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Recent Trends in Income and Asset Distribution and Their Policy Implications

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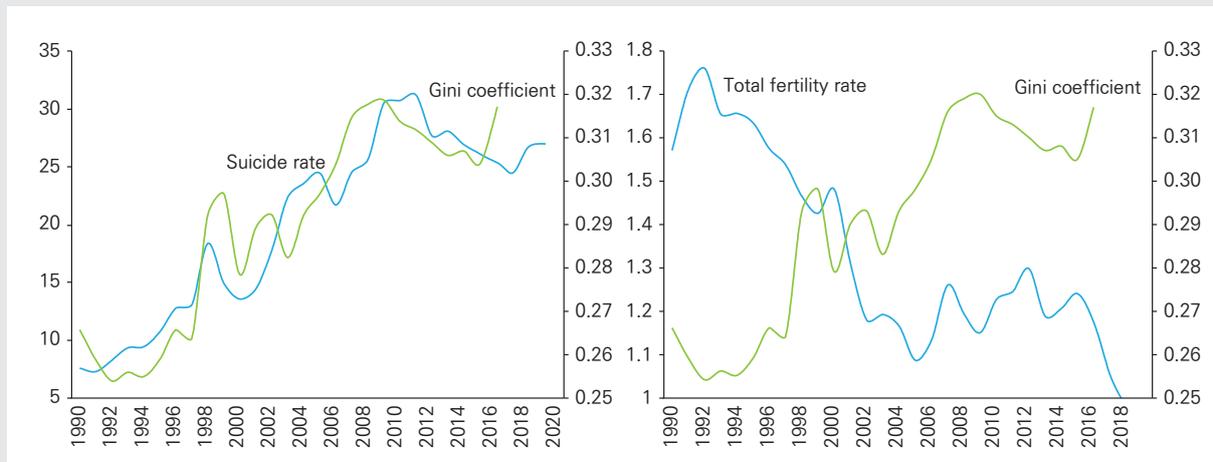
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Introduction: why focus on inequality?

Korea may be the only country that by means of human resources alone has risen from among the world's poorest in the mid-20th century to a 21st-century advanced economy complete with a high level of democratization. The underside, however, is that it is the only country with a total fertility rate of below 1.0, with its suicide rate topping all other OECD countries'. Furthermore, Korea from the mid-2010s onward has been ranked low in the range of 50~60 among some 150 countries listed on the UN World Happiness Index, belying its high ranking in nominal GDP (10th~14th).

This study attempts to trace this “failure within success” to life-course “inequality” and the subsequent “insecurity” in living conditions. The reason why this study focuses on inequality is that, because the suicide rate has trended in sync with the inequality trajectory and fertility rates have shown a negative relationship with the inequality trends, it is likely that there is a close relationship between socioeconomic inequalities and social reproduction and sustainability (Figure 1).

[Figure 1] Trends in inequality (Gini coefficient), suicide rate, and total fertility rate



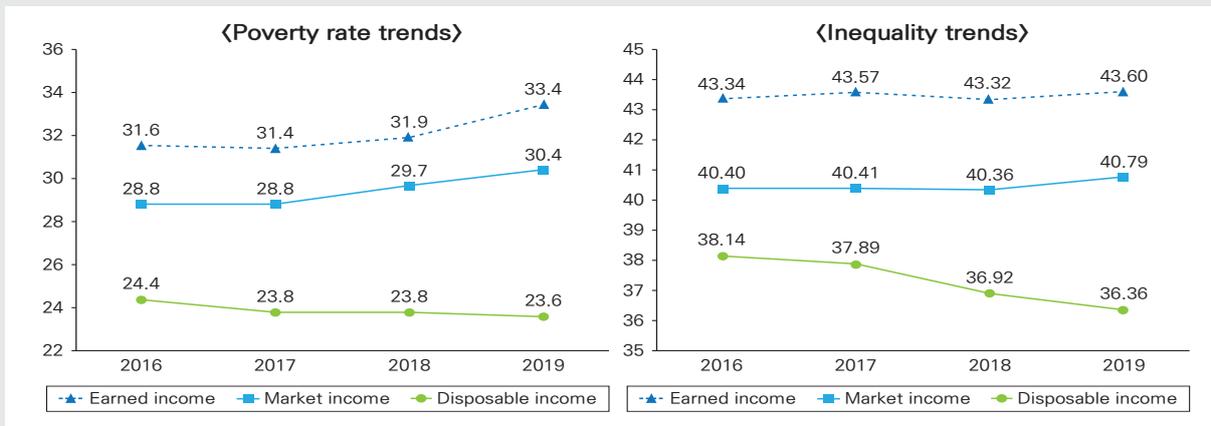
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This study looks at trends in poverty and equality before and after the covid-19 pandemic and draws thereby some policy implications. The data used in this study come from two sources: Statistics Korea's Survey of Household Finances and Living Conditions (for years 2012~2020) and KIHASA's Survey of the Impact of Covid-19 and the Effect of Government Transfers. Income as estimated in the Survey of Household Finances and Living Conditions is based on the year preceding each survey year, while asset estimates are based on each survey year. The Survey of the Impact of Covid-19 and the Effect of Government Transfers was conducted fact-to-face from October to November 2020 of a total of 4,991 households across the country. Income here means equivalized per capita income; assets are unequivalized net household assets. The poverty rate here refers to the percentage of people living in households on less than 50 percent of the median income, and inequality is measured in the Gini coefficient.

