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Ingyu Oh, Kansai Gaidai University

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## Top Heavy: Globalization and Inequality in South Korea

Ingyu Oh, Kansai Gaidai University

### Abstract

South Korea is the only former colonial nation that has grown into a 50-30 Club member all in a very miraculous fashion. The 50-30 Club hosts only seven countries in the world, including the U.S., Japan, Germany, France, the U.K., Italy, and South Korea, all of which have more than 50 million population with a per capita income of more than US\$30,000. Pundits held that one of the secrets to the Korean model was holding inequality low during developmental periods. However, globalization, democratization, and joining the prestigious global club made Korea look very unequal. This paper explores causes of equality and inequality before and after development. This paper finds that cultural, institutional, and global factors are both beneficial and inimical to equality in the case of South Korea.

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### Introduction

Why has South Korea posted lower Gini coefficients than other developing or emerging markets in the past? Why is South Korea experiencing increasing inequality amid successful globalization despite relatively low Gini coefficients? What would be differentiating effects in South Korea that would increase perceived inequality? Are there any South Korea-specific factors of equality and inequality before and during globalization? What is the political, social, and economic consequence of the South Korean style inequality? Are the equalizing and differentiating factors relevant to the P-S-E outcomes? What would be solutions to South Korean inequality that cannot be found in usual Western explanations of globalization, development, and inequality? These are some of the questions that this paper intends to address. Therefore, this paper is an attempt to link the theoretical lacuna between the perceived equality during rapid development and the perceived inequality after successful development.

As Fig. 1 below shows, both Japan and South Korea demonstrate the world's lowest inequality index (e.g., Theil index) between 1860 and 2010s, despite the peak of inequality in the 1950s, which surpassed almost every country except Eastern Europe and Latin America. The way Japan and South Korea have managed to curb inequality and reduce it further down to the level of below 0.02 since the 1960 is simply astonishing,

inviting various studies on the explanation of the miraculous capitalist developmental drama (see *inter alia* Lindert and Williamson, 1985; Weede, 1997; Przeworski et al., 2000; Kabeer and Natali, 2013). Most these studies emphasize the fact that both Japan and South Korea completed sweeping land reforms immediately after the war (1945-1953), and investment in education both by the public and private sectors enabled both countries to avoid one of the most plagues of capitalist development – staggering inequality.

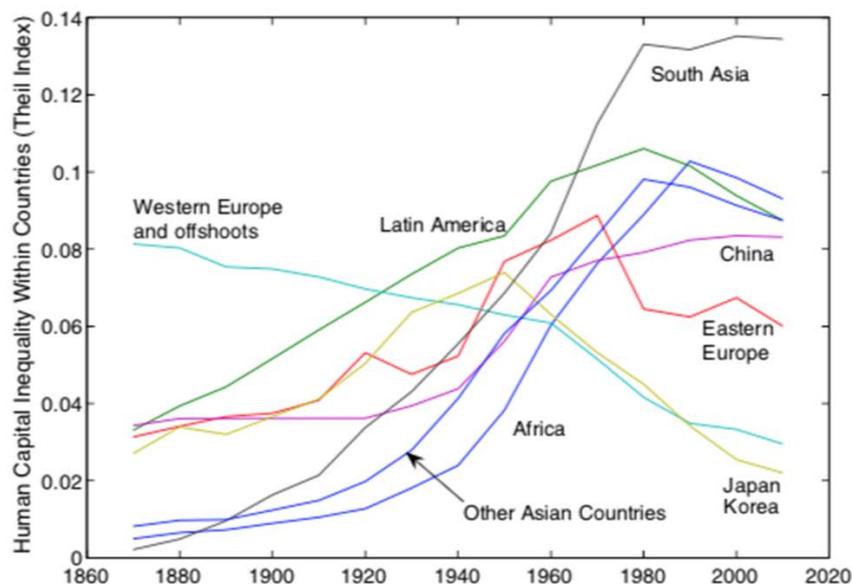


Figure 1 Inequality in human capital within countries by geographical zone 1870–2010: Theil index and constant returns to education (Morrisson and Murin, 2013)

Fig. 1 also tells another story of the same picture that as the economy is highly mature and developed within a capitalist system as in the case of Western Europe and offshoots, inequality will subside substantially enabling people of all classes to share the fruits of capitalist development. However, Japan and South Korea reveal a slightly different story: their economies are now posting increasing inequality. Especially in South Korea, many young people are irate at their inability to find any decent job after university education. As Fig. 2 shows the South Korean GINI coefficient has risen to 0.35 between 2015 and 2017, surpassing those of Japan, Canada, and Finland. The poverty gap in South Korea (Fig. 3), which measure the percentage of population below poverty line, has also risen substantially in 2017, reaching close to that of the U.S. (0.4). These last two figures about growing inequality are indeed a shocking revelation of the South Korean economy, which has boasted its unmatched record of sustainable growth with expanding economic wellbeing among developing countries with colonial experiences.

Therefore, it is a legitimate question to ask why South Korea and Japan defy conventional theories of development and inequality (e.g., Kuznets Curve, Barro's Curve) in a striking fashion. Although explanations that are dedicated to Japan and South Korea exist, they by far could not predict the increasing inequality in the 21<sup>st</sup> century, as capitalism is more globalized and more transnational than ever. This paper is an attempt

to fill the gap created by the previous studies on the issue and try to provide an alternative outlook about the political economy of South Korea.

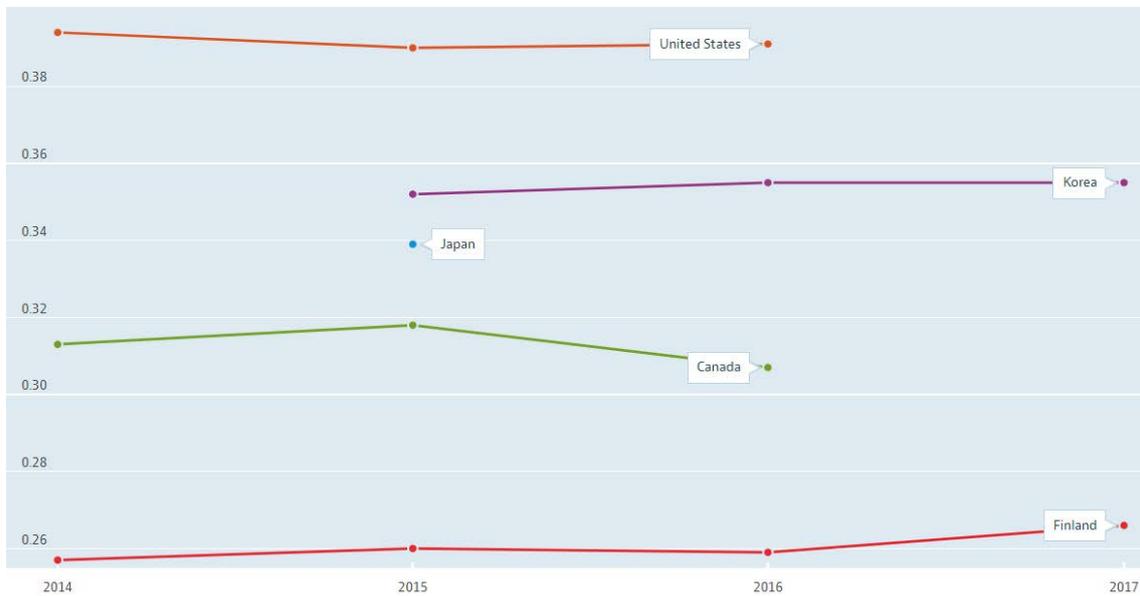


Figure 2 Income Inequality (2014-2017)  
 Source: <https://data.oecd.org/inequality/income-inequality.htm>

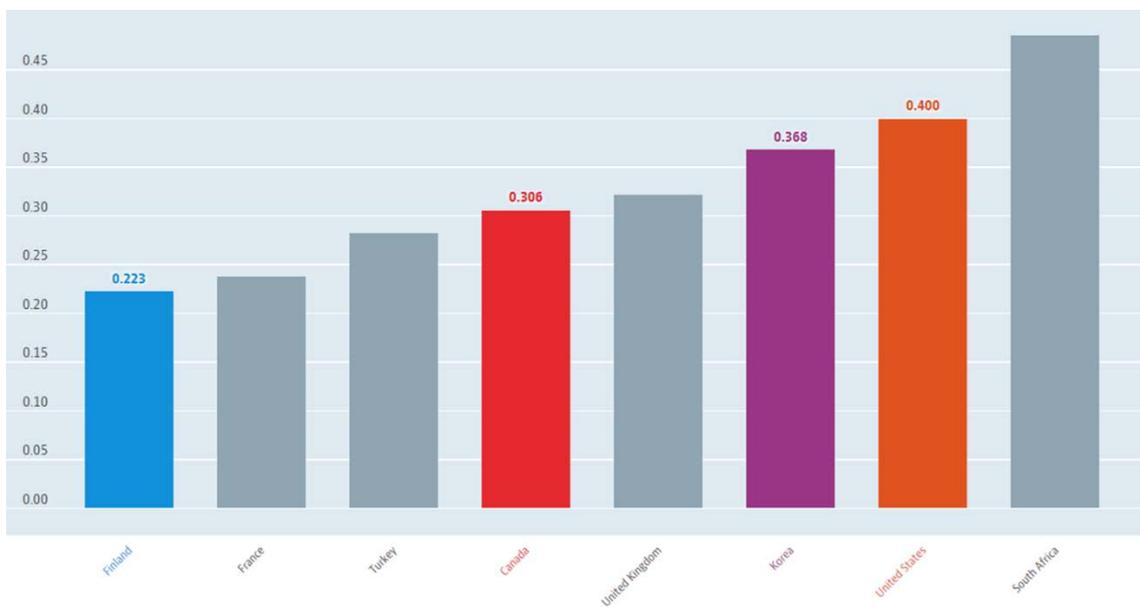


Figure 3 Poverty Gap 2017  
 Source: <https://data.oecd.org/inequality/poverty-gap.htm#indicator-chart>

