

Making a Better Future with Social Investment
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Distinguished Vice-President Ray Boshara, thank you for your kind introduction.

Distinguished guests, ladies and gentlemen: It is my privilege to give you my presentation here at New American Foundation. As the Minister of Health and Welfare of Korea, this Joint Forum is the kind of event I was waiting for. I am happy to speak to you about Korea's social investment strategies for the future.

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My presentation is composed of four parts. I will first give you an overview of health and welfare in Korea. And then I will discuss new social risks and challenges that we're facing, and the need for a paradigm shift to Social Investment in Korea. Next, I will focus on the programs on investment for children in terms of Social Investment Strategies such as CDI and Hope Start. Finally, I will briefly mention the reforms in National Finance & Governance for sustainability of Korea's health and welfare system.

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Now, I will briefly go over the current health and welfare status and its recent development in Korea.

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This figure shows the certain challenges Korea is facing, compared to other OECD member states.

Child survival rate and life expectancy at birth is relatively high. However, Korea's birth rate is significantly lower than the OECD average while aging population rate is higher. Such phenomenon may bring about a grave social problem.

In addition, the public social expenditure per GDP, the social security expenditure per GDP, and public healthcare expenditure per GDP are very low.

The low public healthcare expenditure does not necessarily mean negative, because health status of Korea is quite good with relatively low expenditure. This means we have a fairly

efficient healthcare system.

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The former administration, also known as the People's Government, founded the overall framework of welfare by introducing the National System for Minimum Living Standard.

During the current administration, called the Participatory government, this framework has grown into a more advanced system, based on the original framework.

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Now getting into the main discussion, the Ministry of Health and Welfare in Korea has set the social investment policies as a strategy for a better future.

The Korean welfare policies have focused on the social security policies in the past. Our understanding back then was, the welfare system was to help those who are poor or in need with the tax paid by others.

However, such traditional welfare policies have reached its limits and cannot satisfy the demands of today's society any more.

Although the former administration introduced "Productive Welfare" and the current government, "Participatory Welfare", the underlying principles did not substantially change for the past 10 years. There were no policy measures that actually fit the meaning of productive or participatory welfare except for reinforcing asset-building programs and a few others.

The Ministry of Health and Welfare decided to go for a paradigm shift: encouraging self-development of all citizens, especially those who are underprivileged, and offering equal opportunities. We will also encourage individual participation in economic and social activities.

Traditional idea of welfare tends to be "this or that" kind of dichotomy. So, it's growth or distribution, or development or welfare. However, we came to a conclusion that the state's investment in individuals should expand, to enable each and everyone to develop capacity and ensure everyone is given equal opportunities, by devising a system where economic growth and social policies supplement each other.

Our priority is investment in human capital especially children and the elderly, investment in

health and investment for after-retirement life.

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As mentioned already, the challenges arise not only out of traditional but also out of new social risks, and are like to intensify social instability.

Korea is now facing six major domestic challenges as follows: Slowdown of Potential Growth Rate, Growing Bipolarization, Low Birth Rate/ Aging Population, Changes in Family Structure, New Health Risks and Increasing Uncertainty for the Future Life

On the other hand, globalization such as FTA and moving toward a knowledge- and information-based economy are major global challenges.

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I will now explain to you how these challenges are affecting Korea. Concerning domestic challenges (next page):

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Korea is going through slowdown of potential growth rate today. Before the '90s, the growth rate was 6 to 8%. Then, after the mid-90s, the growth rate has declined to around 4% in 2000.

According to a study by the Korea Development Institute in 2006, population aging reduced labor & capital inputs and caused further slowdown of potential growth rate.

Off-shoring of labor-intensive manufacturing facilities, industrial automation, etc. have brought about what we call "jobless growth."

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Another major domestic challenge is growing bipolarization, widening gap between the rich and the poor. As shown in the graph, income inequality has intensified and the ER Index rapidly increased. This in turn resulted in the decrease in Trickle-Down Effect

If bipolarization continues,

- (1) The number of people who work but nevertheless stay poor will increase;
- (2) There will be less possibility for upward social mobility; and
- (3) Inter-class conflicts will worsen.

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Like most developed countries, Korea is going through a rapid aging process.

Korea's birth rate is the lowest in the world, with 1.08 in 2005, compared to 2.01 of the United States, 1.24 of Japan, and 1.6 of OECD average.

We anticipate the total population will start declining in 2020 and to address the demographic changes, the National Assembly legislated the Framework Act on Low Birth Rate and Aging Society.

Korea was already an Aging Society in 2000. Becoming an aged society in 2018 and a super-aged society in 2026, Korea is predicted to be one of the most aged sates in the world in 2050.

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Change in family structure and lifestyle have weakened family function and induced greater demand for public care service, as well as increase in women's economic participation and divorce rate.

