

SOURCES OF INCOME INEQUALITY IN KOREA :
A HISTORICAL APPROACH

by

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B.A., YONSEI UNIVERSITY, 1980

A MASTER'S REPORT

submitted in partial fulfillment of the
requirement for the degree

MASTER OF ARTS

Department of Economics

KANSAS STATE UNIVERSITY
Manhattan, Kansas

1989

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I. INTRODUCTION

Although the problem of income distribution is a basic issue in economy in any country, theoretical study is not enough. Such trend results from the fact the economic policy has concentrated on growth in most countries. Joan Robinson indicates that this emphasis is the second crisis in economic theory¹.

But the problem of allocation was important in the earlier development of economic theories. David Ricardo pointed that as society was developing step by step, it was inevitable that outputs were distributed to all social classes in the form of rents, profits, and wage. He said that to decide the law of allocation was the principal problem of distribution of political economy². J. B. Clark raised the problem of distribution most seriously. According to him, the most significant issue in economics is to allocate wealth among competitors and social stability depends on whether a fair allocation of output is achieved.³

However, the importance of the distribution of income had been veiled by growth-oriented strategies in recent days. Most less developed countries(LDCs) place priorities on growth in their development plans. LDCs contend that to make up for their underdevelopment in a short time, they should choose an unbalanced development strategy. Their logic is growth first, then distribution.

Currently many economists have studied the Korean economy as a development model for LDCs. In addition, Korea is considered one of countries which have a low inequity in income distribution.⁴ Irma Adelman indicates that Korea has undergone spectacular growth with an export oriented industrialization strategy that resulted in improved income

distribution.⁵ But Jaeeun Lee argues that the praises about wealth equity in Korea is not due to the Korean government's policies but historical and cultural factors. He insists that factors such as Japanese colonialism, the Korean war, and parental concern about their children education contributed to low inequality in the distribution of wealth and income, while growth-oriented fiscal and monetary policies brought about a monopolistic and oligopolistic market structure which distorted income distribution.⁶ He said that growth-oriented policies adopted by Korean government for 20 years reduced the desirable effects of historical factors on income distribution although the policies brought rapid economic success to Korea.

Professor Adelman indicates that the distribution of income is generally determined by three factors, that is, production function, resource endowment, and institutional factors like economic policies. But she explains that institutional factors are more important than the others in determining income distribution.⁷ This argument of Adelman is especially true for Korea.

The experience Korea gained in economic development may be useful to other LDCs, because most LDCs had the same historical sources, that is to say, colonialism, land reform, strong military power, and growth-oriented economic policies, etc. This paper will focus on finding out why the favorable historical factors on income distribution have been veiled by growth-oriented economic policies, thereby shedding some light on development strategies and income distribution policies in LDCs. Korea has experienced dramatic historical events since 1945, including the joy of liberation after 40 years of colonialism and the subsequent frustration

of territorial division. Korea faced war five years after liberation. In 1961, the military took over government, changing the social hierarchy. With this abrupt change, the structure of Korea's income distribution also changed.

I will not discuss all the policies that affected income distribution in Korea, but will focus on policies which had the greatest role in determining present-day wealth allocation.

It is difficult to classify history into periods. But, it is reasonable to classify periods by political stages which affects wealth allocation.⁸

This paper is organized as follows.

First, the paper will discuss the overview of the Korean economy to understand its rapid economic growth.

Second, the paper will divide history into four periods, beginning with colonial period. In each period, the paper mentions political, social, and economic circumstances. Economic policies reflect the will of the authorities who tried to solve major social problems.

Third, each policy mentioned will be discussed from the stand point of income distribution instead of introducing them simply in chronological order.

Fourth, this paper will concentrate on the fourth period, in relation to adverse effects from growth-oriented economic policies. During this period Korean economy developed rapidly. In this period, we can test whether Simon Kuznets' theory is applicable to Korea. S. Kuznets argues the relative gap between high-income and low-income classes worsens in the beginning stage of economic development but improves in the later stage.

This relationship is the inverted U pattern of income inequality. Based on economic performance during this period, Korea became a middle-income country in the later 1980s.

But, ironically this period enlarged the gap between higher-income and lower-income brackets in Korea

Fifth, in chapter V, this paper will conclude and suggest income distribution policies appropriate to current Korean economic conditions.

Endnotes for Chapter I

1. Robinson, Joan. "The Second Crisis of Economic Theory" American Economic Review, May 1972 pp. 1-10.
2. Ricardo, David. Principles of Political Economy, Cambridge : Cambridge University Press, 1951 p. 5.
3. Clark, J. B., The Distribution of Wealth, New York : McMillan, 1899, p. 1, 4.
4. The study by Choo, Hackjung and Kim, Daemo indicates that Gini index of income concentration distribution in Korea was 0.3439 (1965), 0.3322 (1970) and 0.3808 (1976). Although inequality increased from 1970 to 1976, Korea still, had relatively low income distribution.
5. Adelman, Irma & Robinson, Sherman. Income Distribution Policy in Developing Countries : A Case Study of Korea. Stanford : Stanford University Press, 1978, pp. 8-11.
6. Lee, Jaeun. The Role of Fiscal Policy in Redistribution of Income The Case of Korea. Seoul : Shunggeunkwan University Press, pp. 8-9. [in Korean]
7. Adelman, Irma & Robinson, Sherman. op. cit., pp. 14-15.
8. Looney, Robert E. Income Distribution Policies and Economic Growth in Semiindustrialized Countries : A Comparative Study of Iran, Mexico, Brazil and South Korea. New York : Praeger, 1975 : p. 164.

II. Overview of Korean Economy

Economic development in Korea has proceeded very rapidly for the past two decades. Strictly speaking, the Korean government founded the First Five-Year development plan for the first time in 1962. Since then, the Korean economy has matured on the basis of successive development plans led by the government. Of course, there were some development plans before 1962. But they were intended to make best use of funds provided by United States' and United Nations' assistance.¹

In 1962, the Korean military government, which succeeded the civilian government in 1961, tried to obtain popular political support through economic development. Of course, the previous civilian government also established several development plans, but the plans could not come into effect, because the Korean government could not raise funds needed to carry out the plans. At that time there was little accumulated capital in Korea, with a low saving rate. Syngman Rhee, the former president of civilian government, who was active in an independent movement during the colonial period, did not like to borrow money from foreign countries, because if Korea was in debt to foreign countries she would be subordinated to them.² The plans at that time, therefore, could not contribute to Korea's rapidly developing economy.

Chunghee Park, the former president of the military government, who used to hierarchy of military organization, took priority over economic development. He had been familiar with management through his life in the military. He said that in human life economics precedes politics or culture.³ With his encouragement, foreign capital needed to encourage the economic development plan came into Korea.

The main strategy adopted by the government for economic development was the unbalanced growth theory, because at that time there was little capital and few skilled laborers. The economic plan emphasized the manufacturing sector that could bring about more employment and productivity than agriculture. Thanks to 20 years of the government-led development plan, the Korean economy has grown from the typical economic condition of underdeveloped countries to a stage of moderate industrialization.(see tables 1 & 2).

Table 1. The Performance of Korean Economy

	Unit	1961	1971	1979	1986	
GNP	US \$ 100 Million (Current Prices)	21	94	624	940	
Per Capita GNP	US \$ (Current Prices)	82	285	1,662	2,286	Annual Average Growth Rate : 8.1%
Exports	US \$ 100 Million (Current Prices)	0.4	11.3	147	347	

Source : Economic Planning Board(EPB), Korean Economic Indicators, Seoul : 1986

Table 2. Sectoral Origin of GNP

(In Percentage)

	1961	1971	1979	1984
Agr., For. & Fisheries	39.1	26.7	18.5	13.5
Min.	1.9	1.3	1.1	1.5
Manufacturing	13.6	22.2	27.6	28.4
Soc & Others	45.4	49.8	52.8	56.6
Total	100.0	100.0	100.0	100.0

Source : EPB, op. cit., 1985

According to the sectoral origin of GNP, the share of the sector of agriculture, forestry and fisheries decreased from 39.1 % in 1961 to 13.5 % in 1984, while the share of the manufacturing sector increased from 13.6 % in 1961 to 28.4 % in 1984. In only two decades, Korea became, by third world standards, a highly industrialized nation.

Rapid growth in this period brought about substantial betterment in Korea's employment structure. The unemployment rate fell from 8.2 % in 1963 to 3.8 % in 1984, with the employment structure improving from a traditional agricultural society to an industrialized society, as table 3 shows.

Table 3. Employment Structure

	Unit	1963	1971	1979	1984
Population	Million	27.3	32.9	37.5	40.6
Labor Force (Economically Active Population)	"	8.3	10.5	14.2	15.0
Employment	"	7.7	10.1	13.7	14.4
Employment Structure	%				
Agr., For. & Fish.	"	63.1	48.4	35.8	27.1
Min. & Mfg.	"	8.7	10.8	23.7	24.2
Soc. & Other	"	28.2	37.4	40.5	48.7
Unemployment Rate	"	8.2	4.5	3.8	3.8

Source : EPB, op. cit., 1985

Due to the improved economic performance, the quality of life was greatly upgraded for the whole nation over the past two decades.

