

# States of Welfare: The Social Context of Tax-Welfare Backlash in Japan and Korea

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**Abstract.** This paper explains why and how Japanese and Korean citizens resisted the recent reform of the respective centre-left governments to increase tax revenue in exchange for the provision of more welfare benefits. This paper investigates "states of welfare", that is, actual means supporting citizens' livelihoods, to understand the unique social context of tax-welfare backlash in East Asia. Under the developmental regimes, East Asian citizens have long depended on informal social norms and resources to substitute for the shortage of formal welfare benefits. They now resisted the new tax-welfare system, because this system strengthened the extractive capacity of the state and thereby undercut existing norms and resources. States of welfare also explain diverging patterns of tax-welfare backlash between Japan and Korea. Having more political networks to defend their states of welfare collectively, Japanese citizens were more likely to organize collective actions against the reform than Korean citizens.

Recently, the citizens' tax revolts and ensuing political trouble in the process of welfare expansion— known as "tax-welfare backlash"—were a common challenge to centre-left governments in Japan and South wKorea (hereafter referred to as Korea). Many citizens confronted the Democratic Party of Japan (DPJ) (2009–2012) and Moo-Hyun Roh governments (2003–2008), about their aim to increase tax revenue in order to finance new welfare programs. The situation in Japan was more dramatic than in Korea because the country underwent a wave of organized protests. President Roh in Korea did not face such an organized backlash. However, the self-employed, the main protestors of

Roh's reform, expressed grievance through opinion polls and voting, and contributed to the negative atmosphere against the government.

Why did Japanese and Korean citizens resist the centre-left reform to establish a new tax-welfare system? One may refer to studies of welfare state scholars and political economists on the cases in European countries and the United States (e.g., Martin and Gabay 2013; Wilensky 2002). They found that levels of taxation are not a major determinant of tax-welfare backlash. Instead, backlash becomes likely when the government (1) commits more to tax collection than to welfare expansion, and/or (2) relies heavily on visible taxes, including income tax and property tax.

However, this finding did not exactly hold true for tax-welfare backlash in East Asia. Japan's and Korea's centre-left governments did not commit to tax hikes excessively. The DPJ's "comprehensive reform" (*ittai-kaikaku*) combined consumption tax increase *with* a vision for welfare state construction. This strategy markedly differs from that of the former Liberal Democratic party (LDP) government, which only struggled to introduce value-added tax (VAT) or raise its rate.<sup>1</sup> The strategy of Korea's Roh government was similar to that of the DPJ. While trying to collect more taxes, the Roh government implemented new welfare programs to protect citizens from the risk of social inequality. Both Japanese and Korean governments also avoided increasing "visible" taxes. The DPJ opted to raise the consumption tax rate, not the income tax rate. Roh opted to widen the income tax base gradually, rather than increase the tax rate directly. He introduced the comprehensive real estate tax, but levied it only on 3% of the nation's total households.

Therefore, a new explanation is required to analyze the tax-welfare backlash in East Asia. Existing literature emphasized the limits of the centre-left reform to making citizens expect high welfare benefits and low tax costs. The economic views, including rational choice theory and new institutional economics, highlight enormous costs that individuals or society must bear. Political explanations contend that the reformists failed to convince citizens of the reliability of welfare benefits. Alternatively, this paper shifts its attention to a deep context in East Asian society, which made many citizens react to the reform immediately. It draws on the concept of "state of welfare" (Pinker 1973), referring to the actual conditions of citizens' well-being, determined by informal as well as formal welfare resources. States of welfare in East Asia are unique, particularly compared

with many Western countries: citizens have developed variegated informal norms and resources—including low-tax norm, welfare-through-work norm and institutions, tax-saving opportunity, and extended community ties—to substitute for the shortage of formal welfare benefits under the developmental regimes. This explains tax-welfare backlash in East Asia. This paper argues that the backlash originated from the immediate concerns of citizens about the loss of existing norms and resources due to the strengthened extractive capacity of the state.

States of welfare also account for diverging patterns of backlash between Japan and Korea. This paper claims that the divergence depends on whether citizens have effective political networks to defend their states of welfare collectively. Japan's developmental regime was permissive enough to allow the growth of citizens' associations in defence of livelihood security. The Korean regime was coercive against associational networks of citizens. Even after democratization, social groups remained poorly staffed and underrepresented by politicians. Such difference explains why Japanese citizens were likely to organize collective actions against the new tax-welfare bargain. Conversely, the backlash in Korea took an individual form because citizens lacked effective networks for expressing their grievance collectively.

The remainder of this paper is organized as follows. After reviewing existing discussions, the next section emphasizes the unique states of welfare in East Asian society as the main context explaining the cause and processes leading to tax-welfare backlash. The following two sections investigate the cases in Japan and Korea to corroborate proposed arguments. The final section comments on the implications of this study.

### **The East Asian Context of Tax-Welfare Backlash**

Some might say that East Asia's reform for a new tax-welfare system faced social backlash because it offered unreliable welfare benefits and unbearable tax costs. However, this paper expands the discussion by shifting attention to a deeper social context of East Asia. Both in Japan and Korea, unique informal norms and resources played critical roles in stabilizing citizens' livelihood security. This

section hypothesizes that citizens resisted the centre-left reform because the reform undercut these norms and resources.