Poverty and inequality in recent years in Korea

Both poverty rates and inequality as measured in earned income and market income have risen steadily of late, due presumably to Korea's dual labor market structure and to the increase in households composed of elderly people who are relatively poor. However, poverty and inequality as measured in disposable income are on the decline, reflecting a strengthening of redistributive measures including taxation, social security expenditures and various government transfer programs (Figure 2). The disposable-income Gini coefficient has been on the marked decline especially in and after 2017 due to greater public interventions in redistribution.

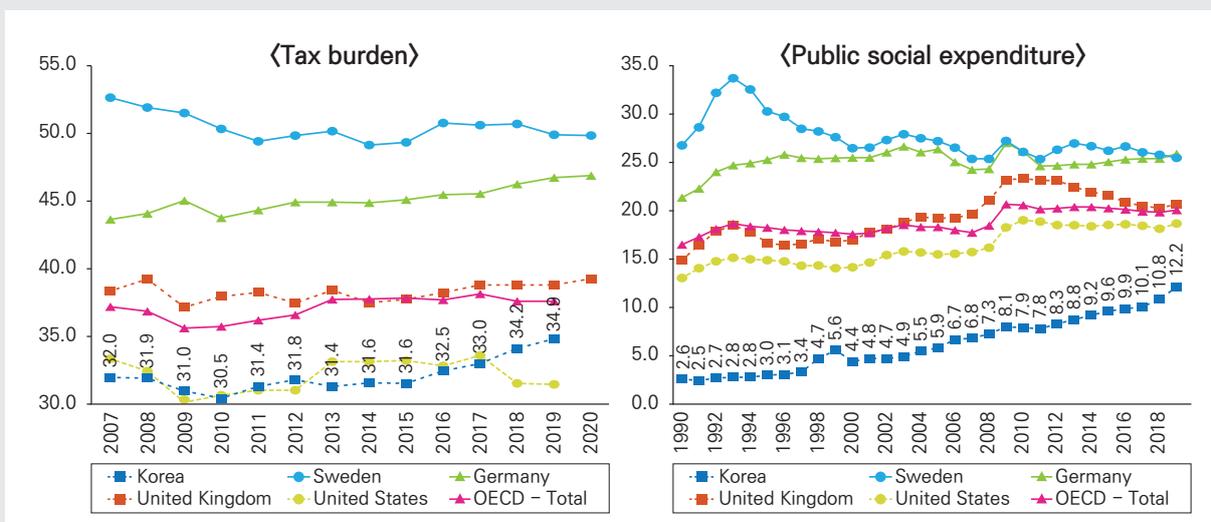
[Figure 2] Recent trends in the poverty rate and inequality, by income type



Source: Statistics Korea. Survey of Household Finances and Living Conditions.

Korea's tax burden as a share of GDP has risen to 34.9 percent in 2019, far surpassing the US's (see Figure 3). Meanwhile, Korea's social expenditure took up as little as 12.2 percent of GDP in 2019, a level far lower than the OECD average of 20.0 percent, but with a sign of rapid catching up underway. In the years from 2017 to 2019, in particular, Korea saw its social expenditure as a share of GDP increase by 2.1 percentage points, as the government took on in earnest to strengthen its redistributive thrust by implementing child allowance, increasing basic pension and worker's benefit, and expanding the coverage of the national health insurance.

