

Inequality during COVID-19 Pandemic and Policy Implications in South Korea

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Landscape during the 2020-2021 pandemic in Korea

- South Korea managed to succeed in minimizing the pains inflicted by the public health crisis in the first two years. The number of cumulative confirmed deaths per million people as of 18 March 2022 was 236 (smaller than the global average of 770).
- Korea avoided heavy economic losses. While the global economy contracted by 3.5 per cent, the Korean economy stalled at -0.9 per cent in 2020 and recovered to 4.9 per cent in 2021.
- Many advanced countries expanded job retention subsidies, provided enhanced unemployment benefits, and extended social safety net measures immediately after the outbreak of the crisis.
- The government directly distributed benefits to people and firms, which amounted to 6.4% of the GDP in 2020 (IMF, 2021). This size is unprecedented in Korea but not adequate to offset the economic damages. Korea relied on one-off emergency support measures on an ad hoc basis.

Table 1. Trends in Household Income in Korea, 2016–20

		2016	2017	2018	2019	2020
Market income	Average amount (ten thousand KRW)	3336	3434	3487	3558	3602
	Annual % change		2.94	1.54	2.04	1.24
Public transfer income	Average amount (ten thousand KRW)	189	199	219	264	358
	Annual % change		5.29	10.05	20.55	35.61
Disposable income	Average amount (ten thousand KRW)	3113	3189	3240	3338	3451
	Annual % change		2.44	1.60	3.02	3.39