### ***Low benefits and high costs?***

Existing discussions are mainly concerned for why the new tax-welfare system did not satisfy material needs of citizens. The first answer is provided by rational choice theory, which assumes a "something-for-nothing" rationality of individual citizens (Hadenius 1986; Sears and Citrin 1982): citizens hardly accept any tax hikes as a precondition for welfare expansion, because they are only ready to approve new welfare programs when others pay taxes. Some Japanese commentators applied this logic when they criticized former LDP politicians (such as Prime Minister Yasuo Fukuda) who proposed a consumption tax hike to make pension schemes more sustainable. Kikuchi (2009) claimed that citizens would not pay additional taxes although they needed more welfare benefits. He argued that the reduction of wasteful public spending would be a single solution. In Korea, the economic slump explains why citizens are sharply rational (J.-C. Kim 2006). Although citizens have claimed for more welfare programs to compensate for income loss, the slump has also made them reluctant to pay taxes.

New institutional economics (e.g., Aoki 1988) would highlight social, rather than individual, costs: society and industries need to pay enormous transaction costs when a new tax-welfare system is introduced. Park and Ide (2015) explained that Japanese citizens have vested interests in the low tax rate and generous tax exemptions, and thus opposed tax hikes. Yang and Min (2013) argued that raising an income tax rate will dampen the Korean industry, since many exporters still depend on low wages to compete with manufacturers of developing countries.

While economic views focus on unbearable costs caused by a tax-welfare system, political commentators have questioned the reliability of welfare benefits. According to the theory of the welfare state, the construction of that state depends on a coalition of leftist governments and well-organized labour movements, which educate member workers to bear additional tax costs for the sake of welfare expansion (Esping-Andersen and Korpi 1984). However, Japan and Korea each lack this condition. Although Rengō (Japanese Trade Union Confederation) supported the DPJ's plan of a

consumption tax hike, this umbrella union could not persuade rank-and-file workers. In the eyes of these workers, Rengō's support for the DPJ's comprehensive reform was only for strengthening political ties between the two (Fukue 2011). Low unionization is a hurdle for Korean labour movements to build working-class solidarity (Yang and Cheong 2012). Further, two Korean umbrella unions, the Federation of Korean Trade Unions and the Korean Confederation of Trade Unions, stayed calm about President Roh's welfare-tax package.

Other political observers find the process of reform creation too troublesome to make citizens support it. Conflicts within the DPJ undermined the trust between the government and citizens. Secretary General Ichiro Ozawa, a co-founder of the DPJ, criticized Prime Minister Noda, claiming the DPJ should return to the no-tax-increase principle. When the government stuck to its tax-hike plan, Ozawa and 49 of his fellow lawmakers left the DPJ. Such conflicts caused citizens' frustration about the DPJ's reform performance. Kono and Kobayashi (2013) showed this frustration ran deeper among the DPJ's supporters. 61% of them did not agree with the tax-hike plan, while only 52% of LDP supporters did not. A similar conflict occurred in Korea between President Roh and the ruling Yeollin Uri Party. Four months before presidential elections in 2007, the Uri Party submitted a tax-cut plan to compete with the conservative Grand National Party (GNP), which offered pork-barrel programs to the growing number of the poor. This made it more and more difficult for citizens to trust President Roh's commitment to welfare expansion.

The above discussions explain why citizens hardly accepted the recent tax-welfare reform. The something-for-nothing rationality can explain the attitude of low-income workers, including non-regular workers. They need new welfare programs, but cannot afford them. Political explanations account overall for citizens' suspicions of the government's commitment to welfare expansion. However, these discussions have some limitations. First, they account for why citizens *disagreed* with the reform, but not why they *resisted* it. In fact, citizens radically turned against a tax-welfare package, although they had once supported welfare commitments of the centre-left leadership. Second, existing discussions portray the citizens as acting without any social preconditions, only after assessing costs and benefits from reform policies. Especially, they do not pay attention to how East Asian citizens have managed to maintain their livelihood in the past. The result excludes the possibility that citizens

resisted to protect the existing patterns of livelihood from new reform measures. Finally, the existing discussions preclude any comparison between Japan and Korea. Why were Japanese citizens more prone to organize protests than Korean ones? We must discuss this.

### ***States of welfare and tax-welfare backlash in East Asia***

Therefore, a relation between social context and tax-welfare backlash must be investigated. A useful insight comes from Pinker (1973), who coined the term "state of welfare" to describe citizens' livelihoods more vividly than welfare state theory. This term refers to actual conditions of ordinary citizens' well-being in a society, influenced by "the complete range of activities by which they seek to enhance their own well-being through individual and collective endeavour" (Pinker 1973: 3). The means supporting states of welfare are diverse, including not only formal social entitlements but also informal social norms, resources, and networks available for citizens to protect themselves from market fluctuation (e.g., Kääriäinen and Lehtonen 2006).

States of welfare in East Asian society are unique in this regard. While Western countries have institutionalized welfare states, Japanese and Korean citizens rely on informal norms and resources to improve their states of welfare (Jackson 2003; Chang and Turner 2012). Citizens have had to respond to developmental regimes that have been stingy with social welfare programs, and have thus developed variegated types of informal norms and resources (see Table 1).

Some norms and resources directly derive from the weak extractive capability of developmental regimes. Both in Japan and Korea, low taxation is an important resource. As a "functional substitute for social spending" (Park and Ide 2014: 683), the state's practice of low taxation has stabilized disposable incomes for ordinary citizens. Some occupational groups regard low taxes as a norm. Farmers, small businesses, start-ups, and low-income households have expected tax relief, not heavy taxes, particularly during economic slowdowns.