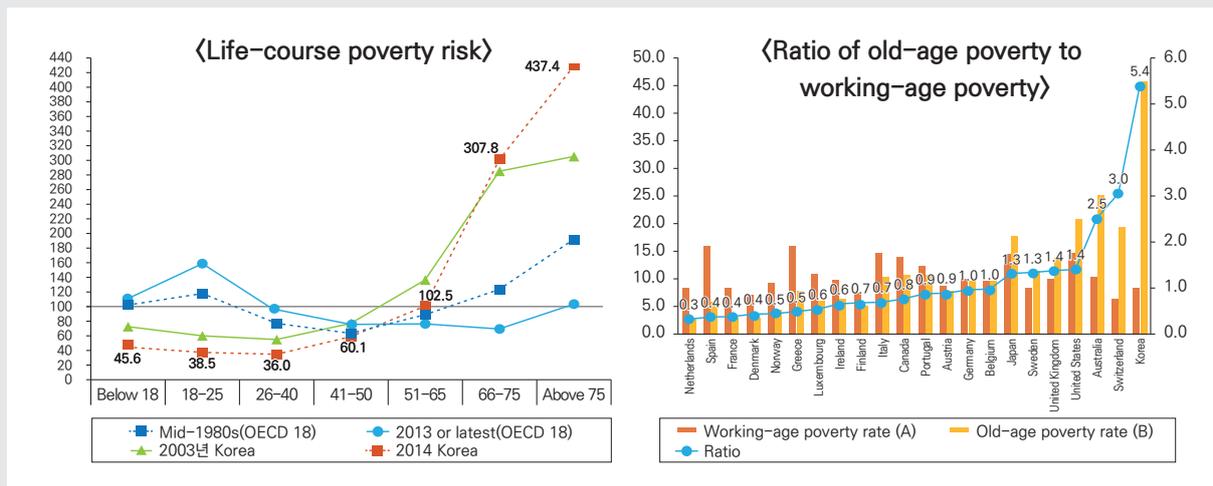
[Figure 3] Trends in tax burden (left) and social expenditure (right) as a share of GDP in selected OECD countries



Source: OECD stat.

Second, poverty in Korea is increasingly concentrated among the elderly and women. Poverty rates are especially high in older Koreans. Older adults in Korea are much more likely to be in relative poverty than their same-age counterparts in other OECD countries. The poverty risk rate for those 65 and older in 2014 and 2015 was 4.37 times higher than for the entire population and 5.4 times higher than for the working-age population (see Figure 4). In contrast, poverty risk rates observed in OECD countries in the early-to-mid 2010s remained relatively plateaued across the life course. In the case of the Netherlands, Spain, France and Denmark, the elderly poverty rate is even lower than the poverty rate for the working-age population. The fact that Korea's old-age poverty rate is so high may have to do with the level of public transfers targeting the old-age population in the country remaining far below the OECD average. In 2017, Korea spent as little as 2.7 percent of GDP on the elderly, compared to the OECD average of 7.4 percent.

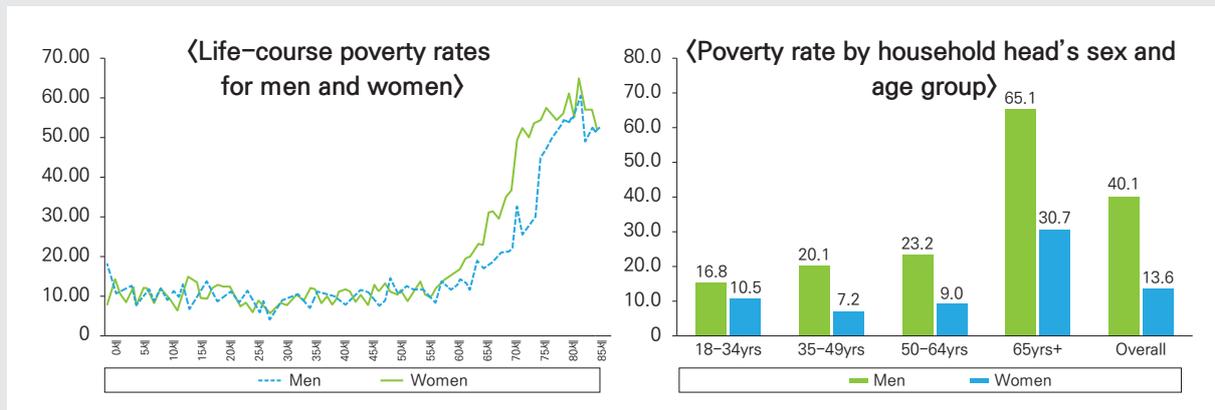
[Figure 4] Life-course poverty risk (left) and the ratio of working-age poverty rate to old-age poverty rate (right)



