiated on a centralized basis, the retail market approach has an individual and decentralized basis, with many competing fund managers and worker choice over different funds. Accordingly, the institutional approach can decrease unproductive cost and minimize expenses through economies of scale in record-keeping and communication costs.[8] Herbertsson (2007) also points out that group or employer arrangements for supplementary pensions avoid many transaction costs and have considerably lower administrative costs than individual accounts, and similarly the OECD (2001c) concludes that the institutional approach is worth serious consideration.

In addition, Holzmann and Hinz (2005) indicate that most difficulties arise in the process of deciding how to integrate the flow of money and the flow of data at the national level and that leaving both flow decentralized would seriously undermine the effort to improve compliance and the efficient collection of pension contributions by improving the governance structure under the existing scheme. That is, even though there is still enough ground for controversy between the proponents of personal pension schemes, as to whether money should be managed in the centralized or decentralized way, they recently changed their point of view in terms of the data management into the centralized way to increase efficiency throughout the 'clearinghouse'.[9] This means that they admit that decentralized management of data is likely to incur huge costs. Both the Premium Pension Authority (PPM), which was introduced to manage the Swedish individual account scheme, and the National Pension Saving Scheme (NPSS), which will be introduced in the UK, are attempts to reduce transaction costs through centralized management.

In addition, while the World Bank (1994) criticizes public management in terms of pension funds, Holzmann and Hinz (2005) indicate that central public funds appear to have become more feasible with recent developments in Canada and Norway, which have created some optimism among economists about the usefulness and feasibility of central funding (Orszarg and Stiglitz 2001). That is, in contrast to the previous Bank position, Holzmann and Hinz (2005) point out that the capacity to pool risks across individuals and efficiencies attained from the centralized collection of contributions, administration of record and management of investments are advantages of public pension schemes. Based on this, they suggest that the improvement within the current public pension infrastructure can be better than a radical change towards personal pensions.

Among the plans by the Bank which have dominated the controversy in terms of pension reform, the 'administration' part came under greatest attack by the opponents compared with financing or risk sharing. The plans by the Bank in terms of the financing or risk sharing were also criticized by its opponents, but the expansions of the funded scheme and the DC scheme are reasonable alternatives which clearly have some advantages. In contrast, the suggestions of the World Bank (1994) in terms of the 'administration' have been criticized substantially and could not be supported any longer. At last, the Bank largely modified its approach to the issue of 'administration'.

To sum up, although both organizations' positions have common features that the proportion of private pension should be increased, the World Bank and ILO have supported the reform centred on private pension and public pension scheme respectively. However, as fatal disadvantages of private management have been found in the pension reform debates, the Bank, which had strongly criticized public management, also started to focus on the advantages of public management.

The Legitimacy of Government Intervention

Except for a very few such as Blinder (1988), who argue that government should not provide pension at all, the majority support the concept of public pension management. The World Bank (1994), which promotes radical growth in private pensions, also supports the maintenance of public pensions to achieve the appropriate redistribution in old age income security – even though it suggests reductions in the size of public pension scheme. If so, except for normative problems such as redistribution, what are the advantages of public pensions?

Even though car insurance is mandatory, it has been generally operated in the private instead of the public sphere. This is because car insurance could fulfill the preconditions for establishing private-managed insurance without government intervention.[10] Pensions also meet these preconditions as mandatory private pensions could replace public ones. Accordingly, we can find some (voluntary) private pension schemes in developed countries even though they are small in scale. In contrast, unemployment insurance cannot meet these preconditions and so, private insurance for unemployment does not exist anywhere in the world. To mitigate the empirically documented tendency to undersave (Creighton and Piggott 2007), the introduction of mandatory private pensions rather than public pensions would be better. However, private pensions cannot solve the loss in benefit from high inflation. No private pension can insure against inflation completely, as only governments can do so (Barr 2001; 2004). However, as noted above, inflation is guaranteed in PAYG schemes, and therefore even a public pension, if it is funded, cannot insure against inflation. However, most public pension schemes in Europe are still managed as PAYG (McGillivray 2007), and this means that in most European countries these pension benefits can be guaranteed against inflation. Financing was dealt with in the previous section, but it is also closely related to administration. If it is designed in a funded scheme, public pensions would also face inflation risk similar to private pensions. However, considering that Börsch-Supan (2004a) indicates that the claims on future benefits are bound to be guaranteed not by real capital but by governmental promise, private pensions, which the government cannot guarantee, are a less stable means for old age income security than funded public pension schemes.

In addition to inflation there are some problems that personal pension schemes cannot solve. For example, personal pensions require much more complex prerequisites than public ones. While public pension can be introduced in countries where an annuity market is not developed, private pensions cannot be adopted in the same situation. If the expansion or introduction of personal pension aims at developing the annuity market, it is to show that its main objective is not old age income but the expansion of the financial market. Moreover, Gill *et al.* (2004) conclude that there is insufficient evidence that clearly shows whether the expansion of personal pension in the Latin American pension reform fosters financial market growth. In addition, private pensions are systems that need more developed social infrastructures than public ones.

Table 3-4 Essential Elements in Pension Reform

Essential element	Essential for state scheme	Essential for private scheme
Public-sector prerequisites		
Fiscal sustainability of state scheme	√	
Political sustainability of pension reform package	√	√
Administrative capacity to enforce taxes/ contribution	√	√
Capacity to maintain macroeconomic stability	√	√
Effective regulatory capacity		√
Private-sector prerequisites		
Sufficiently well-informed population		√
Adequate public trust in private financial instruments		√
Financial assets		√
Financial markets		√
Private technical capacity		√

Source: Barr (2001:127)

As table 3-4 indicates, private pensions require a lot of preconditions. The transformation towards a private scheme without prior fulfillment of these preconditions could lead to many negative effects. One of the reasons why Switzerland and the UK have developed personal pension schemes is that they have developed financial markets which could provide these prerequisites. Thus, public pensions, which can be operated by using the existing governmental structures, appear more effective in the management.

In addition, governments have the responsibility to supervise private pension schemes through pertinent regulation. As such, they should fill roles similar to a public pension scheme. In contrast to general goods, information is asymmetric in the pensions and insurance markets, which raises costs and creates mismatch problems. A way to address the problem is to regulate (Herbertsson 2007).[11] After all, private pension schemes paradoxically require far more consideration than a centrally administered PAYG system (Creighton and Piggott 2007), and the governmental role has always been important even in private pension schemes (Whiteside 2007).

Regulation

The focus on regulations in pension management is not a new phenomenon since the expansion and spread of personal pensions, and each country has regulated its own occupational pension schemes. Prior to the examination of regulations in terms of personal pensions, let us briefly view regulations in terms of traditional DB occupational pension schemes.

State regulation on occupational pension was minimal until the last decades of the twentieth century (Laboul and Yermo 2007). Starting with the United States where wide-range pension regulation was introduced in 1974 (Employment Retirement Income Security Act, ERISA), nearly all OECD countries, except for Sweden - where the friendly societies are not subject to specific pension regulation - now have a specific private pension law that recognizes occupational pension arrangements. While public pension provision does not require special regulation because the government as an insurer only has to manage (investment), operate, and take responsibility, occupational pensions need pension legislations to protect the rights of members and other beneficiaries as well as to promote the financial security of the plans (Laboul 1998).

However, there are many different approaches concerning the regulation of occupational pension schemes over the world, and they are divided into the Anglo-Saxon and Continental European models. Anglo-Saxon countries have generally allowed a much greater degree of involvement of employers in the administration of pension funds than have Continental European countries. Despite the same DB scheme, independent financial institutions with their own governance and administrative structures in the Continental European countries (Denmark and Iceland) separate from that of employers manage pension fund, and such pension funds must have a solvency margin similar to that of life insurance companies and, from the plan sponsor's perspective, these are DC contributions (Laboul and Yermo 2007). On the other hand, in Anglo-Saxon countries employers are fully responsible for rectifying underfunding situations and decreasing risk by introducing the pension guarantee agency. In addition, it is difficult to supervise the occupational pension schemes in Anglo-Saxon countries because single employer plans are the norm. In contrast, in Continental European countries, prevalence of industry-wide schemes facilitates more regular supervision and, specifically, proactive supervision. Accordingly, while there are only several dozens to a hundred occupational pension funds in Continental European countries, there are around 100,000 and 700,000 pension funds in the UK and the US respectively. Such Anglo-Saxon (DB) occupational pension schemes are vulnerable to such current socioeconomic changes as those in the labour market.

There are more issues in terms of the regulations in personal pensions than in occupational pension schemes. Regulations in personal pensions are also important in protecting accumulated contributions and reducing the risks associated with the investment decisions of pension funds and insurers (Herbertsson 2007). In contrast to occupational pension schemes,[12] however, personal pension schemes need more regulations, such as fee or information disclosure,[13] especially for decentralized personal pensions. What is noted is that the regulations under such decentralized personal pension schemes seem to be similar to those of the Anglo-Saxon occupational pension schemes. The Anglo-Saxon occupational pension schemes, which are difficult to supervise due to individualized fund management and which require many regulations, seem to have many similarities to the fragmented and individualized personal pension schemes in pension management.

The tendency to strengthen private pensions by the World Bank appears to originate not from the crisis of public pension but from the crisis of Anglo-Saxon occupational pension schemes. The fragmented DB Anglo-Saxon occupational pension scheme, which employers should take more responsibility, is a system that is bound to increase company costs and, therefore, contravenes neo-liberal ideas. The USA and UK already developed personal pensions or DC occupational pension schemes in the 1970s and 1980s and, under neo-liberal globalization – which means the process that is standardized towards Anglo-Saxon institutions - the World Bank in 1994 tried to make the paradigm shift towards personal pension rather than the widespread occupational pension scheme. To the Anglo-Saxon countries the transition from (DB) occupational pension towards personal pension (or DC occupational pension) did not require a lot of additional costs or changes in regulations. Their size of risk-pooling in the existing occupational pension schemes has been very small and decentralized. Accordingly, the transition towards personal pension or DC occupational pension schemes, in an effort to decrease financial costs for employers, has not presented big problems. That is, such changes would maintain the existing funded financing and to change the benefit assessment only from DB into DC scheme, meaning a rapid decrease in employers' contributions, under the existing decentralized management.

In contrast, the abolition of the existing occupational pension and the introduction of the personal pension in Continental European countries represent very radical changes which require many administrative alterations. Their occupational pension schemes are generally ones that do not need a lot of fund accumulation (except for the Netherlands or Switzerland) and where big external organizations manage their funds. Even though it is a DB scheme, it is somewhat similar to a DC scheme to employers as mentioned above, and so their financial pressures are not as high as in the Anglo-Saxon schemes. Management through big external organizations can benefit from economies of scale, does not need lots of administrative costs, and does not require various supervisions of the pension funds. Thus the personal pension schemes, which the World Bank (1994) designed on the basis of the existing private pension scheme of Anglo-Saxon countries, cannot correspond with those of Continental European countries. Accordingly, privatization without consideration of the institutional legacy in each country has not been accepted except for in some countries in which the Bank could manipulate. In addition, the individualized private pension schemes in 1990s, which were designed under the neo-classic economic theory, are ineffective systems that need new regulations and high administrative costs. After all, Holzmann and Hinz (2005) of the Bank changed their positions, to consider the institutional legacy of each country and the appropriate regulations instead of their abstract modelling.

Conclusion

EU Members states have encouraged private supplements to bolster shrinking state provision (Clark and Whitehouse 2003). However, this trend has been based on the institutional legacy of each country, and it is different from the Bank's plan – strengthening private pension towards personal pension schemes. None the less, many countries have increased their numbers of private pension schemes, combined with the financing and the benefit assessment method, and this tendency will be likely to last. The World Bank and ILO, which have different philosophies on the main management body, agree with this trend. Of course, after the Bank began to regard the NDC scheme as an alternative reform type, its emphasis on private funded schemes seems to decrease. However, as Holzmann and Hinz (2005) indicate, the private (funded) scheme will continue to be claimed as a benchmark in the Bank.

The development of private pensions does not mean the discontinuing of government intervention. The transformation towards private pensions requires changes in the government's role rather than the disappearance of government responsibility. When seen from this angle, the division between 'state' and 'market' (and hence between 'public' and 'private') is less clear than many would have us believe (Clark and Whitehouse 2003). Effective government is essential for both state and private schemes (Barr 2001).

Conclusion

This chapter examined the three major issues in pension reform debates. In financing there are no confirmed evidences that the existing PAYG is clearly inferior to funded scheme for economic growth. The essential questions of benefit assessment methods (DB or DC) are how, what and who to guarantee, and the two schemes seem to be reconciled in this respect. Also, government management is not always inefficient and private pensions also require a lot of government intervention.

The above analysis shows that the effects on old age income security or economic growth of the World Bank's blueprint are not significant. If so, why have neo-liberals stuck to private funded pensions based on actuarial principles? Do they want to make use of pension reform to maximize neo-liberals' advantages as mentioned in chapter 2 instead of old age income security? The following chapters examine how the pension reform that neo-liberals pursue has been realized in Korea.

Notes

[1] Samuelson (1958) theoretically proves that under PAYG, all generations obtain more benefit than under contribution if real income increases constantly (technical progress and constant population increase).

[2] Barr (2004) points out that while PAYG has the advantages such as (1) the minimization of disturbance to labour flexibility; (2) fast formation of the complete pension right; (3) the protection from the inflation; and (4) the real value increase in harmony with the economic growth, there are the disadvantages such as vulnerability towards demographical change - system dependency ratio. While the funded scheme is more resistant against demographical change in contrast to PAYG, it has disadvantages such as impediment to labour flexibility, long time required for the system maturity and weakness towards inflation.

[3] Intergenerational contract under partial funded scheme will be discussed in chapter 5.

[4] It is similar to the notional rate-of-return mechanism in the NDC system (Börsch-Supan 2004b; Börsch-Supan *et al.* 2007)

[5] Hannah (1992) indicates three factors behind the development of occupational pension. The first is the increase in life expectancy. It was difficult to expect anyone to live over 65 in the early 1920s, but now the need to prepare for life after 65 is increasing. The second reason is political. Diffusion, for increase in the number of the old age population who have the right to vote, and competition between the left and the right over the welfare state have heated the political drive for the relevant pension. The third is the increase in the group characteristic of employees.

[6] While some countries that introduced the Bismarckian pension to provide both the subsistence level and income smoothing had crowded out the existing occupational/personal pension, other countries which adopted the basic pension for subsistence continued to develop occupational or personal pension schemes.

[7] According to Orenstein (2005), prior to the report in 1994 the World Bank did not support a pension reform focused on personal pension schemes. In contrast, the book that Barr in 1993 published expressed concern regarding pension privatization.

[8] While the institution approach is cost-effective, it has potential dangers of the institutional approach, such as corruption, collusion, regulatory capture, decreased performance, incentives, rebidding problems and lack of flexibility (James *et al.* 2001).

[9] The 'clearinghouse' has come to encompass a variety of options on a spectrum that includes using a state agency to collect second-pillar contributions and allocating them among second-pillar funds, being an alternative record keeper, and being an exclusive record keeper and information agent for fund members (Holzmann and Hinz 2005).

[10] According to Kim Tae-Sung and Kim Jin-Soo (2001), mandatory private pensions have to fulfill the following conditions. The insurer should know the risk possibility of an individual and assess the premium on the ground for it; the risk probability of each member should be determined independently; the risk probability should be smaller that 1; there should not be adverse selection; the problem of moral hazard should not be big; and the members should have sufficient information on the insurance product they purchase.

[11] Another is to increase consumer knowledge through transparency and advice (Herbertsson 2007).

[12] Personal pension schemes do not have regulations that occupational pensions do. For example, while occupational pension should insure firm-default risk, personal pension does not do it.

[13] See Herbertsson (2007) or Herbertsson and Orszarg (2001) about regulations of personal pension schemes.

Chapter 4
Methodology and Methods

Analytical Framework

This research aims to analyze the political economy of Korean pension reform and to explain the development of Korean old age income security in the process. While analyses of developments in global finance, on the one hand, and of pension reform politics, on the other, have tended to remain academically separate (Whiteside 2007), it tries to integrate global finance with pension reform politics. In other words, this research examines the financial elements that a pension – in particular, funded schemes – is bound to contain under demographic ageing and globalization. At the same time, it deals with pension reform politics that focuses on actor-oriented or institutional-oriented approaches. This dynamic analysis starts with how the Korean capitalism and welfare systems have evolved in chapter 7 and, in chapter 8, how the idea and discourse on the Korean old age income security has been developed under a neo-liberal globalization and the explosive increase in welfare needs. Chapter 9 deals with normative issues such as the intergenerational contract, redistribution and so on. Prior to such critical analyses, the system design and pension fund of the Korean old age income security are described in chapters 5 and 6. Accordingly, this research is a case study, using the political economy approach as its main methodology, thereby comprehensively dealing with a political science approach and sociological approach in the context of global finance.

Political Economy Approach

There is controversy over the nature of political economy. While orthodox economics (neo-classical economics) regards its own theoretical approach - model-driven 'pure economics' - as political economy, the term 'political economy' that non-neoclassical (institutionalist, post-Keynesian, neo-Ricardian, radical political economy) and particularly Marxist scholars make use of is very different from that of neo-classical economics. To the latter, the main focal points of political economy, which have been discarded by neoclassical economics are the primacy of production over relations of exchange, value theory, social classes and the interrelationship between the economic and the political sphere (Mavroudeas 2006).

Accordingly, considering the main purposes of this research, it focuses on the latter perspective because it tries to analyze the complex socioeconomic interactions in terms of the Korean pension reform rather than to pursue economic determinism or a simplified model-driven analysis. To put it another way, it rejects a single factor type explanation in favour of a more detailed analysis. There are elements of truth in both economic and political approaches to an explanation, but this view combines both approaches together (George and Wilding 2002). No single conceptual tool can define this role, nor is there a closed door on the subject matter of enquiry. Accordingly, this research uses the term 'political economy' to refer to the interplay between economic, political and ideological forces in the nature of the Korean pension system evolution and reform.

The guideline 'steps' of analysis within a political economy perspective that Anderson (2004) suggests are as follows. First, analyses in political economy tend to defer, but not ignore, developmental, strategic and ethical judgments. This approach is in recognition of the fact that, on the one hand, many analytical questions do involve ultimate judgments and are 'normative', but on the other hand, such judgments are generally best informed by consideration of empirical information and rational argument. They then consider the historical and institutional context of the question under study, including possible assessments of the fragility or resilience of socioeconomic systems. Historical and institutional context is important, when the analyst - in the Marxist and institutional traditions - assumes that socioeconomic developments are significantly contingent on history. A researcher using a political economy approach will generally want to explain what particular histories and social structures bear on the analytical question, including considerations of the possible fragility or resilience of those systems. Third, they consider class power and distinct group interests involved in the question. Class analysis has been important in political economy, not only from the Marxist formulation but also from its classical origins. At the same time, powerful interests and the logic of monopoly must be identified. Relevant questions may be 'who benefits?', and 'which interests are advanced?'. Fourth, they tend to assume that there is an ideological argument, probably linked to group interests; so important concepts linked to those interests must be identified and discussed. Unlike the claims of 'positivism' in neo-classical economics, there is no pretence of philosophical 'neutrality' in political economy, nor are distinctive arguments - 'economically irrational' views - treated lightly or as simple caricatures. Many suggested accommodations simply disguise the underlying liberal arguments. For example, the World Bank claims of 'poverty reduction' and 'pro-poor policies' have simply been grafted on to old broad-based growth notions. These accommodations and their general claims - 'all benefit from economic growth' - must be scrutinized carefully. Fifth, there may be distributional questions which deserve attention, often rooted in social relationships. Many strategic, developmental and policy questions have distributional implications, yet these implications are often buried in liberalism's seductive but misleading inclusive language. Political economic analysis performs an important task in drawing attention to the distributional implications of social and productive relationships, and the ways in which effective group or class rights and interests are facilitated by social developments and policy changes. Finally, and after reviewing some or all of the above concerns, a considered judgment and a response to the question can be presented.

Current Research Trends Concerning Political Economy of Pension Reform

The political economy approach is not a standardized method and can be modified according to the research purpose or focus. Prior to dealing with the trend of the methodology in terms of political economy of pension reform, the analytical framework in terms of political economy of the welfare state - a more macro perspective - is briefly dealt with because the political economy of the welfare state has a much longer history than that of pension reform and because tracking its trajectory in terms of the political economy of welfare state may be able to help us to examine pension reforms.

As is well known, in recent years welfare state research has gradually shifted from studying welfare state expansion to studying the retrenchment (Green-Pedersen and Haverland 2002). The research of Wilensky (1975) and Esping-Andersen (1990), which dealt with the political economy of welfare states concerning their expansion, was not successful in explaining its retrenchment and so other research has emerged. Nevertheless, the welfare regime concept that Esping-Andersen (1990) suggests has influenced most welfare research[1] and such concepts have been comprehensively used to examine the welfare state or welfare systems. For pension systems themselves, both 'regime theory' and the earlier Bismarkian-Beveridgean classifications have been used, and new analyses have emerged to address the most recent reform pathways and the new 'pension regimes' (Myles and Quadagno 1996; Bonoli 2003; Bonoli and Shinkawa 2005). After all, although the welfare regime concept is not intended to explain the recent retrenchment of the welfare state, it cannot be denied that pension regime research through the method has some persuasive power.

Apart from the development of regime theory, a theoretical trend to explain the retrenchment of the welfare state is 'a new politics of the welfare state'. Pierson (1994; 1996) indicated the remarkable resilience of welfare state arrangement despite a climate of fiscal austerity. While the 'old politics' of welfare expansion is seen as a strategy of 'credit claiming' for highly popular policies, the 'new politics of the welfare state' is regarded as an attempt to avoid blame for unpopular ones. Once social policies have become established in a society, a powerful network of interests is likely to evolve around these arrangements trying to avert any efforts aimed at rolling back the welfare state. These client-based policy interest groups have to a large extent replaced left parties and trade unions as upholders of welfare objectives (Pierson 1996). Their impact on the success of governmental retrenchment efforts will primarily depend on the specific structure of welfare programs. The interest in individual structure - institution - of welfare programs causes each country to focus its own inherited legacy of the social policy program. Pierson (1994; 1996) also points out that the welfare state trajectories appear to be highly path-dependent rendering radical institutional change and sweeping retrenchment extremely unlikely. The relative strength of organized labor that Korpi (1983) or Esping-Andersen (1990) focused on has lost a great deal of its explanatory power.

However, pension research has traditionally shown trends from research on the welfare state. While studies aimed at classifying welfare states have tended to focus on outcomes, studies dealing only with old age pensions have typically concentrated on the institutional design of the various systems and on their evolution from a historical perspective (Bonoli 2000). Accordingly, it is the most typical research method to relate the specific pension design with pension finance, which is closely connected with demographic ageing. Due to the pension finance crisis (discourse) or pension pressure that each country faces, many Western countries have implemented pension reforms over the last 10 years. This is a different story from the path dependency that Pierson (1994; 2000; 2004) deals with in the new welfare politics and so, the idea of institutionally constrained change and of the conditions under which reform is possible has brought in a great deal of work on the political economy of pensions, that is, the negotiated influences underpinning pension reform success (Arza and Kohli 2008).

This research method, which examines system design and historical legacy, is popular in welfare state and pension studies. Recently, in research which deals with pension reform politics, the political-institutional approach - which makes use of the constitutions and political institutions, party and electoral system as well as voting results (Immergut and Anderson 2007; Bonoli 2000) - has been very persuasive. This approach seems to originate from the concern that the previous approach to pension research is no longer effective. It is thought that there are conflicts over pension reform between left- and right-wing parties, but in reality parties of the left have followed similar strategies to their counter parts on the right[2] (Hinrichs 2001). Bonoli (2000) finds that the presence or absence of veto points was critical for the passage of reform in Britain, France and Switzerland. Veto point theory[3] views the legislative process as a chain of political decisions taken in a series of political arenas (Immergut 1990; 1992). The veto point perspective is a useful starting point for understanding the dynamics of pension reform because it predicts the potential sources of resistance to reform proposals in any given political system (Immergut and Anderson 2007). The differences between countries in terms of the veto point are similar to the structural mechanism of policy decisions (Bonoli 2000). In countries such as the UK, which have the majority representation system, the mechanism is relatively simple, and it is difficult for the interest groups to participate in the decision. Thus, the ruling party can relatively easily pass a reform proposal according to its own design. In contrast, the plural political structure provides the interest groups with more opportunities to take part in the policy decision process, and so they can exercise their veto point and prevent the reform (Bonoli 2000).

In addition to the political-institutional approach, the actor-oriented approach is also an interesting political economy approach to explain Western pension reforms. Anderson (2001; 2006) argues that variation in the intensity of labour preferences concerning reform is an important variable in explaining differences in reform outcomes across policy sectors, and that European pension reforms make use of the strategy to give some roles to stakeholders - in particular, trade unions - to prevent 'blame avoidance'. According to Anderson and Lynch (2007) and Anderson and Meyer (2003), unions may be willing to accept modest cuts in future pensions that reduce privileges to a well-protected group if these reductions enhance the financial sustainability of the pension system and its capacity to deliver on its deferred wage promise. After all, given the fact that many European countries have implemented pension reforms despite political difficulty - pension reform leads to immediate losers while the winners tend not to support it because they will not realize any benefits until a long time later (Baccaro 2000) - Anderson (2000) and Palier (2002) explain that unions' approval or at least their acquiescence is likely to reduce the general political resistance against unpopular pension reforms.

In their pension reform research Müller (1999) and Schludi (2005) mix these two methods – an actor-centred institutionalism, which analyzes the interaction mode between actors and institutions.[4]

Political Economy of Korean Pension Reform and Welfare-Finance Nexus

As mentioned above, the new approach in terms of the political economy of pension reform seems successful in explaining Western pension reforms. However, it is doubtful that this approach can be applied in the Korean pension reform because as far as welfare policy including the pension is concerned, the Korean political systems has been poor at setting the welfare agenda and in designing policy (Kim Yeon-Myung 2007) even though recently this has been improving. No matter how effective the approaches that have been developed in the Western countries are in explaining Western pension reforms, it cannot be claimed that those approaches are likely to the best for analyzing the Korean pension reform. Here it is necessary to examine the alternatives that take into account Korea's historical socioeconomic background. First of all, applying the political-institution perspective to the Korean pension reform appears inappropriate for the following reasons.

First, there is immaturity and disorder in the Korean political system. Although the political-institutional approach to pension reform suggests that different political systems affect different implementations of pension reform, the basic assumption is that a political institution has its own coherent mechanisms. That is, it is assumed that the political parties in each country are divided by ideology and that political institutions, which each country has uniquely developed, interact through a predictable process. No matter how much the role of ideology in pension politics has decreased, the role of ideology basically is with regard to the mechanism between political parties, which are divided by differences in ideology. However, it is difficult to see such differences among the political parties in Korea. First, the divisions between the right and left in Korea do not originate from those of Western countries but from the differences in the national security posture, in particular, the relationship to the North Korea. Thus, the liberal party and the extreme right have pursued similar economic policies. For example, the liberal government in 2007 signed the Free Trade Agreement with the USA despite fierce opposition from labour unions and farmers' association, and the party on the extreme right has supported the introduction of the basic pension scheme despite financial pressures. Such political disorder seems to preempt the political-institutional approach, which has been very prominent in pension research in the Western countries.

Second, the Korean pension reform has different characteristics from those of Western countries. In Western countries, public pension is not only a politically acquired right (Schwartz 2001) but also a very popular welfare system. According to most recent International Social Survey Project (ISSP) figures (1996), about 97% of respondents in

Germany and about 98% of respondents in Sweden shared the opinion that it is the government's responsibility to provide a decent standard of living for the old. The analysis of Boeri *et al.* (2001) is also similar. Accordingly, the Western pension reform cannot help having the characteristics of blame avoidance. Thus, pension reform is the art of finding a compromise between sustainability with respect to secular changes and stability of retirement income for the individual worker (Börsch-Supan *et al.* 2007). In contrast, public pension in Korea has not been popular and thus pension reform (benefit decrease) has not been an issue with regard to blame avoidance. Accordingly, while successfully implemented pension reforms in Western countries are mostly concerted reforms (Pierson 1998; Baccaro 2000; Hinrichs 2000; Myles and Pierson 2001) to avoid blame, pension reform in Korea does not have such an imperative.

Third, the pension scheme in Korea is not an important political issue. The most basic assumption in Western pension reform politics is that reform is a very important political issue. However, in the case of the Korean pension scheme this is not so and, for instance, the Korean pension reform bill in 2007 was nothing but one alternative from many other bills for the liberal government to negotiate with the extreme right opposition party when trying to pass the 'private school bill'; which was a symbolic reform measure. To persuade the opposition party, which fiercely opposed the 'private school bill', the government accepted the radical pension reform which the opposition party demanded. It shows that, unlike Western countries, pension reform has not been a very important issue in Korea.

Despite its popularity in Western research it is difficult to expect that the political-institutional approach is likely to effectively explain the Korean pension reform. Next, the actor-oriented approach should also be applied taking into account the Korean socioeconomic background in making use of the approach in the Korean pension reform research. Western studies such as Anderson (2001; 2006), which have been interested in the actors, in particular trade unions, have paid attention to interactions between stakeholders, which has also been effective in explaining Western pension reforms. However, the unique system design and abnormal history of the Korean public pension demand a different view to its Western traditional actor-oriented counterpart. Labour unions in Korea have been as weak as those in Japan and have not influenced policy making. Instead, the Korean pension reform can be best understood as a globalization process and, it is not new that globalization is a vital part of the pension story (Clark *et al.* 2007; Ervik 2005). After all, as many developing countries in the pension reform have been influenced by the neo-liberal actors - in particular, International Financial Institutions (IFIs), the banking, neo-classic economists and economic bureaucrats – they have been the main actors in the Korean pension reform. Nor is it new that the conservative ideology, such as neo-liberalism, has had effects on the welfare state. However, as Immergut and Anderson (2007) indicate, the pension system is embedded in the banking system and the organization of pension system has repercussions for the range of private investments as well as the market for private equities in a nation. That is, a pension scheme - particularly, the funded scheme - demands stronger and more direct interactions with capitalism than other welfare systems. As such, an examination of the interactions between the actors in the pension reform process can help us to understand how capitalism affects the welfare system with globalization in the backdrop.

This research focuses on the fact that both the economic elements and welfare elements are embedded in the Korean pension system. This is tantamount to the welfare state-economy linkage that focuses on the relationship between capitalism and welfare regimes (Ebbinghaus and Manow 2001), which pursues the integration between the 'Variety of Capitalism (VoC)' of Hall and Soskice (2001) and the 'Welfare Capitalism' of Esping-Andersen (1990). According to Soskice (1999) and Hall and Soskice (2001), the VoC perspective focuses on the sources of comparative advantage in different kinds of economics. This research divides capitalism into 'uncoordinated market economy' and 'coordinated market economy', examples of the former including the US and UK and the latter including Germany and Japan. This is a similar typology to the welfare state classification - liberal, conservative and social democratic welfare state - used by Esping-Andersen (1990). In other words, while uncoordinated market economies go hand-in-hand with the liberal welfare state, coordinated market economies are matched with the conservative and social democratic models.[5] Of late, coordinated market economies are converging on liberal models all over the world (Thatcher 2004) and Korea is no exception. Yet, even though there are multiple interfaces between a variety of capitalism and a variety of the welfare state, exactly how the welfare state covaries with other features of modern capitalism remains largely unexplained and underinvestigated (Ebbinghaus and Manow 2001).

Esping-Andersen (1993) focused on the labour market as part of the welfare state-economy nexus. However, the relationship and mutual influence between the spheres of capitalist production and social protection reach beyond the labour market (Ebbinghaus and Manow 2001), and this research tries to bridge the nexus between the Korean welfare state and the economy by focusing on the strong financial function embedded in the Korean pension regime. A public pension scheme is the biggest single welfare program and is bound to interact closely with capitalism – finance, in particular, as well as the welfare state (Estevez-Abe 2002). It is therefore expected that this perspective can be a comprehensive trial to integrate pension politics and global finance, which have often been separated. It is difficult to find such approaches concerning the Korean pension reform, but some Western research such as Estevez-Abe (2001) have attempted this. Considering that the objective of case studies is to develop theoretical generalizations in areas where no theory exists yet (Lijphart 1971), this approach may provide new methodological foundation for examining the Korean pension reform that popular research methods in Western pension reform research has difficulty in reaching.

This research examines how, under both tendencies of the fast transition into the neo-liberal economic regime and of the expansion of the public welfare in Korea, the reform in pension schemes, which has multiple interfaces of both elements, has developed through the political economy approach - and welfare-finance nexus. In the process it is supplemented to examine how actors rather than political institution have influenced the Korean pension reform.

In addition, this research adds understanding of how ideas and discourses in terms of neo-liberal pension reform affect pension reform implementation under the rapid expansion of neo-liberalism in Korea. Recently, many works have focused the role of ideas in the political decision-making in pension reform (Bonoli and Shinkawa 2005), and the influence (ideas or discourses) of the international organizations in the pension reform has increased sharply (Deacon 2007). Scott (2000) emphasizes the importance of discourse in the policy text, and it is essential in the political economy perspective to examine whether certain discourses have dominated the Korean pension reform. Accordingly, it is very important to examine ideas and discourses which have brought about radical pension reform in Korea.

This is not the only purpose of this research. It also aims to suggest a new direction for Korean old age income security and the normative elements will be also considered because pension policy research should concern not only the political science approach to focus on the process but also an examination of outcomes - these two approaches have been central in pension policy literature (Arza and Kohli 2008).[6] In other words, the outcomes of policies towards specific population groups and the cleavages that the sociological approach to pension research stresses should be dealt with as well. On the basis of this approach chapter 9 examines intergenerational fairness, redistribution and governance concerning pension funds, which basically follows the political economy approach.

Summary

This research, which uses a political economy approach, tries to integrate global finance and pension politics in the consideration of the dynamics of capitalism and welfare systems - the welfare-finance nexus - and to critically examine the expected outcomes in the Korean pension reform. In addition, considering the characteristics of pension research, the pension system design should be dealt with in detail and the historical basis of Korean capitalism and welfare system will be also referred to. Last but not least, despite being a case study, this research has comparative dimensions. The reference in terms of the specialty of the Korean political foundation mentioned above originates from the comparisons with other countries and this research makes use of many foreign data and experiences to explain the Korean old age income security. Considering that the key element of comparative research is not comparing but explaining (Przeworski 1987), even though this research does not aim at assessing the direct similarities to or differences from other countries, the reference to foreign countries' systems or experiences can be helpful to explain and to understand the Korean pension reform.

Research Process

While the preceding section dealt with the analytical framework of the research, this one examines the practical steps involved in conducting it. To examine the political economy of the Korean pension reform, this research used literature reviews and textual analysis.

Data and Material

The documents utilized by this research were widespread, from the very formal ones, such as governmental reports or laws, to non-academic ones such as newspapers. To classify them, the major items were (1) government documents such as relevant laws and formal reports; (2) relevant academic books or articles; (3) newspapers and (4) grey literature. Of course, government document and articles by academic researchers are the most reliable for this type of research but these formal documents are not enough to examine the changes in the recent Korean pension policy story and, therefore, this research also searched newspapers to see how neo-liberal ideas have been spread in pension policy.

First of all, it is essential to examine the relevant laws to understand pension schemes. As Bonoli (2000) indicates, pension research, unlike other welfare state analyses, tends to stress system design. The most effective way to understand system design is to examine the relevant law. The website of the Ministry of Government Legislation provides the current contents of laws and their preceding developments. In addition, I examined the data and reports by the Ministry of Health and Welfare and the Ministry of Labor, as well as the reports by relevant organizations such as the National Pension Service. The majority of the governmental documents could be searched through the government website, and the official website of the institutions had exactly the data I needed. In addition, when the data sought was not available on the website, I made contact with the persons in charge in those institutions. For example, I tried to obtain the data for long-term NPF financial estimation after the reform through this form of direct inquiry. In addition, because discourse analyses penetrate the ideology of official policy documents (Codd 1988), I made use of makeshift announcements instead of formal reports, searching the data through the search engines (www.yahoo.co.kr or www.daum.net) in chapter 8 which deals with grey literature as to how the neo-liberal government distorted data.

Next, as previously stated, it is necessary to examine closely the debates in terms of the relevant issues to understand the context of pension reform because this thesis adopts a political economy perspective. To examine issues of pension reform the classic books such as the World Bank (1994), Gillion *et al.* (2000) and Holzmann and Stiglitz *et al.* (2001) are the starting points; More recent literature such as Arza and Kohli *eds.* (2008) or Clark *et al.* (2007) also deal with the issues in more sophisticated ways. In addition, journals such as *International Social Security Review* are also important sources.

Next, a huge amount of newspapers during the last 10 years were searched through the web because it is one of the aims of this research to examine how ideas or discourse affect Korean pension reform. As Tosh (2002) suggests, the press constitutes the most important type of public source material, and it records political and social views that are most influential at any particular time. Accordingly, while newspapers may be a less reliable source than public documents, they can be good alternatives when sources in terms of pension reform discourse are in short supply. It is difficult work to search the newspapers comprehensively, and therefore it is necessary to limit this search via the website. Because the purpose of newspaper search in this research was to find out how the discourse on pension fund exhaustion or the low earnings rate of the National Pension Fund (NPF) has been spread, key words such as 'exhaustion of the NPF' or 'low earnings rate of the NPF' were searched through the search engines (www.daum.net or www.google.com).

Also, this research makes use of quantitative secondary data, even though it is mainly concerned with documentary data. Even though this research does not utilize advanced statistical methodology, it employs time-series data or comparative data (between countries), which means that it has the characteristics of quantitative research to supplement the political economy perspective.

Last but not least, this study is a policy-related one. As Hakim (2000) indicates, policy research is bound to be different from theoretical research in some respects. That is, as a policy-related research, this thesis focuses on finding answers to problems which can then be turned into action or policy rather than explanations of social phenomena and the construction of models. Although as social science the research seeks to be scientific and rational, it aims ultimately to critically analyze the Korean pension regime and to explore alternatives.

Research Process in Individual Chapters

Chapters 2 and 3 reviewed relevant literature to explain the background concerning an analysis of the Korean pension reform. There can be many methods to explain such backgrounds. For example, the brief comparison between countries which recently implemented pension reform can help to understand the political economy of pension reforms in major countries. Among these many alternatives, this research examines major issues as well as an overall comparison between the World Bank and ILO to grasp the essence of pension reforms. The reason which compares the Bank with the ILO is that pension reform debates have been developed from the arguments of these two organizations with different principles. So, the World Bank (1994) and Gillion *et al.* (2000) by the ILO were a point of departure of this literature review and, the following arguments of both organizations and of the academic researchers were analyzed systematically. The manifold reports, books and articles that these organizations published were utilized comprehensively and, of course, a lot of general research such as Clark *et al.* (2007a) were also employed. In the process of analysis of pension reform issues I could find that pension reform is not only an issue which originates from domestic social security policy of demographic ageing, but also, as Ervik (2005) or Clark *et al.* (2007b) indicate, a process of globalization. Thus, to examine globalization is another core feature this research. Accordingly, the first part of chapter 2 dealt with globalization (and neo-liberalism) in detail. Globalization and neo-liberalism have been dealt with across various academic areas such as international relations, politics and economics. Accordingly, the analysis of globalization focuses on how they are related with welfare state and pension reform, and critically examines the relevant books and articles.

Chapters 5 and 6 critically describe the Korean pension schemes. To deal with the political economy of the Korean pension reform a detailed description of the Korean pension system design was necessary. The analysis of pension schemes and funds starts with deep investigations of relevant laws. The scope of the laws examined in these chapters is wide and contains relevant legislations such as the 'Fund Management Law', dealing with all public funds, as well as pension laws such as the 'National Pension Scheme Law'. However, the examination of laws is not enough to grasp the system and the analysis of actual practice should follow. For example, despite the legal expansion of coverage, the lack of administrative capability would prevent the real coverage expansion. Thus, an examination of actual practice is necessary to properly understand the system design. Public reports and statistical data published by relevant public organizations such as the Ministry of Health and Welfare or the Ministry of Labour are the most basic documents in understanding the actual situation. In addition, the reports and statistical data - long-term financial estimation or several secondary data in terms of actual states - by other relevant organizations such as the National Pension Service are also useful. Necessary materials such as the long-term financial estimation, which has not been published officially after the recent reform, are supplemented by the articles of professionals on the ground of the private assessment. In addition to these documents, other books or articles which analyze the Korean pension scheme are also examined. However, it does not mean that these chapters operate as descriptions only, as critical analysis of the system *per se* is done simultaneously. Prior to the political economy perspectives in chapters 7, 8 and 9, critical analysis in terms of the changes and developments in the Korean pension schemes is no less important than descriptions in order to make this research complete.

Chapters 7, 8 and 9, which include the major findings of this research, also make use of the same method, a critical document analysis. Because the Korean pension reform is more radical than its Western counterparts, it is necessary to examine its historical origin and particularity. First, unlike in Western countries the Korean social security systems, which were imported without the internal needs to help economic growth, are examined on the basis of the economic history concept of 'backwardness'. Because chapter 7 has to summarize the development of the Korean welfare system over 30 years, it requires many historical socioeconomic data, which are found in many organizations such as the Korean National Statistics. In addition, the recent works which dealt with such historic developments are also utilized effectively. Chapter 8, which analyzes the determinants of the Korean pension reform on the ground of many documents dealt with chapters 5, 6 and 7, examines not only many documents but also various newspapers in order to find discourse hidden under the pension reform. It examines how neo-liberal economic bureaucrats or conservative media have dominated pension reform discourse in the political economy perspective. For example, it is examined how the government distorted the data and recently induced increased investment towards risky assets rather than social investments. Because the published works are not enough to grasp these hidden elements, newspapers are utilized appropriately. Chapter 9, which assesses the pension reform by applying the issues dealt with in chapter 3 to the Korean case, examines the effects and influences on pension reform which may not be often ignored in the political economy perspective. Thus, it makes use of articles related with many Western relevant articles and analyzes the Korean pension reform to suggest policy alternatives as not a theoretical research but a policy-related one. These chapters require many other data - poverty ratios, demographic estimations, equity market data and so on. For this purpose, the Korean National Statistics is the most important source, and readily-available materials - such as reports by national institution organizations such as the OECD (2007) or ILO (2000) - books and articles are used.

To sum up, this thesis is policy-related using a political economy perspective on the Korean pension reform by investigating readily-available documents rather than through field research. Widely available Western pension reform research is the foundation for this research and, on the basis of many preceding research, this research critically analyzes the Korean pension reform.

Notes

[1] 'Regime theory' has been oriented to evaluate how the diversity of institutional designs across countries was affected by different political orientation, and has produced different welfare outcomes.

[2] Bonoli (2000) also indicates that pension policy positions of left and right parties have converged considerably in recent years.

[3] In addition to the veto point, the veto player approach can be added (Tsebelis 1999; 2002), but the "(institutional) veto players" are roughly equivalent to veto point (Immergut and Andersen 2007).

[4] See Scharpf (1997) for details.

[5] According to Ebbinghaus (1999), among coordinated market economies, we do find much more variation: Germanic social market economies and 'Christian-democratic' Continental welfare state go together, as do Nordic neo-corporatist economies with 'social-democratic' universalist welfare regimes, and Latin state-del-market economies and late-coming welfare states.

[6] According to Arza and Kohli (2008), regarding the two main approaches of pension policy literature, while the political science literature has been mostly concerned with explaining institutional change through the interactions between existing institutions, sociological literature - which espouse the thoughts of policy-makers and social actors - has examined the institutional structure of welfare states in terms of models for welfare provision, including the goals and ideas of policy-makers, government and society at large, and the outcomes of policy on specific population groups and cleavages.

Chapter 5
The Korean Pension System

The first public pension scheme in Korea was for civil servants. When the 'National Civil Servant Law' was passed in 1949, it stipulated pension benefit provisions for civil servants. However, its implementation was delayed until 1960 when the Government Employee Pension Scheme (GEPS) became an important part of Korean old age income security, even though it is for only a small proportion of the total population. Later, the GEPS was developed as an independent public pension scheme.

Another scheme that played an important role in Korean old age income security for a long time was the Lump-sum Retirement Allowance (LRA). It was legislated in 1953 and gave employees lump-sum benefits when they retired. When there were few social security provisions, it played a role in pension benefits, unemployment benefits and sickness allowance, and until recently it had been an important part of old age income security. However, it covered only some employees, and the self-employed and others who worked in small companies were excluded. In 2005, it was converted into a sort of occupational pension - annuity. It is not a full transformation yet, currently in a transitional period whereby either the lump-sum allowance or annuity can be chosen.

In 1963, the Military Personnel Pension Scheme (MPPS) for the armed forces, which had been included in the GEPS, was separated, and in 1973 the Private School Teachers Pension Scheme (PSTPS) for private school teachers was legislated. These three Specific Pension Schemes (the GEPS, MPPS and PSTPS) have similar system designs and characteristics.

The National Pension Scheme (NPS) for the general public, the most important scheme in Korean old age income security, was introduced in 1988. In fact, it was first legislated in 1973 but its implementation was delayed because of various economic and political circumstances. The NPS covers the majority of the public.

In addition, the Seniority Pension Scheme (SPS) which had been an additional public assistance for the poor old was changed into a new scheme, the Basic Old-Age Pension Scheme (BOPS) in 2007. The new scheme extends its coverage to 60% of the current old, increasing its importance in the overall old age income security. Including the general public assistance scheme, the Livelihood Protection Program (LPP), the very poor old are provided with two noncontributory benefits.

Figure 5-1 The Korean Pension System

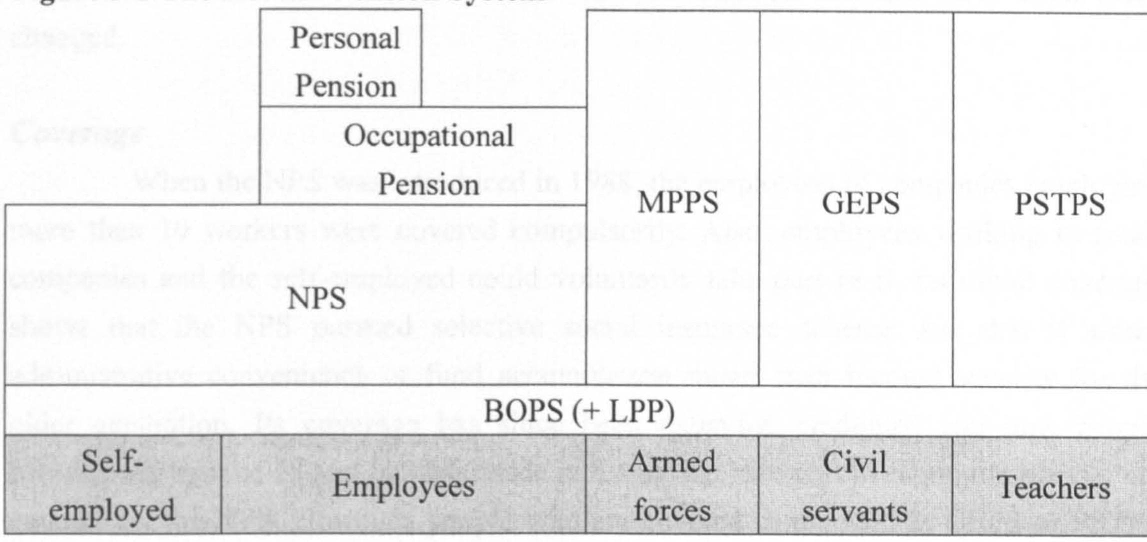


Figure 5-1 shows the overall structure of the Korean pension system. In the next section each pension scheme is examined and, because the NPS is the main one, it will be examined first. Thereafter, three specific pensions, the LRA (occupational pension) and the BOPS are described. After these critical descriptions, the Korean pension schemes are analyzed critically. Because the political economy approach is dealt with in chapters 7-9, this chapter focuses on the schemes *per se*.

National Pension Scheme (NPS)

System Development

Considering the degree of Korea's economic development, the introduction of the NPS in 1998 was very late. This resulted from a legacy of the developing country attitude that economic growth was the best welfare policy as well as traditional value which stipulate that older people should be protected by their children.

In the early 1970s the Korean government decided to introduce the 'National Welfare Pension Scheme' for employees who worked in the big companies as a way to expand domestic capital (Lee Hye-Kyung 1994). Because its primary aim was to expand capital rather than to provide old age income security, it was designed as a funded scheme. However, changes in external circumstances, such as the oil shock, continued to delay its introduction. The economic and social circumstances which blocked the implementation of the system had been improving since the mid-1980s, which aroused public opinion to argue for the introduction of a public pension scheme. In 1986, the National Pension Bill was passed in the Parliament and in 1988 it was put into force.

There have been since several revisions and its detailed contents have been often changed.

Coverage

When the NPS was introduced in 1988, the employees of companies employing more than 10 workers were covered compulsorily. Also, employees working in small companies and the self-employed could voluntarily take part in it. Its initial coverage shows that the NPS pursued selective social insurance scheme and that it aimed administrative convenience or fund accumulation rather than income security for the older generation. Its coverage has since been extended gradually, and now people between the ages of 18 and 60 who reside in Korea and take part in economic activity are covered by the NPS. However, people who are covered in the MPPS, GEPS or PSTPS are not included in the NPS.