Figure 1. Trends in the Distributions of Income, 2016–20

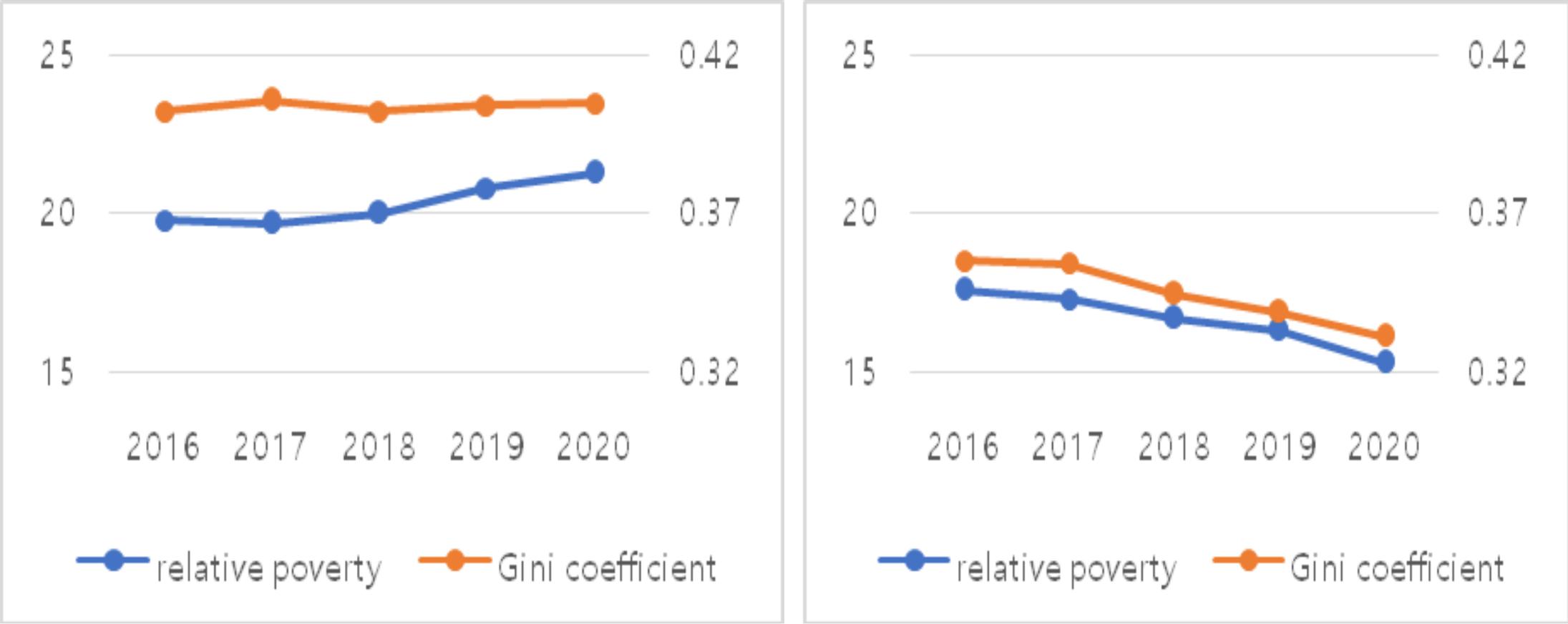


Table 2. Effects of the Pandemic on Income Distribution

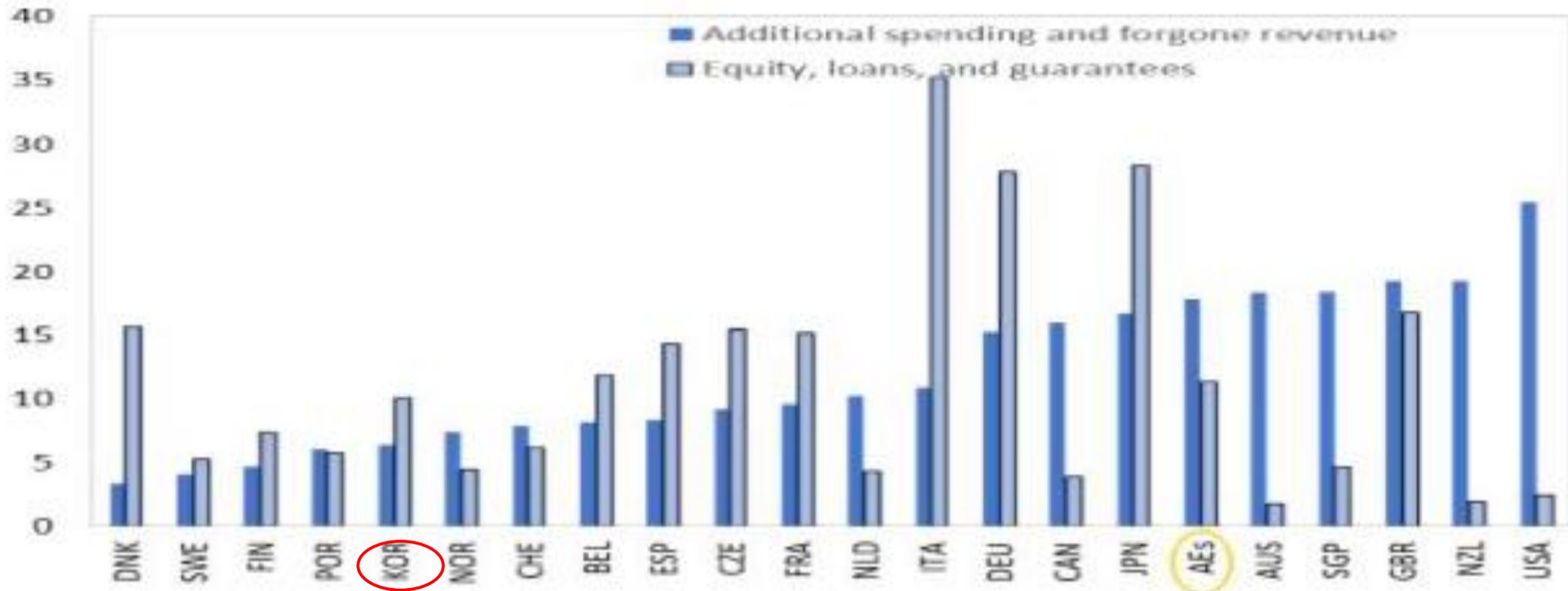
	Relative poverty	Gini Coefficient
	Market income	
2020	21.3	0.405
Annual % change, 2019-2020	2.40	0.15
Annual % change, 2016-2019	1.66	0.17
Difference in % change	0.75	-0.02
	Disposable income	
2020	15.3	0.331
Annual % change, 2019-2020	-6.13	-2.21
Annual % change, 2016-2019	-2.53	-1.55
Difference in % change	-3.61	-0.66

Summary of inequality during the pandemic

- The pandemic deteriorated the distribution of market income in 2020. Adverse effects of the pandemic on the self-employed, some low-skilled workers, and workers caring for children. (Remote work, in-person services, school closure and care burden)
- Government subsidies improved the distribution of disposable income in 2020.
- The pandemic did not seriously aggravate economic disparity in the short term in Korea. Expansive fiscal policy responses played a significant role in mitigating economic disparity.
- Bleak long-term prospects: Korea saw a dramatic increase in inequality during the last few decades. The pandemic accelerated job polarization in Korea, where high- and low-skill jobs increased while jobs requiring medium-level skill diminished (Oh, Song, and Lee, 2021). Educational gap among children and career disruptions among women were exacerbated during the pandemic.

