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Hopeless future and the desire for welfare expansion: Testing the prospect of upward mobility hypothesis in South Korea

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ABSTRACT

Since 2011, the demand for welfare programs has significantly increased in South Korea. Yet, the motivation behind the surge is under-explored. I argue that it is driven by changes in the income prospect due to increasing income inequality and deteriorating social mobility since the 1990s. I test the prospect of an upward mobility hypothesis using the 2009 Korean General Social Survey. I find that people with a pessimistic prospect of income and a negative perception of equal opportunity demand more redistribution. Commonly known factors such as current income and political ideology have no effect in Korea. Consistent with the prospect of upward mobility hypothesis, the motivation behind the demand for a welfare expansion and the emergence of welfare politics is a pessimistic income prospect in the lives of Koreans.

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1. Introduction

This paper examines what has driven recent demand for income redistribution in South Korea (Korea hereafter). According to OECD Statistics, public social spending in Korea was 10.4 percent of GDP in 2014, the third lowest among OECD countries after Mexico and Chile. It is 11.2 percent point lower than the OECD average of 21.6 ([OECD Social Expenditure Database](#)).

The demand for redistribution in Korea has never been higher, although social spending since the 1990s has already grown by 500 percent. Welfare politics showed itself for the first time with a 2001 referendum in Seoul. In that year, the Seoul City Council and the Seoul Metropolitan Office of Education had planned to expand an existing school lunch program serving meals to first through fourth graders to all elementary and middle school students regardless of family income. Then-mayor of the Seoul

Metropolitan Government, Mr. Se-hoon Oh, opposed the expansion as fiscally irresponsible.¹ He called for a referendum, proposing to limit free lunches to students whose family income fell the bottom 50 percent. If the referendum were to fail the original plan by the Council and the Office of Education would be enforced. Confident, Oh pledged to step down should he lose the referendum. Due to a low turnout, the referendum was invalidated and the original plan left intact. The mayor was forced to resign.² Although the referendum was only limited to residents in Seoul it sparked an unprecedented national debate over the scope and the direction of the future welfare state in Korea.

The following year's presidential election reflected citizens' increased interest and demand for welfare programs. Welfare policies quickly took center stage. Even

¹ Politically, the City Council and the Office of Education were dominated by the opposition party while the Mayor Oh was affiliated with the ruling party.

² The detailed story is available in the *New York Times* (see [Choe, 2011](#)).

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the conservative ruling party, which traditionally focused on economic growth and national security, campaigned on extensive social service packages. Then-candidate, Ms. Geunhye Park of the ruling party pledged a public health insurance plan with full medical coverage for four major illnesses including cancer; universal old-age pensions for all those over 65; and free child care for all children under five, just to name a few.

Despite this fast-changing landscape of the Korean welfare state, little is known about underlying motivations of the increased demand for extensive social services in Korea. In this paper, I argue that increasing income inequality and deteriorating social mobility since the mid-90s is the key to understanding the high demand for welfare provision in recent years.³

To that end, I test the prospect of upward mobility hypothesis (POUM hypothesis) wherein the demand for redistribution of income is determined by the prospect of upward mobility (Bénadou & Ok, 2001; Hirschman, 1973; Ravallion & Lokshin, 2000).⁴ Using the 2009 General Social Survey, I find that regardless of income levels, Koreans with a gloomy prospect for personal income and a pessimistic view of socioeconomic opportunity are more likely to support the redistributive role of the government. To my knowledge, this paper is the first empirical test of the POUM hypothesis in Korea.

The paper is organized as follows. Section 2 summarizes the current literature on the demand for welfare programs in Korea and introduces the prospect of upward mobility (POUM) hypothesis. Section 3 provides the trend in income distribution and social mobility for the last two decades in Korea. Data, variables, and the empirical model are described in Section 4. Results are reported in Section 5. Section 6 concludes the paper.

