

Society in Perspective

Middle Class Statistics and Their Discontents

Bridge over Troubled Old Age

Mobile Korea

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**Society in
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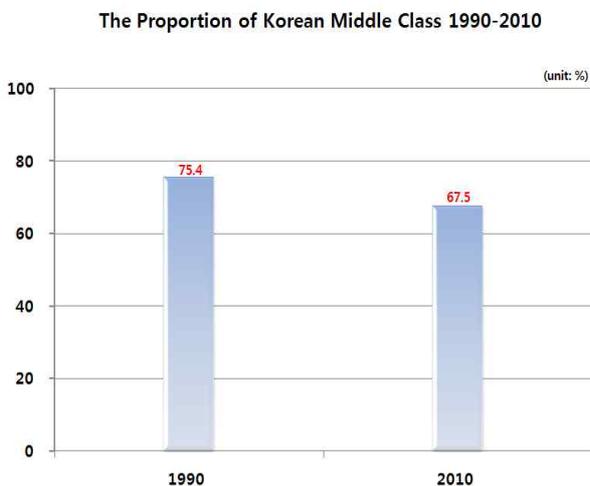
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Middle Class Statistics and Their Discontents

The Korean middle class is said to have been thinning over the past two decades. The official statistics on which media reports are based suggest that the proportion of the middle class in urban Korean households with two or more persons has declined from 74.4 percent to 67.5 percent in the two decades between 1990 and 2010.



It was only as recently as 2006 that the statistics were extended to cover all households in the country. The middle class in the extended picture took up 64.6 percent in 2010 and 65.0 percent in 2012. Although data are not available as to middle class households relative to all households in 1990, we can assume that it might have been as high as 70 percent back then. Increasing the middle class to these 1990-levels is one of the avowed goals of the Korean government.

If, as the Korean media suggests, a shrinking middle class is a cautionary call for Korea, a natural question to ask would be: what good is the middle class to society? In discussing the composition of people in democratic societies in comparison with aristocratic communities in his book *Democracy in America*, the 19th-century Frenchman Alexis de Tocqueville contended that although in the former, as the case had been in

the latter, there would always be people in great poverty and others in great opulence, they would be vastly dwarfed in number by those who are not very rich but have enough to lose by a revolution. The middle class therefore desire to maintain order, and it is, Tocqueville says, their inclination toward stillness that “keeps all beneath them and above them still, and secures the balance of the fabric of society.” So when many Koreans today couch the middle class as they do in such terms as “the backbone” and “the silent majority” of the people, they seem to be of the same mind with Tocqueville about the economic and political importance of the middle class. However, has the Korean middle class been really shrinking as the official statistics suggest?

GDP growth and disposable income

The 1980’s and early 1990’s were the times when the dividends of Korean industrialization were at their largest. The 1980’s in particular was the time when Korea saw growth spurts, due largely to the high productivity that for many years characterized the Korean manufacturing sector. Then in 1997 came the financial crisis, followed by a massive economic restructuring which spurred the shift of growth momentum from manufacturing to services. Many workers were laid off in the process, and women streamed into the labor force, in part produced by the force of economic conditions and in part encouraged by a growing service sector with different skill needs.

As the changing shape of international trades rearranged the Korean economy and labor force, the number of Koreans working grew from 16.91 million in 1990 to 23.04 million in 2010; GDP nearly tripled in real terms, and the per capita median disposable income of urban Korean households with two or more members, calculated in 2012 prices, grew by 85 percent over the twenty-year period. The Korean media, looking at the impressive track record the economy has shown in GDP, is quick to associate

the question of a shrunken middle class with inequalities in income distribution.

Such association, if not entirely false, is overstated. In the early 1990's compared to today, a much smaller fraction of married women worked and such personal services as child care and elder care were almost exclusively provided within the household sector.

These and many other activities of a similar nature over the years were increasingly detached from the household sector and counted as outputs, adding to GDP. In a similar fashion, the problem of shrinking middle becomes a problem of those who cannot or do not produce enough—those who in the past would have been counted as second breadwinners or non-working members in larger households—having been increasingly added to income statistics.

Who are the Korean middle class?

The Korean middle class are those whose household disposable (after-tax) income ranges between 50 and 150 percent of the national median—the household income where half the households have incomes above and half below.

The statistics we use here are of disposable incomes that are adjusted to household size. The assumption is that for a household of two to have a certain standard of living, it does not need twice as much, but just square-root-of-two times as much the income a single-person needs for the certain standard of living. The median disposable income for one-person household in 2012 was 21.25 million KW. By multiplying this by the square root of four, we get the per-annum median disposable income of 42.51 million KW for a four-person household. The middle class range for four-person households is between an annual disposable income between 21.24 million KW and 63.72 million KW (It is 18.39 million KW ~ 55.18 million KW for a three-person household and 15.01 million KW ~ 45.05 million KW for a two-person household). It is this statistical bracket that we refer to when we talk about the Korean middle class.

Why the Korean middle class has shrunken the way it has is less about changes in income

distribution among Korean workers than the increase in the number of one- and two-person households.

