

Why Are Koreans Not Happy about Their Own State of Distribution?

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Although it is not clear since when and under what circumstances Korea has been called a "model country in distribution", no one has yet seriously questioned the validity of such an evaluation. The present paper examines whether there have been substantial improvements in the state of distribution in Korea which warrant such a compliment. The evidence examined in this paper strongly suggests that the answer to the question should be in the negative. Viewed from the standpoint of distributive justice, income distribution in Korea has gotten much worse than before, and Koreans have good reasons to be unhappy about their own state of distribution.

I. Introduction

It is almost a fashion now to cite Korea as a model country which accomplishes both fast growth and equitable distribution in a relatively short period of time. As for the fastness of growth, not many economies have equaled the remarkable performances of the Korean economy, and therefore lavish praises poured upon it might not be totally groundless in that respect. In terms of the equity in distribution, however, it is somewhat questionable whether it deserves the same kind of praise or not.

But it is obvious that Koreans themselves are not satisfied with their own state of distribution. Most public opinion polls find that the Korean people put the restoration of equity in distribution at the very top of national agenda, which implies that they find the current state of distribution very inequitable.¹ This dissatisfaction

¹According to a recent opinion poll conducted by Professor Sun Woong Kim, for example, as much as 61.1% of respondents said that income distribution had gotten worse over the past five years, while mere 17.0% of them said that it had gotten better. In addition, 56.2% of respondents predicted that income distribution would get even worse over the next five years.

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with distributional inequity has often surfaced in the form of violent confrontations between different classes. Anyone would agree that the Korean society is now in a great turmoil with endless labor disputes and various classes' demand for larger pies. These days, virtually every interest group in the society openly demands larger shares of national income.

This turbulent social atmosphere seems to take a grave toll on the Korean economy's long vaunted fast growth. The growth rate of GNP in 1989 fell below 7% for the first time in seven years of double digit growth rates. In addition, trade balance surplus, which amounted to almost twelve billion dollars in 1988 plummeted to the level of several billion dollars in 1989. There is a consensus of opinions in the society that all the problems originate from the conflict between social classes demanding larger shares of national income.

Nevertheless, opinions are sharply divided over what are the causes of such conflicts and what should be done to overcome the difficulties. One view which is noteworthy is that the current social turbulence is only a temporary one. Holders of this view do not think that the degree of distributional inequity is so serious as to warrant violent social conflicts for a long period of time. Quoting official distribution statistics, they point out that the state of distribution has improved somewhat over the past years, although they do not deny that the degree of improvements has not been sufficient enough.

According to their analysis, the Korean economy is now going through the stage of development in which people begin to demand more equitable distribution of the fruits of economic growth. The implication of this analysis is that every growing economy should go through this kind of stage at one point of time and that there has been nothing especially wrong with distributional policies in Korea. Even when they admit that the current state of distribution is unsatisfactory, they do not agree that there exist structural reasons that make distribution inherently inequitable. They seem to believe naively that all the problem will melt away as the Korean economy enters a new stage of development.

Holders of this view include not only politicians and government officials, but also many respectable academicians. It is important to note that this group of people almost monopolize the power to shape national economic policies in the Korean society. That is why the government has not been doing much more than paying lip service in

order to make distribution more equitable, while the whole society is torn apart with rampant demands for more equity. The purpose of the present paper is to prove that their view is clearly wrong. To be more concrete, I am going to show that there have been structural reasons in the Korean society that breed inequity in distribution, and that, as a result, the state of distribution has gotten substantially worsened over the past years. The natural conclusion from this argument would be that Korea is by no means a model country in terms of distributional equity. That is, the Koreans have real reasons why they are dissatisfied with their own state of distribution.

II. Is Korea Really a "Model Country in Distribution"?

It is not clear since when and under what circumstances Korea has been called a model country in distribution. We can find, however, that publications from the World Bank as well as textbooks on economic development invariably list Korea as one of the developing countries in which the distribution of income is most equitable.² I have not yet seen a piece of work which questions the validity of such evaluation, especially by foreign development experts. Neither have I read any convincing explanation as to why the distribution of income in Korea should be considered that much equitable. To me, it is not so obvious whether Korean income distribution is worthy of such favorable evaluation. In any event, one should refrain from making any definitive judgement before all the available empirical evidences are closely examined.

