



Welfarenomics: The Road to a Sustainable Capitalism and Welfare State

웰페어노믹스: 지속가능한 자본주의와 복지국가의 길

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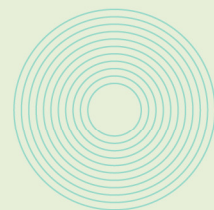
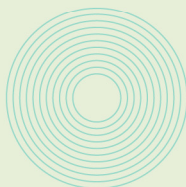
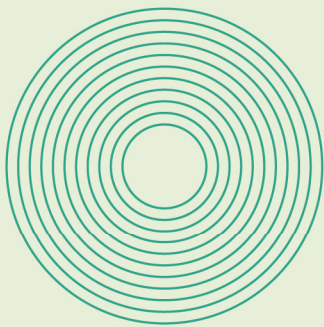
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Welfarenomics

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영문



The Road to a Sustainable Capitalism and Welfare State

| Sang Mok Suh¹ |

Abstract

The Han River Miracle, characterized by high growth and low inequality, has come to a halt in recent times. Low growth, rising inequality and growing social discontent have become the new characteristics of Korean capitalism. In order to remedy the situation Korea has to adopt a new development paradigm, viz. 'welfarenomics', which takes a more balanced view towards economic growth and social equity. While the government took a leading role in implementing the so-called 'Park Chung-hee paradigm', the new paradigm of 'welfarenomics' requires close cooperation among the government, business sector, and civil society.

Globally, capitalism has often faced crises due to random external shocks as well as internal shortcomings, but has evolved into a better shape through its efforts for improvement. Capitalism 1.0, which began in the late 17th century, marked a historical turning point in terms of economic growth

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but resulted in urban poverty and Great Depression in 1929. Capitalism 2.0, which began with the New Deal Program, led to the government assuming a more active role in social welfare. Capitalism 3.0, which began in the early 1980's, focused on the rationalization of expanded welfare programs. Capitalism 4.0, which got started in aftermath of the 2008 financial crisis, is making new efforts to strike a balance between economic growth and social justice. 'Welfarenomics', as presented in this paper, can be a guiding paradigm in this age of capitalism 4.0.

'Welfarenomics' is based on the perception that economy and welfare are the opposite sides of the same coin. It is an attempt to establish a new paradigm of capitalism and welfare state by modifying the existing new-liberal market economy model to develop an inclusive capitalistic system that boost 'welfare economy' through 'win-win capitalism' on the one hand, and realizes 'economic welfare' by enhancing the sustainability of the existing western welfare state model on the other.

Since the French Revolution the left tends to support the welfare state and government intervention to achieve greater equity, while the right empathizes economic efficiency and a smaller government. Korea also has a long history of severe conflict between the left and the right. Since the Korean Peninsula is now divided into the communist regime in the North and the free democratic republic in the South, it is an urgent issue to reach a consensus among the differing socio-political groups in the South. 'Welfarenomics', which strikes a balance between economic growth and social justice, can become a new development paradigm on which the left and the right can agree.

Capitalism under Serious Challenge in Korea

At the center of a typhoon, waves from different directions gather together and create triangular pyramid-shaped waves. Coming from various directions, these waves make it difficult for a vessel to set sailing targets. This is the current situation of Korean capitalism².

Korea's economic growth rate is dropping at a rapid rate. The 'Miracle of the Han River,' which began in the early 1960s, brought about a 10% annual growth rate, but the growth rate started to decline from the late 1980s and now barely hits 2% or less per year. In addition, as the job creation effect of Korea's export industries continues to fall, job shortage and youth unemployment are emerging as major social issues in the country.

Although the myth of Korea's economic development can be summed up as maintaining relatively good income distribution with high economic growth, recent years have witnessed worrying trends on account of worsening income distribution and intensifying polarization amid economic slowdown. Particularly since the 1997 foreign currency crisis, polarization in the labor market has become prominent as shown by the sharp increase in the number of irregular workers, and all the indicators on income distribution level including the Gini ratio and relative poverty rate are getting worse.

The country's level of social stress is also on the rise. It turns out that 95% of Koreans think that the gap between rich and poor in Korea is widening over time; only 29% of the people think everyone is given equal opportunity in Korea³. As a result, the percentage of 'happy people' is the lowest among the OECD countries, and Korea has the world's highest suicide rate. This

² The current difficult situation is well described in the recent McKinsey report, 『Beyond Korean Style: Shaping a New Growth Formula』 2013

³ Hankook Research (2010). Public Opinion Survey, Gyeonggi Welfare Foundation.

is where Korea stands now. The following is how the recent report by the McKinsey Global Institute⁴ describes the recent economic situation in Korea.

