

# Income Inequality and Economic Growth in Korea

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Tokyo, 12 March 2015

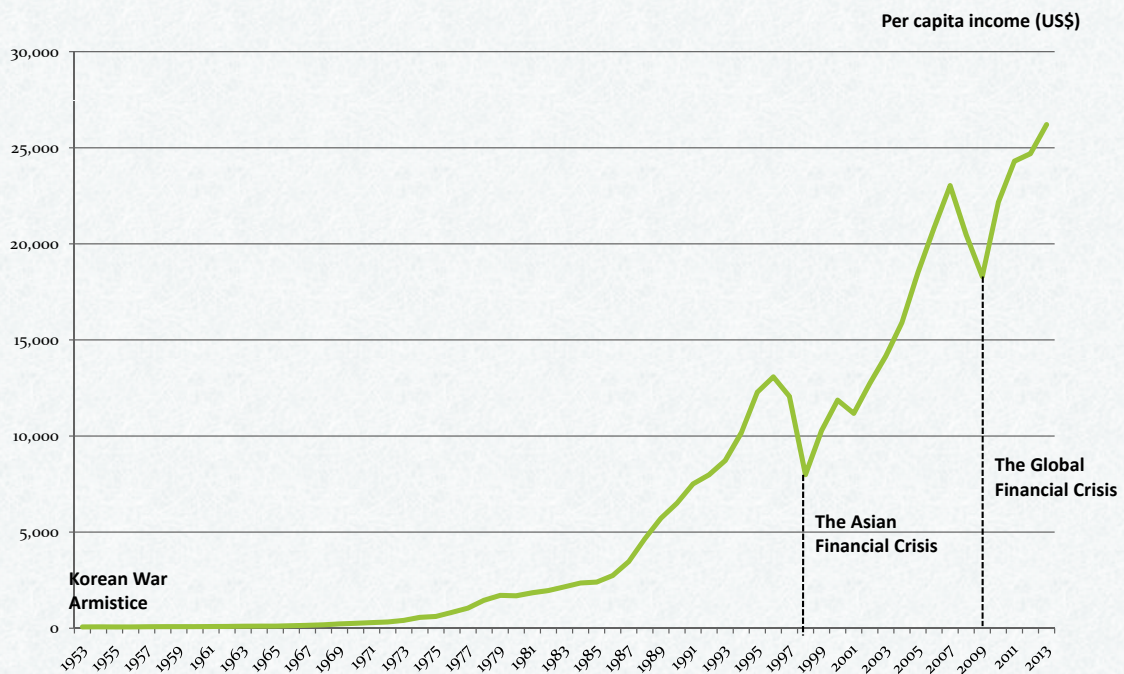


## Structure of the presentation

- 1 Trends in growth and inequality
- 2 1960s~mid-1990s
- 3 After the Asian financial crisis
- 4 In recent years
- 5 Economic and social Policies

## 1. Trends in growth and inequality

### The economy grows rapidly in Korea





## Distribution was relatively fair in Korea

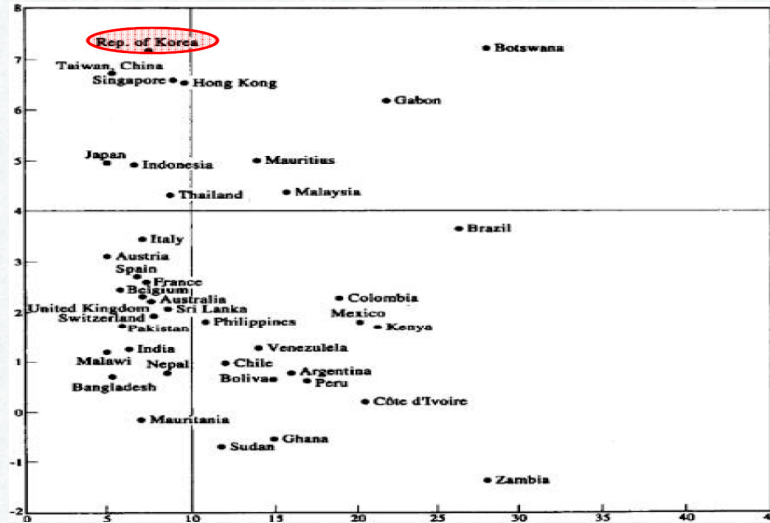
The share of the middle-class was large

: 55% in Korea vs. 29% in B country

when its per capita income was US \$4,600

Source: ADB(2011)

