



Thoughts on *Mr. Lipton's* Talk

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02. 04. 2015



Income Growth & Inequality

- ▶ South Korea grew rapidly from the early 60s to the mid 90s. The average per capita income growth rate was about 6%.
- ▶ When South Korea met the crisis of 1977, she fell back sharply. Though she rebound very rapidly from the crisis, economic characteristics of South Korea were drastically altered.
- ▶ Since the year 2000, the average per capita income growth rate has been declining: It stays around 2% level now.
- ▶ South Korea's income GINI coefficient, which stood very high in the beginning of the 60s, had steadily declined during the 'high growth period'. By the mid 90s, it came down to a very low level of 0.28.
- ▶ In the aftermath of the 1997 crisis, GINI coefficient sharply shot up close to 0.40. Thereafter, it steadily fell to the current level of 0.32~0.33
- ▶ Q: During the high growth era, income grew rapidly and inequality fell steadily. After the crisis, income grew slowly and inequality rose. Why?



Social Spending & Inequality

- ▶ During the high growth period, the investment portion of Government spending remained high: close to 35% of the total.
- ▶ During the same period, the share of social spending remained low at around 10% level.
- ▶ In the low growth period of 2000 ~ 2014, the share of social spending grew steadily. Now it stays at around 35% level, which is about 10% of GDP.
- ▶ In the same period, the investment portion of government spending declined steadily. It is about 20% of the total now.
- ▶ The GINI declined steadily during the period when government maintained relatively low levels of social spending.
- ▶ The GINI rose appreciably during the period when social spending increased sharply.
- ▶ Q: Why this?

Coincidences or consequences?

	Pre-Crisis Era(1962~1997)	Post-Crisis Era(1997~)
Orientation	Growth & Efficiency	Welfare & Equality
Features	Unbalanced growth, investment oriented, spirits of diligence, thriftiness and self-help, young & growing workforce, life-time employment, low status of women, shorter life expectancy	More balanced development, consumption, even if it is debt-financed, is desirable, old and non-growing workforce, contractual employment, higher status of women, longer life expectancy, higher dependency
Government's Spending	Size: below 25% of GDP Composition: high investment share(35% of budget) vs. low social spending share(below	Size: about 25% and growing Composition: social spending grew(35% of budget) and investment



Unanswered Questions

- ▶ Why should one care about social spending? Because it is a right thing? Because many people demand it? Because the society may disintegrate without it?
- ▶ What is the proper level of the social spending? As share of GDP, 10, 20, 30, or 40%?
- ▶ Will not too much welfare spending kill the chickens that bear golden eggs?
- ▶ Should the 'optimal' level vary with income levels of a country?
- ▶ Who should bear the welfare costs? The rich? The middle class?
- ▶ Should the tax monies be the primary sources? Or, should we encourage voluntary contributions? (Should we follow Piketty's advice and tax the super rich?)
- ▶ To whom should we give? To everyone? Or, only to the well defined target groups? (universal welfare?)
- ▶ How should it be administered? How to prevent wastes and misuses?
- ▶ Should we not take the North into considerations? Someday we would face more than 20 million very poor people. Would the South be able to discriminate the North?



More unanswered questions

- ▶ Is polarization of income or wealth really so serious?
- ▶ If the South Korean economy and society are indeed getting polarized, why? Failure of 'neo-liberalism'? Labor market rigidity and fragmentation? Globalization and technological advances?
- ▶ How badly are South Korean female workers discriminated? Has not the status of female workers been steadily improving?
- ▶ The old in trouble? Yes, they are. But why? Lack of job opportunities? Insufficient financial preparation, when the life expectancy sharply went up? Because children no longer support their parents? Are they house poor? Q: How to assist them?
- ▶ Is Korean society becoming more rigid in the sense that the generational mobility is weakened? Is there hard evidence? If it is the case, how to solve it? Is not South Korea's education system responsible for that? How to weaken the entrenched powers of the interest groups so that they may not engage in 'technology blocking' activities?

Finally, several worrisome developments

- ▶ Since the 1977 crisis, South Korea has become
 - ▶ More consumption oriented than investment oriented
 - ▶ Before the crisis, borrowing for consumption was a very foreign idea to most people: Now it is too natural for most people. What is more, now people expect government's help if they fall into troubles.
 - ▶ The household sector used be the surplus unit of the economy. But it is now a deficit unit in deep troubles.
 - ▶ Before the crisis, the spirits of hard work and self-help prevailed. Not any more. Suddenly bad things happening to us have become the responsibility of the society or government. (Jobs, marriage, housing, child rearing, health, old age support, ...)
 - ▶ Before the crisis, people instinctively knew there was no free lunch: They were prepared to pay for the good things. Not any longer. Increasingly more people think they are entitled to 'free' lunches or lunches paid by others.
 - ▶ But are they really free? Who would bear the costs? They think the government should provide such services. But where can the government get the monies? A quick answer: Taxes. But whose monies to tax? 'Tax the rich and the big corporations'.
 - ▶ Many opinion leaders, politicians in particular, support this.
- ▶ The tendency for South Korea moving toward a welfare oriented state seems to be unavoidable and is happening. We Koreans should heed Mr. Lipton's advice given in his slides 23 and 25.