“It is increasingly apparent that the export-oriented growth formula that helped the large Korean conglomerates drive economic development and raise incomes is running out of steam. South Korea needs a new growth model that restores the financial health of middle-income families, raises consumption, and addresses social and structural problems that threaten the nation’s long-term prospects”(McKinsey Global Institute, op. cit.).

The increasing social stress is evident in the negative perception most Koreans have of large conglomerates, chaebol. Issues of so-called ‘economic democratization’⁵ surfaced during the 2013 and 2017 presidential elections, and various regulatory measures adopted in recent years against chaebol show how the political circle reflected the public sentiment in the policy-making process. This is in line with what Porter and Kramer⁶ recently argued; they asked for a new management paradigm as the capitalist system is challenged.

“The capitalistic system is under siege. In recent years, business increasingly has been viewed as a major cause of social, environmental, and economic problems. Companies are widely perceived to be prospering at the expense of the broader community... This diminished trust in business leads political leaders to set policies that undermine competitiveness and sap economic growth. Business is caught in a vicious circle. However, if the purpose of corporate activities is to be redefined around the concept of creating shared value, a new wave of innovation and growth will arise to rejuvenate capitalism in crisis.” (Porter & Kramer, op. cit.)

⁴ McKinsey Global Institute(2013). 『Beyond Korean Style: Shaping a New Growth Formula』.

⁵ Under the Korean Constitution the term, ‘economics democratization’, implies economic equity issues such as promotion of small-scale enterprises, preventing abuses of monopoly power, and achieving better distribution of income and wealth, that may necessitate government policy intervention.

⁶ Michael Porter & Mark Kramer (2011). “Creating Shared Value: How to Reinvent a Wave of Innovation and Growth,” Harvard Business Review, Jan-Feb.

The so-called Park Chung-hee Paradigm, the basis of the 'Miracle of the Han River', was made possible through skillful balancing of market liberalism and government intervention. However, rapid political democratization since 1987 shook the root of Park Chung-hee Paradigm. As the authoritarian political system collapsed, industrial peace could not be sustained by governmental intervention any more. The emergence of strong labor unions and frequent labor disputes undermined Korea's global competitiveness, which eventually led to the foreign exchange crisis in 1997. Economic policies prescribed by the IMF contributed a lot to curing directed bank lending practices and improving the financial structure of big conglomerates and financial institutions in Korea, but caused side effects such as low growth and economic polarization as well.

The role of the government is gradually diminishing as neo-liberal policy trends are widely accepted across economic sectors. Reduced government functions and growing influence of unions and social interest groups have given rise to polarized labor markets and deteriorating wage differential. Simultaneously, profitability-oriented management practices of conglomerates and financial institutions have resulted in sluggish investment in facilities and low economic growth. Stagnant construction activities are also contributing to further deterioration of domestic demand and polarization. As a result, Korean capitalism has been caught in a vicious circle of low growth and polarization.

Just as the country adopted a new paradigm that blended private business activities in the export sector with government interventionist policies through the 5-year Development Plan to escape the vicious cycle of low growth and poverty in the early 1960s, it is now time for Korea to seek a new paradigm of governance to break through the pyramidal wave of low growth, polarization and social stress.

Evolution of Capitalism and Welfare State

Western capitalism has often faced crises due to random external shocks as well as internal shortcomings, but has evolved into a better shape through its efforts for improvement. Kaletsky⁷ summarized the evolutionary process in terms of the following four stages. ① Capitalism 1.0, which began with the First Industrial Revolution in the late 18th century in the spirit of classical liberalism of Adam Smith, marked a historical turning point in terms of economic growth and industrial structure, but resulted in urban poverty and Great Depression in 1929. ② Capitalism 2.0, which began with the New Deal Program in the spirit of Keynesian economics, led to the government assuming a more active role particularly in the field of social welfare. ③ Capitalism 3.0, which began in the early 1980's in the spirit of neo-liberal economics, reduced the size or rationalize the contents of welfare programs. ④ Capitalism 4.0, which got started in the aftermath of the 2008 financial crisis, is making efforts to strike a balance between economic growth and social justice.

"Democratic capitalism is a system built for survival. It has adapted successfully to shocks of every kind, to upheavals in technology and economics, to political revolutions and world wars. Capitalism has been able to do this because, unlike communism or socialism or feudalism, it has an inner dynamic akin to a living thing. It can adapt and refine itself in response to the changing environment. And it will evolve into a new species of the same capitalist genus if that is what it takes to survive"(A. Kaletsky, op. cit.).