## Literature Review

Most extant studies of South Korea fail to ask the following:

- What is the matrix between equalizing and differentiating factors toward South Korean equality?
  - Why is the Kuznets curve not applicable to South Korea during development (Sato and Fukushige, 2008)?
  - Why is Barro's curve not applicable to South Korea especially after development? Why is the growing inequality in the country not leading to economic growth (Lee, 1979; Oh, 1995; You, 2014)?
- What is the exact impact of South Korea-only factors on inequality?
  - What is the real impact of rural bias on South Korean inequality during and after development (Oh, 1995; You, 2014)?
  - What is the impact of culture (e.g., perceptions of inequality, inequalities of gender and aging, inequality of educational choices) on equality during Korean-style globalization?
  - What is the impact of institutions (e.g., working hours, redistribution policies) on equality during Korean-style globalization?
  - What is the impact of social stratification (e.g., unionization, regional imbalances) on equality during Korean-style globalization (Bang and Kim, 2001; Chi and Kwon, 2012; Lee et al., 2013)?

While these germane issues are grossly neglected, previous studies have extensively dealt with the impact of globalization, job classification, regions, and credential types on inequality in South Korea (Yoo and Fieds, 2000; Yoo and Lee, 2000; Kim and Kim, 2002; Kim and Jeong, 2003; Hyun and Lim, 2005; Kang and Yun, 2008; Park, 2011; Yun, 2009). Globalization, for example, is blamed for widening income gaps in the country, while it obviously has helped fatten the wallets of the few rich. Related to this is job classifications, regional differences, and credential types that further exacerbated income inequality in the country, as globalization luminously favored certain categories over others.

Theoretically, it is not clear as to which one precedes which: growth begets inequality (Kuznets) or inequality perturbs growth (Barro). Furthermore, nothing is reticently explained as to why inequality disappears after growth (Kuznets) or why inequality is necessary for growth after development (Barro). In the case of Japan and South Korea, no theory exists that explains why they experienced low levels of inequality during rapid economic growth, while they're suddenly experiencing inequality after development and globalization. Therefore, we need to focus on local factors first before looking at global phenomena surrounding inequality.

The first meaningful discussion on the local factors of equality in Japan and South Korea was on the rural bias (see *inter alia* Kabashima, 1984; Oh, 1995; Lie, 2000; You, 2014). To buy rural voters' support of the incumbent government during rapid growth and to offset urban support of the opposition or left-wing parties, the policy of rural bias

deliberately redistributed urban income to rural areas increasing economic equality between the rural and urban areas. This policy has drastically reduced income gap between the rich and poor in Japan and South Korea, two paradigmatic cases of successful and complete sweeping land reforms that had occurred in the 1950s. However, this local factor of rural bias fails to explain why both countries continued to maintain low levels of inequality after sweeping urbanization. By 1984, only 2 % of the Japanese remained in the farming sector, while it was 8 % in South Korea (<https://data.oecd.org/emp/employment-by-activity.htm>).

The local impact of culture, institutions, and social stratification amid rapid globalization has to do with a newly emerging but very crucial factor of democratization and social opening that had progressed tremendously in Japan and South Korea since the end of the Cold War. Social and cultural opening according to global standards in tandem with democratization allows the formerly oppressed groups to speak out about their social atrocities. For example, females in a relatively homogenous societies like Japan and South Korea can step forward arguing that the conventional inequality measures and indexes ignored their economic status. The gender income gap therefore looms large in the post-Cold War and post-Confucian era, where women's wage must be equal to that of men's, as the former are no longer "chattels" of the latter. Therefore, the gender issue can be a local factor that unduly lowered inequality during the growth period and that is now showing true levels of inequality despite full development.

Related to this issue of gender is another aspect of the changing culture in South Korea, where the aging of the population incessantly increases inequality within the aged cohort who no longer receives Confucian welfare by their young family members who had abandoned their Confucian obligation of taking care of the elderlies after retirement. Furthermore, globalization led to an abrupt rush of rich Koreans to international schools and higher institutions of learning for their children instead of opting for Korean schools, a normal phenomenon during the growth period. Overseas credentials effectively barred most domestic credentials from obtaining decently paying jobs in South Korea, boosting inequality within the same young cohort of similar credentials. As women, seniors, and young educated men find it more difficult than ever to get the same level of welfare and economic opportunities from families and society, the overall perception of inequality could have surged unnecessarily higher than the actual index.

Furthermore, institutional changes are supplementary contributors to the perceptual or real changes of inequality in South Korea. The government has introduced various welfare and redistribution policies since the 1990s and political democratization to ease the transition from industrialization to post-industrialization. However, the impact of such policies has not been as palpable as the sweeping land reform or the policies of rural bias during the growth periods. As tax rates went up along with increasing government spending in welfare, disposable income among the middle class has gradually been depleted by those who have been under the pressure of sending their children to overseas schools from early ages. At the same time, to offset income losses, middle class workers had to work longer hours than before, making South Korea one of the countries

in the world with the longest average working hours. The dearth of leisure with ever increasing working hours will certainly make these people in South Korea less well off than their counterparts in other developed nations where workers enjoy 40-hour work weeks.

Finally, social stratification in South Korea in recent years has changed the entire structure of the traditional concept of inequality, resulting in a unique outcome that is not common in other developed economies. First and foremost, unlike the previous period of rapid growth, the rural area is now unimaginably poorer than its urban counterparts, leading to a serious deficit within the rural sector of the country in terms of economic and social wellbeing. Second, within the traditional working class, a new division or stratum has emerged making the entire social class divided into unionized and ununionized workers. The union density ratio is below the level of the U.S., making South Korea one of the least unionized country in the world. De-unionization implies poverty and longer working hours to ununionized workers. The income gap between unionized and ununionized workers is getting widened over the period, making it difficult for workers to participate in unions as fulltime workers.

Having spelled out the pitfall of previous studies in failing to construct a sound understanding of equality and inequality in South Korea, especially regarding the lacuna between a macro theoretical understanding of growth and inequality on the one hand and local conditions in South Korea that tend to change all the time due to globalization on the other, this study wants to start by asking how to measure inequality based on these new changes that I have discussed so far.

### **Measuring Inequality in South Korean Contexts**

The purpose is to find out a more correct situation of inequality in South Korea without relying on universalized indexes including GINI coefficients that do not necessarily reflect local conditions that change incessantly according to the forces of both domestic and global political economy. Given that the concept of inequality changes as our culture changes, it is simply untenable to insist on one interpretation of inequality that is widely accepted in economics. Therefore, this paper starts with multiple dimensions of cultural concept of inequality whose meaning will also change widely as culture evolves from one period to another. Therefore,

Cultural Concept of Inequality in South Korea = Globalization\*{Income inequality + E(inequality) + E(perceptions) + E(gender wage gap) + E(age poverty gap) + E(education wage gap) + E(working hours) + E(unionization) + E(regional wellbeing gap) + E(income redistribution effect)}, where *E* refers to statistical effects.

Inequality perceptions in South Korea in the 2010s measures the degree of economic disenchantment among young job seekers who perceive inequality much higher than the standardized income inequality (or GINI coefficients). Although inequality

perception does not necessarily measure real income inequality, it can trigger changes in equality by unnecessarily forcing them to withdraw from job search for a prolonged period. This also is a locally significant factor of inequality because it changes from one country to another regardless how similar they are culturally or geographically.

The gender wage gap tries to find a reason of wage gaps between sexes by looking at both economic and social indicators of gender inequality. In South Korea, where institutionalized gender relations are very equal as in other developed countries, the gender wage gap remains the highest in OECD countries. In other words, institutional opportunities for women and actual income distributions for them are quite different. Therefore, it is simply distorting to look at only institutional or wage indicators of gender equality. Social and cultural indicators of gender equality must be factored in to bring about a correct understanding of gender inequality in South Korea. In short, when the cultural factors are considered in the calculation of actual gender inequality, the outcome is much more serious than what the economic indicator of gender equality insinuates.

The age poverty gap intends to highlight the fact that people in South Korea become poorer as they older, a phenomenon that is contrary to other developed countries and that had not existed during the developmental period. The question raised is “why do older people suddenly become poor after retirement?” Although political economy seems pertinent to this question, I purport to argue that this also requires cultural understanding. The widening age poverty gap in South Korea reveals how Confucian family ethics has been twisted and mutated over the periods of rapid development and globalization. As old generations still retain conservative values of supporting their offspring, the young ones do not see any necessity of supporting their retired parents even as they have given up all savings and wealth to their children who had continuously demanded large lumpsums for their international education, lavish lifestyles, expensive weddings, and gargantuan housing prices.

