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State Interests and Welfare Policymaking: Four Major Phases in the Development of the Korean Health Insurance Program †

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Abstract

This study examines how state interests and welfare policymaking is interrelated in the development of the Korean health insurance program. The main argument of this article is that welfare provisions can be employed at a given historical juncture by an autonomous state willing to pursue its own specific interests independent of an actual resource base or societal demands. By analyzing four major phases in the historical trajectory of the health insurance program in Korea, we argue that economic considerations and the need to respond to a political legitimacy crisis, or both of these factors combined, are the main influence on the timing and main contents of the relevant legislation. State bureaucrats, key policymakers, and presidents in particular, have identified a health insurance program as key objective for policy goals, even without pressure emanating from the public, and have been highly autonomous in designing actual legislation. With regards to the future study of Korean welfare provisions, our view is that the changes in the state-society relationship in Korea which have taken place since the late 1980s have ushered in a new theoretical task, that of ascertaining whether the "major" theoretical perspectives in welfare state research can be applied to the Korean case.

Key words: *welfare state, state-centered approach, Korean national health care*

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I. Introduction

A number of scholars have pointed out that until recently most studies have emphasized the socioeconomic roots of the determinants of welfare provisions (e.g., economic development, urbanization, the political influence of the working class, and civil unrest) while treating states as if they were merely arenas in which political conflicts unfolded, or as passive administrative apparatus to be used to achieve the ends of any social group that gains governmental or political power (Flora & Alber, 1981; Orloff & Skocpol, 1984; Skocpol & Amenta, 1986b; Weir, Orloff, & Skocpol, 1988). Accordingly, these authors have raised the need for a perspective which analyzes situations in which the state or government plays a more active and constitutive role in articulating policy outcomes. They suggest that the state has its own interests and capacities that cannot simply be reduced to the interests or demands of a variety of social groups.

According to this perspective, modern welfare policies have not been simple responses to the socioeconomic dislocations of industrialism; nor straightforward concessions to the demands of trade unions, working class-based parties, or forward thinking capitalists. Rather, those policies can best be understood as having been put into effect by groups of political executives, civil administrators, and political party leaders, who tend to behave in accordance with their own needs and interests (Skocpol & Ikenberry, 1983; Skocpol, 1985; March & Olson, 1989).

Two major theories of the welfare state, the industrialization and social democratic perspectives, argue that the development of the welfare state depends on the level of economic development and

the political power of labor organizations or the existence of leftist parties. However, Korea legislated its first health insurance act in 1963, the Workmen's Compensation Act, at a time when it was one of the poorest nations in the world and labor organizations were suppressed. In the early 1960s when health insurance was first discussed in Korea, the country had yet to recover from the Korean War, and per capita income had only reached about $100 by 1963. Furthermore, the Korean labor movement in the early 1960's was being severely repressed by the military government (Sohn, 1989). These particular circumstances of Korea prompted us to ask two important theoretical and empirical questions: first, how can the emergence of the Korean health insurance program be understood? Can the industrialization and social democratic perspectives provide us with a sensible explanation for the Korean case? Second, what social structural and political factors emerged as main determinants of the evolving contents of this program between 1963 and early 1990s?

To bridge this theoretical and empirical gap, this study utilizes the "state-centered perspective" to understand the development of the National Health Insurance Program (NHIP hereafter) in Korea. More specifically, we attempt to analyze both the timing and main outcome of the four major developments which occurred in 1963, 1977, 1981, and 1988 with regards to the NHIP. Since the policymaking process surrounding the NHIP, from agenda setting to policy enactment, has been dominated by a strong and autonomous Korean state, the state-centered perspective offers us insight into how the health insurance program has been implemented within the context of the state's interests at a particular historical juncture.

Most scholars examining welfare provisions in Korea agree that

the development of the NHIP can be divided into four distinct phases. The first was the preliminary phase (1961 to 1977), during which time health insurance was an experimental program in which only a limited number of people participated. The second phase began in 1977 when the NHIP became compulsory in some industrial sectors. The number of people covered by the NHIP increased sharply during this second period. During the third phase in the early 1980s, the NHIP was the source of a major battle between state institutions over operational structures. The NHIP finally became universal in 1988, and by 1990 it was covering nearly 90 percent of the population, with the rest covered by the Health Assistance Program, a non-contributory program for the poor. The primary purpose of this study is to provide a theoretical framework through which the developmental trajectory of the Korean health insurance program can be accurately understood.

This paper unfolds in the following fashion. The first section introduces the main notions and theoretical debates associated with major perspectives, including the state-centered perspective, in the discipline of welfare state research. In the second section, a detailed discussion of the four major phases which have taken place with regards to the NHIP is undertaken, with the central role played by the Korean state pursuing its own specific interests via the program highlighted. In the final section of the paper, suggestions pertaining to the future study of welfare state provisions are introduced.

