

Research in Brief



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Social Policies in Response to the Socioeconomic Impact of Covid-19

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The global impact of covid-19

Since it first surfaced in Wuhan, China in December last year, covid-19 has spread rapidly to and throughout other Asian countries in the two months that followed. By March, the novel coronavirus had hit Europe and the US, where since then the number of confirmed cases and death counts soared sharply. Globally, the number of infected cases increased from 85,951 on February 29 to 754,933 on March 31 to 2,402,251 on April 21. The death toll rose from 2,941 on February 29 to 36,522 on March 31 to 163,089 on April 21.

Since its first case was reported on January 20, Korea, too, much like most of the rest of the world, saw rapid rises in the number of confirmed cases. Korea's cumulative number of confirmed cases reached 10,694 as of April 22 with a death toll of 238.

Covid-19 has spread on a global scale, leaving no part of the world economy unaffected. The OECD has warned earlier that the global growth could fall to 1.5 percent in 2020 as a consequence of the covid-19 pandemic. The IMF has forecast a 3-percent contraction in the world economy and a 1.2-percent contraction in the Korean economy. The Bank of Korea reported a 1.4-percent contraction in preliminary real GDP and a 0.6-percent contraction in real GDI quarter-on-quarter in the first quarter of 2020. Household consumption declined by 6.4 percent in same quarter, as exports and imports shrank by, respectively, 2.0 percent and 4.1 percent. Statistics of Korea's employment data revealed that the number of those in work declined by 195,000 in March 2020, whereas the number of the economically inactive population grew by 516,000.

The US has been reported to have suffered a total of 26 million job losses in the five weeks to April 24, with its unemployment rising to 20 percent. China posted a 6.8-percent contraction in its economy for the first quarter of 2020. Note that, when the SARS epidemic was at its height, the Chinese economy had had a 9.1-percent decline in the second quarter of 2003 and an 11.1-percent contraction in the preceding quarter. A McKinsey report has warned that the covid-19 crisis, if left unmitigated, could put at risk a total of 60 million jobs in the EU and the UK, pushing up the unemployment rate to double the current level. While social distancing and economic lockdowns have taken an increasing toll on the world economy, the importance of care works and non-face-to-face services has grown.

The national lockdown measures taken in the US and major European countries led to contraction in economic activities. Massive fiscal packages followed to provide support for livelihood and employment. The US, for example, announced a USD 2.2 trillion package to support livelihood, employment and the corporate sector.



Korea's socioeconomic responses to covid-19

Korea's socioeconomic dimensions have borne the brunt of covid-19 since its rapid spread earlier in February. The practice in Korea of social distancing, although not as strictly imposed as the lockdowns in European countries, debilitated the country's economic vitality, hitting especially hard on socially vulnerable groups and self-employed businesses. After five rounds of emergency economic council meeting, the government put forth a bold array policy measures aimed at cushioning the socioeconomic impact of covid-19. These measures include: over KRW 50 trillion in support for the financial system and small businesses; KRW 12 trillion for small- and medium-sized firms and self-employed business owners; KRW 17.7 trillion to prop up consumption; and KRW 10.1 trillion for keeping employment ongoing.

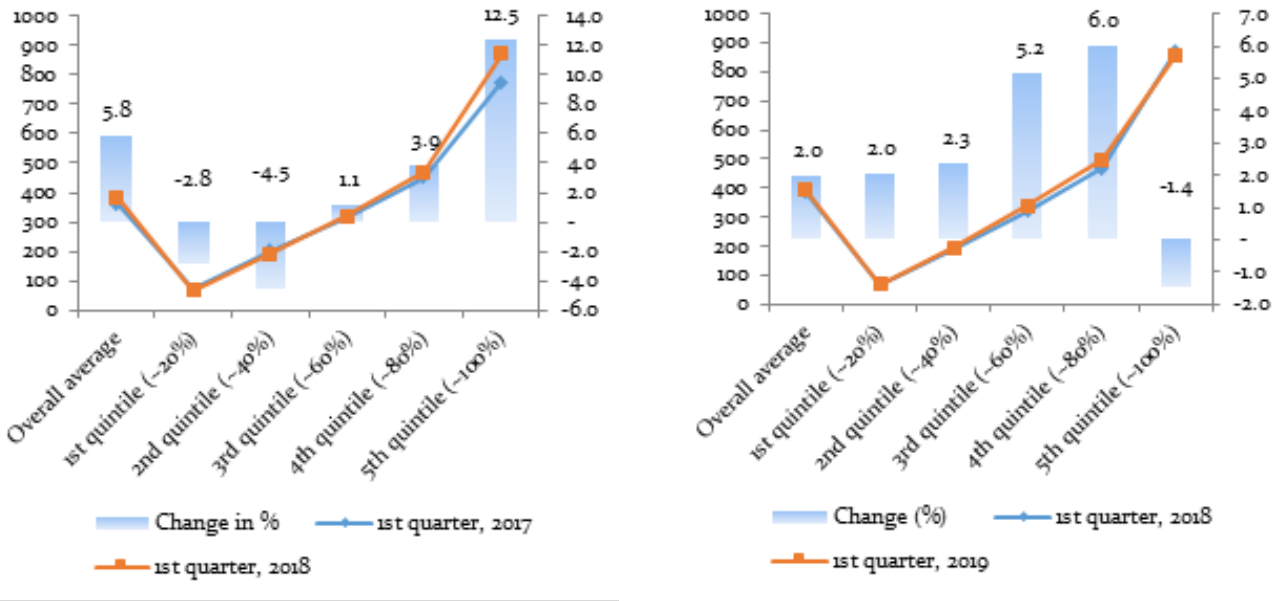
With many countries around the world shutting down their borders, the economic impact of covid-19 is acute, particularly for the aviation industry, shipping sectors and tourism, and thus for those working in these industries. As social distancing is widely practiced, people tend to eat out less often and spend less on cultural activities. The impact of covid-19 is keenly felt by food businesses (restaurants, bars, etc.) and the arts and entertainment industries, and various other small businesses.