In the meantime, the culture surrounding the youth wellbeing in South Korea has also widely changed. During the developmental era, the more years of schooling in prestigious South Korean schools and universities one had, the better paying jobs he or she would get after graduation. However, since the onset of impenetrable globalization, the job market for the youth has changed enormously for those who could not secure American, European, or Japanese credentials from prestigious institutions. Even then, these youths will need support from family members who occupy powerful and well networked positions in society. Therefore, the education gap asks: why cannot college graduates get a job after graduation from Korean universities and graduate schools? This new question will measure why inequality may go up despite the overall equality in economic terms.

Working hours asks: who gets to work longer than others and why? Therefore, this one is not a simple measure of the overall working hours among South Korean workers. If it is, then the overall inequality among all workers would be similar as they all work longer hours than their counterparts in other OECD countries. The fact of the matter is that this “working hours” category also has many cultural aspects especially

regarding who gets to work longer than other workers even in the same factory. First and foremost, women get to work longer hours than men, if she is not connected to powerful and wealthy families and friends in society. Second, all other workers who are poor must work longer hours than others. However, third, if these workers are talented with no clear connection with rich and powerful families and friends in society tend to work longer hours than others. Working hours therefore discriminates against specific subgroups within the working class, increasing perceived and real inequality among the discriminated people.

Related to working hours is unionization. Traditionally, union density as a measure of the degree of union membership among workers has varied from one country to another based on their political economy. However, globalization that has continued since the 1990s after the end of the Cold War instigated a worldwide union busting that has successfully pushed down union density in OECD countries. South Korea, however, stands out in terms of its unusually low union density, which is worse than the U.S. Social and cultural (i.e., local) factors are at work in South Korea, which altogether have ushered in this tragic consequence by unduly increasing inequality among workers. Since low union density may mean increased employment flexibility leading to potentially higher income, this measure must make it clear that inequality has increased due to low union density in South Korea. This is based on a local factor that higher paying jobs with short working hours are usually associated with unionized positions in big companies. To protect their privileged position in their own factories, unionized workers formed a very military groups that try to maximize their visibility in Korean society through frequent use of violence. This military union also raised hurdles for membership not allowing any of the temporary workers to become a member. The low union density in South Korea therefore depends on the local factors as well as global factors. Therefore, unionization asks: why are unions in South Korea militant and exclusive, producing detrimental side effects of inequality?

As I mentioned above, the rural bias is now replaced with super urban concentration in South Korea. Therefore, the policy of income redistribution has also changed from rural favoritism to urban bias – or transferring national income to urban centers. Regional hierarchies of wealth distribution are not simply based on the cleavage of urban vs. rural, but more on good vs. bad neighbors. The increasing and enlarging regional inequality between good and bad areas entails new type of regional imbalance in the country based on social and cultural factors in addition to the usual economic ones. Those who could not escape rural areas are receiving the first strong wave of inequality shock from society even as most social (e.g., schools, hospitals, government offices, private firms), cultural (libraries, theaters, sports facilities, parks), and economic (jobs, shopping facilities, business opportunities) amenities are being moved to the urban areas. Even in urban areas, these amenities are unequally concentrated in good areas, while bad ones must suffer from the poor provision of such amenities. The regional wellbeing gap therefore asks: why is there a huge regional inequality in South Korea?

Of course, part of the problem lies in the fact that income redistribution has been substantially reduced during the developmental era with no immediate sign of offering redistribution packages to the rural and urban poor after development. The South Korean problem is not that it is not spending government money in social safety net, but that the whole welfare policies are not as effective as those in other OECD countries. The failing social welfare delivery therefore further exacerbates inequality even though a country commits to spending a sizable sum of budget in social policies. Therefore, income redistribution asks: why aren't the government policies not effective in South Korea, aggravating inequality especially in rural and poor urban areas?

Finally, the impact of globalization on inequality functions as a weight on the sum of all these local and cultural variables in the equation. Globalization invites reactions and resilience from local institutions and actors, creating different effect on equality from a country to another. Therefore, globalization asks: how is its impact on equality in South Korea different from other countries? The overall impact of globalization on equality in many countries is diverse as it functions differently according to various domestic and regional factors. Developing countries such as China and India are said to have benefitted from globalization, whereas many developed ones face a new challenge of rising inequality due to the same global force. In South Korea, for example, globalization has benefitted the richest sector society a lot more than the rest of the population more than it was the case in other OECD countries. One local factor was the 1997 Asian Financial Crisis that unfairly punished the rural poor, urban working-class people, and small and medium size firms in South Korea. The richest echelons of society, however, reaped the biggest windfalls during the same crisis through their foreign currency reserves, including short sales, real estate speculations, and loan sharking at extremely high interest rates (Choi and Kim, 2003).

Having discussed the concept of inequality in the post-Cold War globalized world with emphases on local and cultural factors, I now present empirical findings.

### **Impact of Culture**

In this section I present empirical evidence of the impact of culture on equality in South Korea, including perceptions of inequality, inequalities of gender and aging, and inequality of educational choices.

Scholars have continuously underscored the importance of perceived inequality, as it elicits significant deviations from economic indicators of inequality. Fig. 4 shows three patterns of inequality perception. From the top, the first pyramid (left side) shows a French pattern of inequality perception, which exaggerates out of proportion the unequal aspect of society (i.e., overestimation of inequality). The second pyramid is a Norwegian pattern that is most accurate in the perception of its inequality. Finally, the third pyramid is U.S. pattern that underestimates inequality (i.e., fewer bottom poor people than there actually are). The South Korean case resembles that of the French, where the negative

aspect of inequality in society is overblown, despite their relative egalitarian social structure (Kim et al., 2018).

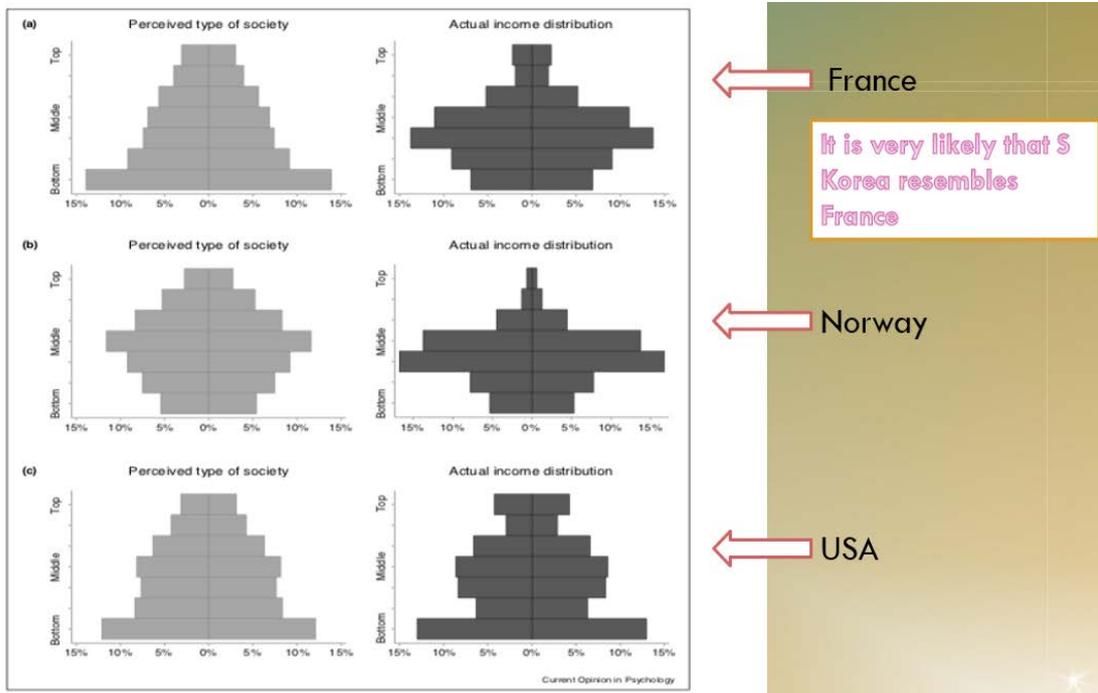


Figure 4 Three Perceptions of Inequality  
Source: Houser and Norton (2017)

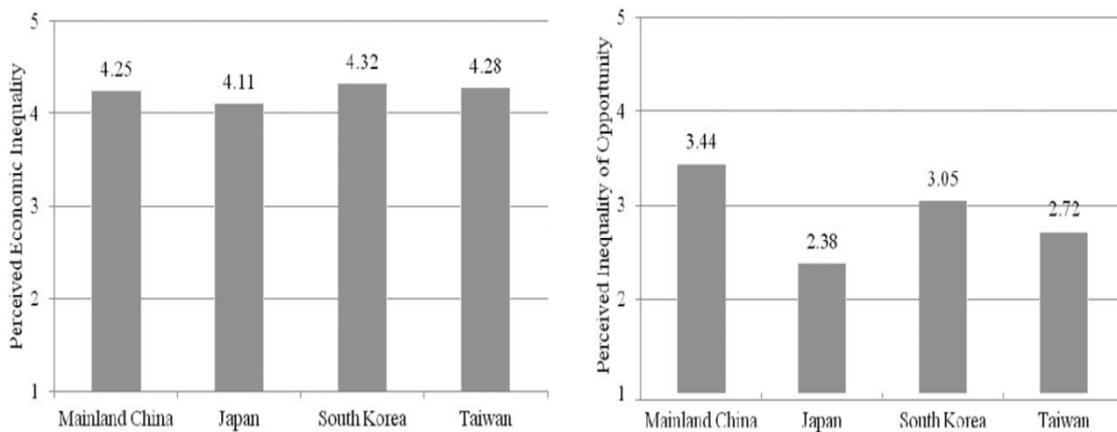


Figure 5 Mean Levels of Perceived Inequality (Left) and Perceived Inequality of Opportunities  
Source: Kim et al. (2018)

Fig. 5 also confirms high levels of perceived inequality in all East Asian countries, including China, Japan, South Korea, and Taiwan, with South Korea demonstrating the highest level of perceived inequality (4.32), even higher than that of China (4.25). What is intriguing about South Korea, however, is not its highest level of perceived inequality

but its perceived inequality of opportunities. Although all four East Asian countries mysteriously similar levels of perceived inequality, they show saliently different levels of the perceived inequality of opportunities. Japan, the most developed of all countries, demonstrates the lowest level of perceived opportunity inequality, confirming the Kuznets curve. Contrary to Japan, China posts the highest level of perceived opportunity inequality of all the countries, as it is the least developed among the four. What is perplexing though is the South Korean level of perceived opportunity inequality, which is second highest in the sample. Although similar in per capita GDP, Taiwan's opportunity perception figure is much lower than that of South Korea's. How can we settle this conundrum?