II. Critical Review of Welfare State Theories

In this section, we will briefly review major perspectives on welfare state development in the Western context. First and foremost, *the logic of industrialization*, which was developed in the 1950s and 1960s, is the earliest perspective on the origin and variations of the welfare state among nations. The general argument is that industrialization, modernization, and urbanization weaken traditional social institutions (e.g., family), while creating a rootless and urbanized working class. In response to the exogenous logic of industrial development, the state must respond with social welfare spending to the needs of groups adversely affected by industrialization. Its bureaucratic outcomes make it possible for the state to respond to these problems and new needs (Kerr et al., 1964; Jackman, 1975; Wilensky, 1975; Form, 1979; Cowgill, 1980). In many comparative studies, the logic of industrialization also argues that all countries that experience a similar level of industrialization and urbanization process will show increasing signs of social and political convergence (Cutright, 1967; Jackman, 1975; Wilensky, 1975).

Despite robust empirical supports, the logic of industrialization has been criticized by a number of scholars (Flora & Alber, 1981; Castels, 1982) on the grounds that they are based on the idea of evolutionary convergence of all modernizing societies on pluralistic industrialism. According to their critics, these theories cannot explain the specific timing and variations of social welfare programs between nations (Amenta & Skocpol, 1986a; Orloff, 1993). Furthermore, why some countries provide more progressive and redistributive social policies than others cannot be explained, even though they share a similar level of industrialization.

Second, classical Marxist and neo-Marxists also provided their own explanations on welfare state development. A group of scholars in *the neo-Marxist tradition* (Offe, 1984; O'Connor, 1988) describe the development of the welfare state in terms of the contradictions of capitalism. According to them, the capitalist state has two contradictory functions: accumulation and legitimation. On the one hand, the capitalist state must serve the interests of capital, but on the other hand, it must maintain the social legitimacy of the system. In this context, social policy is understood as a mechanism of legitimation to maintain social harmony and further allow monopoly capital accumulation in capitalist society. Legitimation efforts such as social welfare programs, however, must be kept within boundaries in order not to hamper accumulation.

While neo-Marxist theorists have advanced an understanding of the structural character of the relationship between social policy and capitalism that the logic of industrialization simply juxtaposed, the neo-Marxist explanations of social policy have been under criticism due to their exclusive focus on the politics of legitimation in terms of economic or class inequality. It seems that the proponents of this explanation simply assume that the crisis of legitimation of the capitalist state results only from the product of the capitalist mode of accumulation. However, the legitimacy crisis of a system can come from a variety of sources. For instance, many developing nations in the Third World have experienced crises of legitimacy due to a deficiency of democracy, and it was at these times that many welfare reforms occurred. This problem results primarily from the theoretical scope of the theory, i.e., the neo-Marxist theory of the welfare state implicitly applies to advanced industrial democracies. Nonetheless, Marxist theories of the welfare state allow us to understand the underlying structural

motivations of social policy as well as the limits of social policy in relation to capitalist political economy.

Third, while those theories mentioned above tend to emphasize the role of economic factors on welfare state development, *theories of democratic politics* generally focus on the independent influence of the political activities of various social and political groups on social policy outcomes. Theories of democratic politics can be broadly divided into two groups, *an electoral politics perspective* and a *non-electoral politics perspective*, based on different institutional channels that facilitate the realization of the interests of social groups. Both perspectives implicitly apply to liberal democracies.

The electoral politics perspective argues that the existence of democratic political institutions and the high level of political participation and competition positively influence both the adoption of social policies and their level of spending (Pample & Williamson, 1985). Political processes such as elections produce economic cycles because the government increases income transfer and public investment just before the election in order to make the economy look more favorable to the voters and stabilize the economy after the election in order to cope with the problems caused by the artificial and rapid expansion of the economy (Pampel & Williamson, 1985; Amenta & Carruthers, 1988). In this view, however, the important condition for the translation of group demands into higher public spending is democratic political processes, which implies that the importance of electoral politics in determining the origin and shaping the characteristics of social policies can be limited due to the fact that changes in power structure between political parties through fair elections simply have not taken place in many authoritarian nations until recently.

A second way democratic politics matters for social welfare policy is through non-electoral politics. Collective actions such as popular protests by the poor and industrial workers may facilitate the implementation of new welfare programs or increased social expenditures as elites' concessions (Jennings, 1983; Skocpol & Amenta, 1986b). As the most popular representative of theories of democratic politics, power resource theory has focused on the causal relationship between the organizational power of the working class and variations in welfare state policies. This perspective looks into the conflicts and intermediation between classes and other social groups and the state's behavior.[1]

Many studies show a strong relationship between welfare spending and leftist or rightist control of government, union membership and centralization, and the level of labor dispute (Korpi, 1978; 1980; 1983; Esping-Anderson, 1985; Esping-Anderson & Korpi, 1987). The formation of class coalitions has also been a major concern to the power resource theorists. Welfare state construction, according to Esping-Anderson (1990), has depended more decisively on the structure of class coalition determined by class formation in a given society than on the power resources of any single class. In a similar vein, Skocpol and Ikenberry (1983) have suggested that labor influence should be examined in relations to the degree to which organized labor is directly in cooperation with mainstream political parties and politicians.

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1. In this case, class conflicts mean not only the actual class struggles but also the "potentiality of class conflicts, which is also capable of exerting pressure on government. The possibility of class struggle may serve as a motivating force for new social policy and reforms. In this sense, social policy expansion can be understood as a means of social control and legitimacy politics to defuse the potential development of class consciousness and class struggles.