⁷ Anatole Kaletsky(2010), 『Capitalism 4.0: The Birth of New Economy』, Bloombury Publishing.

| Table 1 | Evolution of Western Capitalism

Stage	Period	Basic Thought	Main Outcome	Problem
Capitalism 1.0	Late 1800's ~ 1929	Classical liberalism	Industrial Revolution	Urban poverty & depression
Capitalism 2.0	1930 ~ late 1970's	Keynesian economics	Full-fledged welfare state	Government inefficiency
Capitalism 3.0	1980 ~ 2008	Neo-liberalism	IT revolution & globalization	Financial crisis & growing inequality
Capitalism 4.0	After 2009	Pragmatism?	4 th Industrial Revolution	Growing inequality & inhumanity

Source: Kaletsky op. cit

Historically the social welfare sector has played the role of social innovator by solving social problems that arose in the process of Industrial Revolution. In the late 18th century many private initiatives such as poverty studies, charity organizations, and community center movement started in the UK. Furthermore the Bismarck government initiated the social insurance system in Germany, which disseminated to other parts of Europe quickly. In 1942 the Churchill government of UK published the Beveridge Report, which was the first comprehensive national strategy on social welfare that became the role model of welfare state for other European counties. When the welfare state came under criticism in the 1990's, it was the Blair government of UK that came up with 'the Third Way' approach. With the rapid progress of technology since the 1990's wage differential has widened, resulting in worsening of income distribution. Furthermore technological breakthroughs in the field of artificial intelligence and genetic engineering have raised new concerns about the inhumane use of these technologies.

| Table 2 | Evolution of Western Welfare State

Stage	Period	Basic Thought	Main Outcome	Problem
Before welfare state	Before 1880's	Utilitarianism	'Poor Law' to support the poor	Inhumane treatment of the poor
Birth of welfare state	1880 ~ 1945	New liberalism, Fabian socialism	Settlement movement, social insurance	Depression & mass poverty
Growth of welfare state	1945 ~ 1980	Beveridge Report	Full-fledged welfare state	Inefficiency of welfare programs
Restructuring welfare state	After 1980	The Third Way	Workfare, rationalization	Growing inequality

Source: Sang-mok Suh, op. cit.

While the concept of capitalism as well as welfare state have evolved over two centuries in the western developed countries, they have a relatively short history in Korea. The modern capitalism of Korea started with independence in 1945. However despite the short history the process of capitalistic development in Korea has been very dynamic and can be summarized in the following four stages. ① Capitalism 1.0 during the period of 1945~1965 pursued free democracy in politics and market principles in economic management, but could not achieve their intended objectives due to the immature state of Korean society at the time. ② Capitalism 2.0 during 1961~1987 achieved a remarkable progress in economic development by adopting an export-led development strategy, but political development was hampered under the military government. ③ Capitalism 3.0 during 1988~2008 produced remarkable outcomes such as IT-led economic progress, enhanced international status through the membership in OECD and G20, and full democratization. ④ Capitalism 4.0 which is under way since 2009 adopted an inclusive development strategy, focusing on sustainability in economy, business management as well as social welfare.

"The first characteristics of Korean capitalism is its dramatic achievement in a relatively short period of time. Korea has become the only country in the world, which achieved a status change from a developing country to a developed country as well as from an aid-receiving country to an aid-giving country after the Second World War. The second characteristics of Korean capitalism is its ability to develop its own recipe for economic development, namely, the Park Chung-hee paradigm combining the dynamics of private entrepreneurship and the military efficiency of economic planning." (SuhSang-mok, op.cit.)

Table 3 | Evolution of Korean Capitalism

Stage	Period	Basic Thought	Main Outcome	Problem
Capitalism 1.0: Weak gov't, weak economy	1945 ~ 1960	Liberalism, inward-looking economic policies	Institution-building for democracy & market economy	Vicious circle of low growth & poverty
Capitalism 2.0: Strong gov't, strong economy	1961 ~ 1987	Gov't-led strategy, outward-looking economic policies	Han River Miracle	Political authoritarianism
Capitalism 3.0: Democratic gov't	1988 ~ 2008	Democracy, neo-liberalism	IT-led economic growth, membership of OECD & G20	Growing inequality & social discontent
Capitalism 4.0: Sustainable capitalism	After 2009	Inclusive development	Sustainability in economy, business management & social welfare	Challenges from North Korea

Source: Sang-mok Suh, op. cit.