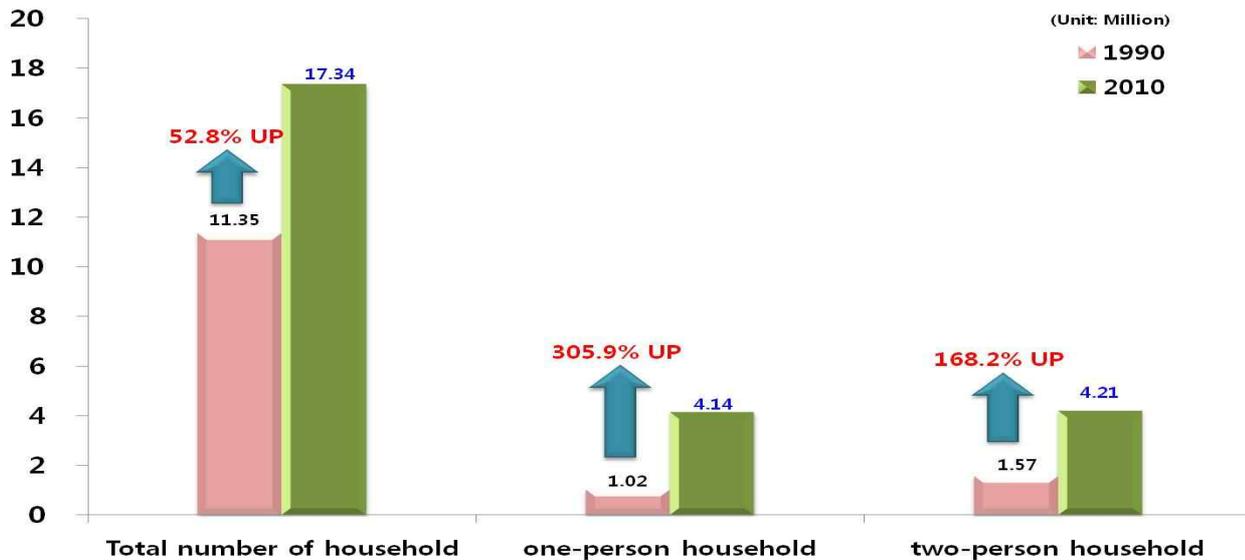


The smaller the poorer

In the twenty years between 1990 and 2010, the Korean population increased by 15.2 percent, but the number of households increased by 52.8 percent, from 11.35 million to 17.34 million. As the average household size declined from 3.77 persons to 2.69 persons, the number of two-person households increased from 1.57 million to 4.21 million and, more spectacularly, the number of single-person households has quadrupled, from 1.02 million 4.14 million. The increase in the number of households was 5.99 million.

Over the same period, the number of one-person households increased by 3.12 million, and the number of two-person by 2.64 million. Taking one-person and two-person households together, the increase was 5.79 million, which account for 96.7 percent of the total increase in households over the same stretch. In 2010, nearly one in every two Korean households was either one-person or two-person household.

The Increase in the Number of Household between 1990 and 2010



In 2012, nearly half (48.1 percent) of all one-person households and more than one in every four two-person households (26.8 percent) were with an income below 50 percent of the national median. Furthermore, Koreans living in one-person and two-person households took up just 23 percent of the whole population in the same year, but as many as 57.2 percent of a total of 6.32 million Koreans who were considered to be living with an income less than one-half of the median were attributed to one- and two-person households.

The small size of households in itself does not, of course, constitute the problem of the shrinking middle. After all, in the context of per capita disposable income statistics, it is not hard to imagine that at least some in the middle class would have slipped down to a lower bracket had they had more members in their households than they actually have. But the point is that not only are there in the Korean low-income class a much higher percentage of one- and two-person households on average than their middle class counterparts, but also they as a group have fewer workers in them. In 2012, the middle class, a population of 30.90 million, had an estimated 14.55 million people who worked,

compared to only 1.70 million people (out of a population of 6.31 million) who worked in the bracket with an income less than 50 percent of the median. Also, a study by the Korea Institute for Health and Social Affairs (KIHASA) suggests that in 2010, six in every ten (59.3 percent) of a total of 3.48 million households in the lowest income quintile were without anyone working. To be sure, in the 12 years between 2000 and 2012, it was the high-income class that saw the most growth in household disposable income. But considering that in 2012 as many as 58.6 percent in an estimated 8.69 million Koreans who constituted the high-income class were working, it is hardly a story of “the richer got richer and the poor got poorer.” The same study also finds that 1.2 percent of the Korean population who were in the high-income class in 2005 ended up placed in the low-income class in 2011.

Over the years in between, the proportion of “economically inactive” householders in this group increased from 5.6 percent to 63.9 percent. Likewise, those who were in the middle class in 2005 but who over the 7-year period slipped down into the low-income bracket saw a substantial increase in the portion of econom-

ically inactive householders in their households, from 31.3 percent to 52.7 percent.



Here the “economically inactive” means those who do not work and desire not to.

What all this suggests is not that those who experience a decline in their income status or stay income-poor do so because something is kept from them, but because they are not producing enough output. In Korea, as elsewhere, there always have been, and will be, people who fall ill and become, temporarily or permanently, deprived of the ability to produce. There have always been people who are too old, infirm, or young to be economically productive. These are ineluctable human conditions which to varying extents are a matter of policy concern and social re-distribution, not of income distribution.