Lastly, the proponents of the so-called *state-centered model* suggest that the state has its own interests and capacities, irreducible to the interests of a variety of social groups. According to this perspective, modern welfare policies were not simply responding to the socioeconomic dislocations of industrialism, nor straightforward concessions to demands by trade unions, working class based parties, or forward thinking capitalists. Instead, those policies were best understood as being put into effect by sets of political executives, civil administrators, and political party leaders (Skocpol & Ikenberry, 1983; Skocpol, 1985; March & Olson, 1989).

While not denying the salience of the variables suggested in the major theoretical perspectives such as the industrialization and political power of the working class, state-centered theory still tends to ignore the impact of societal forces and overemphasize one aspect of the state, an autonomous structure for understanding welfare state development. Due to too much weight being ascribed to the state with little reference to its relation to society, this view sometimes leads to a conception of the state as a unitary actor, a monolithic entity with its own will that is isolated from society. Another major criticism against the statist perspective has been that the state interest itself has not been clearly specified, except by simply assuming that the bigger the state role and institution, the better for the state (Kiser & Hechter, 1991).

Despite these criticisms, *the statist approach* has made two important contributions to the welfare state literature. First, by treating the state institution as a potentially autonomous set of coercive, extractive, and administrative organizations that have their own interests and policy preferences, the statist approach emphasizes the active and independent role of state institutions and state elite for welfare state development, which has been neglected

by Marxist and pluralist perspectives, or what we call "society-centered" theory. Second, this perspective offers a historiographic approach to the actual process and conditions of making and implementing state policies, considering the timing of historical events and their interdependence. Specifically for this study, the state-centered perspective implies two relevant points. First, this approach seems to be relevant to the formation of welfare policy not only in advanced capitalist countries but also in developing countries with a high level of state autonomy (Stephen, 1978; Malloy, 1979; Crone, 1993). Secondly, this approach might also be very useful for the study of welfare state provisions under authoritarian regimes. Given the vulnerability of societal institutions (e.g. trade unions, occupational associations, and labor parties) to state repression under authoritarian regimes, it is generally assumed that workers, peasants, the middle class, and other popular groups play little role in the formation of national policy making (Deyo, 1990).

III. Four Main Phases in the Development of the NHIP

1. Phase 1: Beginning of the NHIP

Having been brought to power as a result of a successful military coup in 1961, Park Chung-Hee, the Chairman of the Supreme Council for National Reconstruction (SCNR hereafter),[2] first raised the issue of the introduction of some welfare programs during a press

2. The SCNR was a state body that virtually monopolized the administrative, legislative, and judiciary functions of the state, leaving civil society actors with no formal channels of political input.

conference held in May 1962. After the announcement, Park urged his cabinet to prepare suitable programs before the 1963 presidential election. Following a direct order from Park Chung-Hee in 1962, the Social Security Committee (SSC hereafter),[3] a research institution under the Ministry of Health and Social Affairs (MHSA hereafter), chose, out of the several options available, to implement a public health insurance program.[4]

This decision was based on the anticipated increase in the demand for health care that would arise as a result of industrialization. After studying the health status of the population, as well as medical facilities, their utilization rate, and health costs, the SSC found that given the low level of income of the general population and the lack of infrastructure for health care, it would be difficult to implement a public health insurance program that would automatically cover the entire population. Thus, the health insurance program was designed in such a manner that it would gradually expand from large workplaces to encompass the rest of the populace.

The original plan proposed by the SSC included the compulsory participation of workplaces with more than 500 employees. The original draft also included a cooperative system, in which health insurance

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3. The main activities of the SSC included: (1) obtaining information pertaining to social security policies through the collection of data on the social security programs put in place in advanced countries or the recommendations made by international organizations such as the ILO and the WHO; (2)conducting surveys on the actual conditions in Korea with regards to the health status of the population; and (3)determining ways to obtain strong support for the social security system from the leadership of the junta (Lee, 1993).

4. The Social Security Committee (SSC) examined three possible welfare alternatives: industrial accident insurance, unemployment insurance, and health care insurance.

societies organized in each workplace would administer the program with the government covering administrative costs. In other words, employees and employers would contribute to the insurance fund equally, while the state would provide only the administrative costs.

The draft, however, was drastically revised by the military junta during the final deliberation process within the SCNR. Based on advice from legal counselors, the SCNR opposed the compulsory application of the original bill. As a result, the NHIP became a voluntary program (Article 8) that would cover workers in enterprises with more than 300 employees. Moreover, insurance benefits were limited to cash benefits provided to cover such matters as illness, childbirth, and funeral costs. Though the coverage itself expanded from workplaces with 500 workers to those with 300, the program lacked the essential ingredient of social insurance programs–it was neither compulsory nor universal.

The NHIP was not implemented until 1965, and after that only on an experimental basis. Table 1 shows the number of experimental health insurance projects that were launched during the period 1965-1977. It is clear that these efforts to bring about a voluntary health insurance system were ineffective as only a small number of industrial enterprises voluntarily offered employer-based health insurance[5], and with only a small number of insured individuals, insurance organizations were unable to sufficiently spread the risk. The low participation rate can be understood as being a consequence of the non-compulsory nature of the program.

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5. In addition to being voluntary, as the insurance premiums were based on the level of income and most workers were from low-income brackets and risk-prone, employers did not want to provide health insurance to their employees.