What needs to be established first is whether the perception of opportunity equity is more important the perception of inequality. Brunori (2015) argues that country-specific and individual-specific factors determine opportunity perceptions among people rather than usual economic indicators. If this is the case, why the South Korean figure of perceived inequality of opportunities is higher than Taiwan must be deriving from the country-specific factor. Although indirect, changing cultural factors partially explain the conundrum:

- The mass media in South Korea often exaggerate inequality especially among young people, giving them wrong impression of Korean inequality;
- Young South Koreans (15-35) tend less to accept establishment or social hierarchy than their Japanese or Taiwanese counterparts, partly because of their long-term exposure to anti-establishment movements by university students, militant labor unions, and other civic groups during democratization and even after democratization;
- They believe that the race between young people is mired by different starting lines deliberately set up by their parents and friends who have different economic, social, and political privileges (e.g., gold, silver, and dirt spoons); and
- Young South Koreans are less patient than their parents in achieving social, economic success: the "get rich quick" syndrome.

The structure of inequalities of gender constitutes a new cultural aspect of inequality in South Korea especially after the fall of the Confucian cultural regime at the rapid encroachment of global and Western culture. What is peculiar about South Korea are twofold: first and foremost, this is the country that posts one the lowest gender inequality index (GII) in the world, only slightly higher than that of Finland and much lower than those of the U.S., Japan, or Canada. However, if one looks at the gender wage gap data, the picture turns upside down: South Korea posts the highest gender wage gap in OECD countries (Fig. 6). How does one explain this discrepancy?

The answer lies in the rapid change in Korean culture during globalization in the last four decades. Traditional Confucian culture placed women in the place of household and under male protection economically and socially. By opting to stay at home either as

daughters or housewives, women received massive improvements in terms of education, health care, prenatal and postnatal care, and life expectancy (i.e., high GII). However, during the transition to global capitalism, women’s participation in the job market has exploded especially since the 1990s leading to a massive gender wage gap even in the 2010s. Women’s lives in workplace are further aggravated by the alarming epidemic of misogyny or violence against women in the country (Fig. 7).

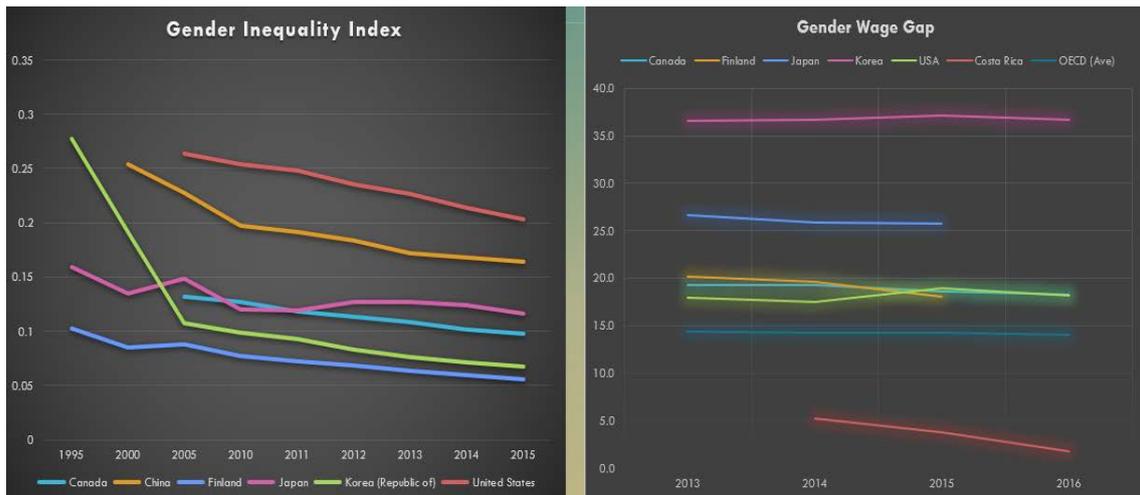


Figure 6 GII and GWG in South Korea

Source: <https://data.oecd.org/inequality/genderwage-gap.htm#indicator-chart>

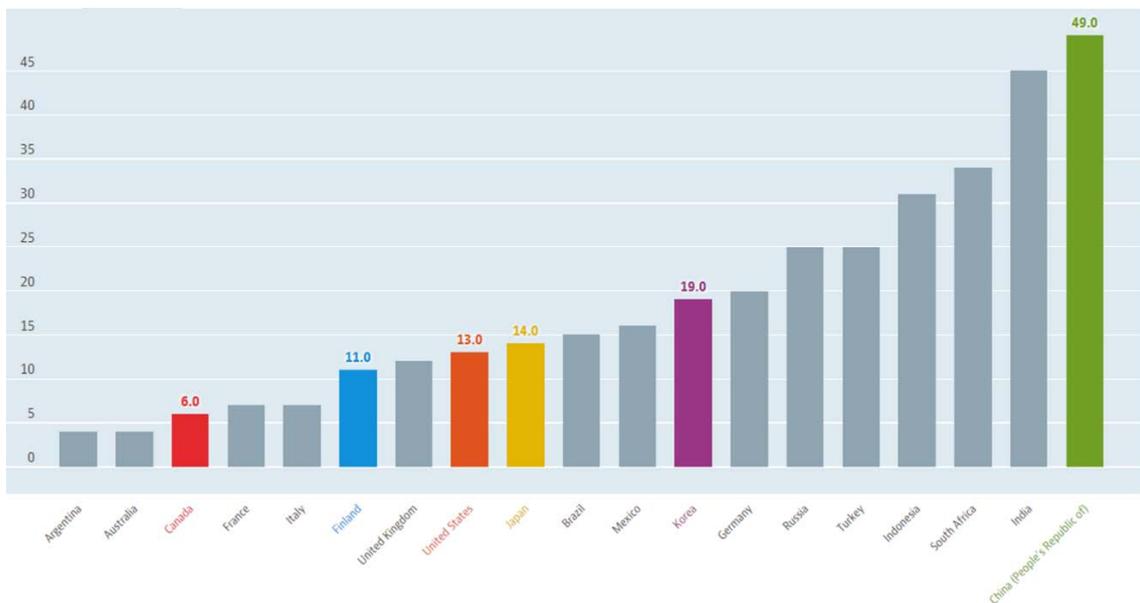


Figure 7 Violence against Women – Misogyny (2017)

Source: <https://data.oecd.org/inequality/violence-against-women.htm#indicator-chart>

A massive level of the gender wage gap amid one of the lowest GII implies that poverty among women will be higher than that of men, despite institutional gender equality in South Korea. With an alarming level of misogyny, South Korean women must expect impoverished adult life with constant threats of exposing themselves to physical and sexual assaults, despite high levels of reproductive health, economic empowerment, education, and job market participation. This augurs a sharp division between rich (low GII) and poor (high GII) women, between those who can relish the benefit of the low gender inequality index with rapidly changing local culture that is growingly tolerant to the idea of gender equality and low fertility and those who are still locked up in the traditional cultural contours of Confucianism and poverty with no clear global or urban opportunities. It is apparent that women in poverty in South Korea cannot participate in equal wage jobs with men unless they are already powerful and rich through family and friend ties that awarded them global education, post-Confucian cultural support, and economic affluence.

Furthermore, the empowerment of women in the South Korean case has often been misleadingly interpreted for two reasons. First, the so-called female political power measured by educational attainment, positional power in organizations, and political participation is found to have little to do with reducing the gender wage gap on the one hand and misogyny on the other. Second, female political participation, the single most important indicator of their actual political power, remains only symbolic, even as only Low GII women (i.e., rich and well networked women) can participate in politics while most of the remaining women remain in the civic or market sphere without formidable alliance with their “comrades” in the government. Therefore, the low GII should be discounted against high gender income gap and misogyny, both of which are consequences of cultural factors.

