

Income Inequality and the Need for Grand Social Compromise in Korea

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Jinsoo Yoo
Sookmyung Women's University

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II. Causes of the Income Inequality

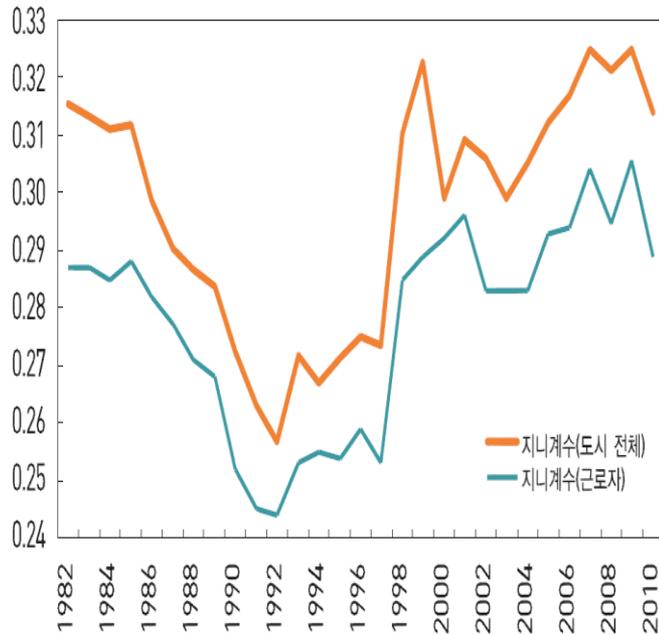
III. Government Policies on Income Inequality

IV. Need for Grand Social Compromise

I. Income Inequality in Korea

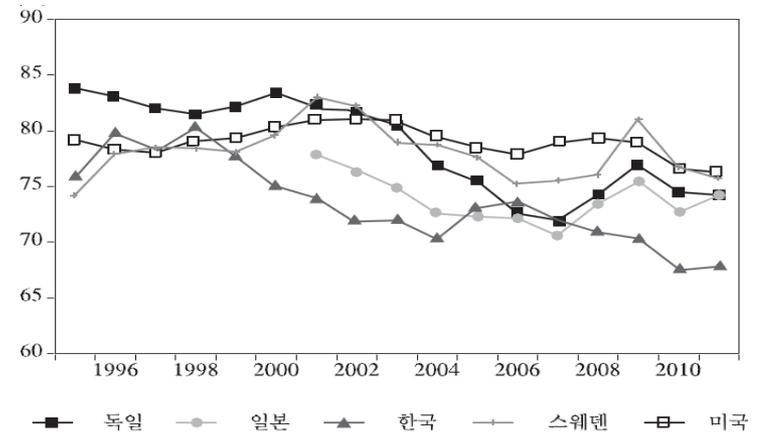
1. Income inequality in Korea: Worsened since the economic crisis in 1998

<Figure 1> Trend of Gini coefficient



Source: Yoo(2011)

<Figure 2> Trend of labor income ratio



Source: Joo and Jeon(2014)

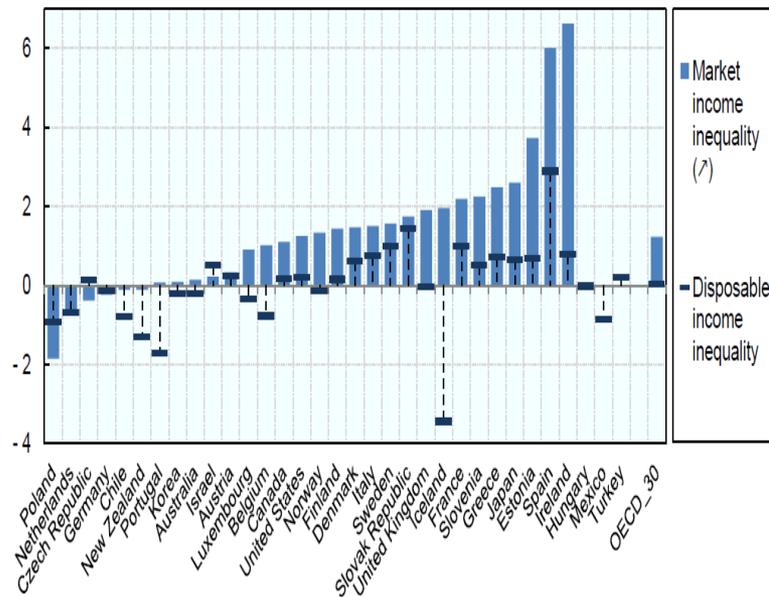
<Table 1> Gini coefficient of labor income

	2001년	2011년	변화
Gini coefficient of labor income	0.389	0.413	+0.25

Source: Lee(2014)