Table 5-1 Trend in Membership of the NPS

	Total members	Occupational members	Regional members	Voluntary members
1988	4.432.695	4,431,039	-	1,656
1992	5,021,158	4,977,441	-	43,718
1995	7,496,623	5,541,966	1,890,187	64,470
1999	16,261,889	5,238,149	10,822,302	201,438
2002	16,498,932	6,288,014	10,004,789	206,129
2005	16,885,750	7,747,080	9,074,183	64,487

Source: homepage of National Pension Service

The members are classified into compulsory and voluntary groups. The former group is divided into occupational members and regional members. For occupational members - standard workers - employees and employers each pay half of contributions; regional members, employees who work in small companies or are self-employed, pay for the entire contribution. Voluntary participation is for people who have no earnings and others, such as the housewives, can participate in it. Table 5-1 shows the trend in membership of the NPS.

Actual State

Total membership has increased four times since 1988. However, many people are still excluded because members who pay contribution have not increased in proportion to the increase in membership. To explain this paradox it is necessary to refer to a system of payment exemptions. People who cannot pay contribution due to various reasons gain exemptions. The main population segment eligible for such payment exemptions are those on low wages, the unemployed, those in education and or those with long-term disease and so on.

The major problem here is that the number of exemptions is very large and, therefore, the legal extension of membership looks meaningless. In particular, since 1999, when regional members became compulsory, the number of payment exemptions has risen very rapidly. In 2004, among the regional members, only 4.73 million, 50.25 percent of the total, paid contributions and 4.68 million gained payment exemption. Accordingly, among 17.07 million - the entire NPS membership - , only 12.38 million are members who now pay contribution. The people with payment exemption in 2004 amount to 27.43% of the entire membership. Although its legal coverage was expanded to a near universal level in 1999, many people are still excluded from it. In addition, as table 5-2 shows, the number of people with exemption has been increasing recently.

Table 5-2 Trend in Payment Exemptions Among Regional Members

Year	Regional members (A)	People of payment exception(B)	People of income report(C)	The rate of payment exception(B/A)	The rate of income report(C/A)
1995	1,890,187	239,229	1,650,958	12.7%	87.3%
1998	2,129,243	546,042	1,583,201	25.6%	74.4%
2001	10,180,111	4,475,722	5,704,389	44.0%	56.0%
2003	9,964,234	4,564,768	5,399,355	45.8%	54.2%
2004	9,412,566	4,683,063	4,729,503	49.7%	50.3%

Source: National Pension Statistics annual report

To sum up, the NPS has extended its coverage formally but the large payment exemptions among regional members have offset this. Because the NPS is not yet mature, its role in tackling poverty in old age has not been an important issue. However, if the payment exemptions do not decline, the poverty of the older population will increase in the future.

Contributions

Similar to other social insurance schemes, the financing of the NPS is based not on general taxation but on contributions from members, and employees and employers share contributions fifty-fifty.

Table 5-3 Contribution Rates Among Occupational members

		1988-1992	1993-1997	1998-1999.3	1999.3-
Occupational members	Total	3.0%	6.0%	9.0%	9.0%
	Employee	1.5%	2.0%	3.0%	4.5%
	Employer	1.5%	2.0%	3.0%	4.5%
	Retirement conversion money [1]	-	2.0%	3.0%	-

Source: homepage of National Pension Service

When the NPS was introduced in 1988, there were concerns about whether high contribution rates would have adverse effects on the national economy, and the initial contribution rate was low - 3%. It increased to 6% in 1993 and by 1998 it had increased to 9 %. When farmers and the self-employed started to participate in the NPS in 1995, their contribution rate was adjusted differently. It was 3% in 1995, increasing by 1% every year until 2000 and they now contribute 9%, which is the same rate as employees.[2] (table 5-3)

Benefits

The purpose of the NPS is to provide its members or their families with benefits when they face social risks such as old age, disability and death. That is, the NPS includes not only an old age pension benefit but also disability, survivor and family pension benefits.

The Structure of Pension Benefits

The pension benefits consist of the base pension and family pension benefits, of which the former is much more important than the latter in terms of scale and function. The former consists of (1) a flat part based on average earnings of all members and (2) an earnings-related part based on their own earnings during the contribution period. The flat-rate part plays the income redistributive role while the earnings-related one does income smoothing.[3] Accordingly, the structure of the NPS benefits integrates the redistributive and income smoothing role into one scheme. The base pension benefit becomes the basis for calculation of pension benefits.

The benefit calculation formula of the base pension benefit in 1988, when the

NPS was introduced, was as follows:

Base pension benefit = 2.4(A+3/4B)(1+0.05n)

(A: the average earnings of entire members for 3 years before being entitled for pension benefit, B: the average earnings during the participating period of the members themselves, n: the participating years of NPS over 20 years)

According to this formula, when a member whose A equals B (a member who has average earnings) contributed for 40 years, the replacement ratio was 70%. Because it plays both earnings-related and redistributive roles, those who have below-average earnings have a higher replacement ratio while those, who have income over average earnings, have a lower replacement ratio. In fact, this replacement ratio meant that the earnings rate of the pension benefit far exceeded contributions and, in 1998, the formula of the base pension benefit was changed as follows:

Base pension benefit= 1.8(A+B)(1+0.05n)

There have been two core issues concerning the NPS benefit formula (Kim Yeon-Myung 2003b): the appropriateness of income replacement ratio and the reasonable ratio between the flat and earnings-related parts. The 1998 pension reform modified both of these elements. First, the income replacement ratio decreased from 70% to 60% for contributing 40 years and, second, the ratio of the flat and earnings-related parts changed from 4:3 to 1:1 - a decrease in the vertical redistributive function.

Despite this reform its earnings rate was high and still financially unsustainable in the long term. Hence, immediately after the 1998 pension reform the debates concerning pension reform were started once again and the 2007 pension reform changed the benefit formula again as follows.

Base pension benefit= 1.2(A+B)(1+0.05n)

This means that the pension benefit was reduced rapidly and, with the fixed contribution rate, the income replacement ratio decreases from 60% to 40%. In 2008 it was cut to 50% and it will be reduced by 0.5% every year until 2028.

The family pension benefits are an addition which has the characteristics of a family allowance for family members who are dependent on the person who has the pension benefit entitlement. Spouses can be provided with the benefit if they do not have an individual pension entitlement, and children who are less than 18 years old or have a disability as well as parents who are over 60 years old or have disability can also obtain the benefit. However, the amount of the benefit is very small.[4]

Types of Benefit

The five types of benefits in the NPS are old age, disability, survivor, return lump-sum and the death lump-sum. The old age pension benefit is the largest among them and its proportion to all the benefits is very high (about 80%). The description of the other benefits is contained in appendix 1.

The old age pension benefits are provided to members who have contributed for over 10 years that have reached 60, the age of pension benefit entitlement, and do not take part in paid employment. There are several types of pension benefits. Appendix 2 shows the entitlement and level of old age pension benefits in the NPS.

The benefit formula for the NPS basically has the characteristics of the earnings-related pension but, because of the coefficient 'A', which represents the redistributive function, the lower the income, the higher the replacement ratio. As mentioned above, this principle, which combines earnings-related and redistributive elements, has stuck despite changes in benefit formula. This system design tends to cause huge differences in the earnings rate according to the earnings level of members.

Despite the rapid reduction in the income replacement ratio in the 2007 reform, the principle of the redistributive system design was not changed. The modification of the coefficient in the 1998 pension reform slightly decreased the redistributive element but the change was small and the 2007 pension reform did not change the ratio between the flat and earnings-related rates. Table 5-4 shows how the income replacement ratio has changed on the basis of the earnings level and participating period under the benefit formula prior to and after the 2007 reform.

Table 5-4 Income Replacement Ratios Prior to (and After) the 2007 Reform

Earnings level	Participating Period		
	20 years	30 years	40 years
0.2A	90% (60%)	100% (90%)	100% (100%)
0.5A	45% (30%)	67.5% (45%)	90% (60%)
1A	30% (20%)	45% (30%)	60% (40%)
1.5A	25% (16.6%)	37.5% (25%)	50% (33.3%)
2A	22.5% (15%)	33.8% (22.5%)	45% (30%)

Source: homepage of National Pension Service

An increase in the pensionable age, which is one way to reduce benefits, was also made in the 1998 reform. When the NPS was introduced, the entitlement age was 60 years old. However, it did not reflect a sudden increase in the average life span and the 1998 pension reform tried to increase the entitlement age in the long run. That is, it will rise, starting from 2013, by one entitlement age for every 5 years until the figure reaches 65 years old in 2033.

Management

The NPS is managed through the National Pension Service. The executive organization manages the work of the NPS, and its work includes maintenance of records, collection of pension contribution, payment of benefits, investment in the National Pension Fund (NPF) and management of social welfare business. It is a big organization which employs about 5,000 persons and which operates 91 branches. Its administrative cost amounts to about ₩ 400 billion (≒ US$ 400 million). In the beginning, the government bore the whole cost but its share has declined gradually; now the fund bears 62% of the entire administrative cost and the government contributes only 38%.

Specific pension Schemes

In addition to the NPS, there are other public pension schemes, called the Specific Pension Schemes - the GEPS, MPPS and PSTPS. They are compulsory pensions, and civil servants, teachers, and armed forces as prescribed in law must participate in their Specific Pension Schemes.

They are comprehensive income security instruments not only to secure income losses caused by old age, death and disability but also to cover the cost and income loss caused by sickness or injuries, which is guaranteed in the industrial injury insurance for general employees.

System Development

As mentioned above, the GEPS started from 1960, which was the first public pension scheme introduced in Korea. This was a privilege for the public sector, typical in developing countries. Ostensibly, the law for the civil servants indicated that they needed old age income security system because they could not pursue profits in their jobs. However, it is doubtful whether this legitimates a privileged pension scheme for civil servants.

The MPPS for military personnel was separated from the GEPS to be put into operation in 1963. It was separated because the authoritarian government, which had taken political power following the coup d'état in 1961, wanted to give privileges to their strong supporters, the military personnel.

The PSTPS is for teachers of private schools and came into operation in 1975. At that time, although there was no difference between teachers of the public schools and those private schools, only public school teachers could participate in the GEPS. Because the then private schools formed the majority of the middle schools (46.1%) and high schools (67.9%), many teachers in them tried to move to public schools. In order to tackle such inequality, the PSTPS was introduced (PSTPS Corporation 2005).

Coverage

The GEPS is for civil servants and local authority workers, and the civil servants elected - for example, members of the National Assembly - are not included in it. The PSTPS covers the regular teachers from primary schools to universities, but temporary, conditional and unpaid teachers are not included. The MPPS is for professional military personnel. As such, conscripted members of armed forces are not included.

Table 5-5 Membership of the Specific Pension Schemes

GEPS	PSTPS	MPPS	Total
938,548	217,940	150,000 (2001)	1,306,488

Note: This is the number of members between the age of 18 and 59.

Source: GEPS Corporation, annual GEPS statistics 2003, PSTPS Corporation, annual PSTPS statistics 2003.

The current number of members in the Specific Pension Schemes is about 1.3 million, as shown in table 5-5. Considering that the members of the NPS excluding payment exemptions are about 12.3 million, the proportion of the people covered in the Specific Pension Schemes is about 10% of the overall public pension members.

Contributions

For the GEPS, the members and government share contributions. Now the members contribute 8.5% of earnings and the government contributes the same. So, the total contribution rate is 17%, which means that the contribution rate in the GEPS is higher than that of the NPS (table 5-6).

Table 5-6 Contribution Rates in the GEPS

Year	1960	1969	1970	1996	1999	2001
Contribution rate	4.6%	7.0%	11%	13%	15%	17%

For the PSTPS the members, educational foundations and government share contributions. The members contribute 8.5% of earnings, the educational foundations 5%, and the government 3.5%. Like the GEPS, its contribution rate has been increased since its introduction (table 5-7).

Table 5-7 Contribution Rates in the PSTPS

	Members	Educational foundation	Government	Total
1975	5.5%	3.5%	2.0%	11%
1996	6.5%	4.0%	2.5%	13%
1999	7.5%	4.5%	3.0%	15%
2001	8.5%	5.0%	3.5%	17%

In the MPPS, the members and government share contributions. Like the GEPS, members contribute 8.5% of earnings and the government contributes the same amount (table 5-8).

Table 5-8 Contribution Rates in the MPPS

Year	1963	1970	1995	2000
Contribution rate	7%	11%	15%	17%

In addition, all of the Specific Pension Schemes have an upper ceiling of the contribution period of 33 years.

Benefits

The primary pension benefit in the GEPS is a retirement pension.[5] While members who contribute less than 20 years receive a lump sum retirement allowance, the members who contribute more than 20 years can choose the retirement pension (annuity), the lump sum retirement allowance or a mixture of the two.

The benefit formula is summarized in appendix 3. The income replacement ratio of the retirement benefit is 50% of the member's average earnings for the final 3 years in contributing 20 years or 70% in contributing 30 years. As the formula shows, it does not have a redistributive function but an income smoothing function.

The amount of benefit provisions of the PSTPS and MPPS are mostly the same as the GEPS. However, that of the MPPS has some different elements from others. First, the service period in a state of war is assessed as three times that of ordinary period. Next, its benefit - annuity - is provided for members apart from their age as soon as they retire, if only they contribute for over 20 years. So, the earnings rate in the MPPS is higher than that of the GEPS or PSTPS.

Like the LRA, the members of the Specific Pension Schemes are also provided with the lump-sum allowance when they retire and the amount of allowance is 10-60% of the LRA benefits on the basis of their working period.

Management

Each of three Specific Pension schemes is managed separately. The GEPT is managed by the Government Employee Pension Corporation, the PSTPS by the Private School Teachers Pension Corporation, and the MPPS by a section in the Ministry of National Defense. Similar to the National Pension Service, these organizations take charge of maintenance of record, collection of pension contribution, payment of the benefit, investment in the pension fund and management of social welfare business.

Basic Old-Age Pension Scheme (Seniority Pension Scheme)

The Basic Old-Age Pension Scheme (BOPS) - formerly the Seniority Pension scheme (SPS) - is a non-contributory pension which provides a sort of additional public assistance for the old. The SPS, which had existed until 2007, had its name changed into the BOPS, which sharply expanded the benefits and coverage.

While the previous SPS was a sort of supplementary public assistance for the poor old, which covered about 15% of the entire older population, and provided about 1-2.3% of the average earnings of employees, the new BOPS has the characteristics of quasi basic pension schemes. Despite its small level of benefits, the introduction of the BOPS in the 2007 pension reform was a crucial foundation to cut the income replacement ratio of the NPS.

System Development

Because the NPS is a funded scheme, it does not include those who have already retired or planned to retire soon after it was introduced. So, older people who were excluded in the NPS and were not provided with the appropriate public benefits have suffered from high poverty rates and needed supplementary benefits. In 1989, the welfare law for the old was legislated, and since 1991 the poor old over 70 years of age had obtained the allowance for the old. After some revisions, in 1998 it was extended into the new scheme, the SPS.

While general public assistance tends to focus on the segment of the working populations likely to be short-term recipients, older generations excluded from the labour market are bound to be long-term recipients and need more benefits. With the introduction of the new general public assistance - the Livelihood Protection Program (LPP) in 2000 - which expanded the coverage and benefits compared with the previous public assistance, the SPS was a scheme that could not be ignored despite its limited coverage and benefits. Nevertheless, the poverty of the older people is getting worse, and the proportion of the old (over the age of 65) who were provided with the benefits in the NPS or Specific Pension Schemes was no more than about 25% in 2007. Moreover, its benefit level, except for some recipients from the Specific Pension Schemes, is low due to the NPS's immaturity. After the long debates regarding the expansion of noncontributory supplementary pension benefits, the new scheme - the BOPS - replaced the existing SPS in 2007. The 2007 pension reform adopted the expansion of the noncontributory supplementary pension at the cost of drastic reduction in NPS benefits.

Benefits

Prior to the introduction of the BOPS, the SPS's coverage was for (1) those over the age of 65 who had the right to obtain public assistance (LPP) and (2) the (general) poor old who were born before 1933 and who did not have the right to obtain public assistance. So, the older people who were covered in the LPP could obtain both LPP and SPS and some general poor older people could be provided with the SPS benefit only. In 2004 it provided for 618,531 people, 15% of those over 65 (table 5-9). People who had the right to obtain public assistance were about 58% of entire recipients, and the general poor old were about 42%. With the continuous increase in the poverty of the old people, the expansion of the noncontributory public pension to tackle the existing or latent poverty for the old had been persistently demanded and, as a result, the BOPS was introduced to cover 60% of the older population. The numbers of those receiving the benefits are expected to be about 3 million in 2008, which is more than four times that of the previous scheme.

Table 5-9 Recipients of the SPS

	1998	2000	2002	2004
Public assistance receiver	264,199	327,928	333,526	360,360
The general poor old	286,904	259,756	282,817	258,171
Total	551,103	587,684	616,343	618,531

Source: White Paper (the Ministry of Health and Welfare) 2004

The SPS benefit was a flat sum and there was no indexation. The SPS benefits for the old who receive public assistance were more or less higher than those of the general poor elderly, and those of the old over the age of 80 were a little higher than those among the old below the age of 80. While the benefits for the general older poor had increased since its introduction, those of the public assistance recipients had not been changed. Accordingly, the SPS's real benefits have been decreasing. The level of the SPS benefit was only 15.8~35.2 percent of the average benefit in the NPS, which was 1.0-2.3 percent of the average earnings of employees (Seok Jae-Eun 2000). This means that even though the SPS benefit was a sort of additional pay to supplement public assistance, its level was very small. The overall cost was about ₩369 billion in 2000, which was much smaller than that of other social insurance schemes and which was no more than 1/10 of the cost in public assistance (Seok Jae-Eun 2002).

The transition into the BOPS is expected to increase the benefit level. While under the SPS its benefits were fixed to be approximately between ₩30,000 to ₩50,000, the BOPS provides 5% of the coefficient 'A' in the NPS, which amounts to ₩84,000 (₩134,000 for a couple) in 2008 and will be indexed in price terms. However, it is not a fixed amount for everyone who receives the BOPS, and some will be provided with a reduced amount. Such a big change in coverage and benefits also increases costs. Because its benefit level is small, however, its total expenditure is only ₩2,300 billion in 2008, which amounts to about 0.2% of GDP. With the rapid increase in the population of older populations, the total cost in 2015 will amount to ₩5,100 billion in 2015.

Occupational Pension Scheme (Lump-sum Retirement Allowance)

As noted above, the Lump-sum Retirement Allowance (LRA) was a scheme, which has the longest history in Korean social security that transformed into occupational pension in December 2005. However, members (or companies) can choose the lump-sum or annuity and, the lump-sum allowance is not abolished yet. Thus, the LRA is examined first and the occupational pension, the 'Retirement Benefit Security Scheme for the Employees', is examined later.

System Development

The Korean LRA was introduced as a sort of redundancy payment or a bonus rather than a formal retirement allowance because it was a voluntary system that each company could choose to join. In 1961, it was changed to a compulsory system which covered all companies that employed over 30 workers. Its coverage had since increased gradually and, prior to the transformation into occupational pension, all companies that employed more than 5 employees had to take part compulsorily in the LRA.

When there were few social security systems, the LRA played a role in old age pension, unemployment benefits and sick allowance. This was not a scheme which provided benefits - annuity - for people who were above a certain age, but one which provide a lump-sum on the basis of earnings and working years in changing or retiring from jobs. Accordingly, to the people who retired it was a sort of old age income security, and to people who lose or change their jobs it was a kind of unemployment benefit. However, there had been a consistent demand on transition from lump-sum into an annuity, which was due to the change in the socioeconomic situation in Korea.

First, the NPS and unemployment insurance were introduced. The LRA had the characteristics of old age income security and unemployment insurance; however, since the NPS and the unemployment insurance scheme were introduced in 1988 and 1995 respectively, the LRA has lost its original aims.

Second, the concept of the lifelong job disappeared and job changes were becoming common. In the 1970s and 1980s, lifelong jobs were common. However, the average working period of Korean employees was no more than 5.3 years (Pang *et al.* 2002) and the labour market was getting flexible, which means that the essence of the labour was changed very much. So with the increase in job changes, the function of old age income in the LRA nearly disappeared. Because its benefit was not portable and was provided for employees whenever they changed their jobs, the perception of the LRA changed into additional pay.

Third, the expansion of the annual pay system and the introduction of the interim calculation reduced the function of the LRA.[6] As the annual pay system expanded, the effect of the LRA, which were calculated by using final earnings, decreased. In addition, as the interim calculation was introduced in 1998, the LRA was included by annual pay in many companies. So, the proportion of companies making use of the annual pay system and interim calculation was about 70% prior to the transition.

Lastly, under the existing LRA, whether the employers accumulated the fund outside the companies was at the discretion of employers and many employees could not be provided with the LRA when their companies went bankrupt. This lack of a security function induced employees to become early recipients throughout the interim calculation.[7]

The transition from the LRA to occupational pension scheme was debated continuously and the occupational pension scheme bill, the Retirement Benefit Security Scheme for the Employees, was put in force in December 2005. However, this was an incomplete transition because the legacy of the LRA still remains in the new scheme. For example, the interim calculation is not abolished and, employers through the negotiation with trade unions can choose the type of benefits - annuity or lump-sum.

Coverage

As mentioned above, the LRA has extended coverage since its introduction. As table 5-10 shows, it initially covered the employees who worked in the big companies but the coverage has expanded, and in 1998 all employees that worked for over 1 year in companies that employed over 5 people were covered in the LRA. In 1966, only 5.4% of entire employees were covered, but in 1998 about 30% of employees had participated in this scheme (Pang *et al.* 2002). In 2003, 47.4% of all employees were covered in the LRA (Um Hyun-Taek 2004). However, more than half of the employees are still excluded.

Table 5-10 Coverage in the LRA

	Size of company	Number covered	Participation rate of the employees
1966	Over 30	452,951	5.4%
1975	Over 16	1,448,099	12.2%
1980	Over 16	2,841,317	20.7%
1985	Over 10	3,786,000	23.9%
1990	Over 5	5,366,000	29.8%
1998	Over 5	5,786,000	30.1%

Source: Ministry for Labour, <report of research on the actual state>; Min *et al.* (1992)

One of the main features of the new occupational pension is the expansion of coverage concerning small company workers and the unstable working class (Kim Jin-Soo 2006c). While the coverage was limited to the workers whose companies employed over 5 people under the LRA, occupational pension expanded coverage to all companies.[8] So, the number of the employees covered in the occupational pension will be extended greatly. However, as the transition into annuity is voluntary, the proportion of companies that transformed to annuity is very small - only about 20,000 companies (300,000 employees) in 2007, which amounts to about 4% of all covered companies despite its being expected to increase rapidly.

Contributions

Under the previous LRA, fund accumulation depended on the discretion of the companies, and the contribution rate was not set explicitly. Under this system design there were risks that the LRA could not be provided when the companies went bankrupt. For example, in 1997, wages unpaid in Korea amounted to about ₩400 billion, 70% of which was the lump-sum retirement allowance (Pang Ha-Nam *et al.* 2002). Accordingly, the government tried to introduce retirement insurance to reduce expected risks such as bankruptcy in 1998, but it was not successful; on the contrary, the employees' and employers' preference to the interim calculation did not come up to the original purpose of the old age income security. After all, the occupational pension scheme is expected to enhance fund accumulation.

Both DB and DC schemes are possible alternatives under the new occupational pension scheme and, under DC schemes, employers should pay over 8.3% of their employees' salary. However, in adhering to the existing LRA or transition to the DB scheme, fund accumulation is still decided on the basis of negotiation between employers and trade unions and so there is no fixed contribution rate.

Benefits

The LRA uses a DB benefit formula. Employees could obtain the lump-sum allowance calculated by the following formula when they retired or changed jobs:

Lump-sum retirement allowance = working months X final salary (month) X 1/12

For example, employees who had worked in a company for 24 years could obtain a lump-sum allowance that amounts to the final earnings for 2 years when they retire. Moreover, the formula was the minimum standard and some companies could provide their employees with more than a lump-sum allowance calculated by this formula. This is a feature of the occupational pension which is different from the public pension scheme, and the law suggests only the minimum standard (Turner and Watanabe 1995). An occupational pension is a method of personnel administration. According to Jung (1999), 17.3% of the companies under the LRA adopted the progressive formula for benefit assessment. However, because the big companies tend to adopt the progressive formula, many more employees than 17.3% could obtain the lump-sum allowance calculated by the progressive formula.

The transition into occupational pension was a trial to solve the problems of the previous LRA such as interim calculation. However, it appears to have been only partially solved because many companies can still stick to the existing lump-sum scheme or interim calculation. While the benefit in the DB scheme is decided on the basis of the previous benefit formula under the LRA, the employees in the DC scheme should invest by themselves and operate their pension accounts through a trust or insurance contract. People who contribute to an occupational pension for over 10 years and who are at the age of 55 can be provided with an annuity when they want to do it. In addition, the occupational pension introduced the portability function as to job moving - Individual Retirement Accounts. According to Moon Hyung-Pyo (2004), under the new scheme the income replacement ratio will be about 25% if a person works for 30 years. However, this is no more than estimation and it is impossible to assess the income replacement ratio in the DC scheme because its benefits (earnings rate) are based on their own investment performances.

Management

Under the previous LRA there were no obligations towards fund accumulation and so, each company could decide the appropriate level of fund accumulation. It was bound to have the problem of payment certification. The new occupational pension limits the scope of administrative main body to private financial organizations. So, the banks, insurance companies or investment trust companies can manage occupational pension regardless of whether it is a DB or DC scheme.

Personal Pension Scheme

The personal pension scheme, which was introduced in 1994, is a voluntary instrument to supplement old age income security. It has tried to expand its size but it remains small and the participation ratio has decreased between 2001 and 2006 (Kim

Won-Sub and Kang Sung-Ho 2008). The proportion of members who are at the age of 50 who are the main targets are only 3.9% (National Pension Service 2006). According to Kim Soo-Wan *et al.* (2005), if the current membership rate stands, the recipients of the personal pension scheme in 2030 over the age of 60 will be no more than 10.4%. In addition, it is necessary to provide the self-employed, who are excluded from occupational pension, with incentives such as tax favour to augment the policy perspective of income security function in personal pension. However, the current system design of personal pension targets not the self-employed, who are excluded from the second pillar, but people who have income above the tax exemption limit. Accordingly, the proportion of participation of company workers over 50 (7.8%) is much higher than that of the self-employed over 50 (4.4%). This shows that personal pension scheme is no more than a method of asset investment rather than of old age income security.

Critical Analysis

Coverage

Public pension schemes - the NPS and the Specific Pension Schemes - cover nearly all wage earners. Coverage has been extended gradually and, since 2003, all the self-employed and employees, except for some temporary workers, are legally the members of the public pension schemes. However, as mentioned above, despite the legal expansion of the coverage, the proportion of people who do not participate in public pension schemes is still high. The real participation rate in the public pension of the entire population between the ages of 18 and 59 is only 41% (Seok Jae-Eun 2003).

The first reason that extensive exclusion happens is because the Korean pension system is designed for people who have earnings. According to Kim Sung-Soon (2003), among approximately 29 million between the age of 18 and 59, about 11 million people are excluded due to non-economic activity. Even though it is an inevitable problem under an earnings-related pension scheme, it seems clear that coverage in the Korean public pension scheme is not enough to provide stable old age income security. This design structure excludes some classes, a typical example being the housewife. That is, most of the full-time housewives with no earnings are excluded from the NPS. In Korea, the labour force participation rate of women between age of 15 and 64 was 52.5% in 2005, which is lower than that of men (75.0%). Even though it has been increasing gradually, from 41.6% in 1980 and 47.0% in 1990, it is lower than the average of the OECD countries at 56.1% (OECD 2007). Because the pension scheme is earnings-related and the participation rate of women is much lower than that of men, it appears inevitable that the individual pension entitlement of women is precarious. In reality, the poverty ratio of female old household (56%) is much higher than that of male old household (about 40%) (Seok Jae-Eun 2006).

Second, a large proportion of nonstandard employees[9] are excluded from the participation in the public pension schemes. In 2003 nonstandard employees were 7.85 million (55.4% of the paid workers) and traditional employees were 6.31 million (44.6%).[10] That is, more than half of the entire workforce comprised of nonstandard employees.[11] While in other OECD countries the (voluntary) part-time workers are the majority of nonstandard employees, the proportion of part-time workers in Korea is just 5.9%. The majority of nonstandard workers in Korea do the same work as traditional employees (Kim Yoo-Sun 2004). In fact, if nonstandard workers were able to participate in the NPS like traditional workers, stability of their old age income might not be lower than that of the traditional workers'. However, only 26.4% among them are covered in the NPS (Kim Yoo-Sun 2004). This is in contrast to traditional workers of whom 96.6% are covered in the NPS. Accordingly, quite a few in the economically active population are excluded from the public pension in Korea. In addition, nonstandard workers are also excluded from the LRA, the occupational pension. The proportion of nonstandard workers that are covered in the LRA is only 16.0%, which is much lower than that of traditional workers (98.8%) (Kim Yoo-Sun 2004). Since the LRA was transformed into an occupational pension scheme, coverage has been extended and it is expected that the proportion will be increased, but many nonstandard workers are still excluded from it.

What should not be omitted is how many of the current older population are covered in the pension schemes. After the transformation from the SPS to BOPS, a sort of zero pillar, this is expected to expand to cover 60% of the older population with earnings and property below a certain level. Although it is not a universal noncontributory pension scheme, its influence may be large. It is expected that, of the 5 million of the older population, 3 million will receive benefits in 2008. However, like all other means-tested benefits, there is no rationale as to why the poor 60% should be covered in this scheme.

Next, even though about 20 years have passed since the NPS was introduced, the proportion of the older population who has the right to it is still small. In 2003, 860,000 people among those over the age of 60 were provided with old age pension in the NPS. This was only 14.6% of the older population. Even though the Specific Pension Schemes are included, only 1.06 million people - 18% - obtained public pension benefits, and 82% did not receive any public pension benefits (Seok Jae-Eun 2003). In addition, 620,000 people - 10.5% - obtained the SPS. Accordingly, 71.3% of those over the age of 60 received nothing from the public income security system in 2003 (Seok Jae-Eun 2003).

Moreover the very old tend to be excluded more. According to Seok Jae-Eun (2003), while 28.7% of those between the age of 60 and 64 received pension, the figure was only 10.3% for those over the age of 65. With the maturity of the NPS the proportion of the older population who has a claim on public pensions is increasing, but the majority of them still do not.[12] In addition, women tend to be structurally excluded because only those had paid work is covered in compulsory participation. Accordingly, the risks of poverty among the female old is much higher than those of the male old.[13]

To sum up, despite their constant expansion, there are many problems surrounding the coverage of the Korean pension schemes. The current Korean pension system structurally excludes specific groups because it was an earnings-related pension scheme except for the BOPS. Here, we can understand whether a certain class is or will be excluded in the pension schemes. First, as mentioned above, the current older population is a major excluded group. Second, women who do not take part in economic activity tend to be excluded from the pension scheme. Third, the extensive exclusion of the nonstandard workers threatens the purpose of the pension system.

Benefit Assessment

Table 5-11 shows total contribution rate, which includes public and occupational pension schemes. The total contribution rate of the employees who are covered in the NPS is about 17.3% and for those in the Specific Pension Schemes, it is 17%. If so, total contribution rates of the two systems appear similar, but in reality they are different. The taxable earnings of members in the Specific Pension Schemes are about 65% of the real total earnings and the real contribution rate is not 17% but about 11% (Choi Jae-Sik 2007). Considering that the employers' contribution rates of the retirement allowance are known to be about 2.6%, their total contribution rates are about 13.6%.

In the case of employees outside the Specific Pension Schemes, the total contribution rate is 17.3%, which is not small. However, as mentioned above, the 8.3% that amounts to the contribution of the LRA (occupational pension) is not being effectively used for old age income security because the absolute majority still remains in the existing LRA (not the new occupational pension scheme), which has lost its income security function. This transitional system design is a big barrier to the development of Korean pension schemes. The additional increase in the contribution rate in the NPS will increase the total rate to over 20%, which means that it is similar to those Western earnings-related public pension schemes and that it will be difficult to increase it in the context of globalization.

Table 5-11 Total Contribution Rate

	NPS (+ occupational pension)	GEPS, MPPS	PSTPS
Employer	4.5% (+8.3%)	8.5%	8.5% (3.5%: Government)
Employees (or self-employed)	4.5%	8.5%	8.5%
Total	9% (+8.3%)	17%	17%

Note: The contribution rate of 8.3% is under the DC scheme. It is known that the DB scheme has the higher contribution rate.

Note: The self-employed in the NPS are not included in the occupational pension scheme.

Benefit is the most important issue for income security. After the 2007 pension reform, the average income replacement ratio for people who contribute to the NPS for 30 years changed to 30% of the average earnings. The same ratio for those that contribute to the Specific Pension Schemes for 30 years is 70% of the average earnings of the final 3 years. Although the retirement allowance under the Specific Pension Schemes is lower than that of general employees, considering that the real contribution rates of the NPS and the Specific Pension Schemes are 9% and 11% respectively, the benefit difference between them is very large. Because the seniority rule is widespread, this difference in benefits might exceed three times. Considering that, prior to the 2007 pension reform, the earnings rate of members with average earnings under the NPS was about 2 times (Yoon Seok-Myung 2003) and that of the GEPS was over 3.5 times (Choi Jae-Sik 2007), a reform of the Specific Pension Schemes appears to be urgent.

Next, how can the benefit level of the NPS be assessed? As mentioned above, when it was introduced, its average income replacement ratio was 52.5% (for 30 years contribution), but the 1998 and 2007 pension reforms reduced it to 45% and 30% respectively without an additional increase in contribution rate. The standard, in terms of the old age pension benefits of the ILO, shows what the continuous reductions in the NPS replacement ratio mean.

Table 5-12 Standard of Old Age Pension Benefit of the ILO and the NPS

Standard	ILO minimum standard	ILO low standard	ILO high standard	NPS
Entitlement age	65 years old or legal retirement age	Below 65 years old	-	60 years old. Increase from 2013 (65 years old in 2033)
Requirement	30 years' contribution or employment record. 15 years' contribution or employment record to obtain the reduced benefit	Same to minimum standard	Minimum 20 years' contribution or employment. 10 years' contribution or employment record to obtain the reduced benefit	20 years' contribution. 10 years' contribution to obtain the reduced benefit
Benefit (contribution for 30 years)	Over 40% of the previous earnings	Over 45% of the previous earnings	Over 55% of the previous earnings	Over 30% of the previous earnings

Note: Minimum standard is 'Social Security minimum standard convention (No. 102)' legislated in 1952. Low standard is 'Disability · Old age · Survivor benefit convention (No. 128)' legislated in 1967. High standard is 'Disability · Old age · Survivor benefit convention (No. 131)' legislated in 1967 (ILO 1992).

The benefit level of the NPS was initially designed above the international standard but, after two pension reforms, it took a backward step. On the basis of 30 years of contributions, the initial replacement ratio was 52.5%, which exceeds the minimum standard of the ILO (table 5-12) and, after the 1998 reform, it was 45%, which also meets its minimum level. However, the 2007 pension reform sharply reduced the ratio to 30%, which was an undesirable amendment that seems to give up on old age income security.

Considering that the replacement ratio of the new occupational pension is expected to be about 25% with 30 years of contributions (Moon Hyung-Pyo 2004), the successive reduction in NPS benefits can be assessed differently. If the current income replacement ratio in the NPS is about 30% and that of the occupational pension scheme is about 25%, the total replacement ratio would be about 55%, which meets the standard of the ILO referred above - considering the BOPS, it would reach 60%. According to this assessment, despite the drastic cuts in benefits in the NPS, the total benefit level is not insufficient according to the international standard.

However, if it is concluded that such a development means that the Korean old age income security has evolved successfully and provided the appropriate income security, this would be wrong. The total replacement ratio referred to above is the benefit level under the assumption that the current system will be maintained for a long time. Accordingly, it is wrong to regard it as the current total replacement ratio. For example, to receive occupational pension benefits at a 25% replacement ratio would take a minimum of 30 years. Accordingly, the 55-60% replacement ratio from the public and private pension schemes will apply not to the current middle-age or the older population but to the young generation, who only recently entered the labour market, or to future generations.

Therefore, it is meaningless to calculate the replacement ratio when the transition into an annuity is incomplete and when the system maturity requires several decades. Therefore the focus should be on examining alternatives to supplement incomes for the current older generations that are still excluded from the appropriate old age income security - in 2003 90.5% of the pensioners received a benefit below the minimum living standard (Seok Jae-Eun 2003) - and for the current mature middle-age working generations who are expected to face a lack of public/private pension benefits.

However, measures to tackle them still appear very limited. The introduction of BOPS in 2008, which provide 5% of the coefficient 'A' in the NPS for the current retired population, was a remarkable change, but its benefit level is very low and its effects on poverty relief or prevention are questionable, even though its coverage was expanded four times and total expenditure has increased rapidly.

How much the current older population is provided with benefits is an important criterion in examining pension reform. The amount of benefits, except for the Specific Pension Schemes, is insufficient, and the average benefits in the NPS is no more than ₩ 0.22 million (US $ 220) per month. According to Kim Soo-Wan and Cho Yoo-Me (2005), the proportion of the entire income of the old between the age of 65 and 69 coming from pension benefit is only 14.1%. Given the recent increase in old age poverty,[14] relative poverty ratio over 60 increased from 11.7% in 1995 to 23.2% in 2004 (Choi Hyun-Soo 2006) - the importance of the traditional transfers within family seems to be decreasing and, the role of the pension scheme will most likely increase in its stead. Compared to other OECD countries (table 5-13), this proportion is still very low, even though it is expected that it will increase with the maturity of the NPS.

As mentioned above, many older women are excluded from the public scheme, which means that they are exposed to poverty risk. Even if they are provided with a pension benefit, it is likely to be small. According to Seok Jae-Eun (2004), 97.3% of female pension recipients obtain less than ₩300,000, which is similar to the minimum living standard while 85.4% of male recipients obtain less than this amount. This difference does not exactly reflect the actual state because the pension scheme is not yet mature, but what is clear is that the poverty risk of older women will be much higher under the current system design than that of older men.

Table 5-13 Income Source between 65 and 69 in OECD Countries (Percentages)

Countries	Earned income	Asset income	Public assistance	Private pension	Others
Germany	17.2	3.3	70.0	9.5	0.2
Sweden	16.1	5.0	62.0	16.4	0.5
Switzerland	15.1	19.2	43.1	21.8	0.8
UK	15.6	10.0	46.3	27.3	0.8
USA	28.8	12.2	41.3	17.4	0.3

Source: Rein *et al.* (2004)

Next, it is necessary to examine the distributional elements in the Korean pension system. As mentioned above, while the Specific Pension Schemes, occupational pension (the LRA) and the personal pension scheme do not have redistributive elements, the BOPS and NPS have them. However, even though the Specific Pension Schemes do not have redistributive elements in their benefit formulae, general taxation to compensate for this deficit has been and will be used, which is regressive when considering that the members in the Specific Pension Schemes are relatively rich. It is clear that the BOPS is a scheme to pursue redistribution but, as examined below, considering that it is expected that its total cost in 2015 will be less than the compensation for the deficit in the GEPS, its redistributive effect will be small.

Because the NPS covers the majority of people, its redistributive effects are very important and the assessment of the redistributive features of the NPS is varied. While some may claim that the redistributive factor is too strong, others may insist that it should be further enhanced. The former can claim that members with half of the median earnings will receive a pension to replace 90% of their earnings if they contribute for 40 years and that their benefits are too much (Moon Hyung-Pyo 2004).[15] In contrast, the latter may claim that it is natural for the NPS to have a certain degree of redistribution because Korea does not have a basic pension scheme to reduce poverty in old age. Thus, the appropriate level of redistribution is a matter of value, which is related to fairness.

Fairness about the Korean pension system and its reform will be examined in chapter 9.

To sum up, the employees who participate in the NPS, which covers the majority of people, are likely to be provided with a 55% income replacement ratio (including the NPS and the occupational pension scheme) when they contribute for 30 years. However, the minimum period of 30 years from now on is necessary to receive such income replacement ratio, and there are high risks where the current older population and middle-age population will suffer from inadequate income until the NPS and occupational pension schemes mature.

Financing

The negative imbalance between contribution and benefits, an unsustainable earnings rate, is likely to have influences on pension finance, which increases the demand for pension reform. This is a worldwide phenomenon and what most pension reforms aim for is an increase in the sustainability of pension financing.

Table 5-14 Fund Estimation in Specific Pension Schemes (₩1,000 Billion)

	GEPS			MPPS			PSTPS			
	A	B	C	A	B	C	A	B	D	E
2007	6	5	1	1.8	0.9	0.9	2	1	1	10
2010	7	6	1	1.9	1.0	0.9	3	2	1	14
2015	14	6	8	2.6	1.4	1.3	4	3	1	19
2020	25	8	17	3.2	1.8	1.5	5	6	-1	17
2025	41	11	30	4.3	2.3	2.0	6	11	-5	1

Note: A: expense. B: contribution revenue. C: government compensation. D: A-B. E: accumulated fund.

Source: Yoon Seok-Myung (2007)

All of the Korean contributory public pension schemes have faced fund exhaustions or are expected to exhaust funds sooner or later. While fund exhaustion in the NPS is expected to happen in the distant future, funds for the Specific Pension Schemes, which have matured already and which have a higher earnings rate than the NPS, have already begun to dry up. The fund of the MPPS was exhausted in 1977, and in 2007 the government provided compensation of about ₩ 900 billion. The fund of the GEPS was also exhausted in 2001, and in 2007 the government compensated it with about ₩ 1,000 billion. This is no more than 0.05% of GDP but it is expected that the deficit of the GEPS will increase rapidly to ₩ 17,000 billion, 0.73% of GDP, in 2020.

The PSTPS did not face fund exhaustion in the past but it is expected to be exhausted in 2025 (table 5-14).

This fund exhaustion is an important element in the demand for pension reform concerning the Specific Pension Schemes. Even though the number of members in those schemes is no more than about 10% of the number of members in the NPS, considering that the members of the former have above average incomes, such schemes which provide them with a high earnings rate and for which the government compensates them with ample tax money is likely to be regressive. According to Choi Jae-Sik (2006), it is estimated that about ₩6,200 billion will be used to compensate for the deficit in the GEPS in 2015 - the expected cost for the BOPS in 2015 is no more than ₩5,100 billion. It is nonsense that the tax cost for the recipients of the GEPS, who are mostly in the upper classes and who are expected to be about 400,000 in 2015 is expected to exceed the cost of helping support minimum livelihood for recipients of the BOPS, who are mostly in the lower classes, and who are expected to total about 4 million in 2015. Moreover, the government has provided huge compensation for the MPPS from 1977.

Table 5-15 Financial Estimation after the 2007 Reform (₩1,000 Billion)

Year	Accumulated fund	Revenue (A)			Expenditure (B)	A-B
		Total	Contribution	Return		
2007	244	38	22	16	6	32
2010	357	51	27	23	10	41
2020	984	112	53	59	32	80
2030	1,931	202	91	111	99	103
2040	2,701	294	131	163	242	32
2050	1,808	313	187	126	535	-222
2055	-48	248	221	27	728	-480
2060	-	262	262	0	995	-734
2070	-	387	387	0	1687	-1300

Source: Yoon Seok-Myung (2007)

More important than fund exhaustion in the Specific Pension Schemes is the financing of the NPS. The problem of the NPS is different from that of other OECD countries. The NPS was designed as a funded scheme, which is not a system in which the working generations are responsible for the older ones, but rather one in which members themselves contribute the capital and this capital is accumulated. However, because the earnings rate of the NPS has been set high since its introduction, the maintenance of the current design will force the fund to be exhausted in the long run. According to the long-term fund estimation by the National Pension Service after the 1998 reform, it is estimated that the fund will reach a maximum in 2036 and be completely exhausted by 2047. That is, despite the 1998 reform pension fund exhaustion was estimated again, which led to further pension reform debates. The result was the 2007 pension reform. Although the official long-term fund estimation was not announced, according to an assessment (table 5-15) by Yoon Seok-Myung (2007), it is estimated that the NPS fund will be exhausted in 2055.

The management and finance of the NPS fund, for which estimations project that the maximum fund accumulation will amount to about 70% of GDP, have been central in the Korean pension reform debates and are dealt with in detail in chapters 6 and 9.

Administration

Even if a system has succeeded in one country, there is no guarantee that it will be successful in others. The reasons why each performance is different across countries are various. Tradition and socioeconomic background can cause differences in performances and administrative capability cannot be ignored. That is, every country is bound to have a different administrative capability and, as a result, system performance may vary widely.

As mentioned above, Korean public pension schemes are managed by different administrative bodies. That is, the National Pension Service manages the NPS and the GEP Corporation, the PSTPS Corporation and a section in the Ministry of National Defense manage GEPS, PSTPS and MPPS, respectively. There is no benefit connection between these corporations. In 2004, the National Pension Development Institute, reporting directly to the President, finished the preparation to implement the benefit connection between them but its implementation has been delayed until now because every corporation opposed it.

Table 5-16 Proportion of Self-employed in Total Employment

	Germany	Spain	France	Italy	Holland	Sweden	UK
Proportion of the self-employed	9.0%	18.5%	9.1%	23.0%	9.6%	10.1%	11.8%

Source: Williams (1999)

The biggest problem in pension administration is income investigation. The specific difficulty in investigating the income of the self-employed is widely known. The proportion of the self-employed in Korea (about 30%) is much higher than those of other developed countries (as shown in 5-16), which means that administrative costs can run high. If contributions and benefits are designed as a flat rate, income investigation would be of no importance. However, when the current NPS assesses the benefit, the earnings of both the self-employed and employees are considered at the same time. That is, except for the earnings-related part ('B'), the 'A' (the average earnings of all members for 3 years) depends on the average earnings of both the self-employed and employees. When the coverage of the NPS widened in 1999, 'A' was reduced very rapidly. The 'A' was ₩1,272 thousand in 1998, but in 1999 it was cut to ₩1,130 thousand (by 11.1%). So, the pension benefits for new recipients were reduced significantly. It is a problem that incomes of the self-employed are much less than those of employees but, more importantly, there is also the question as to whether the self-employed make false income returns. The reported income of the self-employed is said to be about 50% of their real income (Sung Myung-Jae 1999; Lee Chul-In 1998). Under the recognition that the self-employed make false returns, it is expected that the reliability of the NPS is likely to diminish. Hence, income investigation for the self-employed is a key issue in the NPS administration.

Income investigation for the self-employed, which is not only expensive but also unable to guarantee accuracy, has been very inefficient. It is easy to assess the contribution of occupational members because they cannot disguise their earnings and so the National Pension Service assesses the amount of contribution by using the income data of the National Tax Service (NTS). The NTS has income data for the self-employed as well. However, the National Pension Service does not use the data. The income of the self-employed, which the NTS assesses, depends on the self-reporting of the self-employed. Accordingly, if the income data of the NTS is used to assess the amount of contribution, most of the self-employed would receive payment exemptions.

An aim of the NTS is to detect as much tax evasion as possible by using the minimum number of required personnel and the low cost. Income investigation for the poor self-employed takes a lot of costs and required personnel, which makes NTS reluctant to undertake income investigation for the poor self-employed. In contrast, the purpose of the National Pension Service induces many people to be covered in the NPS and so it carries out independent income investigations. The National Health Insurance Corporation (NHIC) also makes independent income investigation, and therefore the National Pension Service, NHIC and NTS all make independent income investigations.

Table 5-17 Main Organisations in the Collection of the Social Insurance Contributions

Special Social Insurance Corporation	National Tax Corporation
Australia, Austria, Belgium, Switzerland, Turkey, Czech Republic, Demark, France, Slovakia, Spain, German, Greece, Japan, Poland, Luxembourg, Mexico, New Zealand	Canada, Finland, Hungary, Iceland, Ireland, Italy, Netherlands, Sweden, Norway, UK, USA

Source: OECD Tax administration in OECD (2004)

Table 5-17 indicates that in all OECD countries, except for Korea, the National Tax Corporation or a single corporation takes charge of income investigation. For example, in Germany there are several insurance corporations but the medical insurance corporation takes charge of income investigation. However, in Korea each corporation takes charge of its own investigation.

Conclusion

This chapter has described and analyzed the Korean pension schemes. The longstanding tradition of family transfer as the main livelihood for older people is fading and it is necessary to strengthen old age income security through pension provision. Korean pension schemes have evolved for the last 20 years and the expansion of coverage, adjustment of earnings rate and enhancement of administrative capability, among others, have been in the process of development. However, the full maturity of the main schemes - the NPS and occupational pension - will take more than 20 years and they are not sufficient for supplementing old age income during this transitional period. The introduction of the BOPS is important, but it is small in scale, and costing no more than 0.2% of GDP. On the contrary, pension reform has focused on pension fund exhaustion in the remote future rather than the current lack of income in old age. While the pension reform concerning the GEPS or MPPS, whose fund was already exhausted and where huge tax has compensated for their deficit has been delayed, the radical reform in terms of the NPS - whose fund is expected to be exhausted in 40 years - was relatively easily achieved. As Ervik (2005) indicates, the worry in terms of pension fund exhaustion dwarfs other important issues and the expected NPS fund exhaustion in a remote future overshadows other issues such as strengthening the income security.