Indicators of a high standard of living opportunities for education, the

supply of piped water, better nutrition and general health of the people, and the widespread supply of public goods and social overhead capital facilities are visible. So, as for the economic growth in Korea during the past 20 years, contrary to Robert McNamara's notion of economic growth in developing countries,⁴ economic growth had resulted in economic development.⁵

Table 4. Major Social Indicators

	Unit	1962	1980
Middle School Enrollment Ratio	%	42.3	96.8
College Enrollment Ratio	"	21.2	27.2
Housing Investment/GNP	"	1.6	3.1
Piped Water Supply Ratio	"	18.2	59.0
Life Expectancy	years	52.4	65.9
Infant Mortality	per 1000 persons	59.9	36.8
Telephone Subscribers	"	5	89
Automobile Owners	"	1.1	14.0
Beneficiary Rate in Medical Insurance	%	8.8	24.0
Per capita Daily Calorie & Protein Intake	calorie	2,079	2,485

Notes : * 1966, ** 1977, *** 1979

Source : Korean Economic Planning Board, Social Indicators in Korea, Seoul

1983

Endnotes for Chapter II

1. Korean Economic Planning Board(EPB), The Economic Policies in Developing Periods, Seoul : EPB, 1982, pp. 24. [in Korean]
2. Rhee thus devoted energy to political action rather than administrative development and subserved economic goals to integrative ones. For example, his anti-Japanese measures retarded trade with a natural and traditional partner.
3. Sakong Il and Jones, L. D., Government, Business and Entrepreneurship in economic Development : The Korea Case, Harvard Council on East Asian Studies, 1980. pp. 42-43.
4. In 1972, Robert McNamara, the World Bank president, declared that despite the relatively rapid economic growth of developing countries, two thirds of the children are suffered from malnutrition and a high rate of adult illiteracy exists in developing countries.
5. Nafziger, E. Wayne. The Economics of Developing Countries, Belmont, California : Wadsworth Publishing Company, 1984, p. 12

III. Historical Sources and Economic Policies of Income Distribution

As mentioned in Chapter I, historical factors had significant impact on the income distribution of Korea until the early 1960s. Although the Korean economy remained at the typical level of underdeveloped countries in the early 1960s, she retained a low income inequality. In other words, due to historical factors, Korea already maintained relative equity of income distribution before she entered into a continuous high rate of economic growth. Professor Harry T. Oshima indicates that South Korea, with an even lower per capita income than Taiwan, has an index as low as that of the U. S. and Japan.¹

Irma Adelman, on the other hand, discovered that the relative distribution of all income in Korea remained essentially unchanged during the period of rapid growth from 1964 to 1970. She also concluded, after various cross-checks and sensitivity tests, that Korea's income distribution is among the best in the developing world.² As professor Oshima indicates, the situation of income distribution in any country in any specific period is determined by several causes, conditions and their interaction.³ The historical influences in Korea had shaped the structure of income distribution fairly.

This paper will deal with historical sources chronologically from the Japanese colonial period to the early 1960s. However, some evidence related to the first part of this chapter dates back to the late 1930s because of a lack of published data for the early 1940s, when most of the resources was devoted to war efforts under Japanese rule.

1. The First Period. (Colonial Period)

During the colonial period, Korea's economy was dominated by the

Japanese. The number of manufacturing corporations owned by Koreans in 1941 was about 41 percent of all the firms in that sector. But the scale of these firms was small as compared to Japanese controlled firms. The Japanese owned virtually all large-scale establishments and more or less shared the small-scale factories' ownership with Korean. The results were that by 1941, the Japanese owned 59 percent of the manufacturing firms, representing 91 percent of paid-in capital.⁴ Due to large-scale firms with modern facilities, a dualistic structure of economy occurs in during the colonial period. This manufacturing dualism, as well as common agricultural dualism of that period, minimized the spread of economic growth, because dual economy incurs little interdependence among industries.⁵ Even in the agricultural sector, large-scale farmers, especially those with more than 1,000 chungbo, were mostly Japanese or Japanese dominated agricultural firms, farms and corporations as shown in table 5

In connection with education, we have the same story as with the economy. Japanese completely discriminated against Korea in providing the opportunity of education. The enrollment rate in secondary school by Japanese who lived in Korea reached 50 percent, while the rate for Koreans of the same age was no more than 5 percent. As table 6 shows, the portion of Japanese students in each level of school increases increases, as the level of education heightens, although the Japanese were at that time a minority in Korea. Japanese discrimination in education was strongly prominent in admitting applicants to Kyungshung Imperial University, which was the only university in Korea during the colonial period. 63 percent of all enrolled students were Japanese, although the population of

Japanese was not more than 3 percent compared to the entire population of Korea.

Table 5. Land Ownership of Big Farmers by Nationality.(1942)

or more to less than	Korean		Japanese		Others		Total
	Area (Chungbo)	%	Area (Chungbo)	%	Area (Chungbo)	%	Area (Chungbo)
5- 10 Chungbo	342,666	93.8	18,786	5.2	3,730	1.0	365,182
10 -20 "	214,577	89.2	21,530	9.0	4,348	1.8	240,455
20 -50 "	168,116	82.0	27,749	13.5	9,230	4.5	205,095
50 -100 "	83,562	72.2	21,201	18.3	11,059	9.5	115,822
100 -500 "	81,588	54.0	36,199	24.0	33,339	22.0	151,126
500 -1,000 "	15,779	35.0	13,213	29.3	16,061	35.7	45,053
Over 1,000 "	4,794	3.8	23,904	19.1	96,600	77.1	125,298

Source : Bank of Chosun, Research Dept., Annual Economic Review, 1948, p.341

Notes : 1. large-scale farmers are defined to own 5 chungbo or more of farm land
2. Others are owned by corporations

Table 6. Number of Students by Nationality in Each Level of School(1939)
(Person, %)

	Total	Korean	Japanese
Primary School	1,311,209 (100.0)	1,218,367 (92.9)	92,842 (7.1)
Middle School	50,144 (100.0)	28,878 (57.6)	21,266 (42.4)
Vocational School	34,009 (100.0)	26,155 (76.9)	7,854 (23.1)
High School	10,987 (100.0)	6,313 (57.5)	4,674 (42.5)
University (Kyungshung Univ.)	556 (100.0)	206 (37.1)	350 (62.9)
Total	1,427,196 (100.0)	1,293,637 (90.6)	133,559 (9.4)

Source : Choo Hackjung, Sources of Income Distribution in Korea, Seoul, KDI p.35

Because of such Japanese education policies, Korea could not accumulate human capital through education. Human resources with quality education is an important source for a developing national economy.

Therefore, because most of the heads of Korean families who should be in charge of economic activities were illiterate or graduated only from primary schools. The distribution of human resources was equalized at a low level. Hackjung Choo points out that it is an irony of history that an unfair education policy by Japan contributed to the income distribution in Korea.⁶

2. The Second Period (1945-Before the Korean War)

2.1 The Character of this Period.

In 1945, Japan returned to her territory from Korea and after 3 years of U. S. military administration, Korea started as a newly emerging nation in 1948. But, after the colonization of Japan, the liberation and unexpected partition created extreme disorganization in every aspect of Korean society.

Japanese-owned land properties were returned to the control of the U. S. military government from 1945 to 1948 and then to that of the newly independent Korean government after 1948. Consequently, the portion of public holdings and ownership was very large as compared to total wealth and to the wealth of the private sector as the ownership of Japanese controlled properties was surrendered to the Korean authority in 1945.

In this respect, independent Korea has inherited a favorable basis for a relatively equitable distribution of income. These government-owned properties and land were redistributed and sold to farmers and the private sector, gradually over the years to follow.

During this period, it was partition that made things worse for the Korean economy. At the conclusion of World War II, Korea was divided between South Korea and North Korea. To understand the extreme economic disorganization caused by the partition, it is necessary to look at Korea's economic situation just before liberation. As table 7 shows, in South Korea, rice paddies exceeded dry fields, a reverse of the situation in North Korea.

The sectoral share of agriculture, forestry, and fishing was greater in South Korea in 1940, while the North held a great share of mining and manufacturing, especially in mining. In mineral resources, the North's dominance was complete : the mining product of South Korea was only a quarter of the total in 1940. In 1936, practically all the iron ore and coal and more than 70 percent of the gold, silver, tungsten, and graphite were produced in North Korea. In manufacturing, South Korea produced a greater proportion of light-industry products, while the North produced more heavy-and chemical-industry products.

As shown in table 7, about 85 percent of all textiles production and 89 percent of printing and publishing output came from plants located in the South in 1939. The South also produced the greater shares of machinery, wood products, processed foods, and miscellaneous manufactures. However, 90 percent of metal products and 82 percent of chemicals were produced in the North. The North also produced the greater share of ceramics and gas electrical appliances. More critically, at the time of partition, 92 percent of the total electrical power was generated in the North. Thus, partition left South Korea with a great population and more productive agricultural land, but without the most important mineral

resources and the country's power plants.

