

**Dynamics of private and public transfers in emerging welfare states
: a comparative perspective**

Panel session: *Comparing East Asian Welfare Regimes to Western Counterparts*

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Abstract

Rapid social policy development and reforms have taken place in South Korea and Taiwan over the last two decades. While the role of the family including private transfers has been pointed out to be a distinctive feature of the newly emerging welfare states, the actual performance and dynamics of family support and increasing state welfare in terms of poverty and inequality has been almost unknown. In this context, this article will empirically examine the role of income transfers in poverty and inequality reduction in a comparative perspective. This article aims to widen the scope of comparative income studies by analysing 12 Western welfare states and the two East Asian welfare states. The Luxembourg Income Study (LIS) dataset is used for the analysis. The empirical results indicate that private transfers are still more important sources than public transfers in terms of income inequality and poverty reduction effects in both South Korea and Taiwan, in contrast to western counterparts. In the final part, the results are discussed and further research questions are proposed.

Keywords: Private transfers, welfare states, poverty, inequality, Korea, Taiwan

Introduction

Empirical studies of income distribution and poverty have played a crucial role in identifying the performances of different western welfare states or regimes. These studies have indicated that the public transfer system has been successful in terms of poverty and inequality reduction in varying degrees. However, there have been very few attempts to empirically unravel this question in East Asia. Private transfers, particularly family support, have been acknowledged as an important income source for elderly households in East Asia, but it is still less known whether they reduce or strengthen poverty and inequality. Also, it is equally unknown whether rapid developments of East Asian welfare programmes in line with socio-politico-economic transformations in recent years have enhanced the role of public transfers over that of private transfers. In this context, this article will empirically examine the role of income transfers in poverty and inequality reduction and will analyse the dynamics of public and private transfers in two newly emerging welfare states, i.e. South Korea (Korea hereafter) and Taiwan.

This study will aim to contribute to comparative income studies by widening their scope to the two East Asian welfare states. They will be analysed together with 12 western welfare states representing four different welfare-state regimes. Studies of East Asian welfare regimes normally take into account western countries as a comparative barometer, but there are a highly limited number of comparative studies adopting a quantitative analysis. Also, it will also contribute to East Asian welfare studies by providing a micro picture of these welfare regimes, which will differentiate this article from existing East Asian welfare studies. For the analysis, the recent dataset from the Luxemburg Income Study (LIS) will be used. In the final chapter, based on the results, we will discuss how to interpret the results and their implications. Also, we will propose further research questions for the debates on the 'East Asian welfare model'.

Family versus state in the emerging welfare states

Family has been pointed out as a central pillar of East Asian welfare regimes in which Confucianism plays a key role. Confucian welfare state argued by Jones (1993) and

subsequent studies (e.g. Sung 2003, Rieger and Leibfried 2004) demonstrate the importance of family in these regimes. After reviewing existing East Asian welfare studies, Ku with Jones Finer (2007:122) summarises that 'the East Asian welfare states have been described variously as family-oriented, reluctant, traditional-charity and authoritarian'. According to them, these characteristics can well explain the low development of state welfare and low social spending in East Asia. This finding has also been supported by empirical studies. Kwon (2001) is one of the earliest and empirical studies on poverty and the antipoverty effect of income transfers in Korea and Taiwan. Using the Luxembourg Income Studies (LIS) data for Taiwan and the National Survey of Family Income and Expenditure for Korea, he shows that 'private transfers play a bigger role than public transfers' (Kwon 2001:81). He specifically investigates the elderly and also reveals that the proportion of earnings from children in total household income decreased time. Finally, he argues that both governments should urgently develop social policy for the elderly. Biddlecom et al (2001) also confirm Kwon's finding. When they examine the dynamics of public and private transfers in elderly households from 1989 to 1996 in Taiwan, they observe that private transfers had been the most important income source for the elderly.