Poverty after retirement is another culturally relevant phenomenon of inequality in South Korea, as it is the highest in South Korea among OECD countries (Fig. 8). It has several cultural connotations. First, in a typical Confucian cultural context in the country, it is expected that parents should give everything they have to their children for their education, including overseas studies, wedding costs, housing costs after marriage, costs involved raising grandchildren, and even costs involved in opening up new business or office spaces for their children’s ventures. They plan to complete giving their wealth to their children before retirement so that they can live on pension and retirement packages. If these parents are super rich, they must finish inheritance before their retirement or death to avoid hefty inheritance taxes. However, these days some parents must support their children financially even after retirement, as their offspring face enormous financial strains amid rapid globalization and rampant financial crises and uncertainties.

Be that as it may, these Confucian parents also go through rapid cultural transformations in their own country that is widely and quickly embracing globalization and Western culture. For example, their anti-Confucian children brazenly abandon their parents after their retirements, unless they have huge housing in the middle of posh neighborhoods of urban and suburban areas of Seoul and other megalopolises. Even as

their children forsake their Confucian duty of taking care of their parents after retirement, the former Confucian state that is no longer interested in the votes of aging populations as much as those of the young voters. New redistribution policies for the urban young people include free schooling for preschools, primary and secondary schools, job training subsidies, unemployment compensation, job creation subsidies, new startup subsidies, and others. However, government expenditures in social safety net for the elderly and retirees are not simply expanding, making these aging populaces to grab whatever opportunities they can find in the urban areas including garbage recycling, unless they are the fortunate few who receive government pensions for their lifetime military and police service, teaching experiences, and government careers.

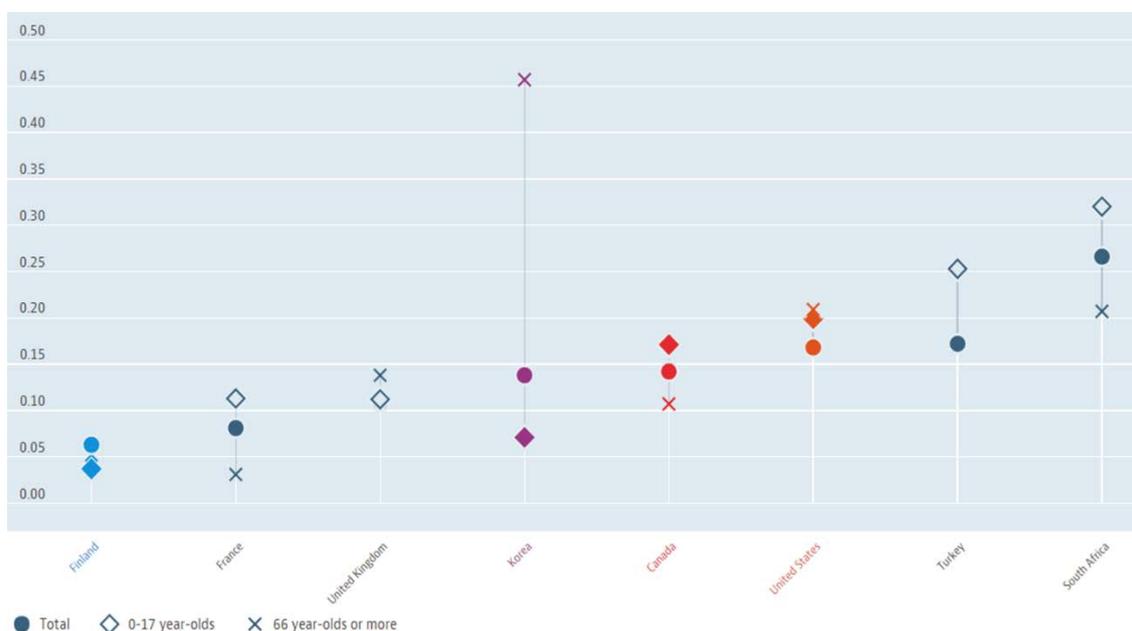


Figure 8 Poverty among Seniors

Source: <https://data.oecd.org/inequality/poverty-rate.htm#indicator-chart>

Related to this Confucian cultural logic of nurturing children by their parents is the high unemployment rate among the age cohort of 15-24-year-olds (Fig. 9). The unemployment rate among the age cohort in South Korea is the highest of all OECD countries mainly because of its cultural attributes. Strong Confucian ethics prevalent among parents tends to discourage them to send the children to job markets instead of schools, vocational training centers, and even marriage markets. Furthermore, the South Korean constitution mandates all males, unless they are legitimately exempted, must serve in the military for a period of 24 months. All young men of legal military age must serve the army making them unavailable for job markets.

In fact, South Korea maintains the highest tertiary completion ratio in OECD (i.e., 70% of all 25-34-year-olds), corroborating my hypothesis that schooling and education

is a primary factor of high unemployment ratio among the age cohort. It goes without saying that the education fervor derives from Confucian ethics, and this kind of educational fanaticism is not going to help lower their inequality among young people. The state is simply not sympathetic in reducing educational costs, as the South Korean total expenditure on private tertiary education is the fifth largest in OECD (0.96% GDP).

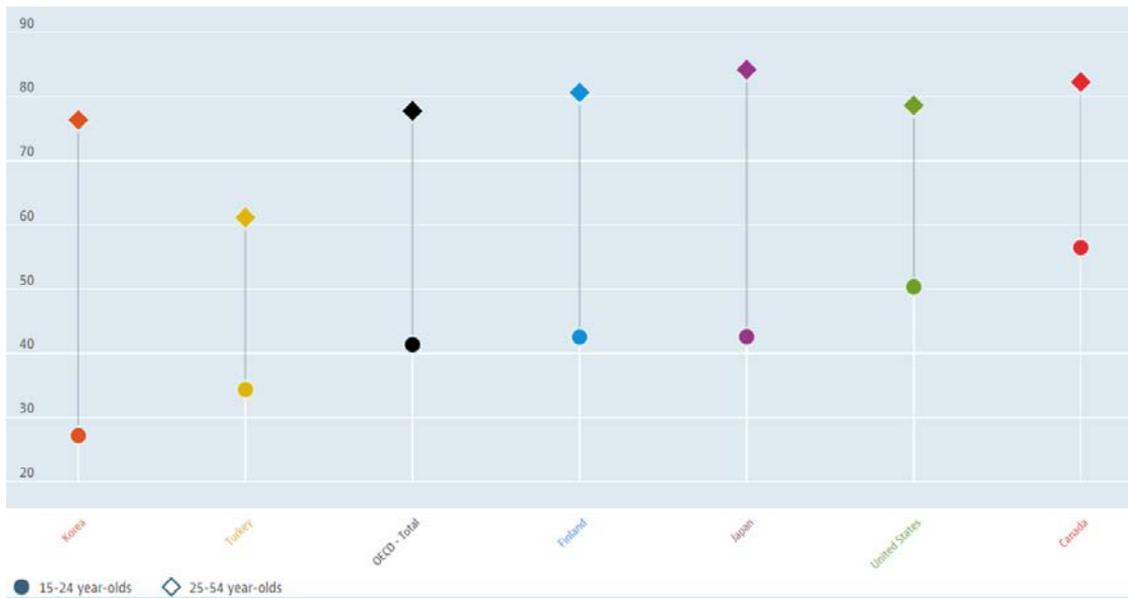


Figure 9 Employment Ratio by Age Brackets  
 Source: <https://data.oecd.org/emp/employment-rate-by-age-group.htm>

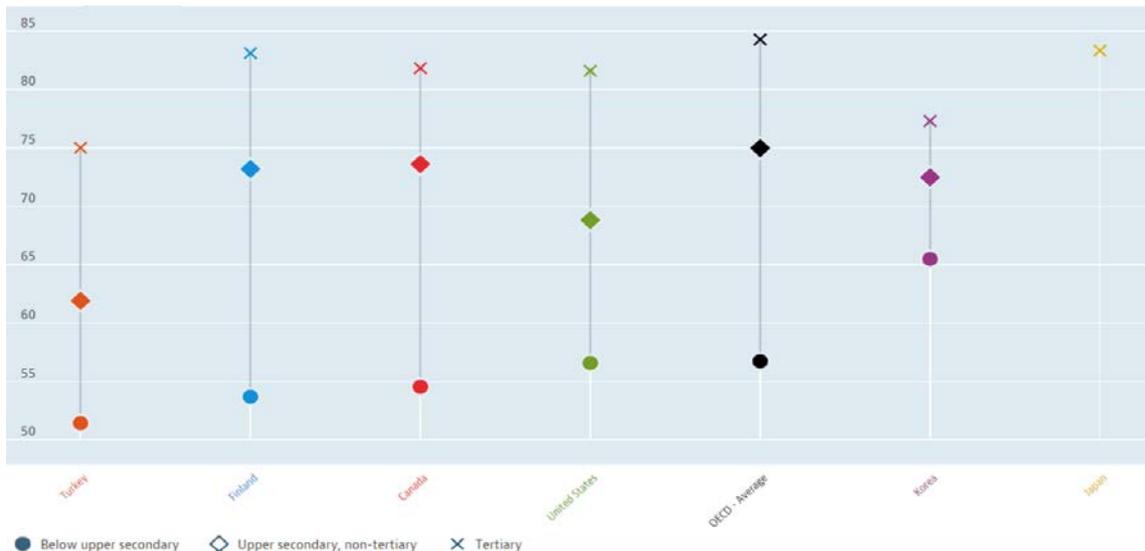


Figure 10 Employment by Education Level  
 Source: <https://data.oecd.org/emp/employment-by-education-level.htm#indicator-chart>

Figure 10 presents the most culturally uproarious phenomenon associated with the issue of equality in South Korea – high unemployment ratios among tertiary graduates (i.e., second highest after Turkey). Again, Confucianism is at work, as Confucian parents keep supporting their children who finished tertiary and even postgraduate studies but could not garner any decent employment. However, the structure of the problem is more complicated and multilayered than the Confucian argument. The explanation can be fourfold at least. First, both men and women are delaying marriages forcing them to rely on their parents for economic and housing reasons. It is particularly so for women who find it more difficult than men to land a decent job. Be that as it may, female university graduates keep seeking jobs instead of settling down with marriage partners, as long as their Confucian/Westernized parents keep supporting them (i.e., these new Confucian/Westernized parents believe that daughters can also succeed as much as sons).