Source: Eugene Yeo. (2019). Old-age Poverty and Old-age Income Security in Korea. Research in Brief No. 44.

The growing poverty among the elderly tends to be accompanied by the “feminization of poverty.” As shown in the graph on the left in Figure 5, which depicts age-specific poverty rates, women are much more likely than men to become poor as they grow old. The graph on the right illustrates that across the life course, female household heads are up to three times more likely to become poor than male household heads. Households headed by an elderly woman had a poverty rate of 65.1 percent.

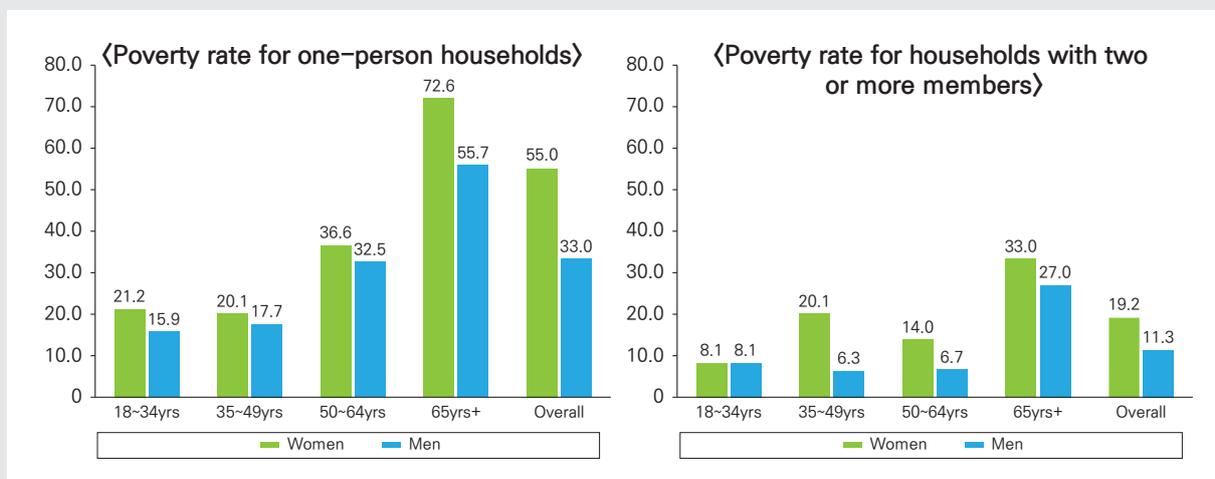
[Figure 5] Poverty rates for men and women over the life course (left); poverty rates for households, by household head's sex and age group (right)



Source: Statistics Korea. Survey of Household Finances and Living Conditions.

The poverty rate of woman-headed households was especially high among households having as their sole member an elderly woman. Three in every four households of an older woman living alone were found to be poor. In comparison, the poverty rate for one-person households of young and middle-aged women was not much higher than that for one-person households of men in the same age range. As for households with two or more members, the male-female difference in poverty rate was not as great in households headed by a youth or an elderly person as it was in households headed by a middle-aged person. These findings suggest a need for varied policy approaches, as male-female gap in poverty varies across the life course.