In Korea, meanwhile, tax savings helped to preserve states of welfare. Not only high-income professionals, but also low-income small shop owners, underreport their income to reduce tax payments. The techniques for tax-saving include the offering of consumers' discounts for cash payments with no receipt, fraudulent paperwork in account books, and the report of higher wages than

actually were paid. All these techniques are illegal, but self-employed individuals have treated them as socially acceptable. An imbalance between the large self-employed population and the understaffed tax agencies has underpinned this income underreporting. The government also tolerated the tax-saving practice of the self-employed. Throughout the 1990s, for example, it selected only 1% of small businesses for tax investigation, and waived this inspection entirely during the economic downturn.<sup>2</sup>

In addition, East Asian citizens have constructed their own norms and resources in industrial society. The best example is the norm of "welfare-through-work" (Miura 2012). In Japan and, to a lesser extent, in Korea. This norm has helped skilled workers obtain robust job security at workplaces in exchange for their contribution to production increase, stabilizing their incomes. Some institutions have supported the welfare-through-work norm. Lifetime employment and seniority wage systems have enabled workers to accumulate incomes without worrying about arbitrary dismissals and changing technological environments. In Japanese workplaces, particularly, the norm calls for employers not to reduce wages to economize production costs. Workplace wage negotiations, namely *shuntō* (spring offensive), limit wage reduction, and employers have used an alternative workforce to save production costs.

Meanwhile, small businesses have stabilized livelihood by depending on family ties and community networks. The community networks are a key route to acquiring business information and maintaining market share. Household economy functions as welfare resources for small business owners, since multiple household resources of all family members are available for them. If other family members support the household economy financially, the self-employed maintain even unpromising firms. This type of social resource has been more noticeable in Korea, where small-business owners constitute more than 30% of the working population.

Such unique states of welfare, summarized in Table 1, helps explain why Japanese and Korean citizens immediately resisted the new tax-welfare system. The centre-left governments may anticipate that their reform would reduce citizens' dependency on informal norms and resources and that new welfare programs would become the major factor supporting citizens' states of welfare. However, the new welfare system could not exist without strengthening the state's extractive capacity and, thus, without undercutting informal norms and resources. For examples, tax hikes have destroyed the norm

of low taxation, and enlarging the tax base has deprived small business owners of tax-saving opportunities. Existing workplace institutions and community networks hardly buffered the negative impacts of tax hikes on livelihood security. That is, a sudden shift to a new tax-welfare system meant a trade-off between the state's extractive capacity and citizens' states of welfare: an open source of political conflict in Japan and Korea.

[Table 1 here]

A close look at the states of welfare in East Asia overcomes the existing explanations about tax-welfare backlash. Rather than measuring benefits and costs that the new reform may cause, the new approach provides a more political interpretation. It looks into a substantive area of political struggles in which political ambition to create a new system collides with citizen lifestyles. By doing so, it can communicate with fiscal sociology (e.g., Wagner 2007; Campbell 1993), which explores a relationship between fiscal policy and social context. It is also a more historical approach, accounting for how previous developmental regimes shaped the unique states of welfare in society, and how this legacy has now led to tax-welfare backlash.

Additionally, an investigation of states of welfare allows the comparison of different patterns of tax-welfare backlash between Japan and Korea. Some citizens could utilize political networks in order to represent their norms and resources collectively, while others could not. This paper hypothesizes that the diverging nature of developmental regimes in Japan and Korea allowed for different types of political networks in each country, and this difference has now created distinctive patterns of tax-welfare backlash.

Two dimensions are helpful for grasping the distinctive nature of political networks in each country (see Table 1). The first is internal networks within social groups, indicating to what extent citizens voluntarily associate to protect their values and livelihood (Lake and Huckfeldt 1998: 570). In recent decades, Japan experienced the gradual growth of social groups both in numbers and membership. A relative permissiveness of Japan's developmental regime enabled resulted in growing civil activism that creates voluntary social groups to protect common norms and resources (Pekkanen 2006). In contrast, Korea's authoritarian regime was quite coercive against citizens who liked to unite themselves to preserve their rights. It is after the democratic shift in late 1980s that Korea witnessed



the explosive increase in the number of social groups. Yet, most social groups have remained poorly staffed without mobilizing citizens (E. Kim 2009).

The other dimension is external networks of social groups. It involves whether social groups have institutional networks with the political elite (Booth and Richard 1998: 780). These networks include policy supports for or partnership with political parties, contacts with policymakers, and lobbying government officials. In Japan, many types of social groups have acquired such networks, especially locally. Non-radical social groups have been allowed to participate in policymaking and they have been able to block the creation of unfavourable public policies. Conversely, social groups in Korea have not shared any institutional channels with the political elite. Democratization has resulted in an increasing number of movement leaders recruited into government posts. However, most social groups have no opportunity to help make public policy.

The above difference in political networks explains why Japanese citizens were more likely to organize collective actions against the new tax-welfare system than Korean citizens. When the DPJ government imposed a new tax-welfare system, diverse social groups resisted through existing political networks. Meanwhile, organized patterns of social backlash were almost invisible in Korea, where such networks remained underdeveloped. However, Korean citizens are not without ways to express their concerns. The self-employed, the primary discontents of President Roh's tax reform, influenced public opinion by participating in elections and opinion polls. With this understanding, the following sections discuss tax-welfare backlash in both nations in detail.