Table 1. Experimental Health Insurance Projects

	Number of Projects	Number of Insured
1965	1	340
1966	2	1314
1967	2	1301
1969	3	22,386
1970	3	19,352
1971	3	17,000
1973	5	32,581
1974	8	N/A
1975	11	68,417
1977	12	63,455

Source: Economic Planning Board, 1966 ~ 2000, Korean Statistics Yearbook.

One of the interesting points with regards to the process of formulating the policy pertaining to the NHIP in 1963 was its timing, as neither political parties nor social groups such as labor and capital, were at this point demanding welfare provisions. At the time, the main concern of the main opposition party, the Democratic Party, was the introduction of democratic measures and the repeal of martial law. Meanwhile, organized labor and the business sector were not in a position to put pressure on the government to implement welfare provisions. Rather, they were the ones being pressured by the military government.

This study contends that the political circumstances which the military government faced help us to understand why the military junta chose to implement a health insurance program despite the lack of any societal pressure to do so. First, having initially come to power through a military coup and failing to earn the support of a majority of the voters in the presidential election, Park Chung-Hee could not rely solely on repressive measures to maintain his grip on power.

Thus, he opted to use welfare legislation as one of the instruments to enhance the regime's legitimacy during "critical moments"[6]. (Park, 1997, p. 341). Secondly, the year 1963 was not only a year in which the SCNR had promised to transfer power to a civilian government, but also one that saw both presidential and national assembly elections being held in October and November, respectively.

This contention about the timing of the health insurance program and legitimacy politics appears to also be corroborated by the fact that the relative share of the budget of the MHSA reached its peak under the Third Republic in 1963, when the junta admittedly went through its most painful period, only to immediately decline after that (see Table 2). After 1963, no efforts to pass legislation dealing with welfare programs were launched until the emergence of discussions over a compulsory health insurance act in 1977.

Table 2. Ratio of the MHSA's Annual Budget to Total Government Budget

Year	1961	1962	1963	1964	1965	1966	1968	1969
Share (percent)	2.27	2.59	4.81	3.93	.3.56	2.03	1.83	1.30

Source: Annual Report on Government Expenditures and Revenues, 1961– 1970

6. The excuse for the coup in 1961 given by the military leaders was that the Second Republic's parliamentary system had caused social unrest, and that a powerful presidential system was required to secure political stability and to protect South Korea from North Korea's communist threat. Also, the military junta promised that their intervention was temporary. The rule by Park's junta lasted until 1963, but instead of returning to the barracks, Park Chung Hee stood in the 1963 presidential election and became president in December 1963. Park received 46.6 percent of the popular vote, while his opponent, Yun-Po-Sun of the New Democratic Party, garnered 45.1 percent. It turned out that he not only relinquished the democratic government in 1961, but also broke his promise to go back to the barracks.

Let us now turn to the question of what the key determinants were in selecting the main contents of the legislation passed in 1963. This law was characterized by its emphasis on voluntary participation and limited coverage (workplaces with more than 300 employees). The fact that the military junta revised the legislation during the final deliberation process, changing participation from compulsory to voluntary, is particularly revealing in that it clearly shows how key decision makers at the time perceived welfare programs. The official reason given for this revision was that people's property could not be taken in by the state except for tax collection. Yet, the real reason was, as Sohn (1981) succinctly argues, that the compulsory application of this law would have increased both the financial burden on businesses and the government's share of the administrative costs for health insurance. Kang Bong-Soo, the then Planning Coordinator of the MHSA recalls the situation as follows:

The change from compulsory to voluntary participation was the result of the overwhelming agreement among the members of the SCNR that if the original bill was passed and compulsory participation was enforced, the burden on the firms subject to the Act would have dramatically increased from the next year onwards and the government would also have had to pay an increasing amount of administrative costs (Lee, 1993, p. 25).

This so-called "developmental" or "economy-first" stance of the military junta in the early 1960s can also be observed in the memorandum entitled, "The Establishment of a Social Security System", which President Park issued to his cabinet. According to the memorandum, the ultimate purpose of the military revolution

was to protect citizens and establish a welfare state. However, the memorandum clearly stated that a social security system should not hamper economic development.

To sum up, the implementation of the NHIP in 1963 was the result of the combination of 1) the strong instrumental autonomy of the authoritarian Korean state, 2) the consideration given to the need to legitimate the regime, and 3) the developmental orientation of the key decision makers. Among those, the top-policy makers' "economy first" stance can be identified as a key determinant of the main contents of the health insurance program in 1963.

2. Phase 2: the Introduction of the Compulsory NHIP

The turning point in Korea's welfare history was the onset of the Fourth Five-Year Economic Development Plan launched in 1977 (1977-1981), during which a compulsory health insurance program was launched. By 1976, the voluntary approach to the NHIP had, in large part, been unsuccessful as only 67,000 individuals were covered under the 11 voluntary health insurance programs authorized by the government. In July 1977 the government enacted a new NHIP which covered not only workers in large workplaces with more than 500 employees, but also their dependents.

