Basic Income for Precarious Workers in Korea

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1. Introduction

The purpose of this paper is twofold. One is to estimate the size of precarious workers in Korea, using micro data collected by Statistics Korea in 2012. The other is to compare basic income with conditional income support policy for precarious workers. This paper argues that in an economy where precarious workers are dominant like Korea, basic income is superior to conditional income support policy.

In section 2, the size of precarious workers in Korea is estimated. In section 3, the general relationship between basic income and conditional income support policy is examined.   In section 4, economic effects of both policies are compared.

2. Precarious workers in Korea

Precarious workers are defined by ″employment status(i.e., self-employment or wage work), forms of employment(i.e. ,temporary or permanent, part-time or full-time), and dimensions of labor market insecurity as well as social context(such as occupation, industry, and geography) , and social location(the interaction between social relations, such as gender and race, and political and economic conditions)″(Vosko, 2006: 3-4) Guy Standing defined the precariat as people who lack the seven forms of labor-related security: labor market security, employment

security, job security, work security, skill reproduction security, income security, and representation security.(G. Standing, 2011: 10)

In Korea, precarious workers include three categories: those preparing for employment/taking a temporary break from employment, irregular workers, and small self-employed workers.

According to official statistics, there were 25 million economically active population- including 1 million unemployed-,   and 16 million economically inactive population. The official rate of unemployment was 3.7%.(Statistics Korea, 2012) But among the economically inactive population, 0.6 million answered that they were preparing for employment and 1.6 million answered that they were taking temporary breaks from employment. (Statistics Korea, 2012) If we include these people in the unemployment category, more than 3 million are unemployed, and de facto economically active population becomes 27 million. De facto rate of unemployment rises from 3.7% to 11.6%.

Figure 1. Wage difference between regular and irregular workers(unit: 10 dollars)
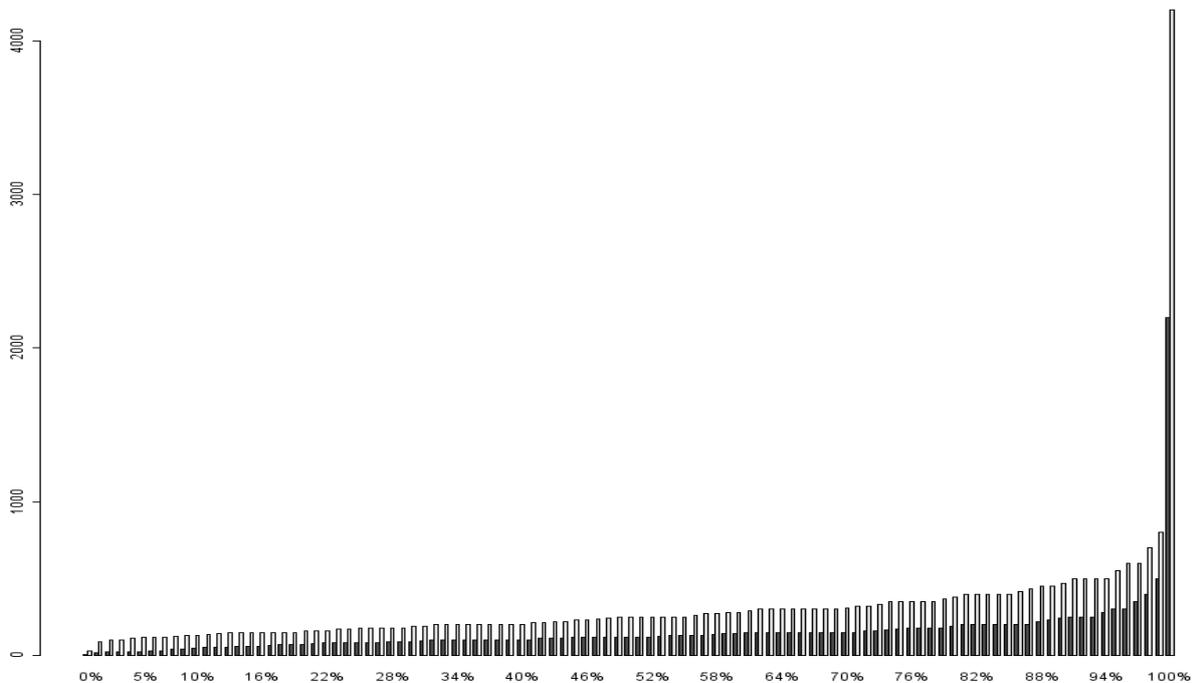
Source: calculted from Statistics Korea(2012). Black=irregular worker, Gray=regular worker