GDP per capita growth rate (annual average, %)

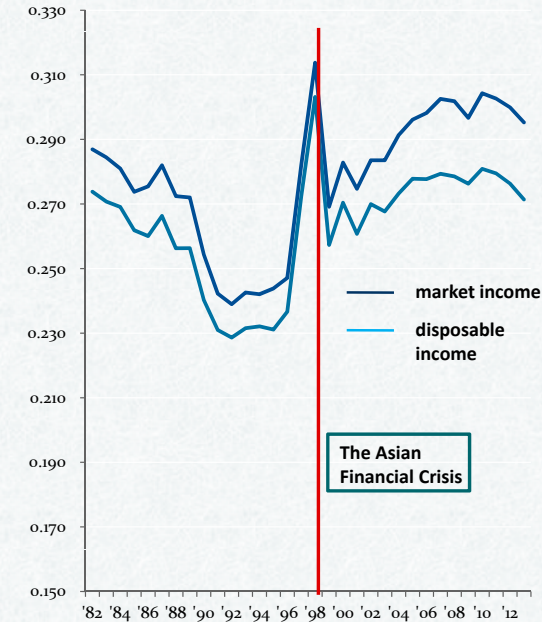


Source: World Bank(1993)

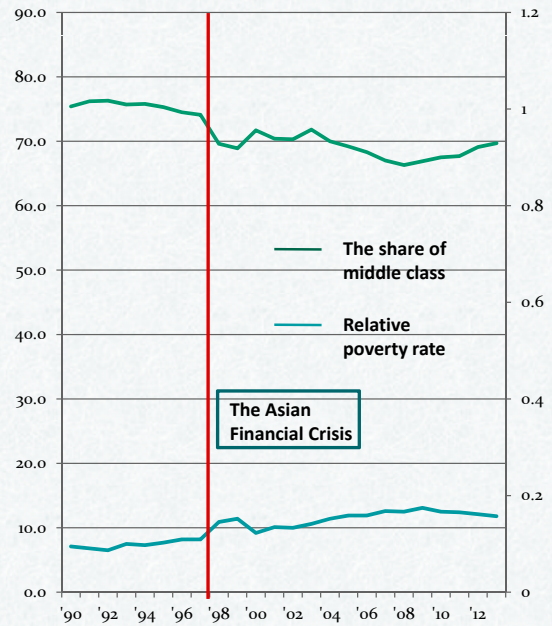
Incomes of the top 20% / Incomes of the bottom 20%

## However, inequality has been increasing since the Asian financial crisis

Gini coefficient



Source: Sung MyungJae(2014), Statistics Korea



Source: Yun Heesuk(2012), Statistics Korea

2. 1960s ~ mid-1990s

## : Why Inequality was low

1 Land reform in 1949 resulted in a fair distribution of income and land

Tenant farmers : 42.1%(1947) → 5.2%(1962)

2 Large investment in human resource enabled the working class to contribute to industrialization and get benefit from it

Government spending (1963) : Education 15%  
(defense 28%, economy 24%, welfare 6%)



3 Developing labor-intensive industry  
lowered the unemployment rate

Nonfarm unemployment rate : 13.6%(1965)

→ 7.4%(1970)



4 Democratization in 1987 dispersed power  
otherwise, which could be concentrated

3. After the Asian financial Crisis

**: Why Inequality grows**

# 1 The growth rate has declined

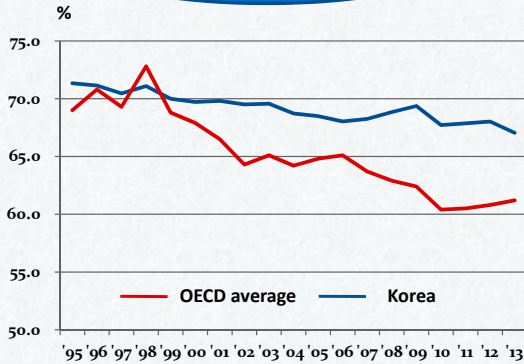
Growth rate : 7~8%(1970s~90s)

vs. 2~4%(2000s~10s)