More detailed assessment of social policy responses:

Not enough spending for social protection measures



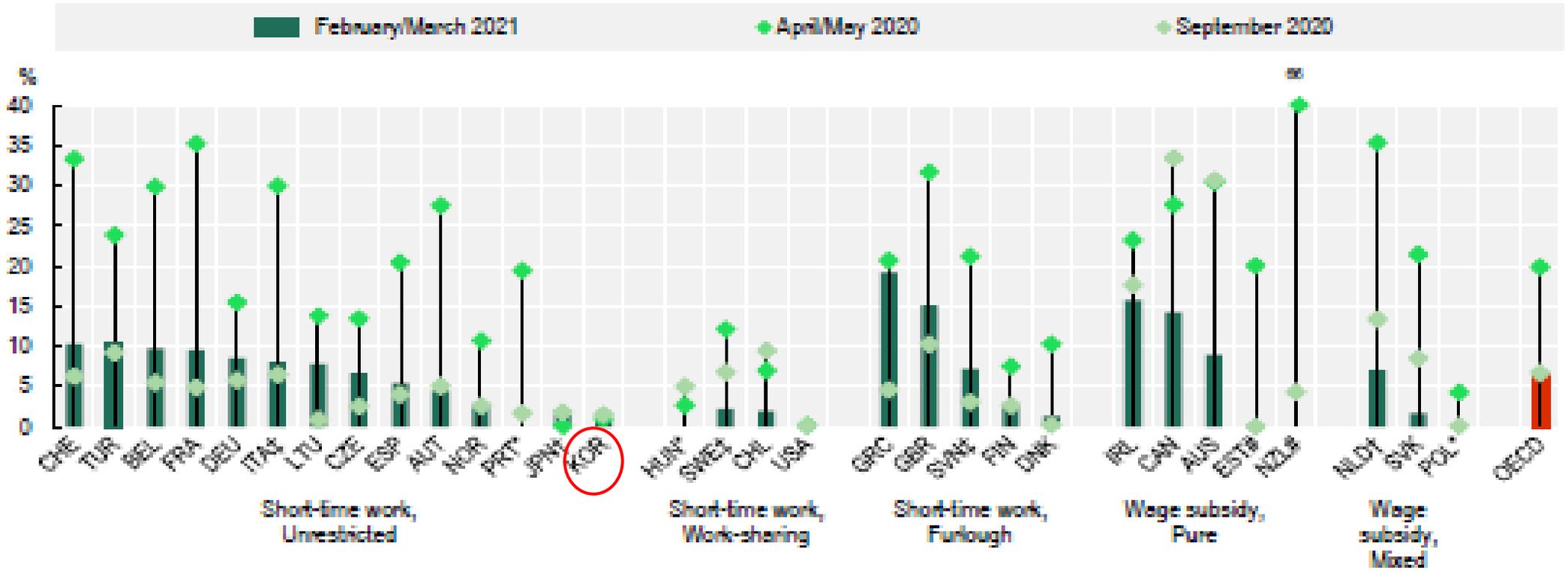
Source: IMF estimates based on October 2021 World Economic Outlook

Overview of program components in social policy responses

	New and existing job retention schemes ¹	Extensions to unemployment insurance	Extensions to means-tested programmes	New targeted transfers to specific groups	New universal transfers	Additional direct help with expenses, including moratoria on taxes, social contributions and housing costs
Australia	✓	✓	✓			✓
Finland	✓	✓	✓	✓		
France	✓	✓		✓		✓
Germany	✓	✓	✓	✓		✓
Japan	✓				✓	✓
Korea	✓			✓	✓	✓
United Kingdom	✓		✓	✓		✓
United States (federal level)	✓	✓		✓	✓	✓