The major questions which will be dealt with in this section are why these changes came about in 1977 and what the key determinants of the contents of the relevant legislation were. The actual policymaking process with regards to the NHIP was once again initiated by President Park and designed exclusively by a small group of bureaucrats within the MHSA. In January of 1976, President Park disclosed his interest in the implementation of a

public health insurance program in his annual New Year's interview with the press, announcing that new welfare programs would be included in the Fourth Five-year Economic Development Plan.

A month later President Park personally ordered the Minister of the MHSA to prepare to implement health insurance programs for the working population in order to meet the increasing number of health problems which emerged as the economy developed (Kim, 1990; Chosun Ilbo; Dong-A Ilbo, Feb. 11. 1976). According to Kim Chung-Ryum, the Chief Secretary to the President from 1969-1979, the reform of the NHIP became the main item on Park's major policy agenda in the late 1970s. He recalled,

President Park ordered me to make a list of potential candidates for cabinet positions, and asked me to pay special attention to the position of minister of the MHSA, as whoever was chosen would face many difficult tasks such as the implementation of the mandatory health insurance program and labor problems….After the nomination, the President asked the new Minister Mr. Shin Hyun-Hwak to tailor a health insurance program that could meet the country's particular circumstances (Kim, 1990, p. 309).

Following this directive, the MHSA began to formulate the health insurance program and its own long-term plan. According to the MHSA's plan, the reformed NHIP would become compulsory for some industrial sectors in 1977, starting with large-scale companies with more than 500 employees (class I). The insurance benefits were limited to cash benefits for an illness for a period of up to six months or for childbirth. Companies with fewer than 500 employees could join, but it was not compulsory to do so (class II). The insurance fund was financed through equal contributions from employers and employees; a fixed rate (3 to 8 percent) of the 30 payroll contribution-based different scales in the Standard Monthly

Wages outlined by the government. Employers were supposed to pay the same amount.[7] In addition to contributions, those covered by the insurance program had to share a part of the cost for medical care services: 20 percent of medical expenses per treatment for the insured and 40 percent for dependents. Consequently, individual employees had to bear a double financial burden, with 3 to 8 percent of their monthly income going to pay insurance premiums, while also having to assume responsibility for a share of the actual medical treatment costs. Meanwhile, the government continued to only subsidize the administrative costs.

During the policymaking process, strong opposition emerged from the economic ministries, notably from the Economic Planning Board (EPB hereafter), who argued that such a cooperative system might lead to potential budget deficits and place an administrative burden on the state as a result of the uncontrollable creation of individual insurance cooperatives. The EPB also argued that there was no economic rationale for making employers assume a share of the burden for financing health insurance, and that the employers' burden should be transferred to the general public (EPB, 1976, 1977).

However, it was the MHSA-drafted bill that was eventually sent to the legislature. The compulsory participation included in the Act passed in 1977 had a great impact upon the extent of the coverage. The number of beneficiaries of the NHIP expanded to reach more than three million. Moreover, on December 31st, 1977, the government legislated a separate Health Insurance Law for

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7. For example, monthly income below 37,500 won would belong to the first level, i.e., the below 35,000 category. If 4 percent was chosen, then the employee and employer would each pay 4 percent of 35,000, i.e., 1400 won.

government employees and private school teachers, and two years later this law was revised to include professional military personnel and their dependents. As a result, some 20 percent of the total population was covered by either the NHIP (compulsory and voluntary) or the medical assistance program by 1979. Table 3 illustrates the impact of the legislation passed in 1977 on the number of beneficiaries. The proportion of the population with health insurance coverage increased dramatically from 0.19 in 1976 to 8.79 in 1977.

Table 3. Number of Beneficiaries of Health Insurance since 1962 (number of persons)

Year	Total Number of Beneficiaries (Insured and dependents)	Coverage Rate (percent)
1962	-	-
1963	-	-
1964	-	-
1965	1,548	.01
1966	6,588	.02
1967	6,721	.02
1968	6,250	.02
1969	19,922	.06
1970	18,713	.06
1971	16,841	.05
1972	17,634	.05
1973	22,293	.07
1974	50,960	.15
1975	66,966	.19
1976	66,449	.19
1977	3,202,981	8.79
1978	3,883,310	10.49
1979	7,791,190	20.72
1980	9,113,352	23.86

Source: Economic Planning Board. Korean Statistics Yearbook. 1962–1980

With the notable exception of its mandatory nature, the reformed NHIP bill passed in 1977 in essence advocated the same basic principles that were laid out in the first law passed in 1963: that of minimizing the state's financial responsibility by limiting its administrative expenditures and adopting an occupational rather than a universal approach. It is the contention of this study that the NHIP bill passed in 1977 was clearly limited in the extent to which it would function as a *social* insurance program, and that it was the Korean state's explicit stance on economic development that influenced the final appearance of this legislation.

The impact of the developmental Korean state on the health insurance legislation passed in 1977 can be examined by looking at how the Korean government interacted with the demands made by societal groups during the policymaking process. As a compulsory health insurance system would substantially transform the health care system in Korea and affect the medical business, the Korean Medical Association (KMA hereafter), a nationwide organization of medical doctors, actively tried to influence the implementation of the NHIP.[8] Yet, it was inconceivable for the KMA to attempt to launch a collective political campaign and confront the authoritarian government over the implementation of the NHIP. As such, they adopted an approach based on the suggestion of certain alternatives with regards to technical and minor issues. Their major demands included:

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8. A comparison of the legislations passed in 1963 and 1976 reveals that the potential impact of these changes on the medical business was very different in each case as the first law was based on a private and voluntary insurance system, while the latter was a compulsory health insurance system imposed by the state, though limited to big firms.