A. Results of Early Empirical Studies

The results of empirical studies on Korean income distribution are summarized in Table 1. As one can readily notice in the table, the results obtained by Oshima (1970) differ greatly from those obtained by other researchers. According to his results, income distribution in Korea in 1966 was surprisingly equitable. It would be very difficult to find a capitalist society with a Gini coefficient of 0.2650 or a deciles distribution ratio of 0.6508, whether it be a developing country or a developed country. Obviously, his results

²See, for example, Chenery et al. (1974), Adelman and Robinson (1978), Hagen (1975), and Gillis et al. (1983).

TABLE 1
RESULTS OF EARLY EMPIRICAL STUDIES ON KOREAN INCOME DISTRIBUTION

Study	Year of Survey	Data Source	% Share of Household Income			Deciles Distribution Ratios	Gini Coefficient
			Lowest 40%	Highest 20%			
H. Oshima	1966	Special Survey	23.3	35.8	0.6508	0.2650	
I. Adelman	1970	Survey of Farm Households, Wage Survey, Morrison Report	18.0	44.0	0.4091	0.3600	
M. Chae	1970	Income Tax Reports	17.5	45.2	0.3872	0.3836	
T. Mizoguchi et al.	1965	Survey of Urban Households, Survey of Farm Households	19.3	42.8	0.4509	0.3428	

Source: Choo (1979a)

must be too good to be true.

Other three empirical studies present results which are similar to each other, and I think they are closer to reality than Oshima's. Although inequality indices obtained by them point to much less equitable distribution, still they are impressive compared with those for other developing countries. If these figures are correct, Korea could be one of the developing countries with highly equitable distribution. The deciles distribution ratio obtained by Adelman is compared with other countries' in Table 2, and we find that only Taiwan enjoys more equitable distribution than Korea in the low-income country group. Even among higher-income countries, not many countries have larger deciles distribution ratios than Korea.

Therefore, we can conclude that the results of early empirical studies suggest that Korean income distribution is fairly equitable. But this conclusion should be subjected to the following qualifications. First of all, we have to note that inequity in distribution has many different dimensions, and inequality indices such as Gini coefficients and deciles distribution ratios focus on only a part of them in measuring the degree of inequity. As a result, even substantial changes in distributional state could be left unnoticed when we measure the degree of equity with usual inequality indices if such changes occur on qualitative sides.

Secondly, it should be pointed out that the results of empirical studies cited just before are based on data collected during the period from 1965 to 1970. It was the time when growth-first development strategies pursued by the Korean government had not yet rendered that much change in economic structure. Hence it is somewhat difficult to say that the empirical results cited above reflect the impact of development strategies on the distribution side. It is more likely that these results reflect inherently equitable nature of the Korean society. That is to say, the empirical evidence we have seen so far is not sufficient to prove that Korea is also a "model country in distribution" in the sense that its development strategies pay off in improved distributional equity as well as in fast growth. We need to have more empirical evidence even just to evaluate whether Korean income distribution has actually improved or not.

B. More Recent Empirical Evidences

Income distribution statistics of more recent years are summarized in Table 3. It is rather unfortunate that the set of statistics

TABLE 2
SOME INCOME DISTRIBUTION STATISTICS

Group	Countries	Year	Per capita GNP (\$)	% Share of Household Income			Deciles Distribution Ratios
				Lowest 40%	Highest 20%		
Low Income Countries	Kenya	1969	136	10.0	66.0	0.1471	
	Philippines	1971	239	11.6	53.8	0.2156	
	Ecuador	1970	277	6.5	73.5	0.0884	
	Tanzania	1967	89	13.0	61.0	0.2131	
	India	1964	99	16.0	52.0	0.3077	
	Pakistan	1964	100	17.5	45.0	0.3889	
Medium Income Countries	Korea	1970	235	18.0	44.0	0.4091	
	Taiwan	1964	241	20.4	40.1	0.5087	
High Income Countries	Brazil	1970	390	10.0	61.6	0.1623	
	Uruguay	1968	618	16.5	48.0	0.3438	
	Chile	1968	744	13.0	56.8	0.2289	
	Greece	1957	500	21.0	49.5	0.4242	
	Spain	1965	750	17.6	45.7	0.3851	
High Income Countries	Netherlands	1967	1,990	13.6	48.5	0.2804	
	New Zealand	1969	2,859	15.5	42.0	0.3690	
	Japan	1963	950	20.7	40.0	0.5175	
	United Kingdom	1968	2,015	18.8	39.0	0.4821	
	United States	1970	4,850	19.7	38.8	0.5077	

Source: Ahluwalia (1974)