### **Japan: Organized Backlash against the Comprehensive Reform**

The DPJ's rise to power in 2009 was associated with citizens' enthusiasm for "redressing social inequality" (*kakusa zesei*). As the LDP's neoliberal reform deepened inequality, the left-leaning DPJ established itself as a guardian of traditional norm of "predominantly middle-class society (*sōchūryū-shakai*)."<sup>1</sup> In the 2007 upper-house elections and the 2009 lower-house elections, the DPJ gained more appeal than the LDP due to its aggressive welfare policies. The party pledged to construct a universal

welfare state, suggesting childcare allowance, minimum wage increase, and minimum guaranteed pension. It also offered active labour-market measures, which would help a growing number of marginal workers to participate in labour markets.

However, financing welfare pledges emerged as a daunting task for the incoming DPJ government. Secretary General Ichiro Ozawa and Prime Minister Yukio Hatoyama (2009–2010) did not consider a tax hike. However, two subsequent prime ministers, Naoto Kan (2010–2011) and Yoshihiko Noda (2011–2012), embraced the opinion of the Ministry of Finance and changed the party's position. They admitted a need to increase consumption tax to fund welfare programs without hurting fiscal soundness. Kan announced that he would double it up to 10% to fund welfare programs. Noda offered a more concrete plan: "comprehensive reform" (*ittai-kaikaku*), which combined a two-step increases in consumption tax rate—from 5 to 8% in 2014, and to 10% in 2015—with the plans for welfare development.

Prime Minister Noda bargained with three political actors to implement the reform. The first was the opposition LDP. It was not difficult to negotiate with this conservative party, which has claimed for the consumption tax hike consistently.<sup>3</sup> The costs of negotiation were immense, however. In exchange for agreement to comprehensive reform, the LDP asked Noda to dissolve the lower house and call a snap election. Second, the Noda cabinet had to bargain with traditional corporatist partners, including Keidanren (Japan Business Association) and Rengō. Both felt the consumption tax hike was the second best option. Large businesses were more concerned about income tax increases that would increase wages. In 2005 when the LDP government decided to reduce the rebate for income and residential taxes, workers in large businesses promptly called for wage compensation. From 2006 to 2009, as a consequence, workers continued to get them, shifting the new tax burden to employers (Japan Institute of Labour Policy and Training 2014, 13). Rengō therefore preferred a consumption tax hike to an income tax increase, and showed no opposition when the returning LDP cabinet implemented the DPJ's plan of consumption tax hike in 2013. Rengō president Nobuaki Koga called the plan already agreed on and legally stipulated in 2012' (Nihon Keizai Shimbun 2013).

The Noda cabinet also needed to persuade ordinary citizens. After announcing the comprehensive reform in January 2012, Prime Minister Noda repeatedly held public speeches and press

conferences to emphasize the inevitability of his reform (Cabinet Office 2012). Nonetheless, the DPJ government failed to persuade the citizens. A survey conducted by Mainichi Newspaper (2012) revealed that more than 60% of citizens opposed the comprehensive reform.

[Figure 1 here]

Figure 1 demonstrates the critical backlash against Noda's comprehensive reform. This reform may have single-handedly dragged down his popularity and approval rating, which saw continuous decline after he announced the comprehensive reform. After it, support for the opposition LDP became higher than that for the ruling DPJ. Some citizens even turned against the DPJ's welfare policies. They agreed with LDP president Sadakazu Tanigaki (2009–2012) that the new revenues from consumption taxes must be spent only on existing social security programs, not on the creation of new welfare programs. Finally, the DPJ government saw mass rallies organized by grassroots unions, consumer associations, and small-business groups. Figure 1 shows the increasing citizen participation in these anti-tax rallies after January 2012.

Some might say this happened because citizens did not like to pay additional taxes. However, the Japanese General Social Survey suggests a different interpretation. Before the comprehensive reform, more than 65% of Japanese citizens said they were ready to shoulder more taxes for the strengthening of public welfare services (JGSS Research Center 2011).

The more correct interpretation of tax-welfare backlash is that the comprehensive reform—or more correctly, its tax hike—undercut the social norms and resources that have long supported citizens' states of welfare. First, citizens could no longer depend on low taxes. As noted, small businesses, farmers, and low-income workers took low taxation for granted, because it was a relief for their subsistence. Yet, tax policy now turned out to be a major source of income insecurity. Particularly, the most serious concerns involved the minimum level of livelihood security. According to citizens' opinions collected by the Zenshoren (2012), many Japanese citizens worried it would become more difficult to purchase even living necessities, including grocery foods. Karin Amemiya, writer as well as member of anti-poverty networks, claimed "the consumption tax hike will ruin the life of the people who have barely survived in the poverty." Tetsuo Ishida, president of Kyoto Shijo Shopping Street, stood against the view that Japan's tax burden is lower than that of European countries. He argued that Japan

must preserve this practice, because it is a single measure to protect 'life, families and households' of poorer citizens. The growing number of non-regular workers faced a similar problem. *Shūkan Zenshin* (2012), a progressive weekly periodical, anticipated that non-regular workers who earn 200,000 yen or less annually would be most critically affected because they had already been living on the margin of subsistence.