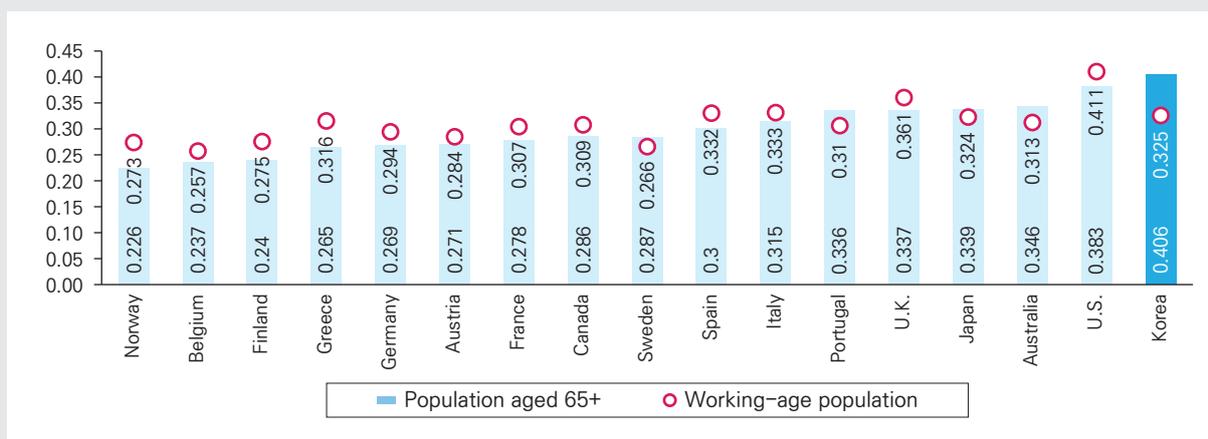
[Figure 6] Poverty rates for one-person households (left) and for households with two or more members (right), by household head's sex and age, for the year 2019



Source: Statistics Korea. Survey of Household Finances and Living Conditions.

Third, inequality in income and assets tends to grow cumulatively toward the latter stages of the life course. In most countries, wealth tends to accumulate with age. This is because the higher the income group one belongs to, the more one has left of one's income to save after consumption and the larger the leeway one has for wealth growth via investment. When it comes to income, however, inequality in the elderly population tends to be lower than inequality among the working-age population in most European welfare states (Figure 7). It is largely because old-age income security in those countries are universal and in keeping with its redistributive role. In a few advanced countries including Sweden, Portugal, Japan, Australia and Korea, income inequality is higher in the elderly population than in the working-age population. In the case of Korea, income inequality is substantially greater for the elderly (0.406) than for the working age population (0.325). The reason for this may be that in Korea's public old-age income security system, the level of income protection varies considerably between men and women and across different income groups. Whether or not one works after reaching the official retirement age may be another factor that adds substantially to old-age income inequality in Korea.

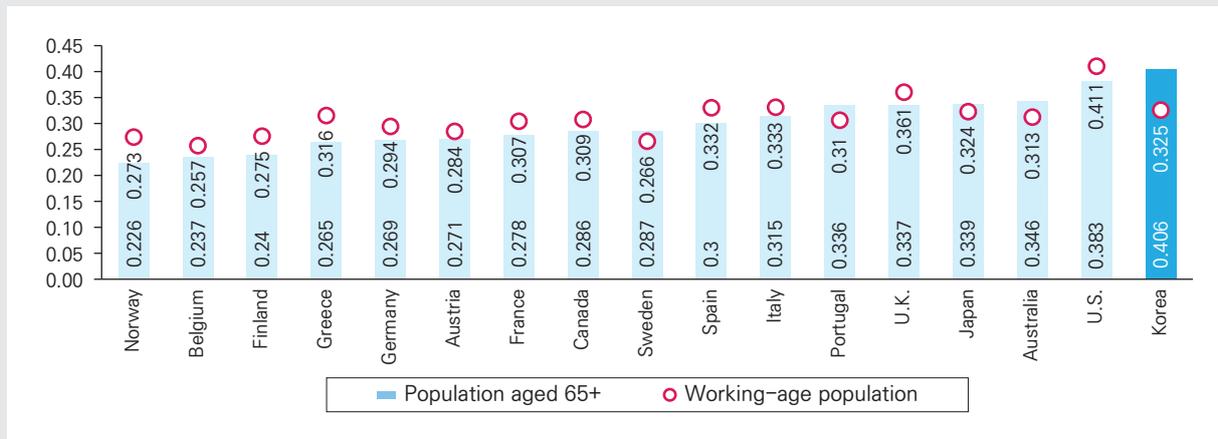
[Figure 7] Income inequality in the elderly population and the working-age population



Note: Estimates for the US are as of 2017.
Source: OECD stat

Figure 8 shows that people in Korea are likely to experience increased inequality in both household disposable income and net assets in later stages of life, and especially in old age. A rather optimistic feature in this picture is that inequality in disposable income has of late been declining to a considerable extent.