TABLE 3
RESULTS OF RECENT EMPIRICAL STUDIES ON KOREAN INCOME DISTRIBUTION

Year	Data Source	% Share of Household Income					Deciles Distribution Ratios		Gini Coefficients
		Lowest 20%	Second quintile	Third quintile	Fourth quintile	Highest 20%			
1965	Choo (1979a)	5.8	13.6	15.5	23.3	41.8	0.4626	0.3439	
1970	Choo (1979a)	7.3	12.3	16.3	22.4	41.6	0.4716	0.3322	
1976	Choo (1979a)	5.7	11.2	15.4	22.4	45.3	0.3716	0.3908	
1980	EPB (1989)	5.1	11.0	16.0	22.6	45.4	0.3538	0.3891	
1982	Choo and Yoon (1984)	6.9	11.9	16.2	22.0	43.0	0.4373	0.3574	
1985	EPB (1987)	6.1	11.6	16.2	22.4	43.7	0.4052	0.3631	

Sources: Choo (1979a), Choo and Yoon (1984), Economic Planning Board (1987)

presented in the table is the only one available at this moment, and therefore cross-checking with other sets of data is impossible.³ In any event, we cannot find any conclusive evidence supporting the claim that Korean income distribution has improved over past years. Even though inequality indices in 1982 and 1985 look slightly better compared with those in 1976 or 1980, they are still worse than those in 1965 or 1970. We might say that income distribution became somewhat more equitable in recent years, but has not quite recovered from grave worsening that occurred in the latter half of the 1970s.

One should note that it was the early 1960s when the Korean government's push for rapid growth was initiated. According to Table 3, income distribution was fairly equitable in the early phase of the rapid growth. This implies that if Korea can be said to be more equitable than other developing countries, it is not because of successful development strategies, but because the Korean society was more equitable from the beginning.

The proposition that the Korean society was more equitable than other developing countries from the beginning can be supported by many facts. First of all, we should note that thirty five years of Japanese occupation virtually annihilated the old socio-economic order without making a new class of rich Koreans. A handful of land owners managed to hold on to fairly large estates, but they were not able to transform themselves into industrial capitalists. It is fair to say that under the Japanese rule, most Koreans were poor, and therefore the disparity in income or economic status was very minor. This situation is in stark contrast with Latin American countries in which the oligarchy of landed aristocracy, businessmen, landowners and military officers has persisted without major disturbances for nearly a century.

Secondly, the wholesale destruction of the Korean War worked as an additional equalizing factor, although it was a tragic event to the Korean people. Almost all industrial facilities were wiped out during the war. Land reform which was put into effect immediately before the war delivered a severe blow to large land-owners. As a result, the class of traditionally rich people became not so different from common folks by the end of the war.

³Distribution data are collected through nation-wide household surveys performed by Economic Planning Board occasionally. These data are processed by the Korean Development Institute, in which Dr. Choo was the main researcher in income distribution. This is the only channel through which one can get distribution statistics in Korea.

When we consider the distributional equity in Korea, we should not neglect these two equalizing factors which made the Korean society inherently more equitable than other developing countries. If someone gets an impression from Tables 1 and 2 that Korean income distribution is fairly equitable, he or she should not ascribe this to effective redistribution policies. It would not be an exaggeration to say that the Korean government, preoccupied with fast growth and export promotion, did almost nothing to redistribute income up until the early 1980s. It was not until after people began to complain about distributional inequity openly in the early 1980s that the government belatedly recognized the urgency of the problem.

III. The State of Distribution Viewed from the Standpoint of Distributive Justice

I used the distributional statistics presented in Table 3 for arguing that Korea could not be a model country in distribution, the ground for my argument being that no sign of a significant equalization trend could be found in the table. However, I feel that mere "the lack of improvement" would not be a right description for the trend of income distribution in Korea over past few decades. More appropriate description of the trend would be that serious erosion in distributional equity has happened in the Korean society. In that sense, I feel that the distributional statistics presented in Table 3 significantly underestimate the degree of increased distributional inequity.

A. *Inequality Indices and Distributive Justice*

The equity in distribution is intrinsically a qualitative matter which is closely related to people's feeling or perception. Therefore, inequality indices such as Gini coefficient or deciles distribution ratio which measure the degree of inequality in distribution in quantitative terms have obvious limits as indicators of the equity of a society. Even though there occur radical changes in social structure which affect society's equity aspect significantly, inequality indices would remain unchanged if such changes are of qualitative nature. We have not yet come up with an inequality index which is also capable of measuring the change in qualitative aspects of equity. We, economists, feel more at ease with quantified measures by nature, but relying too heavily on inequality indices in evaluating the

overall equity of distribution in a society could be very misleading.