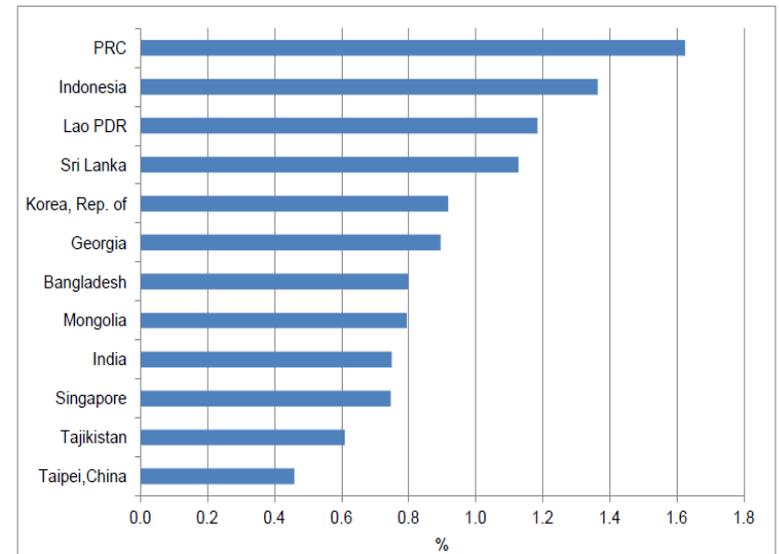
I. Income Inequality in Korea

<Figure 3> Change in Gini coefficient 2007-2010



자료: OECDa(2013)

<Figure 4> Changes in Gini coefficient in Asian countries

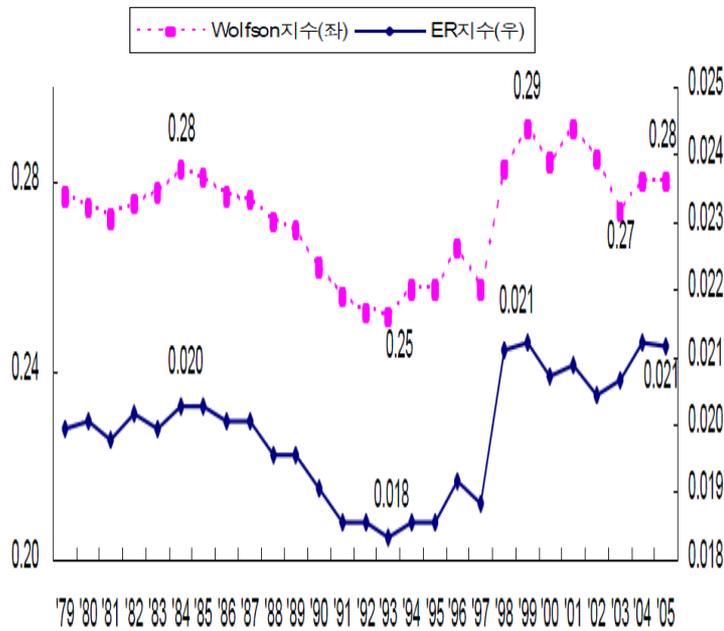


자료: Zhuang, Kanbur and Rhee(2014)

I. Income Inequality in Korea

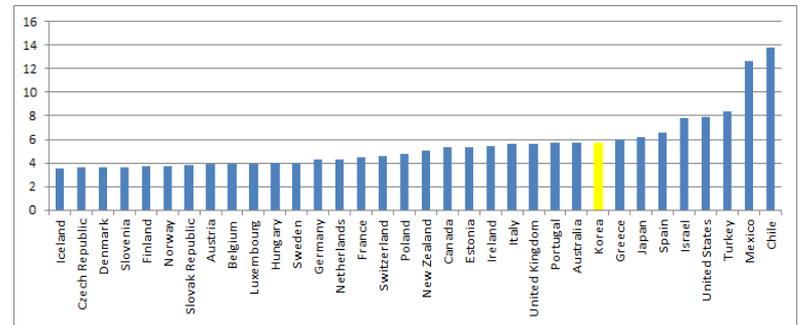
2. Economic Polarization in Korea

<Figure 5> Economic Polarization Index



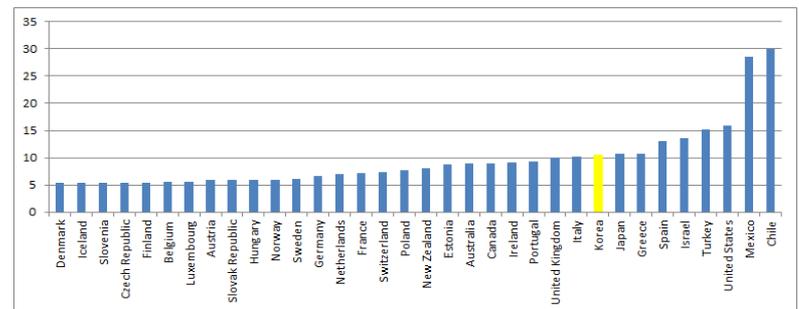
Source: SERI(2006)