The next category of precarious workers is irregular workers. Yoosun Kim estimated that there were 0.8 million irregular workers in Korea, comprising 48% of total workers.(Yoosun Kim, 2012) There was a significant wage difference between regular and irregular workers: the average wage for irregular workers was only 49.9% of that of regular workers. This is shown in Figure 1.

Table 1. Cumulative distribution of monthly income(unit: US dollar)

Income	Less than 0	Less than 1,000	Less than 2,000	Less than 4,000	Average income
Self-employed	27%	58%	81%	91%	149.1
Irregular workers	0%	32%	91%	98%	138.9
Regular workers	0%	2%	32%	82%	278.3

Source: calculated from Statistics Korea(2012) and Small and Medium Business Administration(2010)

The last category of precarious workers is small self-employed. There were 7 million self-employed in 2012. According to a survey conducted in 2010, 80% of self-employed earned less than 2,000 US dollars(2 million won) per month.(Table 1) This paper includes these 5 million small self-employed as precarious workers because their economic status is worse than that of 91% of irregular workers.(Table 1)

Table 2 summarizes the above discussions. In 2012, there were 17,027 thousand precarious workers in Korea, comprising 62% of total economically active population. The employment rate was 59%, which was quite low compared to other OECD countries. As discussed in section 4, the existence of 2 million hidden unemployed and 5 million small self-employed is an important factor that makes conditional income support policy very difficult to introduce.

Table 2. Precarious workers in Korea(unit: person)

Population aged 15 and over 41,425,000						
Not economically active population 16,205,000		Economically active population 25,210,000				
	De facto economically active population 27,447,000					
economically inactive 13,968,000	Hidden unemployed 2,237,000	Unemployed 945,000	Irregular workers 8,370,000	Small self–employed 5,475,000	Big self-employed 1,369,000	Regular workers 9,510,000
	Precarious workers 17,027,000					

Source: calculated from Statistics Korea(2012)

3. Relationship between basic income and conditional income support policy

In this paper, we assume perfect information and no administrative costs. We also assume that all the necessary money is raised through income tax. Table 3 highlights the distribution effect of conditional income support policy and basic income policy. At first, the two policies look totally different as one gives 50 to everyone while the other gives 50 only to person 1. But in fact, they bring about the same result. This means that proponents of conditional income support have no reason to oppose basic income. They argue that there is no reason to give the rich basic income, and that giving money to the poor is enough. However, in the end, the distribution effect is identical.

Table 3. Equivalent distribution effects

	Person	1	2	3	4	5	Total
Conditional income support	Market income	0	100	150	250	500	1000
	Subsidy	50	0	0	0	0	50
	Tax	0	5	7.5	12.5	25	50
	Net benefit	+50	-5	-7.5	-12.5	-25	0
Basic income	Person	1	2	3	4	5	Total
	Market income	0	100	150	250	500	1000
	Subsidy	50	50	50	50	50	250
	Tax	0	55	57.5	62.5	75	250
	Net benefit	+50	-5	-7.5	-12.5	-25	0

If we additionally assume proportional income tax, basic income and conditional income tax have very different distributional and political results. This is shown in Table 4. In the case of conditional income support, only one person becomes a net benefit receiver. But in the case of basic income, 3 persons become net benefit receivers. If people are rational and have perfect information, the majority will vote in favor of basic income.

Table 4. Different distribution effects (proportional tax)

	Person	1	2	3	4	5	Total
Conditional income support	Market income	0	100	150	250	500	1000
	Subsidy	50	0	0	0	0	50
	Tax	0	5	7.5	12.5	25	50
	Net benefit	+50	-5	-7.5	-12.5	-25	0
Basic income	Person	1	2	3	4	5	Total
	Market income	0	100	150	250	500	1000
	Subsidy	50	50	50	50	50	250
	Tax	0	25	37.5	62.5	125	250
	Net benefit	+50	+25	+12.5	-12.5	-75	0

The biggest problem of basic income is the large amount of tax. In Table 3, the basic income policy increases the amount of tax from 50 to 250. But remember that this is only a nominal amount. The amount of redistribution(50) is the same as conditional income support policy.   It is also important to note that the same nominal amount of tax can produce quite a difference in the amount of redistribution.   In Table 4, the amount of redistribution is 75.