Middle class as officially defined

Nor does the term “middle class” as officially defined in terms of current income even remotely delineates the group it intends to refer to. “Jung-san-cheong,” the Korean for “middle class,” means “middle-production stratum” or “those with a middling amount of assets.” The first definition implies that if you are not producing enough, you are not middle class; the

second definition says that even if you are not producing enough, you may as well be middle class. The objection offered here is not only to the relevance of household income statistics, but also to interpreting them as the economic reality of households. Korean households’ quality of life cannot be determined by their present income flow alone. In a country where three-quarters of all household assets are in non-financial assets of which three-fifths are housing assets, disposable income statistics are likely to distort the living standards of middle class Koreans relative to those in the “poor” and “rich” brackets.

In the official statistics, disposable income means before-housing income for those who pay monthly rents. However, it also means after-housing income for Koreans who live in their own homes or in *jeonse*, whereby the renter makes a lump-sum deposit on a dwelling unit for a given term, usually 2 years, in an amount between 50~100 percent of its market value, and gets the original amount back from the landlord at the termination of the contract.

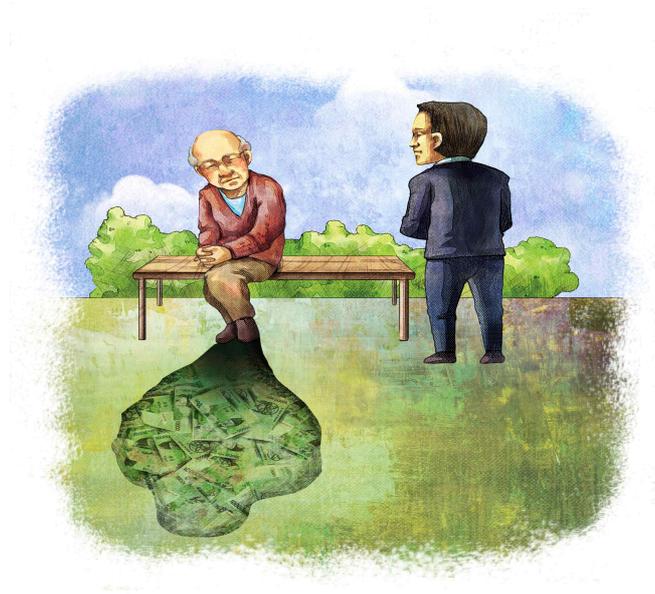
For this reason, two households of the same size with the same ordinary income, one dwelling on a monthly-rent basis and the other on a *jeonse* basis, can end up being placed in different disposable income categories, the former in the middle class bracket and the latter in the income-poor bracket. Suppose that the second family, living in a dwelling unit on a *jeonse* basis has a financial asset large enough not to depend on a bank loan, then its disposable income is an after-housing income, while the disposable income of the first family is a before-housing income. Like the presence of debts, the absence of assets tends to lead to such confusion that a defined status of “middle class” and actual poverty are often found in the same household. Conclusions drawn from statistics which show only current income tend to lose sight of how much savings and assets accrued in the past can offset the lack of current income.

Older Koreans aged 65 and over living alone have increased as a portion of the income-poor from 7.8 percent (0.41 million) in 2000 to 17.8

percent (1.11 million) in 2012. This is 77.7 percent in a total of 1.43 million one-person elderly householders. Also, more than a quarter of all one-person households were lone-elderly households, among whom, however, 63.4 percent were living in their own homes, and many of them, we may assume, without having to pay rents or mortgages. Among one-person and two-person households, it is elderly-only households that are most likely to grow in number, as they have been in the past.

This may further shrink the Korean middle class as a portion of total population, because many older people, with their working life having run its course, are likely to stay income-poor for long or even for the rest of their lives. It should be noted that the demographic increase in the elderly population per se is not a significant factor in the statistical shrinking of the Korean middle class; rather, it is the increase in the proportion of one-person and two-person elderly households as a proportion of all households. But as we have just seen, their income-poverty does not mean they are poor. Many in the current income-poor could be retirees living on a combination of National Pension benefits and their savings.

If the problem of shrinking middle is a problem of production, then it stands to reason that to thicken the middle class should involve helping those who are not producing altogether or enough. The government may want to pull as many Koreans as possible out of the non-economic domain into the workforce and lift them up into the middle-class (middle-income) bracket. But the hard part is that we do not know how many people there are in the income-poor who, for various reasons, would rather stay income-poor with working little or none at all than to live with having to embrace the challenges of a steady job.



Bridge over Troubled Old Age

One of the more salient features of the recent relationship between population aging and employment in Korea has been that baby boomers—those born between 1955 and 1963—have pushed up unemployment among the younger generation while also nudging the older generation into early retirement, with Korean workers today retiring from their career jobs as early as at 53-years of age on average. From the viewpoint of the employer, older workers on seniority wage scales may be part of the cost burden they want to do without. To be sure, there are some industries and firms where employers find the human capital value of their older workers depreciate rapidly as years go by.

This is understandable in a country where, according to OECD’s Education at a Glance 2013, 64 percent of people aged between 25 and 34 held a higher education degree as of 2011 while as few as 13 percent of those a generation older achieved an equivalent educational attainment. Employers in a growing service sector, in particular, would find it tempting to replace older workers and the skills which they gained over many years of work experience by younger workers with higher educational attainment.