## A virtuous cycle was weakened

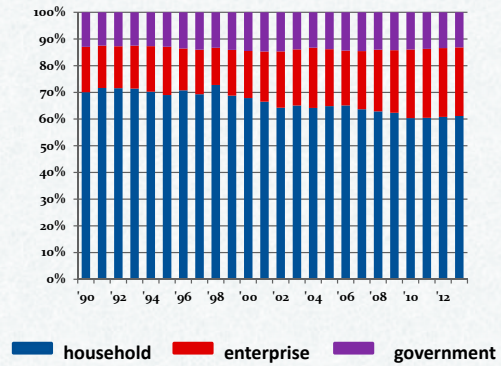
: Growth – Employment – Distribution

Household income/GNI



Source : OECD, the Bank of Korea

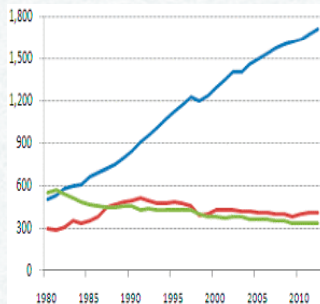
Income by sector/GNI



# 2 Low-quality jobs increased in services

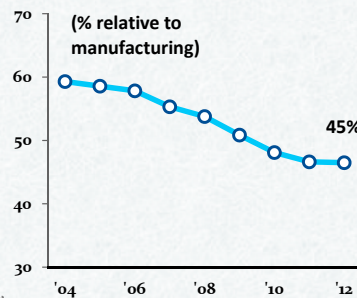
However, decent jobs decreased in manufacturing sector

Employment by sector (thousands)



— Services — Manufacturing — Farming, Fishing, Construction

Productivity of Services



Source : Statistics Korea

Workers' wages in Service, relative Manufacturing sector



Source : Yun Heesuk, KDI(2014)



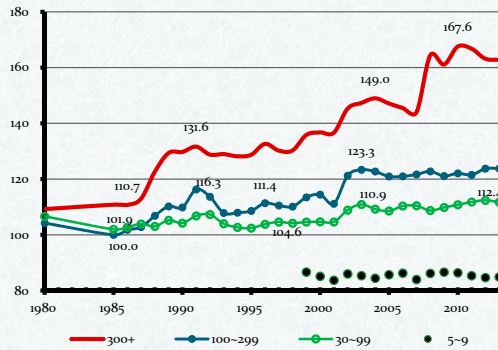
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### The wage gap between regular and non-regular workers is large

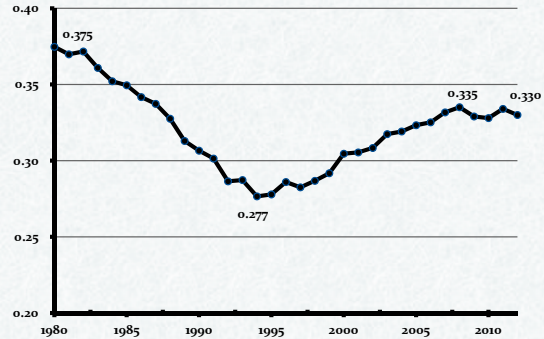
Non-regular's wage : 65.4% of the regular's

### Wage disparity between large and small& medium enterprises grows

Wage inequality by enterprise size



gini coefficient for wages



Source: Employment and Labor Statistics of Korea  
Ahn Joyup, KLI(2014)

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### Rapid aging accelerated old-age poverty

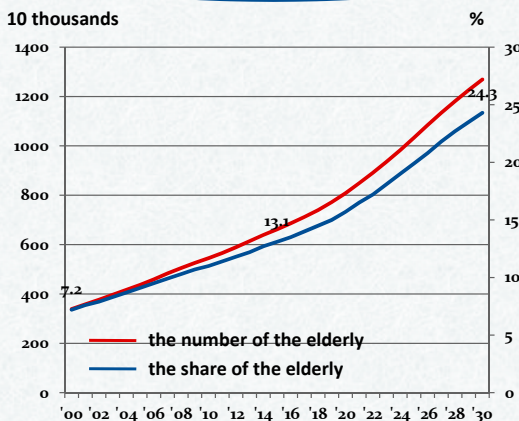
Ratio of old-age population : 7%(2000)

➔ 14%(2017)

