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The Effect of Income Support for the Households with Children on Redistribution of Income



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I

Introduction



Income inequality is growing in South Korea. Income gaps are inevitable features of capitalist societies. Assuming that opportunities are equal, it is perhaps acceptable, at least to an extent, that the outcomes of appropriating those opportunities may differ. People in general are willing to bear income inequality insofar as the society in which they live guarantees fair rewards for their efforts and chances to move up the social ladder. A society with deep income inequality, however, invites inequality of opportunity and stifles attempts at upward social mobility (Kim, Seo and Shim 2016, p. 61; Corak, 2013, p. 82).

The effect of income inequality on children presents an even more serious problem than its effect on adults, because income inequality is not the result of whether children have worked hard or not and can decisively limit the number of opportunities they receive to grow and achieve success as adults. A couple of decades ago, it was not uncommon for children of poor, uneducated parents to receive education and join the middle and upper echelons of Korean society, so much so that Koreans often used the expression, “Dragons come out of little creeks.” The majority of Koreans back then held hopes that their children would do better than themselves (Kim, 2015, p. 2).

Today, few Koreans believe that “dragons come out of little creeks.” The prevalent use of the terms “gold spoons” and “muddy spoons” reflects the stilted upward social mobility in Korea. Given the fact that the current inequality, coupled with the weakening prospects of moving upward socially, can seriously limit children’s chances at success and fatally affect future generations, we need to be paying more attention to the problem and striving to find solutions. Active policy intervention, involving aggressive investment, is needed to minimize the effects of income inequality on children.

The fundamental and primary objective of income support policy for households with young children is to increase the disposable income for such families. The Child Benefit, Earned Income Tax Credit(EITC), and Child Tax Credit(CTC) are primarily intended to minimize the financial burden of raising children, and secondarily to prevent poverty and redistribute income for children.

No rigorous studies have yet been undertaken to analyze the effects of income support policy, particularly concerning income distribution, for households with children. The dearth of research on the income-redistributing effects of such policy measures for families with children may be attributable to the fact that income security policy for children in Korea is still in its early stages. More importantly, however, it stems from the fact that much of Korean policy support for children has been

provided in the form of services, such as daycare, rather than in cash. This is because Korean policy support for childcare has so far focused mainly on promoting child development and stemming the drastic decline in the birth rate.

The objective of this study is to analyze the income-redistributing effects of various Korean policy measures that provide income support for households with children so as to highlight implications for how the policy system can be improved. A comprehensive range of income support measures specifically for households with children is the subject of our analysis herein.

As part of our analysis of the income-redistributing effects of the current policy system, we analyze both the effects of individual income-support measures and the aggregate effect of the entire range of policy measures. We measure the income-redistributing effects primarily using Gini coefficients as well as poverty rates where applicable. We expect that this study will provide useful basic information needed to redesign policy so as to maximize its income-redistributing and inequality-reducing effects.

II

Literature Review

1. Income Support Policy for Households with Children: Definition
2. Literature Review

II

Literature Review <<

1. Income Support Policy for Households with Children: Definition

The Child Welfare Act (CWA) in South Korea defines children as people under the age of 18. The age definition of “child,” however, has varied widely from program to program. The Childcare Service Voucher (CSV), Child Benefit, and Home Care Allowance (HCA) have targeted children under the age of six. The EITC and CTC, on the other hand, have provided benefits for children up to the age of 17.

Korean policy-makers have traditionally expanded the scope of childcare support programs by raising the age limits. Income support policy for households with children in Korea generally encompasses all households with minors under the age of 18. For the purpose of our analysis, let us define the subject households as those with children under the age of 18. With respect to specific programs that benefit only certain groups of children (particularly those under the age of six), we shall examine their effects on households with eligible children as well as all households with children under the age of six.

In this study, we approach income support policy for households with children as being primarily motivated to reduce the financial burden of raising children. Accordingly, all policy

measures that provide family benefits specifically for children under the age of 18 are the subject matter of our analysis. There are policy programs that provide income support for families even though having children is not necessarily part of the eligibility criteria. For instance, the National Basic Livelihood Security Program (NBLSP) does not provide benefits solely on the basis of whether the recipients are raising young children (with the exception of the education-related benefits it provides). Households with families, however, can certainly benefit from the program. Income support policy measures that do not explicitly require beneficiaries to have and be raising children are therefore exempt from our analysis.

In the past, income support for households with children in Korea took a residual approach, targeting only households earning less than the minimum income (Jeong and Lee, 2009, p. 308). In recent years, however, the Korean state has been expanding the reach of programs to include all households with children in an effort to help them reduce the financial burden of raising children.

Table 2-1 summarizes the currently available types and programs of income support for households with children. These programs can be largely divided into direct cash support, child-care service vouchers to enable parents to enter and continue to work in the job market, and tax credits to help increase available income for households.

Cash support includes monthly payments of fixed amounts of money, such as the HCA, additional child income support, and Child Benefits, as well as the EITC and CTC, which are re-funded in certain months of the year. The CSV is also provided in cash, but only for households that pay to enroll their children in childcare and preschool facilities.

〈Table 2-1〉 Income Support for Households with Children (as of September 2018)

Type	Program	Age requirement	Eligibility and amount
Cash Benefits	Child Benefit	Under six years old	Introduced in September 2018. Available for all households in the bottom 90% in terms of income. KRW 100,000 per child per month.
	HCA ¹⁾	Under six years old	Introduced in 2009. Income limit abolished as of 2013. KRW 100,000 to 200,000 per month provided for every household with children, irrespective of income.
	HCA for single parents	Under 13 years old	Introduced in 1989. Provided for households earning 52% or less of median income. KRW 130,000 per month (KRW 180,000 per month per child aged 12 to 17 and KRW 50,000 more per child under the age of six).

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Type	Program	Age requirement	Eligibility and amount
In-kind services	CSV	Under six years old	Introduced in 1999. Provided for all households with eligible children, irrespective of income, as of 2013. KRW 220,000 to 441,000 per child per month (KRW 661,500 per child per month using 24/7 daycare facilities).
Tax credits	EITC	Under 18 years old	Introduced in 2008. Income and asset limits apply. Amounts differentiated for single parents (aged 40 or older), single working parents (with dependent spouses and children), and both-working parents. KRW 800,000 to 2,500,000.
	CTC	Under 18 years old	Introduced in 2015. Income and asset limits apply. Amounts differentiated by income. KRW 300,000 to 500,000 per child.