[Figure 7] Income inequality in the elderly population and the working-age population



Note: Estimates for the US are as of 2017.
Source: OECD stat

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[Figure 8] Recent trends in life-course inequality in disposable income (left) and net assets in the Gini coefficient (right)



Note: 1) "Disposable income" here is equivalized disposable income; net assets are unequivalized.

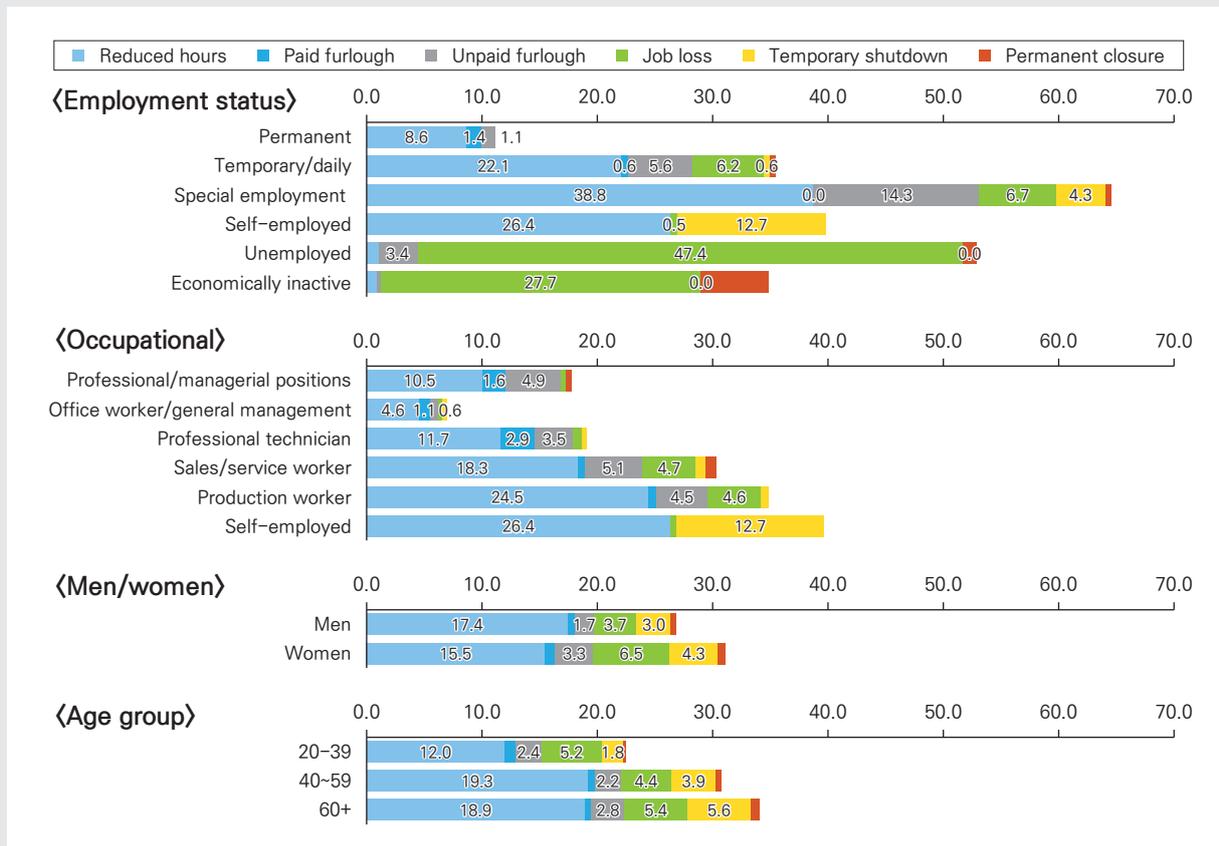
2) Households are classified according to the age group to which the household head belongs: youth (18-34 years of age), young middle-age (35-49), old middle-age (50-64) and old age (65+).

Source: Statistics Korea. Survey of Household Finances and Living Conditions.

