

KOREA'S DWINDLING MIDDLE CLASS

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Significant Decline of Middle Class

The on-going economic crisis since 1997 has exerted an unfavorable impact on the middle class of Korea. The radical change of income proportion by income groups shows that the middle class is shrinking. Between 1994 and 1996, the income proportion by income groups of Korea remained almost static, only showing slight changes of 0.5% or so. In contrast, in 1998, the income proportion of middle class decreased by 1.2% points, while the income proportion of upper class increased by 2.4% points.

The rapid decrease of the proportion of middle-class households in 1998 is another indication. In 1997, the proportion of middle class was 52.3% of the entire population, but in 1998 it diminished to 45.8%, while the proportion of the lower class jumped from 38.7% to 47.0%.

The class consciousness of those belonging to the middle class has tapered off dramatically since the foreign exchange crisis broke out.

According to a recent survey by Hyundai Research Institute (HRI), the percentage of those who felt they belonged to the middle class dropped from 53.1% to 34.8%. The study also showed 19.4% of those who thought themselves middle-class before the crisis felt they have become members of the lower class.

Causes, Effects, and Cures

One of the most important causes of the dwindling middle class is the high unemployment. As labor demand went down, the unemployment rate increased to 8.7% in February 1999, and the average nominal wage posted a 2.5% decrease in 1998, the first decline in twenty years. These probably have a direct effect on the income decrease of the middle class. Also, the decreasing job security distorted the middle-class identity. To some extent, the falling wage level and lowered job security is due to the low productivity of Korea's middle-class workers, most of whom are white-collar workers. The

Table 1. Income Proportion by Income Group for Salary and Wage Earners' Households

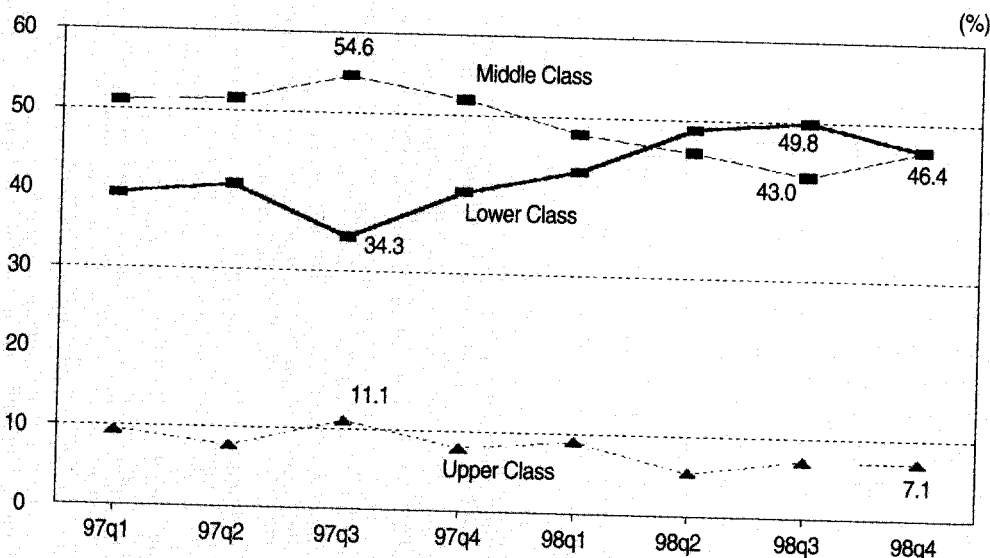
(%)

	1994	1995	1996	1997					1998				
				1/4	2/4	3/4	4/4	AVG.	1/4	2/4	3/4	4/4	AVG.
Lower Class	14.8	14.7	14.3	14.0	14.8	14.5	14.9	14.6	13.1	13.2	13.1	13.5	13.2
Middle Class	35.3	35.4	35.3	35.4	35.9	35.9	35.9	35.8	34.9	34.4	34.5	34.8	34.6
Upper Class	49.9	49.9	50.3	50.6	49.2	49.6	49.2	49.7	52.0	52.4	52.4	51.6	52.1

Source: National Statistical Office.

Note: Lower class is defined as 1st~3rd decile, middle class as 4th~7th decile, upper class as 8th~10th decile, using income decile data.

Figure 1. Proportion of Household Numbers by Income Group for Salary and Wage Earners' Households



Source: National Statistical Office.

Note : Define high class as households earning more than 3.95 million won per month, middle class as those earning 1.75~3.95 million won, low class as those earning less than 1.75 million won.

corporate culture in which white-collar workers are likely to expect lifelong employment and trained to be generalists rather than specialists is the most important factor behind this low productivity growth.

The dwindling middle class in Korea is expected to generate several problems not only in the Korean economy but also in Korean society. First of all, it impedes the recovery in consumption of durable goods. Considering that the middle class is the major source of demand for durable goods such as cars, housing and household electronic appliances, the dwindling middle class naturally deepens the sluggish consumption of such goods. Another problem is the deterioration of socio-economic unity. The middle class plays a decisive role in maintaining social stability. As the middle class shrinks, the stability and socio-economic unity of the society is going to be weakened.

The question, then, is whether this phenomenon will last for a longer time or not. Unfortunately, there is a possibility that this shrinking process may be extended for another 2~3 years. The ground for this gloomy anticipation is that it will take a certain amount of time to complete the on-going restructuring and to fully establish the knowledge-based economy.

Therefore, it is urgent to design and implement policies for reconstructing the middle class in coming years. In order to strengthen the productivity of white-collar workers, it is necessary to develop various job training programs and to establish special job matching networks for the unemployed. In addition to this, to supplement the disposable income of the middle class, the government should readjust the tax system to ease the high living costs of the middle class. **VIP**