While public pension reform under the Western PAYG means a 'reduction in benefits or/and increase in contributions', the Korean NPS reform also includes a 'pension fund increase or/and delay of fund exhaustion'. The huge pension fund is bound to influence the process and characteristics of pension reform. Anderson and Meyer (2003) also indicate that financial cushion through fund accumulation gave reformers a degree of maneuvering room that simply does not exist in the PAYG scheme. Pension funds, which are often ignored in the analysis of Western pension reforms, is a crucial variable in the Korean funded scheme. Following this system description and analysis, Korean pension funds are explained in chapter 6.

Notes

[1] When the NPS was introduced in 1988, there was an intention to abolish the existing LRA in stages. As a result, there were attempts to convert a part of contribution of the LRA into that of the NPS. This was the retirement conversion money (contribution). However, with the abolition of the retirement conversion money in 1999, the LRA remained.

[2] The government subsidizes a part of contributions for farmers.

[3] According to Barr (2004), these two are the main functions of pension system.

[4] While spouses are provided with ₩ 195,910 (£ 1 ≒ ₩1900) per year, children or parents receive ₩130,600 per capita per year. (₩ (Won): Korean currency)

[5] Other benefits such as disability or survivor pension are omitted.

[6] In 1997 the interim calculation was adopted, which made the function of income security worse. Under it employees could obtain LRA benefits regardless of their retirement or job changes whenever they want to be provided with them. This system could be useful for preventing some employees from stopping work and obtaining the LRA to obtain urgently needed money. In addition, in the situation that the payment guarantee of the allowance was not secure, employees could keep their entitlement throughout the interim calculation. However, its adoption meant that the LRA gave up its function of income security.

[7] According to Um Hyun-Taek (2004), one-third of the members are provided with the interim calculation.

[8] Only temporary employees - those who work for less than 1 month - and employees who work less than 15 hours per week are not covered.

[9] Nonstandard workers go against the concept of the traditional workers with (life)long and stable contract. That is, nonstandard workers include the temporary workers and part-time workers and so on. Their job security is likely to be precarious and their salaries are lower than that of the regular workers.

[10] The proportion of women among nonstandard workers is high. Of the women who took part in the economic activity in 2001, only 29.8% were traditional employees, and the other 70.2% are nonstandard workers such as temporary and part-time workers. In 2001, the proportion of men who were the traditional workers was 58.9%, with the proportion of men for nonstandard workers being 41.1%. Comparing men with women, the latter are at a greater risk of being in nonstandard employment (Seok Jae-Eun 2004b).

[11] This is the number calculated in 'survey of economic activity population' of the Korea National Statistical Office, while the number calculated in the Ministry of Labour is 4.65 million people.

[12] Recently, the proportion of older people who receive public pensions has risen. 22.4% of those over 65 received the NPS or Specific Pension Schemes in 2007 (National Statistics 2008).

[13] While 27% of the males who are over the age of 60 obtained public pension benefits, only 6.6% of the females received them.

[14] See chapter 8 to see the numeric value in detail.

[15] If they also obtain lump sum retirement allowance, the income replacement ratio will be higher.

Chapter 6

The Korean Pension Fund

Blackburn (2002a) argues that, if Marx was alive, he would examine pension funds to grasp the essence of capitalism. Due to the main characteristic of a pension fund, long-term capital,[1] they are regarded as different from general savings (Tonks 2007) and so pension funds seem to be a crucial variable in understanding the attributes, including instability, of modern capitalism. Pension fund assets in the OECD in 2001 represented roughly 9 trillion euros and, on average, about 25 percent of GDP and about 33 percent of market capitalization (Salou 2004; 2005). Different management methods are used in different countries. Many pension analyses such as Blackburn (1999; 2002a; 2006), Minns (2001) and Clark (2000) are based on occupational pension funds. They have different perspectives, but overall, they examine how companies, government, financial institution, and people recognize and deal with pension funds and how they influence the reproduction, expansion and regulation of capitalism.

How public pension funds differ from occupational ones has hardly been examined, but it is necessary to make this distinction clear because the former is publicly controlled. For example, in the USA - where the economic regime is one of the most liberal in the world and whose occupational pensions invest in a lot of risky assets, the public pension fund, OASDI, invests only in domestic bonds. However, this does not mean that all public pension funds focus on investment in non-risky assets, for example Canada permits its public pension fund to invest in risky assets. Hence, the principles and methods surrounding public pension funds are very different, which means that the philosophy or perspectives of pension funds vary. As Estevez-Abe (2001) indicates, the nature of funded welfare programs is bound to be different from other welfare programs and the existence of a fund necessitates regarding pension schemes as financial as well as welfare instruments. Accordingly, it can be seen that the financial groups, among others who are minor actors in PAYG pension reform, will be one of the main stakeholders under funded schemes.

As noted in chapter 5, the Korean public pension schemes that are designed as funded ones have increased and are expected to increase their fund accumulation, and the occupational pension scheme recently introduced is also increasing its fund. It is very important in the study of Korean old age income security (pension reform) to understand the characteristics of pension funds as well as the general system analysis dealt with in chapter 5, although the PAYG pension reforms often ignore this aspect. However, for the sake of coherence of arguments, only the National Pension Fund (NPF) and occupational pension fund are referred to in this chapter. As mentioned in Chapter 5, the GEPS and MPPS funds are exhausted[2] and, although the PSTPS fund is accumulated, its proportion in the total amount is relatively small.

Public Pension Fund

Although the NPS fund is a unique Korean feature that seldom exists in Western countries where PAYG schemes were adopted, it does not mean that only Korea has this kind of public pension fund. Some countries, such as Switzerland and Sweden, have (or had) huge public pension funds, which play a very important role in their pension design and Palacios (2002) estimates that at least 65 countries worldwide have significant reserves in their publicly managed pension schemes. In the case of Switzerland, the huge public pension fund has enabled its contribution rate to be fixed for 30 years, in spite of demographic pressure, and in Sweden the existence of pension fund was an important variable in the pension reform towards the NDC scheme (Anderson and Meyer 2003).

Table 6-1 summarizes the different levels of public pension funds in various countries. The table, which sums the data between the 1980s and the 1990s, shows that the level of public pension fund in each country is not related to the degree of welfare development, but depends on public pension design and the degree of maturity in public pension schemes.

In Korea, the NPF currently amounts to about 25% in GDP and it is expected that in 2040 this will increase to about 70%. The 2007 reform increases the expected fund accumulation further and the speed of NPF accumulation is very fast. Such a rapid increase has induced different groups to announce their blueprints in terms of pension fund management. As it can be expected, while financial/economic schools of thought focus on the huge fund as a drive for economic development and as a means for development of the equity market, the welfare community suggests that a part of this fund, which has a welfare characteristic, should be invested for the welfare field. In addition, there are different opinions between different interest groups and political groups in terms of the many alternatives to increasing the earnings rate.

Table 6-1 Publicly-Mandated Pension Fund Reserves in some Countries (per GDP)

Partially Funded DB				Centrally-managed DC (Provident Fund)	
Egypt	33.1%	Tunisia	6.9%	Malaysia	55.7%
Sweden	32.0%	Swaziland	6.6%	Singapore	55.6%
Japan	25.0%	Jamaica	5.7%	Sri Lanka	15.2%
Jordan	16.9%	Costa Rica	5.4%	Kenya	12.1%
Mauritius	13.1%	United States	5.0%	Tanzania	9.4%
Philippines	11.2%	Yemen	4.0%	Swaziland	6.6%
Gambia	11.1%	Honduras	3.5%	India	4.5%
Canada	11.0%	Senegal	1.6%	Nepal	4.0%
Belize	10.5%	Ethiopia	1.4%	Indonesia	2.8%
Ghana	9.4%	Algeria	1.2%	Brunei	2.4%
Morocco	8.7%	Chad	0.5%	Zambia	0.7%
Switzerland	7.1%	Namibia	0.4%	Uganda	0.6%
Korea	7.0%	Paraguay	0.4%		

Source: Palacios and Pallares (2000)

Development of NPF

Because the NPS adopted the (partial) funded approach, its fund has been accumulating since the system was introduced in 1988 and the total is still increasing. The cumulative total, in 2006, was about ₩ 182,214 billion, 19% of the GDP. Table 6-2 shows the development of fund accumulation since 1988.

How such an increasing fund should be managed has been the concern of many stakeholders, and there have been a lot of debates in terms of NPF management. The NPS's earnings rate prior to the 2007 was nearly 2, which means that its pension fund will be exhausted in the long run. As mentioned in chapter 5, according to the long-term financial estimation prior to the 2007 reform, the NPF was expected to reach maximum accumulation in 2036 (₩ 1,715 trillion) and to be totally exhausted in 2047.

The 2007 pension reform not only reduced the benefits but also delayed the fund exhaustion period. However, as table 5-16 shows, it is expected that, according to the new long-term financial estimation, the NPF will be the highest in 2040 (₩ 2,070 trillion) and be exhausted in 2055. This reveals that the radical reform extends the exhaustion period by only 8 years. Even though the 2007 reform deprived the NPS of the income security function, financial stabilization would not be achieved.

Table 6-2 Development of the NPF (₩ Billion)

	Revenue	Expenditure	Net increase	Funded money
	(A)	(B)	(A-B)	Cumulative total
2006	30,695	4,763	25,931	182,214
2002	19,182	2,036	17,146	93,055
1998	11,661	2,451	9,211	37,702
1994	4,342	534	3,807	11,495
1990	1,019	43	977	2,211
1988	528	0.3	528	527
Total	213,154	30,940	182,214	

Source: National Pension Service website (www.nps4u.or.kr)

Along with arguments that predict the exhaustion of pension funds, there are arguments that predict otherwise. That is, there are arguments as to how the huge pension fund which has been, and will be accumulated, should be managed and how the economic/social shock, which will happen inevitably when the pension fund decreases very rapidly, can be solved. It is still not clear what the best alternative is as to how the large NPF will be managed. In addition, according to financial estimation, it is expected that the period from maximum fund accumulation to its total exhaustion will only take 12 years, but it is not clear what such radical decline means or how it can be planned.

Hence, there are two contradictory suggestions about the NPF. One is that the pension fund is too small, while the other is that it is too great. That is, on the basis of different interests and perspectives, the huge amount of money in the fund or its exhaustion, there are very different ideas about pension reform.

Investment of the NPF

The size of the NPF has increased and it is expected to keep increasing for over 30 years. There are many elements to determine financial estimations about the pension fund - the fertility ratio, expected life span and economic circumstances and so on - but, it is known that an increase in the earnings rate of 1% will delay the exhaustion date by 5 years. The long-term nature of pension funds means a small change in the earnings rate makes a big difference. Tonks (2007: 456-7) shows this characteristic very well:

> For example, in a pension scheme that requires annual contributions of $1,000 over 40 years, the fund's assets would build up to $128,000 in value at retirement if the return

on cumulated funds was 5 percent per year; but the same contributions over the same period if the rate of return was 6 percent would grow to $154,800.

These small changes in return on assets can have a dramatic impact on the size of a pension fund at retirement because of the long-term nature of pension funds. Accordingly, how the huge NPF invests is as important as its pension reform. The National Pension Service has set four aims in managing this fund: stability, profitability, public interest and flexibility. We know that all of these four aims are important for public pensions. However, it is true that the trade-off between stability and profitability creates difficulties setting the right management. Although the aim that the fund should be operated stably and that the fund should make a high profit are equally important, it is difficult to pursue these two aims at the same time. Accordingly, most debates regarding pension fund management have been about how to harmonize these aims.

The real investment of the fund can be classified into three sectors: public, welfare and financial sector. As table 6-3 indicates, in the early days when the NPS was first introduced, the proportion of investment in the public sector was high because the government made use of a part of this fund as a sort of compulsory deposition. However, its low earnings rate and unreliable management caused public mistrust and a revision of this management was demanded. So, the compulsory deposition from the government was repealed in 2001[3] and, after a transition period, investment in the public sector was completely abolished in 2005. In the case of the welfare sector, a temporary lending program for the improvement of living conditions to relieve the poor has been carried out since the economic crisis in 1997. Investment to build welfare institutions was also a part of this sector. However, the low earnings rate of this sector was a chief obstacle to expanding this sector even though this fund has a welfare function for social capital. Instead, investment in the financial sector, which was below a quarter of total investments in 1998, has increased in proportion due to its expected high earnings rate. With the abolition of compulsory deposition, over 99% of the overall NPF have recently been invested in bonds, equities, and alternative investments with high earnings rates. The recent pursuit of high earnings rate has increased the proportion of investment in the financial sector, which implies that profitability in the management of the NPF overwhelms other aims.

Table 6-3 Development of Investment by Category (₩ Billion)

Year	Total	Public sector	Welfare sector	Financial sector	others
2006	182,214	0	257	181,593	362
2005	156,282	0	314	155,615	353
2004	133,276	6,377	375	126,185	339
2003	112,567	15,251	439	96,576	299
2002	93,055	24,221	525	62,048	281
2001	75,909	30,784	632	44,223	268
2000	60,869	34,511	716	25,387	255
1999	47,239	31,857	989	14,145	247
1998	37,702	26,795	1,438	9,231	237
1997	28,491	19,065	805	8,411	209
1996	21,850	14,675	964	6,301	179
1995	16,117	10,435	630	4,889	161
1994	11,495	6,551	482	4,320	139
1993	7,688	3,080	390	4,141	76
1992	4,812	2,127	240	2,382	42
1991	3,379	1,517	120	1,689	51
1990	2,210	1,017	0	1,180	12
1989	1,234	627	0	605	1
1988	527	288	0	239	0

Source: National Pension Service

Note: billion won ≒ million dollar

As table 6-4 shows, the earnings rate of the financial sector has been a bit higher than those of other sectors. Not only it is invested in a certain sector, but also, with the sharp increase in the financial sector, the actual investment portfolio within the financial sector is an important issue. The distributional problems within the financial sector cause many debates because the earnings rate of the financial category, the biggest among the categories can decide the entire earnings rate. This financial category is classified into the following six: domestic bonds, domestic equities, foreign bonds, foreign equities, alternative investments and liquid funds. The main financial investment from the introduction up to now has been domestic bonds, and its proportion is still very high. So, the proportion of the NPF in the Korean bond market amounted to 16.3% in 2005. That is, the size of the NPF in the Korean bond market is so big that it can control the whole bond market. However, because of the low earnings rate in bond investment and the strong demand for investment diversification in the pension fund, the proportion of bond investment has been and will be reduced even though the amount of bond investment within the NPF is still increasing.

Table 6-4 Earnings Rates between Sectors (Percentage)

Year	Public sector	Welfare sector	Financial sector	Total earnings rate
1988	11.00	-	12.95	11.98
1989	11.00	-	14.35	12.79
1990	11.00	-	13.83	12.55
1991	11.00	11.00	14.04	12.76
1992	11.00	11.00	14.07	12.68
1993	9.67	11.00	13.87	11.99
1994	10.25	10.94	13.91	12.10
1995	11.64	10.68	13.11	12.11
1996	10.30	9.69	11.86	10.75
1997	10.32	8.67	5.56	8.84
1998	13.02	8.93	18.37	14.41
1999	8.45	8.01	24.49	12.80
2000	8.57	8.05	-1.83	4.69
2001	6.62	5.96	11.37	8.99
2002	6.47	4.53	6.30	6.35
2003	4.90	4.53	8.59	7.83
2004	4.71	3.90	6.01	5.89
2005	4.16	3.60	9.68	9.55
Total Accumulated earnings rate	378.40	217.13	616.49	500.25
Average earnings rate per year	9.09	6.62	11.56	10.47

Source: National Pension Service website (www.nps4u.or.kr)

While investment in the early days was mainly limited to bonds, various different products with a high earning rate are the target of NPF investment now, even if their risks are generally high (table 6-5). While about 3.1% of the entire fund in 1998 was invested in equities - the chief risky asset - the figure rose to over 16% in 2007 and is expected to continue growing.

Table 6-5 Investment According to Financial Category (₩ Billion, Percentages)

		2004		2005	
		Invested money	Proportion	Invested money	Proportion
Bonds	Domestic bonds	116,292	86.8	129,521	79.3
	Foreign bonds	4,303	3.2	11,961	7.3
Total (for bonds)		120,596	90.0	141,482	86.6
Equities	Domestic equities	12,359	9.2	19,713	12.1
	Foreign Equities	343	0.3	681	0.4
Total (for equities)		12,702	9.5	20,394	12.5
Alternative investments[4]		441	0.3	779	0.5
Liquid funds		305	0.2	668	0.4
Total		134,045	100.0	163,325	100.0

Source: National Pension Service website

'The Middle/Long-term Investment Policy Committee for NPF Management', founded by the government in 2001, suggested that the proportion of equity investment in the entire NPF should be 20-30%. Prior to 2005, it had been strictly limited by the 'Fund Management Law' which regulated public fund - NPF included. However, its amendment in 2005 provided the foundation for unlimited increase in equity investment for the NPF. This amendment as well as the subsequent increase in equity investment not only show the change in the financial asset distribution, but also reflect the characteristics of the fund. That is, the existence of the huge NPF and its investment policy help us to understand the political economy of the Korean old age income security.

In addition, foreign investment is also increasing for the sake of investment diversification and it will continue to expand. As mentioned above, the expansion speed of the NPF far exceeds the growth rate of the capital market and the proportion of the pension fund within the capital market is increasing. The proportion of the pension fund in the entire domestic bond market increased from 4.4% in 2000 to 16.3% in 2005, and the proportion of pension funds in the domestic equity market increased from 1.4% to 2.7%. Compared with other countries' public pension funds, the proportion of the Korean NPF in the domestic capital market comes under the very high category (Ohn Ki-Sun 2006). Accordingly, because the proportion of the NPF in the Korean capital market has increased massively, it is difficult to operate neutral asset management without market shock. Therefore, it seems inevitable that foreign investment will increase. As shown in table 6-6, the proportion of foreign investment has increased rapidly, and it is likely to go on doing so.

Table 6-6 Foreign Investments by the NPF (₩ Billion, Percentages)

	2004		2005		2006	
	Invested money	Proportion	Invested money	Proportion	Invested money	Proportion
Total foreign investments	4,648	3.3	12,646	7.7	16,287	9.3
(Bonds)	4,305	3.1	11,961	7.3	15,508	8.9
(Equities)	343	0.2	681	0.4	756	0.4
(Alternative investments)	0	0	4	0.0	22	0.0
Accumulated funds	141,018	100.0	163,945	100.0	174,900	100.0

Source: Ohn Ki-Sun (2006)

Occupational Pension Fund[5]

As mentioned above, occupational pension, which is equivalent to the second-pillar, was introduced in Korea in 2005. However, this transformation was not a sweeping change and the LRA or occupational pension (an annuity) can be chosen through an agreement between the employers and employees. However, the government has induced both capital and labour to adopt the annuity system through generous tax relief. About 32,000 companies and 582,000 employees, as of February 2008, are participating in the occupational pension scheme but, in total, this is only about 6.5% of the entire labour force and 8.5% of all companies. However, with the sharp increase in its members, occupational pension fund has also been expanding. In other words, its introduction represented not only a transition from the lump-sum to annuity but was also the transformation from a book reserve to the funded scheme.

Development of the Occupational Pension Fund

Since the transition into occupational pension, the size of its fund has been increasing. Under the previous LRA system, companies voluntarily decided whether they would accumulate funds and it was a sort of book reserve scheme. However, with the enhancement of the fund accumulation regulation since the transition, employers should contribute over 8.3% under the DC, while employers and employees can negotiate the appropriate fund accumulation under DB, although those that stick to the LRA can have their funds managed under the existing book reserve. It is expected that this change will increase fund accumulation.

The management of the occupational pension fund is limited to general private financial institutions such as banks, investment trusts and insurance companies. Because it is a new scheme introduced less than 4 years ago, its administrative cost or investment portfolio is not known. However, what is clear is that it is modeled on American occupational pension schemes.

Table 6-7 Development of Fund Accumulation (₩ Billion)

	Total	DB	DC
Aug 2006	216	103	113
Aug 2007	1,439	933	507
Feb 2008	2,918	1,892	806

Source: website of Ministry of Labour

It is in an introductory period and the size of the fund is still small. As mentioned above, only 6% of the entire labour force is participating in the occupational pension, and the amount of funding is relatively small. However, the size of the fund is increasing sharply and, as table 6-7 shows, the total fund in February 2008 was ₩2,918 billion, which is over twice what it was 6 months ago. Within the fund, the DB scheme is accumulating ₩1,892 billion and the DC scheme is accumulating ₩806 billion.[6] Considering that the proportion of companies participating in the DB is only about 16.6%, it seems that big companies adopt the DB while small companies favour the DC scheme. In the short run, the slow transition into occupational pension will delay the increase in the size of the fund. However, in the long run, it is estimated that the incentives to induce the transition and expansion of coverage will increase the membership of the occupational pension and the size of fund. According to Kim Jae-Chil (2006), the occupational pension fund will increase to ₩1,745 trillion in 2045. Even if the estimation is based on many provisos, we can see that the accumulated fund will be huge (about 20% of GDP) after 40 years.

Pension Fund Analysis

Both the NPS and the occupational pension scheme do not mature for several decades. Nevertheless, the pension fund itself has been the crucial variable which induced the pension reform. Accordingly, how to manage and regulate pension funds should be examined closely in the Korean pension reform debates.

Whether the NPF, as public capital, should be invested in risky assets or whether a certain level of investment in risky assets is appropriate has been a most controversial issue. Palacios and Pallares (2000) discuss the tendency in public pensions towards secure investment. Their study of 34 countries between 1980 and 1990 indicate that about 75% of public pension funds are invested in bonds and that about 3% of that is invested in equities. Although the proportion of equity investment after the 1990s has increased, investment products in public pensions were mainly bonds all over the world.

This does not mean that the NPF should be invested in secure bonds. If the NPF is invested in bonds only, its stability can be guaranteed but its profitability is likely to be lower and its exhaustion will be advanced. In addition, if a huge fund such as the NPF buys domestic bonds only, it will have negative effects on their price, which will damage both stability and profitability. If so, which investment is the most desirable strategy to achieve the management aims of the NPF? Its comparison with a specific scheme in another country appears to be distorted. Many recent studies in Korea compare the Korean NPF with the USA California Local Civil Servants Pension fund (CalPERS). However, these schemes are different and were designed under different conditions. First of all, the CalPERS, which is for people who have a specific job, has the features of an occupational pension rather than a public pension scheme. Next, although over 60% of the CalPERS is invested in equity markets, the proportion of the CalPERS in the US equity market is much smaller than that of the NPF in the Korean equity markets. That is, while equity investment from the CalPERS fund amounts to about 0.4% in the entire American equity market, that of the Korean NPS amounts to 2.8% of the Korean equity market. Considering that the NPS is still immature, the proportion of the Korean equity market will rapidly increase if the current proportion of equity investment in the NPF persists. Thus, if the proportion of equity investment by the NPF (about 15%) increases to the proportion of the CalPERS (about 60%), the Korean equity market will be controlled by the NPF.

Moreover, the levels of stability in equity markets vary across countries. If the Korean equity market is as stable as the American or EU equity markets, equity investment may be recommended; in fact, the volatility in the Korean equity market is very high and risky, as shown in table 6-8. Therefore, an increase in equity investment of the NPF requires a readiness to suffer greater risk. Theoretically, it is noted that the earnings rate of equities is higher than that of other secure assets, but this is the case for those countries that developed direct financial markets - the UK or USA. Accordingly, it is a very dangerous choice to invest too much of the public pension fund (implicit debt) in the equity market in Korea, where the earnings rate is very volatile.

Table 6-8 Equity Volatility in Different countries (1990-2003)

	Korea	USA	UK	Japan	Hong Kong
Equity volatility	9.9%	4.1%	4.5%	6.9%	8.2%

Source: Stock Business Institution website

As mentioned above, the proportion invested in equities is increasing rapidly alongside the increase in the amount of the NPF, but it is not clear yet whether this trend will raise the earnings rate of the fund or whether it will increase the risk of old age income.

Similarly, there have also been a lot of debates as to whether foreign investments by public pension should be permitted and whether a certain limitation should be set. Theoretically, an increase in foreign investment can be a good strategy to disperse investment risks. Because the fund is large, diversified investment towards foreign markets can decrease management risks. However, in reality, many variables, such as investment conditions in the domestic market, should be considered. For example, 100% of the OASDI fund, the public pension in the USA, is invested in domestic bonds and it does not make foreign investment. In contrast, 100% of the Petroleum fund, a sort of public pension fund, in Norway is invested in foreign bond and equity, which is due to the small financial market in Norway (Kjaer 2004). As mentioned above, the NPF is also expanding its investment methods to include foreign investment, but the appropriate portfolio can be different on the basis of the development states of countries, including the size of their capital markets. McGillivray (2007) points out that foreign investment can be harmful in developing countries and, therefore, it is very important to find the elements of the overall national advantage as well as high earnings rates in public fund management.

The occupational pension fund has a similar story. Each country has a different investment standard and generally, they limit the specific portion of investment. Blackburn (1999; 2002a; 2004) and Clark (2000) insist that occupational pension funds are valuable capital to be employed in socially desirable ways. However, in Korea, the occupational pension fund has been treated the same as general savings and only the general private financial institutions take part in its management. Thus, considering that the pursuit of earnings rates, even in the NPF, is increasing, a 'socially desirable investment' like the Swedish 'Meidner fund' would not be implemented through the occupational pension, which has fewer attributes of social responsibility than the NPS. The single investment option which can be applied to all countries does not exist. So, the various conditions of each country should be examined and, on this basis, their own appropriate strategies should be chosen. So far, this argument in Korea is only at an early stage.

It is clearly an important and controversial issue whether pension funds should pursue only the earnings rate, or whether they should invest in bonds or equities, or whether investment in foreign assets should be permitted. However, what should not be ignored is that, as Musalem and Palacios (2004) indicate, the sustainability of a pension fund depends to some extent on how these funds are administered. While governance is not a great issue in PAYG schemes, which do not have pension funds, it is important in the NPS because there are a lot of issues in terms of the administration of the pension fund. Accordingly, the next section deals with governance of the NPF and the occupational pension fund.

Governance of the NPF

It is known that there is no universally agreed definition of public sector governance (Carmichael and Palacios 2004). The lack of a ready metric by which the agents can measure the performance of the principals (Carmichael 2002) can be partially reduced through transparency, but it cannot be eliminated. In other words, the rule of governance in the private corporation cannot be applied to the public sector and its pension fund.

The two important governance issues in terms of the NPF are its portfolio and ownership. In the different viewpoints surrounding fund investment dealt with earlier, the fund investment portfolio based on governance is examined here. As mentioned above, the amendment of the Fund Management Law accelerated the increase in investment by the NPF in risky assets such as the equity market. However, there are a number of different fund management styles (Tonks 2007) and as Orszag and Sand (2007) indicate, there are no correct answers in pension finance as to how to invest. On the one hand, Carmichael and Palacios (2004) and Impavido (2002) from the World Bank suggest that public pension funds should not make investments in other areas such as social policy instead of investments which can produce high earnings rates. Their investment principle towards a high earnings rate assumes that the raison d'être of public pension plans is identical to that of private ones - the provision of an affordable and sustainable retirement income - and for this to be achieved, the plan should have no other objectives. On the other hand, the International Social Security Association (ISSA) (2004) indicates that the social and economic utility of investments can be an additional subsidiary investment objective for most social security schemes, for example, in education, health care, transportation and communication.

Thus, what is important in the portfolio of public pension funds is whether the attributes of the NPF are the same as those of private pension funds. If individual savings and public pension funds have the same features, it may be correct to consider only the earnings rate. However, one of the official aims in the National Pension Service, which manages the NPF, is to pursue public interest, and there seems to be room to pursue other values except for the earnings rate in NPF management. Moreover, as noted in chapter 5, the design of the NPS implicitly considers intergenerational contract, which means that the traditional family transfer to relieve double payment will persist until its maturity. However, recent sharp increases in poverty among the older population contradicts the initial assumptions, which means that it is appropriate to make use of the NPF as a welfare investment, such as establishment of welfare facilities (Kim Jin-Soo 2006a). The political economy debate concerning this is examined in chapters 8 and 9.

Next, from a more micro perspective, ownership of public pensions is another issue of pension governance. Debates about 'pension fund socialism' that Drucker (1976) suggested or its opposite, 'pension fund capitalism', centre around governance, specifically regarding who has the ultimate ownership of the pension fund. With the recent increase in equity investment by the NPF, whether the NPF should use the voting right or not has been a big concern. The employers supported investments in equities by the NPF but claimed that the voting right should be limited. They worried that the ownership of companies could be threatened by the voting right of the NPF. However, the voting right by the NPF was finally permitted and, recently, the National Pension Service managing the NPF has used this right in general meetings with stockholders. It is not clear who has the ultimate ownership of the NPF. While Drucker (1976) worried that a public pension fund is likely to endanger modern capitalism because its ultimate owners are the members, mainly employees, it would be a means to strengthen capitalism and to transform employees into a sort of quasi-capitalists if the organizations which manage the fund are very company-friendly. Considering the pattern of investment in the NPF, it has focused on the role of the long-term investors, who pursue a high earnings rate.

In conclusion, it is still not clear whether the right governance is in public pension funds. Clearly a small increase in the earnings rate can help the stability of pension funds but it is contradictory to say that the NPS, which has the characteristics of not an individual but a generational contract, should follow the exclusive benefit rule, ignoring serious social problems. Investment in equities by the NPF has been increasing recently and it shows that the high earnings rates the World Bank and OECD focus on are preferred to the social responsibility the ISSA stresses. Also, the ownership of a pension fund should be dealt with very importantly because it can be a crucial element in characterizing Korean capitalism. It is also still unclear whether it will be a means to maximize the profits of employers or to enhance the rights of employees. This issue is examined in chapters 8 and 9.

Governance of the Occupational Pension

Governance, in terms of the occupational pension fund, has been debated more frequently than that of public ones. While the debates in terms of governance of the public pension scheme have been rare because many Western countries do not have funded public pensions, the prevalence of funded occupational pensions have developed the debate in this area. In addition, the benefits of occupational pensions, which the government does not guarantee, are bound to be vulnerable to risks such as bankruptcy, which has increased the concerns of pension fund governance.

Governance in occupational pension funds is different from corporate governance in the private companies. Generally in the companies under capitalism, the real owner and the manager are different and the owner/agent problem is certain to occur. Therefore, in general the agent activity of the managers is partially/indirectly regulated through the exit of the stock owners or through mergers and acquisitions. In contrast, the occupational pension has a more complex story because, first, it has the multi-layered owner/agent relationship and second, it is devoid of market regulatory mechanisms.

As mentioned above, even though the existing LRA has the features of a quasi-occupational pension, its structure of governance was very unstable. The book reserve schemes could not provide appropriate guarantees in terms of unexpected risks such as bankruptcy and, as Pang Ha-Nam *et al.* (2004) indicate, about one-quarter of those who retired in the economic crisis in 1997 were not provided with the LRA. The transition into the occupational pension scheme in 2005 was not only to provide members with a second-pillar benefit to supplement the public pension benefits, but also a governance reform to decrease and regulate instability seen in previous schemes.

Theoretically the ownership of an occupational pension scheme is very complex. In particular, under a DB scheme, the owner/agent relationship is multi-layered and it is likely that conflicts of interest happen. As the governance of companies originates from the agent activity of managers, the agent problem exists in pension fund management (Ghilarducci 1999). Lakonishok *et al.* (1992) refer to a 'double agency' problem, since the employees, who will eventually become the pension recipients, are also principals and they delegate pension fund decisions to the company, which in turn delegates investment allocation decisions to a fund manager. The agent problem for general fund management happens when fund trustees act on their own interests rather than those of their customers (Jensen 1993); the agent problem in the occupational pension fund, on the other hand, does not originate from their own profit-seeking activities but from the structural problems of the DB scheme itself, because pension sponsors are the only trustees in the occupational pension fund. Moreover, in the pension system design and management, there is a lot of managers' discretion and many trust funds can cause conflicts between persons concerned. For example, a typical owner/agent problem occurs if asset management companies decide to use their investment profits to reduce the employers' contributions rather than to increase employee pensions. Accordingly, governance of the occupational pension fund requires not only the mechanism to solve the conflicts between owners and operators of pension assets but also the mechanism to solve conflicts between employers and employees.

Next, the governance of an occupational pension can vary according to the DB or DC formula or as to how the relationship between members, companies, financial institution and government is set within the DB scheme. In addition, governance varies according to Anglo-Saxon or Continental schemes. Generally, under the DB scheme it is difficult for the market regulation to exist as an external supervisory organization to protect the pension assets. Under this scheme the agent activity of the managers can be only partially regulated through market mechanism, but the members of the occupational pension cannot receive pension benefits prior to the agreed age and cancellation of the trust contract is merely a cancellation between the financial institution and companies and, therefore, under this governance it is difficult to regulate against pension finance companies. So, it is necessary to found the tertiary external supervisory organization to undertake the governance.

In addition, the differences between the Anglo-Saxon and Continental approaches within the DB scheme are bound to make differences in terms of governance. As Laboul and Yermo (2007) indicate, independent financial institutions with their own governance and administrative structures in the Continental European countries (Denmark and Iceland) are separate from that of employers and manage pension funds that must have a solvency margin like that of life insurance companies. From the plan sponsor's perspective, these are DC contributions. On the other hand, in the Anglo-Saxon countries, employers were fully responsible for correcting situations of underfunding, and they tried to reduce risks by introducing the pension guarantee agency.

The DC scheme has different risk sharing from the DB scheme and the governance of the DC scheme is different from that of the DB scheme. For example, under the Swiss DC scheme, financial companies that fail to achieve the minimum earnings rate could not participate any longer and for the members the minimum earnings rate is guaranteed. Therefore, financial institutions, employers and employees can share risks under this DC scheme. In contrast, under the Anglo-Saxon DC scheme, members have to bear the risk. In addition, this scheme has recently increased individual choices but this expansion had a number of negative effects. According to Clark and Whiteside (2003), the UK has largely failed to create the trust and confidence which are the necessary foundations for collective participation in new DC pension plans. In addition, the cases of the USA and UK show how much the expansion of individual choices caused negative effects (Blackburn 2002b, Clark and Whiteside 2003). In fact, because this method makes the financial institution avoid risks, it is seriously disadvantageous to employees. In the case of Switzerland, where individual choices are limited to the occupational pension, financial institutions with low fund return rates are excluded in the eligible pension fund companies, account for the loss incurred and protect the old age income of the members. In contrast, the Anglo-American DC scheme, where the individuals select their investments, makes financial companies increase their asset values and avoid risk.

The previous LRA, which did not consider governance, was transformed to resemble the Anglo-Saxon pension approach more with the introduction of the occupational pension scheme. In other words, whereas after the transition the employers were fully responsible for correcting situations of underfunding in the DB scheme, employees who participate in the DC scheme have to decide their own investments. Under this structure of governance either the employers or members bear all risks according to the DB or DC scheme, respectively, which is likely to lead to serious conflicts between them. It is designed so that financial institutions, another major stakeholder group, do not take any risk and can obtain profits through its operations, which shows that the current structure of governance in the Korean occupational pension is very financial institution-friendly. Moreover, many countries, such as Switzerland and Sweden, induce competition between private financial institutions and national social insurance institutions in terms of management of occupational pension or personal pension scheme. Nevertheless, the National Pension Service, which has a lot of experience and know-how concerning pension funds, is excluded from the occupational pension fund management, which also shows the ineffectiveness of governance in the Korean occupational pension scheme.

Conclusion

Although they are not fully funded schemes, the NPS and occupational pension have accumulated and will accumulate huge funds. Here, it is necessary to understand the essence of the Korean pension reform. Pension crises in Western countries have caused the expansion of pension reform discourses and the implementation of their outcomes (reduction in public pension benefits and strengthening of private pensions), but the pension crisis is more a 'willingness-to-pay' problem than an 'ability-to-pay' problem (Engelen 2003). That is, as Concialdi (2006) indicates, the main reason for the reform, privatization, is to be found in financial business interests rather than in the so-called 'crisis' of the public pension system. Accordingly, it is necessary to examine whether the previous pension reforms in Korea pursued the long-term old age income security or were the means to advocate for vested interests. While chapters 5 and 6 analyzed the structure of the Korean pension schemes and their funds, chapters 7, 8 and 9 critically examine the Korean pension reforms and their background from a political economy perspective.

Notes

[1] Del Guercio and Tkac (2002) suggest that the flow of funds into pension funds, which is less sensitive than mutual funds, is due to the long-term nature of pension schemes.

[2] Since 1999, the GEPS fund has been exhausted and the government has compensated for the annual deficits. However, a part of GEPS fund not being used is currently accumulated, which amount to ₩ 4,800 billion in 2008.

[3] The Ministry of Finance and Economy, which were responsible for the management of the NPF, borrowed it at a low interest - ₩ 39,000 billion between 1994 and 2000 - without any supervision, and this investment without any principle weakened the reliability of the NPS. In 2001, the responsibility was transferred to the Ministry of Health and Welfare and, the Ministry of Finance and Economy borrowed was drawn back. However, the interest during the period was not returned - about ₩ 2,600 billion - and the government was reluctant to return it. It happened because, although the tax and pension fund were two separate accounts, the Ministry of Finance and Economy regarded them as one. Accordingly, it is necessary to give independence to the pension fund management.

[4] Alternative investments are financial products which do not belong to traditional bank account, bonds and equity, and includes real estate, SOC fund, venture capital and hedge fund. In certain circumstances, alternative investments can provide high earnings rate but is riskier.

[5] In addition to the occupational pension fund, personal pension fund as another private pension fund also exist but this section deals with occupational pension fund only. To brief discuss the personal pension fund, the size of the personal pension fund has been increased from about ₩ 19 trillion in 2000 to about ₩ 29 trillion in 2005 (Jung Hee-Soo *et al.* 2007). However, the size is just only 17% of the NPF, and considering the accumulation speed in the NPS, the relative size of the personal pension fund will decrease far more even if it seems that personal pension fund will increase to about ₩ 32 trillion in 2010.

[6] A part of the DC scheme - about 20% of the total accumulated DC fund - is operated as a type of Individual Retirement Account (IRA). It is a sort of aggregate devise and, the employees who change their jobs can accumulate their fund until their retirement through IRA. The contents of the IRA are very similar to those of the DC scheme.

Chapter 7

Historical Background and Origins of the Korean Pension System

Chapters 7 and 8 are discussion of the political economy of the Korean pension reform. Chapter 7 explains the background in terms of the development of the Korean economic (and social security) regime, and chapter 8 examines the determinants of the Korean pension reform from theoretical and empirical perspectives. The NPS, which was designed not as a PAYG scheme but a (partially) funded scheme, was introduced as a form of national investment rather than a means for old age income security, and its origin is different from those of the Western countries.

This chapter starts with the unique origin of the Korean pension scheme (or social security). The funded design and huge fund accumulations of the NPS, which was introduced as a source of economic investment, has influenced the development of Korea's pension policy. As Estevez-Abe (2001) indicates, it is necessary to look more closely at the way welfare programs affect the financial market. Due to its huge fund the NPS cannot only be regarded as a welfare system but also as a source of investment. In other words, the funded NPS, which affects the financial market, is bound to create a different interdependence from other welfare systems and the pension reform in Korea has not corresponded with developments in other welfare systems.

Prior to the theoretical and empirical analyses in chapter 8, this chapter examines the core variables of the NPS reform on the basis of the analyses in chapters 5 and 6. It is necessary to explain its background to examine the non-correspondence between the current welfare system and the pension regime. Thus, chapter 7 first refers to the Korean economic development since the 1960s, examining how the Korean social insurance systems, including pensions, were introduced. It was known that the Korean social insurance systems have the characteristics of conservative countries, but the origin of the Korean systems was quite different from that of the Western countries. Examining this uniqueness can help in understanding the Korean pension system. Next, the East Asia economic crisis in 1997, which completely changed the Korean political/ economic/social/cultural sectors, is briefly mentioned, and how these changes affected pension schemes and fund accumulations will be discussed.

'Backward' Economic Development in Korea

In 1960, Korea was one of the poorest countries in the world - GDP per head was just $ 82 (in 1960 prices) - and, the average GDP per head between 1954 and 1960 was only 0.4%. At that time, the Korean economy was based on gratuitous aid from the US defense sector, which amounted to 50% of the entire national revenue in the late 1950s. This aid from the US had decreased since 1958, when the US international balance of payments was went into a deficit (Lee Dae-Keun 1984). Because of the strong subordination of the Korean economy towards the US, the decrease in aid led to the collapse of the Korean economy and, with the resulting political confusion, the (military) authoritarian group seized power in 1961.

Table 7-1 Change in the Economic Growth between 1960 and 1970

Year	Growth rate of GNP (%)	GNP per person ($)
1960	2.3	82.6
1961	4.2	84.8
1962	3.5	83.6
1963	9.1	89.8
1964	8.3	96.4
1965	7.4	101.2
1966	13.4	114.3
1967	8.9	123.5
1968	13.3	138.9
1969	15.7	166.7
1970	8.9	187.3
Average	8.9	-

Source: Korean Statistical Office

In 1963, when the authoritarian government under President Park Jung-Hee (1963-1979) started the national economic development plan,[1] the growth rate of GDP per head rapidly increased to 6.1%, and thereafter GDP growth rate averaged 7% until 1996. In 1997, Korean GDP per capita was approximately $ 11,000 (in 1997 prices), and Korea became a member of the OECD. This high growth was called a sort of 'condensed growth', which was very rare in the world (Cho Sun 1994). In the meantime, Korea had been transformed from an agriculture-oriented underdeveloped country to an industrial country and, due to the high growth unemployment rate had been below 'natural' unemployment rate. In addition, many people who had suffered from extreme poverty prior to industrialization were brought out of it through economic development, although political democratization was delayed until 1987.

Table 7-2 Expected Life Span at Birth (1960-1999) (Percentages)

	France	Germany	Japan	S Korea	Sweden	UK
1960	70.3	69.6	67.8	52.4	73.1	71.3
1970	72.2	70.4	72.0	62.3	74.7	71.9
1980	74.3	73.3	76.1	66.2	75.8	74.0
1990	76.8	75.8	78.9	71.1	77.6	75.7
1997	78.5	77.0	80.5	74.4	79.3	77.2
1999	-	-	80.5	75.9(2000)	79.5	-

Source: OECD 2001a

Economic development has improved various social indicators. The rapid increase in the expected life span is a typical example. As table 7-2 shows, the life expectancy at birth in Korea in 1960 was only 52.4 years, which was much lower than that of other developed countries at that time. However, economic development increased the life expectancy at birth, and in 2005 it became 77.4 years, which is almost equivalent to that of other OECD countries.

Rapid economic and social growth in Korea can be explained by the concept of 'the advantage of economic backwardness'. The idea of 'economic backwardness' was devised by Gerschenkron (1962) to explain how Germany and Russia industrialized after the Industrial Revolution in the UK. Gerschenkron refuted the argument that economic development in all other countries would follow the typical industrial development path that the UK had undergone. The UK experienced systemic development for a long time, undergoing an Industrial Revolution based on it. However, other underdeveloped countries at that time could not meet the prerequisites of the British economy prior to industrialization. Nevertheless, the relatively underdeveloped European countries could achieve faster industrialization than the 'forward' country (the UK) because they quickly replaced the prerequisites of the British industrialization in their own ways.[2] Unlike the UK, where the industrialization was intrinsic and market-oriented, economic growth in 'the backward countries' was organised by governments because they were not prepared to wait for the intrinsic and market-oriented industrialization and because they wanted to push the entire society towards it. In addition, the absence of intrinsic financial institutions and companies forced the government to help to found multi-functional banks and industries to create high value-added products.

Although Gerschenkron (1962) made use of his concept to examine the underdeveloped European countries in the 19^{th} century, his concept has often been applied to other countries such as Japan (Ohkawa and Rosovsky 1973). It was often questioned whether the 'big spurt' of economic development in backward countries existed or not (Tilly 1991; Crisp 1991). However, it can be concluded that there was a 'big spurt' of economic development in Korea (Lee Jae-Min 1999). As mentioned above, since the Korean War (1950-1953), Korea had been one of the poorest countries in the world, and the average economic growth rate was only 0.4% between 1953 and 1960. The authoritarian government which came into power through a coup d'état in 1961 set the development of the domestic economy as its primary goal to justify its illegal seizure of power. As such, a government-oriented economic growth plan was implemented, starting the big spurt of economic growth beginning in 1963.[3] The government, which recognized the experiences of economic development in developed countries, accumulated capital from foreign aid and loans, operating government-oriented economic development on the basis of the highly educated Korean workers.[4]

On the basis of the advantages of backwardness, Korea had persisted in its government-oriented economic growth until the late 1980s. As Gerschenkron's concept indicates, Korea operated high economic growth based on the government's plan and huge banks, with a strong ideological push for high economic development. In the process of economic growth, Korea introduced several kinds of social security systems but it also has the characteristics of 'backwardness'. Unlike the developed European welfare countries, Korea accepted the welfare systems not from an intrinsic awareness of the issues but 'extrinsically'. There were not debates as to which welfare system was suited to the Korean socioeconomic heritages at that time, and the system introduced was no more than an imitation of system in foreign countries. This extrinsic introduction, without awareness of key issues, has since influenced the system development.

Origins of the Korean Social Insurance System

In Western countries the welfare state was devised to overcome the problems that capitalism was certain to create (Rimlinger 1971; Esping-Andersen 1990) even though the forms of welfare states are various. However, experiences in Korea are somewhat different. Prior to economic development in the 1960s, Korea was a typical underdeveloped poor country which depended on gratuitous aid from the USA. However, the economic growth since 1960s rapidly reduced the number of the extreme poor. While the economic development in Western countries inevitably increased welfare needs, the rapid economic growth in Korea urged people to think that economic development would be the best welfare. Political justification could also be achieved through job creation for a labour market with excess supply (Lee Hye-Kyung 2007). So, prior to the 1997 economic crisis, the need for a welfare system was not large and the introduction of such a system was not an urgent issue.

In 1962, the new government declared the establishment of a welfare state on the basis of a social security system (Labour Welfare Service 2004). This declaration can be regarded as a strategy to obtain short-term political legitimacy (Kuhnle 2001). First of all, the introductions of unemployment insurance and industrial injury compensation insurance were considered. At that time, unemployment was an urgent issue and, from the 1950s, political parties and labour unions had demanded the introduction of insurance (Nam Chan-Seop 2005). Hence, the public as well as employees knew the details of unemployment insurance and supported its introduction. In contrast to unemployment insurance, the introduction of industrial injury compensation insurance had never been considered prior to 1962. However, while the introduction of unemployment insurance was delayed, industrial injury compensation insurance was introduced in 1964. The reason was very simple: industrial injury compensation insurance cost much less than unemployment insurance. Moreover, when it was introduced, companies only which employed over 500 employees were covered. Considering the low economic growth levels at that time, there were few companies which employed over 500 employees and it only covered about 82,000 workers in 1964. This means that the introduction of Korean social insurance did not originate from the need to solve existing social problems and, when it comes to the introduction of social insurance, the only interest of the government was to introduce a less costly scheme.

Next, medical insurance was introduced in 1977. Its introduction was closely related to the economic conditions at that time. Since the early 1970s, the authoritarian government realized the limitation in the existing light industries and tried to transform them into heavy industries. This transformation was very successful, but constant industrialization revealed problems in labour supply. The supply of labour, which had been virtually unlimited since the early 1960s, became insufficient in the mid-1970s. As such, unemployment rate in 1977 was no more than 3.0%. According to Kim Young-Bum (2002), overall employee wages at that time increased rapidly and the rate of increase in wage in other industries exceeded that in heavy industries. This meant that the heavy industries, which were strategically important to the government's plan, could face labour shortages. Thus, the government had to provide workers in heavy industries with special incentives because a shortage of labour in heavy industries would damage the national economy. The government decided to introduce medical insurance to give incentives to skilled workers in heavy industries. When medical insurance was first introduced in 1977, it coveraged the employees who worked in companies which employed over 500 employees. At that time, the majority of companies that employed over 500 people were in the heavy industries. That is, the government made use of the medical insurance as a means to increase the labour force in heavy industries, which faced labour shortages at that time. The Korean medical insurance, which modeled the Japanese scheme, operated through 400 separate organizations. The coverage was gradually expanded and, in 1989, it became a system that covered all citizens except for those receiving public assistance.