I think the concept of distributive justice would be especially useful in evaluating the qualitative aspects of distribution. The concept, which originates from the discussions of moral philosophers, is related to the principles of justice applicable to the matters of distribution. Hence our casual perception of equity in distribution can be more rigorously defined in terms of the principles of distributive justice. Once we have such a set of principles in order, we can evaluate the current state of distribution in light of those principles. To my judgement, this kind of qualitative evaluation is far more appropriate for the present case than quantitative one based on inequality indices. It is because the Korean economy has gone through very important structural changes during past thirty years, and these changes seem to have affected the qualitative aspects of distribution most significantly.

From Aristotle to Rawls, generations of moral philosophers have presented various kinds of answers to the question of what constitutes the justice in distribution. Summarizing the long history of the pursuit of distributive justice, Arthur and Shaw (1978) point out that all the different schools of thought agree on one point. That is, they agree that the justice in distribution means that no one's moral rights have been violated, everyone receives impartial and equal treatment, and individuals get what they deserve. To put it differently, they agree that the concept of justice consists of four major ingredients; rights, fairness, equality and desert. They differ only in assigning relative weights to these criteria.⁴

We can evaluate the overall equity of Korean income distribution by examining how these four criteria are met. We will find a wholly new picture about Korean income distribution from this process, and through this picture we can see why Koreans are so unhappy about the current state of distribution.

B. Growth-First Development Strategy and Politico-Industrial Complex

The 1960s was a great turning point for the Korean economy in a variety of ways. Having barely recovered from the devastation of

⁴For example, libertarians think that the protection of individuals' moral rights should be the primary concern for the justice in distribution, while egalitarians put more emphasis on equality. Some moral philosophers argue that whether people get what they deserve should be the most important criterion in judging the justice in distribution.

the Korean War, the Koreans began to dream of joining the ranks of developed nations through fast growth. Economic growth and export promotion became almost a national obsession all of a sudden.

At the vanguard of this national mobilization were the political leadership and bureaucracy, although it is hard to deny that public in general were also enthusiastic participants. The political leadership, consisting mainly of former military officers, promoted growth-first policies with unswerving determination. One may say that they were by nature strongly efficiency-minded due to their military backgrounds. Besides, the lack of legitimacy in their political leadership must also have been an important factor. They tried to compensate the lack of political legitimacy with the achievements in the economic arena, and they chose rapid economic growth as a showcase of their achievements.

For nearly three decades since the 1960s, the Korean economy has been tightly programmed under the growth-first strategy. In a way, this strategy has well paid off with such high rates of economic growth. But one unfortunate and inevitable by-product of the strategy was the destruction of society's foundations of equity. It was inevitable because the strategy aimed at unbalanced growth from the beginning. Fast growth was made possible by concentrating all the resources in a few sectors with highest growth potentials.

With this kind of development strategy, the principle of equal treatment, one of the four major ingredients of distributive justice, was bound to be violated. In fact, the government systematically favored industrial sector over agricultural sector, large industries over small and medium industries, export sector over domestic consumption sector, and businessmen over laborers. The concept of unbalanced growth itself must be in direct conflict with the principle of equal treatment. This intended unequal treatment of people inevitably generated a large mass of alienated, disgruntled individuals. No doubt they would perceive that the society becomes much more inequitable than before.

The vigorous promotion of growth-first strategy also resulted in the violation of individuals' constitutional rights. Under the Korean constitution, laborers should be free to make unions, join collective bargaining processes and strike when necessary. These constitutional rights have been virtually ignored over the past years. The dictatorial regimes of Presidents Park and Chun effectively stifled organized labor movements. It was due to this iron-fisted crackdown of labor movements that Korea could maintain its competitive edge.

But laborers' constitutional rights were inexcusably violated, and thereby the society's foundations of equity were further compromised.

So far, I have argued that the vigorous promotion of growth-first strategy endangered the society's foundations of equity by favoritism and the violation of individuals' constitutional rights. However, one could find the least amount of justification in this, since such ill effects on the equity aspect can be thought of as inevitable costs that had to be paid to make fast growth possible. One totally unjustifiable aftermath of the growth-first strategy was the relentless rent-seeking of a newly formed politico-industrial complex.