Note 1) For the purpose of our analysis, we include rural home care allowance benefits and benefits for the care of children with disabilities at home in our notion of the HCA. The same age requirement applies to all of these programs. The amounts of cash provided differ slightly depending on the child's age, but they generally range from KRW 100,000 to 200,000 per month.

Sources: National Tax Service (NTS) website, Ministry of Health and Welfare (MOHW) website, and Ministry of Gender Equality and Family (MOGEF) website (all accessed April 23, 2018).

2. Literature Review

Few studies have been done on the distribution of income among households with children in Korea. The high poverty rates among seniors have claimed most researchers' attention and encouraged much debate on the distribution of income among elderly households and the causes of their poverty. Some researchers have analyzed, to an extent, the distribution of income among households with children, but only for comparison with other types of households (mostly elderly). In general, households with children have greater income than elderly households.

Some have begun conducting research on the state of child poverty in Korea in recent years (Yeo et al., 2017; Jung et al., 2013). Rather than focusing on the income of households with children per se, however, these recent studies explore multi-dimensional poverty as experienced by children in Korea. Yeo et al. (2017) merits attention because it not only examines the multiple dimensions of child poverty, but also explores causes of the declining child poverty rates. The study found that the decline in the child poverty rates in Korea can be attributed to: (a) the reluctance of young people earning low income to marry and raise families, and (b) the general rise in the income of families that already have children. The latter, in turn, has its origin in the growing tendency among married couples for both spous-

es to continue working. In other words, the increase in the earned income of households with children is one of the causes of the decline in the child poverty rates (Yeo et al., 2017, p. 137).

In other parts of the world, research has been actively carried out on the poverty-alleviating and income-redistributing effects of policy programs specifically tailored to children. Much of the established literature, however, involves international comparisons, particularly in Europe. Others compare European states to the United States (Bradshaw and Huby, 2014; Francesco, Paulus and Sutherland, 2009). Even studies on the member states of the Organization for Economic Cooperation and Development (OECD) seldom focus on South Korea as their subject of analysis (Bradbury, Jantti and Lindahl, 2017; Maldonado and Nieuwenhuis, 2015).

Most comparative studies limit their attention to total spending on providing cash support and/or in-kind support for children and/or their families at the national level, analyzing, using Gini coefficients, how the poverty-reducing effect of such spending varies depending on the proportions of cash and in-kind support (Bradshaw and Huby, 2014; Maldonado and Nieuwenhuis, 2015). Contrary to these studies, we do not divide income support for households with children in Korea between cash support and in-kind support; instead, we examine the effects of individual programs. This is because policy-makers, when deciding on child policy support measures, should con-

sider not only how much of their budget is to be allocated to cash or in-kind support, but also whether to increase cash benefits or encourage parents, through tax incentives, to work more in order to increase their household income.

The limited nature of income support for households with children in Korea has restricted attempts to examine the effects of related policy programs. Researchers either focus exclusively on the CSV (Yu et al., 2011; Hong, 2013; Seo and Lee, 2014; Song and Woo, 2015) or explore the effects that income support has on fertility and birth rates (Kim and Hong, 2013; Song and Woo, 2015; Yu et al., 2011; Choi and Cho, 2016).

Much of the existing literature on income security for households with children in Korea focuses on exploring grounds for introducing the Child Benefit (Koh et al., 2017; Lee, Park and Kim, 2007; Choi et al., 2009). Studies that analyze tax incentives, such as the EITC and CTC, for households with children are concerned mainly with analyzing the effect of each credit program (Koh et al., 2017; Jeong, 2012; Choi and Mun, 2012). Although one study analyzed the effects of the Child Benefit, it examined the income-redistributing effect that the program would have in Korea using a simulation model of the researchers' own design (Koh et al., 2017).

There are a few studies that take a broader approach to income support for households with children, considering not only child benefits but also tax credits (Jeong and Lee, 2009; Lee and

Jeong, 2016). These studies are significant in that they analyze and compare the likely poverty- and inequality-reducing effects of the Child Benefit, through the authors' simulation scenarios, by coordinating child benefits and tax credits together.

These last two studies, however, have certain limitations. First, they disregard the CSV and HCA from the range of income support measures under consideration. The CSV and HCA, however, are significant parts of the Korean government's efforts to increase the income of households with children and reduce the financial burden of raising children. Moreover, the two studies analyze the likely effects of the Child Benefit in relation to all households with children under the age of 18, and thereby run the risk of underestimating the effectiveness of the program, as they intend to benefit only households with young children under the age of six.

Jeong (2017) has analyzed the inequality-reducing effects of income support for households with children, using the Korean Welfare Panel Survey data. This study, however, focuses on the Child Benefit and CTC only, disregarding the possibility of increasing the income of households with children through the EITC and other such incentives that encourage parents to work.

The HCA increases the income of households by helping them reduce the cost of raising children. The CSV, too, achieves the same effect by reducing the costs of seeking daycare and preschool services for young children. Ultimately, the pur-

pose of these programs is to help married women return to or remain in the job market and increase overall household income.

The few existing studies on income support for households with children in Korea therefore fail to conduct comprehensive assessments of the income-redistributing effect of public transfers. Neither do these studies analyze data representative of households with children. Panel data, by nature, are prone to compromises in their representativeness due to subjects leaving the sample over time. Another major shortcoming of the existing literature is that it provides analyses of the poverty- and inequality-reducing effects of child benefits with respect to all households with children. However, child benefits introduced in September 2018 are designed to benefit only households with young children under the age of six. It is therefore necessary to analyze how this particular program has reduced poverty and inequality among households with young children rather than all households with children.

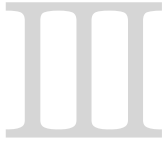
Our study contributes to the ongoing discourse on income support for households with children in two key ways. First, we review a comprehensive range of all available income support measures for households with children and analyze the income-redistributing effects of both individual programs and the overall system, shedding light on how these policy measures have affected poverty and income distribution among

children in Korea. Second, we analyze the effects of programs on the specific households or age groups of children they are intended to benefit and not on all households. We expect that this approach will help us avoid underestimating the effectiveness of policy programs that are intended to benefit younger children.



Income–Redistributing and Poverty–Reducing Effects of Income Support for Households with Children

1. Distribution of Benefits and Tax Credits
2. Effects on Inequality
3. Effects on Poverty



Income-Redistributing and Poverty-Reducing Effects of Income Support for Households with Children <<

In this section, we shall analyze the distribution of various income support benefits—particularly the CSV, HCA, and Child Benefit as well as the EITC and CTC—across households by income quintile, and examine how these support measures have been affecting income redistribution and poverty. We draw upon the raw data of the Korean Welfare Panel Surveys to determine how much of these benefits and credits have been provided and for which households.