Next, the introduction of the NPS is the most important step in the origin of the Korean social insurance. As mentioned in chapter 5, its introduction was considered in 1973. Due to the unexpected economic growth at that time, the government thought that the early 1970s would be a good time to develop the national social security system (National Pension Service 1998). However, there were no intrinsic needs to introduce public pensions from the public at that time. People over the age of 65 in Korea only amounted to 3.6% of the population in 1969 and, at that time, the majority of older people lived with their sons, depending on their sons' economic support to live. Because intergenerational solidarity within a family was so strong, there were no pension schemes even in voluntary sectors[5] and the internal needs concerning the introduction of public pension were absent. Very few professionals, such as an economics professor who wrote a report – *A feasibility study of compulsory contributory retirement scheme in Korea* - by the USAID (United States Agency for International Development) and a KDI (Korean Development Institution) president, tried to introduce the idea of a public pension (National Pension Service 1998). Eventually, the National Welfare Pension Scheme (NWPS) as a universal public pension was enacted in 1973.

In fact, this scheme was introduced as a means to increase savings (economic growth) rather than for old age income security. When the introduction of the public pension scheme was considered in the 1970s, the Korean economy was facing difficulties due to foreign loans. At that time, even though economic growth rate was very high, the pressure to pay the huge national debt started to increase from the late 1960s because of massive foreign loans (Lee Dae-Keun 1984). Accordingly, the government was troubled over the debt repayment and additional capital raising in the early 1970s. So, in 1971, it announced a domestic capital-oriented investment plan. However, the domestic savings rate was not enough to operate this plan at that time. Thus the authoritarian government tried to introduce a public pension scheme to repay the existing foreign debt and to invest in heavy industries (Lee Hye-Kyung 1994). The public pension, which was suggested to solve the urgent economic dilemma, was recognized as a capital source rather than as a means of old age income security. A pre-funding system design could realize the accumulation of a huge amount of capital and the government could manipulate the public pension fund for its own purposes during the early decades, when the overall contribution would exceed the overall benefit. Thus pension funds were regarded as important resources for the national economy in the transformation from light to heavy industries. However, due to the oil shock in 1973 and the subsequent economic recession, the government delayed the enforcement of the public pension for an indefinite period (Kim Tae-Sung and Sung Kyung-Ryoong 1993; Kim Young-Bum 2002).[6]

Afterwards, there had been some attempts to introduce a public pension but they had been rejected until the mid-1980s. The NPS was eventually enacted in 1986, being enforced in 1988. Similar to the NWPS, the NPS was designed as a funded scheme. However, while the NWPS was devised to make use of the pension fund as an early investment to build heavy industries, in 1988 the heavy industries had already matured and it was not necessary to invest pension funds in them. Thus the government made use of the NPF in housing construction and support for small companies (Kim Young-Bum 2002). As table 7-3 shows, when the NPS was just introduced, the proportion of investment towards the public sector was much larger than other sectors. It means that the government could manipulate the NPF to operate its own works in the early days.

In addition, the funded design implies that the existing older generation was excluded from the NPS and its main target was not the existing older generation, but the working generation at that time. The Confucian ideas at that time were still strong and it was natural that their sons and daughters should take responsibility for their retired parents. According to Seok Jae-Eun and Kim Tae-Wan (2000), the proportion of private transfers in the income of the older population amounted to 75.6% in 1980, which means the notion that working sons and daughters were responsible for the livelihoods of their retired parents was universal. Accordingly, the introduction of the funded scheme means that the responsibility of their working sons and daughters to support their retired parents still remained and that the working generation should contribute for their old age at the same time. This kind of familistic system design was intended to reduce immediate benefit expenditure and to increase the pension fund rapidly.

In contrast to Western countries, intrinsic welfare needs were absent in Korea and social insurance was regarded as a device to expand capitalism. Thus social insurance in Korea was introduced as a sort of makeshift measure without any systematic plans. Both the industrial injury compensation scheme, which was introduced to supplement the lack of legitimacy of the military government, and the medical insurance scheme, which was introduced so as not to lose the skilled workers in heavy industries, were emulations of Japanese schemes,[7] the NPS was a funded version of the US public pensions. Accordingly, it is not surprising that each system was not complementary. For example, while medical insurance had been separately operated/managed by about 400 organizations prior to the 1998 reform, the NPS was a nearly universal system.[8] Such makeshift introductions without systematic plans had not revealed the contradiction prior to the increase in welfare needs.

The unusual origins of the Korean social insurance scheme can be explained by the concept of 'backwardness' mentioned above. While welfare systems, which are embedded in the development process of capitalism, were all introduced to solve the contradiction of capitalism in Western countries, Korea did not intend to introduce welfare systems to solve these problems. Here, we can find the 'backward' welfare development in Korea unlike the development in Western countries. To apply the concept of 'backwardness' to the development of the Korean welfare system, Korea introduced social security as a supplement to economic development based on makeshift expediency without a pertinent device to replace the intrinsic foundation - solidarity - on which to develop the welfare system. When recognition of the intergenerational contract was absent, the concept which replaced solidarity was the saving notion in the NPS. The NPS had been regarded as a 'lifelong saving means with a high earnings rate' from its introduction (National Pension Service 1998; Ahn Jong-Bum 2005), and the high earnings rate in the initial period did not reveal the negative effects surrounding this substitution. In other words, when welfare needs were not high, the absence of an appropriate replacement did not reveal the contradiction. Moreover, there were more urgent issues than the welfare system in Korea between the 1960s and the 1980s. The ideology that (South) Korea must exceed North Korea in every field was very strong and the then government regarded economic development as a key to surpassing North Korea. In addition, the anti-communist stance of the government legally prevented leftist ideology from spreading its power in Korea. While social insurance was introduced to block the extension of the left power in Germany in 19th century, in Korea the leftist organization were illegal under the authoritarian government until the 1980s. It means that it was not possible to increase the pressure for extension of welfare system from the bottom.

However, this does not mean that the government regarded the welfare system as valueless. The then government was aware of welfare system in the developed countries, in particular Japan. The government recognized that welfare systems would be introduced in Korea in the long run, but insisted that they should not hurt economic development (National Pension Service 1998). Due to a lack of recognition for a need for welfare systems ('backwardness' of the Korean social insurance system), economic implications were top concern whenever welfare systems were introduced. As Midgely (1984) indicated, social security systems in the third world expanded inequality, so the Korean social insurance system was also introduced as a sort of economic policy rather than a means to decrease inequality. That is, the authoritarian government made use of the welfare system as a means of economic development.

The unique origins of Korean social insurance may also be explained by the relationship between the production regime and the welfare regime. Esping-Andersen (1994) indicates that the welfare state, or social policy, is predominantly perceived as 'politics against market', and Hollingsworth and Boyer (1997) insist that the function of the welfare state is often seen as constraining the market. Generally, welfare regimes in European countries has been developed as institutions to regulate capitalism, and their welfare regimes may correspond to the production regimes that their form of capitalism pursues even though there still are not any clear evidences regarding the relationship between two regimes (Ebbinghaus and Manow 2001).

As mentioned above, the Korean welfare state was different from the existing Western welfare states. The Korean 'backward' welfare state did not have the incentives to regulate the production regime due to its high economic growth and the government could make use of the welfare system as a means to strengthen the production regime itself. When it was not recognized that capitalism should be regulated, the welfare system as a regulatory mechanism of capitalism could not play original roles and the 'backwardness' of the Korean welfare systems distorted the relationship between production and welfare regimes. Thus the 'backwardness' forced the welfare system to be regarded as a by-product of the production regime.

However, this does not mean that the 'backwardness' of the welfare system has only negative effects. As the economically 'backward' countries found ways to succeed in the rapid economic growth from the experiences of the developed countries, the 'backward' welfare countries could also learn how to design more effective welfare systems from the experiences in developed countries. For example, Queisser and Vittas (2000) praised the Swiss public pension scheme as a 'triumph of common sense' and it was introduced in 1948 when nearly all European countries had operated their public pension schemes for decades. That is, the late introduction of the Swiss public pension scheme caused the scheme to mix the advantages of the Bismarckian scheme with those of the Beveridgean one. Korea also tried to introduce a public pension prior to demographic pressure and these kinds of preventive measures could be positive. If poverty among older population had been a big social problem when the NPS was introduced, it should have naturally been a PAYG scheme. However, the 'backward' welfare states where the poverty of older population was not urgent, could choose either the PAYG or the funded scheme according to their preferences.

Table 7-3 Speed of Ageing in various Countries

	The proportion of older population over the age of 65 / Year			Speed of Ageing / The Year required	
	7%	14%	20%	7%-14%	14%-20%
Japan	1970	1994	2006	24	12
France	1864	1979	2020	115	41
Germany	1932	1972	2012	40	40
UK	1929	1976	2021	47	45
Italy	1927	1988	2007	61	19
USA	1942	2013	2028	71	15
Korea	2000	2019	2026	19	7

Source: Korean Statistical Office

Although it is true that the Korean pension system has been developed from the government's distorted intention, this does not mean that the NPS was unnecessary when it was introduced. While the proportion of people over the age of 60 was 6.8% in 1986, the population prediction when the public pension system was introduced shows that the proportion would increase to 10% in 2000, 17.7% in 2020 and 26.6% in 2040 (National Pension Service 1998). That is, as table 7-3 shows, Korea's demographic structure was changing rapidly and, regardless of political intentions, a public pension system that covered all people was necessary at that time. In addition, considering the age structure of working generations, the baby boomer generations, whose members were born in the 1960s, started to take part in the labour market from the mid-1980s, and this was the best time to introduce 'a lifelong saving system' in the form of a public pension scheme (National Pension Service 1998).

To sum up, Korea started the 'big spurt' of economic growth as a 'backward' country in the 1960s, and this high growth has contributed to a reduction in absolute poverty. The unprecedented rapid economic growth had solved many economic and social problems, reinforcing the need for economic growth rather than that for welfare.[9] Thus, the introduction of the welfare system was not the top priority to the then authoritarian government, which wanted to make use of them as a supplementary means of economic development. Thus, Korean social insurance schemes had the form of a welfare system, but their real intentions were to supplement the national economy. Korea, as a 'backward' welfare state, which had not replaced the solidarity of the Western countries in a pertinent way, faced a contradiction with the explosive increase in welfare needs following the economic crisis, which started the 'big spurt' in the welfare system.

East Asia Economic Crisis in 1997

The East Asia economic crisis, which Robinson *et al.* (2000) named 'the first crisis of globalization', fundamentally changed the Korean society. The government-oriented economic regime, which had caused high economic growth, collapsed and international financial institutions occupied the area. After the Korean economy received relief funds from the IMF, it overcame the economic crisis more quickly than any other similar countries, as table 7-4 shows. However, despite the quick recovery in its outward form, the existing Korean social and economic system was abandoned and transformed into a neo-liberal regime.

Table 7-4 Change in GDP Growth Rate in Four Countries (Percentages)

	Korea	Thailand	Malaysia	Indonesia
1996	7.0	5.5	8.6	8.0
1997	4.7	-1.3	7.5	4.5
1998	-6.9	-10.5	-7.4	-13.1
1999	9.5	4.4	6.1	0.8
2000	8.5	4.8	8.5	4.9
2001	3.8	2.1	0.3	3.4
2002	7.0	5.4	4.1	3.7

Source: World Bank 2004.

The Korean economic crisis in 1997 originated from a short-term liquidity shortage in the process of overinvestment and was not a crisis of the Korean economy itself, but a failure of a policy that did not manage the economic crisis of the neibouring countries. Of course, it does not mean that the Korean economy did not have any problems, but it did not begin in a dire situation.

The Korean government petitioned the IMF for relief funds, and the IMF demanded manifold economic reforms in the Korean economy as a condition of the \$ 21 billion loan. The influence of the US in the process was large. Under the Clinton government, the US put pressure not only on Japan but also to all Asian countries to liberalize their financial markets (Lee Byung-Chun 1999a). When the economic crisis took place in Thailand in 1997, the US made a finely worked-out plan for the IMF to monopolize relief fund support, inducing the Korean economy to be subject to supernational capital and the national interests of the US. When Thailand and Indonesia suffered from the economic crisis, Japan suggested the introduction of an Asian monetary fund, in September 1997, at the IMF annual general meeting. However, this was abandoned due to the strong opposition from the US and IMF (Altbach 1997). In addition, President Clinton sent a letter to the Japanese government in November 1997, claiming that the IMF was to be the only organization that provide relief funds and that Japan should not provide separate financial support for Korea. So, Japan refused to provide new funds to support Korea that had already been guaranteed (Lee Byung-Chun 1999a).[10] The US intended to increase its influence on the Korean economy through its economic crisis, and the IMF, which can be regarded as an agent of the US, demanded a fundamental reform of the Korean economy. In the end, the Korean economy could not help changing into a neo-liberal economic regime which the USA wanted.

The IMF reform program was a mixture of its usual macroeconomic stabilization policies, reduction in economic regulation, emphasis on the supply-sided economy and the privatization of the public companies - policies followed by the Thatcher government in the UK nearly two decades earlier (Taylor 1997). The basic purpose of the IMF program was to include the Korean economy in the global neo-liberal system and to spread market-oriented capitalism. As mentioned above, Korea, a 'backward industrial country', had been a production regime with government planning and regulated banks; this scheme had produced high output. However, transition towards a liberal competitive/stock market-oriented production regime meant the end to the key factor of backward economic development country. That is, the IMF and the neo-liberal economists demanded the repeal of the existing development country model because they thought that the main reason why Korea suffered from the economic crisis was excessive governmental regulations and 'crony capitalism' (IMF 1997; Krugman 1998a, 1998b; Summers 1998). Even though some economists thought that the decline in the development country model such as financial liberalization, which the Korean extreme right (Kim Young-Sam) government promoted in the early 1990s, could be the reason for the economic crisis (Wade and Veneroso 1998; Wade 1998; Crotty 1998), their diagnosis was totally ignored because the IMF dominated the Korean economic reform process.

Korea could not help but accept the IMF's coercive demands, duly implementing the neo-liberal economic reform. As a result, the Korean society was completely changed. Sen (1999) indicates that it is surprising that a 5-10% decrease in GDP in one year in the East Asian countries, which experienced 5-10% increase in GDP per year for several decades, drove them into a piteous plight. In general, it was not a dire situation, but it would become serious if the poor suffered the most due to the economic crisis. As table 7-5 indicates, Korea overcame the economic crisis a short time later, and outwardly the Korean economy was completely recovered by about 2000. However, the Korean economy was transformed into a neo-liberal regime and, to borrow the concepts of Soskice (1999) and Ebbinghaus and Manow (2001), the Korean economy was transformed from a coordinated market economy to an uncoordinated market economy in a very short period. Generally, the existing system provides constraints on the behaviour of economic agents (Ebbinghaus and Manow 2001). Accordingly, without the external factor of the IMF loans, it is unlikely that the Korean economy would have been transformed from a coordinated to an uncoordinated market economy in such a short period. However, powerfully relentless inputs from the international financial institutions quickly transformed the Korean economy. Three major changes have been made since the economic crisis.

First, the Korean economy became subject to global financial markets (Lee Byung-Chun 1999a; 2001). The development country model which led to economic growth in the 1960s and the 1970s faced limitations starting in the 1980s due to internal and external pressures. At first, since the 1980s the US had tried to open the Korean economy (Bello 1994). The steady financial pressure towards Korea opening up began in the early 1990s and the Korean extreme right (Kim Young-Sam) government (1993-1997) regarded globalization as a national mission and promoted the opening of the domestic financial market. In this regard, prior to the economic crisis, the Korean economy was already incorporated into global financial markets. However, it was difficult to quickly replace the tradition of the development country, and the political will to protect domestic markets from foreign speculative capital remained strong (Kim Tae-Jun and Yoo Jae-Wan 2003). The degree of capital liberalization in Korea prior to the economic crisis was slower and more selective than that of Chile or Indonesia (Johnston *et al.* 1999).

However, the economic crisis exposed Korea to the risks of globalization. With the removal of the development country's legacy since the economic crisis, the financial 'opening-up' was carried out very quickly. For instance, the proportion of foreign investors in the Korean stock market increased from 15% in 1997 to 39.7% in 2005. It is generally reported that globalization decreases the autonomy of governmental policy and incapacitates its existing welfare policy (Mishra 1999; Strange 1995). In Korea, where economists who studied in the USA are the mainstream (Lee Byung-Chun 1999b) the economic crisis was an opportunity to realize their neo-liberal teachings in cooperation with the US government and international financial organizations. Thus the domestic and international neo-liberal pressures forced the liberal (Kim Dae-Jung) government (1998-2002) to enact financial liberalization measures, even though this government originally pursued a German style of corporate economy. This meant the final breakup of the development country idea (Weiss 2000). In other words, the introduction of the Anglo-American global standard, which had been considered since the 1980s, was accelerated through the economic crisis, and the Korean economy was transformed towards a neo-liberal economic regime.[11]

The creation of an open economic system, which guarantees the freedom of transnational financial capital and the construction of the Anglo-American liberal market standard, were the priorities of the IMF. Accordingly, sweeping liberalization measures such as the abolition of the virtual foreigners' investment share limit, the permission for hostile mergers and acquisitions and the opening of the domestic bond market were introduced. As mentioned above, the neo-liberals thought that the Korean economic crisis originated from its underdeveloped financial systems which are subject to the authoritarian government, and they tried to solve it through shareholder capitalism. This capitalism, the main examples of which are the US and the UK, is a model for a financially strong nation on the basis of financial liquidity, speculation, labour exclusion and flexibility, rather than for the persistent growth regime on the basis of financial participation, commitment, labour participation and organizational integration (Lazonick and S'ullivan 1997). Under this model, it was crucial to develop the financial market and its capability to persistently absorb foreign liquid capital.

This economic regime, which hinges on capital inflow from the outside, inevitably decreases the range of movement for government policy because setting policies opposite to the interests of shareholders immediately endangers the national economy. This was a big change from the previous development country model. The governmental policies became subordinate to the foreign credit assessment institutions – for example, Moody's – and in the quest to obtain credit from foreign investors, domestic social problems, such as the sharp increase of non-standard employees, were no longer a priority. The government, which had led the Korean economic miracle, could not be a main player any longer and the market replaced its position. Since the economic crisis, the Korean economy was transformed from a (relative) protectionist country to a small open one.

Second, since the economic crisis the Korean labour market has become flexible and the quality of employment has become extremely unstable. The IMF demanded the flexibility in the Korean labour market as a condition for the loans, and the government implemented the required measures.[12] As a matter of fact, the Kim Young-Sam government had promoted the policy of labour market flexibility since 1993 but the idea that the 'Korean labour market is still rigid' was dominant (Kim Yoo-Sun 2005). Even though the liberal Kim Dae-Jung government preferred the German model, it was forced to operate a policy of labour market flexibility after the strong pressures from the IMF. Due to the economic crisis, the number of unemployed increased from 451,000 (2.1%) in October 1997 to 1.78 million (8.6%) in February 1999, and the number of unemployed who gave up job hunting increased the economically inactive population from 13.14 million in October 1997 to 14.99 million in February 1999 (Kim Sung-Hee 2004). Unemployment rate at that time was not as high as those of some European countries, but its abruptness and the poor social safety net caused serious social problems such as family breakups. In other words, changes in the labour market exposed the flawed welfare system.

Faced with this crisis, an increase in employment became a top priority even if the jobs were insecure and low-paid (Chae Goo-Mook 2002).[13] The ratio was about 25% in the early 1980s but, with the gradual abolition of the development country model, it increased to 43.4% in 1996. Then the economic crisis increased the ratio to 55.0% in 2006 (Kim Yoo-Sun 2006). The number of non-standard employees increased from 5.66 million in 1996 to 8.45 million in 2006, while the number of regular employees fell from 7.50 million in 1996 to 6.91 million in 2006.

In fact, developed countries had increased their non-standard employment since 1970s and the shift in industrial structure from manufacture to service increased the ratio (Houseman 1995; Gullason 2000). In addition, married women - who want to take care of the household and work at the same time - or older people - who want to continue working after retirement - preferred non-standard employment, which increased the non-standard employment rate (Kalleberg 2000; Houseman 1995). However, as Chae Goo-Mook (2000) indicates, when it comes to its increase in non-standard employment, Korea has a story different from other developed countries. The sharp increase in non-standard employment in Korea did not originate from its preference for non-standard employment or from the work dispersion according to the economic cycle. On the contrary, the new labour law permitted the employment of non-standard employees whose jobs and working time are same to the regular workers but whose level of job protection is very insecure and whose wages are very low. After all, non-standard employment in Korea is no more than a means of reducing total costs for companies. As a result of this tendency, according to Kim Yoo-Sun (2005), labour flexibility in Korea is higher than that of the US, a country whose labour market is the most flexible in the world.

Table 7-5 Non-Standard Employees as a Percentage of Total Workfare

	1983	1994	1999
Korea	28.3	42.2	51.7
Denmark	12.5	12.0	10.1
France	3.3	11.0	14.0
Germany	10.0	10.3	12.7
Italy	6.6	7.3	9.9
Japan	10.3	10.4	11.4
Sweden	12.0	13.5	13.9
UK	5.5	6.5	6.8
USA	-	2.2	-

Source: OECD (1996a; 2000; 2001b)

Third, the Confucian principle has completely collapsed since the economic crisis, which is reflected in the rise in family breakups. There are no precise statistics on this topic but the mass media frequently reported that many families suffered from economic difficulty and the dispersion of family breakups was very widespread (Kim In-Suk 1999). Recognizing that the Confucian tradition set the family as a top priority for thinking and practice (Hsu 1998), family breakdown on a large scale demonstrated the weakness of Confucianism in Korea. Of course, although the decline in traditional familism had continued from the 1980s (Park Keong-Suk 2007), it is clear that the traditional values, such as support toward one's parents, have been further undermined as a result of the economic crisis. Korean filial piety that regarded the self-sacrificing care for old parents as the offspring's duty (Sung Kyu-Tak 1995) has weakened gradually and traditional care for older people is also weakening (Park Kyung-Sook 2003). According to the Kim Jung-Suk's survey (2005), views on responsibility for the elderly is also changing rapidly. While the proportion of the old who stress family responsibility has fallen from 29.5% in 1994 to 13.4% in 2004, that of the old who stress social responsibility has increased from 22.1% in 1994 to 43.0% in 2004. This result reflects changes in views on family support for older population.

As a result of the economic crisis and the transition into the neo-liberal regime, income distribution is seriously deteriorating. As shown in table 7-6, the Gini coefficient had increased after the economic crisis. What should be noted in this table is the difference between ordinary income and disposal income, which shows that prior to 2000 the difference was below 0.01. This means that the distributional system, such as social insurance and taxation, did not contribute to improving income inequality prior to 2000. The research of Kang Shin-Wook *et al.* (2006) shows that the difference between ordinary income and disposable income in OECD countries ranges from 0.04 (Germany) to Sweden (0.14), which means that their distributional systems have played important roles in reducing income inequality.

Table 7-6 Changes in the Gini coefficient[14]

	Ordinary Income(A)	Disposal income (B)	A-B
1996	0.284	0.278	0.006
1997	0.278	0.273	0.005
1998	0.295	0.291	0.004
1999	0.302	0.297	0.005

Source: Kang Sin-Wook *et al.* (2006)

To sum up, prior to the economic crisis the high economic growth in Korea had reduced the Gini coefficient to below 0.3 and income distribution was relatively sound despite insufficient social security. However, since the economic crisis, mass unemployment breakup of the traditional family and income polarization suddenly revealed the absence or malfunction of the welfare system. To use of the theory of Gerschenkron (1962), the Korean welfare system, introduced without adequate substitutes for prerequisites for welfare state development, had not revealed its contradictions before the economic crisis. With the explosive increase in welfare needs since the crisis, however, such inadequate replacements demanded rapid welfare reforms without any of the advantages of 'backwardness'.

The Change in the Korean Welfare State since the Economic Crisis

The economic crisis represented a big shock to the whole of the Korean society, which massively increased the need for public welfare. The strong familist tradition and the legacy of a development country did not entail high public welfare expenditure. The cost of social security in Korea in 1996 was 5.60% of the GDP, which was much lower than that of other OECD countries: Sweden (34.7%), Germany (29.7%), the UK (22.8%), Japan (14.1%), and the USA (16.5%) (ILO 2000). However, the collapse of traditional familism since the economic crisis showed that the existing methods for solving welfare problems within a family was no longer valid, and falling job security spelt the end of the development country principle of economic growth as the best welfare. Despite the pressures of globalization and the economic crisis, the Korean liberal government had increased public welfare spending. Even though the IMF demanded the extension of the Korean social safety net, the liberal government - which had gained political power with the support of the working class - not only extended the residual social safety net but also increased the overall welfare system including social insurance and social services.

The introduction of neo-liberalism in Korea has different aspects to its rise from those in western countries. Neo-liberalism in European countries appeared with the discourse of the 'crisis of welfare state'; but in Korea, neo-liberalism appeared with the discourses on the 'absence of the welfare state' or the 'crisis of the development country'. In the Asian economic crisis, Korean family welfare was collapsing and its public welfare was virtually absent. As a result, the public welfare system could not moderate the social insecurity that neo-liberalism was causing (Ha Yeon-Seop 2006). Thus, while the welfare state under neo-liberalism in the European countries is a target of the attack (Walker and Walker 1997), in Korea its absence was a hindrance to neo-liberal reforms. Thus, even though Korea reformed its economic regime and labour market in the neo-liberal direction, it also expanded its welfare system.[15]

The biggest reform was the introduction of the universal public assistance system in 2000. This was a radical reform that abolished the existing categorical public assistance and introduced the new universal public assistance. The economic crisis made the Korean society aware that poverty was not just a problem for the disabled or the old without offspring, and the new paradigm suggested that the healthy and the industrious could also face poverty. Accordingly, the introduction of the new public assistance scheme was meant to reflect the change in the concept of poverty. This change rapidly increased the size of public assistance, and the number of people who received it rose from 500,000 to 1.5 million.

In addition, social insurance systems were also expanded. Unemployment insurance, which was introduced in 1995, had its coverage extended into all employees by 1998. Without the economic crisis, employment insurance might not have been expanded so sharply. However, the economic crisis and its concomitant transformation of the economic regime increased the need for unemployment insurance. To the government and neo-liberals that pursued labour market flexibility, the expansion of unemployment insurance was not optional but mandatory. Accordingly, while the coverage of other social insurance benefits had been expanded for decades, unemployment insurance had been expanded for only a short period. Next, the medical insurance scheme, which had been operated by several hundreds of associations, was changed into one universal system, which meant that social solidarity was increased during the economic crisis (Kim Yeon-Myung 2002a).

The economic crisis gave rise to a new era for the Korean welfare system. As it has been argued that social security systems have been established or extended whenever an economy has had to experience the effects of an adverse event such as war or a depression (Blinder 1988), the economic crisis became an opportunity to reveal the necessity of the public welfare system in Korea (Shin Kwang-Young *et al.* 2003). According to the World Bank (2000) the extension of the Korean social security system was the largest in East Asia following the economic crisis. While GDP was about $450 billion and social spending was about $3.1 billion in 1998, after the economic crisis social spending had increased to reach $8.1 billion in 2001 when GDP was about $555 billion. In just 3 years the absolute size of social spending increased 2.6 times and its proportion to the GDP increased 2.1 times. Even though the level was much lower than that of the European countries, the speed of expansion in Korean welfare was rapid. The proportion of government expenditure devoted to social spending also increased substantially. The proportion of government expenditure on social spending also increased a lot. The proportion was about 14% in the 1980s but it increased to 19.9% in 2002 and 27.9% in 2006. Thus, the increase in welfare expenditure is much faster than that of the government budget. As the Korean economy underwent the 'big spurt' in economic growth as a backward country in the 1960s and the 1970s, the welfare need and expenditure have rapidly increased since the economic crisis and a 'big spurt' in welfare growth followed suit. While the Kim Young-Sam government had no interest in social security or welfare, because it only focused on boosting economic growth (Sung Kyung-Ryoong 2002), the liberal government which gained power during the economic crisis sharply increased the size of the public welfare sector.

Table 7-7 Change in the Size of the Welfare Sector (Percentage)

	1990	1993	1996	1998	1999	2000
Proportion of the social security budget	5.46	6.35	6.0	6.05	7.3	7.27
Proportion of the budget of Ministry of Health and Welfare	4.2	4.35	4.03	4.12	4.97	5.23

Source: Sung Kyung-Ryoong (2002)

In addition to such quantitative growth, the Korean welfare system underwent big qualitative changes. As mentioned above, the existing system design of the Korean social insurance was no more than an imitation of the Japanese system prior to the economic crisis, and the welfare system was not a major social issue. However, since the economic crisis, the explosion of welfare needs increased the interests in welfare and many interest groups expressed their opinions. Such internal changes induced the introduction or reform of the welfare system suited to the Korean socioeconomic background and the existing welfare systems, which had copied the Japanese systems, were changed into new ones. For example, the split management of medical insurance was integrated into one universal system while the NPS expanded its coverage to include the self-employed. These changes were deviations from the Japanese systems, which means that the Korean social insurance started a new era. Thus, the Korean economic crisis induced the qualitative and quantitative 'big spurt' in its welfare system, even though its level is still lower than those of other OECD countries, as table 7-8 shows.

The rapid growth of welfare systems increased the academic arguments regarding the nature of the Korean welfare state. On the basis of the Esping-Andersen's typology (1990; 1999), many scholars suggested their analyses of the Korean welfare state (Kim Yeon-Myung *et al.* 2002). Cho Young-Hoon (2001) insists that the Korean welfare state is a liberal model because it focuses on workfare, minimum government intervention and private-oriented service even though the size of welfare systems has increased since the economic crisis. In contrast, Nam Chan-Seop (2002) who analyzes the Korean welfare system on the basis of decommodification and stratification (Esping-Andersen 1990), concludes that it can be classified as a sort of conservative model in that familism is strong and the role of the market is large. Kim Young-Bum (2001) and Jung Moo-Kwon (2002) classify the Korean welfare system as a mix of liberalism and conservatism. The existence of different classifications of the Korean welfare state may mean that it has different variables which cannot be analyzed through the Western frame or that it is in a transitional period.

Table 7-8 Social Spending in Selected OECD Countries

Country	Social Spending		Year
	As % of GDP	Ratio of Budget	
USA	14.5%	40.0%	2004
Japan	18.9%	54.4%	2003
UK	23.1%	53.4%	2003
Italy	24.2%	50.7%	2003
France	29.3%	55.0%	2003
Sweden	31.9%	54.9%	2003
Average OECD	23.7%	50.4%	
Korea	5.5%	22.3%	2002

Source: OECD (2005), National account

Although the Korean welfare system has been expanded, the characteristics of the Korean welfare state are not clear despite the transformation towards a neo-liberal economic regime. Despite its expansion its size is still much smaller than that of liberal welfare states. Accordingly, it is not clear whether the current growth will surpass liberal welfare states or end up below liberal welfare states. If so, can the welfare system, which has been developed as an institution to regulate capitalism in European countries, continuously be expanded without addressing the characteristics of the economic regime in Korea? In other words, in a situation where the economic system has been transformed into a neo-liberal regime, will the welfare system be able to stay a non neo-liberal regime in the long run? According to Katzenstein (1985), economic policy for economic flexibility and social welfare policy for political stability are not independent of each other. While Kim Yeon-Myung (2002b) indicates that welfare policy is an exception among the myriad of government policies since the economic crisis in that it is not neo-liberal in character, Ebbinghaus and Manow (2001) suggest that uncoordinated market economies tend to go hand in hand with 'liberal' welfare states and low social expenditure. That is, there are mutual interdependencies between social security and the production system which affect both economic performance and the vulnerability of a given welfare state (Ebbinghaus and Manow 2001).

Separation of the Pension System from Welfare System

In a lot of welfare state research including that of Esping-Andersen (1990), the pension scheme is a core subordinate system. Pensions help elucidate a set of perennially conflictual principles of capitalism, account for more than 10 percent of GDP in many contemporary nations and constitute a central link between work and leisure, between earned income and redistribution, individualism and solidarity, cash nexus and social rights (Esping-Andersen 1990). In other words, it is assumed that the characteristics of welfare states are closely related with those of their pension systems.

As mentioned above, while the Korean economic regime was totally transformed towards neo-liberalism since the economic crisis, the welfare system underwent a sharp expansion. Against this policy tide, the public pension system, the biggest welfare program, continued to have its social security function reduced. As mentioned in chapter 5, the first pension reform in 1998 reduced the replacement rate by 10% and the second reform in 2007 reduced it from 60% to 40%. Why does the Korean pension system not correspond to the overall expansion in welfare? In fact, the pressure from neo-liberals is not new across the world. Many welfare states underwent such pressure a long time ago. Even though there have been strong pressures towards benefit curtailment in public pensions, sweeping pension reforms towards privatisation have been very limited all over the world, except for some developing countries, because of path dependence (Bonoli 2000; Myles and Quadagno 1997; Pierson 1997) and public support for the existing public pension scheme (Galasso and Profeta 2004).

On the other hand, the Korean public pension has a different story from those of other developed countries. Because the NPS is designed as a funded scheme and does not mature, the proportion of public pension in old age income is still very low and the proportion of private transfer is still very high, even though nearly 20 years have passed since the introduction of the NPS. This immaturity has caused low path dependency and deep distrust towards the NPS. While welfare needs have increased since the economic crisis and every political party demands the expansion of the welfare system, public and the political groups have not opposed the curtailment of the NPS.

As shown in chapter 2, neo-liberal global policy actors have also recently recognized the necessity of social policy, and have expanded other welfare systems without funded elements independently of their neo-liberal economic policies. This tendency can be applied to pension reforms as well. In fact, profits that neo-liberal actors could obtain from the reform of the existing PAYG public pensions are not large. However, we should pay attention to the way welfare programs affect financial markets (Estevez-Abe 2001). Public pensions with huge funds cannot help causing fierce competition between economic actors - economic bureaucratic and financial elites - who do not take part in other welfare policy making but involved in making funded pension policies. With the economic regime transformation, the influences of the economic bureaucratic and financial elites have increased and the NPF, accumulated as a government investment source, became a means to develop the financial market and to realize the interest of financial elites. Under the neo-liberal economic regime, which requires a developed financial market and the capability to absorb foreign liquidity, a huge fund becomes an important variable for strengthening the characteristics of private pensions within the NPS.

In addition, the introduction of the occupational pension scheme in 2005 also increased the importance of private pensions in old age income security. Its introduction from the existing LRA meant not only a change from a lump-sum into an annuity, but also, a change in fund management from an 'organizationally embedded scheme', such as Germany and Japan, to a 'financial-market scheme' as in the UK. That is, the previous method in which employers' contributions were not accumulated but reinvested within their companies was transformed into a new method by which employers' contributions are invested in the external financial market. This is not a simple change from one method to another but a reflection of the neo-liberal economic regime. Under the neo-liberal economic regime, which seeks to create a financially strong economy, it is natural that an occupational pension fund should support its financial market through huge investments. Under the neo-liberal economic regime, which favours more short-term profits and the interests of the shareholders, the time horizon of capital suppliers and the autonomy of corporate managers are bound to change, and the occupational pension fund management also changed into a neo-liberal form. The introduction of the occupational pension seems to represent a turning point for transforming the Korean old age income security from a public pension-centred system to a multi-pillar one.

In conclusion, the Korean welfare system, which was regarded as a by-product of economic development, underwent quantitative/qualitative growth under the neo-liberal transformation over the last 10 years. However, the NPS, the biggest welfare scheme, continued to have its social security function reduced. In this regard, this research pays attention to the relationship between a pension fund and financial markets (neo-liberal actors). Chapter 8 examines the political economy as to how such anti-welfare pension reforms were realized in Korea at a time when the popularity of welfare system was rising.

Notes

[1] The development plans that underdeveloped countries can pursue are divided into two ways. One is to eliminate pre-modern agricultural characteristics, to enhance the level of the agricultural productivity, to make use of it for investment as so to develop agriculture, mining industry and key industries. The other, which depends on foreign capital as investment sources, makes use of this to develop domestic industry and replaces imports. The Korean industrialization comes under the latter. Its success or failure inevitably hinges on the acquisition of initial foreign capital (Lee Dae-Keun 1984). Accordingly, Korea tried to obtain early capital from foreign countries, and gratuitous/credit aid from Japan, USA, and West Germany was crucial to starting economic growth. The most important fund was $300 million gratuitous aid and $300 million credit aid from Japan given on the condition of establishing diplomatic relations. In addition, the dispatch of armed forces to the Vietnam War was also to obtain capital.

[2] The Gerschenkron's assumptions are as follows (Sylla and Toniolo 1991) : (1) The more backward the country, the more rapid its industrialization; (2) The more backward the country, the greater be its stress on producer (capital) goods as compared with consumer goods; (3) The more backward the country, the larger the typical scale of plant and firm, and the greater will be the emphasis on latest, up-to-date technology; (4) The more backward the country, the greater the pressure on the consumption levels of the population; consumption levels will be squeezed to promote a high rate of capital formation; (5) The more backward the country, the less the role of the agricultural sector as a market for industrial goods and as a source of rising productivity in its own right; (6) The more backward the country, the more active the role of special institution factors – great banks as in Germany, the government ministry of finance as in Russia – in supplying capital and promoting industrialization; and (7) The more backward the country, the more important ideologies of industrialization in the shaping of policies and events.

[3] In fact, the Korean economic growth is more generally regarded as the 'East Asian model'. In the process, the role of Confucianism was important (Maison *et al.* 1980; Mitchell 1984).

[4] Despite low economic level at that time, the illiteracy ratio was only 8.9% in 1966.

[5] Civil servant pension and military pension introduced early can be regarded not as an old age income security but as a privilege for civil servants or military personnel were the key elements for the authoritarian government.

[6] In addition, political competition with North Korea also became a reason for delaying the introduction of the public pension. Because North Korea in 1973 abolished the direct tax and publicized it, the South Korean government decreased the size of the direct tax by increasing the tax exemption point three fold. In this situation, the introduction of a public pension, which imposed a sort of quasi-tax, was inevitably delayed. In addition, the KDI plan, which tried to accumulate a larger pension funds, was not preferred to the plan of the Ministry of Health and Welfare by the government. Thus, the fading of the original purpose as the investment source is also the main reason for delaying the introduction (Yang Jae-Jin 2007).

[7] Because Korea had been a colony of Japan between 1910 and 1945, many people who had studied in Japan worked in the government between 1950s and 1980s and their influences had lasted for a long time. Thus, when they prepared the introduction of the Korean social insurance system, they copied the Japanese system rather than considering a tailor-made social insurance system to suit Korea's socioeconomic conditions.

[8] In fact, the NPS at that time excluded the self-employed or those who worked in small companies. The coverage has expanded since the economic crisis.

[9] Prior to 1987, the priority for the democratic group was not the introducing a welfare system but securing democracy.

[10] The reason that Japan gave up its own economic interests and followed the recommendation of the US might be the military alliance with US (Lee Byung-Chun 1999).

[11] See Pirie (2008) for the detailed debates regarding the transition from dirigisme to neo-liberalism in Korea.

[12] 'The rigidity indicators of the labour protection law' of OECD (1999) which has been used as an evidence for Korean labour market rigidity indicates that the degree of Korean labour market rigidity is 17th among 26 countries. However, this indicator should compare the standardized dismissal laws between countries. While the law is basic and the collective agreement regulate the labour market in other OECD countries, in Korea the law is the maximum standard. Thus, this comparison is not appropriate (Kim Yoo-Sun 2005).

[13] 'Non-standard workers' is a difficult concept to define. This article uses it as a concept to include (1) a short contract period; (2) those whose working hours per week is less than a certain time; and (3) dispatch or subcontract workers (Jung I-Whan *eds*. 2003).

[14] Due to lack of data, the Gini coefficient prior to 2003 was not for the total population but for the employee's households.

[15] There are many arguments regarding the Korean welfare states (Kim Yeon-Myung *eds*. 2002). Even though the welfare system has been expanded, social spending is still only 5.5% of the GDP and, compared with the OECD average (23.7%), it is very small (OECD 2005). Accordingly, the expansion of the Korean welfare state is a sort of restructuring and it is unlikely to increase much above the current level.

Chapter 8

Political Economy of Korean Pension Reform

As noted in chapter 7, welfare systems have important functions as a mechanism to regulate capitalism and a pension system, which is the biggest welfare program, helps to elucidate a set of perennially conflictual principles of capitalism (Esping-Andersen 1990). However, contrary to the recent expansion of the Korean welfare system the NPS has been cut back repeatedly and the societal resistance to this has been weak. This deviation of the public pension from overall welfare expansion seems to originate from the characteristics of the NPS. Just as some welfare programmes 'de-commodify' labour, some 'communalise' capital (Estevez-Abe 2001). Pensions, in particular those with a huge fund, are bound to communalise capital and, as noted in chapter 7, its introduction was for the economic use of the fund rather than for old age income security. In other words, unlike the Western PAYG public pensions, the NPS was introduced as a system to communalise capital rather than to de-commodify labour. Thus the NPS functions as a means of economic policy as well as welfare. In fact, existing research, such as Estevez-Abe (2001) and Jackson and Vitol (2001) that focus on the relationship between pension systems and financial markets mainly examined the relationship between occupational pensions and financial markets. Because the Western public pensions are generally designed as PAYG schemes which do not connect with financial markets, it is not surprising that the existing Western research have not focused on the relationship between public pensions and financial markets. In contrast, the size and management of the NPF have always been the most important issues in Korean pension debates. Moreover, transformation towards a neo-liberal economic regime has increased the interest in the NPF demanding changes in its management or governance. In addition, although its current influence is not large because it is now in a transition period, the occupational pension recently introduced also shows the interaction with the neo-liberal economic regime.

On the basis of the historical origin and socioeconomic background analyzed in chapter 7, this chapter mainly deals with the political economy of the Korean public pension which corresponds with a neo-liberal economic regime rather than welfare state expansion. In this regard, it starts from the argument in terms of the poverty of the older population which did not used to be a big issue but which is getting serious after the economic crisis. Next it will deal with the political economy of the occupational pension which also reflects the influence of the neo-liberal economic regime.

Poverty in old Age

For the last couple of decades the poverty ratio of the older population in many Western countries has declined. According to Choi Hyun-Soo (2006), who made use of the LIS data to examine the poverty ratios of 21 OECD countries, during the last 20 years the ratio for the total population had increased in 14 countries and decreased in 7. In contrast, the poverty ratio of the older population had fallen in 14 countries. As table 8-1 shows, compared with the overall increase in the poverty ratio of the whole populations, the ratio for the older one during the last couple of decades has been improving even though there are lots of variations between countries and even though a comparison between two specific years can be misleading.

Table 8-1 Change in the Poverty Ratio (Percentages)

		Total population	Older population
France	1979-1994	8.2→8.0(▽0.2)	10.3→9.8(▽0.5)
Germany	1981-2000	5.3→8.3(△3.0)	14.4→10.1(▽4.3)
Italy	1986-2000	10.4→12.7(△2.3)	13.1→13.7(△0.6)
Norway	1979-2000	4.9→ 6.4(△1.5)	6.3→11.9(△5.6)
Sweden	1981-2000	5.3→6.5(△1.2)	2.9→7.7(△4.8)
UK	1979-1999	9.2→ 12.4(△3.2)	21.6→20.5(▽1.1)
USA	1979-2000	15.8→17.0(△1.2)	27.3→24.7(▽2.6)

Source: Choi Hyun-Soo (2006)

In contrast, the poverty ratio of older population in Korea is deteriorating. As tables 8-2 and 8-3 show, the absolute/relative poverty ratio of older population has been much higher than those of the other groups.[1] Moreover, considering that the speed of ageing is very fast, the proportion of older people in the total population in poverty is likely to continue to increase. The proportion of older people who receive the public assistance benefits is high. In 2001 the proportion of the older population of the public assistance beneficiaries amounted to 24% and about 10% of the entire older population received this benefit (Seok Jae-Eun 2002). Even though the absolute poverty ratio which had increased since the economic crisis has been reduced gradually and the public assistance scheme expanded has helped to reduce the ratio, the poverty ratio of older population is still much higher than the average, which shows that the older population in Korea is at major risk of poverty unlike in the Western countries.

Table 8-2 Changes in Absolute Poverty Ratio (Percentages)

Year	Children (0-19)	Economically active popu-lation (20-59)	Older people (60-)	Total	Older people (65-)
1990	28.35	22.95	29.03	25.40	-
1991	20.09	15.83	22.30	17.80	-
1992	13.66	10.76	18.29	12.20	-
1993	11.99	8.90	15.37	10.35	-
1994	9.46	6.73	11.77	7.94	-
1995	7.48	5.17	8.93	6.18	-
1996	6.58	4.96	8.40	5.71	-
1997	5.80	4.33	8.23	5.06	-
1998	10.82	8.95	14.84	9.90	14.87
1999	9.84	8.11	13.37	8.99	14.52
2000	6.84	6.38	11.97	7.14	13.29
2001	6.56	5.49	10.41	6.15	10.78
2002	5.24	4.29	9.27	4.94	10.31
2003	6.34	5.01	12.55	5.90	14.27
2004	6.12	4.95	10.97	5.73	12.71
'90-'04 ('98-'04)	↓22.23	↓18.00	↓18.06	↓19.67	↓2.16

Source: Choi Hyun-Soo (2006)

The relative poverty ratio is getting more and more serious. The poverty ratio of the older population in 2004 had increased by 10% compared with 1998 and, what is worse, it is still deteriorating. In 2004 one in four of the older population lived below 50% of the median income. Children or the economically active population have also undergone deterioration in their relative poverty ratios but, the decline among the older generation is more serious.

The rapid increase in the poverty ratio of the older population is due to both the decline in family transfers, which originates from the collapse of traditional family support, and the lack of public old age income security (Seok Jae-Eun 2002). Due to the immaturity of the funded NPS and the collapse of the traditional family, the poverty of the older population is getting serious. Although there were attempts to tackle this problem, such as a sharp expansion of public assistance in 2000 and the introduction of the SPS in 1998, both of them were not successful because the former was a general poverty solution - for short-term beneficiaries - which targets the working poor rather than the older population on the basis of the stigma rather than a right and because the latter provided the poor old with tiny benefits. The majority of the older population is still excluded from public pension benefits as mentioned in chapter 5. Of the older population of 3.55 million in 2001 the number who received the public benefit (regardless of the amount of money), was 0.86 million, which is only 24% of the population over 65. This means that 76% of those over 65 did not receive any kind of public benefits.

Table 8-3 Changes in Relative Poverty Ratio (Percentages)

Year	Children (0-19)	Economically active population (20-59)	Older people (60-)	Total	Older people (65-)
1990	8.91	6.84	10.65	7.83	-
1991	8.45	6.97	12.48	7.78	-
1992	8.23	6.64	12.22	7.49	-
1993	8.21	6.28	12.36	7.27	-
1994	8.44	6.28	11.84	7.31	-
1995	8.74	6.55	11.72	7.58	-
1996	9.41	7.49	13.95	8.52	-
1997	9.13	7.31	15.88	8.43	-
1998	10.97	9.64	17.48	10.50	17.79
1999	10.56	9.40	17.51	10.24	17.95
2000	9.61	8.47	18.90	9.46	19.54
2001	9.83	8.66	16.13	9.51	16.63
2002	9.83	8.50	17.35	9.53	18.28
2003	10.80	9.06	22.97	10.48	24.22
2004	11.31	9.63	23.32	11.08	25.10
'90-'04 ('98-'04)	↑2.40	↑2.79	↑12.67	↑3.25	↑7.31

Source: Choi Hyun-Soo (2006)

This tendency in Korea is opposite to those of many Western countries. While older people in the West are often no longer the major poverty group because public pension schemes are well developed, even though there are variations among them (Disney and Whitehouse 2001), the older generations in Korea are the major poverty group (Seok Jae-Eun 2002).

While the Western countries, where the poverty risk of their older populations have been reduced, faced strong resistance to reductions in public pension benefits, public opinion in support of the curtailment of the NPS benefit is high in Korea where the poverty of older generation has been worsening. As a result, the replacement ratio of the NPS benefit was reduced from 70% in 1988 to 60% in 1998 and 40% in 2007 in 40 years' contribution. In particular, the 2007 pension reform was radical because it reduced the replacement ratio by 20%. Nevertheless, this new bill was passed without any major resistance. In the process, it was difficult to find an argument in terms of the enhancement of security function and, instead, there was a national consensus that it was urgent to solve the problem of fund exhaustion which would threaten old age income security in the remote future. This perspective shows that a major focus in terms of the Korean pension reform is not to solve the poverty of current older generations but to strengthen future old age income. Considering that the incomes of current older people are insecure and deteriorating, such a pension reform which does not consider the current older population is remarkable. Although the introduction of the BOPS is a trial to support the current older generation, the poverty and inequality of older population is likely to increase further after the recent pension reform.

Political Economy of the Korean Pension Reform

Limitations of the NPS and Occurrence of the Fund Discourse

The NPS, which excludes the existing older generations, had not revealed a lot of negative effects until the economic crisis. Even though expenditure on the NPS benefit was very low and public assistance had been the same until 2000, the poverty ratio of the older population until the economic crisis had been improving gradually, which originated not from public benefit but from individual savings or family transfers on the basis of economic growth. According to Seok Jae-Eun and Kim Tae-Wan (2000),[2] the proportion of private transfers in the total income of older people was 56.6% in 1995, compared with 6.6% in Japan. As shown in tables 8-2 and 8-3, considering that the poverty of the older generations prior to the economic crisis had decreased, that the then system design did not mainly target the existing older generation was not a big issue. On the contrary, the funded design introduced in the belief that family transfers would last for the foreseeable future was effective. However, the breakup of traditional familism and the expansion of income inequality since the economic crisis have undermined this key assumption. As a result, as shown in tables 8-2 and 8-3, the absolute/relative poverty ratio of older population has since been increasing faster than that of other groups, which meant that the existing individual saving or private transfers could not solve the problem of increasing poverty. That is, the initial intention that urged both the public and family to share the responsibility of old age income security for the first 20 or 40 years since its introduction had collapsed with the occurrence of the economic crisis. The SPS and public assistance introduced after the economic crisis were no more than makeshifts to solve these big changes.