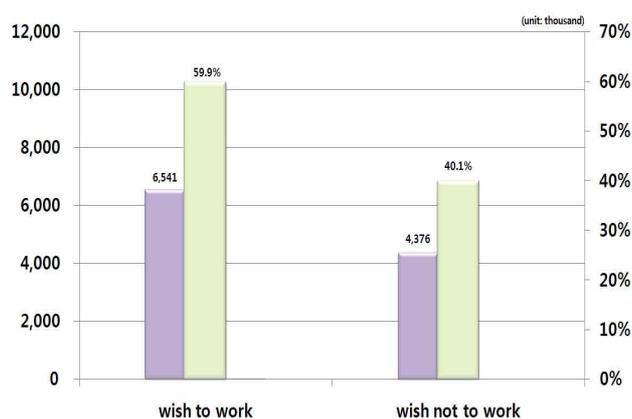
There are not enough career jobs—jobs with a prospect of upward mobility, a built-in ladder along which workers can climb—to go around

for both older workers and new labor force entrants. A new labor law is poised in a few years to outlaw the pervasive practice of displacing workers aged below 60. But this does not seem sufficient to meet the need of many older Koreans to make ends meet.

Bridge employment

Many Koreans displaced from their career employment because they no longer met what their employers required of them and those who have well passed the official retirement age will not withdraw from the labor force altogether. They will, as they have to, work in lower-paying jobs. In a report released in May this year by Statistics Korea, the national statistical authority, those wishing to go on working took up 59.9 percent of an estimated 10.9 million Koreans aged between 55 and 79. More than half of those who wanted to continue working cited financial need as why they did. Also, among those working in the same age group, an estimated 5.8 million, more than nine in every ten (90.9 percent) wished to continue working.

The number of people aged 55-79 who wish to go on working



Compared to career jobs, bridge employment is characterized by lower pay and less stress. Among the factors affecting workers’ choice of bridge jobs is the type of human capital they gained through their career employment. Older workers with many years of career experience in

administrative work or sales who therefore have built “general human capitals,” in the phrase used by the American economist Gary Becker, should have little difficulty finding bridge jobs with lower pay. On the other hand, those whose acquired human capitals are of a nature specific largely to the firm and industry in which they spent most of their career years may have to find bridge jobs that have little to do with their past work experience.

Pension benefits influence older workers in deciding whether they should take a bridge job and, if at all, when, of what type and for how long. If possible, workers would choose to retire at a time when their expected future pension benefits reach their highest. The worker’s pension benefits as a rule will be smaller if he retires sooner rather than later. However, the cost of having deferring pension benefits involves not only pecuniary concern, but also having to keep up with the discipline of work.

Also, the minimum wage at which one would accept a bridge job may depend on how much pension income one is in receipt of or expects to receive from one’s career job. The higher the pension income one is entitled to, the likely one might be to choose a bridge job that requires only low levels of skill and effort or to choose none at all.

The role of the pension system

The main strength of the National Pension is also its central weakness. Korean workers have to live with the flipside of paying just a small portion of their earnings. Also, launched as recently as in 1988, the National Pension now pays out benefits to as little as less than one-third of the population aged 65 or older. As a result of a series of reforms, the income replacement level for a new participant has been adjusted down to 40 percent of career earnings with a 40-year contribution history. National Pension benefits for Koreans retiring this year will be commensurately smaller as they will have contributed for 25 years or less.

The National Pension is intended to serve as an income supplement for aged Koreans, not the

main source of their retirement income. As if this is not enough, there has over the years since the 1997 financial crisis been a persistent decline in household savings rate as the number of National Pension participants have increased; the mandatory payment into the National Pension might have given Korean workers a sense of tradeoff between choosing the mandatory contributions over personal savings. One poll after another suggests that Koreans are concerned about having not saved enough for their old age.

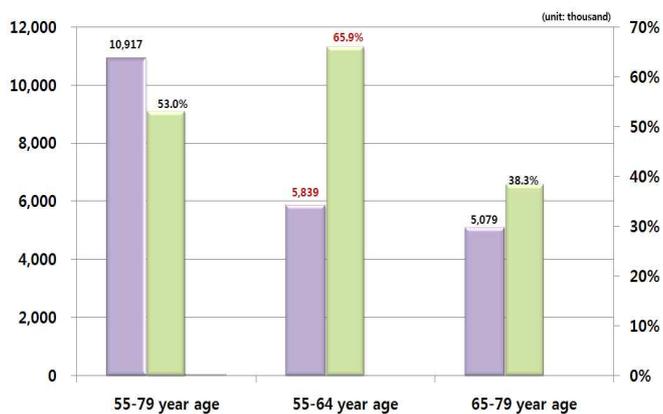
The effect of public pension on the labor force participation of older workers who have retired from their career employment can be supplemented by corporate severance packages. But this hardly applies to Korea where its corporate sector is characterized by many decades of the widespread practice of severance payments.



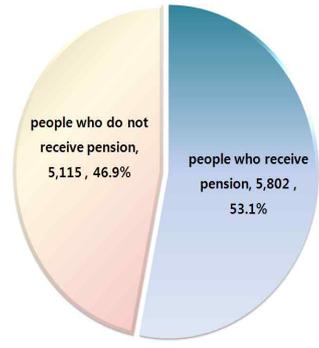
The tradition remains largely unchanged despite the Retirement Pension Act 2005 which provides employers and employee with an option to choose between retirement pension and lump-sum severance payment. The effect of the law is inconsequential as Koreans still by far favor receiving their severance payments in a lump sum even as the tax rules clearly favor the other. Of all Koreans aged 55 or older who were eligible for corporate pension plans in the 1st quarter of this year, as few as 3 percent

(1,489 individuals) chose to have their severance packages paid in installments, according to a report released by the Ministry of Employment and Labor. If the current system of retirement remains largely as it is today, the effect of pension on the behavior of retiring workers with respect to bridge employment is likely to stay limited.