1. overage of all workplaces with 16 workers or more
2. the state should cover 20 to 30 percent of all insurance premiums
3. the KMA should be granted the right to participate in the inspection committee of the NHIP
4. the insured should be granted the right to choose the medical facilities of their own choice (KMA, 1977)

While the KMA did manage to elicit several minor concessions from the government (3rd and 4th), their demands pertaining to the scope of the program and for increased financial contributions from the state (1st and 2nd) were not accepted.

The impact of the developmental stance of key policymakers on welfare provisions can also be seen in the case of pension policymaking during the early 1970s, the idea for which came from the Korea Development Institute as a means of mobilizing domestic capital for heavy and chemical industrialization (KDI, 1971); and President Park immediately postponed the program following his announcement, mainly for economic reasons, e.g., high inflation and the oil shock, in Presidential Emergency Decree No. 3.

3. Phase 3: The Battle over Management Systems

By the end of 1983, those covered by the NHIP and medical assistance programs reached 39.3 and 9.3 percent of the population respectively (see Table 4). Those covered by the compulsory health insurance program were primarily employees in industrial firms, and it was a revision in 1983 that expanded the coverage to those in workplaces with 16 or more employees. The next step was to

expand the program to include low-income individuals and the self-employed in urban areas. Farmers, fishermen, and workers in informal sectors were not yet covered.

Table 4. Gradual Increase in Health Insurance Coverage(in percentage of total population)

Year	Health Insurance Coverage (A)	Medicaid Coverage (B)	A + B
1977	8.8	5.7	14.5
1979	21.2	5.7	26.9
1980	23.9	5.7	29.6
1981	29.7	9.6	39.3
1983	39.3	9.3	48.6

Source: Federation of Korean Medical Insurance Societies: 1960–2000.

Before this next step could be taken, however, the NHIP faced several problems with regards to its management system, i.e., the cooperative system. First, as health insurance coverage expanded to include smaller firms, many insurance societies started suffering from financial instability[9] due to the small size of the insured in individual insurance societies and subsequently a small amount of the insurance fund surplus. Table 5 shows the dramatic decrease in the surplus which had occurred by 1980.

The proliferation of small insurance societies also increased administrative costs for the government. Consequently, in February 1980, the MHSA proposed the "Plan to Promote the Merger and Abolition of Medical Insurance Societies." As a part of the subsequent government decree, a number of small independent

9. For example, in 1981, 23 out of the 105 insurance societies in operation were running a financial deficit and 59 of these insurance societies (56 percent of the overall total) had already passed the financial safety line (a ratio of more than 73 percent of expenditures to revenue).

insurance societies began to merge into large centralized structures administered by local medical insurance societies (MHSA, 1980).

Table 5. Ratios of Revenues and Expenditures, 1977–1980

Year	Insurance Revenue	Expenditures for Benefits	Administration Costs	Surplus
1977	1,313	389 (29.7)	63 (4.1)	861 (66.2)
1978	3,445	1,434 (41.6)	317 (9.2)	1,596 (49.2)
1979	4,614	2,674 (58.0)	531 (11.5)	1,409 (30.5)
1980	1,353	1,104 (81.6)	185 (13.7)	64 (4.7)

Source: The Ministry of Health and Social Affairs, 1982, p.75

As a result, the total number of independent insurance societies decreased from 5,303 to 424 in 1980. However, the fundamental problem of this cooperative system remained unresolved. Furthermore, criticism of the regressive effects of the cooperative system was also prevalent. As different societies had different contribution rates and benefit structures, those insurance societies which were running fiscal deficits inevitably had higher contribution rates even though most of these societies consisted of low-income workers in small firms.

On the management issue, the MHSA was divided into two groups. A small number of reformist bureaucrats within the MHSA wanted to change the current cooperative system into a unified system in which all financing and administration would be run by a large nationwide organization. Meanwhile, the majority of bureaucrats within the MHSA, who had originally designed and planned the NHIP in the late 1970s, insisted that the cooperative system be maintained and that the program be "gradually" changed by merging small insurance societies suffering from financial instability into a few large insurance societies on a regional basis[10].

Once the MHSA adopted the gradual merger plan and submitted it to the National Assembly in 1981[11], the debate over the advantages and disadvantages of a unified or cooperative system found its way into the National Assembly. Unlike bureaucrats from the MHSA, however, lawmakers from both the ruling and opposition parties unanimously rejected the MHSA's proposal and demanded the prompt implementation of a unified system (The National Assembly, 1981). The reason was purely

10. Their positions were based on three main arguments: (1) the individual insurance scheme should be run on a self-supporting basis; (2) if the current insurance societies were merged with those insurance societies for local members, the funds accumulated by the employee insurance societies would be transferred to those local insurance societies, most of which were beset by financial instability, and (3) an equitable contribution rate would be impossible under a unified system as, while wage earners' incomes were completely exposed, there were administrative difficulties associated with estimating the real income of the members of local insurance societies.