In addition to poverty in old age it is also doubtful whether the current contributors to the NPS will receive adequate benefits when they retire. Since the economic crisis, the liberal government has expanded the NPS to cover all working people – except for the members of the Specific Pension Schemes. However, this legal expansion does not mean that it actually covers all workers. In fact 55.4% of the 30 million people aged between 16 and 59 are excluded from the NPS. Of course, groups which cannot be included in the earnings-related pension scheme, such as housewives or students, form part of this total but the majority of the excluded are low-income self-employed people, who cannot afford to pay contributions, and the non-standard employees.[3] According to Kim Yoo-Sun (2006), while 83-98% of regular employees are members of the social insurance system, it is only 32-35% of non-standard employees. Considering that the proportion of non-standard employees in Korea is over half of the entire work force, this explains why so many are still excluded from the NPS despite its recent expansion.

The structural exclusion of the current older generations from the NPS has worsened their poverty and the insecure employment of the working generation is likely to undermine old age income. Accordingly, it seems to be urgent to strengthen the social protection function of the NPS. Nevertheless, the discourses that have dominated the Korean old age income security are not on the enhancement of income security but the earnings rate of the pension fund or its financial sustainability. Although despite many trials and errors both the right and left political groups agree with the expansion of the welfare system and the public also supports its expansion, the opposite discourse is dominating the Korean pension system. That is, despite the increase in old age poverty a dominant argument is that 'if the current system persists, the public pension fund will be exhausted 30 or 40 years later and the national economy will suffer'. In fact, to solve poverty the public has demanded an increase in welfare expenditure. While the social security or tax system up to 2000 had not improved the overall income distribution, as mentioned in chapter 7, the Committee of Social Inclusion (2007) indicates that the recently expanded social security system has contributed to offset the deterioration in income distribution.[4] It is surprising that, in view of the rising poverty of the older population, the public has not opposed the curtailment of the NPS benefits.

The following political economy approach in terms of the Korean pension reform shows how neo-liberalism has realized the anti-welfare pension reform in Korea and examines the public pension fund as a core determinant and its discourse. Contrary to the PAYG systems from which fund management is structurally excluded, with public pensions with huge funds, like the NPS, the regulatory framework governing the accumulation and management of these funds has a major impact on economic interactions between the government, the financial sectors, corporations and their employees. Thus, the huge fund is a key variable under the funded scheme that cannot help inducing continuous interactions under the neo-liberal economic regime.[5] In this process the long-term financial estimation (a funded version of generational accounting) and the pension fund exhaustion discourse dwarfed other important issues. In other words, despite the serious current poverty of the older population, it is widely accepted that pension fund exhaustion in the remote future, rather than the current lack of old age income, will prevent Korean socioeconomic development. With such a deviant argument in terms of pension reform the neo-liberal policy actors (financial institutions and economic bureaucrats and so on) in Korea took the lead in the pension fund discourse and the neo-liberal fund management have been supported more and more.

Political Economy of 1998 NPS Reform: Defense from the Neo-liberals

As noted above, at the time of the economic crisis Korea was forced to adopt the IMF's demands and its economic regime was transformed towards neo-liberalism. In March 1998 the government received a $2 billion loan from the World Bank and, in return, the Bank demanded public pension reform as well as the labour market restructuring (World Bank 1998a; 1998b).[6] As expected, the Bank demanded a change in the existing pension systems into a multi-pillar structure including private pension, which was its own blue print (World Bank 1994) and its policy of pension privatisation (Walker and Deacon 2003; Orenstein 2005). Even though many alternatives such as a basic pension were considered at the time, only a minor reform was implemented: a small cut in the replacement ratio from 70% to 60%. Thus, despite pressure from the World Bank, the Korean government rejected its recommendations. Even though it could not help transforming the economic regime due to the strong pressure from the

IGOs, the government was basically a reformist/welfare-friendly liberal one (Yang Jae-Jin 2001). This liberal government which gained power during the economic crisis was much more welfare friendly than the previous authoritarian/extreme right government even though this government could not help transforming the economic regime due to the strong pressures from the international financial institutions. Comparing Mexico (1997) and Korea (1998), which chose opposite pension reform strategies under similar economic crises, Yang Jae-Jin (2001) shows that the IMF and Bank's attempts to expand the domestic capital market throughout pension privatization failed due to the existing high saving rate in Korea and that the welfare-friendly social policy network under the liberal government did not want structural pension reform. This shows that despite external pressure pension reform is an issue of political choice. Moreover, it transferred the main responsibility for the NPS from the Ministry of Planning and Budget (MPB) to the Ministry of Health and Welfare (MHW), labour associations and the reformist NGOs (Yang Jae-Jin 2001). In other words, the reformist government helped to protect the public pension system.

This reform of pension fund governance and, in particular, the structure of the NPF Operation Committee, a non-permanent one which plans fund management on behalf of the NPS, emphasized its approach to pension reform. Prior to 1998 this committee belonged to the MPB but, during the 1998 pension reform, the MHW, which is more focused on social policy, became responsible for it (Yang Jae-Jin 2004). Prior to 1998, the stakeholder members of the committee comprised less than half of the total, 7 out of 15, and the Cabinet Minister representing the Ministry of Finance and Economy was the chairman. However, after the reform, the stakeholder members were increased to over the half (12 out of 21). This democratisation of the committee meant that it better reflected the members in the NPS (Jun Chang-Whan 2007). This change could be criticized because it meant that the majority of the committee had no expertise in the management of pension funds but, on the other hand, it demonstrated that the government made a conscious effort to increase the influence of the stakeholders rather than the neo-liberal financial elite.

Despite the economic crisis, its concomitant development of neo-liberalism, and the pressure from the international financial institutions, the welfare-friendly government rejected the demand on the increase in private pensions, changed the fund governance into the stakeholders-centred one and tried to protect public pensions.

Political Economy since 1998: Dominance of the NPF Discourse

Although the 1998 pension reform temporarily blocked the neo-liberal reform pressure, it did not mean that the NPS permanently overcame the pressure from this quarter. The existence of public pension fund which has and will have a huge fund is bound to cause a persistent interaction with the neo-liberal economic regime. Since the economic transformation the neo-liberals' power has increased and the NPF is a source of capital that neo-liberals are not likely to forego. In other words this fund is regarded as a core source of stimulation for the stock market in the form of institutional investment. The NPF, which had been a public fund managed and protected by the government, after the economic crisis became capital which had to find appropriate investment in the financial market. Its management was altered so that the government could no longer manipulate the NPF.

Table 8-4 Ten Biggest Pension Funds in the World ($ Billion)

Rank	Fund Name	Nation	Fund size
1	GPIF	Japan	1,058.5
2	ABP	Netherlands	230.8
3	CalPERS	USA	168.3
4	Local Government Officials	Japan	164.1
5	Federal Retirement Thrift	USA	141.0
6	NPF (NPF)	Korea	134.9
7	NY States Common	USA	117.5
8	Pension Fund Association	Japan	116.8
9	California State Teachers	USA	116.7
10	Postal Savings Fund	Taiwan	110.3

Source: Pensions & Investments / Watson Wyatt Global 300 survey: Watson Wyatt news (2005. 10. 18)

The importance of the NPF in terms of fund management has a close relationship with the rapid increase in pension fund accumulation. As table 8-4 shows, the NPF, which was 8th biggest pension fund in 2004, became the 6th biggest pension fund in the world in 2005. As the current accumulation has not yet matured, its size is expected to increase even further. As Estevez-Abe (2001) indicates, the nature of funded welfare programs will depend on the interests and political influence of actors included in the negotiation. Thus the sharp increase in a pension fund does not only have a quantitative meaning but also indicates that many interest groups, in particular the financial institutions, will pay attention to it. The 1998 reform was carried out under the circumstances that the size of the fund was relatively small and the neo-liberal economic regime had not yet matured and, therefore, the NPS could be protected from external pressure. However, the neo-liberal policy actors, whose powers are getting stronger, have demanded the financialization of the NPF.

Table 8-5 Development of Investment by Category (₩ Billion)

Year	Total	Public sector	Welfare sector	Financial sector	others
2006	182,214	0	257	181,593	362
2005	156,282	0	314	155,615	353
2004	133,276	6,377	375	126,185	339
2003	112,567	15,251	439	96,576	299
2002	93,055	24,221	525	62,048	281
2001	75,909	30,784	632	44,223	268
2000	60,869	34,511	716	25,387	255
1999	47,239	31,857	989	14,145	247
1998	37,702	26,795	1,438	9,231	237

Source: National Pension Service

As mentioned in chapter 7, prior to the economic crisis the government wanted to make use of the NPF as a means of economic development and a large amount of money had been used as public funds for the support of small companies or for public housing construction (Kim Young-Bum 2002). However, the management of the NPF was not transparent and when the pension reform was considered in 1998, the labour associations and NGOs strongly demanded the democratization of the fund management (Yang Jae-Jin 2001). The previous law that the MPB could spend the NPF without the permission of the National Assembly was abolished in 1998 because it was short of 'the procedural legitimacy of investment' and 'the guarantee in terms of the redemption responsibility' (Kim Yeon-Myung 1999). Accordingly, the abolition of the law aimed at not opposing the public use of the NPF but taking the measures for the more transparent and democratic use. The reform of the structure in the National Pension Fund Committee in 1998 was a trial to manage the NPF more democratically and effectively. However, these reforms did not increase the public value of the NPF and, on the contrary, the investment criterion was changed towards the concentration of investment in the financial sector and, as table 8-5 shows, recently over 99% of the entire NPF is invested in the financial sector. Although the management of the NPS was transferred to the MHW and its fund governance was changed into a stakeholder-oriented one, the neo-liberal principle that the earnings rate of the pension fund is the most important became more and more entrenched.

Of course the high earnings rate of the NPF increases its sustainability. None the less, it is questionable whether it is right for a public fund to be invested in financial institutions just because of the earnings rate. Considering the breakup of the traditional family and the increase in poverty among older people, the basic assumption of the NPS, that children take responsibility for the income security of their retired parents, is no longer valid. Poverty among older people in Korea is an urgent social problem and it is appropriate that the NPF should be invested in their welfare (Kim Jin-Soo 2006a). Clark (2000) also indicates that the 'exclusive benefit rule' is an implausible policy which ignores lots of interests and also the fact that a pension fund is a useful asset for local community development. Even if it is not used as the poverty solution for older people, a pension fund can be made use of in socially desirable ways. For example, in terms of the QPP (Quebec Pension Plan) management, one of public pension funds in Canada, CDPQ (Caisse de Dépôt et Placement du Québec) explicitly set economic development in Quebec as a management goal and has used the fund for the development of the undeveloped area, investment towards the small companies and support for the venture companies. However, the majority of Koreans dislike the increase in the contribution rate of the NPS and the thought was widespread that a high earnings rate in the capital market would reduce the contribution rate (Jun Chang-Whan 2007). Accordingly, this rather than the public good, became the top priority in NPF management. The idea that investment in the public or welfare sector should be increased is regarded as fundamentally wrong because it could lead to an increase in the contribution rate.

The Neo-liberal Pension Fund Crisis Discourse

For the past decade and a half the global pension debate has been dominated by neo-liberalism (Walker 1990; Walker and Deacon 2003; Ervik 2005) not surprisingly, therefore, in Korea too the proponents of neo-liberalism - the economic bureaucrats, financial elites, and conservative mass media - have led the way to pension reform. In particular they have exaggerated the dangers of NPF exhaustion by using exaggerated language and data and overestimated the effects on stock market investment.

The discourse on the pension fund crisis has a long history in Korea. The pension reform in 1998 included a regulation that, every five years, a long-term estimation of NPF accumulation should be made. As Bonoli (2000) and Johnson and Falkingham (1992) indicate, demographic trends and accumulation estimates can normally be trusted up to 20 years but not beyond. In contrast to its original purpose, this regulation started to strengthen the neo-liberal pension fund crisis discourse. Even though the 1998 pension reform delayed the projected date of the fund's exhaustion, from the early 2030s to the late 2040s, the conservative mass media distorted this picture and created alarmist forecasts that future generations would have to pay increased contributions, which led people to believe in the existence of a pension fund crisis (Kim Yeon-Myung 2007).

The deep distrust of financial sustainability in terms of the NPS results from the 'backwardness' of the Korean pension noted in chapter 7. The government and the National Pension Service have insisted that the NPS is the best 'financial technology for old age' (Ahn Jong-Bum 2005) and the saving concept replaced solidarity, a core foundation in Western pension. This unusual replacement was supported by the public when the earnings rate was high. However, the introduction of the long-term financial estimation started to expose the contradiction of such a wrong replacement from solidarity. In other words, the NPS, which has been advertised as a best saving means, was not any longer recognized as a saving means but an 'irrecoverable tax' for working generations, with the expansion of the fear of fund exhaustion. The wrong replacement from solidarity increased the distrust of the NPS even though its financial sustainability is relatively sound. In addition, the excessive stress on the saving concept caused the adherence to the earnings rate. Thus the idea that a 'high earnings rate by the NPF can prevent the increase in the contribution rate or reductions in benefits' became the common sense. A high earnings rate came to be regarded as a panacea to solve the threat of NPF exhaustion. Most of the reports emanating from neo-liberal quarters say that 'the earnings rate of the NPF is low' or that 'the NPF will be exhausted sooner or later.' Moreover the conclusion of these reports is always the same: 'Invest more of the pension fund in the stock market which will lead to a higher earnings rate' (Daily Economy 2003, 2007a, 2007b, Chosun Ilbo 2007a, 2007b, DongA Ilbo 2007).

Of course the earnings rate is an important issue in pension fund management. The World Bank argues that the raison d'être of public pension plans is identical to that of private ones and that, for this to be achieved, the plan should have no other objectives but the earnings rate (Impavido 2002). But, leaving aside the argument about whether the earnings rate or social policy utilization should be the goal, what is important in the Korean case is that the neo-liberals have intentionally distorted the NPF data in order to achieve their desired approach to fund management.

First of all, they select their own targets for comparison and make use of them to criticize the earnings rate of the NPF. A typical example is the use of the California Public Employees Retirement Scheme (CalPERS) rather than the national Old-Age, Survivors and Disability Insurance (OASDI). The OASDI, the USA's public pension, has the world's biggest pension fund ($1,005 billion in 2001) all of which is invested in domestic bonds. Korean mass media also very rarely compare the OASDI fund with the NPF management. Does the NPF have similar characteristics to the OASDI fund, a public pension fund, or to the CalPERS, a sort of occupational pension fund? Ostensibly there is a difference between the two public pensions in that the OASDI is a PAYG scheme while the NPS is a funded one. However, despite its PAYG form, the OASDI will also be funded until the mid 2030s and the NPF, which is a funded scheme but which is also based on an intergenerational contract, may be exhausted in the 2040s. In other words, whether or not the financing is PAYG or funding is not the crucial issue and, in practice, the distinction made between the NPF and the OASDI is spurious. None the less, the neo-liberals reject any comparison between the NPF and the OASDI. The key issue, from their perspective, is that the OASDI invests everything in domestic bonds while the CalPERS invests most of its funds in the stock market. Table 8-6 that the government published is also based on the wrong comparison. The NPS and Japanese GPIF in this table are only public pensions and, the NPF which has been criticized due to low investment in stock market is invested in stock market as similar as the Japanese GPIF.

Table 8-6 Investment of Pension Funds ($100 million, Percentages)

		NPF		GPIF		ABP		CalPERS	
		Amount	Percent	Amount	percent	Amount	Percent	Amount	Percent
Bonds		141.4	86.6	1,204.0	86.0	103.4	43.1	48.1	25.2
	Domestic	129.7	79.3	1,148.8	82.0	-	-	42.4	22.2
	Foreign	11.9	7.3	55.2	3.9	-	-	5.7	3.0
Stocks		20.3	12.5	196.2	14.0	94.9	39.6	117.6	61.7
	Domestic	19.7	12.1	118.1	8.4	-	-	74.3	38.9
	Foreign	0.6	0.4	78.1	5.6	-	-	43.3	22.7
Alternative investments		0.7	0.5	-	-	41.4	17.3	23.2	12.1
Short-term assets		0.6	0.4	-	-	-	-	-	-
Total		163.2	100.0	1,400.2	100.0	239.6	100.0	190.8	100.0

Source: MHW. 25th Feb 2006 (NPF, the 6th biggest pension fund)

Note: NPF and GPIF are 2005 data. ABP and CalPERS are 2004 data

The economic and financial elites and the mass media criticize the low earnings rate of the NPF, referring to the higher earnings rate of the CalPERS (Daily Economy 2003, 2007a, 2007b, Chosun Ilbo 2007a, 2007b, DongA Ilbo 2007). In fact these claims that the earnings rate of the NPF is low are based on misleading comparisons. As Table 8-7 shows, the earnings rate of the NPF is more stable and higher in the long term than those of some foreign occupational pension funds. Nevertheless, the economic and financial elites and the mass media continue to criticize the 'passive' investment of the NPF by using distorted data that make only short-term comparisons between the NPF and foreign occupational pension funds. Thus the media do not refer to foreign occupational pensions when their earnings rates are low but only when they are high, which encourages people to believe that the NPF faces a crisis.

Table 8-7 Trends in Pension Fund Earnings Rates (Percentages)

	NPF	GPIF	ABP	CalPERS
1999	12.8	11.4	10.0	16.0
2000	4.7	-5.0	3.2	-1.4
2001	9.0	-2.5	-.07	-6.2
2002	6.4	-8.6	-7.2	-9.5
2003	7.8	13.0	11.0	23.3
2004	5.9	4.4	11.5	13.4
2005	9.5	-	-	-

Source: MHW. 25th Feb 2006 report.

Note: ABP (Algemeen Burgerlijk Pensioenfonds) in the Netherland, GPIF (Government Pension Investment Fund) in Japan

Table 8-8, from the MPB, displays the goal of the neo-liberals with regard to NPF fund management. Comparing stock investment between the NPF and selected foreign occupational pension funds, the MPB stresses the low earnings rate of the NPF. Although it is a misleading comparison, the media are publicising the superiority of the stock market investment by using these government data or other similar information. In particular, many parts of the Korean mass media argue that the NPF should invest more in the stock market, like the CalPERS, and openly compare the NPF with CalPERS (Daily Economy 2003, 2007a, 2007b, Chosun Ilbo 2007a, 2007b, DongA Ilbo 2007) After a long campaign these arguments were successful. The existing law which had limited investment in the stock market by the NPF was changed and the proportion of such investment is increasing rapidly. The distortions of the neo-liberal bureaucrats –

for example, high-ranking government officials in economic Ministry - and mass media seem to have helped public opinion change into a stock market-friendly direction.[7]

Table 8-8 Proportion of Stock Market Investment by Pension Funds

	NPF (Korea)	CalPERS (USA)	CPP (Canada)	ABP (Netherlands)	CPF (Singapore)
Proportion of stock market investment	6.3%	68.0%	45.4%	36%	32.6%

Source: MPB, "Information on the Fund Management modification Bill" (1st July 2004)

Note: CPP (Canada Pension Plan) in Canada, CPF (Central Provident Fund) in Singapore

The distortion of the MPB is continuing. Table 8-9 from the MPB shows that the earnings rate of the Korean stock market was higher than other sectors. According to this table investment in stock is very attractive. However, September 1998, the standard year, was the time when stock prices had fallen unprecedentedly due to the economic crisis. So, changing the standard year into December 1999, the earning rate in May 2004 would become below 0 (Oh Gun-Ho 2004). Accordingly, the claim that the NPF should be invested increasingly in stock market, is not well-founded.

Table 8-9 Comparison between Investment Assets since the Economic Crisis

	Three years maturity government bond		Stock		Apartment		Fixed deposit interest rate	
	Earnings rate	Index conversion	Kospi	Index conversion	Index	Index conversion	Interest rate	Index conversion
'98(Sep)	11.84%	100.00	312.15	100.00	59.70	100.00	10.25%	100.00
'98(Dec)	7.23%	116.58	524.72	168.10	59.51	99.68	9.06%	102.35
'99(Dec)	8.85%	119.72	984.48	315.39	64.59	108.19	7.94%	110.77
'00(Dec)	6.79%	138.10	526.36	168.62	65.48	109.68	7.33%	119.89
'01(Dec)	5.93%	149.73	665.95	213.34	75.01	125.64	4.97%	127.03
'02(Dec)	5.28%	161.63	699.84	224.20	92.09	154.26	4.85%	133.4
'03(Dec)	4.87%	171.13	801.18	256.67	100.90	169.01	4.24%	139.24
'04(May)	4.39%	176.99	798.79	255.90	102.00	170.85	3.95%	141.62

Source: MPB, "Information on the Fund Management modification Bill" (1st July 2004)

From the point of view of the economic bureaucrats, the change in financial markets since the economic crisis became an important element that cannot be ignored in the NPF. At first, since the economic crisis the restrictions in terms of foreign capital have been reduced. Accordingly, the current size of financial market increased about three times more than prior to the economic crisis. The proportion of financial industry was increased from 5-6% of GDP in 1990s into 7-8% of GDP in 2000s. Next, the proportion of foreign investors is increasing rapidly. The proportion of foreign investors in the Korean stock market was increased from 15% in 1997 to 39.7% in 2005. That is, their hostile Mergers and Acquisitions (M&A) became an element to threaten the Korean economy. Accordingly, the government has suggested that the NPF should be invested in stock market. There was already a claim that the 'stock market should be stabilized through the NPF' at the conference of the chairmen of economic ministries in 2000 (Daily Economy 2000) and the mass media has stressed the role of the institutional investors of the NPF (Daily Economy 2001, 2005a).

Because the NPF has the characteristic of a long-term liability, it is expected that the NPS can play a role of a long-term investor (Jun Chang-Whan 2007). Contrary to other institutional investors who pursue short-term liquidity, it is expected that the NPS can play a role of a long-term institutional investor. As shown in table 8-10, the proportion of the institutional investors in Korea is very low and, it is believed that the investment in stock market by the NPF can hedge risks in the Korean capital market that the proportion of foreign short-term capital amounts to nearly the half of entire stock market.

Table 8-10 International Comparison of the Proportion of Institutional Investors

	Korea	USA	UK	Netherlands	Japan
Proportion of institutional investors	16%	50%	52%	21%	37%
Proportion of the Pension fund	3%	24%	33%	13%	19%

Source: MPB, "Information on the Fund Management modification Bill" (1st July 2004)

As indicated in chapter 6, the stock/foreign investment of public pension was not always negative because the excessive investment towards domestic bond could cause a low earnings rate. The QPP in Canada which stresses public investment also has been invested in stock market and the influence of investment in the stock market of the public pension fund can be different on the basis of the different condition of each country. The MPB, financial institutions and financial groups have demanded the growth of stock markets, suggesting the expansion towards stock investment of the NPS.

The real problem is that the Korean stock market is not sound. As noted in table 6-8 the volatility of the Korean stock market is much higher than in other countries. Thus, if the NPS is a rational investor, it would not invest its funds in the Korean stock market. None the less, the mass media and economic bureaucrats insist that the NPF should help activate the Korean stock market through risky large-scale investment. Is this an appropriate use of the public pension fund which is responsible for the old age income security?

In contrast, it is difficult to find a reference to the welfare function of the NPF and, instead, the earnings rate is a dominant priority. As mentioned above, the comparisons between US occupational pensions and the NPS have distorted the sound earnings rate of the NPS and such a distortion has enhanced a neo-liberal discourse that the investment in stock market of the NPF should be increased. As Blackburn (1999) indicates, funds which were responsible to the wider community could combat unemployment, help clean up the environment and avoid unethical investments. Nevertheless, the potential role of the NPF to solve urgent social problems such as poverty of older people is being ignored and the public's attention has concentrated on the fund exhaustion, which will happen in 30 and 40 years time, instead of using it for urgent social/economic problems.

Recent NPS Reform

The recent modification of the NPS results from the continuous concentration on the fund earnings rate or financial sustainability by the economic and financial elites and mass media. As explained in chapter 5, the latest bill that fixed the contribution rate at 9% and reduced the replacement rate for members with average earnings from 60% to 40% (based on 40 years contribution) was passed in June 2007. The first step is a cut in the replacement rate to 50% in 2008 and, thereafter, by 0.5% per year until 2028. This is a radical reform which changes the fundamental features of the NPS. Fixing the contribution rate reflects the neo-liberal ideology which opposes increases in the tax or contribution rates and, it illustrates the 'politics of Korean pensions'. That is, it is an outcome which reflects public opinion that dislikes increases in tax rates more than increases in poverty and insecurity. Such a reduction in the replacement rate would be implausible in Europe. However, because the proportion of current beneficiaries in the NPS and public support towards the NPS are still very low, this cut could be implemented without any major resistance.

This radical reform was realized by a combination of the funded system design and the distortion of public opinion towards the pension fund. The previous bill, which proposed a small increase in the contribution rate and a 10% decrease in the replacement rate, the government argued could not be passed despite its efforts. Yet the more radical bill, fixing the contribution rate and radically reducing the replacement rate, was passed. Why a bill which ignores a prime principle of public pensions, income security, was passed without any significant resistance is attributable to the fact that the NPS was introduced mainly as a means of fund accumulation and is still not recognized as a means of old age income security and is not supported in this role by the general public. The proportion of the public who distrust the NPS was 67.6% in April and 74.8% in August 2004 (Hankook Ilbo, 2004). This lack of confidence results from its transitional period and immaturity. Meanwhile, the discourse on the fund exhaustion crisis the neo-liberals created permitted the sharp reduction in the replacement ratio instead of promoting the NPS' social security function in the face of the urgent problem of poverty. As a result the socio-economic security function of the NPS was buried by the pension fund management.

This demonstrates that the political economy of the Korean pension reform is very different from those of the European pension reforms. While the reform of PAYG schemes is bound to increase the numbers of people who immediately lose something, the benefits to future generations accrue a long time later and so they do not always support pension reform (Baccaro 2000). According to the 2003 Eurobarometer survey three out of four Europeans agreed with maintaining the current pension levels even at the cost of a further rise in the contribution rate (Galasso and Profeta 2004). In other words, despite the neo-liberal pressure worldwide, support for public pensions in Europe is still high. In practice, therefore, it is difficult to carry out pension reforms, especially to cut benefits, which leads to 'blame avoidance' at particular veto points (Weaver 1998; Myles and Pierson 2001). The pension reform in Korea, however, did not entail 'blame avoidance'. There are few who currently lose something through the pension reform because of the immaturity in the NPS and its small number of current beneficiaries. Thus a pension reform like the Korean one, which does not increase contribution rates, may be portrayed as the politics of 'credit claiming' in that it obtained majority support. In addition, while the European pension reforms often attract social consensus which gives some roles to stakeholders, in particular, trade unions to offset 'blame avoidance' (Anderson 2006) or which builds broad coalitions (Weaver 2006), the Korean reform did not need to employ this strategy and the delay of pension fund exhaustion by cutting the replacement ratio satisfied the majority of stakeholders (the working generations). While the pensioners or civil servant's trade union of the Specific Pension Schemes, which have relatively many pensioners and which are already mature, has strongly opposed the reduction in the earnings ratio, the members easily permitted the drastic reduction in the NPS benefits because they recognized the NPS contribution as an 'irrecoverable tax'.

Although it is not decided yet the governance reform of the NPF is likely to be accepted along neo-liberal lines. As mentioned in chapter 6, it is not known yet what the best management of public pension fund is. While there are some negative assessments in terms of public management because the management through government bureaucrats who do not have any incentives can threaten the earning rate of the fund (Useem and Hess 2001), the ISSA (2004) insists the social and economic utility of public pension fund. It is not surprising that the tendency towards neo-liberalism in Korea has increased the former perspective. The conservative mass media and financial elites have criticized the shortage of technical knowledge on the committee (Daily Economy 2003, 2005b). In the case of the CPPIB (Canada Pension Plan Investment Board) which the World Bank regards as an ideal public pension fund (Impavido 2002), the pension fund is not made to reflect any public purposes or interests and the financial elites manage it. Korea is likely to follow this model (Jun Chang-Whan, 2007) and, therefore, the focus on the earnings rate of the NPS is bound to increase further. The will of the government seems to be set firmly towards the financial expert-oriented governance model. For example, a TV program by the public Korean Broadcasting System in 2006 stressed the advantages of the CPPIB such as the exclusion of political intervention, high responsibility and transparency. However, as Crooke (2003) argues, the main beneficiaries who obtained the greatest profits after investment in the stock market by the CPPIB were participants in the Canadian stock market. The neo-liberal model that regards the financial elites as the optimal group for public pension fund management, in practice, serves the interests of the financial elites. In addition, the government economic ministries claim that the management responsibility of the NPF should be changed from the MHW to the economic ministries (Future Newspaper 2007). Considering that the neo-liberal pressure has been widespread under even the stakeholder-oriented fund governance, if the fund governance is changed into the financial expert-oriented governance, the focus on income security in the NPS will reduce further.

Both the increase in the NPF through the reduction in the replacement ratio and the earnings rate-oriented plan for fund governance mean that more of the NPF can be invested in the stock market, which transforms it into 'pension fund capitalism' dependent on the financial bubble (Minns 2001; Blackburn 1999). It is difficult to find any reference to the standards of living of the pensioners or their income security in this model (Langley 2006; Walker 2003) because its primary goals are to liberalize the financial market or to enhance the stock market. A key problem in using the NPS to enhance the pension fund stock market model is that it is not an occupational pension but a public one. Whereas in the Western countries the 'pension fund capitalism' applies to occupational pensions which have the role to supplement their public pensions supported by the public, Korea is adopting this model for its national public pension. Thus 'pension fund capitalism' in Korea is likely to have greater effect on the old age income security more than in Western countries. The NPS still has important elements of a public pension in that the government guarantees the replacement ratio at a certain level. As a result it may be more stable than some foreign occupational pensions. Yet, the NPS is enhancing the elements of the private pension in many respects, such as the continuous increase in the investment of public pension funds in the stock market, which will encourage employees as well as employers to pursue financial liquidity in the capital market. This may transform workers into a form of rent-seekers, which will increase the power of capital but decrease that of labour (Ghilarducci, Hawley and Williams 1997). In other words a public pension system, which should help to regulate capitalism, is becoming a key means to accelerate its volatility.

Political Economy of Korean Occupational Pension

As mentioned in chapter 5, the Korean occupational pension introduced in 2005 was a transformation from the existing lump-sum LRA to an annuity. This system shows a closer relationship with the economic regime than public pensions. Under the existing LRA whether companies accumulated funds or not depends on their discretion and, in most cases the fund was reinvested in their own companies without external accumulation. This shows that prior to the economic crisis the Korean system was similar to the production-welfare nexus in Germany or Japan. However, at the time of the economic crisis the World Bank demanded that the LRA should be transformed into the occupational pension (annuity) and the government started to examine the transformation. Surprisingly, the MPB in 1998 continued to suggest the introduction of the occupational pension as 'a plan to activate the stock market' (Korean Economy newspaper 1998). That is, the occupational pension was regarded as a vehicle of financial capitalism from the very beginning. This suggestion caused a strong reaction from the Ministry of Labour which is the main ministry in charge of the LRA but the MPB continuously suggested the introduction of an occupational pension as a mechanism to strengthen the capital market (Oh Soo-Mi 2006). In addition, the financial interest groups who would obtain direct profits from the introduction of an occupational pension also backed its introduction (Korean Economy Newspaper, Donga Ilbo, Hankook Ilbo 2001). In contrast, the trade unions had opposed the transformation towards an occupational pension because they regarded it as a first step in reducing the replacement ratio of the NPS.

After some fierce debates, in 2005, the LRA was changed into the occupational pension. The proportion of the companies which transformed their pensions into annuities is still no more than about 4% but, as with other social insurance systems in Korea, they are likely to replace from the choice between annuity and lump-sum with the mandatory annuity sooner or later. This is not only a change in benefit provision method but also reflects the change in financial system. Both Germany and Japan, ('backward' development countries) have operated the bank-based finance which reinvests in their own companies without external funding, Korea had also operated the same method prior to the economic crisis. Although it is not a form of annuity, the LRA, a quasi-pension scheme, has been operated as a book reserve scheme. However, the economic crisis changed the Korean economic regime into a neo-liberal one and the financial system also tried to change from a bank-based finance to market-based one. While the transformations such as the change in the corporate governance and the privatization of public companies could be realized through the government's strong will in a short time, it was difficult to increase the size or role of stock markets in a short time because it was related to the preference of individual investors. The transformation process towards the occupational pension shows the neo-liberals' intention to make use of the occupational pension fund as a mean to increase the size or role in stock market. As Jackson and Vitols (2001) indicate, private pension regimes externally administered are more supportive of market-based financial systems while private pension reforms that are internally administered are less supportive of market-based financial systems. Under the neo-liberal economic regime which pursues shareholder capitalism and tends to favour short-term profit the Korean occupational pension was transformed into the Anglo-American one even though, as Blackburn (2008) indicates, this regime, whether DB or DC, failed on many counts. As noted in chapter 6, although the Anglo-American occupational pension scheme is very insecure and contributes to the growth in asset value or risk avoidance of financial institutions rather than the provisions of stable old age income, the new Korean occupational pension was introduced on the basis of the Anglo-American occupational pension scheme. In other words, the introduction of the occupational pension where the neo-liberals took the lead was easier than the neo-liberal transformation of the NPS from the development state regime, and the financial institutions and bureaucrats succeeded in its introduction in the way they preferred. In addition, contrary to the Western countries, with the adherence of the earnings rate from the NPF the social use of the occupational pension fund was totally excluded. Such a transformation shows a means to maximize profits of financial institutions, the main neo-liberal actors.

Still, the transformation is in a transitional period and its influence or the proportion of capital market is small. However, sooner or later it is expected that every employee will be covered by the annuity scheme instead of receiving a lump-sum and that the external fund of the occupational pension will increase rapidly. If so, like the NPF, the occupational pension (fund) will function to strengthen neo-liberalism and vice versa. The pension fund stock market model which aims to support the financial or stock market rather than the living quality of older population (Minns 2001) will appear in the occupational pension as well as the public pension in Korea.

Conclusion

In contrast to the quantitative and qualitative growth of the welfare system beyond the enhancement of social safety net since the economic crisis, the NPS, Korea's biggest welfare system, has been rapidly reduced in terms of income replacement ratio from 70% to 40% between 1998 and 2007. This has taken place even though old age poverty in Korea is still much more prevalent than in other developed countries. This chapter examined how the interests (or competition) surrounding the huge NPF urged the anti-welfare pension reform to be implemented, with the expansion of neo-liberalism. The process shows, as Estevez-Abe (2001) indicates, the nature of funded welfare programs is different from that of other welfare program and will depend on the interests and political influence of actors included in the negotiation. Due to the rapid increase in fund accumulation and the low support for the NPS the neo-liberal value, which favours the earnings rate and fund accumulation, persuaded the public to accept anti-welfare reform. This was a result of the governments' strategy (replacement from solidarity) that regarded the NPS as saving or investment rather than as welfare. It is concluded that the nature of the funded NPS, which is different from that of other welfare program, permitted the neo-liberal pension reform which went against the trend of expansion in the broader Korean welfare system.

Notes

[1] The absolute poverty ratio was set by using the minimum living cost the government announced and, the relative poverty ratio was set by using the 50% of median income.

[2] According to the classification of Rainwater, Rein and Schwartz (1986) and Rein and Turner (1999), this research classified the income source of older population into earnings income, asset income, private transfer income and public transfer income.

[3] Daily Workers, short-term employees whose contract period os less than 1 month abd employees whose working time is less than 80 hours per month are excluded from the NPS.

[4] With the expansion of welfare system the improvement effect of the Gini indicator from the social security was increased. In 2006 the indicators in terms of total income was 0.351 and the indicators in terms of disposal income was 0.325, which means that the redistributive system improved about 0.026 of Gini indicators. Considering that the effect was below 0.01 before 2000, it is a big improvement.

[5] These economic interactions can be revealed in the occupational pension as well as the public pension scheme.

[6] According to Augusztinovics (1999), although systemic pension reform was originally not a subject of the so-called Washington consensus, it has become <u>de facto</u> a part of the widely accepted neo-liberal reform package.

[7] While Chosun Ilbo in 2004 indicates that 'people tend to oppose the investment in the stock market of the NPF', the recent public opinion seems to be friendly to invest the NPF in the stock market.

Chapter 9

Impact of Reforms on the Korean Pension System

Through an investigation of the historical context, chapter 8 revealed that the (neo-liberal) pension fund exhaustion discourse was the major driving force of the recent Korean pension reform. This chapter supplements the analysis because chapter 8 did not examine the important issues in the reform in detail - such as financing - and, therefore, it is necessary to analyze them to elicit their policy implications. Thus this chapter deals with the characteristics of the Korean pension schemes after the reform in a more micro-perspective.

Schmähl (2004) argues that German's persistent and gradual parametric pension reform over the last 15 years (reforms to decrease the income replacement ratio of the public pension from 70% into 64% and to induce private pensions) is a sort of paradigmatic pension reform. Considering that the German pension reform is much more gradual and passive than the Korean one, the dual Korean parametric pension reforms in the last 10 years may also be called a paradigmatic reform. After the introduction of the occupational pension in 2005, the Korean old age income security has been transformed into a multi-pillar system, which consists of the NPS with the 30% replacement ratio and the occupational pension with about 25% replacement ratio (in 30 years' contribution).

Thus, the Korean pension reform was a major reform which transformed its overall structure rather than a simple change which reduces the income replacement ratio. Following chapters 5 and 6, which dealt with the analysis of the system design, and the macro political economy analysis in chapter 8, this chapter applies the characteristics of three major issues (financing, risk sharing (benefit assessment), management) to the Korean pension reform, based on the analyses in the previous chapters. Some of the characteristics which will be dealt with below were already referred to in brief in the previous chapters, but this one examines them in detail, trying to understand the essence of the Korean pension reform through direct or indirect comparisons with its Western counterparts.

Financing

In terms of financing, the dual NPS reforms stuck to the existing partially funded scheme, the initial financing method in the NPS. The focus on financing in the Korean pension reforms was stabilization by lowering the earnings ratio, which was initially set too high. As mentioned in chapter 8, the NPS was designed under a different intergenerational contract from the Western PAYG public pensions. That is, while the intergenerational contract in the Western countries is that 'if I pay the contribution for the older generation when I work, future generation's contributions will pay my benefit after I retire', the Korean intergenerational contract, which is implicitly assumed in the NPS, is that 'if I support my parents' old age income through private transfer and if I pay the small contribution for my old age, future generations will support a part of my old age income'. As European pension systems reflect intergenerational solidarity, whether funded or tax-financed by making explicit the link between generations (Disney 2007), the NPS is a scheme which reflects an intergenerational contract even though it is an implicit one. However, because the concept of intergenerational contract has not existed in Korea and because, as Ogawa and Takayama (2007) point out, its nature is difficult for many people to understand, the public has barely recognized its embededness in Korean social security history. In a situation where solidarity is absent and where the earnings rate prior to the 2007 reform had been 1.8-5.4, the Korean government and National Pension Service have advertised the NPS as the best saving means for old age income with a very high earnings rate from the time when the NPS was introduced (Ahn Jong-Bum 2005). In other words, the notion of solidarity in the Western countries was transformed into that of savings with a high earnings rate in the NPS.

As noted in chapter 7, Korea had recognized the necessity of a public pension from the experiences of the developed countries but without internal pressures. As a backward welfare state, it introduced and rapidly expanded the NPS by replacing solidarity (the basis of the European public pension) by the saving notion. What is important here is whether the replacement from solidarity into the savings notion is appropriate. If it had been an appropriate replacement, it could have developed the NPS without internal distrust or contradiction. However, recent huge distrust proves that the replacement is clearly inappropriate. As explained in chapter 3, while the first older generation under PAYG receives the unexpected windfall, the first working generation under the fully funded scheme is bound to face double payments. Accordingly, under the funded scheme it can be justified to set the earnings rate of the first working generations high in order to decrease double payment at the initial period, which is a fundamental feature of public pension irreplaceable by the savings notion. In other words, because the first working generations have to take the responsibility for the old age income of their parents, the strict application of actuarial principles (savings notion) concerning their pension benefits cannot be regarded as fair.

This replacement seemed to be successful in the initial period, when explicit financial pressures did not exist. However, the introduction of a new regulation (long-term pension finance estimation every 5 years) in the 1998 pension reform started to undermine the initial intention to replace solidarity with the savings notion. The introduction of the long-term pension finance estimation every 5 years is nearly tantamount to a regular proclamation that the NPF will be exhausted several decades later and, as Ervik (2005) points out, discourses on the pension fund crisis dwarfed all other important issues in pension debates. In addition to official government estimation, scholars and research institutions continued to publish the long-term fund estimation published, and neo-liberal media and organizations continued to promote fear that the NPF exhaustion would be imminent and that future exhaustion would mean a loss of benefit provision. As Disney (2000) points out, government actuaries seem to have a rather poor record in forecasting aggregate longevity changes, the accumulation estimation for subsequent periods should not be beyond the reference data. Nevertheless, the fear in terms of pension fund exhaustion based on a long-term estimation completely undermined support for the NPS. Large-scale public demonstrations were held in 2004 to criticize the irrationality of the NPS and the public strongly demanded its abolition. In fact, their discontent mostly originated from their misunderstanding of the difference between public pensions and general saving. In other words, when people regarded the NPS as a sort of saving means, it is natural that they did not trust the NPS where its fund was expected to be exhausted. Thus, the inappropriate savings notion and the ignorance of the implicit generational contract revealed the limitations of the existing NPS system design.

This experience is opposite to that of the Western countries. Even though there are wide differences between countries, generally Western countries have prevented the function of income security from being greatly reduced on the basis of 'solidarity',[1] even when a public pension fund was exhausted or a contribution rate increased due to structural changes such as the extension of neo-liberalism in policy making or ageing.[2] Even though there has been a recent tendency for the system of solidarity to evolve towards its own negation - that is, towards both principles of equivalence between contributions and benefits as well as employer-provided pensions in the private sector (Rein and Turner 2004) - there is little empirical evidence that support for solidaristic arrangements is on the wane (De Deken, Ponds and Van Riel 2007). That is, in spite of the intention of the neo-liberals to transform it into individual responsibility,[3] solidarity is still an important principle for supporting the foundation of European public pensions. However, the long-term financing estimation of the NPF and subsequent fears concerning pension fund exhaustion, with the expansion of neo-liberalism since the economic crisis, have increased distrust of the saving notion in the NPS. Because the NPS was set up and regarded as a form of savings, it was implausible to make use of the notion of an intergenerational contract even though the discourse of pension fund exhaustion has been increasing. After all, the fear of pension fund exhaustion, which could be overcome through solidarity, could not in practice be overcome owing to the dominant savings notion, and it became common sense that with the exhaustion of the pension fund contributors would lose the right to receive their pension benefits. Their mistaken belief that they would not receive benefits after the exhaustion of pension fund, which originated from ignorance and misunderstanding of their entitlements, caused large-scale street demonstrations in 2004. The Minister of the MHW, in 2006, said in an interview that the NPS benefits were guaranteed, which was regarded as ridiculous because of the widespread distrust and ignorance of the NPS.

As soon as the 1998 pension reform reduced the replacement ratio from 70% to 60%, the arguments for additional reductions started and the expansion of neo-liberalism made it difficult to increase contribution rates. Then, the 2007 pension reform, which appears to give up the function of income security and permits the drastic reduction in the income replacement ratio (from 60% to 40%), was passed. Considering that pension reform is the art of finding a compromise between sustainability with respect to secular changes and stability of retirement income for the individual worker (Börsch-Supan *et al.* 2007), it is clear that the strong savings notion and the fear of fund exhaustion forced the Korean pension reform to focus on sustainability instead of stability. As suggested in chapter 8, even when poverty in old age continued to deteriorate, discourses on fund exhaustion dwarfed all other issues, which only permitted reforms that increased fund accumulation.

This does not mean that the existence of a public pension fund causes such an anti-welfare pension reform. European countries which operate public pensions under partially funded schemes have also adjusted their pension funds according to their socioeconomic conditions. For example, the Swiss public pension has fixed the income replacement ratio and contribution rate on the basis of pension fund accumulation to a certain degree for the last 30 years, but now the fund is nearly exhausted due to the persistent increase in the expenditure. However, despite fund exhaustion its replacement ratio has never reduced. That is, pension fund accumulation in the Swiss public pension is nothing but a means to operate the system, and its purpose is income security. This flexibility of pension fund management in Western countries could be realized because those systems are based not on the saving notion but solidarity. However, due to the lack of basic philosophy of social security caused by the NPS's backwardness, the solidarity in Western countries was replaced with the savings notion in Korea, and thus made pension fund accumulation a main purpose of the system. The recent reform of the NPS delayed the expected point of time for pension fund exhaustion from the mid-2040s to 2055. However, this reform process may not be at an end. Even though the expected point of time for the pension fund exhaustion is delayed to 2055, the persistence of the savings priority is likely to call forth again the discourse on pension fund exhaustion.

In fact, as noted in chapter 3, the simplest solution to solve the financial problem caused by ageing is to increase the age of qualification for the pension (Myles and Pierson 2001; Myles 2003; Esping-Andersen and Myles 2007; McGillivray 2007). Considering that many pensioners are now very healthy (Barr 2001; Sunden 2007), the modification of pensionable age seems inevitable. Even though public pension benefits are available at age 60 or earlier in almost half of the OECD countries (OECD 2004a), the adjustment of the pensionable age is a good way to solve pension finance problems. Thus, the increase in pensionable age is a rational response to improved health and increasing life expectancy over the last several decades.

However, it is difficult to implement this policy, and as a result many countries, such as the US and UK, set very long transition periods. Korea is no exception and, although the pensionable age - 60 when the NPS was introduced - was increased to 65 in the 1998 pension reform, the final transition will be finished in 2033. Considering the fast ageing in Korea, this may be too long a transition period. As shown in table 7-4, the average life span increased from 52.4 in 1960 to 75.9 in 2000, the proportion of those aged 65 and over has increased greatly, from 2.9 percent of the total population in 1960 to 7.2 percent in 2000 (National Statistical Office 2004), and it is expected that this will increase to 20% in 2026. The drastic change in the fertility ratio was also a main reason for the sharp increase in the proportion of those aged 65 and over – the fertility ratio in 2006 was around 1.20. None the less, the adjustment of the pensionable age had never been considered at all, even in the 2007 pension reform which radically reduced the replacement ratio.

Of course, the increase in the pensionable age is not a panacea. Although ageing, together with the falling fertility rates, implies that many countries will face labour shortages in the future, it is not sure whether older workers will stay in their jobs to fully offset shortages. In addition to hiring older workers, employers can solve the labour shortage by using more capital or recruiting younger workers and immigrants (Sunden 2007).[4] Although the change in the demographic structure or health of the older population may increase the demand for older workers as well as the pensionable age, its implementation still seems difficult in the developed countries.[5] As mentioned in chapter 3, in the last 20 years there has been a significant reduction in occupation rates in the upper age group (55-64 years) in the OECD (Mirabile 2004) and, less than half of men aged 55 to 64 are participating in the labour force (OECD 2004a). In Korea as well, the employment of older workers has not been common except for in the agrarian sector (Park Keong-Suk 2007) and, among the 6.7 million above the age of 60, 2.5 million have jobs - of which 1 million work in agriculture, forestry and fishing (National Statistics website). Considering that the legal retirement age in Korea is 60, one may think that the employment of older workers in Korea is common. However, except in cases of self-employment and agriculture, forestry and fishing, the employment of older workers is not common and retirement prior to legal retirement age is very widespread. According to a survey, the average expected retirement age is 45.5 (Incruit 2007). As a result, it seems reasonable to increase the pensionable age in the NPS, but this is a fundamental problem which demands overall changes in the Korean economy.

The increase in pensionable age seems to accomplish a compromise between sustainability and stability, but the unilateral increase in pensionable age without consideration of socioeconomic background is no more than a makeshift expediency, which moves the problem of pension finance into another sector. The most desirable pension reform will be a way to reconcile sustainability and stability, taking into account the existing socioeconomic background. Some developed countries such as Sweden, Germany, and Japan recently introduced an automatic balance mechanism or a sustainability factor to adjust pension benefits to respond flexibly to never-ending changes in demographic and economic conditions (Heller 2003; Takayama 2005). The countries which adopted the NDC approach tried to protect the PAYG scheme from demographic pressure through the 'annuitization divisors' in Sweden or 'G-values' in Latvia (Börsch-Supan 2004a) based on interest rate used to compute annuity and remaining life expectancy (Palmer 2006a). The German pension reform also considered a similar adjustment. The 'sustainability factor' was passed in the 2004 reform, which considers not only the development of life expectancy but also that of the entire demographic (including changes in migration and notably in birth rates), as well as the development of the labour market. Many countries operating PAYG public pensions have tried to solve demographic pressures. However, the 2007 Korean pension reform did not consider those alternatives and, instead, the direct increase in pension fund accumulation was preferred because the main concern of the Korean neo-liberals is not the adjustment of old age income but fund accumulation.