Table 7. Comparison of Some Economic Items between South Korea and North Korea at the Time of Partition

Item	Unit	South	North	All Korea	Share of the South in All Korea(%)
Total Land	km ²	108,366	118,366	226,732	47.8
Population (1944)	1000 Persons	17,041	8,859	25,900	65.8
Population Density	Persons Per km ²	158	75	114	
Arable Land (1939)	km ²	22,300	24,175	46,475	48.1
Rice Paddies	"	13,293	5,684	18,977	70.0
Dry fields	"	9,007	18,491	27,498	32.8
		< Agricultural Product >			
Forestry	Million Yen (Current Price)	109.7	103.3	213	51.5
Fishery	"	141.2	85.8	227	62.2
Mining	"	62.0	194.0	256	24.2
Manufacturing	"	324.3	371.7	696	46.6
Textiles	"	171.0	30.4	201.4	84.9
Metal	"	13.6	122.5	136.1	10.9
Machinery	"	38.4	14.8	53.2	72.2
Ceramics	"	12.1	31.2	43.3	27.9
Printing & Publishing	"	17.2	2.2	19.4	89.0
Processed Foods	"	213.6	114.8	328.4	65.1
Gas & Elec. Product.	"	11.1	19.4	30.5	36.4

Source : Kim, Kwangsuk and Roemer, Michael, Growth and Structural Transformation, Harvard University Press, 1979, pp. 22-24

Although it is true that the partition of Korea hobbled the Korean economy, the most significant impact of the division of Korea on the economy, as well as on the society as a whole, was the Korean war itself and the continuing military confrontation that has existed on the Korean peninsula ever since. Aside from the damages of the war, continuing North-South hostilities has led to large military budgets which have diverted 5 percent of the South's GNP to mostly unproductive uses.⁷

2.2 Land Reforms in 1947 and 1949.

In the midst of turmoil and confusion following liberation and partition, there was a certain consensus that poverty in the rural sector was mainly caused by the land system and that land reform was necessary to alleviate the rural misery. The Korean government, which started as a newly emerging nation, found it also necessary to reform the social structure to eliminate remnants of the colonial period and to establish a fundamental national order.⁸

Russel King indicates that most land reforms occur in situations where great disparities in wealth, income and power exist in agriculture.⁹ He says that if the assumption that such inequalities act as a bottleneck to development arouses sympathy, land reform can be successful.¹⁰ The land reform in 1947 was performed under the U.S. military government. The military government redistributed 324 thousand chungbo of vested land.¹¹ Under the decree of the military authority, the value of land was determined by three times that of the annual average production of a given plot of land, which would be repaid in annual installments of 20 percent of the yearly crops for 15 years. The second reform was made under the newly organized Korean government in 1949.

In this land reform, the major target was to redistribute tenanted land exceeding 3 chungbo owned by large-scale farmers and absentee landlords. It should be noted that the change in the repayment method for redistributed land applied inclusively to redistributed vested land under the U.S. Military government : 30 percent of average annual crops to be paid for 5 consecutive years following the reform. The administration, in turn, issued land value certificates in lieu of redistributed land exceeding 3 chungbo to large-scale farmers and to absentee landlords.

2.3 The effects of land reforms

From the distributive equity point of view, land reform provided an opportunity for forced savings for the low-income class, previously tenant farmers, and destroyed the accumulated wealth of the upper-income class, i.e., large-scale farmers and absentee landlords. Through land reform, the land-to-tiller system was established. As a result of land reforms, as shown in Tables 8 and 9, land distribution in Korea improved significantly.

Table 8. Percentage and Accumulated Percentage of Farm Households and Cultivated Area by Size(1945)

Size of Farm	No. of Farm Household		Size of Cultivated Area	
	Percentage	Accumulated Percentage	Percentage	Accumulated Percentage
Less than 1 chungbo	72.1	72.1	10.4	10.4
1 - 5	23.8	95.9	40.4	50.4
5 - 10	2.8	98.7	23.2	73.6
More than 10 chungbo	1.3	100.0	26.4	100.0
Total	100.0		100.0	

Source : Derived from the statistics in Korean Economic Yearbook, BOK, 1948, p. 1-32

Table 9. Percentage and Accumulated Percentage of Farm Households and Cultivated Area by Size (1955)

Size of Farm	No. of Farm Household		Size of Cultivated Area	
	Percentage	Accumulated Percentage	Percentage	Accumulated Percentage
Less than 3 tanbo	19.0	19.0	5.8	5.8
3 - 5	24.1	43.1	12.2	18.0
5 - 10	31.1	74.2	29.2	47.2
10 - 20	20.1	94.3	35.9	83.1
20 - 30	5.5	99.8	15.9	99.0
More than 30 tanbo	0.2	100.0	1.0	100.0
Total	100.0		100.0	

Source : Derived from the Statistics in Agriculture and Forestry Statistics Yearbook, MAF, pp. 26-27

Note : One tanbo is one tenth of a chungbo.

Although Korea's land reform that tried to solve tenure problems faced some obstacles such as the Korean War and lack of finance, it had several positive effects. Centuries-old landlordism almost disappeared, and for the first time farmers enjoyed the right of democracy and ownership. Land reform undoubtedly reduced the feeling of personal subordination and increased independence and individualism. Also, agricultural output increased greatly, except during the Korean war, with an improved productivity.

2.4 Disposal of Vested Properties

As noted earlier, properties of Japanese-controlled corporations, as well as Japanese-owned land, were returned to public ownership in 1945.

As shown in Table 10, there were about 3,500 firms recorded as vested to public ownership, of which about 2,500 were manufacturing firms. In addition, there were numerous houses and buildings where Japanese resided in Korea. All these properties were managed by a special government agency and were gradually relinquished to the private sector. Despite the fact that these properties were sold, in many cases below their market value under severe inflation in pre-and post-Korean war years, revenues resulting from property disposals, rentals and others were quite significant sums, fluctuating from 1.3 % of general government revenue in 1949 to 4.6% in 1951.

Table 10. Results of the Survey on Vested Properties(1948)

	Number of Entities
Agriculture and Forestry	108
Fishery	74
Mining	316
Manufacturing	2,469
Construction	61
Transportation & Storage	81
Banking and Insurance	23
Retail and Wholesale	313
Miscellaneous	110
Total Surveyed	3,555
Dissolved	826
Location Unidentified	2,406
Impossible to Survey	94
Grand Total	6,881

Source : The Bank of Korea, Annual Economic Review, 1949, p. IV-154

Hackjung Choo indicates that from a distributive point of view, what can be safely asserted is that Korean asset distribution during the post-world war years was somewhat unique in the sense that most of the tangible assets were under the control of the public sector because the government took care of the Japanese properties. He suggests that such an asset distribution, including land, would have affected income distribution in favor of relative equity.¹²

3. The Third Period (The Korean War - 1961)

During this period, a policy for economic development, in the true sense of the word, did not exist. Most Korean people were in absolute poverty. No serious effort was made by the government to accomplish economic development. Instead, the government focused its economic policy on maximizing foreign assistance to overcome absolute poverty.

3.1 The character of this period

Table 11, shown below, indicates that the situation of Korean economy during this period was the typical model of underdeveloped countries. The vicious circle of poverty existed in Korea at that time. That is, because the incomes of people were very low, they could not save much money, which induced low investment rates. The low investment rates brought about low product which resulted in low income. Thus, the standard of living in Korea did not improve conspicuously from the situation in 1954 just after the Korean war. Although almost ten years had passed since the end of the war, the Korean national economy, as shown in Table 12, was still mainly dependent on foreign aid.

The baby boom after the war increased the growth rate of population to more than 3 percent. This population growth restricted the annual

growth rate of GNP to 4.4 percent and the per capita average had remained at about \$ 80 for almost 10 years. Therefore, Korea was one of the poorest among the East and South East Asian countries.¹³ As for the industrial structure, Korea exhibited the typical preindustrialized type, with the agricultural sector dominating. There was much disguised unemployment in rural areas. Because of the scantiness of capital, laborers who graduated from primary school could not get jobs in urban areas. In the case of international trade, Korea suffered from a continuous deficit in the balance of payments. The deficit was made up by foreign assistance, equal to nearly 80 percent of the total fixed capital formation, and to 8 percent of GNP.¹⁴

Table 11. The Vicious Circle of Poverty

	1954	1955	1956	1957	1958	1959	1960	1961	'54-'61
Annual GNP Growth Rate	5.5	5.4	0.4	7.7	5.2	3.9	1.9	4.8	4.4
Per-Capita GNP (\$)	70	66	66	74	81	83	81	81	83
Investment Ratio	11.6	11.9	9.5	15.3	13.0	10.7	10.9	13.1	12.0
Domestic Savings Ratio	6.4	4.9	1.3	5.5	5.0	3.9	1.4	3.9	3.7

Source : EPB, Handbook of Korean Economy, Seoul, 1980, p.572

Table 12. Foreign Aid, Exports & Imports (in million U.S. \$)

	1954	1955	1956	1957	1958	1959	1960	1961	'54-'61
Foreign Aid	154	237	327	383	321	222	245	199	2,068
Exports	24	18	25	22	17	20	33	41	200
Imports	243	341	386	442	378	304	344	316	2,754

Source : EPB, Handbook of Korean Economy, Seoul, p. 574

3.2 The effect of the Korean War on Income Distribution

The Korean war had a tremendous impact on the equity of income distribution. During the war, civilian casualties approached one million, including those killed, wounded and missing.¹⁵ Non-military war damage to buildings and structures, equipment, furniture and other movable assets was estimated at 41.2 billion won at July 1953 market prices, that is, U.S. \$ 3.1 billion at the implicit exchange rate for 1953. According to the Nathan Associates,¹⁶ the civilian war damages were equivalent to two years' GNP for 1952 and 1953 at \$ 1,553 million.

According to the estimates made by the Ministry of Commerce and Industry, war damage to manufacturing facilities was equal to 42 to 44 percent of the prewar facilities. Textiles, shipbuilding, printing and publishing, and other industries located around Seoul sustained particularly heavy damage. Damage to productive facilities and the interruption of domestic production and imports touched off wild inflation and a decline in already low standards of living. The national urban retail price index was 197.8 in 1949(1947=100). It more than doubled between June and September of 1950 and then shot up to 2,128.5 in 1951, 5,243 in 1952 and 7,618 in 1953.¹⁷ Furthermore, inflation did not end with the 1953 armistice.

However, the tragedy of the Korean war and its resulting damage further flattened the variance and skewed wealth distribution within the private sector. To what extent such damages affected asset distribution of the private sector is, of course, unknown without a size distribution of assets, But, I can say that such phenomena to be mentioned as follows contributed to the income distribution.

First, the properties of the upper income class were lost or damaged because of the war. Of course, the lower classes were not immune to such destruction either. But, we can suspect that damage was especially heavy in the upper class of asset distribution.