The subjects of our analysis are children under the age of 18 (defined as “children” by the CWA) and their households, particularly children under the age of six who are primary targets of various cash support programs and their households.

1. Distribution of Benefits and Tax Credits

Let us first analyze the distribution of the aggregate amounts of cash benefits and tax credits among households by income quintile. To this end, we first divided eligible households into five income quintiles based on their market, gross, and disposable income. This process allows us to determine the in-

come groups in which households with children are most represented.

To analyze the policy effects of cash support for raising children on the main intended beneficiaries, it is also necessary to divide households with children under the age of six into five income quintiles based on their market, gross, and disposable income. We can then examine the distribution of the CSV, HCA, and Child Benefit as well as the EITC and CTC by income quintile.

A. CSV

The CSV is intended to help households with young children offset the cost of enrolling and sending their children to day-care and preschool facilities. Families in which both parents work to earn income are the principal beneficiaries.¹⁾ Accordingly, the CSV helps households increase their income in two ways: first, by encouraging and supporting women's participation in the economy;²⁾ and second, by reducing the finan-

¹⁾ To be eligible for the CSV and HCA, applicants must be custodians, persons with parental rights, guardians, or others who are effectively caring for and protecting the children on behalf of whom they seek the benefits (MOHW, 2018a, p. 211). In principle, neither type of benefits discriminates against applicants based on whether they work for income. Housewives and other types of caregivers of children who are out of the labor force can therefore apply for both types of benefits.

²⁾ We attempted to perform a difference-in-difference analysis on the effects of the CSV and HCA using the welfare panel data at our disposal, but failed to do so successfully due to the limitations of the effective sample. It is critical

cial burden of childcare on families and thereby increasing their disposable income.

Figure 3-1 shows the distribution of all Korean households by income quintile (taking market, gross, and disposable income into account) and the distribution of the CSV among households with children under the age of six by quintile. In 2010 and 2011, 64 to 68 percent of households that received the benefits were concentrated in Quintiles 2 and 3. As of 2013, when the scope of the program was expanded to include almost all households, households in Quintiles 3 and 4 made up at least 63 percent of all beneficiaries. Households in the highest quintile (5) have also made up nearly 20 percent of beneficiaries since 2013, affirming that the expanded CSV program chiefly benefits the middle and upper-middle classes.³⁾

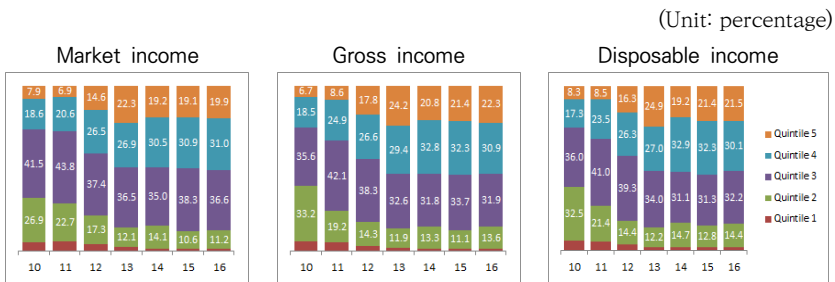
On the contrary, the percentage of households in Quintile 1 receiving the CSV has taken a drastic drop since 2010, in comparison to Quintiles 2 and 5, and continues to fall. This may be because low-income households opt to care for their children at home instead of both spouses going out to work and receiv-

to gather and accumulate sufficient data on sources of household income and support measures, including sufficient numbers of households with children in the sample, in order to analyze the effects of income support policy on households. Unfortunately, however, the current status of available data fails to support the desired analysis.

³⁾ Of course, we cannot deny the possibility that the CSV can increase the number of married women with children who continue to participate in the labor force, thereby raising the earned household income along with the disposable household income.

ing the CSV.⁴⁾ If, indeed, the percentage of low-income households receiving the HCA is greater than in other income classes, we may infer that low-income households opt for greater cash benefits provided by the government for caring for children at home instead of both spouses working. See Table 4-3 for the specific percentages of households receiving different types of benefits by quintile.

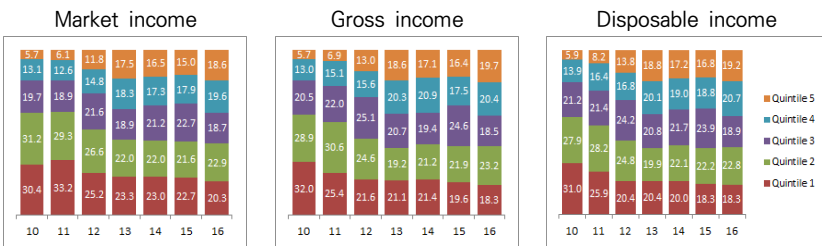
[Figure 3-1] Distribution of the CSV among Households with Children aged 0-5 (by the Income Quintiles of All)



III. Income-Redistributing and Poverty-Reducing Effects of Income Support 25
for Households with Children

make up a relatively greater percentage of those receiving the CSV in this figure. It is also clear that, while the households in Quintiles 1 and 2 made up the majority of recipients of the CSV from 2010 to 2012, the distribution of households receiving the CSV has evened out across quintiles since 2013.

[Figure 3-2] Distribution of the CSV among Households with Children aged 0-5 (by the Income Quintiles of Households with Children)
(Unit: percentage)



Note: The distributions are based on households' annual income in the year preceding the year of the survey.

Source: Raw data of the annual Korean Welfare Panel Surveys.

B. HCA

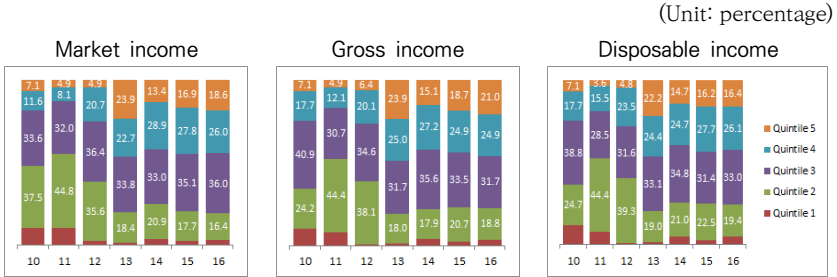
The HCA is cash support provided for families caring for young children at home without the help of childcare or pre-school facilities. When both parents work for income, they are likely to opt to send their children to childcare or preschool facilities and apply for the CSV. When one of the parents stay at home to care for children full time instead of earning income, they are likely to apply for the HCA. Low-income households

may be especially incentivized to apply for the HCA in order to increase their disposable income, as the majority of the CSV goes to childcare and preschool facilities, rather than to the children's families, on behalf of the enrolled children. Analysis of how the HCA is distributed among Korean households by income level should therefore be based on comparison with the distribution of the CSV.