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Physical and mental health problems reduce life quality, cause labor loss, and induce heavy medical expenses.

Although mental health problems such as depression, suicide, etc. lead to decline in life quality, there is little system for protection. Korea's suicide rate of was the highest among OECD member states in 2005.

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In the wake of the Financial Crisis in the late 1990s, uncertainty of the future surged in the Korean society.

According to one survey conducted in 2006, 45% of respondents answered, "I am in LOWER-CLASS." Compared to 2003 survey, there was little change in the number of respondents who thought they were in a high-income bracket, but significantly more people answered they were in a low-income class.

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Besides the domestic challenges I just laid out, there are global challenges as well.

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First, globalization and regional economic integration poses both risks and opportunities

In particular, the FTA between Korea and the United States, once it is signed and comes into effect, will bring about significant changes in our system.

Besides, moving towards knowledge and information based economy requires a totally new strategy: investment in manpower and a new approach incorporating new and traditional policies.

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In the context of VISION 2030, now I introduce the social investment policies Korea is pursuing.

The concept of social investment policies has been referred to many times in literature, but generally social investment defined as the strategy which pursues economic growth and social development by magnifying the opportunities to participate in economic activities and by providing better jobs through the investment of human and social capital, according Taylor-Gooby, Esping-Andersen, Giddens, etc.

And the key elements are:

- an approach that incorporates social and economic policies
- investment for equal opportunities
- focus on economic participation, and
- emphasis on the investment for children as future citizens/workers

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Since last year, we have been working to set up an Action Plan for Social Investment Policies.

We're still working on it but I would like to give you a general idea of the plan here.

The VISION of our social investment policies is to improve the quality of life through individual capacity development and investing in human capital to nurture those who can manage various risks arising out of the market economy.

The Goals are:

Equal Opportunities;

Economic Activities by the Entire Population; and

Sustainable and Efficient Welfare (Social) Policies

And the five principles here will govern the overall enforcement of the vision.

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For each goal I just mentioned, we developed 10 core actions.

These actions include Child Development Accounts, Sure Start/Book Start programs and investment for children's physical, mental and cognitive health.

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Now I will move on to our strategies of investment for children, in terms of social investment.

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Child Development Accounts are introduced as an asset-building tool.

A child's savings account is opened by his/her parents or sponsors with a matching fund supported by the Government.

Reserves will be invested in long-term savings or stable savings account type fund.

Money in those accounts can only be used for a child's education purposes, such as school tuition, or to support startup business when the child is 18 years or older.

This takes effect in 2007. At-risk children are given a priority in protection and the plan will gradually cover more children.

Similar programs of overseas are: IDA in the United States, Child Trust fund in U.K., Children's Development Account in Singapore, and Canada Education Savings Program in Canada.

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For early capacity building, we initiated Hope Start Project and Book Start Project.

The Hope Start Project is a comprehensive welfare service incorporating health, welfare and education of children and job training for their parents.

It also comes into effect in 2007 and again, children in low-income families are given a priority.

The Book Start Project targets on preschool children below 5 years old of both parents working and with a single parent under the average income level.

It provides man-to-man reading counseling by a “Reading Helper.”

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Investment in children’s health is critical for the future generation.

The Comprehensive Health Investment for Pregnancy/Birth/Growth Period consists of:

- (1) Pregnancy/Birth Total Care such as Prenatal Examinations and Ultrasound Scans;
- (2) Infant Care Support including Free Essential Vaccination (2008) and Reduction in Outpatient Medical Expenses; and
- (3) National Support System for School Health

Another issue in children’s health in most OECD countries is obesity.

The Child Overweight Prevention Program will include (1) Development of and support for child fitness program and (2) Regulation on food packaging/designing/labeling.

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Mental health of children is another issue to be taken care of. We will soon initiate the Child Behavior Improvement Program called “What a change for my children!” This program targets on the Children with Mental and Behavioral Disorders. It will deliver medical services for mental and behavioral care depending on the severity of the child’s disorder, and strengthen the mental health services such as mental health examination /counseling services. Children in low-income families will receive governmental support through Voucher. The children under the program will be monitored through the case management system. Their parents will be also given a chance for training and counseling.

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Finally, I would like to finish my presentation by briefly touching upon the National Finance and Governance for Social Investment.

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While the Korean government slowly reduces its investment in economy, its will expand welfare investment. Moreover, of this welfare investment, social investment programs would receive a larger proportion.

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This final diagram shows the mechanism of social governance emphasizing the responsibility. To successfully carry out our social investment policies, trust building between the government & civic societies is essential.

Concluding Remarks

I hope my presentation was enjoyable and helpful to you. I would like to emphasize once again, the Korean government is committed to making a bright future for all Korean citizens by executing our social investment policy, and being a model other countries learn from.

Thank you all for your time. Now I am happy to answer your questions.