Employment Rate for People Aged between 55 and 79



The proportion of pensioner out of Elderly People Aged 55-79



Never say never to working

The employment rate for those aged between 55 and 64, at 65.9 percent, is higher than that in Korea than in most of the other OECD countries. Well-developed public and corporate pensions are a factor explaining the differences in the employment rate for this age cohort. Older workers tend to put off their retirement as long as they can until they see their corporate pension benefits get maximized in value.

As part of recent reforms many OECD countries have pushed up their pension eligibility age to 65 and beyond. Current older workers in

these countries are likely to continue staying in the labor force perhaps for longer than they would have in the past.

However, if there is anything that the older Korean workers’ high employment rate suggests, it is how little the effect of pension programs have been on older Koreans’ retirement. Korea’s mandatory pension plans as they stand hardly tip older workers toward choosing withdrawal from the labor force or going on working at least in part-time bridge employment, if not on a full-time basis. If older Koreans choose to work until they become very old, it is simply because there is no alternative.

The average age at which workers retire altogether from the labor force—the effective retirement age—is much higher in Korea than in any other OECD country except for Mexico, according to OECD’s Pensions at Glance 2012.

Furthermore, considering that Mexico’s official retirement age—the age at which a worker is entitled to public pension benefits—is 65 while Korea’s is 60, the gap between the effective age and in the official retirement age for men is largest in Korea among all OECD countries. Almost 40 percent of the more than 5 million Koreans aged between 65 and 79 were found, in May this year, to have been “economically active.” These figures in part explain the 11.4-year gap between the effective and official retirement ages in Korea.

Older Koreans are motivated to do economically gainful activities more by financial need than anything else. It is not some prospect of pension income, but lack thereof that pulls them out into the labor force. Many of the Koreans retiring today from their career jobs, if unsupported by earnings from bridge employment, are likely to slide into poverty as the income they can expect from both the state and private pension plans is still too insubstantial to be counted on in their lengthening retirement lives. The cost of not taking a bridge job will be more prohibitive for those without pension incomes. Some older Koreans who go on working may find their new jobs far below their previous stations and have hard time getting themselves ad-

justed to being paid only a small fraction of what they were used to getting in their prime years; others might enjoy in their bridge jobs the freedom of not having to take yet another step upward. And all will rightly wonder if they will ever be able to retire from the labor force once and for all.

An In-depth Analysis of the Korea Welfare Panel Data 2012

By Sang-ho Nam *et al.*

Korea Institute for Health and Social Affairs,
348pp.

For the past several months rarely a day went by without one newspaper or another running an article saying that in the recent years climbing up the income ladder has become increasingly difficult with fewer opportunities for advancement for lower income earners. However, the evidence suggests otherwise.

A couple of points should be noticed about the claim that some, including the media, tend to make about social mobility in Korea. When the data is about the social mobility—or income mobility—of households over a five-year period, as is the case with the data on which numerous recent media reports were based, year-on-year comparisons of the portion of those in the poorest quintile who moved upward can be misleading on at least two counts.

Firstly, one year is an insufficient time for a poor household move up the income ladder.

Secondly, when some households do move up in a year from the lower-income bracket, the bottom 20 percent, now with those who in the same year have slipped down into it from higher income brackets, will likely be left with comparatively more retirees and people who are ill or unwilling to work.

As a result, the upward mobility will be much lower for the poorest 20 percent in the last year of a multi-year panel than it was for the bottom 20 percent (no longer the same group) in the first year. This is why, as a rule, mobility comparisons are made between different time periods of the same length.

For example, if the mobility measures for the five-year period between 2005 and 2009 are to be compared, they should be so with mobility

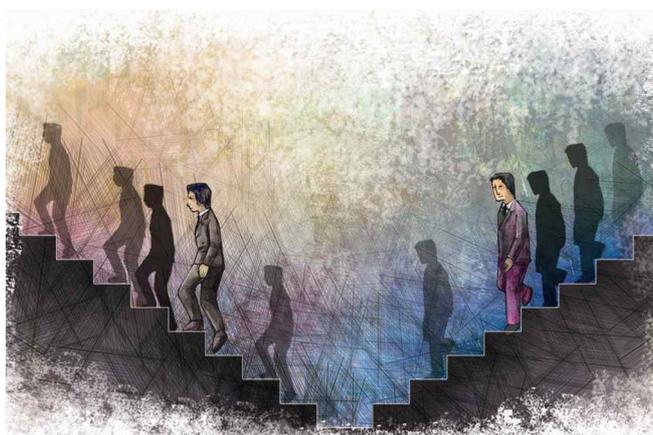
measures for the period between 2006 and 2010, or between 2010 and 2014.

The Korea Welfare Panel Study, in which the Korea Institute for Health and Social Affairs (KIHASA) tracked more than five thousand households since 2005, suggests that over the five-year period between 2005 and 2009, as many as 41 percent of those who in the initial year were in the bottom 20 percent moved up. Over the same time frame 40.7 percent of those in the top 20 percent moved down to a lower income bracket.