Figure 3-3 divides Korean households into five income quintiles according to market, gross, and disposable income and shows the distribution, by quintile, of households with children under the age of six receiving the HCA. Whereas Quintiles 2 and 3 made up the majority of recipients in 2010 and 2011, the percentage of Quintile 4 started increasing in 2012. Since the HCA program was expanded in 2013, recipients have been distributed more evenly across Quintiles 2 through 5. Quintile 3 now makes up the greatest percentage of recipients, followed by Quintile 4, Quintile 2, and Quintile 5. The share of Quintile 1 has grown slightly since 2014, suggesting that there may indeed be a tendency among low-income households with young children to opt for the CSV or HCA.

III. Income-Redistributing and Poverty-Reducing Effects of Income Support 27
for Households with Children

[Figure 3-3] Distribution of the HCA among Households with Children aged 0-5 (by the Income Quintiles of All)



Note: The distributions are based on households' annual income in the year preceding the year of the survey.

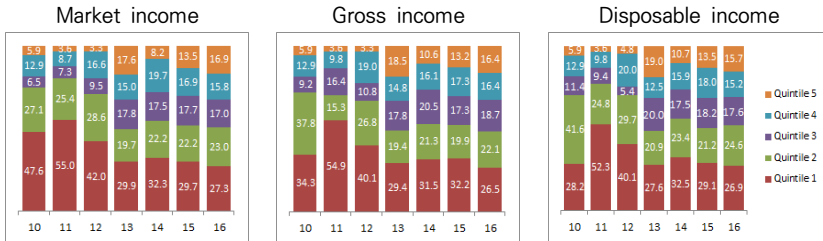
Source: Raw data of the annual Korean Welfare Panel Surveys.

Table 3-4 divides households with children under the age of six into five income quintiles based on market, gross, and disposable income and shows how HCA recipients are distributed by income. Households in Quintile 1 make up the greatest percentage of HCA recipients. In terms of market income, in particular, households in Quintile 1 made up 48 percent in 2010. However, the quintile's share decreases noticeably when households are divided according to gross or disposable income. Since the HCA was expanded according to a near-universal approach in 2014, recipients have been distributed more evenly across the income quintiles.

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[Figure 3-4] Distribution of the HCA among Households with Children aged 0-5 (by the Income Quintiles of Households with Children)

(Unit: percentage)



Note: The distributions are based on households' annual income in the year preceding the year of the survey.

Source: Raw data of the annual Korean Welfare Panel Surveys.

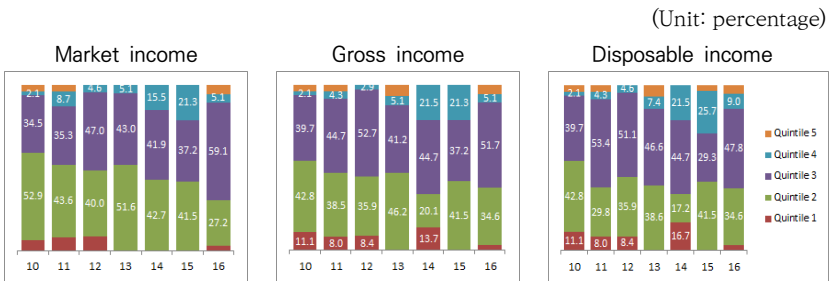
C. EITC

The EITC is tax credits provided for the working-poor class. The program was originally introduced in 2008 especially for the benefit of low-income working-class families with children. The program was then expanded in 2011 to provide tax credits for married households without children and expanded again in 2012 to benefit single-person households aged 60 or older without children as well. While the EITC is not, strictly speaking, an income support program meant exclusively to benefit households with children, the program has been included in our analysis nonetheless, as households with children are the chief beneficiaries of the program. Yet some caution is advised in interpreting the panel data, as the sample contains insufficient numbers of households with children under the age

of six that are eligible for either the EITC or CTC.

Figure 3-5 divides households into five income quintiles according to market, gross, and disposable income and shows the distribution of households with children under the age of six eligible for the EITC. Households in Quintiles 2 and 3 have made up the majority of recipients since 2010, with those in Quintile 3, in particular, making up the greatest percentage in 2016. Households in Quintile 4 made up a comparatively high percentage, around 20 percent, in 2014 and 2015, but have seen their share decrease since 2016.

[Figure 3-5] Distribution of the EITC among Households with Children aged 0-5 (by the Income Quintiles of All)



Note: The distributions are based on households' annual income in the year preceding the year of the survey.

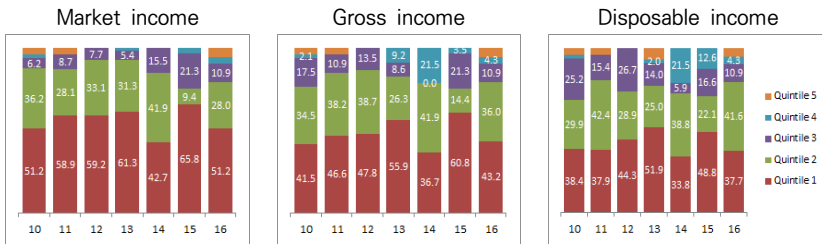
Source: Raw data of the annual Korean Welfare Panel Surveys.

Next, we divide households with children under the age of six into five income quintiles according to their market, gross, and disposable income and examine the distribution of the EITC by quintile. Households in Quintile 1 make up the greatest

proportion of recipients in the given scope of time subject to our analysis. We may therefore infer that low-income households with young children and limited earned income are the main beneficiaries of the EITC. Quintile 2 also makes up a relatively large proportion of households receiving the EITC. These two quintiles together claim much of the aggregate EITC year in and year out.

[Figure 3-6] Distribution of the EITC among Households with Children aged 0-5 (by the Income Quintiles of Households with Children)

(Unit: percentage)



Note: The distributions are based on households' annual income in the year preceding the year of the survey.

Source: Raw data of the annual Korean Welfare Panel Surveys.