Meanwhile, industrial workers saw the welfare-through-work norm and institutions significantly weakened. On the one hand, although some workplaces preserved the welfare-through-work practice, especially for skilled workers, the consumption tax increase has offset the protection this practice offered. Decreasing disposable income proves this point (Yamamoto 2013). Four-member families that annually earn 5 million yen (US\$ 42,000) are expected to pay 115,000 yen (US\$ 977) additionally, when the consumption tax rate increases by up to 10%. When social security payments are included, the additional burden will jump up to 338,000 yen (US\$ 2,873). The impact was more serious on lower-income families, who must spend a larger share of income on basic commodities. When the consumption tax rate increases by 10%, the households with less than two-million-yen annual income would pay 15% of their incomes as consumption taxes. Meanwhile, the households with 6–7 million-yen income would pay 5% of their incomes. On the other hand, the consumption tax increase has undermined a welfare-through-work norm directly. Workplaces could no longer guarantee income stability. Workers could hardly expect employers to share the burden to compensate for decreasing disposable income. Employers had little room for wage increase because the consumption tax hike had caused uncertainty in consumption markets.

Lastly, consumption tax increase would reduce sales margins for small businesses significantly. To survive the competition with large stores, small firms needed to offer a discount to consumers or refrain from shifting the consumption tax onto commodity prices. More importantly, small suppliers cannot rely on a mutual trust with large firms. Large firms have wielded strong bargaining power to pay less in taxes and "pass the costs of consumption tax increase" (*kakaku tenka*) onto smaller firms. Some large firms have asked smaller firms to discount subcontracting costs to offset the increase in consumption tax. Others have unilaterally decided not to pay part of commodity prices to smaller suppliers (Japan Fair Trade Commission 2015).

All these livelihood-related concerns caused collective action against the comprehensive reform. Industrial workers and grassroots unions were key actors who organized protests. They already showed their potential to organize joint rallies during the LDP's rule. An important event was a mass demonstration held on 28 October 2007, in Tokyo, where more than 40,000 protested the LDP's constitutional revision and consumption tax hikes. Immediately after Noda's announcement of comprehensive reform, grassroots unions again mobilized their networks to stage demonstrations. At the national level, Zenroren (the National Confederation of Trade Unions) played an important role in mobilizing grassroots unions. From February to November 2012, this leftist federation organized numerous rallies in both Tokyo and local cities. The biggest of these was on 12 April when more than 5,000 from all over the country assembled in Tokyo.

Consumer groups and small business associations were also important organized discontents. Shufuren (a housewives' association) continuously held various events, including public debates, public campaigns, and opinion surveys. It especially represented low-income consumers' concerns about the immediate impact of consumption tax hike on their livelihood (Shufuren 2012). Small business groups, including Chuokai (National Federation of Small Business Associations), Shokokai (Central Federations of Societies of Commerce and Industry), Japan Department Stores Association, and Zenchūren (National Networks of Small Business Associations) also issued resolutions against comprehensive reform. These groups have mainly struggled against the way large firms have passed the growing tax costs on to them.

Kakukairen (Networks for the Abolition of Consumption Tax) coordinated all these struggles of social groups. This organization was established by the leaders of grassroots unions, consumer groups, and small business associations in late 2000s when the LDP government pursued the consumption tax hike. Social groups again used this nationwide network to resist the DPJ's compressive reform. The activities of Kakukairen intensified as Noda formed a strategic alliance with the LDP to pass the bill for comprehensive reform. Kakukairen enlarged its coalition partners into NGOs, farmers, elderly organizations, and progressive lawyers' associations. It also developed various resistance strategies, including public hearings, petition to local governments, signature campaigns, and education campaigns. It organized mass rallies—"issei kōdō" (simultaneous actions)—at many prefectures'

stations, shopping centres, and commercial districts, to stop the DPJ government from raising the tax rate. In 2012, Tokyo witnessed a series of large demonstrations, in which thousands of citizens continued to protest the DPJ's tax-hike plan.

Kakukairen also made use of external networks with local politicians. The organization asked local assemblies to sign a resolution against Tokyo's plan, and lobbied local politicians to oppose tax increase during the elections. Kakukairen opened "study groups" (gakushū kai) in many prefectures, including Tokyo, Saitama, Miyazawa, Aichi, Kyoto, Osaka, Nagano, and Kumamoto. These studies not only educated ordinary citizens but also forced local governments to oppose the reform. At the national level, Kakukairen directly challenged politicians who supported the tax hike during the 2012 lower-house elections. It led an "election defeat movement" (rakusen undō), which told voters which candidates supported Noda's plan, while holding public seminars and workshops to help voters share concerns about tax issues.

### **Korea: Tax Reform for Shared Growth and Backlash “without Organizations”**

The political destiny of Korean President Moo-Hyun Roh was similar to that of Japan's DPJ government. His strong commitment to welfare expansion helped him win the presidential elections in 2002. Yet when he moved to strengthen the capacity of the state to finance growing welfare expenditure, he came across tax-welfare backlash. However, there are unique aspects in Korea. First, Roh differs from the DPJ in that he widened the income tax base without increasing tax rates. He only proposed that tax hike be "examined". Second, major discontents of Roh's reform were specific: the self-employed with underreported incomes, who now had to pay additional income taxes. Finally, collective struggles were almost invisible in Korea. The self-employed expressed their tax grievance through elections and opinion polls.