Second, especially, during the year of the war and the year immediately following the war, a terms of trade favored agricultural commodities. Because there was a scarcity of food and the majority of urban residents were suffering from the loss of jobs, assets of urban residents were redistributed to farmers in exchange for low quality foodstuffs, since during the war, urban residents were more vulnerable in terms of securing the basic needs for survival. So, the urban rich would dispose of valuables in exchange for overvalued food and substitutes. Such a behavior pattern would certainly shift the distribution of assets in favor of relative equity.

In this process, large-scale farmers had been the most likely beneficiaries. But, as noted, as the results of land reforms, there were no farmers with sizable holdings. Thus, urban to rural redistribution of tangible assets had occurred widely, which had modified the distribution of tangible assets and that of income for the following years.

During this period, there were also tremendous profiteering opportunities wartime for business men in the southeastern region that was saved from destruction. It is not a mere accidents that many of the prominent Korean industrialists and business men of today originally came from this region.

3.3 The Expansion of Education

It is also important to note that traditionally, the Korean people have been highly concerned with educating their children under the influence of Confucianism. And thanks to the fact that the constitution of the newly formed Korean government ordered that all parents should enroll their children in primary schools the literacy rate of Korea rose from 30 percent to over 80 percent between 1953 and 1963. Universal primary education became a coerced rule in the countryside as well as in cities. Secondary and higher education also grew rapidly, to the point that by 1964 the country, with per capita income of about \$ 100, had one in every 280 citizens in college.

Such an expansion of education was due to the eager desire of parents who did not get enough education and, therefore, could not get high-salaried jobs, since most people did not receive sufficient education due to Japan's discriminative policy in Korea during the colonial period. Korean parents at that time, accordingly, wanted their children to enter secondary school and higher school. Thus, the number of elementary students increased by 2.7 times from the time of liberation to the early 1960s. The number of secondary students increased by 9.5 times and higher students by 12.9 times during the same period.¹⁶ Fredrich H. Harbinson and Charles A. Mayers classified the education level of Korea in 1960 as that of semiadvanced countries, with the consideration of several factors such as GNP, the population in agricultural sector, the enrollment rate of each level of school, the cost of education, and the eagerness for education.¹⁹

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According to King, there are three motives - the political, the social and the economic. He explains that since the different

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IV. Some Sources of Income Distribution in Economic Policies (The Fourth Period : 1962-present)

1. The Character of This Period

The Korean economy achieved rapid growth, and the structure of income distribution in Korea was shaped during this period.

To understand the economic policy enforced during this period, we should pay attention to the political transition from civilian government to military government. The military government which overthrew the former civilian government by military force tried to obtain authority from economic development, because at that time most people, especially those in rural areas, were still under the absolute poverty line. As soon as the military leaders took political power, they established the Korean Economic Planning Board (EPB) which is still mainly responsible for the planning and operating of Korean economic policy. The head of the EPB was given the title of deputy prime minister. This elevated position for the chief of the national planning agency signified the seriousness of the regime's planning effort and was necessary to coordinate and control conflicts among the various economic ministries. L. P. Jones indicates that the establishment of EPB was an institutional innovation in relation to strategy for economic development.¹

However, at the outset of this period, there were not many accumulated resources. Thus, the government preferentially aided the light manufacturing industry, which created many employment opportunities and gave Korea a comparative advantage over other countries, in such areas as textiles, plywood, electrical goods, and footwears. After the industries reached a sustained growth orbit, the government shifted investment

priority from light manufacturing industries to the industries with large import substitution efforts, such as fertilizers, oil refining, cement and then to the integrated iron and steel mills and petro-chemical plants.

At that time, the basic position of the government on income distribution policy was that when wealth was accumulated through economic growth, the benefits of economic growth could spread to the lower income class gradually. But, although the growth-oriented economic policy had established rapid economic growth during this period, the policies weakened the favorable effects that stemmed from historical sources on income distribution.

2. Economic Measures and Policies in Relation to Income Distribution

The military government took some coercive actions connected with the equity of income distribution. The measures mentioned here could not be feasible under a civilian administration because the actions are radical and unfavorable to the established ruling class. The government's arrangement of usurious loans in rural areas, monetary reforms, and confiscation of illegally accumulated wealth were based on political reasons, not purely economic ones. The leaders of the military government did their best to get political support from the middle class in Korean society.

2.1. The Arrangement of Usurious Loan in Rural Areas

In the early 1960s, the problem of usurious loans which occurred in unorganized money markets was very significant. Traditionally, in Korea, the demand for loan funds is greater than the supply of loanable funds. So, usurious loans came to exist, especially, in rural areas where it was not easy for people to access to public financial systems.

Most of the rural population, therefore, suffered from the heavy burden of paying high interest rates generated from usurious loans. At the end of 1960, interests derived from the loans comprised 50 or 100 percent of real income in rural areas. Historically, this long-standing factor was generally recognized as one of the basic obstacles to rural development and to improving the share of farm disposable income.

As shown in Table 13, the extent of usurious debt reported under the special law for arranging usurious loans, was 4,807.2 million won at the end of 1962. Of this amount, 2,948.4 million won or 61.3 percent of the reported debt was judged to be qualified. Allowing for the exception under the law,² the portion on which the equivalent debenture was issued to creditors was 2,661.5 million won. This sum was, under normal conditions, paid back by the debtors in four-year installment payments, following a year of grace period at the annual interest rate of 20 percent.

This measure had direct redistributive effects on asset holdings in favor of the assetless at significant losses to the creditors by doubling wholesale prices during the period 1961 to 1966.

Table 13. The number of Cases Rural Usurious Debt, Reported, Qualified and Settled

	No. of Cases	Total Amount
Reported	1,171,131	4,807,826
Qualified	890,391	2,948,779
Settled	781,742	2,661,544

Source : Choo, Hakjung, Sources of Income Distribution in Korea(II). Seoul : KDI Press, 1982, p. 60

2.2. Monetary Reforms

The military government carried out monetary reforms in June 1962.³ They thought the unequal possession of liquidity was one of the reasons that brought about unequal income distribution. Of course, money reforms without resorting to confiscation of liquidity exceeding an upper limit, do not extensively alter the distribution of assets.

But, the reported cash holdings by different groups reveal, to some extent, an approximate income distribution, if there is a relation between cash holdings and asset and income distribution. Through the monetary reforms, Table 14 shows that about 10 percent of rich households possessed about 50 percent of cash circulated at that time. And less than 1 percent of rich families held about 20 percent of the liquidity.

Although this phenomena did not reflect directly the distribution of wealth, because currency is one form of financial assets, this data is enough for us to determine that the concentration of wealth is an important problem to deal with in enforcing an income distribution policy.

The government devaluated the money from 10 whan to 1 won. They allowed people to convert up to 30,000 whan to new won freely. But, a progressive scheme of restricted conversion was applied to different levels of cash holdings above the unrestricted conclusion.

Table 14. Cash Distribution Among Households(June, 1962)

	No. of Households	%	Amount	%
Less than 50 Thousand Whan	3,273,106	89.00	74,084,316	49.96
Less than 100 Thousand Whan	215,064	5.85	14,600,672	9.85
Less than 200 Thousand Whan	101,651	2.76	14,313,755	9.65
Less than 500 Thousand Whan	62,779	1.71	19,189,753	12.94
Less than 1 Million Whan	17,945	0.49	12,045,119	8.12
Less than 5 Million Whan	6,636	0.18	10,958,186	7.39
Less than 10 Million Whan	271	0.01	1,734,856	1.17
Less than 50 Million Whan	69	-	1,209,392	0.82
More than 100 Million Whan	1	-	143,300	0.10
Total	3,677,522	100.00	148,279,394	100.00

Source : Bank of Korea, Report on Emergency Monetary Measures, June 1962

2.3. Confiscation of Illegally Accumulated Wealth

The third epochal measure taken by the military government was the confiscation of illegally accumulated wealth. At that time, broadly defined, illegally accumulated wealths were as follows⁴ ;

- (1) Tax evasion, tax exemption and tax reduction of an undue nature
- (2) Profiteering from disposal of public and vested properties ;
- (3) Bravery to politicians, official and bankers ;
- (4) Preferential treatment in smuggling, capital flight and other special interest ; and
- (5) Monopoly rights.

On the basis of criteria mentioned above, 3,995 million won was paid in the form of cash, commercial bank stock, and other properties by some high income classes. The confiscation of illegally accumulated wealth was a

fatal blow to some of the accused who were then excluded from the list of Korean big businesses after this incident.

In addition, the settlement of levies and penalties in the form of commercial bank stocks put all the commercial banks under government control from that time. In relation to the confiscation measure, Leroy P. Jones indicates that because the funds gained from the confiscation of illegally accumulated wealth returned to the public sector, the portion of public enterprise as a percentage of GDP reached 6.5 percent and even to 12.6 percent without any consideration of the agricultural sector.⁵ The transfer to the government of so much accumulated wealth had a substantial influence on future income distribution via wealth redistribution, at least through 1963.

First, because the highest income classes should be divested of their wealth, including their owned firms and the confiscated wealth belonging to the public sector, the properties of highest income were reduced to a significant extent.

Second, the public sector, in other words public corporations, grew larger as compared with Korean economy at that time. And the commercial banks, which had the largest portion among the Korean financial market, had become public corporations. Thus, the factor of economic concentration, which was derived from the combination between financial capital and industrial capital, has been eliminated.

The measures mentioned above were intended to bring about a redistribution of wealth in a short time. So, the measures involved political reasons rather than economic reasons, while the policies to be introduced from this time are designed to make a target of equity of income allocation in

the long term. These policies were established, based on the strategies of several Five-Year development plans. However, because the Korean government adopted an unbalanced growth strategies due to the restraints of capitals and skills, some economic policies had adverse effects to income distribution policies.