11. The Minister of the MHSA, Chun Myung-gee, who advocated a unified system, originally announced a plan for a unified health insurance system in 1980. This plan met with severe opposition from employers' organizations and the National Health Insurance Council (NHIC hereafter), as well as from conservative bureaucrats within the MHSA. In October 1980, the major employers' associations expressed their disapproval of a unified system, arguing that the maintenance of the cooperative system would stabilize insurance finances and would also reduce the indirect management costs associated with the program. Moreover, they also opposed this scheme for a unified health insurance system because it would result in employers losing one of their mechanisms to control labor while still having to pay half of the contributions. The NHIC also believed that a unified system would weaken their institutional strength within the government. The magazine published by the NHIC carried a special article enumerating the problems associated with the unified system and employers' organizations took out newspaper ads to outline the negative aspects of this unified system. In editorials and commentaries, opponents criticized the unified system and attempted to promote a favorable opinion of the cooperative system amongst the public.

political: they were concerned about the upcoming National Assembly election in 1981 and the increasing discontent of the non-insured living in their electoral districts. The confrontation between the MHSA and the National Assembly continued until the issue finally found its way to the Office of the President.

The Majority Leader and the Chairman of the Health and Social Affairs Committee of the National Assembly made their case before the President regarding the benefits of a unified system, including the improvement of national harmony by reducing income inequality. However, the presidential staff and secretaries had already been persuaded[12] by the advocates of the gradual merger plan, i.e., the maintenance of the cooperative system. These parties felt that the immediate introduction of a unified system ran a strong risk of increasing the financial burden of the state and of hampering the economic stabilization policy then in place, as well as of impairing the cooperative relationship between capital and labor (MHSA, 1985). The Presidential secretaries, emphasizing the negative aspects of a unified system, essentially came out in favor of employers' organizations. In the end, President Chun opted for the MHSA's gradual merger plan. Once the President's decision to put a stop to the efforts to bring about a unified system had been made, the MHSA began to make plans to modify the current cooperative system so as to expand health insurance coverage.

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12. The decision in favor of the cooperative system can be understood by looking at the policymaking network that was in effect in Korea at the time. The presidential staff mostly consisted of bureaucrats dispatched by the ministries themselves, and most social bureaucrats on staff at the time were proponents of a cooperative system.

4. Phase 4: A Major Reform in the late 1980s

By 1987, the NHIP was providing health care for most employees in the industrial sector. However, those who did not have recognized employers to pay their employers' contributions (e.g., farmers, the self-employed, informal sector employees, and the unemployed) remained outside the scheme. This caused the so-called "reverse stigmatization" (Kwon, 1996) which occurs when those who do not receive health care benefits are stigmatized. People outside the program shared the common characteristic of not being salaried employees. While some of them might have been well-off, e.g., the self-employed in urban areas, most belonged to low-income groups.

Although both the MHSA and the EPB began their plans to reform the NHIP by expanding it to cover the entire nation in 1981, the actual timeframe in which this plan was to be implemented was only vaguely specified.[13] The momentum for the actual reform of the NHIP came in the form of an announcement made by President Chun in 1986. As a result of the virtual defeat of the ruling party in the National Assembly election of 1985 and of the intensifying democratization movement, the Chun government announced "Three Welfare Measures" in 1986. As far as health insurance was concerned, the measures included a promise to expand the coverage to include rural farming and fishing villages by 1987 and the urban self-employed by 1988.[14]

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13. Under the original plan, the EPB and the MHSA would agree to expand health insurance to include the entire nation from 1987 to 1991, or during the length of the Sixth Five Year Economic Development Plan (MHSA, 1988).

14. In particular, farmers, traditionally strong supporters of the ruling party, began to withdraw their support for the government from the 1985 elections onwards.

The persistent impact of the interests of key policymakers during the late 1980s with regards to the reform of the NHIP can be examined by looking at (1) how the reform agenda was set and (2) how the final outcome was determined. As a result of the rapid democratization process which began in 1987, the reform of social welfare programs began to be openly debated amongst presidential candidates for the first time in modern Korean history. The candidate of the ruling Democratic Justice Party, Roh Tae-Woo, made a promise to expand the NHIP coverage to include the entire nation, and in January 1988 after his electoral victory, the NHIP was expanded to include people living in rural areas, mainly farmers and fishermen.

While the nation's political leaders promised to reform the NHIP, the actual policymaking bodies, the MHSA and EPB, expressed skepticism about the expansion of the NHIP to the entire nation. However, lacking in political legitimacy and wanting to distance himself from the previous military dictators, the newly elected President Roh Tae-Woo had no choice but to keep his promise after the presidential election.[15] Moreover, the newly-included category of people, mostly farmers and fishermen, were the regime's main and most reliable supporters.

The final outcome of the NHIP also reflects how the Korean government stood firm against the demands emanating from the

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This decline in political support from the agricultural sector was further exacerbated by the liberalization of agricultural product imports as a result of pressure from the U.S.

15. President Roh only obtained 36.6 percent of the popular vote, and most Koreans remained convinced that the new government was a military government of an authoritarian nature as Roh himself was a retired military general, like former presidents Chun and Park.

societal and political sectors in order to keep the government's financial burden to a minimum. Under the new scheme, unlike the employees' contribution which was based solely on income, those belonging to rural area insurance societies found themselves having to pay higher contribution rates as a result of the fact that the amount of their contribution was not based solely on income, but on the number of members in their household and their economic assets.