The level of social welfare in Korea has improved markedly in parallel with rapid economic growth despite the fact that the government policy priority has been on economic development until very recently. Social welfare policies before 1960 centered around welfare institutions particularly orphanages. Since 1961 the Korean government started to build the modern social welfare system comprised of pensions, health insurance, and public assistance programs. With the introduction of long-term care system for the elderly in 2008, Korea had completed the process of constructing a

modern social security system. Since 2009 the Korean welfare policies have focused on improving the efficiency of the social welfare system, drawing lessons from the developed countries' experience.

Table 4 | Evolution of Korean Welfare State

Stage	Period	Basic Thought	Main Outcome	Problem
Before welfare state	1945 ~ 1960	Minimum support for the poor	Welfare institutions such as orphanages	Dependent on foreign relief programs
Birth of welfare state	1961 ~ 1987	Economic growth first strategy	Gradual introduction of social security system	Unmet demands for social welfare
Growth of welfare state	1988 ~ 2010	Social development emphasized	Completion of the modern social security system	Growing inequality, Low fertility
Strengthening welfare state	After 2010	Inclusive development, social solidarity	Improved Korean Model of welfare state	Crisis in social welfare finance

Source: Sang-mok Suh. Op/ cit.

Integration of Economics and Welfare: 'Welfareonomics'

There is a saying, "new wine must be put into new wineskins." In history, whenever capitalism faced crisis and solutions were needed, new theories and philosophies emerged to support the reinvention process. The First Industrial Revolution, which began in the late 18th century, was based on the classical liberal market economy principles presented by Adam Smith. The Keynesian economics became the theoretical basis for expanding the role of government and the construction of welfare state since the Great Depression of 1929. The neo-liberal theories of Hayek and Friedman have become the foundation for welfare state reforms since the 1980s.

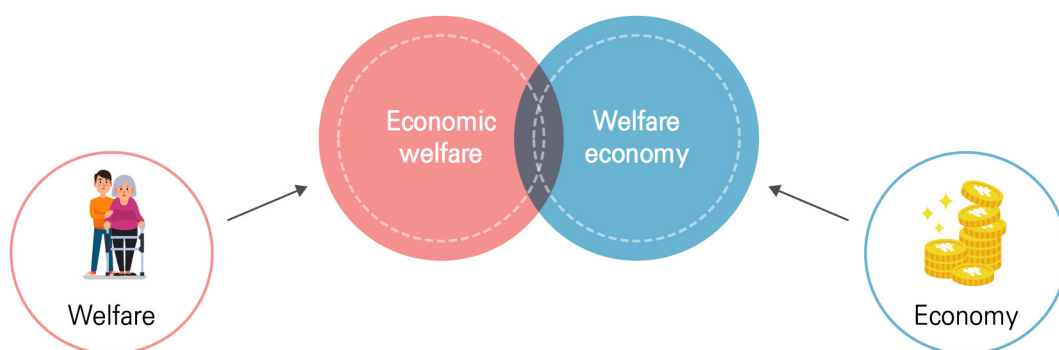
Therefore, in order to capture the two rabbits of economic vitality enhancement and alleviation of polarization, which have emerged as new

challenges for Korea and the world following the 2008 financial crisis, an overarching framework of integrated thinking encompassing economy and welfare is needed. We can name it ‘welfareonomics’, a term coined to refer to the integration of welfare and economics⁸.

‘Welfareonomics’ is based on the perception that economy and welfare are the opposite sides of the same coin and that the 21st century is an era where new academic fields are created via interdisciplinary convergence. ‘Welfareonomics’ is also an example of applying to economy and welfare the concept of “cooperative competition, or co-opetition,” which means competition and cooperation can be harmonized to create new synergies.

“Co-opetition offers a theory of value. It’s about creating value and capturing value. There’s a fundamental duality here: whereas creating value is an inherently cooperative process, capturing value is inherently competitive.” (Brandenburger & Nalebfff, op.cit.)

| Figure 1 | Structure of welfareonomics



Basically, ‘welfareonomics’ is an attempt to establish a new development paradigm by modifying the existing neo-liberal market economy model to develop an inclusive capitalist system that boosts ‘welfare economy’ through