2.4. Employment Creation

Rapid growth in the Korean economy has been characterized by labor-intensive export-oriented growth. The accelerating of rate growth in each successive five-year plan provided many job opportunities to the unemployed. There is no more effective income distribution policy than giving the poor stable jobs.

In the 1960s, the strategy that placed an emphasis on labor intensive manufacturers in the field of export-oriented industry yielded many jobs. Table 15 shows how rapidly the labor intensive manufacturers grew in the 1960s. In Table 15, we can see the extent of job creation indirectly.

Table 15. Industrial Employment in Major Light Industry

	1961 (A)	1966	1971 (B)	B/A
Plywood	1,217	29,880	124,275	102.1
Textile & Yarn	857	47,333	137,834	160.8
Electrical Machinery Apparatus & Appliances	107	5,101	68,486	646.1
Clothing	111	33,387	304,265	271.8
Footwear	18	5,467	37,436	2079.8

Source : EPB, Handbook of Korean Economy, Seoul, 1980, p.572

As shown in Table 15, in 1966, when the first five-year development was finished, thanks to the government-led export-oriented policy, labor

intensive-industries had grown very rapidly. Compared with 1960, the footwear industry grew by 303 times for a five year period. And in 1971, when the second five-year economic development plan ended, the manufacturing industries mentioned above, which were major industries at that time, thrived on a large scale. In particular, the footwear industries grew by 2,080 times. As a result, by the early 1970s, Korea ceased to be labor surplus economy.⁶

In the 1960s, there were many laborers educated in primary schools in the rural areas because Korea designated primary education as compulsory from the beginning of the foundation of Korean government. The primary educated remained as disguised unemployed in the rural areas until they were hired through the development plan led by government. Daemo, Kim points out in his study that export expansion in labor-intensive industries contributed to increased employment of those who graduated from lower education schools instead of those who graduated from higher education schools.⁷ The increase in employment had positive effects on income distribution. Whereas there were good results on the one hand as shown in Table 15, unwelcome problems took place on the other hand. Owing to the unbalanced growth strategy, the gap between the sectors began to widen. (see Table 16)

Table 16. Growth Rate by Industry (1962-1981)

GNP	Manu- facturing	Mining & Quarring	Const- ruction	Trans. Storage & Communication	Agri. Forest. & Fishery
8.1	16.5	6.92	14.4	17.0	3.9

Source : EPB, Major Statistics of Korean Economy, 1982, p.24

2.5 Tax Policy

The tax system of that period aimed to support rapid economic growth through tax exemption and a preferential tax for selected key, import-substitution and export-expansion industries. Tax policy is one of the sources of an unequal income distribution in Korea. Generally, in getting revenues, LDCs depend largely on indirect tax instead of on direct tax, regardless of its regressiveness. In LDCs, taxes are the major source of financial resources for public expenditures, because Korea, like most LDCs, relies disproportionately on indirect taxes, which are less elastic than direct taxes.⁸

In Korea, direct taxes, including the income tax, provided only about 40 percent of the total government revenue after 1975. There has been no tendency for the percentage to rise. Besides, there is much undertaxation of the rural areas which is a progressive element, since the rural sector is poorer than its urban counterpart.⁹

Table 17. The Ratio of Direct and Indirect Taxes to GNP

Year	Direct Tax	Indirect Tax
1962	2.1	3.7
1966	5.2	5.3
1972	4.4	4.6
1975	3.9	5.8
1977	3.6	6.0
1980	3.6	6.1

Source : EPB, Handbook of Korean Economy, 1980, p. 46

Table 17 shows that the gap between the direct tax and the indirect tax was small, 1966-1972, even though the share of indirect tax was larger than that of the direct tax. But, the gap gradually increased, especially after the government introduced the VAT (value-added-tax) to the Korean tax system.

In tax policy, the more decisive factor that caused income inequality was the tax reduction and exemption system. Since the tax reform of 1961, the government has adopted various kinds of tax reduction and exemptions to promote saving and investment needed to build up key industries and to improve the balance of international payments. According to tax policy, people could get tax exemption and reduction from the following:¹⁰

- (1) Saving ;
- (2) The profit gained from saving (interest, dividend) ;
- (3) Capital gains from the trade of securities ;
- (4) Reserved profits in corporation ;
- (5) Accelerated depreciation ;
- (6) Investment in the new field ;
- (7) Profits gained from exports ; and
- (8) Major industry which contributed to economic development

The ratio of the amount of tax reduction and exemption to total amount of internal tax increased to 56.9 percent in 1977. With this tax system, the large corporation, which participated in export oriented industry, accumulated much capital and held monopoly market power under the favor of government, while the small firms did not receive benefits from the economic growth. Some of the large corporations exploited monopoly power

in pricing and purchasing real assets such as land and building instead of reinvestment in industry with accumulated profits. In addition, since they expected tax reduction and exemption in their businesses, they managed their businesses inefficiently.

2.6 Expenditure Policy

With the consideration of expenditure policy, we can understand the distortion of tax policy from the viewpoint of income distribution policy. Most of the revenues in the general account were gained from taxes as shown in Tables 18 & 19.

Table 18. Revenues of General Account by Sector & Source

Year	Total	Tax		Customs Duties	Monopoly Profit	Non-Tax Revenues	Others
		Internal Tax					
1962	100	30.3	23.1	7.2	4.5	7.3	57.9
1966	100	57.0	45.5	11.5	4.9	7.2	31.0
1970	100	75.1	63.7	11.4	6.8	4.9	13.3
1974	100	77.0	65.9	11.1	8.3	5.7	9.0
1978	100	83.5	67.5	16.0	6.9	7.4	2.2
1980	100	79.8	68.3	11.5	7.7	9.6	2.9
1981	100	81.6	69.8	11.8	8.5	3.6	6.3

Source : EPB, Major Statistics of Korean Economy, 1982, p. 192

As shown in Table 19, the portion of indirect tax in tax revenues grew as the burden rate of tax became larger. Since indirect taxes tend to be regressive, tax policy did not contribute to promoting equality in income distribution.

Table 19. Annual Ratio of Tax Burden to GNP and Breakdown of Annual Tax Revenues

Year	Burden Rate	Total	Breakdown of Annual Tax Revenues				Others
			Direct Tax	Indirect Tax	Customs Duties	Defense Tax	
1962	10.6	100.0	33.4	39.4	23.9		3.3
1966	10.7	100.0	46.9	30.2	20.1		2.8
1970	14.9	100.0	50.7	33.0	15.2		1.1
1974	14.0	100.0	48.6	33.9	15.0		2.5
1978	18.1	100.0	25.0	41.0	19.2	14.0	0.8
1980	19.4	100.0	22.3	45.4	14.5	16.2	1.6
1981	19.1	100.0	21.8	47.2	14.5	15.7	0.8

Source : EPB, Major Statistics of Korean Economy, 1982, p.179

Table 20. Government Expenditure Ratio for Selected Years
(as Percentage of GNP)

Government Expenditure on	1962	1972	1976	1980
Education	3.2	3.8	3.7	4.6
Health	0.6	0.2	0.3	0.5
Welfare & Social Security	1.1	1.0	0.8	1.3
Housing & Community Development	0.1	0.1	0.4	0.6
Transport, Communication Water, Road, Water Way Fire Protection	1.9	2.9	3.2	2.5
Defense, General Administration & Justice Police	9.9	6.8	8.3	9.5
Other & Economic Activity	7.7	5.7	4.3	5.9
Total	24.5	20.5	21.0	24.9

Source : Chung, Changkun, Income Distribution and Economic Growth, KSU, Master Report 1986, p. 52

Furthermore, with the consideration of expenditure policy, we can understand how tax policy contributed to inequality as mentioned above. Table 20 shows that the government used only a small percentage of its expenditure on health, social security, welfare, and housing. Therefore, the expenditure policy did not contribute to equality in Korea's income distribution.

2.7 Monetary Policy

< Supply of Money >

No other economic policy had a more adverse effect than monetary policy on income distribution. Monetary policy focuses on the supply of money and interest rate. In Korea, monetary policy had substantial impact on income distribution due to inflation, which was caused by the excessive money supply. Of course, an excessive money supply was not the only reason for high inflation.¹¹ But, in Korea, the character of the inflation was demand-pull inflation originating from an excessive money supply.¹² The model designed by Kwangsuk Kim also indicates that an expansion of money supply exceeding the demand for real money is the most direct cause of inflation.¹³ From 1962 to 1980, an average annual rate of increase in the money supply (M2 : Currency in circulation, demand deposits, and time and saving deposit) was 39 percent. During the same period, the average inflation rate was 16 percent.¹⁴ The Korean people were used to a high rate of inflation, having suffered from chronic inflation with double digit rates, since the establishment of the post-colonial government. Therefore, under high and persistent inflation, households sought to protect themselves against inflation by converting their savings into real assets through purchasing housing, land, and buildings. That is,

inflation creates a bias toward short-lived projects, luxurious houses, and land speculation. Due to real estate speculation, the prices of housing and land rose 84 times between 1964 and 1976 compared to the price of consumer goods which rose only 6 times.¹⁵ The high-income classes who have real assets benefited from high persistent inflation, while the low income classes, whose main income source was wages, suffered from soaring prices. The reason is that the increase in the rate of inflation exceeds that of wages. The lower class especially bore the heavy rental rate, because of a chronic shortage of housing in Korea. Among several social indicators, housing ownership expenditure rates as total consumption expenditures show that the lower-income class faces difficulty in the housing sector. Table 21 indicates that the housing ownership rate declined from 78.2 percent in 1966 to 58.4 percent in 1980. Table 22 implies that for the lower class housing expenditures became an increasingly heavy burden over time. In Korea, the rental rate is sensitive to inflation because real assets are treated as a means for enlarging wealth speculation. In brief, the share of wage income in proportion to the total national income gradually fell in the period of strong inflation, while the share of non-agricultural business income showed an opposite movement. Income was redistributed from wage earners to capitalists in Korea when inflation suddenly soared.