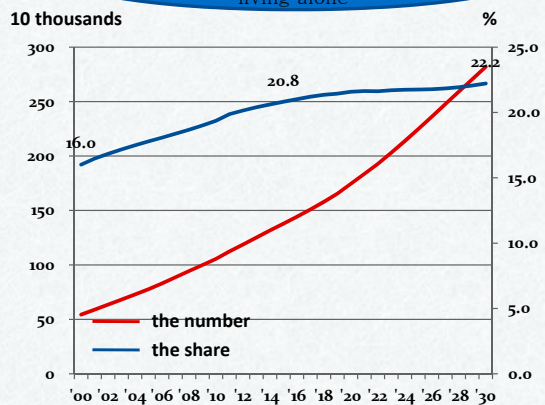
Old-age poverty rate : 49.6%(2013)

National pension beneficiary rate : 33.7%(2013)

The number and share of the elderly



The number and share of the elderly living alone



#### 4. In recent years

: social mobility, poverty and inequality, redistribution effects

#### 1 Relative poverty remains serious issue

##### Gini(OECD)

Ranking	Country	Gini
1	Slovenia	0.245
4	Denmark	0.253
5	Czech	0.256
12	Germany	0.293
15	France	0.309
16	Korea	0.302
21	Greece	0.335
26	United states	0.389
27	Turkey	0.412
28	Chile	0.503
OECD average		0.312

##### Poverty rate(OECD)

Ranking	Country	Poverty rate(%)
1	Mexico	21.4
5		17.4
6	Japan	16.0
7	Greece	15.2
8	Spain	15.1
9	Korea	14.6
25	Germany	8.7
28	France	8.0
31	Finland	6.6
33	Czech	5.9
OECD average		11.5

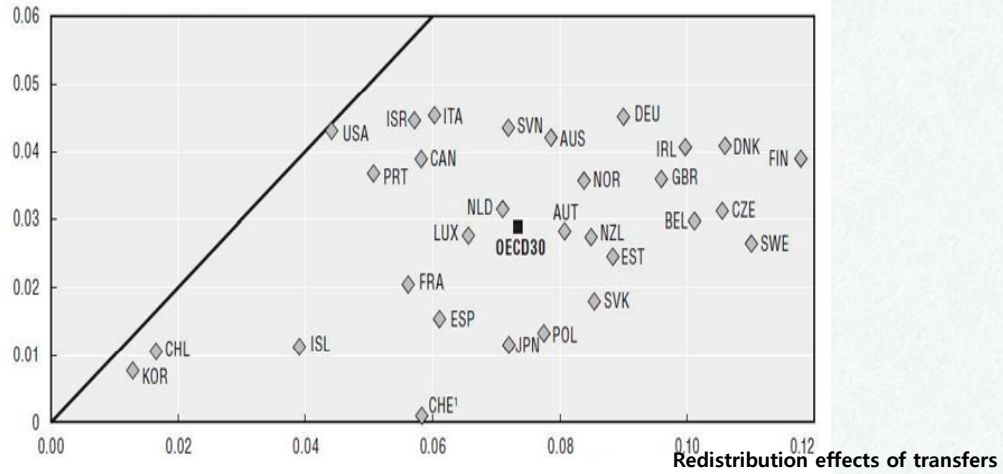
##### Poverty gap(OECD)

Ranking	Country	Poverty gap(%)
1	Spain	41.9
2	Mexico	41.0
3	Greece	40.5
4	Korea	39.0
5		38.1
10	Japan	33.2
26	Czech	24.8
29	France	24.0
31	Germany	23.8
34	Finland	20.7
OECD average		30.4



## 2 The effects of redistribution via taxes and transfers are low

Redistribution effects of taxes

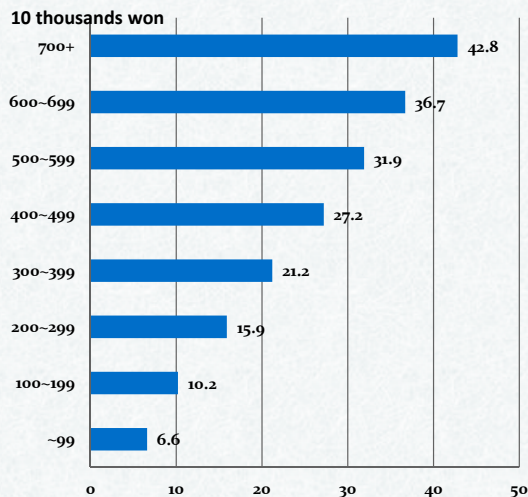


Jourard, Isabelle, Mauro Pisu and Debbie Bloch, "Tackling income inequality : the role of taxes and transfers", OECD Journal : Economic Studies, 2012. Figure 2