Table 5 shows the dynamic effect of increasing basic income. If we increase basic income from 50 to 60, net benefit increases for 3 persons. If people are rational and have perfect information, the majority will vote in favor of increasing basic income.   In the case of conditional income support, the majority will vote against increasing income subsidy. This is the reason for "paradox of redistribution", which describes the fact that the more you target benefits on the poor, the less effective you are in the long run in reducing poverty and inequality.(Walter Korpi and Joakim Palme, 1998)

Table 5. Increase in basic income

	Person	1	2	3	4	5	Total
Basic income	Market income	0	100	150	250	500	1000
	Subsidy	50	50	50	50	50	250
	Tax	0	25	37.5	62.5	125	250
	Net benefit	+50	+25	+12.5	-12.5	-75	0
Increase in basic income	Person	1	2	3	4	5	Total
	Market income	0	100	150	250	500	1000
	Subsidy	60	60	60	60	60	300
	Tax	0	30	45	75	150	300
	Net benefit	+60	+30	+15	-15	-90	0

If we drop the assumption of perfect information and no administrative costs, negative effects of conditional income support policy becomes obvious: high administrative costs, welfare blind spots, welfare trap(lack of labor incentive), and stigma effect.

When precarious workers are dominant, there is another important negative effect. As precarious workers have no stable job, they can easily change their economic activity. For example, if the government decides to give income support to the small self-employed, a large number of unemployed persons will start small self-employed business to get the income support. We will call this the transition effect.   It is a kind of moral hazard problem. If most of the workers are precarious, it is very difficult to implement conditional income support policy, due to the transition effect.

4. Comparison of various income support policies

In this section, we will make a model that is similar to the actual population composition estimated in section 2, and compare various conditional income support policies with basic income policy.

1) Income support for the unemployed

Table 6 summarizes distribution effects when the income support policy is implemented for the unemployed. In this table, regular I means low income regular workers, regular II means high income regular workers. People with big capital income are included in the category of unearned income. It is assumed that the amount of subsidy per person is 300 dollars a month.

This program has multiple problems. First of all, a huge transition effect is expected. As is shown in Table 1, 27% of small self-employed earned a minus income, and 58% of them earned less than 1,000 dollars a month. For these people, it would be far better to stop working and receive unemployment subsidy. Next, the unemployed receiving subsidies have little incentive to

work. Lastly, only 3 million persons are net benefit receivers, while 24 million are net tax payers. Unless the vast majority of people are altruistic, it's a policy politically difficult to implement.

Table 6. Income support for the unemployed(unit: dollars/month)

	Un-employed	Small self-employed	Irregular	Regular I	Regular II	Unearned income	Total
Number of persons(thousand)	3,000	5,000	8,000	6,500	3,000	1,500	27,000
Average market income	0	1,000	1,500	2,000	5,000	10,000	
Subsidy per person	300	0	0	0	0	0	
Tax per person	0	15	22.5	30	75	150	
Aggregate tax	0	75,000	180,000	195,000	225,000	225,000	900,000
Net benefit per person	300	-15	-22.5	-30	-75	-150	

2) Income support up to small self-employed

Because of the huge transition effect of the previous policy, the government may decide to give income support to the unemployed and small self-employed. The distribution effect of this policy is shown in Table 7.

In this case, small self-employed people have no reason to change their economic status. But low income irregular workers may want to be self-employed. Therefore, we can expect substantial transition effect. If a lot of irregular workers become self-employed, self-employed people's overall income may fall even further because of severe competition in self-employed business. This program is still politically difficult to implement, as the number of net benefit receiver is much smaller than that of net tax payer.