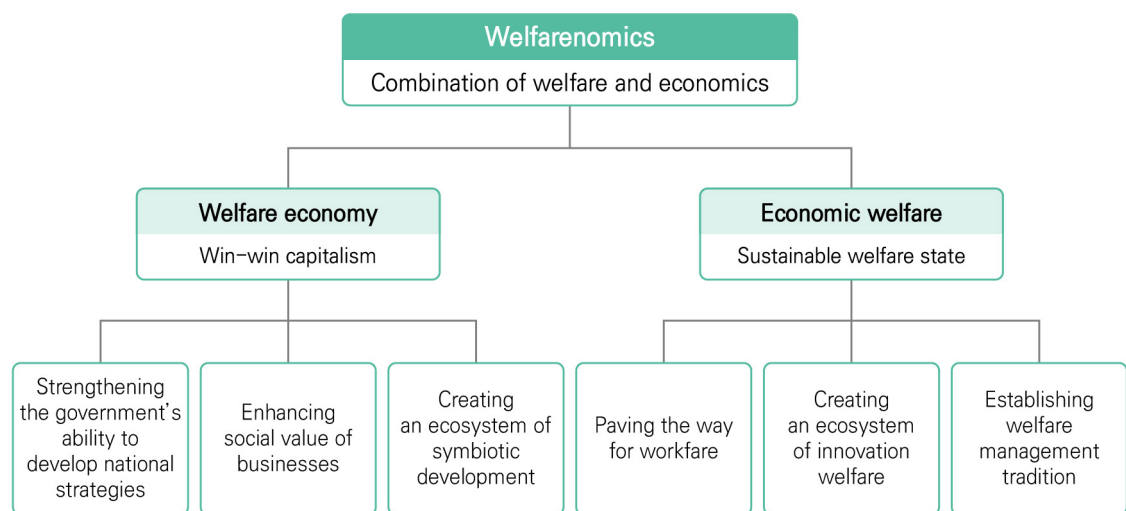
⁸ Sang-mok Suh (2013), 『Welfareonomics: The Road to a Sustainable Capitalism and Welfare State』(in Korea), BookKorea.

‘win-win capitalism’ on the one hand, and realizes ‘economic welfare’ by enhancing the sustainability of the existing western welfare state model on the other.

Welfare economy starts with strengthening the government’s ability to formulate national strategies and can be achieved by enhancing social values of businesses and helping civil society function better so that it creates an ecosystem of symbiotic development. In addition, economic welfare can take place by providing customized employment programs to the vulnerable based on the recognition that jobs are the best welfare, promoting social innovation in the process of implementing various social welfare policies, and establishing the tradition of welfare management through maximizing the social impact of welfare programs.

The concept of ‘welfarenomics’ and policy proposals for its implementation will not only help Korea escape from the vicious circle of low growth and polarization, but lead the argument between the right and the left over economic and welfare policies toward a more productive direction.

| Figure 2 | Basic components of welfarenomics



Sustainable (Creative) Welfare State

To turn Korea into a sustainable welfare state, the focus of discussion should be on how to implement the concepts of ‘workfare’, innovative welfare and welfare management. Unlike the old way of thinking that welfare is to extract more tax from the rich and distribute revenue to the poor, the primary goal of ‘welfareconomics’ is to present the blueprint for a sustainable welfare state based on the belief that welfare contributes to economic growth by creating jobs for the vulnerable sectors of society. It is recognized that vigorous activities of social entrepreneurs drive social innovation and set in motion of a creative and sustainable new growth engine, generating social impact most effectively with various management techniques.

In the light of the difficulties advanced economies have faced both internally and externally since the 1980s, the conventional western welfare state model has already undergone a major revision. The UK has adopted the Third Way and a policy line of ‘welfare to work(workfare)’ from the late-1990s; other developed countries have been making every effort to develop policies for ‘workfare’. Customized job programs for the underprivileged are being implemented, and many developed countries are actively working on setting up a new welfare–employment delivery system that can provide administrative supports for the programs.

“I believe social democracy can not only survive, but prosper, on an ideological as well as a practical level. It can only do so, however, if social democrats are prepared to revise their pre-existing views more thoroughly than most have done so far. They need to find a third way. (Anthony Giddens, op. cit.)

However, in Korea related departments such as the Ministry of Health and Welfare, the Ministry of Employment and Labor and the Ministry of Gender Equality have separate service delivery systems, resulting in

inefficiency of public welfare services. Furthermore, private welfare institutions are not cooperating with each other, and services are not shared between public and private institutions either. To solve this problem from the roots, a nationwide welfare–employment delivery system should be set in place.