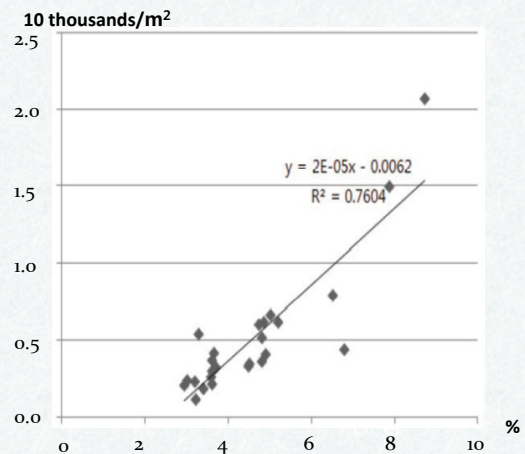
Source: OECD Income Distribution and Poverty Database

## 3 Intergenerational social mobility was weakened

Expenditures on private education  
By income classes



Apartment prices and ratio of admission to SNU by district in Seoul, 2014



Source: You Jongil, KDI(2014)



## 5. Economic and Social Policies



### Policy Directions

**1** 1960s ~ mid-1990s

: Focusing on economic growth

**2** After the Asian financial crisis

: Establishing social security net

**3** In recent years

: Building up the virtuous circle of  
Growth – Employment - Distribution

: Enhancing upward mobility and social safety net



## Economic Policies

### 1 Establishing virtuous circle

Structural reforms in four areas :

- Public, Education, Labor market and Finance

### 2 Growth → Employment

- Promoting the promising service industry
- Reducing unnecessary regulations
- Boosting investments and start-ups
- Increasing employment of youth, female and elderly

## Economic Policies

### 3 Employment → Distribution

- Three tax packages for increasing household incomes
- Raising minimum wage

### 4 Reducing disparities

- Co-development of Small and Large enterprises
- Improving labor market dualism
- Lowering the gap between manufacturing and service industries

## Social Policies

### 1 Facilitating upward mobility

“Rising inequality by 3 Gini points would drag down economic growth by 0.35%p per year.”

Income inequality  $\Rightarrow$  undermining education opportunities for disadvantaged  $\Rightarrow$  lowering social mobility  $\Rightarrow$  slowing human capital accumulation  $\Rightarrow$  lower economic growth

Source : 2014, OECD, Trends in income inequality and its impact on economic growth

- Expanding education support for disadvantaged individuals
- Increasing scholarship and student aid
- Reinforcing the quality of vocational training

## Social Policies

### 2 Reducing poverty

- Basic livelihood security system
- Successful employment package
- Earned income tax credit(EITC)

### 3 Building up customized social security net

- Child : free childcare program for 0~5 age olds
- Middle aged : company pension, individual pension
- The aged : basic old-age pension, elderly care service
- The disabled : pension, personal assistance service



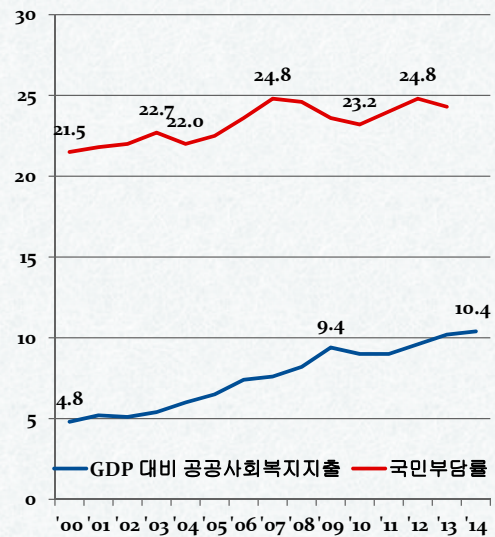
# Fiscal Policies

## 4 Restructuring expenditure and tax system

- Expanding tax base
- Deduction → Tax credit
- Restructuring social expenditure

→ The optimum Coordination  
of **welfare expenditure,**  
**national burden and**  
**fiscal soundness**

Public social expenditure and  
National burden ratio



Thank you