Table 21. Housing Ownership Rate

(%)

Year	Ownership Rate
1966	78.2
1970	68.2
1975	63.1
1980	58.4

Source : EPB, Social Indicators in Korea, 1983, p. 214

Table 22. : Ratio of Household Housing Expenditure to Total Consumption Expenditure

Year	Urban Household		Farm Household	
	Housing Expenditure	Housing Rate	Housing Expenditure	Housing Rate
1966	29,160	17.9	4,454	4.0
1969	57,840	18.5	7,373	4.3
1972	90,240	19.5	17,651	5.7
1975	137,040	17.5	42,847	7.0
1978	331,080	21.6	114,183	8.6
1981	701,712	23.0	167,342	6.3

Source : EPB, Social Indicators in Korea, 1983, p. 217

< Interest Rate >

Monetary policy affects income distribution through the interest rate. Traditionally, in Korea the amount of demand for money is greater than the amount of supply. According to economic theory, interest rates should increase from an excess demand for money. But, because the government controls the financial market, the interest rate was far below the equilibrium rate. So to obtain a bank loan was a significant advantage. Thus large corporations which provided collateral had access to the public market, while small-and medium-sized corporations, which could not obtain a mortgage, had to use the private financial market, where the interest rate is much higher than public the financial market. Therefore, there were a large number of unorganized markets. When the government moved to reduce curb-market loans in the summer of 1972, 356 billion won in private loans were reported to the authorities.

The amount was equivalent to the total lending by all special banks at that time.¹⁶ In connection with the interest rate in the public financial market, we should discuss the problems of policy credit. Policy credit supported export-oriented industry such as textiles, footwear and electronics in the 1960s, and chemical, engineering, ship building, and heavy machinery in 1970s. As shown in Table 23, the interest rate for using this credit is exceptionally low. In 1967, the interest rates of loan for export promotion was only 6 percent, while the rate of general commercial bank loan was 26 percent. In 1980, although the rate for the export industry rose to 8 percent, the rate was still far lower than 18 percent of the general commercial bank loan. Only large-scale enterprises and firms producing for export could use this favorable financial system.

Besides, some of large enterprises which borrowed the exceptional credit bought lands and buildings with the special loans, that were not related to their business, to protect against inflation. The amount of policy credit provided by all the bank institutions reached one time more than 50 to 60 percent of the total bank credits.¹⁷ Thus, under preferential lower interest rates in the money market, economic concentration began to take place around the big business company which participated in exports.

Table 23. Comparison between Policy Credit, Bank Loan and Inflation Rate

Year	Loan for Export.	General Bank Loan	Inflation Rate
1967	6.0	26.0	10.8
1970	6.0	22.0	15.9
1976	7.0	15.5	15.3
1980	8.0	18.0	28.7

Source : EPB, Korean Economic Indicators, Seoul, 1985, p.25

2.8 Education Policy

Education mainly improves human resources to promote productivity and economic growth. Education contributes to national economic progress: (1) by improving the quality of labor through promoting skills, efficiency and work knowledge; (2) by increasing labor mobility to promote division of labor and to increase the labor force participation rate; and (3) by increasing scientific and technical knowledge to promote invention, discovery and swift adaptation.¹⁸

As for the Korean economy, D. C. Cole and P. N. Lyman indicate that the availability of abundant human resources is one of the major factors of economic growth. In the beginning period of economic development, the general demand for labor is for workers with primary education. At that time, Korea placed emphasis on labor intensive industries, which demanded many less skilled laborers. Therefore, the concentrated investment of the 1950s in primary school contributed to the economic development of earlier periods and the increased equality in income distribution. So the view that primary education is the most effective human investment for overcoming absolute poverty and for reducing income inequality is appropriate to the Korean economy.¹⁹ With this intensive investments in education in 1950s and the early 1960s, Korea developed relatively abundant human resources. The population density of Korea is comparable to that of the Netherlands and China, but there are many positive attributes credited to Korean workers, such as adaptability, diligence and manual dexterity.

But, from the third five-year economic development plan in the early 1970s, the industrial structure shifted from light industry to heavy,

chemical, and electrical-engineering industry. These industries needed highly-skilled labor instead of unskilled labor. However, after the early 1970s, government spending on education gradually dropped. Educational expenditures decreased from 2.8 percent of GNP in 1971 to 2.2 percent in 1975. Besides the government leaves a large portion of higher school to private institutions. Because the private school can not get financial assistance from the government, the tuition and fees of private colleges are very expensive. So many students who graduated from secondary school could not receive higher education because of financial reasons.

In 1975, only about 10 percent of total high school students entered college. This phenomena implied that mainly those from middle or high income classes, due to the educational cost, have a chance to obtain higher education. Consequently the highly-skilled intensive jobs, whose salary is high compared to that of unskilled jobs, is rarely accessible to students from a poor family, who cannot afford university. As Table 24 shows, the wage gap caused by education attainment has increased over time. The fact that we should not miss is that the salary gap between the high school graduate and the college graduate became greater, whereas the gap between middle school graduates and high school graduates was almost constant during the same period. The person who does not receive higher education cannot easily obtain management-level position. Table 24 indicates the extent to which education brings about a wage gap in jobs. In Korean society, high school graduates generally work as sales persons, production workers and farmers, while college graduates have jobs as professional, technical, and managerial workers. There is a considerable wage gap between white-collar workers and blue-collar workers in Korea.

In Korea, school attainment is generally overvalued as a tool for screening job applicants.

Table 24. Wages Levels by Education Level

Year	Middle School Graduate		High School Graduate		Junior College Graduate		College Graduate	
	Level		Level		Level		Level	
1972	17,009	70	27,939	100	-	-	47,439	175
1974	26,273	64	41,069	100	-	-	81,439	198
1976	43,226	59	73,144	100	106,256	145	167,982	230
1978	72,947	62	116,898	100	174,469	149	269,998	231
1980	124,435	69	180,919	100	264,762	146	413,318	228

(won, %)

Source : EPB, Social Indicators in Korea, 1983, p. 162

Table 25. Wages by Occupations

Year	(won)					
	All Workers	Pro. Tech. Workers	Managerial Workers	Sales Workers	Farmers Fishery	Production Workers
1971	22,241	40,362	60,792	20,242	15,445	17,516
1972	22,834	44,258	67,755	24,113	17,031	18,386
1973	27,299	51,202	83,486	31,514	18,517	20,729
1974	36,064	59,692	98,511	34,845	23,497	28,874
1975	46,654	92,400	159,399	42,964	30,332	34,820
1976	64,308	136,004	220,958	52,319	40,123	46,639
1977	77,375	157,230	254,301	75,774	71,792	57,979
1978	104,132	211,487	338,227	98,875	81,972	78,434
1979	146,442	285,504	485,826	119,560	121,304	111,476

Source : EPB, Handbook of Korean Economy, 1980, p. 413

Also, in Table 25, we see that those wages of professional, technical, and managerial workers are greatly higher than those of sales workers, farmers, fishery-related workers, and production workers.

2.9 Income Policies for Agricultural Sector

Since 1962, the main stress of the economic plan was to reduce the share of the agricultural sector in the entire economy because the agricultural sector had low productivity and low employment. So the development of the agricultural sector did not appeal to economic planners. As in most LDCs, the economic planners had an urban bias, even if they proclaimed that reducing poverty in the rural sector was a matter of high priority.²⁰ Although the Korean farm sector started from favorable conditions in the late 1940s due to successful land reform, the agricultural growth rate was far below the growth rate achieved by other sectors.²¹ The rural sector played only the roles of providing urban areas with a labor force and food without getting much benefit from economic growth. In addition, the excessive money supply issued by government to support the industrial sector induced inflation, which then reduced real income in rural area. So as the gap between urban areas and rural areas began to widen in the early 1970s, the government came to support the rural sector with the grain management fund(GMF) and the fertilizer fund(FF).

< Agricultural Dual Pricing System >

Under GMF the government purchased substantial stocks of grain in the harvest season to support the producer price and then releases stocks at a lower price in the off-harvest season. Therefore, a deficit is inevitable in operating the GMF, a dual price system. The GMF deficit has

been a substantial proportion of the total government expenditures from 3 percent to 10 percent over the years 1970 - 1981. The GMF deficit was one of the major origins of excessive money supply, and made Korea's inflation more severe.

Under the dual grain price system, large farms received more benefits than small farms because small farms did not have grains to sell in the market. Table 26 shows that smaller farms possessing less than 1.2 acres of the crop land received less than the larger farms which possess more than 2.5 acres in rice cash income. The smaller farms accounted for 33 percent the total farm households and the larger farms 32 percent. But this price support program did not yield any benefit to households which remained in rural area but did not carry on agriculture. On the contrary, they suffered from inflation from the program.

Table 26. The Ratio of Rice Cash Income to Farm Household Income by Farm Size

Year	(Unit : Thousand won)				
	< 1.2	1.2 - 2.5	Farm Size in Acres		
			2.5 - 3.7	3.7 - 4.9	4.9 >
Farm Household Income(A),1978	872	1,192	1,651	2,162	2,293
Rice Cash Income(B)	49	171	337	551	1,054
B/A (%)	5.6	14.3	20.4	25.5	35.2
Farm Household Income(B),1984	3,094	4,698	5,568	6,940	8,637
Rice Cash Income(B)	184	670	1,268	2,168	3,186
B/A (%)	4.7	14.3	22.8	31	37

Source : Chung, C. Income Distribution and Economic Growth, Master Report KSU, 1986, p. 63

So although the dual grain price system generally increased the income of rural households, it did not contribute to equality in income distribution because of little share of the benefits for small farms and non-agricultural households in rural area. Rather the GMF aggravated the inequality of income in the agricultural sector.