Who are at risk?

The worsening of income distribution in 2018 was marked by sharp declines in the income of elderly people, low-income temporary and daily workers, and own-account workers. The income share of the first quintile and that of the second quintile decreased by 2.8 percent and 4.5 percent, respectively, in the first quarter of 2018 and then bounced back to some extent in the first quarter of 2019.

[Figure 1] Changes in disposable income for 1st quarters in 2017, 2018, and 2019, by income quintile

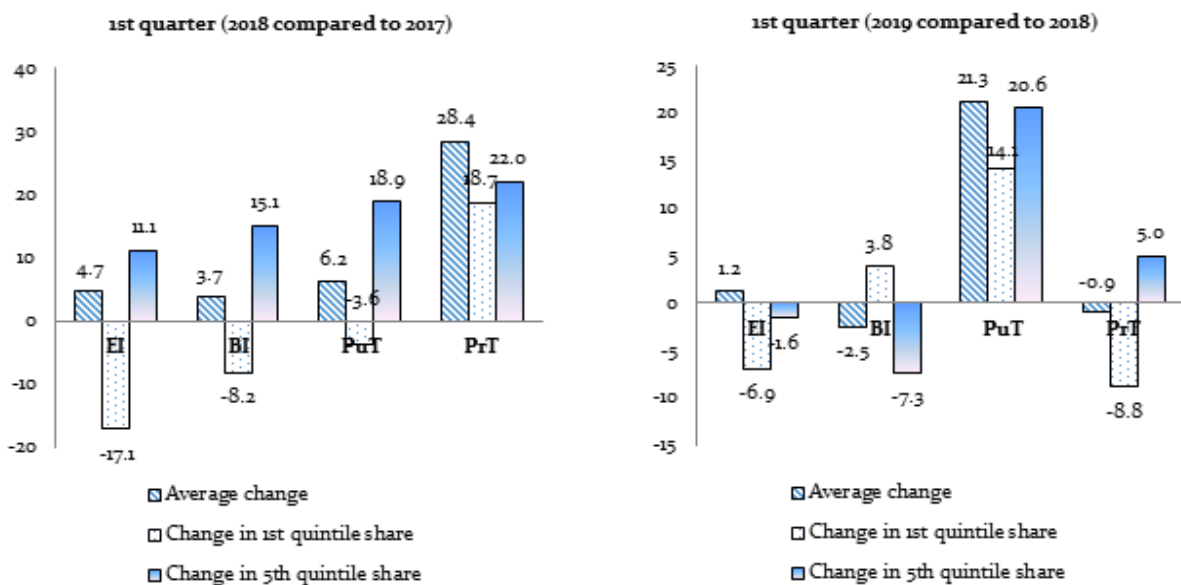


Note: Classification of the income quintiles is based on equivalized estimates of disposable income (household income divided by the square root of the number of household members)

Source: Statistics Korea. Household Income and Expenditure Survey

The first quintile's share of earned income in the first quarter of 2018 declined by 17.1 percent year-on-year; the share was smaller by 6.9 percent in the first quarter of 2019 than in the first quarter of 2018. The share of business income attributed to the first quintile also declined over the same period, if to a lesser extent than in the case of earned income.

[Figure 2] Changes in disposable income for 1st quarters in 2017, 2018, 2019, for 1st and 5th quintiles



Note: Classification of the income quintiles is based on equivalized estimates of disposable income (household income divided by the square root of the number of household members)

Source: Statistics Korea. Household Income and Expenditure Survey

Most (74.7 percent) of the household heads in the first quintile in the first quarter of 2019 were either unemployed or economically inactive. In both the second and third quintiles, temporary and daily workers, own-account workers, and unemployed and economically inactive people, taken together, accounted for a larger share than regular workers. As suggested in Table 1, the change in income distribution in 2018 did not have a significant impact on the third and higher quintiles, leaving the domestic economy mostly intact.