D. CTC

The amended Tax Act of 2014 led to the introduction of the CTC the following year. As of 2018, households earning less than KRW 40 million annually with dependent children under the age of 18 can claim up to KRW 500,000 in tax credit per child. The CTC, in other words, is primarily aimed at helping

low-income households with children.

Figure 3-7 shows the distribution of households with children under the age of six receiving the CTC across the income quintiles. Since the credits was first introduced, those in Quintile 3 have benefitted the most, followed by others in Quintile 2 and Quintile 4, respectively. One possible reason for this may be found in the fact that low-income households in Quintile 1 have avoided having children, thereby raising, in effect, the relative shares of households in Quintiles 2 and 3 benefiting from the program.

[Figure 3-7] Distribution of the CTC among Households with Children aged 0-5 (by the Income Quintiles of All)



Note: The distributions are based on households' annual income in the year preceding the year of the survey.

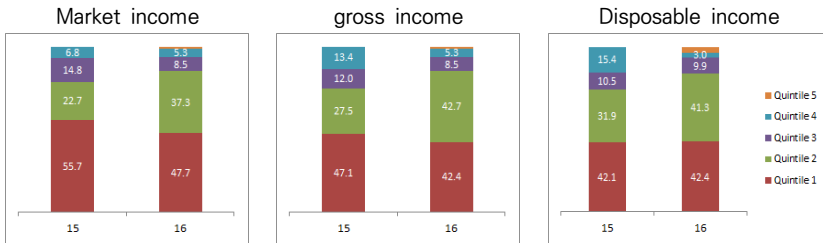
Source: Raw data of the annual Korean Welfare Panel Surveys.

Figure 3-8 shows the distribution of households with children under the age of six divided into income quintiles according to their market, gross, and disposable income and receiving the CTC. Although the CTC is meant to benefit all households with

children—that is, those with children up to the age of 18—we continue to analyze this particular subset of households with younger children for consistency. Here, our analysis shows that households in Quintile 1 make up the highest percentage receiving the CTC (55.7 percent in terms of market income and 42.1 percent in terms of disposable income), followed, generally, by households in Quintiles 2 and 3, in that order. In other words, the households with younger children under the age of six benefitting from the CTC tend to be concentrated largely in lower income quintiles.

[Figure 3-8] Distribution of the CTC among Households with Children aged 0–5 (by the Income Quintiles of Households with Children)

(Unit: percentage)



Note: The distributions are based on households' annual income in the year preceding the year of the survey.

Source: Raw data of the annual Korean Welfare Panel Surveys.

2. Effects on Inequality

Let us now apply Gini coefficients, a commonly used measure of inequality, to examine the income-redistributing and inequality-reducing effects of income support programs for households with children. Inequality is mostly measured at the level of individuals, but there has been growing concern in recent years that such practice neglects the widening disparity among households and the resource-sharing behavior within households (Chiappori and Meghir, 2015; Kanbur, 2016). In this section, we shall therefore focus our attention on how income support for households with children in Korea affects inequality among both households and individuals.

Table 3-1 summarizes the inequality-reducing effects of income support on children under the age of 18 and their households. Taken together, the inequality-reducing effect of the four main income support programs on households with children increased from 1.6 percent in 2010 to 2.4 percent in 2016. The same effect on children under the age of 18 also rose from 1.8 percent in 2010 to 2.8 percent in 2016.

Of the various income support programs, the CSV, which targets a relatively large number of households, has had the greatest inequality-reducing effect. The program reduced inequality among households with children by 1.4 percent in 2010 and 1.5 percent in 2016. It also reduced inequality among children by

1.6 percent in 2010 and 1.8 percent in 2016.

The effect of the HCA has been marginal compared to that of the CSV, but has been growing over the years. The program reduced inequality among households by 0.1 percent in 2010 and 0.4 percent in 2016. It also reduced inequality among children by 0.1 percent in 2010 and 0.4 percent in 2016.

The EITC and CTC, too, have been helping reduce inequality among children and their households, albeit at lesser rates. The EITC reduced inequality among both households and children by 0.1 percent in 2010 and 0.3 percent in 2016. Since its introduction in 2015, the CTC have also helped reduce inequality by 0.2 to 0.3 percent.

Table 3-2 sums up the analysis on how the four income support programs have helped reduce inequality among target children under the age of six and their households. The programs have had a significantly larger combined inequality-reducing effect with respect to these households, reducing inequality among them by 4.8 percent in 2010 and 5.7 percent in 2016, notwithstanding the fluctuations in the intervening years. These programs, moreover, reduced inequality among young children themselves by 5.2 percent in 2010 and 6.3 percent in 2016.

The CSV has emerged as the most effective among the four programs compared in terms of their inequality-reducing effects.⁵⁾ The program helped to reduce inequality among

households with children under the age of six by 4.3 percent in 2010 and 4.2 percent in 2016. Among children, it reduced inequality by 4.6 percent in 2010 and 4.7 percent in 2016. The inequality-reducing effect of the HCA may seem marginal compared to that of the CSV, but it continues to grow, helping reduce inequality among households by 0.3 percent in 2010 and 1.1 percent in 2016 as well as among children by 0.4 percent in 2010 and 1.3 percent in 2016.

The inequality-reducing effect of the EITC has varied somewhat from year to year, but remained consistent over the years, reducing inequality among households with young children and children themselves by 0.1 to 0.2 percent from 2010 to 2016. The CTC has helped reduce inequality among these households by 0.2 percent since its introduction in 2015.

5) Comparing Gini coefficients based on market income to those based on gross and disposable income reveals that other public transfers of income and tax support have had greater inequality-reducing effects than the four income support programs for households with children.