2. Income, income prospect, and demand for redistribution

Studies on the demand for welfare in Korea implicitly adopt the framework from Meltzer and Richard (1981) who argue that people below the median income prefer more redistributive benefits by taxing people above the median. In this framework, therefore, current income should be able to predict one's preference for redistribution; the poor on the left side of income distribution would prefer more redistribution than those on the right side of distribution.

Empirical studies, however, find little evidence—or weak at best—to support the prediction in Korea (Kim, 2010, 2013a, 2013b; Kim & Yeo, 2011; Lee, 2002; Ryu, 2004; Ryu & Choi, 2009; Woo & Nam, 2014). In fact, Koreans under the median income do not necessarily support

redistribution and those above the median do not necessarily oppose it.⁵ Puzzled, some scholars attribute this inconsistency to the underdeveloped Korean welfare system (Shin, Cho, & Lee, 2003; Woo & Nam, 2014). They argue that current income does not predict demand for redistribution because their lack of experience with extensive welfare policies and welfare politics has not given them a chance to develop their preferences for redistributive policies. The argument at first seems sound, but this after-the-fact interpretation is provisional and theoretically unfounded.

To solve the puzzle, An (2000) suggests considering personal resources, financial risks, and welfare status instead of current income. Indeed, the preference for redistribution is empirically correlated with welfare beneficiary status and financial hardship (An, 2009; Kim, 2010). Nonetheless, the theoretical mechanism of the relationship has not been well proposed.

But the null effect of current income is not unique to Korea and empirical evidence does not fully support the Meltzer-Richard hypothesis in other countries (Borck, 2007; Fong, 2001; Kenworthy & McCall, 2008; Moene & Wallerstein, 2001; Rodriguez, 1999). To fully understand determinants of welfare attitudes, scholars have considered other factors such as permanent income as opposed to current income (Alesina & Angeletos, 2005; Alesina & La Ferrara, 2005; Bénadou & Ok, 2001; Bossi & Gumus, 2013; Hirschman, 1973; Piketty, 1995).

Hirschman summarizes the idea as follows: “an individual's welfare depends on his present state of contentment (or, as a proxy, income), as well as on his expected future contentment (or income) (Hirschman, 1973, p. 545).” Bénadou and Ok (2001) formalize this idea as the prospect of upward mobility (POUM) hypothesis. Contrary to Meltzer and Richard's theory, Bénadou and Ok (2001) argue that rational individuals oppose redistribution even when they are below the median income based on three premises. First, people expect that today's policy will persist into the future. Second, people are not too risk-averse because if they are then they must realize that redistribution is good insurance in the event their future income falls. Third, they expect their future income to be above the median.

The hypothesis has been tested using samples from different countries. It has been supported in Russia (Ravallion & Lokshin, 2000), Hungary (Molnár & Kapitány, 2006; Tóth, 2008), Germany (Rainer & Siedler, 2008), Japan (Ohtake & Tomioka, 2004), and other Western European countries (Cusack, Iversen, & Rehm, 2006; Guillaud, 2013).

Alesina and La Ferrara (2005) agree with Bénadou and Ok (2001), but suggest that the attitude towards redistribution depends not only on one's personal mobility but also on the belief in social mobility. Social mobility per se does not determine one's attitude towards redistribution if some categories of people are systematically excluded from it (i.e. African Americans in the U.S.). Hence, it is the belief of social

³ Although this paper focuses on perceptions about personal income prospect and social opportunity there are other potential factors of an increasing demand for redistribution such as globalization of the economy.

⁴ According to Oxford Dictionary of Economics, redistribution of income is defined as “the use of taxation, government spending, and controls to change the distribution of real incomes (Black, 2002: 225).” It includes both generally available and targeted means-tested government spending programs.

⁵ Some studies find a significant impact of income (Joo & Baek, 2008). See Table 1 in Park, Jung, Cho, and Kim (2014, p. 113) for a summary of findings in current literature.

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