The excessive and inequitable burden placed on local members provoked protests, with dissatisfaction being especially rampant amongst farmers. Thus, as soon as local health insurance was established in farming villages in January 1988, farmers began to express their displeasure with the high premiums they had to pay by returning their insurance cards as a sign that they would refuse to pay their contributions. Medical doctors and social security professionals affiliated with the social movement also joined hands with the farmers in demanding further reforms to the health insurance program. In March 1988, these organized protests reached their peak when farmers' representatives held a massive demonstration in which they demanded changes be made to the insurance premium structure and that the subsidies provided by the state be increased from 35 to 50 percent.

With the 13th parliamentary elections slated for April 1988, President Roh took it upon himself to announce that the government would consider the progressive reform of the NHIP (Chosun Ilbo; Joong-Ang Ilbo, Mar 28th, 1988). He also proceeded to establish a "Deliberation Committee for the National Health Insurance Policy" in order to review the existing program and develop a new one (MHSA, 1988). With the parliamentary elections looming, the ruling and opposition parties also found themselves

forced to respond to the farmers' demands. Later, pressured by the farmers' militant actions, three opposition parties finally agreed to accept the proposal made by the 'National Committee for the Countermeasure to the Health Insurance' (NCCMI), the first civil organization that dealt specifically with health insurance problems. In March 1989, the new Health Insurance Law was unanimously passed during the 145th special session of the National Assembly.[16] The main contents of this bill were the introduction of (1) a new financing scheme with reduced contribution rates and of (2) a unified administrative system covering all the insured with the exception of the beneficiaries of the Medical Assistance Program.

However, given the underlying principles of the Korean social security system, i.e., its focus on an occupational approach and the minimization of the government's financial responsibility, the newly passed bill was simply unacceptable to wage earners and bureaucrats alike. The implementation of a unified system implied that the funds accumulated by wage earners would be shared with those belonging to the newly insured segments of the population, including farmers, fishermen, and the self-employed. As the reduction of the contribution rate implied an increase in government financial support for the members of local insurance societies, the government bureaucrats were also concerned about the potential consequence of the new law on the government's fiscal structure. In the end, President Roh Tae-Woo vetoed the bill and the reform movement initiated by farmers in conjunction with social movement forces ultimately failed.

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16. The ruling party also agreed to pass the opposition parties' proposal because it had failed to secure a majority in the National Assembly during the general elections held in September 1988.

IV. Discussion and Conclusion

In this paper, we examine how state interests and welfare policymaking is interrelated in the development of the NHIP. In doing so, this research provides a detailed historical explication of the four major phases which have taken place with regards to the NHIP is undertaken. Korea legislated its first health insurance act in 1963, the Workmen's Compensation Act, at a time when it was one of the poorest nations in the world and labor organizations were suppressed. The Korean labor movement in the early 1960's was being severely repressed by the military government. In addition, the military government chose to implement the NHIP despite the lack of any societal pressure to do so. The particular circumstances of Korea at that time made it difficult to apply two major theoretical perspectives of the welfare state: the industrialization and social democratic perspectives

Therefore, this study utilizes a "state-centered perspective" to analyze both the timing and main outcome of the four major developments which occurred in 1963, 1977, 1981, and 1988 with regards to the NHIP. Different from the industrialization and social democratic perspectives, our perspective is based on the argument that modern welfare policies have not been simple responses to the socioeconomic dislocations of industrialism; nor straightforward concessions to the demands of trade unions, working class-based parties, or forward thinking capitalists. Rather, those policies can best be understood as having been put into effect by groups of political executives, civil administrators, and political party leaders, who tend to behave in accordance with their own needs and interests.

The central hypothesis of this study is that welfare provisions can be employed at a given historical juncture by an autonomous state, which is willing to pursue its own specific interests independent of its actual resource base or societal demands. The analysis of the four major phases in the historical trajectory of the NHIP in Korea reveals that economic considerations or a legitimacy crisis, or a combination of both, have heavily influenced the timing and main contents of health insurance related legislation. State bureaucrats and key policymakers, and most importantly presidents, have set the NHIP as an item on their policy agenda whenever it suited them, and they have been highly autonomous in designing the actual legislation.

This study further demonstrates that in the Korean case, the theoretical importance of the state's interest in welfare provisions needs to be reconsidered as the state-society relationship has changed significantly since 1987. An indication of this change can clearly be observed in the final phase of the NHIP development, when political parties and farmers' organizations actively participated in the process of reforming the NHIP. The current process of reforming the pension system in Korea also clearly reveals that policymakers have to deal with a variety of interest groups such as labor unions, NGOs and major corporations.

We conclude this paper by suggesting that this change in the state-society relationship in Korea since the late 1980s has created a new theoretical task, which is to ascertain if the so-called "major" theoretical perspectives in welfare state research, which include notions related to the logic of industrialization and theories of democratic politics, can be applied to the Korean case. In particular, it will be interesting to see if the power resource theory, which focuses on the causal relationship between the organizational

power of the working class and leftist parties and variations in welfare state policies, can be applied to the changes which have taken place in terms of welfare provisions in Korea.

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