<Figure 6> Comparison of disposable income quintile ratio



Source: OECD

<Figure 7> Comparison of disposable income decile ratio



Source: OECD

I. Income Inequality in Korea

- **Definition of Polarization**

- **middle-class jobs appear to disappear relative to those at the bottom, requiring few skills, and those at the top, requiring greater skill levels**
- **Esteban and Ray(1994)**
 - i) **homogeneity within a group**
 - ii) **heterogeneity among groups**
 - iii) **a few large groups**

- **Polarization Index**

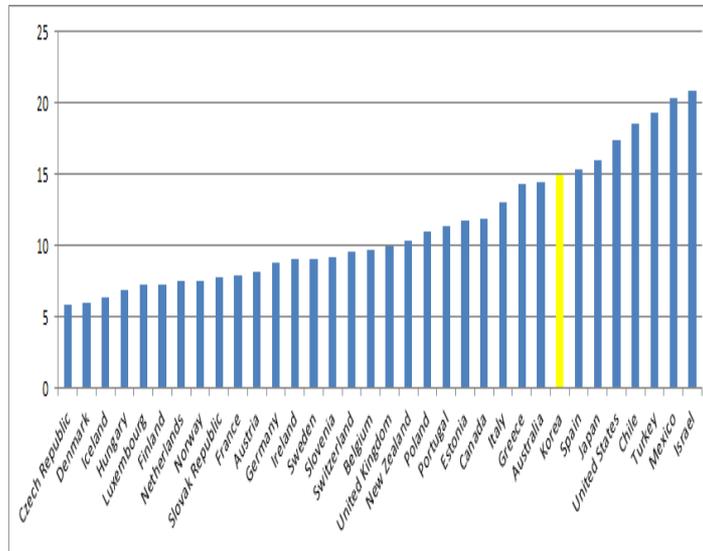
- **Wolfson Index**
- **Esteban and Ray Index (ER Index)**
- **Esteban, Gradin and Ray Index (EGR Index)**

$$P^w = \mu/m [0.5-L(0.5) - G/2], \mu=\text{mean}, m=\text{median}, L=\text{value of Lorenz curve}, G=\text{Gini coefficient}$$

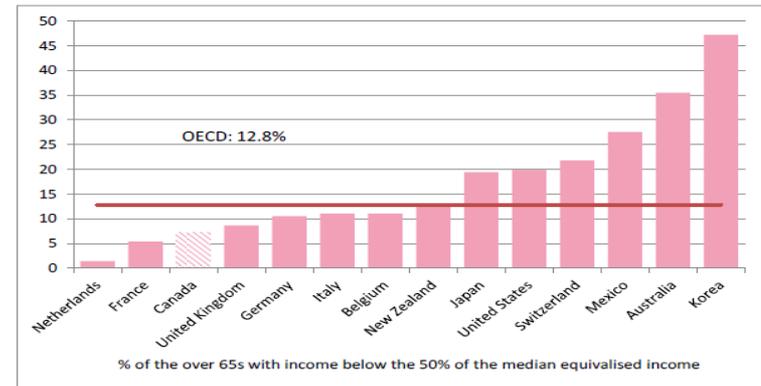
I. Income Inequality in Korea

3. Poverty problem of the elderly

<Figure 8> Comparison of poverty ratio



<Figure 9> Comparison of elderly poverty ratio



source : OECD(2013)

<Figure 10> Income sources of the elderly



source : OECD(2013)

II. Causes of the Income Inequality

1. Zhuang, Kanbur and Rhee(2014)

- **Technological progress**
- **Globalization**
- **Market-oriented reform**

2. Yoo(2012)

- Technological progress
- Lessening of employment protection
- **Population aging**