In the meantime, it is argued that states play only a marginal role in providing welfare. Kwon (1998:67) shows that East Asian states 'remain predominantly regulators'. However, that does not mean at all that these states have been weak in general, compared to family and market. Throughout the process of industrialisation, 'the developmental states' (Johnson 1982) have been prominent in all policy-making processes. However, as widely acknowledged, the priority of the states lies in economic growth and productivity, certainly not in welfare, which was crucial for maintaining their political legitimacy. Under the productivist and developmental welfare regimes (Holliday 2000, Kwon 2005, Lee and Ku, 2007), social policy was subordinate to economic objectives and policy. In other words, the states chose to stay marginal in welfare provision rather than were forced to be. In this sense, the strong presence of family and Confucianism in welfare provision has been strongly supported by the authoritarian states which pursued economic efficiency as well as political stability (White and Goodman 1998, Walker and Wong 2005). Thus, familialism 'may as easily be interpreted in 'negative' terms (forced dependency for lack of alternatives) as in 'positive terms' (Esping-Andersen 1997:187).

However, since the 1980s, largely thanks to the success of the developmental states, East Asian states, particularly South Korea and Taiwan, have experienced socio-political transformations. The compressed nature of these transformations has been observed, which has not been found in the western world. Rapid ageing, urbanisation, democratisation, globalisation, and post-industrialisation have occurred concomitantly, and the governments in the two countries have had to cope with a range of needs and demands from their societies. While western welfare states have undergone an era of welfare restructuring or retrenchment over the last two or three decades, only very few countries have managed to expand their welfare system. Clearly, Korea and Taiwan are notable cases among them. In this period, the development of welfare programmes has been conspicuous along with these changes. Both countries have introduced and developed existing pension schemes, healthcare programmes, social services, labour market programmes including unemployment benefits, and also social assistance programmes. Although the detailed structure of the programmes is far from identical in the two countries (Choi 2008), this has been a huge development in terms of social rights. In this context, Kim (2008) and Chan and Lin (2003) find that Korea and Taiwan can be classified as a welfare state since around the 1990s.

It is believed that these changes have brought a new dimension to the 'family-state' nexus. On the one hand, the increasing amount of public welfare could ease the burden of family in welfare provision. In effect, these states have equipped a comprehensive set of social protection since the 1990s. Some pension and health programmes used to only cover civil servants, military personnel, or employees in large companies, but the eligibility has been expanded to all of the labour force, and even to the non-working population in some programmes. Introducing an unemployment benefit and various social services also show significant development. In addition, the states take responsibility for a minimum livelihood for their citizens by modernising their public assistance system. Korea introduced and developed the National Basic Livelihood Security Act in 2000 whereas Taiwan has developed various flat-rate assistance programmes in a more patchy way, including various old-age allowance programmes providing NT\$3000-4000 monthly. This trend accords with Kwon's argument (2005) that these states are moving towards the 'inclusionary developmental welfare states', as they are playing welfare financiers and also providers. While these developments could relieve the burden, interestingly enough, the

considerable increase in poverty and inequality has been indicated as one of the core drivers for them, which could imply that family burden is still substantial.

On the other hand, family has been confronting rising pressures and tensions as these societies are moving towards post-industrial ones. Mothers who used to stay home and to do care work have increasingly taken part in paid work and also three-generation families has been broken down into nuclear families and single-household families (Choi 2006). The key actor of family-oriented welfare regimes, women, have been difficult to bear their traditional roles. The very low fertility rate in these countries, near to one, which has been a centre of their demographic change, is believed to be closely related to the changing role of women and family. It is noticeable that Southern European countries, also arguably family-oriented welfare regimes, share this 'low fertility rate' feature in recent years. It is expected that these changes could reduce the role of family in welfare provision or could increase 'forced dependency' on family. According to Kim's study on the structure of welfare mix expenditure in Korea (2005:14-17), the size of family spending in social protection and health, estimated around four percent of GDP during the period between 1990 and 2001, was higher than that of state and market spending until 1993, but since then the size of public transfers considerably increased from three percent in 1990 to six percent in 2001.

Does this mean a farewell to the family-oriented welfare regimes and an emergence of western-type welfare regimes? While some argue that the role of family and kinship and the emphasis on filial piety still plays important roles in welfare provision, statistics show that family in the two countries is not what it used to be in terms of decreasing co-residence and increasing divorce rate and single households. This study does not aim to provide a comprehensive picture of the changing nexus of family and state, but it will pay particular attention to cash transfers and their role in alleviating poverty and inequality. It will also ask whether public welfare programmes and transfers are ready to replace the function of the traditional family in welfare provision and whether Korea and Taiwan have become the likes of western welfare states or they still have their own characteristics by comparing to other 12 western countries. These questions will be the central concern of this paper.