Asset inequality in 2019 was measured to be somewhat lower than in 2012, but higher relative to 2016. Asset inequality has been growing rapidly in recent years especially among those in age groups 18~34 and 35~49. Not unrelated to what Thomas Piketty called “inherited wealth,” these trends, indicative as they are of a growing inequality at the “starting line” and boding ill for social mobility and fairness, require to be kept an eye on.

Fourth, as covid-19 persists, the risk grows for polarization stemming from the K-shaped recovery. It is estimated that 6.2 percent of workers in “temporary and daily employment” and 6.7 percent of special employment workers have experienced job loss in the first nine months in 2020. In addition, 64.8 percent of those working in the special employment sector were found to have experienced contraction of one form or another in their economic activities over the same period (see Figure 9).

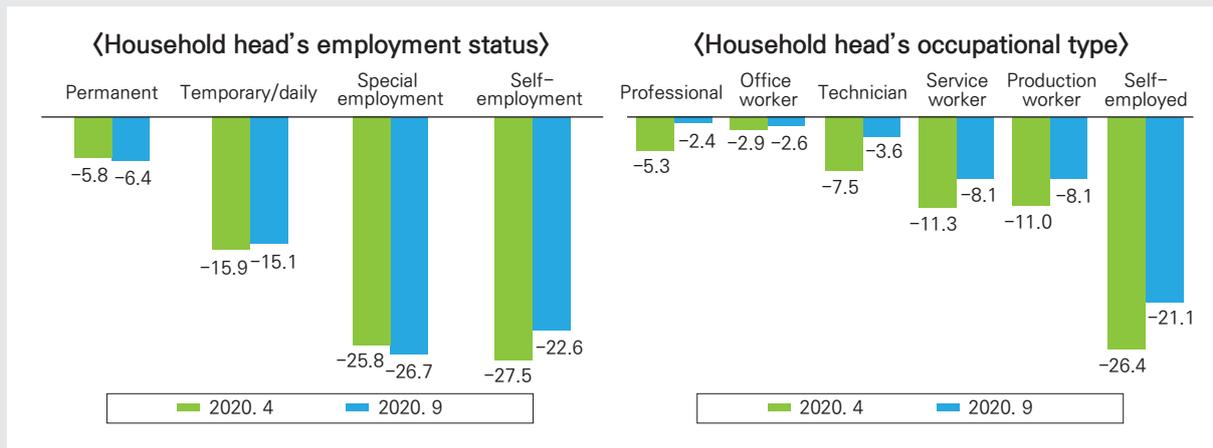
[Figure 9] Percentage of workers who have experienced squeeze in their economic activities as a result of covid-19 in the first nine months of 2020



Of those in self-employment, 26.4 percent suffered reduced work hours or temporary closures. In comparison, few permanent employees suffered job displacement. The changes that workers in permanent employment positions suffered were relatively minor in effect, as they mostly involved reduced work hours (8.6 percent) or paid furlough (1.4 percent). Women (31.3 percent) relative to men

(26.8 percent) had a higher percentage of those who had experienced changes in their employment. The toll taken by covid-19 has been heavier on women than men. It should be also noted that it was households where the heads were engaged in self-employment, special employment or temporary/daily employment that saw more rapid decline in income as a result of covid-19 (see Figure 10).

[Figure 10] Changes in total household income, by household head's employment status and occupational type



Tables 1 and 2 show how poverty rates and inequality measures differ between before and after covid-19. After the covid-19 pandemic, poverty rates and inequality have risen rapidly. Poverty rates ascended especially rapidly for households where the heads were in temporary/daily employment, special employment and self-employment. Income inequality increased particularly markedly among households with their heads in their prime working age (in their 40s and 50s).

[Table 1] Trends in household poverty rate, by household head's employment status

	Employment status	September 2019 (A)	April 2020 (B)	September 2020 (C)	Difference 1 (B-A)	Difference 2 (C-B)
Employment status of the household head (As of September 2020)	Permanent	1.4	1.2	1.3	-0.2	0.1
	Temporary/daily	13.7	18.1	13.9	4.4	-4.2
	Special employment	5.2	19.6	20.5	14.4	0.8
	Self-employment	7.1	20.6	15.7	13.5	-4.9
	Unemployed	8.2	15.5	50.3	7.3	34.8
	Economically inactive	39.8	40.3	41.9	0.5	1.6
Overall		12.0	16.4	15.6	4.4	-0.8

Source: Yeo, Eugene et al. (2021). A Study of the Socio-economic Impact of COVID-19 and the Effect Evaluation of Emergency Disaster Relief Fund (General Edition).