And what should not be omitted in the analysis of pension financing is the expansion of public assistance. While the means-test has negative effects because it causes allocational distortion (Sen 1995), as Ebbinghaus (2007) indicates, new governance in pension policy includes increased state-financed and means-tested benefits. Germany and Sweden, which recently implemented pension reforms, sharply increased public assistance instead of decreasing the debt of public pension. In particular, Sweden introduced the new public assistance for older people (the Minimum Pension Guarantee (MPG)) to supplement the decrease in benefit after the introduction of the NDC scheme and, the MPG provides the poor old with more generous benefits than the previous basic pension benefits. Such increases in public assistance for older people may offset finance improvement from the pension reform. In this regard, the expansion of public assistance would transfer the debt of public pension finance to the tax system, and an analysis of the real pension finance require an examination of the overall tax system.

As mentioned in chapter 5, the 2007 Korean pension reform introduced the BOPS as a supplementary benefit for the current older generation, which is a sort of public assistance for the old to provide 5 percent of income replacement rate for the poorest 60 per cent. $ 1.6 billion in 2008 (only 0.3% of the GDP) will be spent to provide it, which can be the cost to stabilize pension finance. Considering that the proportion of the (regressive) indirect tax in Korea is very high (while the average of the OECD countries in 2000 is 39%, the proportion in Korea is 60% in 2002 (National Statistical Institute web site)), the introduction of this sort of allowance, which depends on regressive tax instead of pension finance based on earnings, is likely to worsen the overall income distribution. While Sweden, which operates a very progressive tax system, may cause a small distributional distortion through its MPG, a similar transfer of pension finance to the tax system would cause a big distributional distortion when considering the Korean regressive tax system. In addition, as mentioned in chapter 5, the funds of the Specific Pension Schemes have been exhausted, and the general tax now compensates for the deficits. Considering that the Specific Pension Schemes mainly cover the rich groups and the deficits will increase rapidly, it will also cause distributional distortion on a large scale.

In conclusion, the NPF since the NPS reform will increase until the 2040s and, combined with the occupational pension scheme - which was transformed from book reserve to funded scheme - it will accumulate to be about 90% of GDP by then. The expansion of fund accumulation has influenced the changes in the characteristics of the NPS, and the nature of funded welfare program depends on the interests and political influence of actors included in the negotiation (Estevez-Abe 2001). The intergenerational contract and the principle of partial funding, which are based on the socioeconomic conditions at the time of the introduction of the NPS, have been undermined by the growth of neo-liberalism since the economic crisis and its discourses on pension fund exhaustion. Despite the rapid increase in poverty in old age the adherence to a funded scheme rather than the function of old age income security has been made much of. In spite of the theoretical controversy, the arguments of the neo-liberals that the funded scheme is helpful to the economy and sustainable despite demographic pressure have dominated Korean pension reform. Considering that the neo-liberal organizations such as the World Bank regard funding as the first principle in pension reform (Holzmann 2000; Holzmann and Hinz 2005), the recent Korean pension reform seems to strengthen the neo-liberal characteristics which aim at 'pension reform to help the economy through funding' (Holzmann and Hinz 2005; World Bank 1994).

As Disney (1999b) concluded, most OECD countries have not accumulated sufficient funds in their PAYG systems to cover the extra costs associated with the large postwar baby boomer populations. Accordingly, it may be appropriate that many countries operating PAYG public pension have enhanced the funded aspects.[6] Nevertheless, the principle to maintain the function of old age income security has never collapsed in those countries. However, recent Korean pension reforms totally gave up the principle of the adequacy of pension benefit as the cost of pension finance stabilization. The traditional standard of the ILO (1992) (40% income replacement ratio for 30 years contributions) has been ignored in the Korean pension reform, and it is not expected that the poverty ratio for the old will be improved - even though the BOPS was recently launched to tackle it. If so, how can the reduction in pension benefits to stabilize pension financing be assessed?

Risk Sharing (Benefit Assessment)

The dual Korean pension reforms were adjustments within the existing DB scheme. However, the maintenance of a DB scheme does not mean that risk distribution (benefit assessment) in the NPS is the same before and after pension reforms. As mentioned in chapter 3, contrary to financing, DB and DC schemes can be designed similarly. Although the DB and DC can be opposite risk-sharing methods, and it is known that the former is advantageous to the members while the latter is advantageous to the government (employers), it cannot be said with certainty which side will emerge as superior after assessment of benefit because this depends on specific system designs. In particular, the guarantee mechanism recently introduced in many countries helped to offset the disadvantages (or unfairness) of each scheme and the recent pension reform is directly correlated with the regulation of intergenerational fairness (Esping-Andersen and Myles 2007). Accordingly, the focus on risk sharing in the NPS should not be whether it is the DB or DC scheme, but how it really distributes the risks and how intergenerational or intragenerational fairness is provided for.[7] As noted in chapter 3, the concept of 'fairness' is very complex, and in pension reform intergenerational fairness may not often correspond with intragenerational fairness. That is, the enormous heterogeneity within a generation dwarfs the differences between generations in the distribution of 'winners' and 'losers' that can result from population ageing (Wolfson *et al.* 1998). Thus, this section mainly deals with redistribution and fairness in the Korean pension reform except for some minor issues, such as the effects on labour market or labour incentives in the reform.

Although there are differences between countries, pension reforms in Western countries seem to consider intergenerational fairness in old age income. As Esping-Andersen and Myles (2007) indicate, old age income in Western countries has recently been at an exceptionally high level and, therefore, the awareness that such a high level is no longer sustainable under the current socioeconomic condition is a rationale for pension reform. If the existing system persists, the financial pressure on the current working generation would rapidly increase and the welfare of the current or expected pensioners would be maintained. This could cause intergenerational unfairness and reduce solidarity, which is the basis of public pensions. Accordingly, pension reforms in Western countries increased the tax rate of the working generation and reduced the benefits of pensioners and, therefore, both parties accepted their 'loss' at the appropriate rate[8] (Esping-Andersen and Myles 2007; Myles 2002). It has been assumed in Western pension reforms that it is fair to reduce the pension benefits of the current/expected older generation who have received relatively high benefits (or high earnings ratio) if only their security function is not seriously reduced. The real implementations tend not to be a unilateral reduction in benefits but a strengthening of the DC characteristics which decrease the imbalance between contribution and benefits. It is generally recognized that the recent emphasis towards the DC scheme weakens solidarity, from the group risk-sharing to individual risk-sharing (De Deken, Ponds and Van Riel 2007), but this is a sort of restructuring (or modernization) from solidarity and the reduction in pension benefits for the (relatively rich) existing older population could be justified from the perspective of intergenerational fairness.

However, the case of Korea does not correspond with the experiences of Western countries, as in the 1960s 'old age' was practically synonymous with poverty in many Western countries (Myles 2002), Korea has recently suffered from a rapid increase in poverty among the old (relative poverty ratio grew from 10.65% in 1990 to 23.32% in 2004 in the relative poverty ratio) (Choi Hyun-Soo 2006). Despite the introductions of universal public assistance and SPS (or BOPS), the immature NPS - the major income security for the older generation - has not been effective in preventing the increase in poverty among the older population. The current older generation in Western countries is a relatively wealthy group (Esping-Andersen and Myles 2007) and so the demand on the partial loss of their pension benefits for intergenerational fairness is likely to be normatively approved. However, considering that the current (or expected) older generation in Korea is still the poorest group (Seok Jae-Eun 2002), the pension reform forces them to lose a part of their insufficient pension benefits and appears to contravene such basic norms. That is, the relatively rich Western older generation may permit the reduction in their benefits for the sake of intergenerational fairness, but there may be no room to cut the benefits of the very poor Korean older population. Nevertheless, Korean pension reforms demanded a much bigger loss from the current older generation (and the expected older generation) than in Western countries.

As mentioned in chapter 8, the amount of reduction in benefits in the Korean pension reform is much bigger than those in Western pension reforms even though the poverty of the older population in Korea is more serious. This is because the stakeholders in the Korean pension reform are very different from those of Western pension reforms. While the rapid decline in pension benefits was not feasible in Western countries despite the expansion of neo-liberalism, because the discourse on pension finance crisis spread after their public pension schemes matured, it was relatively easy to achieve in the NPS because the discourse spread during its immaturity. As

McGillivray (2007) indicates, in public pension schemes the stakeholders include the state, the management institution, the contributors and pensioners. Even though there are many different approaches in terms of pension reform, Western pension reforms were mostly dealt with as adjustments of conflicts between the neo-liberal government (and often contributor) that wants to contribute less and the pensioners (or often contributors) who wants to receive more benefits. In contrast, although 20 years have passed since its introduction, the number of current pensioners (or expected pensioners) in the NPS was still small, and in these days of pension reform their voice was relatively quiescent. Instead, the huge pension fund accumulation induced financial institutions and big companies to be included as major stakeholders and the demand of the neo-liberal government or companies, which prefer the fund accumulation or reduction in benefits, has been far stronger. After all, pension reform at the cost of pensioners was of practical use. The result was a radical regression below the benefit standard of the ILO (1992). Consequently, the Korean pension reform was one in which the current or expected older generations, who are the poorest, suffered from the majority of the loss and this is not fair.

However, although the influence of the Korean pension reform is negative, this does not mean that the existing earnings rate of the NPS should have been maintained after the reform. The analysis that the recent Korean pension reform was ruthless to the older generation is right but too simplified from the perspective of the intergenerational contract. In fact, the debate concerning the fairness of the Korean pension reform is multi-dimensional.[9] Initially, the NPS was designed under a very high earnings rate to reduce the negative economic effects (double payment) of its introduction. As mentioned above, this was designed under the implicit intergenerational contract in the NPS, but it is clear that such high earnings rate (70% income replacement ratio to contribute 3% of their earnings for 40 years) was not financially sustainable in the long run. The reduction in the earnings rate through the dual pension reforms was an inevitable choice for financial sustainability. In addition, considering the unique features of the implicit intergenerational contract in the NPS, such an adjustment was appropriate. As the NPS is getting more mature, the proportion of pensioners is increasing and so the responsibility for the working generations to support their retired parents is decreasing. Accordingly, the reform that reduces the earnings rate, which was initially set too high under implicit intergenerational fairness, is fair from the perspective of the intergenerational contract.

However, even though the closer relationship between contributions and benefits is clearly adequate as the NPS matures, the real reform was not a matter of finetuning but a drastic decline in benefits without any adjustment in contributions. The NPS, where contributions are regarded as a sort of an 'irrecoverable tax', faces strong resistance to the increase in contributions. Accordingly, with the expansion of neo-liberalism - which tends to oppose the increase in contributions - the only alternative for the NPS, faced in a reduction in the earnings rate - was a decline in benefits. In fact, if later generations are expected to have a better endowment, justice requires a redistribution in favour of earlier generations (Schokkart and Van Parijs 2003) but such an idea of justice has not been a main issue in the course of the Korean pension reform. Although the adjustment of the earnings rate could be relevant for the sake of the long-term financial stabilization of the Korean pension reform, the unilateral decline in benefits was very unfair because the poorest group, the current/expected older population, was a major loser in the reform.

Next, it is necessary to examine intragenerational fairness (redistributive effect). As noted in chapter 5, the earnings ratio of the NPS had been reduced from 1.8-5.4 before the 2007 reform to 1.2-3.6 after the reform. None the less, the ratio between the earnings-related part and the basic part was not changed in the 2007 reform and, the NPS remains a scheme with strong redistributive effects even though it is basically designed as an earnings-related scheme. However, the redistributive effects of the NPS are caught in a dilemma in the long run. Half of the benefits in the NPS have the characteristics of a basic pension (redistributive element), but its minimum earnings rate for the richest is above 1 despite the sharp decline in benefits through the dual pension reforms. In fact, the earnings ratio of the rich group should be below 1 in the long run to accomplish both financial stabilization and system fairness (redistribution). However, it seems difficult to implement a reform which lowers the earnings rate below 1 for a certain group because of the strong savings notion. Although the NPS was designed under DB schemes, the strong savings notion urges the NPS members to regard it as an individual risk-sharing means rather than a group risk-sharing one. In the situation that the NPS is recognized as individual savings based on individual risk-sharing, the reform, which lowers the earnings rate below 1, is likely to increase the distrust towards the NPS. When it becomes inevitable to reduce the overall earnings rate with the maturity of the NPS, it is expected that the NPS will be caught in a dilemma. In the circumstances that the public regard the NPS as a savings method, a reduction in earnings ratio below 1 seems implausible in Korea where the recognition of 'entitlement', the basic notion of the welfare state, is low and where the savings notion replaces the idea of entitlement.

The strong savings element of the NPS caused excessive tenacity in terms of fund accumulation and also made it unlikely to permit the earnings ratio to decline to below 1 (even for the richest). That is, the simultaneous implementation of the financial stabilization and income redistribution in the NPS appear impossible. In the situation where a strong savings notion exists, the practical alternative may be a transition from the existing DB scheme into a more actuarial scheme. Unless the current savings principle is transformed towards solidarity, a scheme without solidarity will be considered as an alternative. Thus many Korean authors, such as Yang Jae-Jin (2006), have recently supported the transition to an NDC scheme. With the maintenance of the firm savings notion, the actuarial reform - which makes the earnings rate of all status around 1 - may be helpful in stabilizing pension finance. However, can the enhancement of actuarial principles be an alternative for the NPS?

Palmer (2002) points out that the NDC scheme is fairer because it is designed on the basis of actuarial rules[10] and, as Whiteside (2007) indicates, the overall tendency of the recent pension reform in developed countries is also to enhance individual responsibility. However, even if the notion of entitlement in Korea is low and even if, as Concialdi (2000) indicates, the overall direction of the European pension reform was reduction in entitlement, this does not justify the NPS enhancing actuarial principles. Moreover, actuarial fairness that some economists, such as Palmer (2002), support cannot be a universal top priority, and it is just a small part of the various dimensions of fairness. From the perspective of distributional philosophy, while the school that thinks much of actuarial fairness takes a utilitarian perspective focused on paretian welfare, European social policy is much closer to the Rawlsian ethos (Esping-Andersen 2002a). It is admitted that Korea does not correspond with the tradition of European social policy, but it is doubtful whether overall social welfare would increase when Korea follows the paretian welfare rather than Rawlsian ethos. The result of the dual paretian pension reforms in Korea was the spread of poverty among older people. Beginning with actuarialism is like putting the cart before the horse (Esping-Andersen and Myles 2007), and accountants are only useful once we have a clear idea of which objectives we wish to pursue.

One may think that, if a public pension is designed under actuarial principles and if the generous Minimum Pension Guarantee (MPG) (a sort of public assistance) is used to alleviate old age poverty as in the Swedish NDC scheme, it would be matched with the maximin principle (the core of the Rawlsian ethos) and be a fair system. However, to Rawls self-respect is 'maybe the most important primary good' that the theory of justice must focus on (Rawls 1971; Sen 1995). Accordingly, it should not be claimed that the increase in the stigmatising minimum benefits such as the MPG, which damage self-respect, would realize the ideal of Rawls. At a result, the introduction of the BOAP instead of the drastic reduction in benefits in the NPS not only caused distributional distortion (Sen 1995), but was also unfair.

In addition to the normative perspective, the additional enhancement of actuarialism in the Korean pension reform does not seem feasible in practical terms. Take the case of Sweden. According to the assessment of Cichon (1999), the income replacement ratio to contribute 16% of the earnings for 40 years is about 48%. Including the funded individual account, the total contribution rate is 18.5% (Poland's is 19.5%). As mentioned above, the dual Korean pension reforms failed to increase it from 9%. The experiences of the countries which adopted the actuarial public pension, such as Sweden and Poland, show that the appropriate contribution rate in the earnings-related actuarial public pension is about 20%. Thus, the enhancement of actuarial principles within the NPS would not be feasible if the additional radical reduction in the income replacement ratio is not permitted. In addition, such enhancement of actuarial principles is bound to increase public assistance, and so Sweden increased public assistance by introducing the MPG even if it was not a precondition.[11] However, Korea, under a firm neo-liberal economic regime, may not introduce generous public assistance for the old like Sweden, and strengthening actuarial principles without the general MPG would increase poverty among older people.

In conclusion, as De Deken *et al.* (2007) indicate, the social element in social insurance in part depends upon the extent to which the orthodoxy of actuarial logic is transcended. The actuarialism, which is implicitly supported by the strong saving notion has restrained the social elements of the NPS, and the dual reforms were unfair (neo-liberal) pension reforms which unilaterally demanded losses from current or expected older generation. Even though the NPS uses the DB approach in the external form, the characteristics of the DC scheme based on individual risk-sharing have been enhanced thanks to a strong savings notion. Of course, as noted in chapter 3, DB or DC is not a completely opposite benefit assessment method. In fact, as Kim Jin-Soo (2006c) indicates, there have been a lot of wasteful debates between DB and DC schemes and the focus should be on enhancing the security function. Nevertheless, Korean pension reforms were mainly to strengthen individual responsibility as in the DC schemes and the trials to increase the security function in the NPS were no more than passive ones, such as the introduction of BOPS.

Management

In the dual NPS reforms, the existing principle of public management has not changed. However, it appears certain that the expected rapid reduction in benefits will decrease the share of the public pension in the entire old age income compared with the share planned in the initial system design. After all, it is not important whether the existing principle of management has not changed in the NPS reforms, and how it has changed from the initial intention, what caused such changes and what they meant should prove vital.

As noted in chapter 3, contrary to the initial conflicts, the principles surrounding pension management have been reconciled between the World Bank and the ILO. Whereas the former came to admit the disadvantages of the separate private managements it initially suggested, social policy scholars also admit the inevitability of private pensions they initially disliked. In fact, it is no more than a wrong simplification to say that a high proportion of public pension in a country means a high security function. Moreover, considering that some countries, such as Switzerland and the Netherlands, which develop private pension, have maintained low poverty and high security rates for their older populations (Rein and Turner 2004), the analysis on managing old age income security in a country should focus on which principle it followed and how the management of its public/private pension was operated, rather than on the mechanical division between private and public pension.

Since the dual pension reforms, the NPS's initial system design based on social insurance (Bismarckian public pension) lost its original characteristics due to the drastic reductions in the replacement ratio. The dual rapid reductions in benefits have decreased the importance of the NPS in the Korean old age income security, and its size has decreased to that of public pension under the multi-pillar system. Because of its recent introduction, occupational pension is still very immature, having not served as a genuine second-pillar pension. If the current occupational pension, in which the employers (or employees) can choose an annuity or lump-sum, is transformed into compulsory annuity one, the Korean old age income security will become a multi-pillar scheme which consists of the NPS (about 30% of replacement ratio) and the occupational pension (about 25%). However, as noted in chapter 5, owing to the immaturity of the occupational pension and its long transitional period, Korean old age income security seems to be 'a multi-pillar system without the second-pillar' to support the public pension.

The experiences of Western countries show that the countries that developed private pensions tend to be the ones that had developed basic pensions (Myles and Pierson 2001), and the countries which have operated earnings-related public pensions could not develop private pensions due to high path dependency and transitional cost. Although social insurance systems are becoming more similar to a multi-pillar system, the public-private mix, for a few years at least, is going to remain largely tilted towards the former (Bonoli 2003). Schmähl (2004) calls the several gradual German pension reforms a form of paradigmatic reform[12] and, as noted, the much more radical Korean pension reform may be also classified as a paradigm shift towards a multi-pillar system.

As mentioned in chapter 5, prior to the introduction of the NPS, the LRA included many employees and, although the introduction of the NPS replaced functions of the LRA, the latter did not disappear and was replaced by the occupational pension in 2005. The majority of countries with social insurance pensions had developed public pensions and undeveloped private ones and so they had difficulty in spreading (funded) private pensions. In contrast, the LRA in Korea, which had been developed in the absence of a public pension, became a foundation to reform the existing Bismarckian earnings-related public pension into a multi-pillar system. While the structure of Korean old age income security was a dominant Bismarckian earnings-related public pension regime prior to the recent pension reforms, it now seems to be in a transitional period towards a multi-pillar scheme that consists of public earnings-related pensions (the NPS) with a partially redistributive function and of occupational pensions after the recent pension reform. However, such a change in the structure of the pension system, in fact, is to put the cart before the horse. If its main purpose is to strengthen the security function, the supplementation of the security function through the compulsion of the occupational pension should have taken precedence over the radical benefit reduction in the NPS. The foundation towards the multi-pillar scheme seems to be arranged, but it is doubtful whether such a contradictory 'multi-pillar scheme without a second-pillar' will succeed in being transformed into a 'normal multi-pillar scheme'. Under the current system design it is expected that the simultaneous immaturity of the NPS and occupational pension will last for several decades, which may do damage to the income of members. The expansion of the occupational pension does not spell a reduction in old age income but it was the wrong reform with no consideration for the underdog. Sooner or later the limitations of such a contradictory 'multi-pillar scheme without a second-pillar' would be revealed.

In addition to the explicit change in the public-private mix, the NPS has enhanced the characteristics of private pensions and it is necessary to examine this development in terms of governance surrounding the NPF. After the dual pension reforms, the National Pension Service still operates comprehensive tasks surrounding the NPS such as collection, benefit provision and fund management. However, the increases in the NPF and expansion of neo-liberalism have enhanced the characteristics of private pensions, even though it is a public one. In fact, most Western research, for example Creighton and Piggott (2007), regarding pension fund governance and regulation has dealt with (funded) private pensions. As mentioned above, there have been debates in terms of the management of the NPF despite it being a public fund, but a correct answer concerning good management of public pension fund does not exist yet. Instead, what should be noted in the NPF management, albeit the enhancement of the neo-liberal fund management (such as exclusive benefit rule), is that the essence of the huge public pension fund such as the NPF is still ambiguous.

It seems certain that such an excessive focus on the earnings rate is closely related to the expansion of neo-liberalism and the subsequent 'financialization' that the neo-liberals prefer. However, the management of public pensions reflects more complex values beyond neo-liberalism, and it is very difficult to define its essence. Drucker (1976) warned that investment of the public fund in equity would undermine the foundation of the US capitalism and might enhance the attributes of socialism. Public pension funds, a sort of employee fund, have the potential to transfer the ownership of the companies to employees. In contrast, the Swedish Wage-earner Funds (WEFs), which had this potential – although they are not a pure pension fund – were not as successful as was expected with regards to economic democratization (Whyman 2006). In addition, as mentioned in chapter 8, the two public pensions (QPP (Quebec Pension Plan) and CPP (Canada Pension Plan)) in Canada operated their funds based on different principles, but it cannot be determined which one is better. Accordingly, it is very difficult to judge the real effects of the increase in stock market investment in fund management, even though it is surely a reflection of the neo-liberal ideology.

In other words, although the NPF's recent changes and its characteristics are very closely related to the expansion of neo-liberalism, it should not be assessed through this single criterion and the modification of fund management can perform socially desirable functions. For example, even under the neo-liberal principle which focuses on the earnings rate only, the appropriate operation of public pension fund can prevent foreign speculative capital from trying the hostile Merger & Acquisition (M&A). In practice, in 2004 the fourth biggest company (the SK company) in Korea faced a hostile M&A from foreign speculative capital, but the additional large investment by the NPF was able to prevent it. Even though such attempts may be an excessive intervention in the private market by the government and does not correspond to neo-liberal priorities, it could be a positive policy to prevent the penetration of speculative capital and to maintain economic stability. In addition, the employees' participation in business through stock investment (exercising a voting right) may contribute to Korean economic democratization. In reality, with the increase in stock investment of the NPF, shareholders are exercising their voting rights much more. Considering the strong neo-liberalism in Korea, such participation may not make the NPF a public fund like the Swedish WEFs but it could contribute to increasing the transparency of Korean capitalism. However, such an optimistic prospect is still no more than a possibility and, in reality, as mentioned in chapter 8, the NPS has added financial functions, giving up the original welfare function with the expansion of neo-liberalism. In other words, as You Chul-Gyu (2007) indicates, the NPS appears to be a sort of means, or catalyst, to develop the Korean stock market to realize the financialization that neo-liberals desire.

Thus, the government's role in NPF management is no longer to regulate whether investment in risky assets should be permitted or not. In a situation where the discourse that a 1% increase in the earnings rate in the NPF spells a 5 year delay in the fund exhaustion dominates the public agenda, it appears unrealistic to prohibit investment in risky assets whose potential earnings rates are high. The more important issue should be how the risky asset will be invested and which governance in terms of fund management is appropriate. Actively exercising voting rights instead of passive investment towards domestic bond seems more effective in developing the Korean capitalism. It is not clear whether the fund managers of the National Pension Service, which carry out the investment business, try to invest funds based on the member's interests or to follow the interests of employers, but voting rights by the NPF may help to regulate the ruthless neo-liberal Korean capitalism. The right-wing opposition party at that time, supported by the big companies, tried to insert a provision to prohibit the voting rights in the NPF in an amendment of the Fund Management Basic Law in 2005. Although such attempts were resisted, it shows how far the NPF can influence the development of Korean capitalism.

Despite the radical pension reforms, the management by a public organization has not changed. However, due to the huge size of the NPF, strong savings notions and discourse on pension fund exhaustion, the general public as well as neo-liberals tend to accept the increase in investment in risky assets. Although pension funds can be utilized for various purposes, any value except for the priority of the earnings rate seems unavailable in Korea. In fact, the priority of the earnings rate is the value that is usually applied to private pension funds and, as Fischel and Langbein (1988) indicate, the exclusive benefit rule (a central concept of ERISA fiduciary law in the US) mistakenly describes the reality of the modern pension and employee benefit trust. None the less, excessive focus on the earnings rate of the NPF, like private pensions, totally blocks socially desirable usage operations.

Some, such as Blackburn (1999; 2004) and Clark (2000) in dealing with social investment of funds through occupational pensions suggest that a part of the funds, directly invested towards financial institutions by members of companies, should be invested in public sector in a socially desirable way. In contrast, in the case of the NPS, a public organization (the National Pension Service) collecting contributions decides its investment *ex post facto*. Accordingly, the NPF has a more favourable mechanism to make use of the pension fund for the sake of social investment than of the occupational pension fund. Nevertheless, now over 99% of the NPF is invested in private financial institutions.

In this situation where only the earnings rate is pursued and public value is ignored, management by separate private financial institutions - rather than the public monopolistic institution, the National Pension Service - may be better. There does not seem to be room to justify public organization in managing the fund without the public value orientation. It is common sense that in order to justify public instead of private management a public value - which only public institutions can achieve - should be pursued. When the public regards the NPS as a savings means and the earnings rate as the only value, monopolistic management by a public institution is bound not only to be ineffective but also unpopular. Thus, just as the role of regulating capitalism by voting rights has been recently noted, it is necessary to increase welfare investment, which the public can recognize easily, in order to expand trust in the NPS. As Kim Jin-Soo (2006a) indicates, if the NPF is invested in the construction of care homes for the recently-introduced Old Age Long-term Care insurance, it would be ideal. As the fall in trust in the NPS and pension fund exhaustion discourse originated from the lack of benefits from the NPF, a noteworthy investment such as the construction of care homes will help to recover trust.

In conclusion, discourses on pension fund exhaustion in the NPS and the tendency towards risky assets based on the priority of the earnings rate mean that the NPS strengthens the characteristics of a private pension. The recent introduction of the (Anglo-American) occupational pension will also focus on the earnings rate. In this situation, the new right-wing government is investigating the transfer of the management of the NPF to private investment institutions. It would be a partial (official) transition into a private pension of the NPS. However, this would not be a sudden transition but an expected result through the gradual enhancement of the characteristics of a private pension for the last 10 years. One may think that the guarantee of pension provision in the NPS is a function of public pension but, considering that the introduction of the occupational pension has provided financial institution with privileges, the sweeping (or partial) privatization of fund management may undermine the guarantee of NPS benefits. As a result, considering both fund management and the attitude of the government, the NPS is gradually losing the function of a public pension.

Conclusion

Whereas public pensions in Western countries were a politically acquired right (Schwartz 2001), the NPS was not, but was rather introduced as a fund to support economic development. In this process, the concept of entitlement or of intergenerational contract (solidarity), which is a core philosophy in Western public pension systems, was absent in Korea, and such philosophical or ideological foundation was replaced by the savings notion. However, this was not a fundamental and appropriate replacement. Long-term financial estimation has revealed the fund exhaustion in a remote period and the public could not trust the NPS, which was recognized as a savings device but would be exhausted. Thus, due to the dominant savings notion the discourse on fund exhaustion could not be overcome. Moreover, the strong saving notion has prevented it from implementing the reform that reduces the earnings rate of the rich to below 1. As such, under this contradiction between contribution and benefits it is impossible to make the financing sound and to redesign fairly it. In addition, the strong savings notion and discourse on pension fund exhaustion permit the general public to blindly pursue a high earnings rate and to invest the public pension fund in risky assets as if it was a private pension fund.

Putting these analyses together, it can be concluded that the main reasons why the NPS, albeit a public pension, voluntarily gave up the essential function of income security were due to weak opposition from stakeholders (pensioners) and the widespread dispersion of discourse on pension fund exhaustion, based on the strong savings notion. As explained above, these reasons have had large effects on all three main issues of pension reform, and the NPS was changed into a strange public pension, one that concerns itself with fund accumulation rather than old age income security or poverty reduction.

Last but not least, the transitional characteristics of the Korean occupational pension should not be omitted. The Korean occupational pension is never small in size and, if it becomes compulsory and matures, it will be an important part in the Korean old age income system. Accordingly, the Korean pension reform is still in progress, and an additional reform to restructure the entire old age income security seems imminent.

Notes

[1] Solidarity in old-age income provision is rooted in a combination of market failures, social norms, risk aversion, myopia and path dependency (De Deken, Ponds and Van Riel 2007)

[2] A majority of Continental Europeans supported existing collective arrangements, and were strongly averse to the neo-liberal social model (Boeri *et al.* 2001).

[3] Since the publication of the World Bank (1994), economists and neo-liberal organizations have started to reveal the implicit crisis of pension finance by introducing the new concept of 'intergenerational accounting'. The revelation of the implicit debt caused skepticism in terms of the sustainability of the PAYG scheme, and the alternative is the transformation into individual responsibility.

[4] As Sunden (2007) points out, several barriers make older workers less attractive to employers. First, older workers are more expensive. Second, older workers' skill may become obsolete with changing technology and the costs for training exceed benefits because older workers have fewer years left in the labour market. OECD (2001) reports that older workers are less willing to adapt to changing technology and are more likely to have difficulties learning new skills.

[5] Nevertheless, countries with the highest labour force participation rates among older workers such as the United States, Japan and Sweden have developed the policies to continue working: bridge jobs and phased retirement schemes (Sunden 2007).

[6] As Concialdi (2006) indicates, the main reason for the privatisation of pensions is to be found in financial business interests rather than in the so-called 'crisis' of the public pension system.

[7] Munnel (2007) points out that the important lesson for countries thinking of transferring some of the responsibility for retirement is that the design of those plans matters a lot.

[8] The rationale of these adjustments is based on the Musgrave rule that Musgrave (1986) suggests.

[9] Sen (1992) indicates that inequality differs according to the space defined.

[10] One may think that they are totally different systems because the NPS is a DB scheme and because the NDC is a DC scheme but, as Börsch-Supan (2004) indicates, the NDC scheme is specific among DB schemes and is nearly the same to the point system in the German public pension.

[11] For example, Latvia did not introduce a new generous public assistance for the old (Bite 2002).

[12] Estimates of the impact of the new German pension legislation suggest that by 2030 workers who contribute without interruptions to public and private schemes will receive only 11 percent of their income from the latter (Hinrichs 2001).

Chapter 10

Conclusion

This chapter reviews the main findings of the thesis. It also reviews the approach of the thesis and summarizes the course of the recent Korean pension reform, and the dominant discourse on the Korean pension reform. On the basis of these examinations it discusses more practical policy implications and suggests a direction for future research.

Background and Approach

Pensions have a lot of complex characteristics. On the one hand, a pension system, which is the biggest welfare program, helps to elucidate a set of perennially conflictual principles of capitalism (Esping-Andersen 1990) and is regarded as a miniature reflection of the welfare state. Although there are differences between the pension regimes even within the same classification of welfare state (for instance, the UK pension regime is different from the US regime even though both are regarded as liberal welfare states), it is known that welfare systems are closely related with pension regimes. On the other hand, although the way the welfare state corresponds with other features of modern capitalism remains largely unexplained and underinvestigated, there are mutual interdependencies between social security and the production system which affect both economic performance and the vulnerability of a given welfare state (Ebbinghaus and Manow 2001). After all, pension regimes are bound to be not only a miniature reflection of the economic regime (capitalism) but also correspond to it. Thus, pension policy is an 'output' of dynamics (political economy) between welfare state and economic regime and, therefore, pension reform should be examined from the perspective of the socioeconomic context of each country.

Although other welfare schemes are also bound to interact with their welfare states, pensions may do so in special ways. In particular, funded welfare programs are likely to be different from other welfare schemes because they make the status of pensions more complex than the PAYG scheme. As Estevez-Abe (2001) indicates, the financial elements of funded welfare program could not help but cause different mutual interdependencies from PAYG public pensions, which added another strong set of stakeholders (financial institutions) to the existing stakeholders in public pension such as the state, the management institution, the contributors and pensioners. Thus, the political economy of the NPS is clearly different from that of the Western public pensions, and the interests surrounding pension fund management and governance, which the huge fund in the NPS triggers, have been hardly considered in Western PAYG public pensions. The funded NPS is likely to have more economic elements than PAYG public pensions, and so, it cannot be simply regarded as a miniature reflection of welfare states. After all, the Korean pension reform process had to be executed with pension-welfare state-economic regime interaction that is different from the Western ones, which also demanded different approaches in pension reform research.

Moreover, since the economic crisis the Korean economic regime has been rapidly transformed from a coordinated to an uncoordinated (neo-liberal) regime, and the attributes of pension funds, which had been regarded as a public resource in the development country regime, have also changed into a means for a high earnings rate. None the less, the need for public welfare since the economic crisis has increased massively and there have been expansions of public welfare beyond the social safety net, even though the classification of the Korean welfare state remains unclear because it is still in a transitional period. Under the discord between welfare and economic regime, the replacement ratio of the NPS has been reduced very rapidly by one-third. In other words, contrary to the recent tendency towards the expansion of the Korean public welfare system, the NPS has corresponded with a neo-liberal economic regime rather than a welfare regime despite the sharp increase in the poverty rate of older people. Considering that the NPS is not the only sole public funded pension scheme in the world, and that there are some funded public pensions in Western countries, the NPS's funded design would not be the only cause for a rapid Korean pension reform. Thus this thesis focused on the political economy that the NPS's funded system design and fund accumulation triggered, trying to find out the major determinants in the Korean pension reform that led to a sharp reduction in the replacement ratio even though there have been expansions in other welfare systems and poverty of the older population is getting worse. More concretely, this research examined how the welfare-friendly Korean public could permit such a neo-liberal pension reform which has resulted in a sharp reduction in welfare.

The above was the fundamental background for this research, and to examine it, this research made use of the political economy perspective. There are some problems in making use of the research methods of the Western pension reforms to examine the Korean pension reform. Whereas Western researchers, such as Bonoli (2000) or Anderson (2006), emphasize blame avoidance as a key factor in pension reform, under the assumption that older people are no longer a major poverty group, it is not an appropriate method to adopt in the Korean case because the older people are still a major poverty group and because their poverty is getting worse. Instead, this research examines how the neo-liberal policy actors took the initiatives in pension reform debates and policy implementation and how they created the discourse of the neo-liberal pension reform, which reflected not the high need for public welfare but the neo-liberal economic regime. In this regard, it analyzed the widespread government documents and newspapers as well as academic research. After all, prior to the practical research, it is crucial to examine the fundamental causes of the recent Korean pension reform, and this political economy perspective proves to be the most effective approach.

Summary of Thesis

The Korean pension reform originates from globalization (neo-liberalism) rather than from a demographic crisis like the reforms in some other countries, but the Korean one has had a different course from those of the Latin American or Eastern European countries which carried out their pension reforms as a condition of financial relief from the World Bank. Whereas for the last 15 years about 50 countries carried out neo-liberal pension reform as a result of financial relief from the Bank, Korea had rejected the neo-liberal pension reform despite strong intervention of the Bank and IMF in the 1998 pension reform which followed the economic crisis. This was only possible due to the political will of the liberal welfare-friendly government and due to the relatively weakened financial institutions and major companies. However, although the direct influence of the neo-liberal global actors disappeared, pension reform which radically reduced the replacement ratio of the NPS below the appropriate level was passed in 2007 even though the then government was still a welfare-friendly liberal government. The Korean experience might be regarded as a neo-liberal pension reform like Latin American or Eastern European countries but the course of the Korean pension reform were very different from those of other countries. While their pension reforms resulted from external attacks to construct the neo-liberal regime from the neo-liberal global social policy actors such as the Bank, the Korean pension reform in 2007 was an 'outcome' by virtue of the gradual expansion of the neo-liberal economic regime that domestic neo-liberal actors, who have enhanced the influences since the economic crisis, have developed.

Any pension reform that reduces the amount of benefits is bound to be unpopular, and Western countries made use of some measures for the sake of 'blame avoidance' when they carried out pension reforms such as a long transitional period. In contrast, the Korean pension reform is different from the Western ones. Due to the lack of current beneficiaries from the NPS, the Korean pension reform, which reduced the replacement ratio, had the characteristics of 'credit claiming' rather than 'blame avoidance', which helped to implement the neo-liberal pension reform in 2007. These fundamental differences were due to some elements which could hardly be considered in Western countries: the discourse on pension fund exhaustion, the savings notion and the immaturity (or non-intrinsic need) of the system.

Just as the discourse on the public pension crisis in the Western countries was expanded with generational accounting, the long-term financial estimation of the NPF, introduced in 1998, revealed its lack of financial sustainability. It was natural to provide a high earnings rate beyond actuarial balance in the early stage because the NPS, despite being a funded one, was based on an intergenerational contract to prevent 'double payment'. None the less, contrary to Western countries, the lack of intrinsic solidarity urged the public to focus on fund exhaustion (30-40 years later) instead of the urgent increase in poverty for the older population. While public pensions in Western countries were politically acquired rights, the NPS was introduced under the intention of the then authoritarian government to increase national savings, which was advertised and regarded as a savings means instead of a distributional mechanism based on solidarity. As a result, to the public the NPS was no more than a mandatory savings scheme. However, replacement by the savings means revealed the contradiction. The fear regarding the exhaustion of the NPF in the remote future, as a result of a long-term financial estimation, caused deep distrust towards the NPS because the public thought that it could not be returned. Domestic neo-liberal actors such as economists, conservative media and government bureaucrats had warned about the risks of fund exhaustion, and the exaggeration of risks through intentional data distortions sharply increased the fear and distrust for the public. Although the lack or absence of solidarity was a main obstacle to the NPS reform, the alternatives for neo-liberals, who took the initiative, were the enhancement of investments in risky financial assets and a decrease in the replacement ratio - or earnings ratio. Even though the NPF is a good source which can be used in a socially desirable manner because it is a public fund, fear of fund exhaustion and the savings principle make welfare investment implausible because its short-term earnings rate is low. The preference towards a short-term earnings rate has increased investment in financial sectors and, in particular, in risky assets. In addition, owing to the low trust towards the NPF among the public, an increase in the contribution rate was impossible and the rapid reduction in the replacement ratio below the appropriate level was the only alternative. Such a sharp reduction might not be acceptable in Western countries but the weak influence of pensioners by virtue of the funded design and its immaturity permitted this to happen in the Korean pension reform.

After all, the fear of the NPF exhaustion in some remote future dwarfed all other important issues, including the rising poverty rate within the older population. As a matter of fact, the NPS has redistributive characteristics and, therefore, its earnings rates for some rich groups have to be below 1 to achieve both financial stabilization and redistribution. However, the strong savings notion prevented a rational adjustment in the earnings rate and, despite the radical reduction in the replacement ratio, financial stabilization could not be solved and the debates in terms of another NPS reform aimed at a reduction in benefits may be started sooner or later. Last but not least, although their current influences are not large, the recently introduced occupational pension and OBPS will be important in the overall old age income security in Korea and, therefore, the importance of both schemes should not be ignored.

Contributions and Policy alternatives

As mentioned in chapter 1, the thesis was the first instance of research which comprehensively examined the 2007 Korean pension reform. The studies focusing on pension finance or pension politics in the Western pension reform have been the most popular areas of research for pension reform, but they were bound to have shortcomings because there are now no pension finance debts in the NPS and because Korean pension politics does not have the characteristics of 'blame avoidance'. Thus, the Western pension reform research on their historical/institutional contexts could not fundamentally relate to the Korean pension policy, which was funded, immature and politically insignificant. Accordingly, instead of blindly adapting the existing research method to the Korean case, the thesis tried to devise a new approach (based on political economy) suitable to the Korean social conditions, which appears to be much more persuasive than the existing ones. In addition, from a policy perspective this research contributes to broadening the understanding of the Korean old age income security based on institutional and political economy perspectives through the adjustments of the major issues concerning pension reform. These approaches in this thesis means that it could find out the fundamental causes in the Korean pension reform, in contrast to comparative or statistical research, and to suggest correct policy implications for the

Korean future pension policy.

There can be countless policy alternatives to be suggested but, because specific policy alternatives are not within the scope of this thesis, let us refer only to the most important one: the transition from the OBPS and a part of the NPS into a new basic pension scheme. Despite the expansion of the neo-liberal economic regime, the high need for public welfare has sharply not only increased welfare expenditure but has also led to qualitative developments such as the expansion of social insurance schemes beyond the social safety net. It may be criticized that, although the quantitative and qualitative scope of public welfare has increased, with the transition into the neo-liberal economic regime of production the welfare regime is also likely to converge towards a liberal (Anglo-American) one (Son Ho-Chul 2005). What is clear, however, is that the expansion of the Korean welfare system is regarded as a national aim that every political party, as well as the majority of the people, support. However, as a funded welfare program the NPS has aligned with the economic regime rather than the welfare regime, and the majority of people have recognized the NPS as a saving method. As mentioned in chapter 8, this recognition prevented the NPS from contributing to solving poverty in old age, and even though the NPS is designed on the basis of redistribution, the poverty of the older population is getting worse with the immaturity of the NPS. Thus, the success of the Korean pension policy depends on the elimination of the savings notion in the NPS and the enhancement of the welfare element. In the situation that the NPS was strongly recognized by the public as a saving means, the enhancement of redistributive elements within the existing NPS cannot elicit support from the public and, therefore, it seems necessary to introduce a basic pension scheme as purely welfare-oriented. Apart from the strong saving notion of the NPS, some surveys such as the Dong-A Ilbo (2005) show that an absolute majority of people prefer the introduction of a basic pension scheme. Even though the solidarity notion in Korea is less developed than those of Western countries, since the economic crisis its enhancement has increased public welfare, and the introduction of basic pension as a pure welfare system, which the majority of people support, will contribute to overcoming the systematic opposition of neo-liberals.

To introduce a basic pension in Korea, it is necessary to integrate some existing pension schemes. First of all, the BOPS, which covers about 60% of the current older population, should be extended universally with the increase in benefit levels, and all or a part of the flat part in the NPS should be transformed towards a basic pension scheme. There are many types of basic pension schemes, such as the citizenship basic pension or contributory basic pension scheme, and even within contributory pensions the UK basic pension is very different from the Swiss basic pension scheme. Considering that the poverty among the current older population is high in Korea, they require citizenship basic pension benefits, which should be much higher in benefits than the existing BOPS. By the way, the citizenship basic pension is very costly and some countries such as Sweden have recently abolished it. Accordingly, permanent replacement with citizenship basic pension may be inappropriate in the recent Korean socioeconomic circumstances. Thus, to have the current working generation take part in a contributory basic pension and the current older population to be provided with citizenship basic pension (with a transition period of 10 or 20 years) seems a rational alternative.

The transition into the basic pension can have a lot of positive effects. First and foremost, it is expected that the introduction of basic pension will quickly reduce poverty among the older population. The degree of the effects may depend on the level of the replacement ratio or the transition period, but it is expected that the transition into basic pension via existing financial sources such as the BOPS, a part of public assistance and a part of the NPF (and through additional public finance), will be able to contribute to solving poverty among older populations while minimizing financial pressure. In particular, considering that the female poverty ratio among the older population is very high, as Ginn, Street and Arber (2001) and Ginn (2003) indicate, the introduction of citizenship basic pension can help to reduce the rate of poverty among women. Second, the introduction of a basic pension scheme can increase fund accumulation for the NPS and make the NPS's finance sounder. Even if a part of the existing NPF is transformed toward basic pension, the remaining NPF will increase more and, as a part of its redistributive function is transformed towards the new basic pension, there will be some room to decrease the current NPS earnings rate (1.2-3.6).[1] This will be helpful for solving the financial instability in the NPS, which has been criticized by the neo-liberals, and to overcome distrust towards the NPS.

To achieve these effects it is necessary to meet the prerequisites as follows. First of all, as mentioned in chapter 9, some researchers such as Yoon Seok-Myung (2004) indicate that, due to the sharp ageing of the populations, the introduction of basic pension scheme in Korea is not appropriate, but whether it is appropriate in Korea depends on its system design. The research that opposes the introduction of basic pension tend to see it as a purely PAYG scheme, but some basic pensions such as the Swiss pension have relieved risks through partial funding. Thus, it is necessary to accumulate pension fund in basic pension, which will be achieved by a partial transfer of the existing NPF, and by setting the contribution rate beyond actuarial balance in the basic pension. What is important here is that, if this fund is regarded as savings again, it will not be used for welfare investment and, therefore, it is necessary to set this fund as a pure welfare investment. Next, the earnings rate of the NPS should be close to 1 after a partial separation of the NPS. Despite the recent reform, the earnings rate in the NPS is still high and, therefore, it is impossible to achieve long-term financial stabilization under the current system design. Accordingly, it is important to prevent the discourse on pension fund exhaustion from being spread through the adjustment of the earnings rate in the remaining NPS after the separation of the flat rate part.

The development of the Korean old age income security system cannot be achieved by change within the NPS only although this is the most important and it is also necessary to re-examine other socioeconomic institutions. Due to the internal dilemmas mentioned above, the reform within the NPS inevitably has limitations. Thus, to suggest desirable alternatives in the Korean old age income security, it is necessary to consider the introduction of the basic pension scheme or the reform of the occupational pension scheme, as well as the adjustment of the NPS. Consequently, policy alternatives in the Korean pension reform should be investigated from a more holistic perspective.

Future research

Although this thesis explored the determinants of the Korean pension reform, it could not include all of the elements that influence the Korean pension policy. Therefore, the following further research is necessary.

First, more research in terms of the essence of pension funds is necessary. The most important contribution of this thesis was its examination of the relationship between capital and pension reform, which has been ignored, and the major determinant was pension funds. Although this thesis systematically investigated the importance of the pension fund in the Korean pension reform, the theoretical characteristics or governance surrounding pension funds is not clear yet. Therefore, more research concerning pension funds is necessary to suggest effective and desirable approaches to the management of the NPF or the occupational pension fund. In addition, understanding the essence of pension funds can be helpful in revealing the relationship between welfare-capitalism-pensions, which will contribute to welfare state research, capitalism regime research or pension regime research.

Second, it is necessary to systematically examine other related institutions, such as labour policy, which have effects on pension policy. As mentioned above, compared with its importance, the relationship between pension and capital has been ignored, and this thesis focused on this relationship. However, pensions tend to have complex characteristics and, in addition to the relationship between pension and capital there are a lot of important elements that have effects on the Korean pension policy. For example, the proportion of fees in the Korean medical insurance scheme is about 50%, and a lot among the older population, the major consumers of medical services, cannot afford these costs.[2] In other words, even if the level of pension benefits increases, the high proportion of fees for medical services will prevent quality of life of older population from being significantly improved. In addition, as examined in chapters 3 and 9, the adjustment of pensionable age is a core element in developing the pension scheme but, whether it is a pertinent alternative in the Korean socioeconomic background requires additional comprehensive research such as labour market or labour culture. Accordingly, comprehensive examinations such as labour market or other social security system should be carried out to understand the Korean pension regime.

Third, it is necessary to add some quantitative practical research. Although this thesis revealed the hidden determinants in the Korean pension regime and showed future normative direction, it could not reveal the change in the real amount of old age income and, therefore, further research should be carried out to reveal this. For instance, research concerning real income patterns of older people, in the contest of the two ambivalent phenomena in system maturity (which increase the number of beneficiaries and the amount of benefits) and benefit decline, will be crucial for future pension policy. The National Pension Service has recently started to collect panel data, and the research through the examination of the real old age income by using these data will help in understanding the Korean pension regime.