(Table 3-1) Inequality-Reducing Effects of Income Support on Children Under the Age of 18 and Their Households
(Unit: percentage)

Year	〈Households with Children Under 18〉					Overall income support	Gross income	Disposable income
	Market income	GSV	HCA	EITC	CTC			
2010	34.52	34.05 (1.37)	34.49 (0.10)	34.48 (0.12)		33.97 (1.59)	32.43 (6.07)	31.63 (8.39)
2011	32.39	31.82 (1.76)	32.36 (0.12)	32.35 (0.14)		31.74 (2.01)	29.62 (8.55)	28.49 (12.05)
2012	32.25	31.72 (1.66)	32.22 (0.09)	32.20 (0.16)		31.64 (1.91)	29.54 (8.41)	28.48 (11.69)
2013	31.32	30.91 (1.31)	31.20 (0.39)	31.28 (0.12)		30.75 (1.80)	28.75 (8.20)	27.70 (11.55)
2014	33.87	33.37 (1.47)	33.73 (0.40)	33.82 (0.14)		33.19 (1.99)	31.16 (7.98)	30.28 (10.59)
2015	38.88	38.35 (1.36)	38.75 (0.32)	38.80 (0.22)	38.80 (0.22)	38.07 (2.08)	36.55 (5.99)	36.11 (7.13)
2016	30.87	30.40 (1.51)	30.75 (0.39)	30.79 (0.25)	30.77 (0.30)	30.12 (2.43)	28.38 (8.07)	27.40 (11.22)

Year	〈Children Under the Age of 18〉					Overall income support	Gross income	Disposable income
	Market income	GSV	HCA	EITC	CTC			
2010	34.79	34.24 (1.58)	34.74 (0.14)	34.75 (0.11)		34.16 (1.83)	32.70 (6.01)	31.99 (8.04)
2011	32.05	31.38 (2.11)	31.99 (0.20)	32.01 (0.14)		31.27 (2.44)	29.17 (9.00)	28.11 (12.31)
2012	31.30	30.67 (1.99)	31.25 (0.16)	31.24 (0.18)		30.57 (2.33)	28.50 (8.93)	27.56 (11.93)
2013	31.02	30.54 (1.56)	30.89 (0.43)	30.98 (0.14)		30.37 (2.11)	28.49 (8.17)	27.48 (11.43)
2014	32.07	31.50 (1.75)	31.91 (0.49)	32.02 (0.15)		31.31 (2.37)	29.42 (8.25)	28.53 (11.04)
2015	34.96	34.39 (1.62)	34.82 (0.40)	34.89 (0.20)	34.87 (0.27)	34.10 (2.47)	32.65 (6.60)	32.01 (8.45)
2016	30.81	30.25 (1.82)	30.67 (0.44)	30.73 (0.25)	30.70 (0.34)	29.94 (2.82)	28.34 (8.02)	28.11 (8.75)

Note: The Gini coefficients reflect equivalized income. The figures in parentheses indicate the rates of increase or decrease in Gini coefficients based on market income. The annual income that households earned and the income support they received in the years immediately preceding the surveys were used. The household weights provided as part of the Korean Welfare Panel Surveys were used to calculate child weights (by multiplying the dummy variables for households with children under the age of 18 and the number of children per household) to estimate the inequality-reducing effects on both households and children under the age of 18. Source: Raw data for the yearly Korean Welfare Panel Surveys.

(Table 3-2) Inequality-Reducing Effects of Income Support on Children Under the Age of Six and Their Households
(Unit: percentage)

Year	〈Households with Children Under 6〉						Overall income support	Gross income	Disposable income
	Market income	GSV	HCA	EITC	CTC				
2010	26.68	25.53 (4.30)	26.59 (0.32)	26.64 (0.14)			25.41 (4.77)	25.73 (3.58)	24.72 (7.33)
2011	29.04	27.60 (4.96)	28.93 (0.38)	28.99 (0.18)			27.45 (5.49)	26.46 (8.90)	25.83 (11.05)
2012	27.48	26.16 (4.82)	27.40 (0.30)	27.42 (0.23)			26.02 (5.32)	25.39 (7.63)	24.63 (10.37)
2013	26.69	25.73 (3.60)	26.35 (1.27)	26.64 (0.19)			25.33 (5.09)	24.97 (6.44)	24.41 (8.55)
2014	28.11	26.95 (4.10)	27.70 (1.43)	28.07 (0.11)			26.51 (5.66)	26.03 (7.40)	25.56 (9.07)
2015	49.57	48.01 (3.14)	49.18 (0.77)	49.52 (0.10)	49.49 (0.15)		47.51 (4.15)	46.91 (5.36)	47.68 (3.80)
2016	30.37	29.08 (4.24)	30.03 (1.13)	30.34 (0.09)	30.30 (0.24)		28.64 (5.68)	27.92 (8.08)	27.83 (8.37)

〈Children Under the Age of 6〉

Year	〈Children Under the Age of 6〉						Overall income support	Gross income	Disposable income
	Market income	GSV	HCA	EITC	CTC				
2010	26.28	25.07 (4.60)	26.17 (0.42)	26.25 (0.14)			24.92 (5.17)	25.35 (3.54)	24.42 (7.11)
2011	28.35	26.78 (5.55)	28.23 (0.42)	28.30 (0.18)			26.62 (6.11)	25.70 (9.33)	25.13 (11.35)
2012	26.82	25.32 (5.60)	26.74 (0.31)	26.77 (0.21)			25.19 (6.09)	24.55 (8.47)	23.92 (10.82)
2013	26.71	25.61 (4.12)	26.34 (1.41)	26.65 (0.22)			25.17 (5.76)	24.82 (7.07)	24.24 (9.24)
2014	27.28	26.02 (4.63)	26.79 (1.80)	27.25 (0.10)			25.50 (6.52)	25.02 (8.29)	24.58 (9.89)
2015	46.11	44.41 (3.69)	45.64 (1.01)	46.06 (0.09)	46.03 (0.17)		43.83 (4.94)	43.31 (6.07)	43.95 (4.69)
2016	30.46	29.03 (4.68)	30.06 (1.31)	30.44 (0.08)	30.39 (0.23)		28.55 (6.27)	27.95 (8.25)	28.29 (7.13)

Note: The Gini coefficients reflect equivalized income. The figures in parentheses indicate the rates of increase or decrease in Gini coefficients based on market income. The annual income that households earned and the income support they received in the years immediately preceding the surveys were used. The household weights provided as part of the Korean Welfare Panel Surveys were used to calculate child weights (by multiplying the dummy variables for households with children under the age of six and the number of children per household) to estimate the inequality-reducing effects on both households and children under the age of six.

Source: Raw data for the yearly Korean Welfare Panel Surveys.

3. Effects on Poverty

Let us turn our attention to the poverty-reducing effects of income support for households with children. The poverty line was set at less than 50 percent of the median equivalized income of all households. In other words, households are defined as poor when their income falls short of 50 percent of the median equivalized market, gross, or disposable household income. Household poverty is calculated using weighted average headcount ratios.

We can measure the poverty-reducing effects of income support programs by measuring the differences between the market income-based poverty rate and the poverty rate after each program has been implemented. We also estimate the poverty rates of households when all four income support programs have been implemented, poverty rates in terms of gross income (including other public income transfers), and poverty rates in terms of disposable income (after taxes and public dues have been paid), and compare them to the market income-based poverty rates.