Two Democratic Presidents—Dae-Jung Kim (1998–2003) and Moo-Hyun Roh (2003–2008)—embraced increasing demand for social protection in times of financial crisis. However, they differ in the rationale of welfare policy. While Kim moved to alleviate the shock of industrial restructuring by

providing more generous welfare programs, Roh designed more bold and systematic ones as part and parcel of his political ambition toward "shared growth" (*dongban-seongjang*). He defined training for all workers, including the economically inactive, as a basic right of citizens. He expanded public investment in new industrial sectors, including social service, culture, and tourism, and fiscal support for job creation and training in these sectors. Roh developed new welfare policies for which the state must take responsibility. In addition to the conventional areas—childcare, health insurance, and care for elderly and women—he paid attention to residential welfare, coexistence between environment and development, and cultural welfare. In 2006, he published the "State Vision 2030", a compilation of all these policies.

The Roh government took two strategies to finance welfare programs. The first was administrative reform to widen the income tax base. This included measures to prevent tax-saving activities and collect more income taxes from the informal economy. The government encouraged consumers to use credit cards, while making cash receipts mandatory. It strengthened the penalties on individuals who avoided taxes and their abettors by empowering the National Tax Service. It also increased the revenue from comprehensive income taxes, levied on small-scale transactions, financial investments, pensions, and dividends. The major victims of such reform were the self-employed, who had underreported their incomes to save income taxes.

The second is a largely bureaucratic political campaign. Bureaucracies expected the widening of the income tax base would not suffice to finance welfare programs. They thus proposed a national consensus that could endorse tax hikes as well as welfare expansion simultaneously (Participatory Welfare Planning Office 2004: 236). Yang-kyoon Byeon, an economic bureaucrat as well as Roh's chief policy aide, led this campaign. He emphasized the inevitability of tax increases if Korea transitioned to a welfare state and "warm economy" (Byeon 2011). Roh deemed it necessary to examine a tax hike in his 2006 New Year's Speech.

However, Roh's tax reform came across several challenges. The first was posed by the conservative GNP. It meant to stop Roh from implementing the comprehensive property tax on the wealthy. However, this party targeted Roh's overall tax policy for electoral gains. Right after Roh's New Year's Speech, the GNP leader Geun-hye Park called Roh's idea a "socialist plot" and his plan to move

away from a low-tax, low-welfare economy an "old socialist legacy that has now proved to be a total failure" (J.-C. Kim 2006). She offered tax cuts for the middle classes instead.

Second, the lukewarm position of social groups bewildered Roh. Progressive social groups had once supported welfare commitments. Some had helped set welfare policy and create adequate social policies to help those in serious need. Such groups as the Federation of Korean Trade Unions, People's Solidarity for Participatory Democracy, Welfare State Society, and the Institute for Progressive Politics made a loose coalition with the Roh government in this context (Kim 2011: 158; Choi 2011: 19). Yet they now became uncooperative or, at best, apathetic when Roh proposed to study tax increases as a condition for sustainable welfare development. They did not support Roh when the GNP and conservative social groups called him a socialist.

The most puzzling challenge came from self-employed citizens. Roh repeatedly stressed that new welfare programs would save the self-employed from declining income and excessive competition. However, his reform generated serious backlash from the self-employed themselves, because its widening tax base undermined existing states of welfare for these citizens. First, the reform to collect more income taxes from informal economy reduced sales income, with which self-employed citizens managed to maintain their livelihood. It was all the more difficult for the self-employed to stabilize income because they already undergone stagnant growth. In contrast to wage earners, whose gross income doubled from 2000 to 2007, sales income for the self-employed marginally increased. Consequently, their annual real income plummeted from 2.2 million Korean won (US\$ 2,030) in 2000 to 1.7 million Korean won (\$1,570) in 2005 (D.-H. Kim 2009: 187).

Second, tax reform has raised the fairness issue. Government revenue from consumption tax, corporate tax, and payroll tax increased by 22%, 38%, and 57%, respectively, from 2003 to 2009. In contrast, revenue from the comprehensive income tax, paid mostly by self-employed citizens, grew by 144% (D.-H. Kim 2009: 196). Those most affected by the tax reform were unprofitable small businesses. They include retail services, moving services, lodgings and cosmetic beauty shops, wherein small shoppers already have faced fierce competition. This indicated that in the eyes of these shoppers, the Roh government destroyed the low-tax norm for ordinary citizens. Moreover, the tax-saving practice was simply made illegitimate. The government did not tolerate the tax-saving practice of the self-



employed and provided the legal machinery necessary to curb it. The tax authorities began to investigate transactions and income flow of these citizens pre-emptively, without waiting on "voluntary reporting" (*jajin-shingo*) of incomes.

One can simply ascribe the above conflict to the conservative attitude of the self-employed. However, such stereotyping does not help to explain their tax-welfare backlash. It was more directly related to declining livelihood security. In the early 2000s, relatively young citizens entered into small business sectors after being forced to leave their original companies under the pressure of industrial restructuring. To make things worse, they now faced the government's actions to collect more taxes from their businesses and thus destroy the minimal livelihood they had managed to maintain. For this reason, the self-employed in their forties and fifties had very little approval for the Roh government—even lower than that of the self-employed over 60 (Ka 2012). Although Roh emphasized the inevitability of widening taxes to expand welfare, many small-business people continued to call Roh's welfare reform a "tax bomb" (Yun 2013: 1106).