Lastly, additional research is necessary in terms of desirable reform alternatives in the Korean pension regime. Although it was briefly discussed above, it is not enough and multi-dimensional approaches should be followed. For example, when a basic pension is introduced, the alternatives available are numerous and future research should examine which basic pension design is the most appropriate in the current Korean socioeconomic circumstances. One of the advantages of a 'backward' country is that it can find desirable alternatives through the experiences of foreign countries and, therefore, comparative research is necessary. For example, Kim Jin-Soo (2006b) insists that in considering the current situation of the NPS it might be transformed towards a Swiss basic pension, which may be possible because the path dependency of the NPS is weak due to its immaturity and because a lot of alternatives can be available. Accordingly, more academic research that examines available alternatives should be carried out.

Conclusion

This thesis is the first application of the political economy perspective to the 2007 Korean pension reform, and it has explored its fundamental essence in a critical manner. Due to fund exhaustion, which will happen in 30-40 years (in fact, no one can know the exact time of the exhaustion), any attempts to enhance its original purpose (social protection) have been viewed negatively because fund exhaustion dwarfed all other important issues. This allowed the neo-liberal pension reform. On the basis of the strong support for welfare among the public, this research has suggested that the welfare element should be enhanced something that was made clear under the funded NPS. This thesis has shown the limitation of the existing NPS and its historical context and, as an alternative, the introduction (or partial transition) of the basic pension was suggested. Although some previous studies have recommended the basic pension as an alternative for the NPS, contrary to their superficial suggestions, this research testified to its inevitability by virtue of the limitations of the existing Korean pension regime and an examination of the determinants of the Korean pension reform. I hope that it can be a persuasive alternative for the Korean public, who are very positive about welfare.

Notes

1 If a part of the NPS is transformed into basic pension, the remaining NPS will be able to be designed as a pure earnings-related pension (without redistribution) or to sharply reduce the current difference between the highest earnings rate and the lowest earnings rate.

2 The OECD's (1996b) benchmark estimate is that the aged in general consume 3.2 times more health care than the non-aged.

Bibliography

Abel, A., Mankiw, G., Summers, L. and Zeckhauser, R. 1989. "Assessing Dynamic Efficiency". *The Review of Economic Studies*. Vol. 56. No. 1. pp. 1-20.

Agulnik, P. and Le Grand, J. 1998. "Tax Relief and Partnership Pensions". *Fiscal Studies*. Vol. 19. No. 4. pp. 403-428.

Ahn, Jong-Bum. 2005. "Political Economy of National Pension Reform". *Applied Economy*. Vol. 7. No. 2. pp.87-109. (Korean text)

Alho, J. M., Lassila, J. and Valkonen, T. 2006. "Demographic Uncertainty and Evaluation of Sustainability of Pension systems", In Holzmann, R., and Palmer, E. *eds., Pension Reform through NDCs: Issues and Prospects for Non-financial Defined Contribution Schemes*, Washington, D.C.: World Bank.

Altbach, E. 1997. "The Asian Monetary Fund: A Case Study of Japanese Regional Leadership". JEI Report 47A, Japan Economic Institute, December 1997.

Ambachtseer, K. P. 2001. "A Framework for Public Pension Fund Management". Paper presented at the 2001 World Bank Public Pension Fund Management conference, Washington. (www.worldbank.org/finance/).

Anderson, K. M. 2000. "The Politics of Retrenchment in a Social Democratic Welfare State: Reform of Pensions and Unemployment Insurance in Sweden", invited colloquium at the Max Planck Institute for the Study of Societies, Cologne, Germany, 6 December 2000.

Anderson, K. M. 2001. "The Politics of Retrenchment in a Social Democratic Welfare State: Reform of Swedish Pensions and Unemployment Insurance". *Comparative Political Studies*. Vol. 34. No. 9. pp. 1063-91.

Anderson, K. M. 2006. "Societal Consensus and Pension Reforms in Sweden, Germany, Italy and Denmark", Paper presented at International Conference for Ageing Population and Pension Reform. 18th-19th December. Seoul.

Anderson, K. M. and Lynch, J. 2007. "Reconsidering Seniority Bias: Ageing, Internal Institutions, and Union Support for Pension Reform". *Comparative Politics*. Vol. 39. No. 2. pp. 198–208.

Anderson, K. M. and Meyer, T. 2003. "Social Democracy, Unions and Pension Politics in Germany and Sweden". *Journal of Public Policy*. Vol. 23. No. 1. pp. 23-54.

Anderson, K, M, and Meyer, T. 2006. "New Social Risks and Pension Reform in Germany and Sweden: The Politics of Pension Rights for Child Care", In Armingeon, K. and Bonoli, G. *eds., Politics of Post-Industrial Welfare States*, London and New York: Routledge.

Anderson, T. 2004. "Some Thoughts on Method in Political Economy". *Journal of Australian Political Economy.* Vol. 54. pp. 135-145.

Armingeon, K. and Bonoli, G. *eds.*, 2006. *Politics of Post-Industrial Welfare States.* London and New York: Routledge.

Arthur, J. and Shaw, W. H. 1978. *Justice and Economic Distribution.* New Jersey: Prentice-Hall.

Arza, C. and Kohli, M. *eds.*, 2008. *Pension Reform in Europe: Politics, Policies and Outcomes.* London and New York: Routledge.

Arza, C., and Kohli, M. 2008. "Introduction: The Political Economy of Pension Reform", In Arza, C. and Kohli, M. *eds., Pension Reform in Europe: Politics, Policies and Outcomes*, London and New York: Routledge. pp. 1-21.

Atkinson, A. B. 1996. *Incomes and the Welfare State.* Cambridge: Cambridge University Press.

Atkinson, A. B. 1999. "Is Rising Inequality Inevitable?: A Critique of the Transnational Consensus", *Annual Lectures 3*. Helsinki: UNU/WIDER.

Auerbach, A. J., Gokhale, J. and Kotlikoff, L. J. 1994. "Generational Accounting: A Meaningful Way to Evaluate Fiscal Policy". *The Journal of Economic Perspectives*. Vol. 8. No. 1. pp. 73-94.

Augusztinovics, M. 1999. 'The Economic Implications of Population Ageing in the ECE Region'. Paper presented at the United Nations Economic Commission for Europe Spring Seminar on *Reforming Pension Systems in the Transition Countries*, April, Geneva.

Baccaro, L. 2000. "Negotiating Pension Reform with the Unions: The Italian Experience in European Perspective". Paper presented to the International Conference of Europeanists, Chicago, 30 Mar-2 Apr.

Bajtelsmit, V. L. 2007. "Gender, the Family and Economy", In Clark, G., Munnel, A. H. and Orszarg, J, M. *eds., The Oxford Handbook of Pensions and Retirement Income*, Oxford University Press. pp.121-140.

Barr, N. 2001. *The Welfare State as Piggy Bank.* New York: Oxford University Press.

Barr, N. 2004. *The Economics of the Welfare State*. Stanford, California: Stanford University Press.

Barr, N. 2005. "Notional Defined Contribution Pensions; Mapping the Terrain", In Holzmann, R. and Palmer, E. *eds., Pension Reform through NDCs: Issues and Prospects for Non-financial Defined Contribution Schemes,* Washington, DC: World Bank.

Behrendt, B. 2000. "Private Pensions: A Viable Alternative? Their Distributive Effects in a Comparative Perspective". *International Social Security Review.* Vol. 53. No. 3. pp. 3-26.

Beland, D. and Waddan, A. 2000. "From Thatcher (and Pinochet) to Clinton? Conservative Think Tank, Foreign Models and US Pension Reform". *Political Quarterly.* Vol. 71. pp. 202-210.

Bello, W. 1994. *A Dark Victory.* Food Institute.

Bite, I. 2002. "Transformation of Old-age Security in Latvia", In Schmähl, W. and Horstmann, S. *eds., Transformation of Pension Systems in Central and Eastern Europe,* Cheltenham and Northampton: Edward Elgar.

Blackburn, R. 1999. "The New Collectivism: Pension Reform, Grey Capitalism and Complex Socialism". *New Left Review.* Vol. 233. No. 1. pp. 3-65.

Blackburn, R. 2002a. *Banking on Death: Or, Investing in Life: The History and Future of Pensions.* London and New York: Verso.

Blackburn, R. 2002b. "The Enron Debacle and the Pension Crisis". *New Left Review.* Vol. 14. (March-April). pp. 26-51.

Blackburn, R. 2004. "How to Rescue a Failing Pension Regime: The British Case". *New Political Economy.* Vol. 9. No. 4. pp. 559-579.

Blackburn, R. 2006. "The Global Pension Crisis: From Gray Capitalism to Responsible Accumulation". *Politics & Society.* Vol. 34. No. 2. pp. 135-186.

Blackburn, R. 2008. "The Anglo-American Pension Regime: Failures of the Divided Welfare State", In Arza, C. and Kohli, M. *eds., Pension Reform in Europe: Politics, Policies and Outcomes,* London and New York: Routledge. pp. 155-174.

Blake, D. 2003. *Pension Schemes and Pension Funds in the United Kingdom.* Oxford University Press.

Blinder, A. S. 1988. "Why is the Government in the Pension Business?", In Wachter, S. M. *eds., Social Security and Private Pensions,* Lexington, Mass. And Toronto: Lexington Books. pp. 17-34.

Boas, M. and McNeil, D. 2004a. "Introduction: Power and Ideas in Multilateral Institutions: Towards and Interpretative Framework", In Boas, M. and McNeil, D. *eds., Global Institutions and Development: Framing the World?,* Madison: Routledge. pp. 1-12.

Boas, M. and McNeil, D. 2004b. "Ideas and Institutions: Who is Framing What?", In Boas, M. and McNeil, D. *eds., Global Institutions and Development: Framing the World?,* Madison: Routledge. pp. 206-224.

Bodie, Z. and Mitchell, O. 1996. "Pension Security in an Ageing World", In Bodie, Z., Mitchell, O. and Turner, J. *eds.*, *Securing Employer-based Pensions,* University of Pennsylvania Press.

Boeri, T., Börsch-Supan, A. and Tabellini, G. 2001. "Would You Like to Shrink the Welfare State: A Survey of European Citizens". *Economic Policy.* Vol. 32. pp. 9-50.

Bonoli, G. 2000. *The Politics of Pension Reform: Institution and Policy Change in Western Europe.* Cambridge University Press.

Bonoli, G. 2003. "Two Worlds of Pension Reform in Western Europe". *Comparative Politics.* Vol. 35. No. 4. pp. 399-416.

Bonoli, G. and Shinkawa, T. 2005. "Population Ageing and the Logics of Pension Reform in Western Europe, East Asia and North America", In Bonoli, G. and Shinkawa, T. *eds., Ageing and Pension Reform Around the World*, Cheltenham and Northampton: Edward Elgar. pp. 1-23.

Bowen, C. and Ainley, K. 2005. *Understanding International Relations.* 3rd edition. Hampshire and New York: Palgrave Macmillan.

Boyer, R. and Drache, D. 1996. "Introduction", In Boyer, R. and Drache, D. *eds., States Against Markets: The Limits of Globalization*, London: Routledge. pp. 1-27.

Börsch-Supan, A. 2004a. "What are NDC Pension Systems? What Do They Bring to Reform Strategies?", Paper prepared for World Bank-RFV conference on NDC pensions in Sandhamn, Sweden.

Börsch-Supan, A. 2004b. "From Traditional DB to Notional DC Systems: Reframing PAYG Contributions to 'Notional Saving'", Paper prepared for the 2004 annual meetings of the European Economic Association in Madrid, Spain, 22. August 2004.

Börsch-Supan, A., Reil-Held, A. and Wilke, C. B. 2007. "How an Unfunded Pension System Looks Like Defined Benefits But Works Like Defined Contributions: The German Pension Reform", Paper Written for the Foundation Carolina. 31st May 2007.

Burrows, R. and Loader, B. *eds.*, 1994. *Towards a Post-Fordist Welfare State?* London: Routledge.

Campbell, A. 2005. "The Birth of Neo-liberalism in the United States: A Reorganisation of Capitalism", In Saad-Filho, A. and Johnston, D. *eds., Neo-liberalism: A Critical Reader*, London: Pluto Press. pp. 187-198.

Carmichael, J. 2002. "Public Sector Governance and the Financial Sector", In Litan, R., Pomerleano, M. and Sunderajan, V. *eds., Financial Sector Governance: The*

Roles of the Public and Private Sectors, Washington, D.C.: Brookings Institution Press.

Carmichael, J. and Palacios, R. 2004. "A Framework for Public Pension Fund Management", In Musalem, A. R. Palacios, R. J. *eds., Public Pension Fund Management: Governance, Accountability and Investment Policies,* Washington D.C.: World Bank.

Cerny, P. 2004. "Mapping Varieties of Neo-liberalism", IPEG Papers in Political Global Economy, 12, May.

Cerny, P. 2002. "Structuring the Political Arena: Public Goods, States and Governance in a Globalizing World", In Palan, R. *eds., Global Political Economy: Contemporary Theories*, London: Routledge.

Chae, Goo-Mook. 2004. "An Analysis Concerning the Causes of Increase in Nonstandard Employment after the IMF Economic Crisis". *Korean Sociology.* Vol. 36. No. 5. (Korean text)

Chang, Ha-Joon. 2002. *Kicking Away the Ladder: Development Strategy in Historical Perspective.* London: Anthem Press.

Cho, Soon. 1994. *The Dynamics of Korean Economic Development.* Institute for International Economics.

Cho, Young-Hoon. 2001. "Confucianism, Conservatism or Liberalism? Examining Korean Welfare Type". *Korean Sociology.* Vol. 35. No. 6. (Korean text)

Choi, Hyun-Soo. 2006. "Older Population and Poverty", In Korean Urban Research Centre, *eds., New Poverty in Korean Society.* Seoul: Hanul Academy. (Korean text)

Choi, Jae-Sik. 2007. "Financial Modification and System Development Plan of the GEPS", Conference of Korean Social Security Institutions. Seoul: 26th February. (Korean text)

Cichon, M. 1999. "Notional Defined-Contribution Schemes: Old Wine in New Bottles?". *International Social Security Review.* Vol. 52. No. 4. pp. 87-105.

Clark, G. L. 2000. *Pension Fund Capitalism.* Oxford University Press.

Clark, G. L. 2003a. *European Pensions and Global Finance.* Oxford: Oxford University Press.

Clark, G. L. 2003b. "Twenty-first-century Pension (In)security", In Clark, G. L. and Whiteside, N. *eds., Pension Security in the 21st Century,* Oxford: Oxford University Press. pp. 225-51.

Clark, G L. and Whiteside, N. 2003. "Introduction", In Clark, G. L. and Whiteside, N. *eds., Pension Security in the 21st Century: Redrawing the Public-Private*

Debate, Oxford: Oxford University Press.

Clark, G. L., Munnel, A. and Orszag, J. M. 2007. "Pension and Retirement Income in a Global Environment", In Clark, G. L., Munnel, A. H. and Orszag, J. M. *eds.*, *The Oxford Handbook of Pensions and Retirement Income,* Oxford University Press. pp. 10-27.

Clark, G L., Munnel, A H. and Orszag, J. M. *eds.*, 2007. *The Oxford Handbook of Pensions and Retirement Income.* Oxford University Press.

Colas, A. 2005. "Neo-liberalism, Globalization and International Relations", In Saad-Filho, A. and Johnston, D. *eds., Neo-liberalism: A Critical Reader*, London: Pluto Press. pp. 70-80.

Concialdi, P. 2000. "Demography, the Labour Market and Competitiveness", In Hughes, G. and Stewart, J. *eds., Pensions in the European Union; Adapting to Economic and Social Change*, Kluwer Academic Publishers Group.

Concialdi, P. 2006. "Demography, the Cost of Pensions and the Move to Pension Funds". *Review of Political Economy.* Vol. 18. No. 3. pp. 301–315.

Cowen, M. and Shenton, R. W. 1996. *Doctrines of Development*. London: Routledge.

Cox, W, R. 1992. "Multilateralism and World Order". *Review of International Studies*, Vol. 18. No. 2. pp.161-180.

Cox, W, R. 1989. "Middlepowermanship, Japan and Future World Order", *International Journal*. Vol. 44. No. 4. pp. 823-62.

Creighton, A. and Piggott, J. 2007. "The Structure and Performance of Mandated Pensions", In Clark, G. L., Munnel, A. H., and Orszag, J. M. *eds., The Oxford Handbook of Pensions and Retirement Income*, Oxford University Press.

Crepaz, M. and Moser, A. W. 2004. "The Impact of Collective and Competitive Veto Points on Public Expenditures in the Global Age". *Comparative Political Studies.* Vol. 37. No. 3. pp. 259-285.

Crisp, O. 1991. "Russia", In Sylla, R. and Toniolo, G. *eds., Patterns of European Industrialization: the Nineteenth Century,* London and New York: Routledge. pp. 248-268.

Crooke, M. 2003. "The Canadian Pension Goes to the Market". *Canadian Review of Social Policy.* Vol. 51. pp. 126-131.

Crouch, C. 1999. *Social Change in Western Europe*. Oxford: Oxford University Press.

Curry, C. and O'connel, A. 2004. *Tax Relief and Incentives for Pension Saving.* Pension Policy Institute (PPI).

Davis, E. P. 1995. *Pension Fun: Retirement-Income Security and Capital Markets: An International Perspective.* Oxford: Clarendon Press.

Deacon, B. 2007. *Global Social Policy and Governance*. London: Sage Publication.

Deacon, B. with Hulse, M. and Stubbs, P. 1997. *Global Social Policy: International Organizations and the Future of Welfare*. London: Sage.

De Deken, J. J., Ponds, E. and Van Riel, B. 2007. "Social Solidarity", In Clark, G. L., Munnel, A. H. and Orszag, J. M. *eds., The Oxford Handbook of Pensions and Retirement Income,* Oxford University Press.

Del Guercio, D. and Tkac, P. A. 2002. "The Determinants of the Flow of Funds of Managed Portfolios: Mutual Funds vs Pension Funds". *Journal of Financial and Quantitative Analysis.* Vol. 37. No. 4. pp. 523-557.

Diamond, P. 1993. "Privatization of Social Security: Lessons from Chile". NBER Paper Series. No. 4510. Cambridge.

Diamond, P. 2001. "Comments on Rethinking reform: Ten Myths about Social Security System", In Holzmann, R. and Stiglitz, J. E. *eds., New Ideas about Old Age Security,* Washington, D.C.: World Bank.

Diamond, P. and Orszarg, P. R. 2004. *Saving Social Security: A Balanced Approach.* Washington, D.C: Brooking Institution Press.

Dilnot, A., Disney, R., Johnson, P. and Whitehouse, E. 1994. *Pensions Policy in the UK: An Economic Analysis*. London: Institute for Fiscal Studies.

Dicken, P. 1998. *Global Shift*, 3rd edition. London: Paul Chapman.

Disney, R. 1999a. "Notional Accounts as a Pension Reform Strategy: An Evaluation". Social Protection Discussion Paper #9928. Washington D.C.: World Bank.

Disney, R. 1999b. "OECD Public Pension Programs in Crisis: An Evaluation of the Reform Options". Social Protection Discussion Paper. No. 9921. World Bank, Washington, D. C.

Disney, R. 2000. "Crisis in OECD Public Pension Programmes: What Are the reform Options?". *Economic Journal Features.* Vol. 39. (Feb). pp. 1-23.

Disney, R. 2007. "Actuarial-Based Public Pension System", In Clark, G. L., Munnel, A. H. and Orszag, J. M. *eds., The Oxford Handbook of Pensions and Retirement Income,* Oxford University Press. pp. 268-289.

Disney, R. and Whitehouse, E. 2001. *Cross-Country Comparisons of Pensioner's Incomes.* UK Development of Social Security.

Drucker, P. 1976. *The Unseen Revolution: How Pension Fund Socialism Came to America.* New York: Harper & Row.

Dumenil, G, and Levy, G. 2005. "The Neo-liberal (Counter-)Revolution", In Saad-Filho, A, and Johnston, D, *eds., Neo-liberalism: A Critical Reader*, London: Pluto Press. pp. 9-19.

Ebbinghaus, B. 1999. "Does a European Social Model Exist and Can It Survive?", In Huemer, G., Mesch, M. and Traxler, F. *eds., The Role of Employer Associations and Labour Unions in the EMU: Institutional Requirements for European Economic Policies*, Aldershot: Ashgate. pp. 1-26.

Ebbinghaus, B. 2007. "The Politics of Pension Reform: Managing Interest Group Conflicts", In Clark, G. L., Munnel, A. H. and Orszag, J. M. *eds.*, *The Oxford Handbook of Pensions and Retirement Income,* Oxford University Press. pp. 759-777.

Ebbinghaus, B., and Manow, P. 2001. "Introduction: Studying Varieties of Welfare Capitalism", In Ebbinghaus, B. and Manow, P. *eds.*, *Comparing Welfare Capitalism: Social Policy and Political Economy in Europe, Japan and the USA*, London and New York: Routledge. pp. 1-26.

EC. 2004. *Employment in Europe 2004: Recent Trends and Prospects.* Luxembourg: Office for Official Publications of the European Communities.

Engelen, E. 2003. "The Logic of Funding European Pension Restructuring and the Dangers of Financialisation". *Environment and Planning A.* Vol. 35. pp. 1357-1372.

Engelen, E. 2007. "Changing Work Patterns and the Reorganization of Occupational Pension", In Clark, G. L., Munnel, A. H. and Orszag, J. M. *eds.*, *The Oxford Handbook of Pensions and Retirement Income,* Oxford University Press. pp. 98-120.

Ervik, R. 2005. "The Battle of Future Pensions: Global Accounting Tools, International New Organizations and Pension Reforms". *Global Social Policy.* Vol. 5. No. 1. pp. 29-54.

Esping-Andersen, G. 1990. *Three Worlds of Welfare Capitalism.* Princeton: Princeton University Press.

Esping-Andersen, G. 1994. "Welfare States and the Economy", In Smelser, N. J. and Swedberg, R. *eds.*, *The Handbook of Economic Sociology*, Princeton, NJ: Princeton University Press. pp. 711-32.

Esping-Andersen, G. 1996. "Conclusion: Occupational Welfare in the Social Policy", In Shalev, M. *eds.*, *The Privatization of Social Policy?,* Macmillan press LTD. PP. 327-338.

Esping-Andersen, G. 1999. *Social Foundations of Postindustrial Economics.* Oxford University Press.

Esping-Andersen, G. 2002a. "Towards the Good Society, Once Again?", In Esping-Andersen, G.. Gallie, D., Hemerijck, A. and Myles, J. *eds.*, *Why We Need the*

New Welfare State, Oxford University Press.
Esping-Andersen, G. 2002b. "A New European Social Model for the Twenty-first Century?", In Rodriguez, M. J. *eds.*, *The New Knowledge Economy in Europe: A Strategy for International Competitiveness and Social Cohesion*, Cheltenham and Northampton: Edward Elgar. pp. 28-53.
Esping-Andersen, G.. Gallie, D., Hemerijck, A. and Myles, J. *eds.*, 2002. *Why We Need the New Welfare State*. Oxford University Press.
Esping-Andersen, G., and Myles, J. 2007. "Sustainable and Equitable Retirement in a Lifer Course Perspective", In Clark, G. L., Munnel, A. H. and Orszag, J. M. *eds.*, *The Oxford Handbook of Pensions and Retirement Income*, Oxford University Press. pp. 839-857.
Estevez-Abe, M. 2001. "The Forgotten Link: The Financial Regulation of the Japanese Pension Funds in Comparative Perspective", In Ebbinghaus, B. and Manow, P. *eds.*, *Comparing Welfare Capitalism: Social Policy and Political Economy in Europe, Japan and the USA*, London and New York: Routledge. pp. 190-214.
European Commission. 2001. "Supporting National Strategies for Safe and Sustainable Pensions through an Integrated Approach", Communication from the Commission to the Council, the European Parliament, and the Economic and Social Committee. Brussels, 3 July.
Farnsworth, K. 2005. "International Class Conflict and Social Policy". *Social Policy and Society*. Vol. 2. pp. 217-226.
Feldstein, M. 1974. "Social Security, Induced Retirement and Aggregate Capital Accumulation". *Journal of Political Economy*. Vol. 82. pp. 905-926.
Feldstein, M. 1997. "The Case for Privatization". *Foreign Affairs*. Vol. 76. No. 4. pp. 24-38.
Feldstein, M. 1998. "Introduction", In Feldstein, M. *eds.*, *Privatizing Social Security*, University of Chicago Press.
Fischel, D. and Langbein, J. 1988. "ERISA's Fundamental Contradiction: The Exclusive Benefit Rule". *University of Chicago Law Review*. Vol. 55. pp. 1105-60.
Fox, L. and Palmer, E. 2001. "New Approaches to Multipillar Pension System: What in the World Is Going on?", In Holzmann, R. and Stiglitz, J. E. *eds.*, *New Ideas about Old Age Security*, Washington, D.C.: World Bank.
Galasso, V. and Profeta, P. 2004. "Lessons for an Ageing Society: The Political Sustainability of Social Security Systems". *Economic Policy*. Vol. 19. No. 38. pp. 63–115.
Gale, W. G. 1998. "The Effects of Pensions on Household Wealth: A Reevaluation of

Theory and Evidence". *Journal of Political Economy.* Vol. 106. No. 4. pp. 706-723.

Garrett, G. and Mitchell, D. 1996. "Globalization and the welfare state: income transfers in the industrialized democracies, 1966-1990", Paper presented at the *Annual Meeting of the American Political Science Association.* San Francisco, 28, August - 1 September.

Garrett, G. and Mitchell, D. 2001. "Globalization, Government Spending and Taxation in the OECD". *European Journal of Political Research.* Vol. 39. No.2. pp. 145-177.

Geanakoplos, J., Mitchell, O. S. and Zeldes, S. 1998. "Would a Privatized Social Security System Really Pay a Higher Rate of Return?", In Arnold, R. D., Graetz, J. and Munnel, A. H. *eds., Framing the Social Security Debate: Values, Politics, and Economics*, Washington, D, C.: Brookings Institution Press.

George, V. and Wilding, P. 2002. *Globalization and Human Welfare.* Palgrave.

Gerschenkron, A. 1962. *Economic Backwardness in Historical Perspective.* Harvard University Press.

Gershuny, J. et.al. 1994. "The Domestic Labour Revolution: A Process of Lagged Adaptation?", In Anderson, M., Bechofer, F. and Gershuny, J. *eds., The Social and Political Economy of the Household,* Oxford: Oxford University Press.

Ghilarducci, T. 1999. "Who Controls Labor's Capital and Why It Matters", Paper for the Second National Heartland Labor-Capital Conference, April, pp. 29-30, Washington D. C.

Ghilarducci, T., Hawley, J. and Williams, A. 1997. "Labour's Paradoxical Interests and the Evolution of Corporate Governance". *Journal of Law and Society.* Vol. 24. No. 1. pp. 26-43.

Gilbert, N. 2002. *Transformation of the Welfare State.* New York: Oxford University Press.

Gill, I. S., Packard, T. G. and Yermo, J. 2004. *Keeping the Promise of Social Security in Latin America.* World Bank.

Gillion, C. 2000. "Development and Reform of Social Security Pensions: The Approach of the International Labour Office". *International Social Security Review.* Vol. 53. No. 1. pp. 35-63.

Gillion, C., Turner, J., Baily, C. and Latulippe, D. *eds.*, 2000. *Social Security Pensions: Developing and reform.* Geneva: ILO.

Ginn, J. 2003. *Gender, Pensions and the Lifecourse.* The Policy Press.

Ginn, J., Street, D. and Arber, S. *eds.*, 2001. *Women, Work and Pensions: International*

Issues and Prospects. Philadelphia: Open University Press.

Gough, I. 2000. "Globalization and Regional Welfare Regimes: The East Asian Case", Paper for 'Social Protection in the New Era', Tilburg University.

Gramsci, A. 1971. *Selections from the Prison Notebooks*. London: Lawrence and Wishart.

Gray, J. 2002. *False Down: The Delusions of Global Capitalism*. Granta Books.

Green-Pedersen, C. and Haverland, M. 2002. "The New Politics of the Welfare State and the New Scholarship of the Welfare State". *Journal of European Social Policy*. Vol. 12. No. 1. pp. 43-52.

Guillemard, A-M. 1997. "Re-Writing Social Policy and Changes Within the Life Course Organization: A European Perspective", *Canadian Journal on Ageing*. Vol. 16. No. 3. pp. 441-64.

Guillemard, A. and Van Gunsteren, H. 1991. "Pathways and Their Prospects: A Comparative Interpretation of the Meaning of Early Exit", In Kohli, M., Rein, M., Guillemard, A. and H, Van Gunsteren. *eds*., *Time for Retirement*, Cambridge University Press.

Gullason, E. T. 2000. "The Dynamics of the U.S. Occupational Structure during the 1990s". *Journal of Labor Research*. Vol. 21. No. 2. pp. 363-375.

Gunter, B G. and van der Hoever, R. 2004. "The Social Dimension of Globalization: A Review of the Literature". *International Labor Review*. Vol. 132, No. 1-2, pp. 7-43.

Hakim, C. 2000. *Research Design: Successful Research Designs for Social and Economic Research*. London: Routledge.

Hall, P. A. and Soskice, D. *eds*., 2001. *Variety of Capitalism: The Embeddedness of Institutions*. New York: Cambridge University Press.

Hannah, L. 1992. "Similarities and Differences in the Growth and Structure of Private Pensions in OECD Countries", In OECD. *eds*., *Private Pensions and Public Policy*. OECD.

Harper, S and Thane, P. 1989. "The Consolidation of 'Old Age' as a Phase of Life, 1945-1965", In Jeffreys, M. *eds*., *Growing Old in the Twentieth Century*. London: Routledge.

Harsanyi, J. 1953 "Cardinal Utility in Welfare Economics and in the Theory of Risk-Taking". *Journal of Political Economy*. Vol. 61. No. 5.

Hausner, J. 2001. "Security through Diversity: Conditions for Successful Reform of the Pension System in Poland", In Kornai, J., Haggard, S. and Kaufman, R. *eds*., *Reforming the State: Fiscal and Welfare Reform in Post-Socialist Countries*,

Cambridge: Cambridge University Press.
Held, D., McGrew, A., Goldblatt, D. and Perrit, J. 1999. *Global Transformation.* Cambridge: Polity.
Held, D. and McGrew, A. 2003. "The Great Globalization Debate: An Introduction", In Held, D, and McGrew, A, *eds., The Global Transformations Reader*, 2nd Edition. Cambridge: Polity Press. pp. 1-50.
Held, D. and McGrew, A. 2002. *Globalization/ Anti-globalization.* Cambridge: Polity.
Helleiner, E. 1994. *States and the Re-emergence of Global Finance: From Bretton Woods to the 1990s*. Ithaca NY: Cornell University Press.
Heller, P. S. 2003. *Who Will Pay?* Washington, D. C: International Monetary Fund.
Herbertsson, T. T. 2007. "Personal Pensions and Markets", In Clark, G. L., Munnel, A. H. and Orszag, J. M. *eds., The Oxford Handbook of Pensions and Retirement Income,* Oxford University Press.
Higgot, R, 2000. "Regionalism in the Asia-Pacific: Two Steps Forwards, One Step Back?', In Stubbs, R. and Underhill, G. *eds., Political Economy and the Changing Global Order,* 2nd edition, Toronto: Oxford University Press. pp. 254-263.
Hinrichs, K. 2000. "Elephants on the Move: Patterns of Public Pension Reform in OECD Countries", In Leibfried, S. *eds., Welfare State Futures.* Cambridge: Cambridge University Press.
Hinrichs, K. 2001. "Ageing and Public Pension Reform in Western Europe and North America: Patterns and Politics", In Clasen, J. *eds., What Future for Social Security? Debates and Reforms in National and Cross-national Perspective*, Bristol: The Policy Press.
Hirst, P, and Thomson, G. 1996. *Globalization in Question.* Cambridge: Polity Press.
Hollingsworth, J. R. and Boyer, R. 1997. *Contemporary Capitalism: The Embeddedness of Institutions.* New York: Cambridge University Press.
Holzmann, R. 2000. "The World Bank Approach to Pension Reform". *International Social Security Review.* Vol. 53. No. 1. pp. 35-63.
Holzmann, R. 2001. "Comments on Rethinking Reform", In Holzmann, R. and Stiglitz, J. E. *eds., New Ideas about Old Age Security.* Washington, D.C.: World Bank.
Holzmann, R. and Hinz, R. 2005. *Old-age Income Support in the Twenty-first Century.* Washington, D.C.: World Bank.
Holzmann, R., Orenstein, M. and Rutkowski, M. *eds.*, 2003. *Pension Reform in Europe: Process and Progress*. Washington. D. C.: World Bank.
Holzmann, R. and Palmer, E. *eds.*, 2006. *Pension Reform through NDCs: Issues and*

Prospects for Non-financial Defined Contribution Schemes. Washington, DC: World Bank.

Holzmann, R. and Stiglitz, J. E. 2001. "Introduction", In Holzmann, R. and Stiglitz, J. E. *eds.*, *New Ideas about Old Age Security*. Washington, D.C.: World Bank.

Houseman, S. H. 1995. "Part-time Employment in Europe and Japan". *Journal of Labor Research*. Vol. 16. No. 3. pp. 249-262.

Hsu, F. L. K. 1998. "Confucianism in Comparative Context", In Slote, W. H. and De Vos George, A. *eds.*, *Confucianism and the Family*, Albany: State University of New York Press.

Huber, E. and Stephens, J. 2001. *Development and Crisis of the Welfare State: Parties and Policies in Global Market*. London: The University of Chicago Press.

Hughes, G 2000. "Pension Financing, the Substitution Effect and National Savings", In Hughes, G and Stewart, J. *eds.*, *Pensions in the European Union; Adapting to Economic and Social Change*, Kluwer Academic Publishers Group.

ILO. 1992. *International Labour Conventions and Recommendations 1919-1991, I & II*. ILO: Geneva.

ILO. 2000. *World Labour Report*. Geneva: ILO.

ILO. 2001. *Social Security: A New Consensus*. Geneva: ILO.

IMF. 1995. *Social Dimensions of Change: The IMF's Policy Dialogue*. Washington DC: IMF.

IMF. 1997. "Request for Stand-By-Arrangement, Internatioanl Monetary Fund, Korea". December 3.

Immergut, E. M. 1990. "Institutions, Veto Points, and Policy Results: A Comparative Analysis of Health Care". *Journal of Public Policy*. Vol. 10. No. 4. pp. 391-416.

Immergut, E. M. 1992. "The Rules of the Game: The Logic of Health Policy-making in France, Switzerland, and Sweden", In Steinmo, S. *eds.*, *Structuring Politics*, Cambridge: Cambridge University Press. pp. 57-89.

Immergut, E. M., and Anderson, K. M. 2007. "Editors' Introduction: The Dynamics of Pension Politics", In Immergut, E. M., Anderson, K. M. and Schulze, I. *eds.*, *The Handbook of Western European Pension Politics*, Oxford and New York: Oxford University Press. pp. 1-45.

Immergut, E. M., Anderson, K. M. and Schulze, I. *eds*. 2007. *The Handbook of Western European Pension Politics*. Oxford and New York: Oxford University Press.

Impavido, G. 2002. "On the Governance of Public Pension Fund Management". Policy research working paper 2878. World Bank, Washington.

International Social Security Association (ISSA). 2004. Guidelines for the Investment of Social Security Funds. Geneva: ISSA. www.issa.int/pdf/GA2004/2guidelines.pdf

Jackson, G. 2003. "Corporate Governance in Germany and Japan: Liberalization Pressures and Responses during the 1990s", In Yamamura, K. and Streeck, W. *eds.*, *The End of Diversity? Prospects for German and Japanese Capitalism*, Ithaca. New York: Cornell University Press. pp. 261-305.

Jackson, G., and Vitol, S. 2001. "Between Financial Commitment, Market Liquidity and Corporate Governance: Occupational Pensions in Britain, Germany, Japan and the USA", In Ebbinghus, B. and Manow, P. *eds.*, *Comparing Welfare Capitalism: Social Policy and Political Economy in Europe, Japan and the USA*. London and New York: Routledge. pp.171-189.

James, E. 1995. "Outreach #17: Policy Views from the World Bank Policy Research Complex". Washington, D.C.: World Bank.

James, E. 2001. "Comments on Rethinking Reform: Ten Myths about Social Security System", In Holzmann, R. and Stiglitz, J. E. *eds.*, *New Ideas about Old Age Security*, Washington, D.C.: World Bank.

James, E., Smalhout, J. and Vittas, D. 2001. "Administrative Cost and the Organization of Individual Account System: A Comparative Perspective", In OECD *eds.*, *Private Pension Systems: Administrative Cost and Reforms No.2*, Paris: OECD.

Jensen, M. C. 1993. "The Modern Industrial Revolution, Exit and the Failure of Internal Control Systems". *The Journal of Finance*. Vol. 48. No. 3. pp. 831-880.

Jessop, B. 1994. "The Transition to post Fordism and the Schmpeterian Workfare State", In Burrows, R. and Loader, B. *eds.*, *Towards a Post Fordist Welfare State*. London: Routeldge. pp. 13-37.

Jessop, B. 2000. "From Keynesian Welfare National State to Schumpeterian Workfare Post-National Regime", In Lewis, G., Gewirtz, S. and Clarke, J. *eds.*, *Rethinking Social Policy*. London: Sage. pp. 171-184.

Johnson, C. 1988. "The Democratization of South Korea: What Role Does Economic Development Play?" Unpublished Paper presented at the Second Ilhae-Carnegie Conference. July 8-9. Seoul.

Johnson, P. and Falkingham, J. 1992. *Ageing and Economic Welfare*. London: Sage.

Johnson, P. and Falkingham, J. 1994. "Is There a Future for the Beveridge Pension Scheme?", In Baldwin, S. and Falkingham, J. *eds.*, *Social Security and Social Change*, Harvester Wheatsheaf.

Johnson, P. and Thane, P. *eds.*, 1998. *Old Age from Antiquity to Post-Modernity.*

London and New York: Routledge.

Johnston, R. B., Darbar, S. M., and Echeverria, C. 1999 "Sequencing Capital Account Liberalization: Lessons from the Experience in Chile, Indonesia, Korea and Thailand", In Johnston, R. B. and Sundararajan, V. *eds*., *Sequencing Financial Sector Reforms: Country Experiences and Issues*. Washington, D.C.: International Monetary Fund. pp. 245-283.

Jun, Chang-Hwan. 2007. "Governance of the National Pension Scheme and National Pension Fund Operation Committee: Current Issues and Directions of Reform". *Economy and Society*. Vol. 73. pp. 73-98. (Korean text)

Jung, Moo-Kwon. 2002. "Understanding Welfare Reform of Kim Dae-Jung Government". *Context and Welfare*. Vol. 11. Human and Welfare. (Korean text)

Kaldor, M. 2003. *Global Civil Society*. Cambridge: Polity.

Kalleberg, A. L. 2000. "Nonstandard Employment Relations: Part-time, Temporary and Contract Work". *Annual Review of Sociology*. Vol. 26. pp. 341-365.

Kang, Shin-Wook. *et al*. 2006. *The Korean Trend of the Indicators in terms of Poverty and Inequality: Comparison with the Major OECD Countries*. Korean Health and Welfare Institute. (Korean text)

Katzenstein, K. J. 1985. *Small States in World Martekts-Industrial Policy in Europe*, Cornell University Press.

Kim, In-Suk. 1999. "Conditions and Alternatives to the Breakup of Families in Poverty after IMF Economic Crisis in Korea". *Social Welfare Review*. Vol. 4. pp. 35-63. (Korean text)

Kim, Jae-Chil. 2006. "Long-term Prospect of the Retirement Pension and the Influence of its Capital Market". *Capital Market Forum*. Vol. 3. No. 3. pp. 107-118. (Korean text)

Kim, Jin-Soo. 2006a. "The Welfare Investment of National Pension Funds: Its Necessity and Policy Development". *Korean Social Welfare*. Vol. 58. No. 3. pp. 295-312. (Korean text)

Kim, Jin-Soo. 2006b. "Korean Old Age Income Security and the NPS's Future". International conference: international trend and Korean future of old age income security. 24th November. (Korean text)

Kim, Jin-Soo. 2006c. "A Study on the Income Security System for the Aged of Retirement Allowance System – Focused on Institutional Views". *Korean Social Security Review*. Vol. 22. No. 1. pp. 287-311. (Korean text)

Kim, Jung-Suk. 2005. "Changes in Attitudes of Korean Elderly Parents toward Old-Age

Support, 1994-2004". *Journal of the Korean Gerontological Society*. Vol. 25. No. 4. pp. 1-11. (Korean text)

Kim, Soo-Wan. and Cho Yoo-Mee. 2005. *Analysis about the Actual State of Resource of Korean Old Age Household*. The National Pension Service research centre. Working paper 2005-01. Working Paper 2005-01. (Korean text)

Kim, Soo-Wan., Kim Soon-Ok. and Ahn Sang-Hoon. 2005. *A Study to Construct the Multi-Pillar Old Age Income Security*. National Pension Service. (Korean text)

Kim, Sung-Hee. 2004. "The Distorted Institutionalization and Developed Flexibility", In Chun, Chang-Whan. and Kim, Jin-Bang. *eds*., *Korean Capitalism after the Crisis*, Pulbit. (Korean text)

Kim, Tae-Sung, and Kim, Jin-Soo. 2001. *The Principle of Social Security*. Seoul: Cheongmok press. (Korean text)

Kim, Tae-Sung. and Sung, Kyung-Ryoong. 1993. *Welfare States*. Seoul: Nanam. (Korean text)

Kim, Tae-Jun. and Yoo, Jae-Won. 2003. "Korean Capital Opening Policy: Evaluation and Future". 2003 Economic Academic Conference. (Korean text)

Kim, Won-Sub. and Kang, Sung-Ho. 2008. "Improving the Personal Pension Provision for Old-Age Income Security". *Social Welfare Policy*. Vol. 32. pp. 261-292.

Kim, Yeon-Myung. 1999. "The Democratic Control and its Speciality Improvement Plan of the National Pension Fund management". Social Security association conference. (Korean text)

Kim, Yeon-Myung. 2002a. "Social Welfare Policy of Kim Dae-Jung Government: Beyond Neo-liberalism", In Kim, Yeon-Myung. *eds*., *Debates of the Korean Welfare State Nature*. Human and Welfare. (Korean text)

Kim, Yeon-Myung. 2002b. "Re-comment and Argument in terms of the Criticism of the National Welfare Reinforcement", In Kim, Yeon-Myung. *eds*., *Debates of the Korean Welfare State Nature*. Human and Welfare. (Korean text)

Kim, Yeon-Myung. 2003a. "Risk Society and Korean Social Insurance Regime". *Culture/Science*. Vol. 35. pp. 135-149. (Korean text)

Kim, Yeon-Myung. 2003b. "Alternative to Improve the Benefit Formula in the NPS", *2003 National Pension Financial Calculation and System Improvement Plan*. The National Pension Development Institute. (Korean text)

Kim, Yeon-Myung. 2007. "The Politics of Pension Reform under the Divided Government: Korean Experience", In Lee, Hye-Kyung and Takegawa, Shogo. *eds*., *Comparative Research of the Korean-Japan Welfare Regime*. Yonsei University Press. pp. 125-151. (Korean text)

Kim, Yeon-Myung, *et al.* 2002. *Debates of the Korean Welfare State Nature*. Human and Welfare. (Korean text)

Kim, Yoo-Sun. 2005. "Structural Change in Labour Market and Nonstandard Employees", In Choi, Chang-Jip. *eds., Labour in Danger*. Humanitas. (Korean text)

Kim, Yoo-Sun. 2006. "Size and Actual state of Nonstandard Employees: Results of Economic Activity Demography Survey in National Statistics (2006)". *Labour Society.* Vol. 115. pp. 11-43. (Korean text)

Kim, Young-Bum. 2001. "Case of Korea", In Song, Ho-Keun. *eds., Globalization and Welfare State*. Nanam. (Korean text)

Kim, Young-Bum. 2002. "The Origin and Systematic Features of the Korean Social Insurance: Medical Insurance and National Pension Scheme". *Economy and Society.* Vol. 55. pp. 8-34. (Korean text)

Kjaer. 2004. "The Norwegian Petroleum Fund", In Musalem, A. R. and Palacios, R. J. *eds., Public Pension Fund Management: Governance, Accountability and Investment Policies*. Washington: The World Bank.

Kohli, M. and Rein, M. 1991. "The Changing Balance of Work and Retirement", In Kohli, M., Rein, M., Guillemard, A. and H, Van Gunsteren. *eds., Time for Retirement,* Cambridge University Press.

Kohli, M., Rein, M., Guillemard, A. and H, Van Gunsteren. *eds.*, 1991. *Time for Retirement.* Cambridge University Press.

Kolko, G. 1999. "Ravaging the Poor: the International Monetary Fund Indirectly by its Own Data". *International Journal of Health Service*. Vol. 29. pp. 51-57.

Korpi, W. 1983. *The Democratic Class Struggle*. London, Routledge and Kegan Paul.

Krugman, P. 1995. "Growing World Trade: Causes and Consequences". *Brokings Papers on Economic Activity*. pp. 327-77.

Krugman, P. 1998a. "What Happened to Asia?", MIT Department of Economics. January.

Krugman, P. 1998b. "Will Asia Bounce Back", Speech for Credit Suisse First Boston. Hong Kong. March.

Kuhnle, S. 1999. "Survival of the European Welfare State", Arena Working Paper.

Kuhnle, S. 2001. "Democracy and Productive Welfare European and Korean Welfare Policy Development in Perspective", The International Symposium for Sharing Productive Welfare Experience. Seoul,.Korea. (Sept).

Laboul, A. 1998. "Private Pension Systems: Regulatory Policies". *Financial Market Trends*. No. 71. Paris: OECD.

Laboul, A. and Yermo, J. 2007. "Regulatory Principles and Institutions", In Clark, G. L., Munnel, A. H. and Orszag, J. M. *eds., The Oxford Handbook of Pensions and Retirement Income,* Oxford University Press.

Lakonishok, J. A., Shleifer, A. and Vishny, R. W. 1992. "The Structure and Performance of the Money Management Industry". Brookings papers on Economic Activity. pp. 339-91.

Langley, P. 2006. "The Making of Investor Subjects in Anglo-American Pensions". *Environment and Planning D: Society and Space*. Vol. 24. pp. 919-934.

Larner, W. 2003. "Neo-liberalism?" *Society and Space*. Vol. 21. pp. 509-512.

Lazonick, W. and S'ullivan, M. 1997. *Investment in Innovation*. The Jerome Levy Economics Institute of Bard College.

Lazonick, W. and O'Sullivan, M. 2000. "Maximising Shareholder Value: A New Ideology for Corporate Governance". *Economy and Society*. Vol. 29. No. 1.

Lee, Byung-Chun. 1999a. "Korean Economic Crisis and IMF Regime: Challenge of Dependent Neo-liberalism". *Social Economic Review*. Vol. 13. pp. 117-165. (Korean text)

Lee, Byung-Chun. 1999b. "An Interpretation of the Korean Economic Crisis from the Historical Perspective". *Economic Research*. Vol. 47. No. 4. pp. 101-120. (Korean text)

Lee, Chul-In. 1998. "Estimation of the Size of Tax Evasion by Using Panel Data". Hyun, Jin-Kwon. *eds., Tax Administration and Policy Problem*. Korea Institute of Public Finance. (Korean text)

Lee, Dae-Keun. 1984. "Development of Aid Economy", In Jung, Woon-Young. *eds., Korean Capitalism*. Kachi. (Korean text)

Lee, Hye-Kyung. 1994. "Social Security Policy of New Korea", In Institute of Korean Social Welfare Policy. *eds., Social Welfare Policy of New Korea*, Institute of Korean Social Welfare Policy. (Korean text)

Lee, Hye-Kyung. 2007. "The development of the modern Korean Social Welfare system", In Lee, Hye-Kyung and Takegawa, Shogo. *eds., Comparative Research of the Korean-Japan Welfare Regime*. Yonsei University Press. pp.23-59.

Legros, F. 2007. "Life-Cycle Options and Preferences", In Clark, G. L., Munnel, A. H. and Orszag, J. M. *eds., The Oxford Handbook of Pensions and Retirement Income,* Oxford University Press.

Lijphart, A. 1971. "Comparative Politics and the Comparative Method". *American Political Science Review*. Vol. 65. pp. 682-693

Lindley, R. M. 2002. "Knowledge-based Economics: the European Employment Debate in a New Context", In Rodrigues, M. *eds.*, *The New Knowledge Economy in Europe,* Edward Elgar. pp 95-145.

Long, N. 2004. "Contesting Policy Ideas from Below", In Boas, M. and McNeil, D. *eds.*, *Global Institutions and Development: Framing the World?,* Madison: Routledge. pp. 24-40.

Lutz, W., Sanderseon, W. and Scherbov, S. 2004. *The End of World Population Growth in the 21st Century: New Challenges for Human Capital Formation and Sustainable Development.* London and Sterling, VA.: Earthscan.

Mankiw, G. 2006. *Principles of Economics.* 4th edition. South Western College Publishing

Mavroudeas, S. D. 2006. "A History of Contemporary Political Economy and Postmodernism". *Review of Radical Political Economics.* Vol. 38. No. 4. pp. 499 -518.