Second, changes in culture are partly responsible for unsubstantiated high expectations about their future after university graduations, especially for female graduates. While blaming unequal opportunities, which I briefly sketched above, university graduates keep seeking high caliber jobs (e.g., government, *chaebol*, journalism and broadcasting, international organizations, multinational corporations), even though they know that these jobs are reserved for rich and well-connected coterie of Korean society. Third, angered by the bleak job situation, which was partly exacerbated by corruptions that award good jobs to highly networked candidate despite their low calibers, these young job seekers tenaciously refuse to take lesser positions in the corporate world. Finally, risk aversive attitudes predominate these young job seekers. While blaming unequal opportunities in the job market, university graduates refuse to start up a new venture (i.e., a strict social norm that “those who open up a new business are inferior to those who get good jobs” persists).

### **Impact of Institutions**

What is the impact of institutions (e.g., working hours, redistribution policies) on equality during Korean-style globalization? It is well known by now that South Koreans work the longest hours among all OECD countries even after development and globalization (Fig. 11). Along with Japan and Taiwan, South Korea is one of the East Asian countries that altogether share the Confucian work ethic that encourages them to work longer hours than any other workers in other countries. Therefore, it is easy for outsider to consider the habit of working long hours as either cultural or institutional. Work contracts, for examples, very vaguely determine work hours during employment, unlike Western employee contracts that specify daily, weekly, monthly, and even yearly work hours with minimum and maximum caps.

Work contracts with vague work hours can be construed a consequence of low productivity among workers (Takeuchi, 1981). In other words, firms have to lengthen work hours to compete with other firms whose productivity is always higher than the

former's. Since East Asian firms used to produce goods and services with lower values than those of American or Western competitors, it was only natural to work longer.

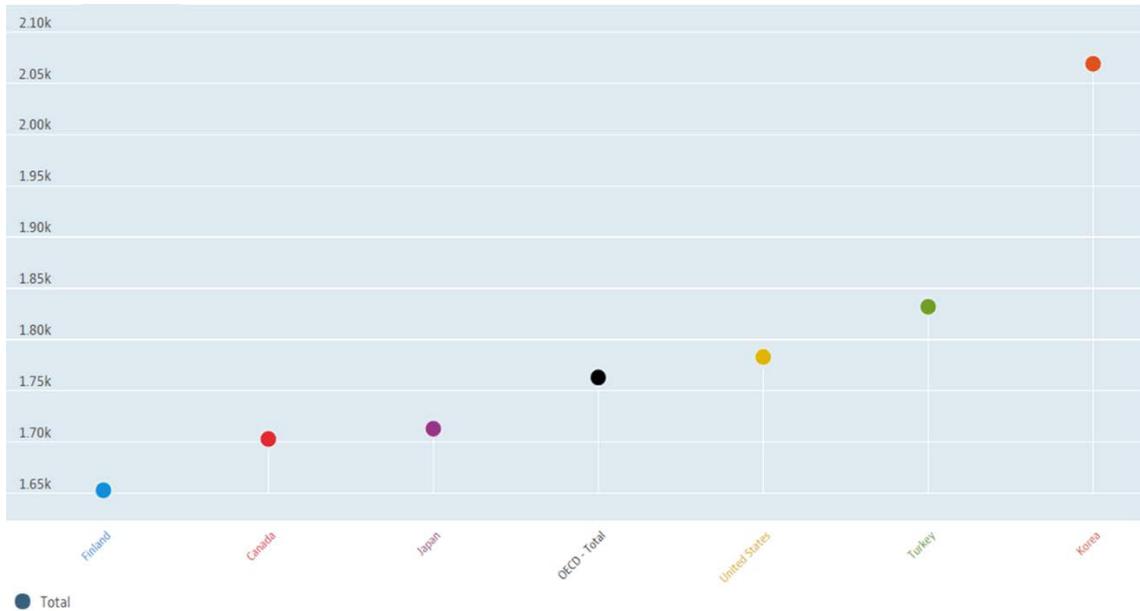


Figure 11 Hours Worked Total (2016 or Latest Available)  
 Source: <https://data.oecd.org/emp/hours-worked.htm#indicator-chart>

Table 1 GDP per Hour Worked Total (2010=100, 2008 – 2017)

Location	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Finland	101.6	96.9	100.0	101.6	100.0	100.6	100.7	101.2	103.8	106.1
Japan	97.9	96.8	100.0	100.2	101.2	103.3	103.3	104.8	104.7	106.0
Korea	91.6	94.7	100.0	102.9	104.2	106.3	108.7	109.6	112.5	117.3
Turkey	101.6	97.5	100.0	105.4	107.6	114.9	114.9 <sup>c</sup>	118.6 <sup>c</sup>	119.8 <sup>c</sup>	124.3 <sup>c</sup>
United States	94.5	97.6	100.0	100.0	100.4	100.8	101.4	102.1	102.2	103.4

Source: [https://www.oecd-ilibrary.org/economics/gdp-per-hour-worked/indicator/english\\_1439e590-en](https://www.oecd-ilibrary.org/economics/gdp-per-hour-worked/indicator/english_1439e590-en)

However, Table 1 cries out for a new explanation – why do Korean workers work longer hours than any others even though their productivity caught up substantially with its competitors in the 21st century, surpassing that of Finland, Japan, and the U.S.? The answer to this question is partially economic and somewhat cultural. Obviously, the wage increase did not match that of the productivity growth. This forced many workers to work longer hours to make overtime salaries to fend off the loss from rapid inflations caused by the soaring productivity. It is obvious that those on the top echelon of the economy raked in windfalls from the productivity revolution in South Korea. In the meantime,

average workers in the country are left with no other options than working the longest hours just to make ends meet.

What is culturally more intriguing is the whole fiasco surrounding brain drain, a new phenomenon in the 21st century in South Korea, as the world becomes more globalized. Apparently, young professionals with international credentials find it very difficult to find a decent job back home, if they are not from elite family backgrounds in South Korea. Furthermore, even when they are hired, they find themselves overly exploited, working long hours, because they are the only ones who are highly qualified to handle complex intellectual tasks. While other jobs are given to unqualified people who have excellent connections with powers, these handful of talented people are extremely overworked to sustain firms or university labs they work for. According to the Science and Technology Policy Institute (STEPI), 8,931 science and engineering Ph.D.'s have left Korea in 2015, up almost three times compared to a decade ago. And four out of 10 are planning to leave if given the chance. "Talented researchers are leaving, and we can't attract foreign researchers," Hong Sung-min at STEPI said. The *Chosun Ilbo* and the Biological Research Information Center polled 1,005 science and engineering Ph.D.'s and found that 47 percent would prefer to work abroad. Only 31 percent said they would stay in Korea. The U.S. National Science Foundation conducted its own study in 2013, which showed around 60 percent of Korean science and engineering PhD holders in the U.S. saying they had no intention of returning to Korea (Source: [http://english.chosun.com/site/data/html\\_dir/2016/07/30/2016073000484.html](http://english.chosun.com/site/data/html_dir/2016/07/30/2016073000484.html)).

### **Impact of Social Stratification**

What is the impact of social stratification (e.g., unionization, regional imbalances) on equality during Korean-style globalization? Social stratification has changed over the years in South Korea as globalization and social opening and levelling have progressed. A notable change in this regard is the elevation of unions and its works as middle or upper middle class while ununionized workers remain traditional working class or lower-class echelons of society. Furthermore, as I have delineated above, the traditional "rural bias" that had sustained the livelihood of the farming population during the growth period is now replaced with urban gentrification and other related cultural projects along with environmental preservation policies that further restrained farming activities.

Unions in South Korea is an interesting social story about class and stratification. During the growth periods, firm-level or industry-wide unions were banned by the dictatorial governments, leaving most industrial workers without any social safety net or means of negotiation with management. However, after democratization and sweeping unionization across all levels of industries, unions now became a means of elevating workers' status from working class to middle or upper-middle class of Korean society. This change in union politics further exacerbated inequality as unions have promoted militancy and exclusivism. As Fig. 13 shockingly reveals, South Korea has lower union density rates than those of the U.S., a country known for its union-busting policies

traditionally. On the façade, South Korea is a very pro-union as union militancy is very visible (Kim and Rowley, 2006). However, Fig. 13 tells the other side of the coin – it is for their self-interest only with very restricted membership requirements. Indeed, unless one is hired on an ongoing and fulltime basis, he or she cannot be a union member in South Korea. While the majority workforce remains short term and part time workers, there is no legal way for them to protect their rights or promote their interests in Korean society if unions do not want them in their organizations.