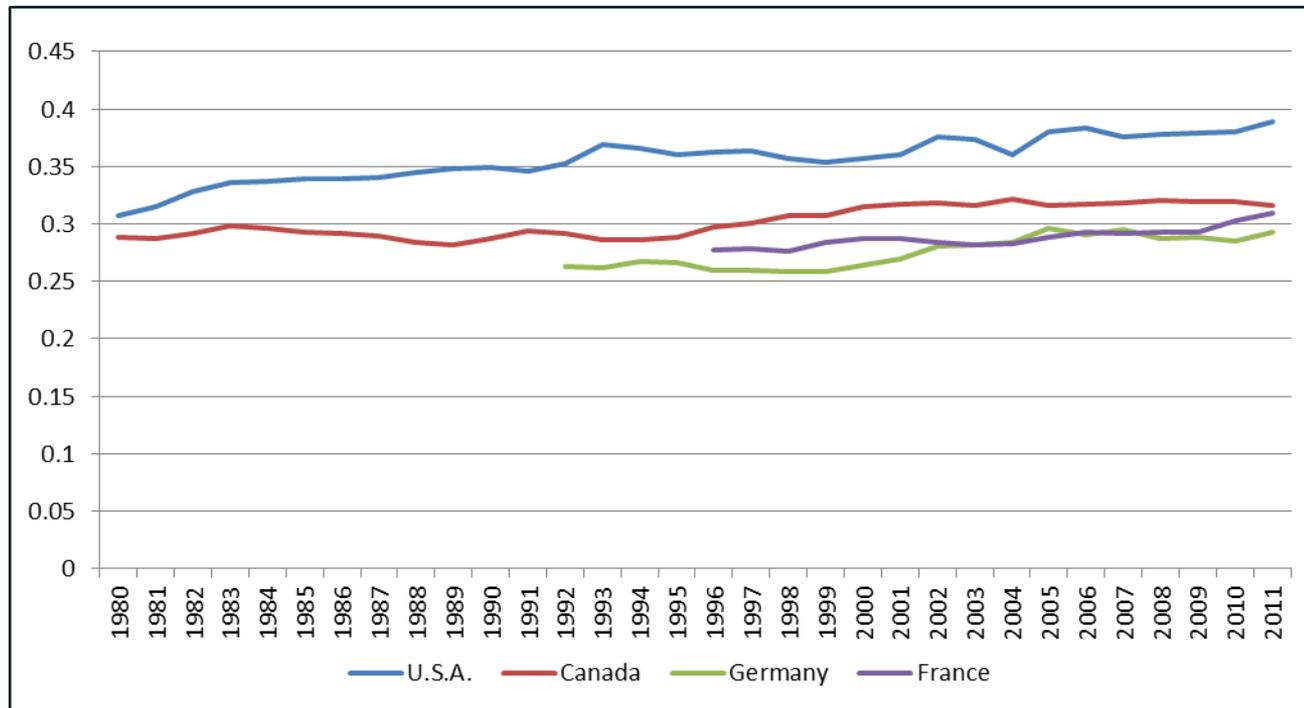
3. Kim et al.(2013)

- Technological progress and globalization
- Population aging
- Increase of household debt
- Changes in industry structure toward service industries
- **Macroeconomic environment such as global financial crisis**

II. Causes of the Income Inequality

- Income inequalities in the United States and Canada

<Figure 11> Trend of Gini coefficient in the United States and Canada



Source: OECD

III. Government Policies on Income Inequality

- 1. It is hard to remove income inequality**

- 2. Government policies to mitigate income inequality**
 - Stimulating economy and job creation**

 - Mitigating income inequality ex post:**
 - Compensating people who receive damages from market opening**
 - Better social welfare and social safety net**

 - Preventing economic polarization**
 - Building level playing field**
 - Better education/job training for the poor**
 - Eliminating discrimination of the temporary workers**
 - Protection of SMEs**

III. Government Policies on Income Inequality

- **Resistance to those government policies especially on the 3rd category**
 - **Reason: Economic efficiency**
 - **Those arguments are implicitly based on utilitarianism**
- **Even when economic efficiency is achieved and, thus, national income is maximized, it is hard to say the first-best is achieved.**
- **Definition of Justice by John Rawls**

IV. Need for Grand Social Compromise

- **The ‘real’ first-best:**
 - **Government policy focuses on efficiency based on Utilitarian philosophy**
 - **And then economic entities keep their moral obligation**

- **Moral Obligation by M. Sandel**
 - **Natural Obligation: Universal obligation as a human-being**
 - **Voluntary Obligation: Obligation based on contracts**
 - **Solidarity Obligation: Obligation as a member of a community**

- **Yoo(2012): 4th moral obligation(compensation obligation)**
 - **Obligation to compensate those who paid the costs**
 - **“The first son of a poor family”**

IV. Need for Grand Social Compromise

- **The problem of the moral obligation**
 - **It is hard to expect economic entity to keep their moral obligation**
 - **Contradiction with 'selfish' human being in economics**
 - **Behaviors of the rich so far is inconsistent with the moral obligation**
- **Grand social compromise needed to prevent the moral hazard**
 - **Large enterprises and SMEs**
 - **Social compromise in labor market**
- **Environment for the social compromise is needed**
 - **Lose-lose outcome may be possible otherwise and the rich has to pay more in that case**

Th@nk You!