Of the second income bracket, 39 percent rose while only 24 percent relegated to the bottom quintile. Among those who started in the middle quintile in 2005, 30.8 percent moved up while 34.6 percent moved up. As for the top 20-percent households, 40.7 percent of this group moved down in the lower income brackets over those five years.

The study also finds that among those in the second quintile, 38.9 percent moved upward while 24.4 percent slid down. The figures for the fourth quintile were 24.5 percent (upward) and 39.3 percent (downward).

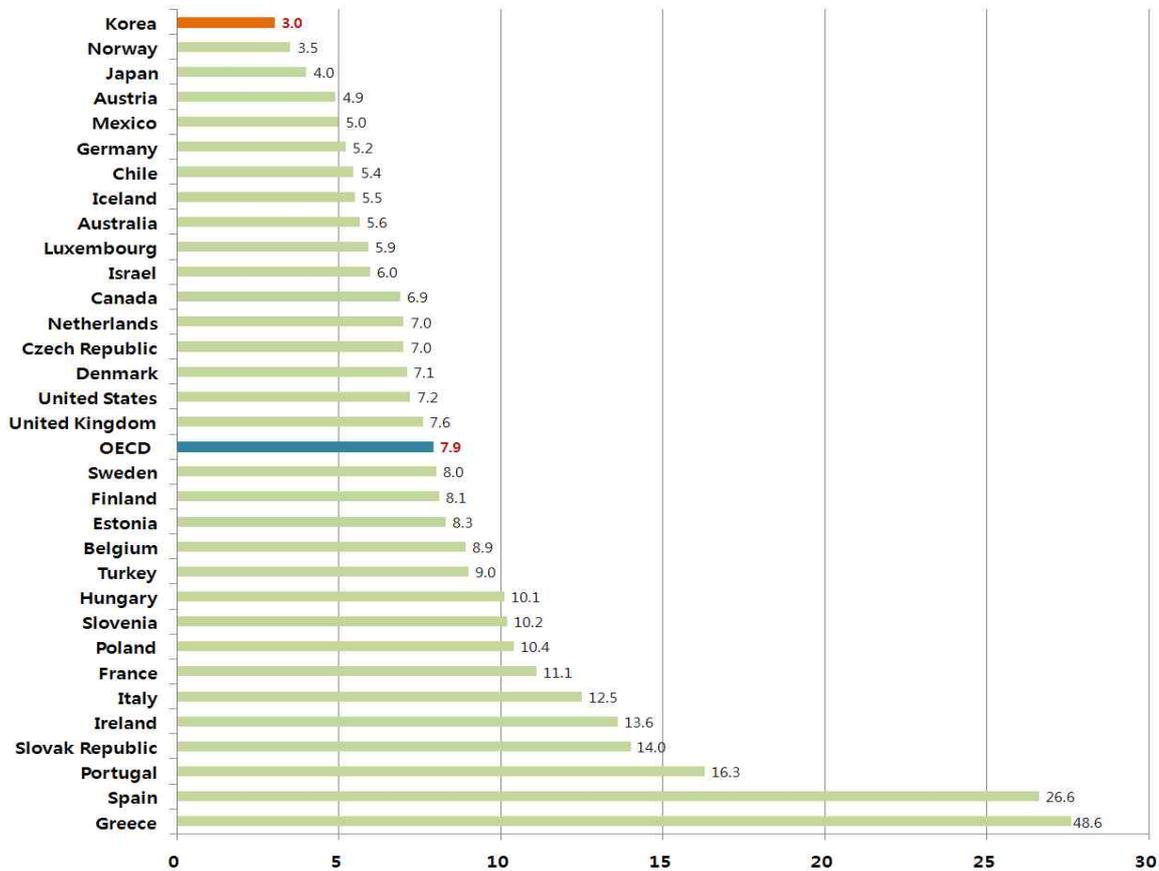
All this is by no means something one wants to make reference to when one wants to make Korea appear less socially mobile than it really is.



Thumbs up



Unemployment Rate, as of September 2013 (or nearest month)