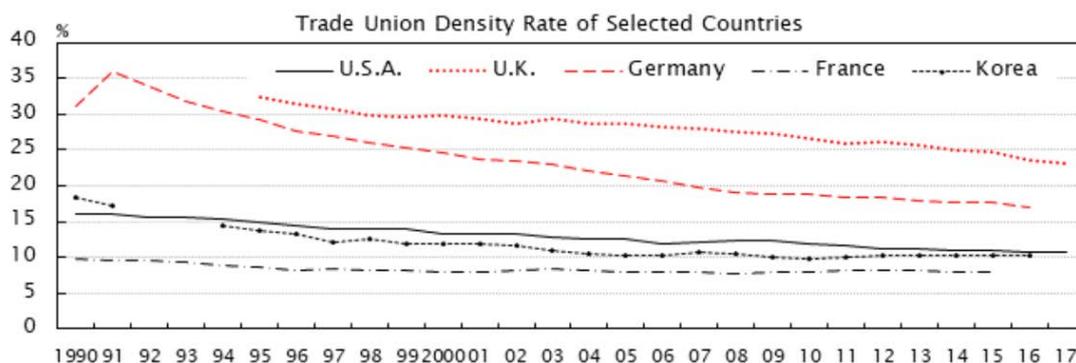


Figure 12 Union Density (1990 - 2017)  
 Source: <http://www.jil.go.jp/english/estatis/eshuyo/e0702.html>

Table 2 Regional Inequality in South Korea

How do the top and bottom regions in Korea fare on the well-being indicators?

	Korean regions		Country average	OECD average
	Top 20%	Bottom 20%		
<b>Safety</b>				
Homicide Rate (per 100 000 people), 2013	1.3	2.0	1.5	3.4
<b>Education</b>				
Labour force with at least upper secondary education (%), 2014	87.1	75.2	82.6	74.3
<b>Health</b>				
Life Expectancy at birth (years), 2013	82.4	80.9	81.5	79.7
Age-adjusted mortality rate (per 1 000 people), 2013	6.4	7.0	6.6	8.4
<b>Jobs</b>				
Employment rate (%), 2014	73.1	67.5	70.8	66.3
Unemployment rate (%), 2014	2.8	4.0	3.3	8.6
<b>Environment</b>				
Level of air pollution in PM 2.5 (µg/m³), 2013	16.4	27.0	23.7	10.4
<b>Civic engagement</b>				
Voters in last national election (%), 2015	77.6	74.4	75.9	68.1
<b>Life satisfaction</b>				
Self-evaluation of life satisfaction (scale from 0 to 10), average 2006-14	6.1	5.7	5.9	6.7
<b>Income</b>				
Disposable income per capita (in USD PPP), 2013	17 093	14 904	15 779	17 916
<b>Community</b>				
Perceived social support network (%), average 2006-14	79.4	74.1	78.3	88.9
<b>Housing</b>				
Rooms per person, 2013	1.5	1.3	1.3	1.8
<b>Access to services</b>				
Households with broadband access (%), 2014	99.2	97.4	98.5	69.8

Note: Data in the first two columns refer to average values of top and bottom regions of national ranking and until the equivalent of 20% of the national population is reached.

Source: OECD Regional Well-Being Database: [www.oecdregionalwellbeing.org](http://www.oecdregionalwellbeing.org)

The Disappearance of the rural bias as an equalizing factor also augurs the end of the farming people as middle-class working families. They became either ununionized urban factory/construction workers or simply low-class seasonal peasants or fishery/timber/mining workers. The transformation of South Korean social stratification can be gleaned from how social and economic amenities have been concentrated over the years. By the turn of the century, there is no denying that the urban concentration of amenities is obvious. Although living expenses were much lower than those in the urban areas (i.e., an equalizing factor), the price tag of the social amenities that urban dwellers can use for free or at cheap prices is a big investment for rural residents. Therefore, it is only natural to witness low levels of public safety, educational attainment, health care, job opportunities, environmental standards, life wellbeing and satisfactions, income, community development, and housing in the South Korean rural areas (Choi and Kim, 2003). All these rural decay and lack of support drives them to urban areas further for higher living expenses which they cannot afford.

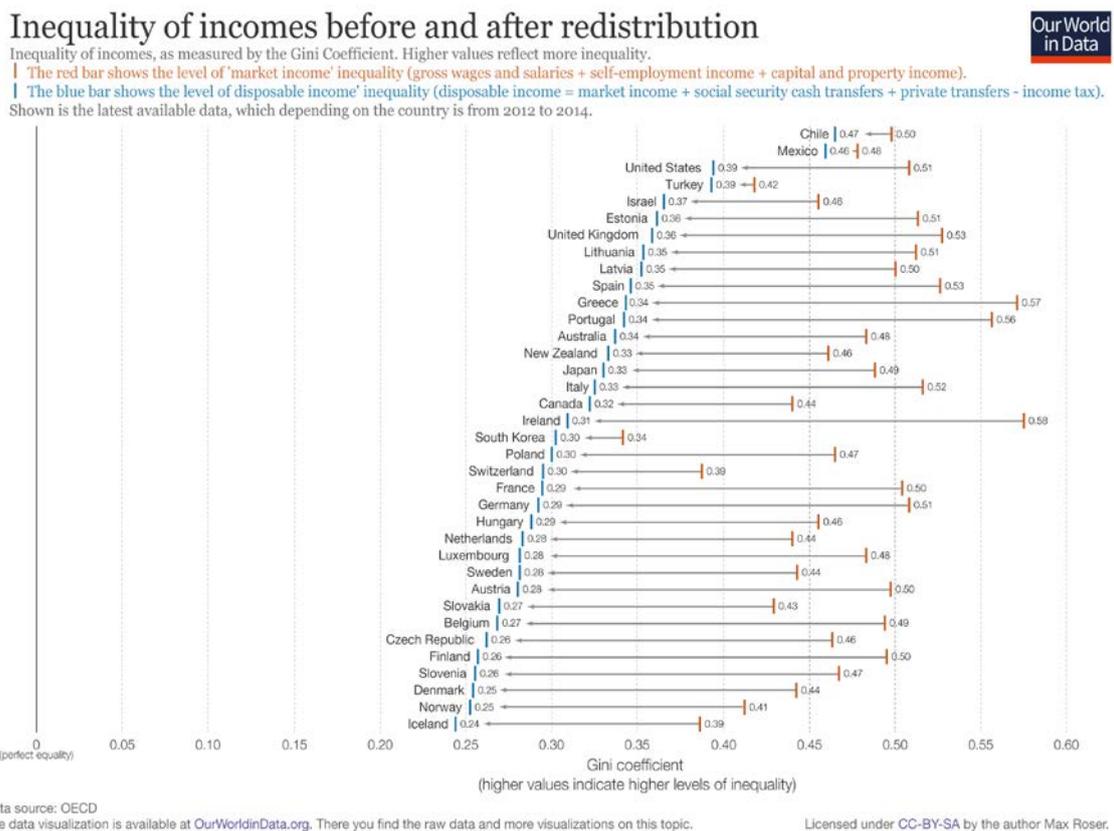


Figure 13 Inequality of Incomes before and after Redistribution

The deteriorating rural and regional areas was not ameliorated by any government fiscal interventions, as Fig. 13 clearly indicates: South Korea has the fourth lowest redistribution effect on GINI coefficient among OECD countries. Safety, education, health, environment, community, housing – they depend on redistribution policies and

their real effect on them. The reason Korean redistribution policies have little effect on GINI is because it is concentrated in good neighbors in urban areas, as rural areas are depleted of populations.

### Impact of Globalization

Globalization is a central force that has driven South Korea from its traditional political economy to a globalized one in the 21<sup>st</sup> century. Therefore, the impact of globalization on inequality in this 50-30 Club (seven countries in the world that have more than 50 million population with more than \$30,000 per capita GDP) country is pivotal. The single most crucial event that occurred in South Korea during globalization is the Asian financial crisis of 1997, as this is the beginning year of a new structure of inequality found in the country. One of the most salient characteristics of post-1997 inequality is the widening gap of incomes between the top 5th quintile and the bottom 5th quintile (Fig. 14). Globalization is an ongoing effect on inequality in South Korea, making it difficult to make sweeping generalizations.