Poverty/inequality, welfare states, and private transfers

There have been a series of studies illuminating the role of welfare states in alleviating poverty and inequality. They pay primary attention to public cash transfer programmes, e.g. pensions, unemployment benefit, and social assistance. Some scholars are more interested in which welfare institutions/regimes are more effective or efficient in poverty/inequality reduction (e.g. Korpi and Palme 1998; Mitchell 1991) whereas others take a closer look at the nature and structure of poverty/inequality in welfare states and suggest policy implications (e.g. OECD 2001). While there is no doubt that public transfer programmes greatly contribute to the reduction of poverty and inequality, studies witness that the extent to which public transfers reduce poverty inequality varies across different institutions and regimes. Research consistently reveals that the poverty reduction rate is highest in Nordic/social democratic/encompassing regimes, e.g. Sweden and Finland, and also very high in corporatist/conservative regimes, e.g. Germany. However, the reduction rate is relatively lower in liberal/basic security regimes and Mediterranean regimes (e.g. Makinen 1999). Also, Korpi and Palme (1998:661) point out the 'paradox of redistribution' in which 'the more we target benefits at the poor and the more concerned we are with creating equality via equal public transfers to all, the less likely we are to reduce poverty and inequality'. In effect, liberal regimes where targeting the poor is one of the most important principles record the highest poverty rates with the lowest antipoverty effect of public transfers.

While the effect of antipoverty/inequality policies in the western world has been well documented, that in East Asia is less well known. In the weak presence of antipoverty policies, many studies focus on the relationship and the growth in East Asia. The conventional wisdom were the so-called 'Kuznets Curve' hypothesis in which 'income inequality has an inverted-U shaped relationship with economic development' (Nielsen and Alderson 1997:12) and also the positive relationship between growth and inequality (Aghion and Williamson 1999). However, the Korean and Taiwanese cases do not fit into these conjectures. Their inequality in the period of industrialisation was as low as the European level and in spite of the low level of inequality they have achieved a remarkable economic growth (ibid:8). Rather, the relationship between inequality and economic growth has a U shape, not an inverted-U. According to Choi (2003), the GINI index in Korea was 0.309 in 1982, .281 in 1993, and again .312 in 2002. Yet, it is too early to

conclude in that, on the one hand, state has expanded social policies and, on the other hand, tradition family playing a key role in distributing wealth is being transformed into a modern form. Although there seems to be an increasing number of studies of poverty and inequality in the two countries, few studies have been conducted for illuminating the effect of family transfer or/and welfare programmes in reducing poverty/inequality in Korea and Taiwan in a comparative perspective.

As discussed, Kwon (2001) and Biddlecom et al (2001) provide a useful finding for subsequent studies. However, three questions remain. First, since both studies use the early and/or mid-1990s dataset when social policy had just started to expand in these countries, it is possible that a recent dataset could show a different story. Secondly, although it is undeniable that the proportion of income support from children to elderly households seems to be decreasing, private transfers could be still important in two ways. One possible scenario could be that transfers flow in the reverse direction, from the elderly to children, as young people are struggling to obtain a proper job in the labour market in both countries. The other is that, as Kwon (2001) shows, private transfers could be still crucial in alleviating poverty and inequality, if 'altruistic' behaviours are maintained. Finally, both studies pose important methodological issues. In the case of Kwon (2001), the dataset used for his research, the National Survey of Household Income and Expenditure of 1996, only provides income data for employee households, not for self-employed or unemployed households, which could seriously under-represent poor and elderly households. Also, Biddlecom et al (2001:4) note that their survey data 'do not contain much detail about a wide range of income types' and 'do not contain information on amounts of transfers in each wave'. Rather, they ask 'what are the major income sources' or 'what is the most important source of income?' Because of these methodological issues, their finding might not be able to fully unravel the dynamics of private and public transfers.