Unlike in Japan, however, self-employed citizens hardly organized their protests. The lack of organizational protests stemmed from the nature of small businesses in Korea. Most of the self-employed are an incoherent mass of solo businesses that compete with each other to take small market shares. The opportunity of tax saving is also unequally distributed across them. Some have an advantage over others in accessing assistance of tax experts and public accountants. Networks with neighbours also differ among the self-employed. Some small-business tenants may meet building owners who exhibit high-handed behaviour, while others may not. Some can face franchisors who abuse a superior position, while others cannot. Such an atomized pattern of social life makes it difficult for the self-employed to unite to defend their states of welfare.

The self-employed do not have effective institutional networks to voice their collective concerns toward policymakers, either. While medium-sized enterprises accessed financial assistance and information from about 500 public agencies, only the Small Business Distribution Centre (SBDC) can assist small business. There is no link between the self-employed and politicians. In the past, the authoritarian rulers co-opted small-business owners and made them leaders of local pro-government associations. However, such clientelism disappeared after Korea's democratic transition.

Decentralization opened a new route for some rich businesspeople to be elected into local assemblies, yet they have neither represented the tax grievance of most self-employed citizens nor participated in the national politics of tax reform (Chung 2001).

However, President Roh was not without political risk. After 2006 New Year's Speech, the concerns about the possibility of tax hike emerged among many citizens. Conservative media, social groups and the GNP made use of these concerns as an issue of the 2006 local elections. For example, Chosun Ilbo, Korea's leading conservative newspaper, tenaciously stigmatized Roh as a "communist" or "communist sympathizer" whose taxes had ruined the economy (Kim and Kim 2010). Federation of Korean Industries (FKI), an association of large businesses, began to hold public seminars, public hearings, and college campaigns to disseminate free-market ideology against the tax-hike reform. The GNP also used social unrest to protect privileged groups' interests. It cooperated with some conservative social groups, including the National Movement for Tax Resistance (*josejeohang gugmin undong*), to criticize President Roh's tax policy. Behind such "conservative reactions" (Doucette 2013) was strong grievance of the self-employed about President Roh's move toward widening tax base. While this group continued to dislike Roh's reform, conservatives warned that taxes would harm other citizens as much as the self-employed. Consequently, approximately 70% of citizens said they did not support President Roh's tax policy and that this was one reason the ruling party was defeated in the elections (J.-H. Kim 2006: 187).

President Roh lost the momentum of tax reform for shared growth in this context. In September 2007, Roh accepted the resignation of his chief policy aide Yang-Kyoon Byeon, which led to a rupture between Roh and the ruling Yeollin Uri Party over tax policy. Despite opposition from Roh and bureaucracies, the ruling party proposed to revise the income tax structure to reduce tax revenue by approximately 3.5 trillion Korean won (US\$ 3.21 billion).

## Conclusions

The unique states of welfare are an important East Asian context where tax-welfare backlash took place. Both in Japan and Korea, citizens resisted the new tax-welfare system that the centre-left governments attempted to establish, because it required the strengthening of extractive capacity of the state and this requirement undercut existing social resources and norms, which are very important for maintaining citizens' states of welfare. Meanwhile, political networks account for the diverging patterns of tax-welfare backlash. Under the formative developmental regime, Japanese citizens developed political networks to protect their states of welfare collectively. These networks have now enabled Japanese citizens to organize protests against the DPJ's reform. Korean citizens did not have such networks. They instead voiced their concerns through individual channels, including voting and opinion polls.

The importance of states of welfare as the East Asian context of tax-welfare backlash offers some important lessons. The first is for the study of welfare development in East Asia. Some scholars have expected that East Asian countries could expand welfare systems gradually along with democratization (Lue 2014; Haggard and Kaufman 2008) or the strengthening of progressive partisanship (Miura 2012). No doubt, democracy—particularly electoral competition—can motivate political parties to create more social policies, and progressive parties endeavour to maximize electoral gains from social policy. However, this is not an automatic process. Particularly, when politicians need to abandon the East Asian tradition of “spending without taxation” (Park 2011) to create new social policies, they can face spontaneous backlash from citizens concerned about the loss of old lifestyles. Thus, the conclusion must be tentative: democracy and progressive politics can create a space for political struggles over how a country will develop a welfare system.

The theory of the developmental welfare state (Hwang 2011; Kwon 2009) must be also revised. According to this theory, as the political need to manage social costs of globalization has grown, East Asian countries will develop more universal welfare systems, moving away from the selective bias of social protection toward specific groups. However, this perspective is too evolutionary. This paper suggests ample evidence that a welfare state is not constructed in a social vacuum. The pre-existing society has its own mechanism of social protection, and this mechanism may conflict with the new thrust toward a modern welfare state.

More broadly, the weight of the states of welfare indicates that East Asia's advance to a new form of political economy is not predicated only on political aspiration or institutional design, but also on practices, identities, and morality in society. The construction of a new economic order will oscillate between political or bureaucratic ambitions to replace old economic systems with new ones and spontaneous and essentially unpredictable counter-movements of society to safeguard states of welfare.

