Analysis of the regional socio-economic effects of the basic income in South Korea

Topic: Input-Output Analysis: Income Distribution Policies - II
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Abstract

The basic income debate is an important issue in South Korea. This debate was quite hot especially in the national president election campaign in the first quarter of 2022.

Proponents of the basic income argue that basic income is the most efficient policy instrument in reducing inequality and poverty. Empirical results from partial equilibrium analysis, which mostly focus on the distributional and/or poverty issues, advocates basic income.

On the other hand, Opponents of the basic income do not put much credit on the distributional improvements. They emphasize that we need to consider other aspects of the economy.

In this paper, we apply a CGE-Microsimulation approach to investigate the pros and cons of the basic income in South Korea.
The basic tool is the TERM-Korea Regional CGE model, which uses the most recent input-output table of the South Korean economy.

We first present national results, and sectoral results follows next. In the summary part of the paper, we present the policy implications for the basic income scenario.

Keywords: basic income, socio-economic effect, regional analysis, CGE model, TERM-Korea

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1. the research question;

This paper analyzes the socio-economic effects of the hypothetical introduction of basic income in South Korea. South Korea is a very dynamic country and experienced rapid increase in the welfare expenditure in last 10 years.

Therefore, there is a huge need for the evaluation of the proposed policy effectiveness both at the pre-policy stage and ex-pose stage. The regional CGE model developed here is expected to serve as a major tool for the welfare policy effectiveness of the South Korean Government.

2. the method used;

In this paper, CGE-Microsimulation model is used. First, we extend existing national CGE model to

distinguish 17 provinces in South Korea in bottom-up manner.

Next, 229 county data are used in a top-down manner. With this CGE-MS model we can analyze regional income distribution and/or poverty at the county level.

3. the data used (if any); and

We start with the 2015 inter-regional input-output table from the Bank of Korea released in June 2019. Later we use National Income Account data to update the benchmark database for the TERM-Korea model. We also combined the regional data on population, income and consumption at the county level.

4. the novelty of the research.

The TERM model stands for â€œThe Enormous Regional Modelâ€• and first developed in 2002 by Professor Mark Horridge and Professor Glyn Wittwer of the Monash University (they both are now with Victoria University) in Melbourne, Australia. The TERM model is rooted from the Monash CGE model developed by Professor Peter Dixon and Professor Maureen Rimmer.

The TERM-Korea model is the first regional CGE model that distinguished all the 19 provinces in South Korea. In addition, we combined the information at the county level to the TERM-Korea model. This will be the fundamental workhorse for the analysis of welfare policy in South Korea.