As social innovation has become important, the role of social entrepreneurs as innovators has been emphasized, and it has become imperative to foster and develop the social finance market to support their activities. In the UK, a special committee for nurturing the social finance market was established through concerted efforts by the government and the private sector during 2000~2010. In the United States, private sector–led social venture capital activities have gained significant momentum. In recent years, the Social Impact Bond (SIB) system has also been promoted in the UK, America, New Zealand, and Korea to enhance the social impact of public projects and boost the social finance market at the same time.

Although Korea’s social finance sector is at an early stage, it seems necessary for the government to pay more attention to and actively engage in the social finance market development, following the example set by the UK in order to realize a sustainable welfare state. Among others, a ‘Social Finance Development Council’ consisting of experts and a specialized entity to promote research and exchanges in the field of social finance should be established. Further, the introduction and expansion of an SIB system should be positively reviewed for optimal social impact of social welfare programs and the development of the social finance market.

There have also been attempts to apply business management principles to the field of social welfare. Efforts are under way to measure and maximize the social impact of social welfare programs and other public projects, and new public management theories are emerging to back such efforts. Service purchase contract systems have become widespread, and today’s social

welfare projects incorporate management evaluation systems, supported by balanced scorecards consisting of performance objectives in several areas including finance, customer management, internal management and growth potential.

An attempt has also been made to apply the concept of management efficiency in the field of social welfare in Korea, which however remains at its early stage. A management evaluation system for social welfare institutions has been introduced since 1998, and the e-voucher system was also put in place in 2007 to induce the social welfare sector operate competitively. Under the Act on Social Security revised in 2013, the government is required to come up with the Master Plans for Social Security. The Korean Academic Society of Welfare Management was inaugurated in 2011 and has been leading research activities in this field. Nevertheless, apart from the populist promises made during political campaigns to attract voters in the short term, governments should take the lead in providing a clear picture for a sustainable and creative welfare state, and actively work towards shaping a national consensus on it.

Inclusive (Warm) Capitalism

There is a growing opinion that neo-liberalism should also be evolved to a higher level as neo-liberal philosophy, the theoretical basis for reforming the ailing western welfare state, which has caused side effects such as polarization and global financial crises. Korea succeeded in overcoming the 1997 foreign exchange crisis quickly by earnestly driving the IMF-directed neo-liberal reforms across financial and corporate sectors, but its polarization level has deteriorated as has been happening with other OECD member countries.

The first prerequisite for ‘inclusive capitalism’ is that the government changes the neo-liberal position of minimizing its role as much as possible. Further, the government’s function to formulate strategies and put them into practice needs to be strengthened to resolve current issues such as unemployment and polarization. In particular, Korea enjoyed great success in establishing and implementing similar strategies during the Miracle of Han River. Therefore, it seems very natural to redefine the role of government in implementing the approach that balances ‘liberal market economy’ and ‘government-led market economy’⁹. In order to help the government function better in terms of strategy-formulation in the economic sector, the Korea Development Institute (KDI) may serve as the secretariat of the National Economic Advisory Council, the body designated by the Korean constitution.

The second requirement of ‘inclusive capitalism’ is that the civil society plays a leading role in creating an ecosystem of symbiotic development. Until now, civic organizations in Korea have focused their activities on political agenda from perspectives of rigid ideology. However, as the issue of democratization is more or less settled in Korea and communism is disappearing globally, civic organizations should lead the Korean society to a path of symbiotic development through dialogue and cooperation, rather than conflict and discord. To this end, educational activities should be organized systematically to cultivate a sound civic culture in Korea, the operation of civic organizations should be made more democratic and transparent, and active supports for the civil society should be provided at the government and business levels.

⁹ Hall & Suskice (『Varieties of Capitalism』, Oxford University Press, 2001) classifies the type of capitalism into the following three categories; ① liberal market economy such as US and UK where wages are determined through the market mechanism, ② coordinated market economy such as Germany and Sweden where wages are determined through the negotiation process between management and labor union, and ③ government-led market economy such as Korea under the Park Chung-hee regime where the government plays a dominating in managing economy.

The third and most important requirement is to help businesses direct their economic activities to create more social value. In Korea, companies have become better aware of their corporate social responsibility, but they need to adopt more concrete measures to fulfill their corporate social responsibility while increasing their economic value as well. The concept of Corporate Social Responsibility(CSR), first introduced by Howard Bowen¹⁰ in 1953, has become a standard paradigm in business management nowadays. Recently the concept of CSR has evolved into the concept of Creating Shared Value (CSV) by Porter and Kramer¹¹, already being put into practice by many global companies. Therefore, if Korean companies learn from these experiences and develop a new business model fit for them, their social value will be raised.