Table 7. Income support up to small self-employed(unit: dollars/month)

	Un-employed	Small self-employed	Irregular	Regular I	Regular II	Unearned income	Total
Number of persons(thousand)	3,000	5,000	8,000	6,500	3,000	1,500	27,000
Average market income	0	1,000	1,500	2,000	5,000	10,000	
Subsidy per person	300	300	0	0	0	0	
Tax per person	0	40	60	80	200	400	
Aggregate Tax	0	200,000	480,000	520,000	600,000	600,000	2,400,000
Net benefit per person	300	260	-60	-80	-200	-400	

3) Income support for all precarious workers

To reduce the transition effect substantially, it is necessary to give income support to all precarious workers. As long as the amount of subsidy is less than the wage difference between regular and irregular workers, regular workers have little incentive to change their economic status. The distribution effect of this policy is shown in Table 8.

In this case, the number of net benefit receivers is bigger than that of net tax payers(60% of population), and it is logical for the precarious workers to vote in favor of this policy to become net benefit receivers. However, this is unlikely to be the case in real life, because precarious workers have less political power than regular workers and people with capital income.

Table 8. Income support for all precarious worker(unit: dollars/month)

	Un-employed	Small self-employed	Irregular	Regular I	Regular II	Unearned income	Total
Number of persons(thousand)	3,000	5,000	8,000	6,500	3,000	1,500	27,000
Average market income	0	1,000	1,500	2,000	5,000	10,000	
Subsidy per person	300	300	300	0	0	0	
Tax per person	0	80	120	160	400	800	
Aggregate Tax	0	400,000	960,000	1,040,000	1,200,000	1,200,000	4,800,000
Net benefit per person	300	220	180	-160	-400	-800	

4) Basic income

In Table 9, the distribution effect of basic income is shown. Like the last policy,(Table 8) this policy gives income support to all precarious workers, and there is little transition effect. In this case, more than 80% of population becomes net benefit receivers. Low income regular workers become net benefit receivers. If people vote rationally, we can say that the political possibility of this policy is great.

It is worthy to note that the tax burden of high income regular workers (Regular II) becomes smaller under basic income policy.(-375 in Table 9 vs. -400 in Table 8) Comparing income support for all precarious workers vs. basic income,(Table 8 and Table 9), even high income regular workers have an incentive to support basic income.

Table 9. Distribution effect of basic income(unit: dollars/month)

	Un-employed	Small self-employed	Irregular	Regular I	Regular II	Unearned income	Total
Number of persons(thousand)	3,000	5,000	8,000	6,500	3,000	1,500	27,000
Average market income	0	1,000	1,500	2,000	5,000	10,000	
Subsidy per person	300	300	300	300	300	300	
Tax per person	0	135	202.5	270	675	1,350	
Aggregate Tax	0	675,000	1,620,000	1,755,000	2,025,000	2,025,000	8,100,000
Net benefit per person	300	165	97.5	30	-375	-1,050	

As mentioned before, the problem with basic income is the large amount of tax. The amount of tax increases from 4.8 billion dollars to 8.1 billion dollars. But remember that this in only nominal amount. If we calculate the actual amount of redistribution from the two tables, it decreases from 3.44 million dollars(Table 8) to 2.7 million dollars(Table 9)[1]. In terms of the amount of redistribution, basic income is less radical than income support for all precarious workers. The biggest barrier in implementing basic income is irrationality.

5. Conclusion

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[1] The actual amount of redistribution can be calculated either by the sum of the aggregate benefit of net benefit receivers or by the sum of the aggregate burden of net tax payers. In Table 8, 160*6,500+400*3,000+800*1,500= 3,440,000(thousand dollars). In Table 9, 375*3,000+1,050*1,500 = 2,700,000(thousand dollars)

In 2012, there were 17,027 thousand precarious workers in Korea, comprising 62% of the total economically active population.   If there were perfect information and no administrative costs, conditional income support policy could have exactly the same economic effects as basic income. But with imperfect information and positive administrative costs, conditional income support policy carries major disadvantages including administrative costs, blind spots, moral hazard, transition effect, welfare trap, and labeling effect.

If the majority of the population are precarious workers, conditional income support policy brings about huge transition effect and distorts labor market. To reduce the transition effect substantially and prevent labor market distortions, it is necessary to give income support to all precarious workers. However, basic income is superior to income support for all precarious workers, not only economically but also politically.

The biggest problem with basic income is the large amount of tax. But it is only a nominal amount, and the actual amount of redistribution may be much smaller. To implement basic income, we need to overcome irrationality.

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