Table 3-3 sums up the analysis of the poverty-reducing effects of the income support programs on children under the age of 18 and their households. The overall poverty-reducing effects of the CSV, HCA, EITC, and CTC fluctuate somewhat, but have been on the rise since 2013, when the scopes of the

CSV and HCA were expanded. The effect has been especially dramatic for children, reducing children's market income-based poverty rate by 18.2 percent in 2016.

The poverty-reducing effect of the CSV dropped from 4.0 percent in 2010 to 2.4 percent in 2011, but rose again afterward, reaching 7.6 percent in 2016. The effect of the same program on children has been more pronounced, rising from 4.4 percent in 2010 to 10.2 percent in 2016. The poverty-reducing effect of the HCA has similarly been increasing, reducing household poverty by 2.8 percent and child poverty by 5.8 percent in 2016.

The poverty-reducing effect of the EITC has been comparatively marginal, because the program benefits only a select category of households. This tax credit helped reduce household poverty by 1.9 percent in 2015 and child poverty by 2.1 percent in 2016. The CTC reduced household poverty by 2.0 percent in 2015 and 0.9 percent in 2016, while reducing child poverty by 1.0 percent in 2015 and 3.1 percent in 2016.

Table 3-4 summarizes the analysis of the poverty-reducing effects of the four income support programs on children under the age of six and their households. The combined effect of the programs on households has varied from year to year, but rose overall from 16.7 percent in 2010 to 22.8 percent in 2016. The programs also helped reduce the child poverty rate by 16.4 percent in 2010 and 22.6 percent in 2016, notwithstanding

fluctuations in the intervening years.

The CSV has been reducing poverty among households with children under the age of six most dramatically, lowering the household poverty rate by 16.7 percent in 2010 and a surprising 29.8 percent in 2014. (The poverty-reducing effect of the program has since waned somewhat, dropping to 19.4 percent in 2016.) Moreover, the program reduced the child poverty rate by 16.4 percent in 2010, 30.0 percent in 2014, and 19.1 percent in 2016.

Annual fluctuations have been observed with respect to the poverty-reducing effect of the HCA, which targets the same demographic group as the CSV. The HCA reduced the household poverty rate by 3.3 percent and child poverty rate by 3.1 percent in 2016.

The poverty-reducing effect of the EITC on households with children under the age of six has been increasingly prominent since 2016, when the program reduced household poverty by 3.3 percent and child poverty by 3.1 percent. The effect of the CTC has been growing as well, reducing household poverty by 5.9 percent and child poverty by 5.7 percent in 2016.

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for Households with Children

(Table 3-3) Poverty-Reducing Effects of Income Support on Children Under the Age of 18 and Their Households

(Unit: percentage)

Year	Market income	Households with Children Under the Age of 18					Overall income support	Gross income	Disposable income
		GSV	HCA	EITC	CTC				
2010	12.22	11.73 (4.01)	12.11 (0.90)	12.15 (0.57)		11.50 (5.89)	9.42 (22.91)	8.37 (31.51)	
2011	13.10	12.79 (2.37)	13.08 (0.15)	12.95 (1.15)		12.56 (4.12)	10.35 (20.99)	9.54 (27.18)	
2012	13.29	12.76 (3.99)	13.25 (0.30)	13.20 (0.68)		12.63 (4.97)	10.57 (20.47)	9.14 (31.23)	
2013	12.70	12.27 (3.39)	12.43 (2.13)	12.68 (0.16)		12.04 (5.20)	9.98 (21.42)	9.77 (23.07)	
2014	12.35	11.64 (5.75)	12.33 (0.16)	12.19 (1.30)		11.53 (6.64)	10.08 (18.38)	9.01 (27.04)	
2015	12.80	12.27 (4.14)	12.45 (2.73)	12.56 (1.88)	12.55 (1.95)	11.65 (8.98)	10.16 (20.63)	9.13 (28.67)	
2016	11.07	10.23 (7.59)	10.76 (2.80)	10.96 (0.99)	10.97 (0.90)	9.76 (11.83)	9.05 (18.25)	8.30 (25.02)	

(Children Under the Age of 18)

Year	Market income	Children Under the Age of 18					Overall income support	Gross income	Disposable income
		GSV	HCA	EITC	CTC				
2010	11.93	11.41 (4.36)	11.54 (3.27)	11.93 (0.00)		10.97 (8.05)	8.86 (25.73)	8.32 (30.26)	
2011	12.96	12.51 (3.47)	12.87 (0.69)	12.79 (1.31)		12.23 (5.63)	9.80 (24.38)	8.98 (30.71)	
2012	12.63	11.94 (5.46)	12.58 (0.40)	12.63 (0.00)		11.86 (6.10)	9.85 (22.01)	8.58 (32.07)	
2013	12.49	11.48 (8.09)	11.94 (4.40)	12.44 (0.40)		10.86 (13.05)	9.36 (25.06)	8.79 (29.62)	
2014	11.46	10.75 (6.20)	11.05 (3.58)	11.39 (0.61)		10.30 (10.12)	8.79 (23.30)	7.88 (31.24)	
2015	11.98	11.46 (4.34)	11.56 (3.51)	11.92 (0.50)	11.86 (1.00)	10.58 (11.69)	9.51 (20.62)	8.11 (32.30)	
2016	10.50	9.43 (10.19)	9.89 (5.81)	10.28 (2.10)	10.18 (3.05)	8.59 (18.19)	8.20 (21.90)	8.17 (22.19)	

Note: Households earning less than 50 percent of the median equivalized market, gross, and disposable income were defined as "poor." The figures in parentheses indicate the rates of increase or decrease in poverty rates based on market income. The annual income that households earned and the income support they received in the years immediately preceding the surveys were used. The household weights provided as part of the Korean Welfare Panel Surveys were used to calculate child weights (by multiplying the dummy variables for households with children under the age of 18 and the number of children per household) to estimate the poverty-reducing effects on both households and children under the age of 18.

Source: Raw data for the yearly Korean Welfare Panel Surveys.