The final lesson is more theoretical. The analysis of Japanese and Korean cases in this paper helps overcome the conventional divide in the study of fiscal protests. Political economists have portrayed tax revolts in industrialized economies as grievances of the people who "talk their book" (e.g., Kato 2003; Wilensky 2002). Conversely, moral economists have focused on peasants' tax riots in developing economies as a struggle to protect their minimum standards of living against modern taxation (e.g., Scott 1976). However, this paper blurs this dichotomy. It proposes the possibility that moral economy can apply to industrialized economies. As in Japan and Korea, tax-welfare backlash can result from dire concerns of ordinary people about the loss of basic and virtually single conditions of livelihood. That is, whether in industrialized countries or in developing countries, conflicts between citizens' everyday routines and new political rules can be an important source of social resistance.

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## Endnotes

<sup>1</sup> The LDP Prime Minister Noboru Takeshita (1987–1989) introduced the VAT in 1988, and Prime Minister Ryutaro Hashimoto (1996–1998) hiked it from 3% to 5% in 1997.

<sup>2</sup> Interview with a bureaucrat from the Ministry of Strategy and Finance, December 5, 2014, Sejong.

<sup>3</sup> In its 2007 Guideline for Tax System Revision [zeise kaisei taikō], the DPJ admitted that the consumption tax must be increased when the economy is restored.

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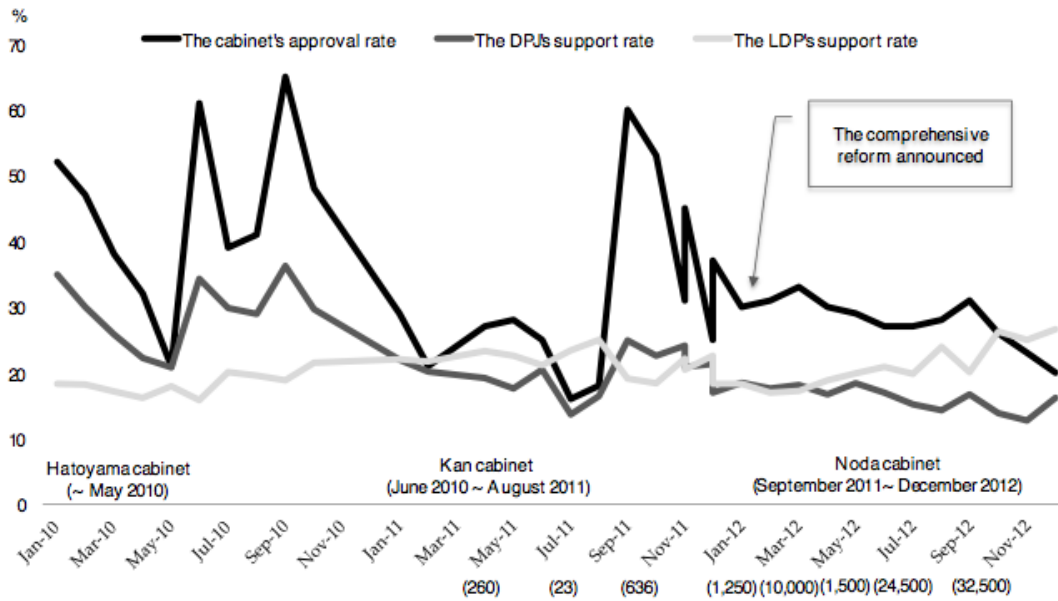
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## Table and Figure

**Table 1: The East Asian Context of Tax-Welfare Backlash**

|                             |                   | Japan  | Korea   |
|-----------------------------|-------------------|--|---|
| <b>States of welfare</b>    | Norms & resources | <ul style="list-style-type: none"> <li>- Low-tax norm</li> <li>- Tax-saving opportunity (particularly, Korea)</li> <li>- The welfare-through-work norm and institutions (particularly, Japan)</li> <li>- Family ties and community ties</li> </ul>                           |   |
|                             | Networks          | Internal networks<br><ul style="list-style-type: none"> <li>- <b>Grassroots:</b> strong solidarity, everyday mobilisation</li> </ul> External networks<br><ul style="list-style-type: none"> <li>- <b>Represented:</b> lobbying politicians, policy participation</li> </ul> | Internal networks<br><ul style="list-style-type: none"> <li>- <b>Understaffed:</b> elite-based, issue-sensitive mobilisation</li> </ul> External networks<br><ul style="list-style-type: none"> <li>- <b>Underrepresented:</b> political exclusion, ideology-based co-optation</li> </ul> |
| <b>Tax-welfare backlash</b> | Major discontents | <ul style="list-style-type: none"> <li>- <b>Diverse:</b> workers; small businesses; consumers</li> </ul>   | <ul style="list-style-type: none"> <li>- <b>Specific:</b> small businesses</li> </ul>   |
|                             | Main pattern      | <ul style="list-style-type: none"> <li>- <b>Collective:</b> mobilized by social groups</li> </ul>  | <ul style="list-style-type: none"> <li>- <b>Individual:</b> voting and opinion polls</li> </ul>   |

**Figure 1: Changing Approval Rates for the DPJ Cabinets, the DPJ and the LDP (2010-2012)**



*Note:* Numbers in parentheses indicate the numbers of participants in anti-tax demonstrations mainly organised by Zenshoren (All-Japan Commerce and Industry Association), Zenroren (National Confederation of Trade Unions), and Kakukai (Networks for the Abolition of Consumption Tax)

*Sources:* NHK Broadcasting Culture Research Institute (website), Zenshoren (website), Ohara Institute for Social Research, Hosei University (website), and Japanese Communist Party (website).