< Subsidy for Fertilizer >

The government purchases fertilizer from the companies at a higher price than it sells to farmers. Thus, a deficit in FF arises just as in the case of GMF. In the subsidy for fertilizer, large farms also received more benefits than small farms. As table 27 shows, the rural farm, which cultivates less than 0.5 chungbo received a subsidy below the average amount of subsidy, while the household which cultivates more than 1.0 chungbo received a subsidy above an average amount. Farmers who possessed more than 2.0 chungbo received a subsidy of more than two times as large as the average amount of subsidy.

Table 27. Subsidy for Fertilizer by Firm Size

Year	(Chungbo, Won)					
	Average	0.5 <	0.5-1.0	1.0-1.5	1.5-2.0	2.0 >
1972	4,231	1,800	3,676	5,347	6,094	8,487
1973	5,113	1,969	4,081	6,563	8,382	11,089
1974	10,845	4,721	9,314	13,271	17,003	26,549
1975	23,508	9,519	20,058	28,535	36,559	56,396
1977	948	366	791	1,173	1,659	2,322

Source : Choo, Hackjung, Sources of Income Distribution, Korea Development Institute, 1979, Seoul, p. 164

Since this subsidy provides more benefits to households of large farm size, it made inequality of income distribution worse in the agricultural sector.

< The New Village Movement >

The purpose of the "New Village Movement" (in Korean named "Saemaeul Undong"), a comprehensive rural development program that was initiated by Chunghee, Park, former Korean president in 1971,²³ was to increase the income of the rural sector. Under the influence of the new village movement, a number of income generating programs were introduced, such as increasing the cultivation of mushrooms, fruit and sericulture and creation of part-time jobs under the Saemaeul factory program. Many of the 30 thousand villages designated as new villages succeeded in substantially raising their income levels, since the start of the movement.

Table 28. Growth Rate of Household Income

Period	Annual Growth Rate, Percent			
	at Current Prices		at 1970 Constant Prices	
	Farm	Wage-Earner	Farm	Wage-Earner
1966-1970	20.7	22.2	5.3	9.2
1970-1974	25.0	15.2	6.5	1.5
1966-1974	22.9	18.6	5.9	5.3

Source : EPB, Industrial and Social Development Issues, Korea Development Institute, 1977, p. 232

But, Sunghwan Ban says²⁴ that although the movement improved the environment of the community and increased incomes as shown in Table 28, it had no effect on the equality of income distribution among individual farm households. Indeed inequality increased slightly, although

not significantly (Table 29), because there was no material change in the size distribution of landholdings among farms.

Table 29. Income Inequality of Farm Households (Gini Ratio)

Year	1967	1968	1969	1970	1971	1972	1973	1974
Gini Ratio	.2928	.2844	.2976	.2968	.3117	.2974	.3109	.3192

Source : Ban, Sunghwan, The New Village Movement, KDI, Seoul, 1977, p. 234

The movement could not keep going after 1980 due to : 1) shortage of funds for supporting the movement; 2) the lack of specific knowledge by farmers for selling products that were produced in the Saemaoul factories; and 3) the unexpected death of former President Park who was the leader of the movement.

3. The Fundamental Change of Strategy for Developing the Economy (since 1981)

3.1 the Meaning of a Change in Economic Strategy

Since 1962, the basic strategy of economic development placed a priority on growth rather than on distribution. So the growth-oriented policy veiled its impact on income distribution. Although the government made efforts to reduce the gap between the rich and the poor classes, the results of that income-distribution policy were not satisfactory.

Since 1981 the economic environment has changed. The opinion that the growth-oriented policy led by the government is no longer useful to the Korean economy, has become a prominent one. The opinion indicated that the Korean economy became too large for the government to control. They argue that government intervention in the market will bring about the distortion of the price mechanism. Popular opinion also suggested that the

government should turn its attention from growth to distribution, so that the benefit from growth spreads to the poor class.

Thus, the Korean government made the fifth five-year economic development plan. The government called the new five-year plan as the Fifth Five-Year Economic and Social Development Plan, whereas the previous four five-year plans were just called Five-Year Economic Development Plans. Unlike the previous four Five-Year Plans, which were mainly concerned with industrial development, the Fifth Plan embodied a fundamental change in policy direction. The government would play an active role in social development to meet the basic needs of the people and to pursue the idea of the welfare state. Government expenditures for social development would be almost double those of the Fourth Plan.

Table 30. Government Expenditures for Social and Economic Development
(billion Won)

	1977-1981 (A)		1982-1986 (B)		
	Amount	Share	Amount	Share (B/A)	
Total	29,891	100.1	43,481	100.0	1.5
Social Development	6,919	23.1	12,442	28.6	1.8
Housing	343	1.1	634	1.5	1.8
Education	5,067	17.0	9,216	21.2	1.8
Health & Social Security	734	2.5	1,161	2.7	1.6
Water Supply & Sewage	199	0.7	531	1.2	2.7
Others	576	1.8	900	2.0	1.6
Economic Development	6,690	22.4	8,223	18.9	1.2

Source : EPB, Economic and Social Development Plan, 1982, p.117

As shown in the Table 30, this increase implied that the share of social development in total government expenditures rose from 23 percent in the Fourth plan to 29 percent in the Fifth plan.

3.2 Enforcing Income Distribution Policy through Restraining Economic Concentration

While the economic growth oriented policy was driven by the government for two decades, huge firms, which played important roles in developing the economy, have emerged. To protect primitive domestic markets and to help domestic firms grow rapidly, the Korean government provided a few firms with several types of supports, such as financial assistance, high rates tariffs on imported products, and barriers to entry for new firms.

Consequently after twenty years, the domestic market has been under the control of a few large firms. So, small firms faced difficult conditions in their businesses. From table 31, we can discover that the number of employees which the largest corporations hired declined gradually, while their sales grew larger. This situation indicates that economic concentration by the largest corporations does not increase employment because they are likely to look for capital-intensive methods while small corporations rely heavily on labor.

Thus excessive economic concentration is not desirable to income distribution. From Tables 31 and 32 we can infer the fact that economic concentration is one reason why inequality of income distribution grew in the 1970s and early 1980s.

Table 31. Cumulative Ratio of Largest Corporation
(Manufacturing & Mining)

	Amount of Sales					Number of Employee				
	1977	1978	1979	1980	1981	1977	1978	1979	1980	1981
Largest 5 Co.	13.9	12.3	12.7	15.9	16.3	2.1	2.0	1.5	1.5	2.3
Largest 10 Co.	18.3	17.1	17.4	20.1	20.8	4.2	5.3	4.6	4.3	3.4
Largest 50 Co.	34.7	34.1	33.7	36.4	36.6	14.1	14.9	13.6	13.6	12.4
Largest 100 Co.	45.0	43.6	43.1	46.3	46.2	20.8	20.8	20.6	19.4	19.1

Source : EPB, The White Paper on Anti-Trust Policy, 1984, p.102

Table 32. Shift of Income Distribution

	1965	1970	1976	1980
High income class 20 %	41.8	41.6	45.3	45.4
Middle income class 40 %	38.9	38.8	37.8	38.5
Low income class 40 %	19.3	19.6	16.9	16.1

Source : EPB, The White Paper on Anti-Trust Policy, 1984, p. 103

In response, the Korean government has enforced the anti-trust law to restrain excessive economic concentration. This law prohibits anticompetitive mergers and does not allow huge corporations to emerge through mergers. The law also watches the activities of large corporations for securing small firms' business. In brief, enforcing the anti-trust law is an effort to increase the equality of income distribution through reforming the market structure.

Endnotes for Chapter IV.

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2. The law excluded so-called small creditors with total asset holdings of less than 90 thousand won, and categories with special employment status such as farm servants and farmers with land holdings less than 5 tanbo, the recipients of veteran's annuities and war widows. The usury was paid back to creditors within a year in two installments, according to the law.
3. Until 1962, there had been three monetary reforms -- in 1952, 1953 and 1962. The first monetary reform was enacted primarily to prevent opposing forces from using Bank of Chosun notes. The second was introduced to absorb excessive liquidity resulting from the deficit financing of war expenditures. The purpose of the third act in 1962 was to redistribute wealth and curb inflation.
4. Choo, hackjung, Sources of Income Distribution in Korea, Seoul, Korean Development Institute, 1982, pp. 61-64 [in Korean]
5. According to P. Jones, the ratio of public enterprises to GNP in Korea was almost the same as the one in the U. K. and in Italy, which are social democratic economies.
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 14. Korean Economic Planning Board, Korean Economic Indicators, EPB, Seoul, 1985, pp. 30, 84
 15. Chung, Changkun, Income Distribution and Economic Growth, KSU Master Report, 1986, pp. 54-55
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 17. EPB, The White Paper on Anti-Trust Policy, Seoul : EPB, 1984, p. 76
 18. Papi, G. U. "General Problems of The Economics of Education", in

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19. Nafziger, E. Wayne, p. 259-260
 20. Nafziger, E. Wayne, p. 128-129
 21. Mason, S. Edward, The Economic and Social Modernization of The Republic of Korea, Cambridge, Mass. : Harvard University Press, 1980, pp. 210-212
 22. Braverman Avishay, Ahn Choong Yong and Hammer, S. Jeffrey, Alternative Agriculture Pricing Policies in The Republic of Korea, Washington D. C. : The World bank, 1983, p. 86
 23. To achieve the goal of this movement, three mutually interrelated aspects of the program are emphasized : spiritual enlightenment, improvement of the living environment and increased income.
 24. Bahn, Sunghwan, "The New Community Movement", In Kim, Chukkyo (ed.) Industrial and Social Development Issues, Seoul : KDI Press, 1977, pp. 230-234

V. Summary and Conclusion

We have reviewed sources of income distribution and economic policies affecting income distribution historically. In relation to income distribution, Korea, unlike other LDCs, has a low inequality of income distribution, although Korea and other LDCs had similar economic situations in their earlier stages of establishment as newly independent nations.