McGillivray, W. 2007. "Structure and Performance of Defined Benefit Schemes", In Clark, G. L., Munnel, A. H., and Orszag, J. M, *eds.*, *The Oxford Handbook of Pensions and Retirement Income.* Oxford University Press. pp. 223-240.

Micklethwait, J. and Wooldridge, A. 2000. *A Future Perfect: The Essentials of Globalization.* The Wylie Agency Ltd.

Micklethwait, J. and Wooldridge, A. 2004. *The Right Nation.* London: Penguin.

Midgely, J. 1984. *Social Security Inequality & the Third World.* Chichester: Wiley.

Ministry Planning & Budgeting. 2004. *Explanatory Leaflet for the Revision of the Fund Management Law.*

Minns, R. 2001. *The Cold War in Welfare.* London, New York: Verso.

Mirabile, M. L. 2004. "Conclusion", In Maltby, T., De Vroom, B., Mirabile, M. L. and Overbye, E. *eds.*, *Ageing and the Transition to Retirement: A Comparative Analysis of European Welfare States*, Ashgate. pp. 282-290.

Mishra, R. 1999. *Globalization and the Welfare State.* Edward Elgar Publishing Limited.

Mitchell, L. 1996. "Administrative Cost in Public and Private Retirement System". NBER Working Paper. 5734.

Mitchell, T. 1984. "Administrative Traditions and Economic Decision-Making in South Korea". IDS Bulletin 15.

Modiglian, F and Brumberg, R. eds. 1954. "Utility Analysis and the Consumption Function: An Interpretation of Cross-section Data", In Kurihara, K. K., eds., *Post-Keynesian Economics.* New Brunswick, New Jersey: Rutgers University Press. pp. 388-436.

Moon, Hyung-Pyo. 2004 "Old Age Income Security and National Pension Reform", The Korean Social Security Association, *eds., Where Will the Korean Pension System Go? : Parametric Reform vs Paradigmatic Reform*, The Korean Social Security Association.

Moynagh, M. and Worsley, R. 2004. *The Opportunity of a Lifetime: Reshaping Retirement.* Charted Institute of Personnel and Development.

Munck, R. 2005. "Neo-liberalism and Politics, and the Politics of Neo-liberalism", In Saad-Filho, A. and Johnston, D. *eds., Neo-liberalism: A Critical Reader*, London: Pluto Press. pp. 60-69.

Munnel, A. 2007. "Employer-Sponsored Plans: The Shift from Defined Benefit to Defined Contribution", In Clark, G. L., Munnel, A. H. and Orszag, J. M. *eds., The Oxford Handbook of Pensions and Retirement Income,* Oxford University Press. pp. 359-380.

Murthi, M., Orszag, J. M., and Orszag, P. 2001. "Administrative Costs under a Decentralized Approach to Individual Accounts: Lessons from the United Kingdom", In Holzmann, R. and Stiglitz, J. *eds., New Ideas about Old Age Security.* Washington: The World Bank.

Musalem, A. R. and Palacios, R. J. 2004. "Introduction", In Musalem, A. R. and Palacios, R. J. *eds., Public Pension Fund Management: Governance, Accountability and Investment Policies.* Washington D.C.: World Bank.

Musgrave, R. A. 1986. *Public Finance in a Democratic Society: Fiscal Doctrine, Growth and Institution.* New York: New York University Press.

Myles, J. 2002. "A New Social Contract for the Elderly?", In Esping-Andersen, G., Gallie, D., Hemerijck, A. and Myles, J. *eds., Why We Need a New Welfare State*, New York. Oxford University Press.

Myles, J. 2003. "What Justice Requires: Pension Reform in Ageing Societies". *Journal of European Social Policy.* Vol. 13. No. 3. pp. 264-69.

Myles, J. and Pierson, P. 2001, "The Comparative Political Economy of Pension Reform", In, Pierson, P. *eds., The New Politics of Welfare State*, Oxford: Oxford University Press. pp. 305-333.

Myles, J. and Quadagno, J. 1997. "Recent Trends in Public Pension Reform: A Comparative View", In Banting, K. G. and Boardway, R. *eds., Reform of Retirement Income Policy: International and Canadian Perspective*, Kingston: School of Policy Studies, Queen's University.

Müller, K. 1999. *The Political Economy of Pension Reform in Central-Eastern Europe.* Cheltenham: Elgar.

Müller, K. 2003. "The Making of Pension Privatization in Latin America and Eastern Europe", In Orenstein, M. and Rutkowski, O. *eds., Pension Reform in Europe: Process and Progress*. Washington D.C: World Bank. pp. 47-78.

Nam, Chan-Seop. 2002. "Empirical Research about Characteristics of Korean Welfare Regime", Kim, Yeon-Myung. *eds*., 2002. *Debates of the Korean Welfare State Nature*. Human and Welfare. (Korean text)

Nam, Chan-Seop. 2005. "A Study on the Rearrangement of Welfare Systems in the Early 1960s in Korea: Approaching from the Situations of the Welfare Realities in the 1950s". *Korean Journal of Social Welfare Studies*. Vol. 27. pp. 33-75. (Korean text)

National Pension Service. 1998. *Ten Years of National Pension Scheme*. National Pension Service.

National Pension Service. 2006. *Panel Research for the Old Age Income Security.* National Pension Service.

National Statistics. 2001. *Annual Report of Economic Activity Population.*

Ney, J. S. Jr. 2002. *The Paradox of American Power*. New York: Oxford University Press.

Neufeld, M. 1999. "Globalization: Five Theses", Paper presented at University of Toronto Workshop on Globalization and Public Policy.

Nozick, R. 1974. *Anarchy, State, and Utopia*. New York: Basic Books.

Nustad, K.G. 2004. "The Development Discourse in the Multilateral System", In Boas, M. and McNeil, D. *eds., Global Institutions and Development: Framing the World?,* Madison: Routledge. pp. 13-23.

Oatley, T. and Yackee, J. 2000. *Political Determinants of IMF Balance of Payments Lending.* Unpublished manuscript, University of North Carolina Chapel Hill.

OECD. 1996a. *OECD Employment Outlook.*

OECD. 1996b. *Caring for the Elderly*. Paris: OECD.

OECD. 1999. *OECD Employment Outlook.*

OECD. 2000. *OECD Economic Surveys.*

OECD. 2001a. OECD Health Data.

OECD. 2001b. OECD Employment Outlook.

OECD. 2001c. Private Pensions Systems: Administrative Cost and Reforms No.2. Paris: OECD.

OECD. 2001d. A Caring World. Paris: OECD.

OECD. 2004a. OECD Employment Outlook 2004. Paris: OECD.

OECD. 2004b. OECD Development Indicators Database.

OECD. 2005. National Account. Paris: OECD.

OECD. 2007. OECD Factbook 2007. Paris: OECD.

Ogawa, N., and Takayama, N. 2007. "Demography and Ageing", In Clark, G. L., Munnel, A. H. and Orszag, J. M. *eds.*, *The Oxford Handbook of Pensions and Retirement Income,* Oxford University Press. pp. 163-182.

Oh, Soo-Mi. 2006. *A Study on the Policy-making Process of Introduction of the Occupational Pension Scheme.* Master Degree thesis of Seoul National University. (Korean text)

Ohkawa, K. and Rosovsky, H. 1973. *Japanese Economic Growth: Trend Acceleration in the Twentieth Century.* London: Oxford University Press.

Ohn, Ki-Sun. 2006. "Necessity of the Foreign Investment Expansion of the NPF", Pension Forum. (summer). pp. 23-26. (Korean text)

Omahe, K. 1990. *The Borderless World.* London: Collins.

ONS. 1999. *Population Trends 98*, Winter, London: The Stationery Office.

ONS. 2002a. *Living in Britain: Result from the General Household Survey 2001.* London: The Stationery Office.

ONS. 2002b. *Marriage, Divorce and Adoption statistics 1998.* London: The Stationery Office.

Oorschot, W. 1999. "Targeting Welfare: On the Functions and Dysfunctions of Means-Testing in Social Policy", In Townsend, P. and Gordon, D. *eds.*, *World Poverty: New Policies to Defeat an Old Enemy.* Bristol: Bristol Policy Press.

Orenstein, M. A. 2003. "Mapping the Diffusion of Pension Innovation", In Holzmann, R., Orenstein, M. and Rutkowski, M. *eds.*, *Pension Reform in Europe: Process and Progress*, Washington. D. C.: World Bank. pp. 171-193.

Orenstein, M. A. 2005. "The New Pension Reform as Global Policy". *Global Social Policy.* Vol. 5. No 1. pp. 175-202.

Orszag, J. M. and Sand, N. 2007. "Corporate Finance and Capital Market", In Clark, G. L., Munnel, A. H. and Orszag, J. M. *eds.*, *The Oxford Handbook of Pensions and Retirement Income,* Oxford University Press. pp. 399-414.

Orszarg, P. and Stiglitz, J. E. 2001. "Rethinking Reform: Ten Myths about Social Security System", In Holzmann, R. and Stiglitz, J. E. *eds.*, *New Ideas about Old Age Security*, Washington, D.C.: World Bank.

Palacios, R. 2002. "Managing Public Pension Reserves, Part 2: Lessons from Five Recent OECD Initiatives", World Bank Pension Reform Primer Working Paper Series. Washington D.C.: World Bank.

Palacios, R. and Pallares-Miralles, M. 2000. "International Patterns of Pension

Provision, Human Development Network", Social Protection Working Paper Series. World Bank, Washington D.C.

Palacios, R. and Whitehouse, E. 1998. "The Role of Choice in the Transition to a Funded Pension System", Social Protection Discussion paper No. 9812. Washington, D. C.: World Bank.

Palier, B, and Sykes, R. 2001. "Challenges and Change: Issues and Perspectives in the Analysis of Globalization and the European Welfare States", In Sykes, R., Palier, B. and Prior, P M. *eds., Globalization and European Welfare States*, London: Palsgrave, pp. 1-16.

Palley, T. I. 2005. "From Keynesianism to Neo-liberalism: Shifting Paradigms in Economics", In Saad-Filho, A. and Johnston, D. *eds., Neo-liberalism: A Critical Reader*, London: Pluto Press. pp. 20-29.

Palmer, E. 2000. "The Swedish Pension Reform Model: Framework and Issues", World Bank Pension Reform Primer Series. http://www.worldbank.org/pensions

Palmer, E. 2002. "Swedish Pension Reform: How Did It Evolve, and What Does It Mean for the Future", In Feldstein, M. and Siebert, H. *eds., Social Security Pension Reform in Europe*, Chicago and London: The University of Chicago Press.

Palmer, E. 2006a. "What is NDC?", In Holzmann, R. and Palmer, E. *eds., Pension Reform through NDCs: Issues and Prospects for Non-financial Defined Contribution Schemes.* Washington, DC: World Bank.

Palmer, E. 2006b. "Conversion to NDCs - Issues and Models", In Holzmann, R. and Palmer, E. *eds., Pension Reform through NDCs: Issues and Prospects for Non-Financial Defined Contribution Schemes*. Washington, DC: World Bank.

Pang, Ha-Nam. and Sin, Ki-Chul. 2002. *Study on the Improvement Plan of the Occupational Pension System Ⅱ*. Korean Labour Institute.

Park, Kyung-Sook. 2003. *Ageing Society, Already Processing Future*. Seoul: Eu-Am. (Korean text)

Park, Keong-Suk. 2007. "Family, Labor and Social Policy in Later Life in Contemporary Korean Society", Paper presented at International Conference on Public and Private Old –age Security arrangement in Asia and Europe. 5th-8th. September, Den Haag.

Peck, J. 2001. *Workfare States*. New York: Guilford Press.

Peck, J. and Tickell, A. 2002. "Neo-liberalizing Space". *Antipode*. Vol. 34. No. 3. pp. 380-404.

Peck, J. and Tickell, A. 2007. "Conceptualizing Neo-liberalism, Thinking Thatcherism", In Leitner, H., Peck, J. and Sheppard, E. S. *eds., Contesting Neo-liberalism: Urban Frontiers*. New York and London: The Guilford Press. pp. 26-50.

Peet, R. *et al.* 2003. *Unholy Trinity*. London: Zed Books.

Pestieau, P. 1992. "The Distribution of Private Pension Benefits: How Fair Is It?", In OECD. *eds., Private Pensions and Policy*, Paris: OECD.

Philipson, C. 1999. "The Social Construction of Retirement: Perspectives from Critical Theory and Political Economy", In Minkler, M. and Ester, C. L. *eds., Critical Gerontology*. New York: Baywood Publishing Company.

Philipson, C. 2003. "Globalization and the Future of Ageing: Developing a Critical Gerontology". *Sociological Research*. Vol. 8. No. 4. at http://www.socresonline.org.uk/8/4/phillipson.html.

Pierson, P. 1994. *Dismantling the Welfare State? : Reagan, Thatcher and Politics of Retrenchment.* Cambridge. Cambridge University Press.

Pierson, P. 1996. "The New Politics of the Welfare State". *World Politics*. Vol. 48. pp. 143-79.

Pierson, P. 1997. "The Politics of Pension Reform", In Banting, K. and Boadway, R. *eds., Reform of Retirement Income Policy: International and Canadian Perspectives*, Kingston, Queen's University, School of policy studies.

Pierson, P. 1998. "Irresistible Forces, Immovable Objects: Post-industrial Welfare States Confront Permanent Austerity". *Journal of European Public Policy.* Vol. 5. No. 4. pp. 539- 560.

Pierson, P. 2001. "Coping with Permanent Austerity. Welfare State Restructuring in Affluent Democracies", In Pierson, P. *eds., The New Politics of the Welfare State,* Oxford: Oxford University Press.

Pierson, P. 2004. *Politics in Time*. Princeton and Oxford: Oxford University Press.

Pirie, I. 2008. *The Korean Developmental State: From Dirigisme to Neo-liberalism.* London and New York: Routledge.

Pizzuti, F. R. 2000. "A Political Economy Approach to Pension Financing", In Hughes, G, and Stewart, J. *eds., Pensions in the European Union: Adapting to Economic and Social Change*. London: Kluwer Academic Publishers.

Przeworski, A. 1987. "Methods of Cross-national Research 1970-1983", In Dierkes, M., Weiler, H. and Antal, A. *eds., Comparative Policy Research: Learning from Experience.* Aldershot: Gower and Berlin: WZB.

Putnam, R. 1988. "Diplomacy and Domestic Politics: The Logic of Two-Level Games", *International Organization*. Vol. 42. pp. 427-460.

Queisser, M. and Vittas, D. 2000. *The Swiss Multi-Pillar System: Triumph of Common*

Sense? World Bank, Development Research Group, Washington.

Quilgars, D. and Abbott, D. 2000. "Working in the Risk Society". *Community, Work and Family.* Vol. 3. No. 1. pp. 15-36.

Rainwater, L., Rein, M. and Schwartz, J. 1986. *Income Packaging in the Welfare State: A Comparative Study of Family Income.* Clarendon Press.

Ranis, G., Vreeland, J. R. and Kosack, S. 2006. *Globalization and the National State: The Impact of the IMF and the World Bank.* Oxon: Routledge.

Rawls, J. 1971. *A Theory of Justice.* Cambridge, Massachusetts: Harvard University Press.

Reich, R. 1991. *The Work of Nations.* New York: Octagon Books.

Rein, M. and Turner, J. 1999. "Work, Family, State and Market: Income Packaging for Older Households". *International Social Security Review.* Vol. 52, No. 3. pp. 93-106.

Rein, M. and Turner, J. 2004. "How Societies Mix Public and Private Spheres in Their Pension System", In Rein, M. and Schmähl, W. *eds., Rethinking the Welfare States: The Political Economy of Pension Reform.* Cheltenham and Northampton: Edward Elgar. pp. 251-293.

Rein, M. and Wadensjö, E. 1997. "The Emerging Role of Enterprise in Social Policy", In Rein, M. and Wadensjö, E. *eds., Enterprise and the Welfare State.* Edward Elgar.

Reynaud, E. 2000. "Introduction", In Hughes, G. and Stewart, J. *eds., Pensions in the European Union; Adapting to Economic and Social Change.* Kluwer Academic Publishers Group.

Rimlinger, G. V. 1971. *Welfare Policy and Industrialization in Europe, America, and Russia.* New York: Wiley.

Robinson, R. 2006. "Neo-liberalism and the Market State: What is the Ideal Shell?", In Robinson, R. *eds., The Neo-Liberal Revolution: Forging the Market State.* Hampshire: Palgrave MacMillan. pp. 3-19.

Robinson, R., Beeson, M., Jayasuriya, K. and Kim, H. *eds.*, 2000. *Politics and Markets in the Wake of the Asian Crisis.* London: Routledge.

Rodriguez, M. J. 2002. "Introduction: For a European Strategy at the Turn of the Century", In Rodriguez, M. J. *eds., The New Knowledge Economy in Europe: A Strategy for International Competitiveness and Social Cohesion,* Cheltenham and Northampton: Edward Elgar.

Rodrik, D. 1998. "Why Do More Open Economies Have Bigger Governments?". *Journal of Political Economy.* Vol. 106. No. 5. pp. 997-1032.

Rosanvallon, P. 2000. *The New Social Question: Rethinking the Welfare State.* Princeton: Princeton University Press.

Saad-Filho, A. and Johnston, D. 2005. "Introduction", In Saad-Filho, A. and Johnston, D. *eds., Neo-liberalism: A Critical Reader*. London: Pluto Press. pp. 1-6.

Salou, J. 2004. "Global Pension Statistics Project: Measuring the Size of Private Pensions with an International Perspective". *OECD Financial Market Trends.* Vol. 87. pp. 229-39.

Salou, J. 2005. "Global Pension Statistics Project: Data Update". *OECD Financial Market Trends*. Vol. 88. pp. 191-4.

Samuelson, P. 1958. "An Exact Consumption-loan Model of Interest with or without the Social Contrivance of Money". *Journal of Political Economy.* Vol. 66. pp. 467-482.

Scharpf, F. W. 1997. *Games Real Actors Play: Actor-centered Institutionalism in Policy Research*. Boulder: Colorado.

Scharpf, D, and Schimidt, V. 2000. *Welfare and Work in the Open Economy*. Oxford: Oxford University Press.

Schludi, M. 2005. *The Reform of Bismarckian Pension Systems: A Comparison of Pension Politics in Austria, France, Germany, Italy and Sweden.* Amsterdam University Press.

Schmähl, W. 2000. "Pay-As-You-Go Versus Capital Funding: Towards a More Balanced View in Pension Policy - Some Concluding Remarks", In Hughes, G.. and Stewart, J. *eds., Pensions in the European Union; Adapting to Economic and Social Change*. Kluwer Academic Publishers Group.

Schmähl, W. 2002. "Introduction: Design of the Analysis, its Methodological Approach and Basic Decisions in Designing Pension Schemes", In Schmähl, W. and Horstmann, S. *eds., Transformation of Pension Systems in Central and Eastern Europe*, Edward Elgar.

Schmähl, W. 2004. "Paradigm Shift in German Pension Policy", In Rein, M. and Schmähl, W. *eds., Rethinking the Welfare States: The Political Economy of Pension Reform*, Cheltenham and Northampton: Edward Elgar. pp. 153-204.

Schokkaert, E. Van Parijs, P. 2003. "Debates on Social Justice and Pension Reform". *Journal of European Social Policy.* Vol. 13. No. 3. pp. 245-263.

Scholte, J, A. 1996. "Beyond the Buzzword: Towards a Critical Theory of Globalization", In Kofman, E. and Young, G. *eds., Globalization: Theory and Practice,* London: Pinter. pp. 43-57.

Schwartz, H. 2001. "Round up the Usual Suspects! Globalization, Domestic Politics, and Welfare State Change", In Pierson, P. *eds., The New Politics of Welfare State.* Oxford: Oxford University Press.

Scott, D. 2000. *Reading Educational Research and Policy.* London: RoutledgeFalmer.

Sen, A. 1992. *Inequality Reexamined.* Harvard University Press.

Sen, A. 1995. "The Political Economy of Targeting", In Van De Walle, D., and Neads, K. *eds., Public Spending and the Poor.* Baltimore and London. Johns Hopkins University Press.

Sen, A. 1999. *Development as Freedom.* New York: Anchor Books.

Sen, A. 2002. "How to Judge Globalism", *The American Prospect.* Vol .13. No. 1.

Seok, Jae-Eun. 2000. *Analysis of the Older Population Income State and Research for the Improvement of the Income Security System.* Korean Health and Welfare Institute. (Korean text)

Seok, Jae-Eun. 2002. "Restructuring of Older Population - Age Income Maintenance System and Development Direction of the Seniority Pension Scheme in Korea". *Korean Journal of Social Welfare.* Vol. 50. pp. 235-263. (Korean text)

Seok, Jae-Eun. 2003. "Exclusion and Pension Reform". *2003 National Pension Financial Calculation and System Improvement Plan.* The National Pension Development Institute. (Korean text)

Seok, Jae-Eun. 2004. "Gender - Pension Gap and Pension Security for Women". *The Research on Health and Society.* Vol. 24. No. 1. (Korean text)

Seok, Jae-Eun. 2006. "Women and Poverty", In Korea Center for City and Environment Research *et al., New Poverty in Korea*, Seoul: Hanul. pp. 247-297. (Korean text)

Seok, Jae-Eun, and Kim, Tae-Wan. 2000. *Analysis of Actual State of Older Population Income and its Improvement of Income Security System.* Korean Institute of Health and Welfare. (Korean text)

Sethi-Iyengar, S. 2003. "How Much Choice is Too Much?", Paper Presented at Developments in Decision-Making under Uncertainty: Implications for Pensions , Wharton Impact Conference. Pension Research Council, 28-9 Apr.

Shalev, M. *eds.*, 1996. *The Privatization of Social Policy?* Macmillan press LTD.

Shin, Kwang-Young. *et al.* 2003. *The Economic Crisis and Welfare Senses in Korea.* Seoul: GipMoonDang. (Korean text)

Sinfield, A. 2003. "Changing Tax Welfare", paper presented at the ESPAnet Annual Conference. *Changing European Societies – The Role for Social Policy.* 13–15 November, Copenhagen.

Sinn, H-W. 2000. "Why a Funded Pension System is Useful and Why It is Not Useful".

International Tax and Public Finance. Vol. 7. pp. 383-410.

Smeeding, T. M., Rainwater, L. and Burtless, G. 2001. "US Poverty in a Cross-National Context", In Danziger, S. H. and Danziger, R. H, *eds., Understanding Poverty*. Harvard University Press.

Son Ho-Chul. 2005. "Characteristics of Kim Dae-Jung Government's Welfare Reform". *Review of Korean Politics*. Vol. 39. No. 1. pp. 213-231. (Korean text)

Soskice, D. 1999. "Divergent Production Regimes: Coordinated and Uncoordinated Market Economics in the 1980s and 1990s", In Kitschelt, H. *et al. eds., Continuity and Change in Contemporary Capitalism*. New York: Cambridge University Press. pp. 101-34.

Summers, L. 1998. "Opportunities out of Crisis: Lessons from Asia". *Treasury News*. March 19.

Sunden, A. 2007. "Unending Work", In Clark, G. L., Munnel, A. H., and Orszag, J. M. *eds., The Oxford Handbook of Pensions and Retirement Income*. Oxford University Press. pp.702-718.

Sung, Kyu-Tak. 1995. "Filial Duty of Korean and its Differences between Generations". *Korean Gerontology*. Vol. 25. No. 1. pp.1-14. (Korean text)

Sung, Kyung-Ryoong. 2002. "Consolidation of Democracy and Development of Welfare States: Comparison between Civilian Government and National Government", In Kim, Yeon-Myung. *eds., Debates of the Korean Welfare State Nature*. Human and Welfare. (Korean text)

Sung, Myung-Jae. 1999. *The Estimation of the Size of Tax Evasion in the Composite Income Tax and VAT and the Heightening of the Tax Revenue's Estimation*. Korea Institute of Public Finance. (Korean text)

Sylla, R. and Toniolo, G. 1991. "Introduction", In Sylla, R. and Toniolo, G. *eds., Patterns of European Industrialization: The Nineteenth Century,* London: Routledge.

Takayama, N. *eds.*, 2005. *Pensions in Asia: Incentives, Compliance and their Role in Retirement.* Tokyo: Maruzen Co., Ltd.

Taylor, I. 2004. "Hegemony, Neo-liberal 'Good Governance' and the International Monetary Fund: A Gramscian Perspective", In Boas, M. and McNeil, D. *eds., Global Institutions and Development: Framing the World?,* Madison: Routledge. pp. 124-136

Taylor, L. 1997. "The Revival of the Liberal Greed: the IMF and the World Bank". *World Development*. Vol. 25. No. 2. pp.145-152.

Taylor-Gooby, P. 1999 "Policy Change at a Time of Retrenchment: Recent Pension

Reform in France, Germany, Italy and the U.K". *Social Policy and Administration*. Vol. 33. No. 1. pp. 1-19.

Taylor-Gooby, P. and Zinn, J. O. *et al.* 2006. *Risk in Social Science*. New York. Oxford University Press.

Thane, P. 2000. *Old Age in English History: Past Experiences, Present Issues*. Oxford University Press.

Thane, P. 2007. "The History of Retirement", In Clark, G. L., Munnel, A. H. and Orszag, J. M. *eds., The Oxford Handbook of Pensions and Retirement Income.* Oxford University Press. pp. 33-52.

Thatcher, M. 2004. "Winners and Losers in Europeanization: Reforming the National Regulation of Telecommunications". *West European Politics*. Vol. 27. No. 2. pp. 102-27.

Tilly, R. 1991. "Germany", In Sylla, R. and Toniolo, G. *eds., Patterns of European Industrialization: the Nineteenth Century*, London and New York: Routledge. pp. 175-196.

Tonks, I. 2007. "Pension Fund Management", In Clark, G. L., Munnel, A. H., and Orszag, J. M. *eds., The Oxford Handbook of Pensions and Retirement Income,* Oxford University Press. pp. 399-414.

Tosh, J. 2002. *The Pursuit of History: Aims, Methods and New Directions in the Study of Modern History.* London: Longman.

Townsend, P. 1999. "Poverty, Social Exclusion and Social Polarisation: The Needs to Construct an International Welfare State", In Shaver, S. and Sydney, S. P. *eds., Social Policy for the 21st Century: Justice and Responsibility,* Sydney: Social Policy Research Centre.

Townsend, P. 2004. "From Universalism to Safety Nets: The Rise and Fall of Keynesian Influence on Social Development", In Mkandawire, T. *eds., Social Policy in a Development Context*. Hampshire: Palgrave Macmillan. pp. 37-62.

Tsebelis, G. 1995. "Decision Making on Political Systems: Veto Players in Presidentalism, Parliamentalism, Multicameralism and Multipartism". *British Journal of Political science*. Vol. 25. No. 3. pp. 289-325.

Tsebelis, G. 1999. "Veto Players and Law Production in Parliamentary Democracies: An Empirical Analysis". *American Political Science Reviews*. Vol. 93. No. 3. pp. 591-608.

Tsebelis, G. 2002. *Veto Players: How Political Institutions Work*. Princeton: Princeton University Press.

Turner, J. and Watanabe, N. 1995. *Private Pension Policies in Industrialized Countries:*

A Comparative Analysis. W.E.Upjohn Institute for Employment Research.

UN (United Nations). 2004. *World Population Policies 2003.* New York: United Nations.

UNDP. 1999. *Human Development 1999.* Oxford: Oxford University Press.

Useem, M. and Hess, D. 2001. "Governance and Investment of Public Pensions", In Mitchell, O. S. and Hustead, E. C. *eds., Pensions in the Public Sector,* University of Pennsylvania Press.

Vaupel, J. W. and Oeppen, J. 2002. "Broken Limits to life expectancy". *Science* 296.

Vickerstaff, S. and Cox, J. 2005. "Retirement and Risk: The Individualisation of Retirement Experiences?". *Sociological Review.* Vol. 53. No. 1. pp. 77-95.

Vickerstaff, S. 2006. "Life Course, Youth and Old Age", In Taylor-Gooby, P. and Zinn, J. O. *eds., Risk in Social Science.* New York. Oxford University Press. pp. 180-201.

Vobruba, G. 2001. "Coping with Drastic Social Change: Europe and the US in Comparison", In Beck, W., Van der Maesen, L. J. G., Thomese, F. and Walker, A. *eds., Social Quality: A Vision for Europe.* pp. 237-250.

Wade, R. 1998. "From Miracle to Cronyism: Explaining the Great Asian Slump". *Cambridge Journal of Economics.* Vol. 22. No. 6. pp. 693-706.

Wade, R. and Veneroso, F. 1998. "The Asian Crisis: The High Debt Model versus the Wall Street-Treasury-IMF Complex". *New Left Review.* Vol. 228. pp. 3-23.

Walker, A. 1990. "The Economic 'Burden' of Ageing and the Prospect of Intergenerational Conflict". *Ageing and Society.* Vol. 10. No. 4. pp. 377-396.

Walker, A. 2003. "Securing the Future for Old Age in Europe' *Journal of Societal and Social Policy,* Vol. 2, No. 1, pp. 13-32.

Walker, A. and Deacon, B. 2003. "Economic Globalization and Policies on Ageing". *Journal of Societal and Social Policy.* Vol. 2. No. 2. pp. 1-18.

Walker, A. and Walker, C. *eds.,* 1997. *Britain Divided.* London, CPAG.

Weaver, K. 1998. "The Politics of Pensions; Lessons from Abroad", In Arnold, R. R. D. *eds., Framing the Social Security Debate: Values, Politics and Economics,* Washington, D.C.: Brookings Institution Press.

Weaver, K. 2006. "Reforming Public Pension Systems in an Era of Austerity: Is Social Consensus possible?", Paper presented at International Conference for Ageing Population and Pension Reform. 18th-19th December. Seoul.

Weiss, L. 1997. "Globalization and the Myth of the Powerless State". *New Left Review.* Vol. 225. pp. 1-27.

Weiss, L. 2000. "Developmental States in Transition: Adapting, Dismantling, Innovating not Normalizing". *The Pacific Review.* Vol. 13, No. 1.

Weiss, L. *eds.*, 2003. *States in the Global Economy: Bring Domestic Institutions Back In.* Cambridge: Cambridge University Press.

Whiteford, P. and Whitehouse, E. 2006. "Pension Challenges and Pension Reforms in OECD Countries". *Oxford Review of Economic Policy.* Vol. 22. No. 1. pp. 78-94.

Whiteside, N. 2007. "Private Pension and Public Policy: The Public-Private Divide Reappraised", In Clark, G. L., Munnel, A. H. and Orszag, J. M. *eds., The Oxford Handbook of Pensions and Retirement Income.* Oxford University Press. pp. 684-701.

Whyman, P. 2006. "Post-Keynesianism, Socialisation of Investment and Swedish Wage-earner Funds". *Cambridge Journal of Economics.* Vol. 30. pp. 49–68.

Wilensky, H. 1975. *The Welfare State and Equality: Structural and Ideological Roots of Public Expenditures.* Berkeley and Los Angeles: University of California Press.

Williams, D. 1999. "The Self-employed: Providing for the Self-providers". *International Social Security Review.* Vol. 52. No. 1. pp. 7-30.

Willmore, L. 2001. "Three Pillar of Pensions: Is There a Need for Mandatory Contribution", In OECD. *eds., OECD 2000 Private Pensions Conference No. 3.* OECD.

Wise, D. A. 2007. "Early Retirement", In Clark, G. L., Munnel, A. H. and Orszag, J. M. *eds., The Oxford Handbook of Pensions and Retirement Income.* Oxford University Press. pp. 310-335.

Wolfson, M. *et al.* 1998. "Historical Generational Accounting with Heterogeneous Populations", In Corak, M. *eds., Government Finances and Generational Equity.* Ottawa: Statistics Canada. pp. 107-26.

Won, Jong-Hyun. 2006. "Strategic Asset Distribution of the NPF". *Pension Forum.* (Spring). pp. 56-67.

Wood, A. 1995. *North-South Trade, Employment and Inequality.* Oxford: Clarendon Press.

World Bank. 1994. *Averting the Old Age Crisis.* Oxford: Oxford University Press.

World Bank. 1995. *World Development Report 1995.* New York: Oxford University Press.

World Bank. 1998a. Report and Recommendation of the President of the International Bank for Reconstruction and Development to the Executive Directors on a Proposed Structural Adjustment Loan in an Amount Equivalent to US $2.0 Billion to the Republic of Korea (March 19). World Bank Report. No. P-7225-KO.

World Bank. 1998b. Report and Recommendation of the President of the International Bank for Reconstruction and Development to the Executive Directors on a Proposed Structural Adjustment Loan in an Amount Equivalent to US $2.0 Billion to the Republic of Korea (October 2). World Bank Report. No. P-7258-KO.

World Bank. 2000. *East Asia: Poverty and Beyond.* The World Bank, Washington: D.C.

World Bank. 2004. *World Development Indicators*. Washington D. C.: World Bank.

Yang, Jae-Jin. 2001. "Economic Crisis, Policy Nexus and Pension Reform Paradigm: Comparative Study on the Pension Reform in Mexico and Korea". *Korean Administration Bulletin.* Vol. 35. No. 2. pp.63-79. (Korean text)

Yang, Jae-Jin. 2002. "The Economic Crisis, Policy Network and Pension Reform Paradigm: Comparative Study on the Mexican and Korean Pension Reforms". *Korean Administration Research*. Vol. 35. No. 2. pp. 63-79. (Korean text)

Yang, Jae-Jin. 2004. "Democratic Governance and Bureaucratic Politics: A Case of Pension Reform in Korea". *Policy and Politics*. Vol. 32. No. 2.

Yang, Jae-Jin. 2007. "The Policymaking Process of the National Welfare Pension Scheme Revisited". *Journal of Korean Association of Governance*. Vol. 14. No. 1. pp. 87-108. (Korean text)

Yoo, Chul-Gyu. 2007. "A Symptomatic Analysis of the Financialization Process in Korea: The Linkage among the IMF's Financial Reform, KORUS FTA, and the CMC Act". *Tendency and Prospect*. Vol. 71. pp. 205-227. (Korean text)

Yoon, Seok-Myung. 2003. "The Plan for the Finance Stabilization of the NPS", *2003 National Pension Financial Calculation and System Improvement Plan.* The National Pension Development Institute. (Korean text)

Yoon, Seok-Myung. 2004. "Trend of the Foreign Pension reform and Korean Pension Reform Alternatives: Parametric Reform". Autumn Conference of Korean Social Security Institute. 22nd October 2004. (Korean text)

Yoon, Seok-Myung. 2007. "Development Plan of the Public Pension". Periodic Academic Conference of the Korean Social Policy Institute. Seoul. 6th, December. (Korean text)

(Korean Newspaper)

Chosun Ilbo. 2004. 21st november 2004
Chosun Ilbo. 2007b. 11th june 2007.
Chosun Ilbo. 2007a. 18th june 2007.
Daily economy. 2000. 18th April 2000.
Daily economy. 2001. 8th february 2001.
Daily economy. 2003 10th november 2003.
Daily economy. 2005b. 6th january 2005
Daily economy. 2005a . 11th july 2005.
Daily economy. 2007a. 10th june 2007
Daily economy. 2007b. 13th july 2007
Daily economy 2008. 18th May 2008.
DongA Ilbo. 2007. 1st july 2007.
Incruit. 2007. Expected retirement age and retirement type. (May).
Tomorrow newspaper. 2007. 12th july 2007.
Yeonhap News.2007. 20th july 2007

Appendix 1. None Old-Age Pension Benefits in the NPS

(1) Disability pension benefit

Disability pension benefits are paid on the basis of the degree of disability and base pension as follows:

Disability grade	Benefit level
Grade 1	100% of Base pension benefit + family pension benefit
Grade 2	80% of Base pension benefit + family pension benefit
Grade 3	60% of Base pension benefit + family pension benefit
Grade 4	(Lump-sum benefit) 225% of Base pension benefit

(2) Survivor pension benefit

The NPS law defines the scope of the survivors who can receive survivor pension benefits as follows:

① Spouse (Husband must be over 60 years old or have disability grade over the second grade) ② children (They must be less than 18 years old or have disability grade over the second grade) ③ parents (The parents of spouse are included. They must be over 60 years old or have disability grade over the second grade) ④ grandchildren (They must be less than 18 years old or have disability grade over the second grade) ⑤ grandparents (The grandparents of spouse are included. They must be over 60 years old or have disability grade over the second grade).

The spouse has priority in receiving the benefits. If the spouse does not have the right to receive them, children have the next priority. The benefits are paid on the basis of base pension and participating period prior to the death.

Participating period	Benefit level
Less than 10 years	40% of Base pension benefit + family pension benefit
Between 10 and 20 years	50% of Base pension benefit + family pension benefit
More than 20 years	60% of Base pension benefit + family pension benefit

(3) The return lump-sum benefit

This is a benefit that is paid to members or their survivors when the entitlement was deprived without completing the entitlement of pension benefit. It is paid when the current or previous members in the NPS do not meet the entitlement condition and withdraws from the NPS. The condition where it can be obtained is as follows: ① when members reach at the age of 60 with participating years of less than 10 years; ② when they lose citizenship or emigrates to other country; and ③ when they participate in one of three specific pensions.

Appendix 2. Conditions and Levels of Old Age Pension Benefit in NPS

	Entitlement condition	Participating period or age		Benefit level
Complete old age pension	Contribution over for 20 years, and 60 years old (person who is less than 65 years old should not have income)	Participating period	Over 20 years	Base pension benefit (A) + family pension benefit (B)
Reduced old age pension	Contribution between 10 and 20 years, and 60 years old (person who is less than 65 years old should not have income)	Participating period	10years	47.5% of A + B
			11years	52.5% of A + B
			12years	57.5% of A + B
			13years	62.5% of A + B
			14years	67.5% of A + B
			15years	72.5% of A + B
			16years	77.5% of A + B
			17years	82.5% of A + B
			18years	87.5% of A + B
			19years	92.5% of A + B
Early old age pension	Contribution over for 10 years, and over 55 years old (person who wants early pension benefit when s/he does not have income activity)	Entitlement age	From 55	(47.5%+0.05n) by 75% of A + B
			From 56	(47.5%+0.05n) by 80% of A + B
			From 57	(47.5%+0.05n) by 85% of A + B
			From 58	(47.5%+0.05n) by 90% of A + B
			From 59	(47.5%+0.05n) by 95% of A + B (n: the number of participating years over 10 years)

Incumbent old age pension	Contribution over for 10 years, and between 60 and 65 years old (person who has income activity)	Entitlement age	 At 60 At 61 At 62 At 63 At 64	* in the case the participating period is longer than 20 years 50% of A 60% of A 70% of A 80% of A 90% of A (in case the participating period is between 10 and 20 years, the benefit is calculated by the base pension benefit multiplied by (47.5%+0.05n))
Divided old age pension	Divided old age pension is provided for old age pension earners and divorced spouse over 60 years. If the marriage period has been over 5 years and a spouse who has old age pension entitlement is divorced or the spouse receives the entitlement of old age pension after divorce, the pension benefit obtained during marriage period is halved.			

Note: In addition, there is special old age pension. It is for the people who do not meet the minimum participating period because of old age when the NPS was first introduced in 1998. Farmers were included in 1995, and the regional members in 1999. However, as the system matures, it will disappear.

Appendix 3. Benefit Formula in the Specific Pension Schemes

(1) Retirement pension benefit (annuity) = (A by 0.5) + (A by 0.02 by (n-20))

Note: n = Number of the contribution year. $20 \leq n \leq 33$

A = Average earnings of the member for the final 3 years.

(2) Lump sum retirement allowance = (if $n \leq 5$) A by n by 1.2

(if $n \geq 5$) A by n by 1.5 + A by n by (n-5)/100

Note: n = Number of the contribution year.

A = Average earnings of the member for the final 3 years.

(3) Lump-sum (Mix with the annuity and lump sum allowance) = A by B by 1.5 + A by B/100

Note: B is a part of the number of years which exceeds 20 years. N-20-B>0

In the case of choosing the mix with the annuity and lump sum allowance, the member can choose B, but 'N-20-B' should be above zero. When mix with the annuity and lump sum allowance is chosen, the annuity is decreased to (A by 0.5) + (A by 0.02) by (n-20-B).

In addition, all members receive the retirement allowance when they retire.

Retirement allowance= A by n by provision ratio (The ratio depends on the participating period)

Glossary

Absolute poverty

A measure of absolute poverty quantifies the number of people below a poverty threshold, and this poverty threshold is independent of time and place. For the measure to be absolute, the line must be the same in different countries, cultures, and technological levels. Such an absolute measure should look only at the individual's power to consume and it should be independent of any changes in income distribution.

Actuarial fairness

Actuarial fairness dictates that you pay according to your risks. If an insurer ignores information about you, information that indicates you have a higher risk than someone else, actuarial fairness says this would be unfair. Specifically, it is unjust to the other person, the individual with lower risks who is, in effect, paying for your risks as well as his or her own.

BOPS

The Basic Old-Age Pension Scheme (BOPS) replaced the existing the Seniority Pension Scheme (SPS) which had been an additional public assistance for the poor old in 2007. The non-contributory pension scheme extends its coverage to 60% of the current old and is expected to help to relieve the current increasing poverty of older population.

Crony capitalism

Crony capitalism is a pejorative term describing an allegedly capitalist economy in which success in business depends on close relationships between business, people and government officials. It may be exhibited by favoritism in the distribution of legal permits, government grants, special tax breaks, and so forth.

Crony capitalism is believed to arise when political cronyism spills over into the business world; self-serving friendships and family ties between businessmen and the government influence the economy and society to the extent that it corrupts public-serving economic and political ideals.

DB

A traditional defined benefit (DB) plan is a plan in which the benefit on retirement is determined by a set formula, rather than depending on investment returns.

Traditionally, retirement plans have been administered by institutions which exist specifically for that purpose, by large businesses, or, for government workers, by the government itself. A traditional form of defined benefit plan is the final salary plan, under which the pension paid is equal to the number of years worked, multiplied by the member's salary at retirement, multiplied by a factor known as the accrual rate. The final accrued amount is available as a monthly pension or a lump sum.

DC

In a defined contribution plan, contributions are paid into an individual account for each member. The contributions are invested, for example in the stock market, and the returns on the investment (which may be positive or negative) are credited to the individual's account. On retirement, the member's account is used to provide retirement benefits, often through the purchase of an annuity which then provides a regular income. Defined contribution plans have become widespread all over the world in recent years, and are now the dominant form of plan in the private sector in many countries.

Dependency ratio

In economics and geography the dependency ratio is an age-population ratio of those typically not in the labour force (the dependent part) and those typically in the labor force (the productive part). In published international statistics, the dependent part usually includes those under the age of 16 and over the age of 64. The productive part makes up the population in between, ages 16 - 64. It is normally expressed as a percentage.

Generational accounting

Generational accounting is a bookkeeping calculation method of the revenue and expenditure of the government for an average member of a generation over life time. This concerns current as well as future generations. The calculation shows how government policy, e.g. with respect to government budget balance and government debt, influences the welfare of generations. Their, often conflicting, interests are made explicit.

GEPS

The Government Employee Pension Scheme (GEPS) is the first Korean public pension introduced in 1960. It has been developed as a means to maintaining the privileges of government employees.

Globalization

Globalization in its literal sense is the process of transformation of local or regional phenomena into global ones. It can be described as a process by which the people of the world are unified into a single society and function together

This process is a combination of economic, technological, sociocultural and political forces. Globalization is often used to refer to economic globalization, that is, integration of national economies into the international economy through trade, foreign direct investment, capital flows, migration, and the spread of technology.

Grey literature

Grey literature is a term used variably by the intelligence community, librarians, and medical and research professionals to refer to a body of materials that cannot be found easily through conventional channels such as publishers.

Examples of grey literature include technical reports from government agencies or scientific research groups, working papers from research groups or committees, white papers, or preprints. The term grey literature is often, but not exclusively, used for scientific research.

The identification and acquisition of grey literature poses difficulties for librarians and other information professionals for several reasons. Generally, gray literature lacks strict bibliographic control, meaning that basic information such as author, publication date or publishing body may not be easily discerned.

Implicit debt

Government 'implicit' debt is the 'promise' by a government of future payments from the state. Usually long term promises of social payments such as pensions and health expenditure are what is referred to by this term; not promises of other expenditure such as education or defense (which are largely paid on a *'quid pro quo'* basis to government employees and contractors, rather than as "social welfare", including welfare *per se*, to the general population).

Keynesianism

Keynesianism is a macroeconomic theory based on the ideas of 20th-century British economist John Maynard Keynes. Keynesian economics argues that private sector decisions sometimes lead to inefficient macroeconomic outcomes and therefore advocates active policy responses by the public sector, including monetary policy actions by the central bank and fiscal policy actions by the government to stabilize output over the business cycle.

LRA

The Lump-sum Retirement Allowance (LRA) was introduced in 1953 as a voluntary system and had expanded its coverage. When there were few social security provisions, it played a role in pension benefits, unemployment benefits and sick allowance. Although the occupational pension scheme introduced in 2005 has been replacing the LRA, it still remains in many companies.

MPPS

The Military Personnel Pension Scheme (MPPS) for the armed force which had been included in the GEPS was separated in 1963 and its system design is similar to the GEPS.

NDC pension scheme

NDC systems are accounting devices that treat a PAYG system like a defined contribution (DC) system. Pension benefits are paid out of current contributions like in a conventional PAYG system, but the link between benefits and contributions is individualized and defined by the NDC accounting mechanism. Accordingly, a pure NDC system is likely to be regarded as a special form of a pure PAYG system. In real life, almost PAYG systems, and especially NDC systems, have a buffer fund, which make them mixed PAYG-funded systems.

Neo-liberalism

Neo-liberalism is a late-twentieth-century philosophy, actually a continuance and redefinition of classical liberalism, influenced by the neoclassical theories of economics. However, neo-liberalism is not an ideology on the basis of the firm principle or rule but an ideology to maximize the wealth/income for the minority (capitalists, creditors or shareholders). Accordingly, they modified their principles *per se* whenever the path to increase their own wealth/income changed.

After all, it is no wonder that the principle of non-intervention which early neo-liberalism had pursued was abolished in the 1990s. Once the natural limits of the negative phase of neo-liberalism had been reached, a more 'positive' or proactive policy was called for.

NPF

The National Pension Fund (NPF) is a public pension fund accumulated under the NPS. Due to the funded design of the NPS its size is huge - the 4th biggest pension fund over the world.

NPS

The National Pension Scheme (NPS) for the general public, the most important scheme in Korean old age income security, was introduced in 1988. Although the pension reforms in 1998 and 2007 rapidly reduced income replacement ratio, its influence on Korean old age income security is still large.

NPSS

The National Pension Saving Scheme (NPSS) will be introduced in the UK to reduce transaction costs through centralized management.

PAYG

PAYG (Pay-As-You-Go)-financing is a financing mechanism based on generational solidarity. This means that the contributions of the current workers are used for the pension benefits of current pensioners.

Passivity ratio

The passivity ratio (the ratio of retirement lifetime to working lifetime) is a base for calculation of income necessary to finance consumption during retirement and, thus, a base for calculation of savings (contributions) during the working lifetime. For many individuals the passivity period depends on the retirement age and the life-span but it could be shorter for individuals remaining employed after reaching the retirement age or it could be longer for those who, for various reasons, start receiving social benefits before reaching the retirement age.

Political economy

There is controversy over the nature of political economy. While orthodox economics (neo-classical economics) regards its own theoretical approach – model-driven 'pure economics' – as political economy, the term 'political economy' that non-neoclassical (institutionalist, post-Keynesian, neo-Ricardian, radical political economy) and particularly Marxist make use of is very different from that of neo-classical economics. To the latter the main focal points of political economy which have been discarded by neoclassical economics are the primacy of production over relations of exchange, value theory, social classes and the interrelationship between the economic and the political sphere. In the social policy, the term 'political economy' is usually regarded as the latter.

PPM

The Premium Pension Authority (PPM) was introduced to manage the Swedish individual account scheme to reduce transaction costs through centralized management.

PSTPS

The Private School Teachers Pension Scheme (PSTPS) for private school teachers was introduced in 1975 and its system design is similar to the GEPS.

Relative poverty

A measure of relative poverty defines 'poverty' as being below some relative poverty threshold. For example, the statement that 'households with an accumulated income less than 50% of the median income are living in poverty' uses a relative measure to define poverty. In this system, if everyone's real income in an economy increases, but the income distribution stays the same, then the rate of relative poverty will also stay the same.

Washington consensus

The term Washington Consensus was described as a set of ten specific economic policy prescriptions that it was considered to constitute a 'standard' reform package promoted for crisis-wracked developing countries by Washington D.C based institutions such as the IMF, World Bank and the U.S. Treasury Department.

The term has come to be used in a different and broader sense, as a synonym for market fundamentalism; in this broader sense, it has been criticized by writers such as George Soros and Nobel Laureate Joseph E. Stiglitz. The Washington Consensus is also criticized by others such as some Latin American politicians and heterodox economists. The term has become associated with neo-liberal policies in general and drawn into the broader debate over the expanding role of the free market, constraints upon the state, and US influence on other countries' national sovereignty.