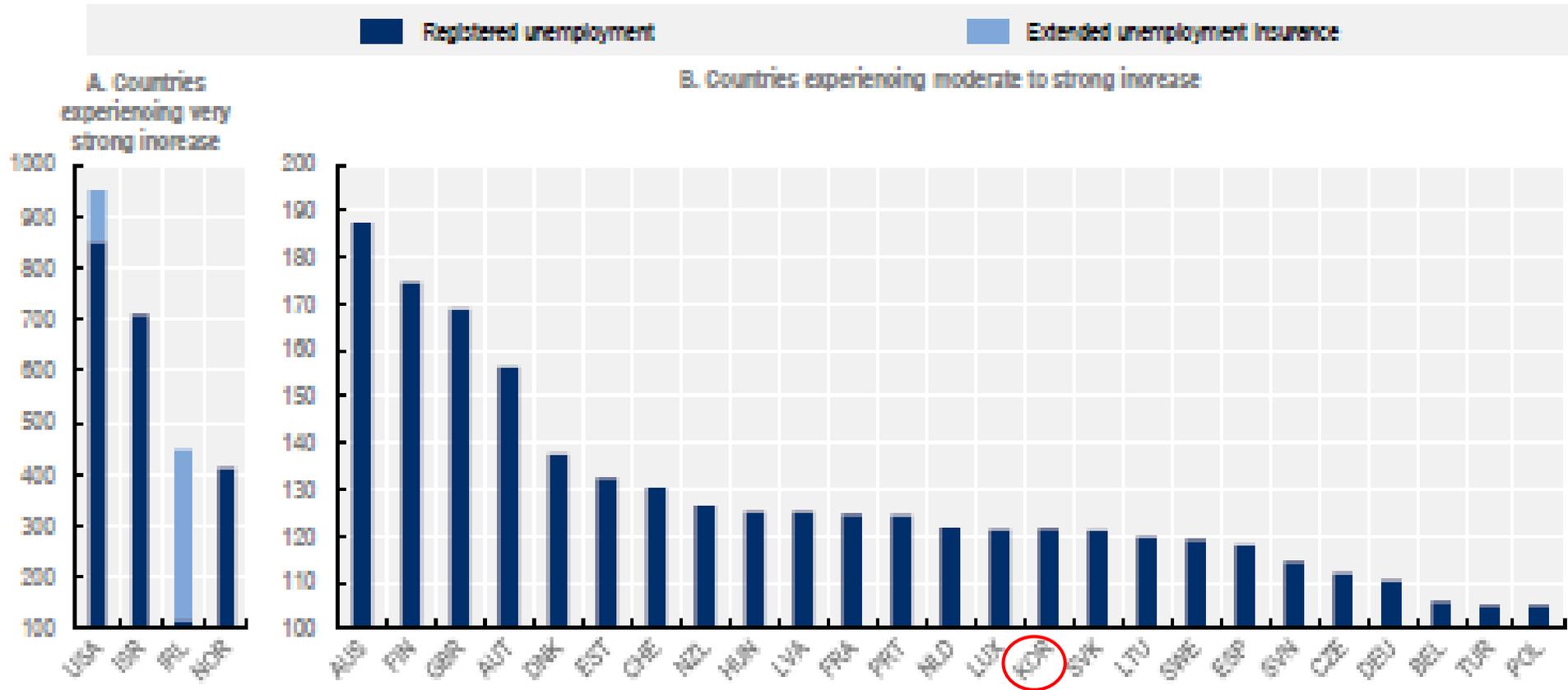
Source: OECD (2020)

Limited implementation of Job Retention Subsidies



Source: OECD Employment Outlook (2021)

Moderate increase in unemployment beneficiaries



Source: OECD Employment Outlook (2020)

One-time economic stimulus payments on an ad-hoc basis

	beneficiary	Time	Government Spending
First payment	Universal (All citizens)	2020 May	14.3 trillion KRW
Second payment	Targeted	2020 September	6.8 trillion KRW
Third payment	Targeted	2021 January	8.5 trillion KRW
Fourth payment	Targeted	2021 March	8.9 trillion KRW
Fifth payment	Nearly universal	2021 August	17.3 trillion KRW

Note: About 1200 KRW = 1 USD.

Source: summary from Kim and Park (2021)

Post-pandemic policy options: social protection

- Internal Revenue Service (IRS) has phased in a real time information (RTI) system to collect monthly information on income of citizens since the mid-2021. During the pandemic, the government tried to target stimulus payments to families in more need. Yet, the government had hard time in getting relevant information on income of citizens.
- In the mid-2021, the government introduced a new unemployment assistance programme for low-income workers. It started to expand the coverage of the unemployment insurance for dependent self-employed workers. It is reforming the unemployment insurance program from a scheme for workers employed in an enterprise to one for workers with earned income reported to IRS.
- In 2022, the government started a pilot project of a paid sick leave programme. There is no statutory (paid or unpaid) sick leave, which has become an issue since the pandemic.

Policies for creating good jobs in the post-pandemic era

- Good jobs have been disappearing due to neo-liberal labor market reform, globalization, and technological changes, leading to dualistic labor market (a small number of good jobs vs. insecure non-standard employment). COVID-19 has revealed and deteriorated existing inequalities in the labor market (Stantcheva, 2022). Need to prepare for just transition to the digital and green economy
- Active labor market policies, Minimum wages, Collective bargaining, Anti-discrimination law, Business incentives to generate good jobs rather than replace labor.
- Taxation has gradually shifted from capital to labor, deepening economic inequalities. An excessive labor income taxation can create incentives to direct innovation towards labor-substituting technologies (Acemoglu et al., 2020). Unfortunately, a newly launched government in 2022 announced a plan to reduce corporate tax, income tax and property tax.

Educational opportunity and gender equality

- Existing disparities in educational opportunities have been widened by school closures during the pandemic. Schools can play a more extensive role in offering quality education for all children from different socioeconomic background. Children from disadvantaged backgrounds receive some compensating inputs that other children get from their families (Stantcheva, 2022).
- Motherhood penalty: Earnings of men and women diverge after marriage and childbirth. Inequalities across men and women in the labor market have been increased during COVID-19. Parental leave and anti-discrimination measures should be expanded to support women's labor market participation and earnings.