As Havelmo indicates in his study, small differences between nations in the beginning stage of development brought about great differences as time passes.¹ Until the mid 1960s, the historical factors had strongly affected income distribution in Korea. Such specific historical factors had flattened the gap of income distribution between the high-income classes and lower income classes. These specific historical factors are as follows.

First, during the Japanese colonial period, people could not accumulate wealth and because of discrimination in education, Korea did not have a chance to educate her people well, thus creating few human resources at that time.

Second, there were two land reforms. The goal of the first was to primarily redistribute the government-owned and vested land. The goal of the second was to redistribute the land owned by big farmers and absentee landlords. Land reform played a decisive role in distributing income, as Korea was mainly dependent on the agricultural sector in the late 1940s.

Third, besides returning lands possessed by the Japanese to the Korean government, nonagricultural assets previously owned by Japanese

were surrendered to the independent Korean government. These properties were gradually disposed and sold to the private sector over a period of more than a decade.

Fourth, the damage and the destruction of the Korean War that swept almost the entire area of the South, except the southeastern region, further flattened wealth distribution. Besides, through this period of war, some of the assets were transferred from the urban rich to the rural poor for over-valued foodstuffs. But there were business opportunities for profiteering during the war and the subsequent reconstruction period.

Fifth, in the early 1960s there was another confiscation of illegally accumulated wealth by the military government. Despite a substantial reduction in the initially assessed, most of the then prominent Korean big businesses were affected. To some, it was fatal, and the arrangement of usurious loans in the rural sector, together with monetary reform, contributed to reduced inequality in income distribution.

All these historical reasons affected the distribution of assets, reduced the relative share of income generated from them, and thus improved the relative equity in income distribution. Land reform and the decision of upper limit about ownership of farm land in the pre-industrialized stage made great contribution to income distribution, from the late 1940s through the early 1960s. There is some opinion that even nowadays land reform is important, since land is one of several sources that produce outputs.²

There are other factors as follows.

First, there was an intensive enthusiasm for education. In particular, after the Korean War, a boom of primary education

contributed to the development of labor-intensive industry in the 1960s.

Second, a high rate of economic growth created many employment opportunities, which distributed income to many people in the form of wages. The government, with economic growth, could collect financial resources, which helped low-income classes. Economic development with labor-intensive industry in the early 1960s absorbed many people who had remained as disguised unemployed in the rural area. They migrated from rural areas to urban areas. Then, due to the decrease in population in the rural sector, the income of rural households increased compared with their income before industrialization.

But after the early 1970s, the factors which contributed to income distribution did not reduce income inequality anymore because of secondary effects caused by growth-oriented economic policies.

First, to propel rapid economic growth, Korea provided some firms with funds at a low interest rate. In this process, differences between the low rate in the policy credit, and the higher interest rates in the financial market gave great advantages to some firms. Since in Korea, demand for money has been greater than the supply of money, receiving policy credit, with the low rate, was a special benefit. With this policy credit, the beneficiaries created much economic surplus compared to non-beneficiaries. So, gradually, the firms, under the favor of government, grew to large corporations in short-term periods.

Second, in the process of rapid economic growth, because many people migrated from rural areas to urban areas, shortages of housing occurred in the urban area. So, as the price of housing and housing rent soared, people who owned housing got rich, while people without housing faced the

heavy burden caused by skyrocketing rent. Some firms, which already had real assets, including building and factory sites, gained enormous capital surplus without any economic activity. This situation accelerated the economic concentration of wealth and income. Housing owners compensated for inflation by increasing rents. So owing to inflation, the poor classes became worse, while the rich classes became betteroff.

Third, the poor class did not get sufficient higher education to get highly-skilled jobs. In Korea, where most corporations require applicants for management jobs to graduate from college, children from high-income classes are more likely to attend top-ranking colleges through out-of-school studies in addition to regular class studies. Because out-of-school studies, which require special tutors, is very expensive for the lower class, it is not easy for students from low-income class to attend top-ranking colleges, to say nothing of the high tuition and fees needed in attending the college.

Consequently, the students of low-income classes do not have much chance to go to college. Thus income opportunities are likely to be transmitted from generation to generation.

Fourth, there exists a large gap in income between the urban and the rural areas. Of course, there are some policies such as dual agricultural pricing system and the new village movement to support the rural sector. With the aid of such policies, the income gap was reduced substantially around 1974, but from the late 1970s the gap began to widen again, due to high inflation that induced increases in the wage of urban workers, while the income of rural households remained almost as before. Even when the income of rural households increased, the increasing rate

was small compared to the rate of urban households.

Fifth, the gap between the largest corporation and small-and medium-sized corporations became great. The firms which participated in industries fostered by government grew into large corporations, whereas some firms which could not join these industries grew more slowly. Some of the big corporations established business kingdoms by means of conglomerate merger, and their sales almost reached the same size as the ones of world-wide companies.

< Conclusion >

Because we have discussed problems that originated from the sources of inequality of income distribution in section IV, we can understand what kind of steps should be taken in relation to income distribution policies in the future. Therefore, this paper will not mention in detail the policies to be taken here. Instead, this paper will introduce some policies focusing on satisfying the basic needs of Koreans.

First, serious housing shortages in urban areas are a major problem. In Korea, housing is evaluated as a symbol of stable life. When someone earns money, he usually purchases his own housing. So the fact that the rate of ownership of housing decreased and the portion of housing expenditure became large, with economic growth indicates that the poor class's basic needs of housing declined. Government, therefore, should provided the poor classes with a small-sized apartment which they can afford to buy or rent. The government should also restrain with tax policy, the construction of large-sized apartments and luxury housing, which were used as tools of speculation among rich people.

Second, due to Confucianism, Korean parents traditionally have

strong concerns about the education of their children. Even if they are poor, if their children are excellent in scholastic ability and attend top-ranking schools, they find their lives worth living. The poorer they are in the present time, the greater the concern about the well-being of their children in the future. If their children cannot get higher education for financial reasons, they become discouraged.

Nowadays, Seoul, the capital of Korea, has difficulty with the excessive inflow of population. The ultimate reason for population concentration is that parents want their children to enter top-ranking universities in Seoul. Thus government should provide the poor classes with subsidies for educational expenses, especially since government supports the private education system financially through the reduction and exemption of taxes, and the introduction of special admission system for students who donates funds to school so that the private school can reduce tuition and fees.

Third, the wage gap caused by academic training should be eliminated. In Korea, the salary of employees who are in charge of managerial type jobs is higher than that of employees whose positions are production workers. That is, the wages of white-collar workers are much higher than those of blue-collar workers, no matter what the job entails. That is why the entrance examination for college is highly competitive in Korea. The student who gave up entering college because of financial problems and entered vocational school instead receives a low wage compared to the student who graduated from college.

Fourth, the government should provide the poor classes with sufficient medical service. Members of the poor classes can not buy medical insurance because they can not afford to pay insurance fees. But

medical care insurance is more essential to the poor classes because of their financial problems. With sufficient quality medical service, infant mortality rate can be reduced, and life expectancy can be extended.

Fifth, small-and medium-sized corporations should be protected. The economic policies that treated large corporations preferentially to attain an economic scale should cease. Equity is as important as efficiency. As this paper mentioned earlier, small-and medium-sized corporations create more employment per unit of capital than large corporations.

The government should watch the market so that game is played on the basis of the principle of competition. And if abuse of market power by larger corporations occur, government should correct this unfair trade so that small-sized corporations can survive.

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SOURCES OF INCOME INEQUALITY IN KOREA :
A HISTORICAL APPROACH

by

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B.A., YONSEI UNIVERSITY, 1980

AN ABSTRACT OF A MASTER'S REPORT

submitted in partial fulfillment of the
requirements for the degree

Master of Arts

Departments of Economics
KANSAS STATE UNIVERSITY
Manhattan, Kansas

1989

Korea is considered one of countries which have a low inequality in income distribution. A low inequality in Korea's income distribution is not due to the Korean government's policies but historical and cultural factors. During the Japanese colonial period, Korean could not accumulated wealth. Two land reforms redistributed the government- and big farmers-owned lands to small farmers. The damage and the destruction of the Korean War flattened wealth distribution. Confiscation of illegally accumulated wealth by the military government contributed to low education and a high rate of economic growth reduced the gap between the high-income and low-income classes.

This paper focuses on finding out why the favorable historical factors on income distribution have been veiled by growth-oriented economic policies. To propel rapid economic growth, Korea provided some firms with funds at a low interest rate. In this process, differences between the low rate in the policy credit and the higher interest in the financial market gave great advantage to some firms. The price of housing and housing rent soared in the process of rapid economic growth, because many people migrated from rural areas to urban areas. The poor class did not get sufficient higher education due to expensive tuition and fee. The unbalanced growth strategy emphasized manufacturing sector rather than agriculture. So there exists a large gap in income between the urban and the rural areas. The firms which participated in industries fostered by government grew into large corporation, whereas some firms which could not join these industries grew more slowly. Thus the gap between the largest corporation and small-and medium-sized corporations became great.

This paper introduces some policies focusing on satisfying the basic needs of Korea.

The government should provided the poor classes with a small-sized apartment. The government should provided the poor classes with subsidies for educational expenses, including supporting the private school. The wage gap caused by academic training should be eliminated. The poor classes should be easily accessible to sufficient medical services. Small- and medium-sized corporations should be protected. The economic policies that treated large corporations preferentially to attain an economic scale should cease.