“In the operation of our economic system, the businessman occupies a position of great influence and leadership. Are businessmen obligated to consider social consequences when making their decisions? If so, do they have social responsibilities that transcend obligations to owners or stockholders? The answer to both these questions is clearly yes.” (Howard Bowen, op. cit.)

Milton Friedman¹², a leading theorist of neo-liberalism, argues, “the social responsibility of a business is to increase its profits.” This can be regarded as the perspective of ‘shareholder capitalism’, in which businesses work for the interests of shareholders only, but this view is gradually changing even in the United States with the strongest liberal tradition.

Unlike shareholder capitalism, the ‘Stakeholder Theory’ examines the role of a company from a broader perspective. According to this theory, the

¹⁰ Howard Bowen(1953), 『Social Responsibilities of the Businessman』, re-published by University of Iowa Press in 2013

¹¹ Porter & Kramer (2011), op. cit.

¹² Milton Friedman (1970), “Social Responsibility of Business Is to Increase Its Profits,” New York Times Magazine, Sep 13.

positions of indirect stakeholders such as the community and the country at large should be taken into account at the core of business management, not to mention the interests of direct stakeholders such as investors, workers and parts suppliers. And this is a better business strategy from the medium and long term perspective. The Stakeholder Theory was first introduced by the Stanford Research Institute (SRI) in 1963, and the theory has become widely known after Edward Freeman¹³ published a book about the findings of this research.

"The new narrative about business must also be one of "business in society". It needs to place a concern with ethics, responsibility, and sustainability on a par with profits. All are important and none can be ignored. More than ever, we need a story about "responsible capitalism."
(Edward Freeman, op. cit.)

As a business ecosystem theory, James Moore¹⁴ applied to industries the concept of 'Co-evolution', suggesting that "a variety of creatures coexist, competing with one another as predators become extinct if their prey disappears in the food chain of the natural ecosystem." Moore divides the evolution of the business ecosystem into four phases: creation, expansion, leadership, and self-reproduction, and emphasizes that every phase needs competition and cooperation at the same time. Therefore, if a company achieves harmony of competition and cooperation in the process of creating a new ecosystem, it will succeed; if not, it is bound to fail.

Since Korea has a long tradition of government-led economy, the government's business policies are still largely interventional. The government provided extensive support in the areas of taxation and finance to foster export industries in the 1960s, and facilitated the heavy chemical industry by selecting 'promising' industries and giving them various benefits in the

¹³ Edward Freeman (1984), 『Strategic Management: A Stakeholder Approach』, Boston: Pittman.

¹⁴ James Moore (1996), "The Death of Competition: A New Theory of Competition," New York: Harper.

1970s. In the process, as concentration of economic power deepened, the government started to regulate directly bank credits to conglomerates, and has been implementing various taxation and credit policies to protect SMEs since the 1980s. As polarization has worsened in recent years, regulations on conglomerates are stepped up for the sake of ‘economic democratization’, while SMEs are protected more than ever for the purpose of promoting ‘inclusive growth’.

Now in the era of globalization, Korea’s big firms compete fiercely in the global arena, and countries around the world are doing their best to attract companies’ investments. At this point, therefore, the industrial policy of the Korean government should be changed: they need to be directed at creating a new business ecosystem where companies can enhance their competitive edges through competition and cooperation, rather than regulating or artificially protecting business operations.

The new business ecosystem should pursue ‘co-evolution’ by which companies cooperate while competing freely, and management strategies to create shared value will be the key agenda in this ecosystem. Co-evolution and shared value creation is not a zero-sum game but a plus-sum game, which is similar to the concept of ‘co-opetition’, where competition and cooperation coexist to create a robust and dynamic ecosystem that can survive fierce global competition.

To make this new business ecosystem happen, efforts are needed on the part of firms to shift their business management practices before the government’s action. If large corporations actively pursue CSV(Creating Shared Value) as their basic management strategy beyond “CSR(Corporate Social Responsibility)”, people are bound to see them from a different viewpoint than they do now.

In particular, if the Federation of Korean Industries and the Korean Chamber of Commerce and Industry, which represent the private business

sector in Korea, play a leading role in promoting CSR activities and boosting new CSV initiatives, this will help to change public sentiment on business and help companies to forge new partnerships with the government, and NGOs and the community at large. Furthermore, the Korea National Council on Social Welfare, which plays the role of a bridge between the private sector and the government in the field of social welfare, can become an intermediary and facilitator to connect CSR activities to social welfare fields.