[Table 1] Changes in disposable income (1st quarters for 2017, 2018, and 2019), by income quintile

	First quarter, 2017							First quarter, 2018							First quarter, 2019						
	R	T	D	ER	SE	O	U/I	R	T	D	ER	SE	O	U/I	R	T	D	ER	SE	O	U/I
Q1	2.6	12.0	5.2	0.1	5.7	0.8	73.6	2.4	7.7	4.5	0.4	6.9	0.6	77.5	2.0	10.6	4.6	0.6	7.3	0.2	74.7
~10%	1.2	10.1	2.8	-	2.6	0.5	82.8	0.9	5.3	3.2	0.2	4.6	0.3	85.6	1.0	5.7	5.6	0.5	4.0	0.0	83.3
10~20%	4.1	13.9	7.6	0.2	8.7	1.2	64.3	3.9	10.1	5.9	0.7	9.2	0.8	69.4	3.0	15.5	3.7	0.8	10.6	0.4	66.0
Q2	24.4	19.5	7.0	3.8	16.4	1.9	26.9	22.1	16.5	7.7	3.0	15.1	1.3	34.3	21.8	16.2	7.8	3.3	15.7	0.7	34.5
Q3	41.9	14.9	7.7	2.5	17.3	2.1	13.6	42.2	12.1	5.7	5.9	15.7	1.4	16.9	43.6	14.4	4.5	5.4	15.4	1.3	15.4
Q4	57.6	8.6	1.9	4.9	16.3	1.5	9.1	57.9	8.2	2.4	5.9	15.1	1.7	8.9	57.9	8.4	2.0	7.4	13.1	2.2	8.9
Q5	67.4	5.2	2.3	5.2	13.0	1.0	5.9	69.0	3.9	1.3	7.8	10.7	1.4	5.9	69.1	4.1	0.7	8.1	8.5	2.8	6.6
A	38.8	12.1	4.8	3.3	13.7	1.0	25.8	38.7	9.7	4.3	4.6	12.7	1.3	28.7	38.9	10.7	3.9	5.0	12.0	1.4	28.0

Note: Classification of the income quintiles is based on equivalized estimates of disposable income (household income divided by the square root of the number of household members); Q1 = first quintile (~20%); Q2 = second quintile (~40%); Q3 = third quintile (~60%); Q4 = fourth quintile (~80%); Q5 = fifth quintile (~100%); A = average; R = regular workers; T = temporary workers; D = daily workers; ER = employers; SE = self-employed workers; O = other; U/I = unemployed and economically inactive people

Source: Statistics Korea. Household Income and Expenditure Survey

In comparison, the impact of the covid-19 crisis is so far-reaching as to spread beyond the first income quintile to middle-income households. In these situations, older adults and people with disabilities could suffer a loss of earned income and unmet care needs. A contraction of the economy could mean loss of job for many temporary and daily workers, a threat to their livelihood. Furthermore, unlike the crisis situations that Korea has encountered in the past, the impact of the covid-19 crisis is so widespread as to affect even those in the third and fourth quintiles—own account workers and those working in small and medium-sized manufacturers.



Concluding remarks

The financial crisis of 1997 has compelled the government to move toward workfare, labor market flexibility and public works, and toward the replacement of the old livelihood protection scheme to the new Basic Living Security (BLS). Both the National Pension and the Employment Insurance were extended to cover much of the previously uninsured segment of the population. Also, the existing health insurance systems were merged into a single national insurer. Throughout and after the 2008 global economic crisis, the government has placed the emphasis of its policies on employment expansion measures, youth intern programs, senior job schemes, social service jobs and microfinance programs. Various support programs ensued, including expanded emergency aid, increases in time-limited livelihood assistance, and microfinance schemes.

The effects of current covid-19 crisis seem more profound and widespread than those of the two economic crises. It has been widely predicted that the socioeconomic impact of covid-19 will spread to middle-income groups as well as to low-income groups. The policy measures that have been decided upon through the five emergency economic council meetings are mostly short-term in nature. This is to say that if a crisis were to occur again and lockdowns were imposed, it would be hard, with the current short-term policy packages alone, to protect the living standards of middle-income groups, much less those of low-income groups.

Emergency aid and BLS should be expanded to benefit more of socially vulnerable groups such as the elderly, women, and people with disabilities. Abolition of the “family support obligation rules”, whereby the income of an applicant’s children is counted in the determination of the applicant’s eligibility for BLS benefits, could help more elderly people to benefit from the system. As the practice of physical distancing is increasingly becoming the norm, more attention needs to be paid to creating non-face-to-face social service jobs. Also, increased support should be provided to financially constrained employers in their payment of social security contributions.

An expanded implementation of the planned national employment support system could help those suffering income loss due to layoffs and furloughs. This can take the form of unemployment assistance scheme for temporary (and daily) workers and self-employed people who, unlike formal-sector workers, are not covered by the Employment Insurance.

Policymakers may have to consider launching furlough allowance and sick pay to help protect people who have been forced to stop working because of covid-19. Plans should be drawn up to provide support to socially vulnerable groups and those working poor in their living costs, including child care, mortgage and health care. The government may consider deferral and reduction of interest and principal payments on loans. The need for such measures is acute especially for young adults and students who, with their employment prospects damaged by covid-19, face difficulties in paying back tuition loans and living costs.