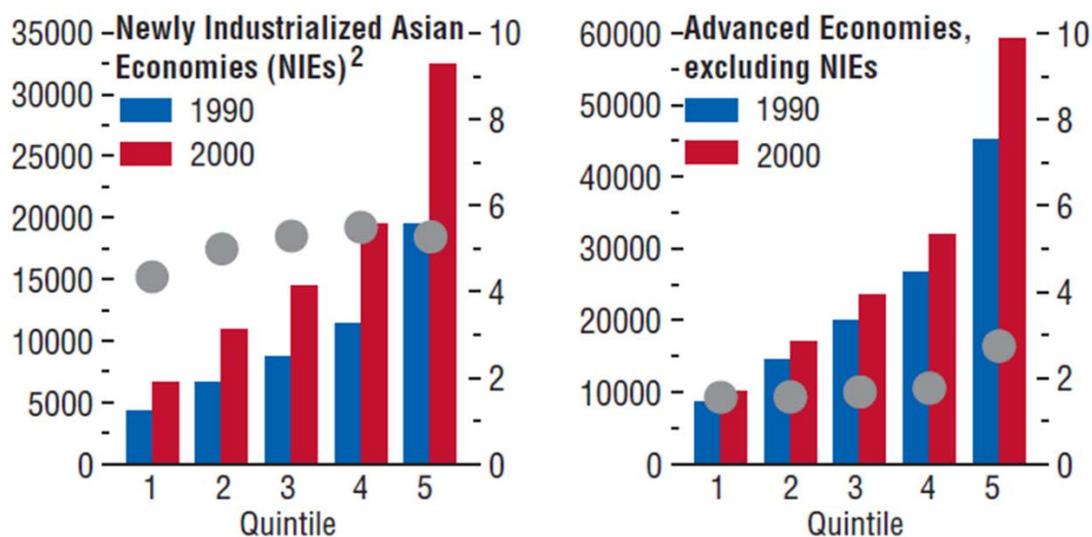


Figure 14 Globalization and Inequality in NIEs  
 Source: [https://www.imf.org/~media/Websites/IMF/imported-flagship.../ft/.../\\_c4pdf.ashx](https://www.imf.org/~media/Websites/IMF/imported-flagship.../ft/.../_c4pdf.ashx)

However, the following observations are possible based on the record of globalization in South Korea during the past two decades. Inequality of incomes has increased among women, 30 years or younger people, people with high school or less credentials, manufacturing and construction sector workers, and small and medium firm workers of less than 50 employees; most rural and regional provinces especially in Chungbuk (Choi and Kim, 2003). Indeed, globalization during the last two decades has awarded the largest returns to top fifth quintile of population, as their average per capita

GDP increased from \$20,000 (1990) to \$35,000 (2000), whereas the income for the lowest fifth quintile of population increased to 6,000 (2000) from \$5,000 (1990).

### **Equalizing and Differentiating Effects**

Summarizing the analyses so far, the following observation is possible regarding changes in cultural, institutional, and global factors:

- Cultural factors
  - Equalizers
    - Confucian familyism: supporting the youth, high education investments, parental sacrifices
    - Filial piety: children supporting parents after retirement
    - Work ethic: highly motivated to work hard to change fortunes
  - Differentiators
    - Confucian paternalism and sexism: preferring men over women in economic affairs; Women refusing to sustain Confucian paternalism
    - Expectations: unrealistic parental expectations
    - Risk aversion: children not encouraged to take average jobs or create new startups
    - Unequal work ethic: long hours for deprived workers who are talented or utterly impoverished
    - Brain drain: talented people taking jobs in foreign countries
- Institutional factors
  - Equalizers
    - Sweeping land reform: from tenant peasants to landed farmers
    - Rural bias: income redistribution from urban areas to the countryside
  - Differentiators
    - Reverse rural bias: unusual urban concentration and urban poverty
    - Militant unionism with exclusive membership: most workers (90%) are unorganized with long work hours
    - The state: unwilling to redistribute income to narrow inequality
- Globalization
  - Equalizers
    - Opportunities: further economic growth
    - Miraculous economic growth: enlarging opportunity structures for mobilized urban workers; enlarging financial basis of rural bias
  - Differentiators

- Low growth with widening income gap esp. after the Asian financial crisis of 1997

**Consequences of Inequality in South Korea**

The consequential picture of South Korea’s inequality in the early 21<sup>st</sup> century is not promising. I can summarize the whole outcome as follows:

- High unemployment among tertiary graduates
- Unemployment of young people (25-35 old) in general
- Serious gender gap and misogyny
- Union militancy and exclusivism
- Unusual urban concentration (82.6%)
- Low quality of life with massive environmental problems
- Brain drain of high caliber workers and professionals
- Impoverished elderlies
- Excessive competition in concentrated urban space (e.g., schooling, housing, jobs, marriage, health care, traffic, child rearing)
- Palpable class polarization (e.g., emergence of excessively rich and poor classes)

The decay of the South Korean situation is not a positive indication for many developing countries, as it certainly failed to be an exemplary case to be emulated. Fig. 15 shows the contrasting differences surrounding inequality before and after development and globalization.

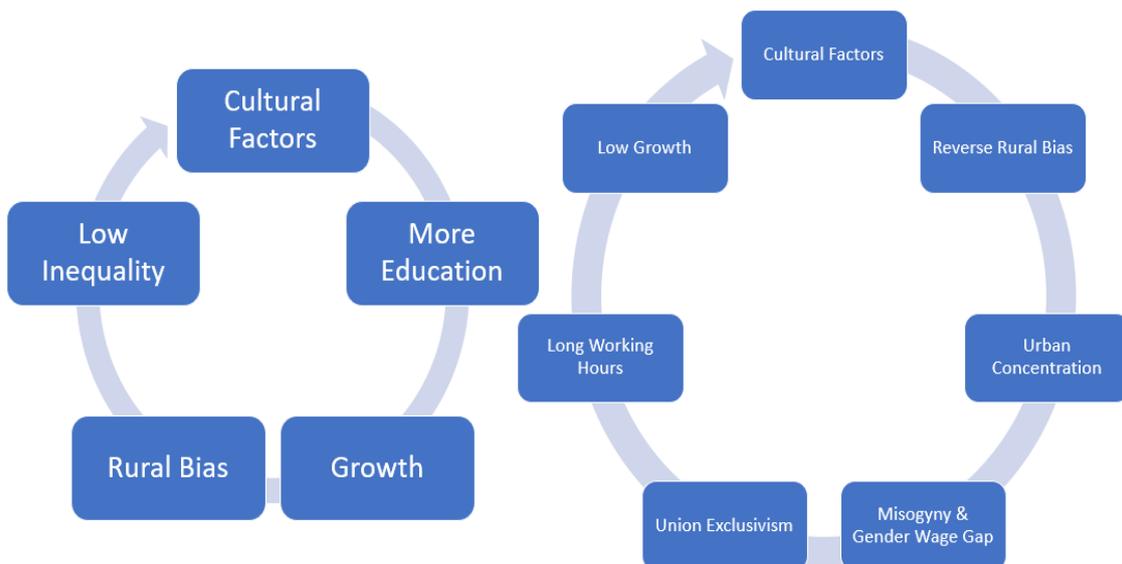


Figure 15 Virtuous (L) and Vicious (R) Cycle of Growth and Inequality

### Theoretical and Policy Implications

Using various empirical evidence and theoretical lynchpins, I tried to argue that analyzing and understanding inequality is more important than mere GINI coefficients or quintile analyses. A major theoretical implication of this paper is this: What is crucial in the understanding of inequality are the hidden cultural aspects of macro and micro economic phenomena. Here, both real and perceived inequality looms large. Gender, regional, educational, and other country-specific inequalities weigh more than universal measures. What explains more, not less, than the universal measures were the cultural, institutional, and global factors. Growth through work turned out to be both equalizer and differentiator of class relations in an economy. Therefore, a careful cultural, institutional, and global analysis of inequality is warranted for pundits and laypeople. Against this backdrop, the economic explanation of U-curve (Kuznets) or reverse U-curve (Barro) is relatively meaningless.

Policy implications depend on the three-dimensional analysis adopted in this study. Policies are suggested regarding culture, institutions, and globalization.

- Culture: Negative Confucianism: Sexism, old age discrimination, urban concentration, high expectations with face saving ethos
  - ✓ Relocation of famous and big corporations, government offices, prestigious schools to regional areas
  - ✓ Income redistribution to young employees in small and medium firms to discourage high expectations with face saving ethos
  - ✓ Income redistribution to retired people in regional areas
  - ✓ Income redistribution to career women who are married with children
  - ✓ Stringent punishment to connection-based employment and promotions
- Institution: Long working hours, excessive urbanization, excessive tertiary education fervor, low quality of life, class polarization
  - ✓ Strict work hour control (e.g., heavy fine on long working hours)
  - ✓ Reintroduce rural bias (e.g., infrastructure development, rural amenities investment)
  - ✓ Create high paying jobs in rural areas
  - ✓ Income redistribution to and military duty exemption for high school graduates who find jobs instead of enrolling in colleges and universities
  - ✓ Income redistribution to rural relocators with affordable housing projects
  - ✓ Income redistribution to rural and urban poor with educational and skill training support
- Globalization: Gender discrimination, racism, manufacturing and construction job hollowing, excessive income polarization
  - ✓ Prohibit laying off young minority women first
  - ✓ Provide “shelters” for manufacturing/construction workers during recession or hollow-out
  - ✓ Massive income redistributions from top 5<sup>th</sup> quintile to bottom 5<sup>th</sup> quintile

## Conclusion

It is difficult to deny that the rural bias works as an equalizer or a differentiator during development. In the South Korean case, it worked as an equalizer during development, although they had to reverse the policy to gentrify the urban areas. The consequence of globalization and development in South Korea is increased inequality despite its respectable performance of low inequality in the previous period. Inequality after development is due to the vicious cycle of negative Confucian culture, which I delineated above with diagrams, institutional differentiators, and global effects. Cultural, institutional, and global factors are both beneficial and inimical to equality in the case of South Korea. These cultural, institutional, and global factors contributed to severe gender inequality, regional imbalance, low life quality, age-based discriminations in South Korea. Systematic policy interventions are recommended based on the causes and effects of inequality in a model country of development.

*Ingyu Oh is Professor of Hallyu Studies at Kansai Gaidai University, Osaka, Japan, and the President of the World Association for Hallyu Studies. Previously, he was Professor of Hallyu Studies at Korea University and International Business at Bristol Business School. His recent books include Leadership in East Asia (Routledge) and a forthcoming monograph on the South Korean economy (Agenda).*

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