While companies strive to improve their social reputation by means of business operations based on a long-term and convergent perspective as mentioned above, the government should change its existing anti-market and regulatory business policy to a market-friendly and plus-sum approach.

Beyond Left and Right

In the western developed countries the distinction between the left and the right originated from the French Revolution. After the Revolution the French politics was divided into two groups: 'Jacobins', which advocated radical political reforms, sat on the left side of the Speaker's podium, while 'Girondins', which adopted relatively moderate political positions, sat on the right side. Since then the left is referred to as a group of people who pursue radical social reforms and the right as a group of people that tends to support relatively moderate social reforms.

In modern days the left tends to support the welfare state and government intervention to achieve greater equity, while the right empathizes economic efficiency and a smaller government. "Beyond Left and Right" is the title of the book by Anthony Giddens¹⁵, a British leftist sociologist who proposed

¹⁵ Anthony Giddens(1994), 『Beyond Left and Right: The Future of Radical Politics』, Polity Press

a new economic paradigm, called 'The Third Way'¹⁶, which interweaves the right-wing principle of market competition in a globalized world with the leftist ideals of social solidarity and justice.

Korea has a long history of party politics from the beginning of the Yi Dynasty in the 15th century but it is not possible to divide Korean political parties during the Yi Dynasty in terms of the right and the left as political factions at that time were based on personal connections rather than political philosophies. After the fall of Yi Dynasty in 1910 the Korean politics got divided into two groups, the rightist group that took inspiration from the independence movement in the United State and China with the western philosophy of free market and democracy, and the leftist group that led the independence movement in Manchuria and Korea under the influence of communism.

Right after independence in 1945 there was a severe conflict between these two groups in the process of competing for political hegemony in the new nation. Kim Il-sung formed a communist government in the North with the help of Soviet Union, while the right-wing political group led by Rhee Syngman established a free democratic government in the South in 1948 with the help of the United States. Due to the totalitarian nature of North Korean government only the extreme leftist can survive in the North, while the South Korean politics is divided into parties that pursue the right-wing and leftist views. At present there are two criteria for separating the right from the left in South Korea, namely stance on communism and degree of support for social welfare. The rightist camp consists of the old right, who puts the highest priority on anti-communism, and the new right, who prefers market mechanism to guide the economy over government intervention. And the leftist camp also consists of the old left with an amicable attitude towards the North Korea communist regime, and the new

¹⁶ Anthony Giddens(1998), 『The Third Way: Renewal of Social Democracy』, Polity Press

left longing for a European style welfare state.

Since democratization in 1987 the balance between the right and the left was maintained until 2017. However the impeachment of President Park Geun-hye and subsequent landslide victory by Moon Jae-in in the 2017 presidential election broke the delicate political balance in favor of the left. As a result the Moon Jae-in government has maintained a strong leftist stance not only in economic policies and social welfare policies but also in foreign policies and inter-Korean policies, often leading to heated debates and conflicts between the right and the left on the contents of government policies.

Considering the current political situation in Korea where the conflict between the right and the left is very intense, the concept of 'welfarenomics' can provide a policy framework that can create consensus between the left and the right. 'Welfarenomics' embodies most of the 'Third Way' policy recommendations by Giddens, who tried to improve sustainability of the welfare state by linking the social welfare programs to job opportunities for welfare recipients. 'Welfarenomics' also incorporates the concept of not only business management but also social innovation in the implementation process of social welfare programs so that the rightist camp can accept the idea of welfare state more easily.

Furthermore, 'welfarenomics' emphasizes the social responsibility of business firms, which can make the concept of capitalism and market economy more agreeable to the left. The transition from 'shareholder theory' to 'stakeholder theory' implies an attempt by the right to adjust capitalism in a way that is more acceptable to the left. Interestingly the stakeholder theory lends strength to the concept of Corporate Social Responsibility(CSR) because it argues that the CSR activities bring greater financial returns to a business firm from the medium and long term perspective. The evolution from CSR to CSV(Creating Shared Value) further strengthens the argument

that business firms can create both economic and social values at the same time.

The concept of 'welfareonomics' proposes a greater role for the government in the field of not only social welfare but also in economic policy strategy-making, which is an important departure from the neo-liberal viewpoint that proposes that the government assume only a minimal role. Furthermore 'welfareonomics' stresses the importance of creating an ecosystem of symbiotic development for the civil society. The civil society has always played an important role in the western democratic society since the ancient Greek days. Maintaining the tradition of civic empowerment in the democratic society is certainly an important element of the ideal society for the right as well as the left.