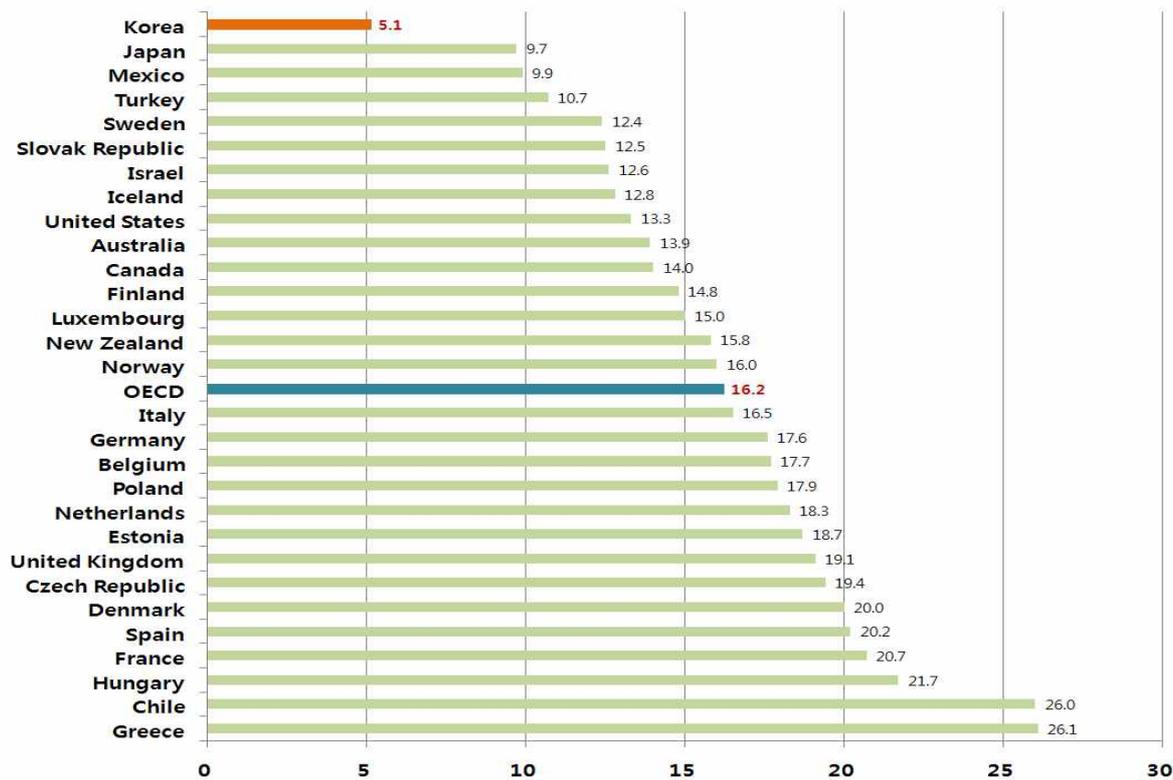
Source: OECD Labour Data 2013

% of Overweight or Obese Population, 2011 (or nearest year)



Source: OECD Health Data 2013

% of Female Aged 15 Above Who Are Daily Smokers, 2011 (or nearest year)