The overall poverty rate for April 2020—immediately after the first wave of the covid-19 pandemic broke out—was measured to be 16.4 percent, up by 4.4 percentage points from September 2019. The Gini coefficient was 0.3159, up by 0.0335 points.

[Table 2] Trends in inequality, by household head's age (Gini coefficient; population-wide)

		September 2019 (A)	April 2020 (B)	September 2020 (C)	Difference 1 (B-A)	Difference 2 (C-B)
Household head's age	20~39	0.2258	0.2571	0.2532	0.0313	-0.0039
	40~59	0.2836	0.3188	0.3128	0.0353	-0.0061
	60+	0.3142	0.3417	0.3291	0.0275	-0.0126
Overall		0.2824	0.3159	0.3083	0.0335	-0.0076

Source: Yeo, Eugene et al. (2021). A Study of the Socio-economic Impact of COVID-19 and the Effect Evaluation of Emergency Disaster Relief Fund (General Edition).

Concluding remarks

Poverty rates and inequality measures as examined in this study point to an urgent need to strengthen income security for household heads who are either old or women. Korea's public pension scheme leaves a considerable percentage of atypical workers and self-employed persons outside its coverage. Furthermore, many women who had been little employed were left out of the system right from the beginning. As a result, poverty rates remain at extremely high levels for the current generation of older adults, and older women in particular, in Korea. If the poverty rate declined if by a little as it did in recent years, it was due mostly to the gradual maturing of public pension and the increased amount of basic old-age pension. Thus, the need is clear for efforts to improve the multi-pillar old-age income security system, raise the retirement age, increase jobs for older adults, and increase access to pension eligibility for women.

There is a need also for various measures with which to respond to the needs of household heads in their youth or young middle-age. The income gap between households with both parents working and the households of unmarried single parents may widen in the years to come. As examined earlier, the poverty rate for female-headed households with two or more members is two to three times higher than the poverty rate for male-headed households. Social welfare policies will need to be designed with in mind the different household types and the needs of children being raised in those households.

From the 2000s onward, asset inequality has emerged as an issue of growing concern, pointing to the need for further policy consideration as to its consequences and social impact and what should be done in response. In a country like Korea where old-age income protection is relatively meager, people may continue taking to accumulating assets as alternatives for old-age income security. Korean society

is confronted with the difficult challenges arising from the labor market, old age, housing inequality and housing insecurity. Among these, housing inequality, to which asset inequality is attributed in considerable part and which, as a main reason for frustration among younger generations, may well become a source of intergenerational conflict, calls for policy interventions. Old-age income protection is grounded in tacit intergenerational solidarity, which cannot hold without ensuring secure living for youth and the middle-aged. If housing prices keep going up, adding as they do now to the housing insecurity of younger generations, efforts to ensure old-age security, much of which is contingent upon housing assets, are likely to prove unsustainable. It is impossible to overemphasize that income security in old-age and asset (housing) security for youth and the middle-aged are two things that should be pursued concurrently as a necessary condition for intergenerational solidarity.

Also, as covid-19 may well exacerbate income inequality and polarization, there is a need for additional support measures. Klaus Schwab, the founder of the World Economic Forum, has recently called the covid-19 pandemic “a great unequalizer that has compounded disparities in income, wealth and opportunity.” The reasoning is that while “the upper and middle classes were able to telework and self-school their children from their homes”, the working class could not be there to stay home and help with “their children’s education”. The dichotomy has been a global phenomenon, but it was more pronounced in “countries with low or non-existent social safety nets or weak family and social bonds” (Klaus Schwab and Thierry Malleret. Covid-19: The Great Reset. 2020).

Korea after the covid-19 pandemic presents a case in point. Some industries and workplaces have managed to find ways to navigate on their own through the challenges posed by covid-19. However, for own-account businesses requiring face-to-face contact with their customers, it has been much more difficult to live through the persisting pandemic. What is more, the average time it takes for a young job seeker to land a job may even lengthen as the covid-19 pandemic continues. The social impact of a crisis is more enduring than economic indicators suggest. For this reason, the impact of covid-19 should be examined in its full scope, including the economic, the social, and mental health consequences, and government interventions and support measures should follow in a systematic and integrated fashion.