(Table 3-4) Poverty-Reducing Effects of Income Support on Children Under the Age of Six and Their Households
(Unit: percentage)

Year	〈Households with Children Under the Age of 6〉							
	Market income	CSV	HCA	EITC	CTC	Overall income support	Gross income	Disposable income
2010	6.35	5.29 (16.69)	6.35 (0.00)	6.35 (0.00)		5.29 (16.69)	5.16 (18.74)	4.00 (37.01)
2011	8.52	7.30 (14.32)	8.37 (1.76)	8.42 (1.17)		7.06 (17.14)	6.16 (27.70)	6.23 (26.88)
2012	7.95	6.72 (15.47)	7.84 (1.38)	7.95 (0.00)		6.60 (16.98)	6.95 (12.58)	5.35 (32.70)
2013	7.01	5.99 (14.55)	6.20 (11.55)	6.94 (1.00)		5.26 (24.96)	4.74 (32.38)	4.69 (33.10)
2014	6.64	4.66 (29.82)	6.60 (0.60)	6.52 (1.81)		4.66 (29.82)	4.85 (26.96)	4.17 (37.20)
2015	7.73	6.90 (10.74)	6.94 (10.22)	7.73 (0.00)	7.73 (0.00)	5.94 (23.16)	5.79 (25.10)	5.06 (34.54)
2016	6.09	4.91 (19.38)	5.89 (3.28)	5.89 (3.28)	5.73 (5.91)	4.70 (22.82)	5.39 (11.49)	4.95 (18.72)

(Children Under the Age of Six)

Year	〈Children Under the Age of Six〉							
	Market income	CSV	HCA	EITC	CTC	Overall income support	Gross income	Disposable income
2010	5.18	4.33 (16.41)	5.18 (0.00)	5.18 (0.00)		4.33 (16.41)	4.22 (18.53)	3.29 (36.49)
2011	8.04	6.72 (16.42)	7.88 (1.99)	7.95 (1.12)		6.26 (22.14)	5.82 (27.61)	6.01 (25.25)
2012	7.58	6.43 (15.17)	7.48 (1.32)	7.58 (0.00)		6.30 (16.89)	6.59 (13.06)	5.30 (30.08)
2013	7.53	5.96 (20.85)	6.66 (11.55)	7.47 (0.80)		4.98 (33.86)	5.16 (31.47)	4.87 (35.33)
2014	5.80	4.06 (30.00)	5.31 (8.45)	5.80 (0.00)		3.65 (37.07)	4.26 (26.55)	3.75 (35.34)
2015	6.17	5.22 (15.40)	5.87 (4.86)	6.17 (0.00)	6.17 (0.00)	4.48 (27.39)	4.75 (23.01)	3.82 (38.09)
2016	5.13	4.15 (19.10)	4.97 (3.12)	4.97 (3.12)	4.84 (5.65)	3.97 (22.61)	4.53 (11.70)	4.83 (5.85)

Note: Households earning less than 50 percent of the median equivalized market, gross, and disposable income were defined as "poor." The figures in parentheses indicate the rates of increase or decrease in poverty rates based on market income. The annual income that households earned and the income support they received in the years immediately preceding the surveys were used. The household weights provided as part of the Korean Welfare Panel Surveys were used to calculate child weights (by multiplying the dummy variables for households with children under the age of six and the number of children per household) to estimate the poverty-reducing effects on both households and children under the age of six.

Source: Raw data for the yearly Korean Welfare Panel Surveys.

IV

Conclusion

IV

Conclusion <<

The purpose of this study is to analyze and determine the income-redistributing effects of income support policy programs for households with children in Korea. To this end, we analyzed the raw data of the Korean Welfare Panel Surveys and identified the effects of four specific income support programs for households with children: the CSV, HCA, EITC, CTC.

The CSV reduced market income-based inequality among households with children under the age of six by 4.3 percent in 2010 and 4.2 percent in 2016. The program also helped reduce inequality among children under the age of six by 4.6 percent in 2010 and 4.7 percent in 2016. The HCA reduced market income-based inequality among the same group of households by 1.1 percent and among the same group of children by 1.3 percent in 2016. The EITC reduced market income-based inequality among the same households and children by 0.1 percent in the same year, as did the CTC by 0.2 percent.

This study differs from the existing literature in that we specifically focus on the effects of these income support programs on children under the age of six and their households, contrary to earlier studies that consider children of all ages (up to 18) and their households. We narrowed our focus onto young children in an effort to avoid underestimating the poverty- and in-

equality-reducing effects of income support programs.

Our analysis reveals that the CSV has been most effective in reducing inequality. The relative extents of the inequality-reducing effects of individual programs likely reflect the scopes of those programs. The CSV has been most effective because the program incurs the largest government spending of the four programs compared and also enjoys high popularity among eligible households. As of the end of 2013, only 39.5 percent of households with children under the age of six opted for the HCA, with that figure dropping to 26.7 percent among eligible households in which grandparents or single parents are raising their children. In other words, 60.5 percent of all eligible households did not receive the HCA, with that figure rising to 73.3 percent among eligible households in which grandparents or single parents are raising their children (Statistics Korea 2015). As the income requirement for the HCA was abolished in 2013, and households are now allowed to receive the CSV instead of HCA, we can conclude that almost all eligible households not receiving the HCA are receiving the CSV instead.

It is of paramount importance for a society to guarantee opportunities for the upward social mobility of children. Children have no say in the level of wealth into which they are born. Their family situations are the outcomes of decisions made by the adults of their households. Moreover, children cannot raise

themselves up by their bootstraps even if they tried. Poverty-stricken children struggle to access even opportunities and resources to support effort.

The child poverty and income inequality rates in Korea have been on the decline. Income support programs for children in Korea, nonetheless, still pale in comparison to similar programs in more developed welfare states. Furthermore, the inequality- and poverty-reducing effects of these programs have been decreasing. It is thus essential for the Korean government to increase funding for income support programs for children in the long term, particularly for programs that incentivize married women to work and thereby increase their earned household income. Especially, public daycare should be expanded to facilitate married women's return to the labor market. Policy measures should also be introduced to ensure quality daycare for children whose parents both work full time.

Cash benefits for households with children should also be increased in the long term. The Child Benefit, which went into effect this year (2018), should be expanded to benefit more households. The age limit for child income support programs should also be raised. Much of such support in Korea goes toward children under the age of six, while school-age children and teenagers receive significantly less.

This study is significant in that it conducts an analysis of a wide range of income support programs for households with

children in Korea, analyzes the different effects of those programs on income redistribution, and examines the effects of the programs on children of different ages. Nevertheless, this study fails to consider the entire range of income support measures available for households with children. The more conspicuous omissions are the maternity and parental leave benefits, which play a significant role in providing income support for children and their families. Paid maternity and parental leaves encourage women to remain in the labor force, thereby increasing their earned household income. Further research based on better and larger quantities of data should be conducted to determine the effects of the maternity and parental leave benefits on individual children as well.

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