The politico-industrial complex, by which I mean unethical co-operative relationship between politicians and bureaucrats on one hand and businessmen on the other, was in a sense a natural outcome of interventionist policies motivated by maximizing the pace of economic growth. The interventionist policies necessarily created a huge amount of rents which could be grabbed by anybody who actively sought after them. Rent seeking activities of the politico-industrial complex created a class of *nouveau riche* in the Korean society. Some politicians and bureaucrats, whose salaries are supposed to be very modest, joined the rank of millionaires.⁵ Some businessmen who had very close ties with political elite accumulated vast amounts of wealth in a very short period of time.

Of course, this symbiosis of corrupt public officials and businessmen is in effect a conspiracy against public interests. The only rightful owners of the rents they took must be the public in general. It is no wonder that people are indignant about this unethical symbiosis. The huge amounts of wealth they accumulated are totally unjustified and undeserved to the eyes of people. The tendency of viewing any wealth unjustified, whether it be justly acquired or not, spread to the entire society. This tendency is by no means healthy, since it is nothing but the unquenchable desire to accumulate wealth that propels a capitalist society. If such desire is considered immoral and unethical in a certain society, healthy growth of its economy would be extremely difficult. Unfortunately, a social atmosphere of viewing top wealth holders as unethical persons has taken a deep root in the Korean society as a result of relentless rent

⁵I fully agree that such corrupt public officials were a very small minority. A vast majority of public officials were highly motivated and dutifully carried out their responsibilities.

seeking by the politico-industrial complex.

It is true that there had been some kind of unethical symbiosis of public officials and businessmen even before the 1960s. In terms of the scale of operation or the magnitude of rents being appropriated by them, the politico-industrial complex formed after the 1960s was by far larger. With the help of dictatorial rule, it could widen its influence without any check. The public in general, who were nothing but helpless bystanders, were greatly frustrated over this development. To them, it was obvious that the foundations of equity that supported the Korean society were crumbling hopelessly.

It would be futile to try to measure the degree of their frustration with any kind of inequality index. To this date, such an inequality index that can measure subjective perception of distributive equity has not been found. If someone uses the Gini coefficient for this purpose, he or she will be greatly amiss. Nevertheless, many otherwise smart economists have kept on cheating themselves or others by saying that the changes in the state of distribution would surely be reflected in such inequality indices.

While the entire Korean society has been boiling with dissatisfaction with such outright injustice in distribution, economists have just kept on saying that the Gini coefficient does not show any sign of deterioration. Such senseless admonition would not convince anyone. Once we go beyond the barrenness of numbers, we would not have much difficulty in understanding why the Koreans are not happy with their own state of distribution. It was our failure to delve into the qualitative aspects of distributional problem that kept us from getting a real understanding of the current situation.

IV. Conclusion

To me, it does not seem to be a mere coincidence that the Korean society is ailing with the conflicts over distributional shares and that the double-digit growth rate, which used to be a trademark of the Korean economy for a long time, has turned into a single-digit one. The relentless pursuit of growth-first policies for nearly three decades has made double-digit growth rates possible at the expense of distributional equity. However, the Korean economy has now reached a point where it cannot sustain high growth rates any further with the injection of growth-stimulating measures only.

With a vast majority of people having serious doubts about the

equity in distribution, the social fabric breaks apart and everyone would begin to care about only his or her own interests myopically. Under this circumstance, it would be too much to expect the "invisible hand" to turn the pursuit of selfish interests into public welfare. The natural outcome of this state will be the sudden death of an economy's vitality. It is premature to say whether the Korean economy has already entered this dismal stage or not. I, for one, do not think the situation in Korea is that bad at this moment. We cannot say, however, that the Korean economy is certainly safe from such danger.

Although an increasing number of Korean economists as well as policymakers has begun to realize the seriousness of the problem, many of them still remain unduly optimistic. They seem to believe that the current state of unrest will soon die away since distribution is in fact fairly equitable. What I have tried to show through this paper is that they are simply wrong. I would like to point out that the real cause of people's dissatisfaction with the current state is serious deterioration in society's foundations of equity. They are fully justified to feel that the society has become intolerably inequitable during the past years.

To reiterate, nothing is far from the truth than the claim that Korea is a model country also in terms of distributional equity. Presently, the Korean society is facing a very serious problem over distributional equity, and the problem will not easily go away unless some drastic measures are taken. The restoration of the foundations of equity must be the greatest challenge it faces at this moment, and the future of the Korean economy critically depends upon how such challenge is met.

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