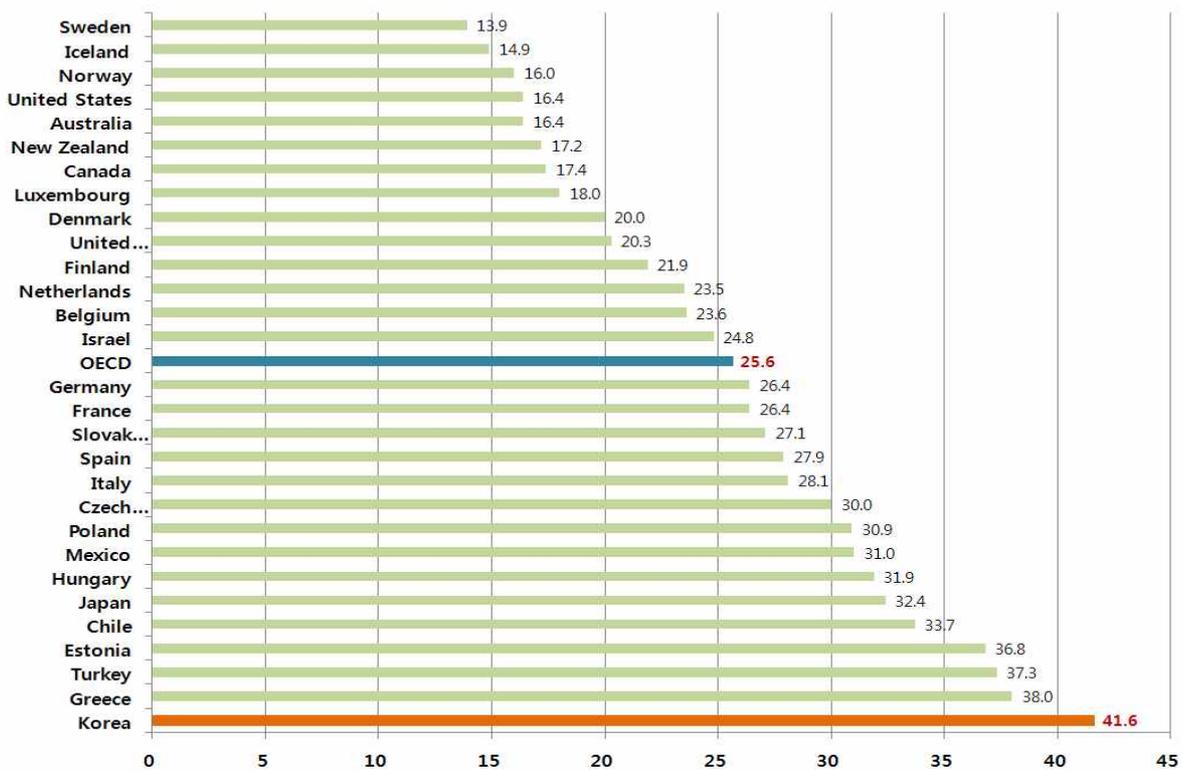


Source: OECD Health Data 2013

Thumbs down

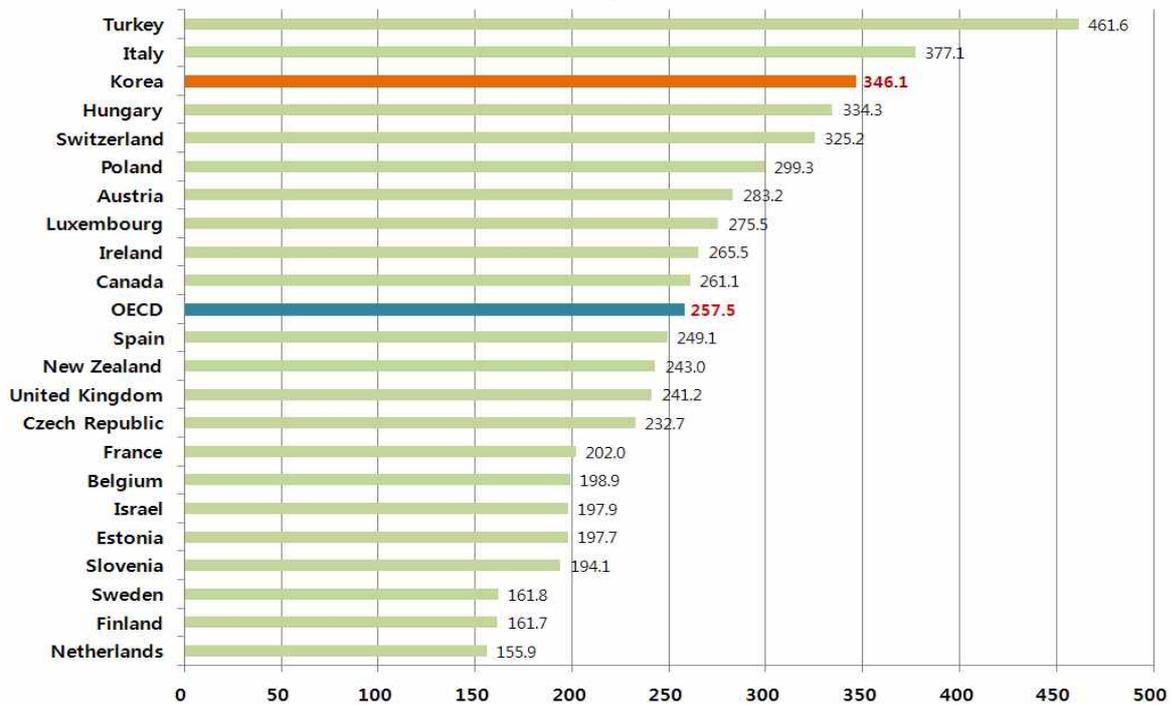


% of Male Aged 15 Above Who Are Daily Smokers, 2011(or nearest year)



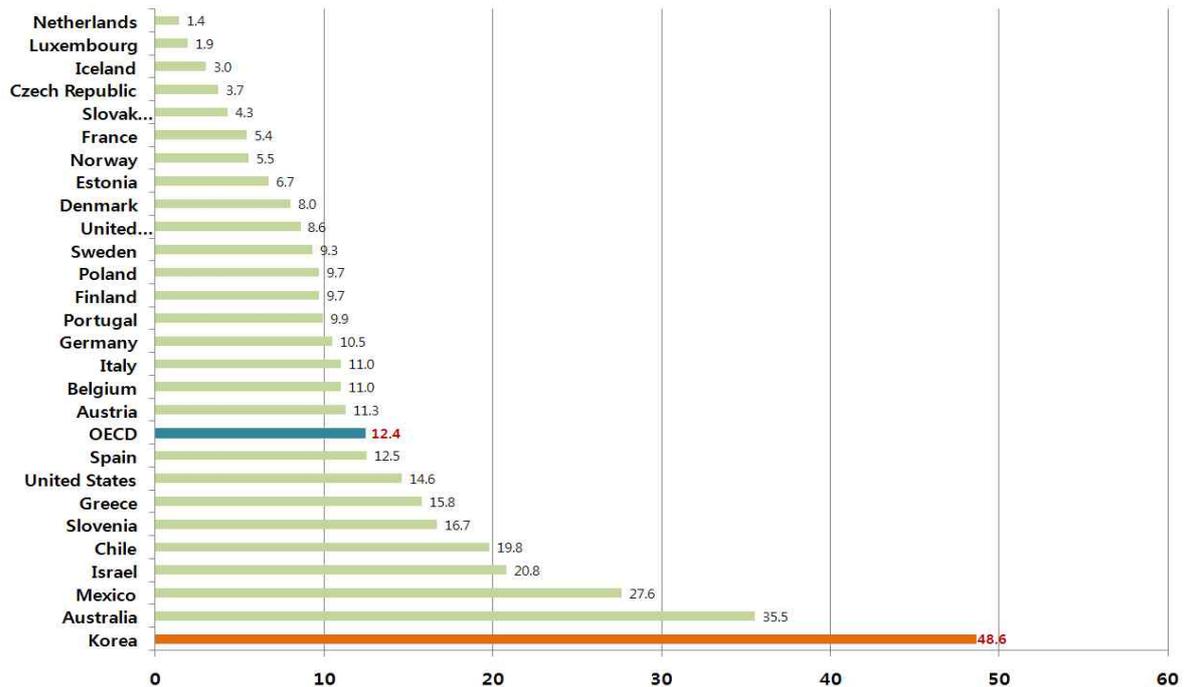
Source: OECD Health Data 2013

**Total Number of Caesarean Section per 1,000 Live Births, 2011
(or nearest year)**



Source: OECD Health Data 2013

**Poverty Rate among People Who Aged 65 Above, 2011
(or nearest year)**



Source: OECD Health Data 2013