Turning back our attention to the western countries, private transfers have not been the main interest in welfare state research and poverty research, mainly because they are not significant income sources compared to public transfers. For example, according to O'Higgins et al (1990), the proportion of private transfers in total household income in major OECD countries was less than one percent. Subsequently, it is difficult to expect any antipoverty/inequality effect of private transfers. Jacobs (2000) who examines income

distribution in Korea, Taiwan, Japan and the United Kingdom (UK), finds that the income distribution pattern in the UK is highly different from the other three countries in that private transfers had very little impact and also social security transfers result in a high level of vertical redistribution. A similar result is also found in another OECD study (2001) in that the size of private transfers in total income in elderly households is insignificant. However, it is noticeable that the proportion of private transfers in the top quintile of elderly households is much higher than other income groups in OECD societies. In particular, the size in the top quintile, the richest section, is more than 20 per cent of total income in Canada, the US, and the UK. This implies that the role of private transfers is more likely to strengthen inequality rather than to reduce it, unlike Kwon's finding (2001). This accords more with the 'exchange' hypothesis, not the 'altruism' hypothesis, where there is a positive relation between recipients' resources and transfer amounts (Cox 1987, 1990).

From the limited number of previous studies, it can be seen that the role and effect of private transfers in East Asia is highly different from that in western world. However, there has not been a comprehensive empirical study aiming to comparatively test the nature of private transfers and also their antipoverty/inequality effect in the two worlds. Also, it has not been unveiled how recent welfare changes result in the existing characteristics of public and private transfers. This study will try to answer these questions.

Methodology

The Luxembourg Income Study (LIS) Database

The LIS has provided the most reliable, comprehensive, and consistent micro income datasets suitable for international comparative studies for the last twenty years. This study also employs the latest LIS datasets for its cross-sectional international comparison. Primarily the 6th wave datasets (around 2004) are utilised when available from the LIS database but the half of the datasets (Austria, France, Germany, Greece, Italy, Spain, and Norway) were driven from the 5th wave (around 2000). Among the more than 30 member states of the LIS, on the other hand, our empirical work covers 14 countries – 12 Western

welfare states and two newly emerging welfare states in East Asia, i.e. Korea and Taiwan. The 12 Western welfare states are selected according to the four major welfare state regimes (Liberal – Australia, UK, US; Continental – Austria, France, Germany; Nordic – Sweden, Norway, Finland; Southern Europe – Greece, Italy, Spain). In East Asia, we choose only two countries because of the data availability¹. Taiwan has provided her micro income dataset to the LIS from its initial stage and, in the meantime, Korea has joined the LIS from the 6th wave. However, since the Korean dataset is not currently available from the LIS database, instead, our analyses are based on the micro dataset that the Korean government has provided to the LIS – the 2006 Household Income and Expenditure Survey conducted by the National Statistical Office in Korea.

Issues in Income Studies

There are plenty of debatable points in income research, especially when one conducts an international comparison (see Mitchell, 1991 and Atkinson et al. 1995). Although this study does not intend to introduce all the points and explain which methods are applied to the article, it is necessary to clarify the definition of different income aggregates including the components of private transfers, the issue of the equivalence scale, and the bottom and top coding procedures.

First of all, it is important to define various income concepts used in this empirical work. Basically our study follows the guidelines suggested by the work of Atkinson et al (1995:14), which divides income aggregates by adding additional components of household income; by stage, wage and salary income, primary income, market income (MI), gross income (GI), and disposable income (DPI). As seen in Figure 1, our definition adopted here is similar to this, but there is one critical difference. Whilst most of the empirical studies conducted by the Western scholars define market income as the sum of factor income (FI), occupational pensions, and private transfers, our study separates the private transfers from the category of market income to find the income inequality and poverty reduction effects of private transfers and to compare them with those of public transfers. So, market income is defined as the sum of factor income and occupational pensions in our study. Except for this, the

¹ Japan is excluded from the analysis since the comparable data is not available.

definition of gross income and net disposable income is the same as the typical definition of income suggested so far.

Figure 1 about here

Another issue related to income definition is the scope of private transfers, and their components in the national datasets of the LIS. The LIS divides private transfer into two major categories; one is alimony/child support, and the other is regular private transfers². The latter has two sub-items; regular private transfers from relatives and those from charity organisations. As seen in Table 1, nevertheless, all the national datasets do not include all the components of private transfers. Although the national datasets of 12 Western welfare states include the alimony/child support item, there is no information about regular private transfers in Norway and Sweden. In Korea and Taiwan, the alimony/child support variable has not been included in their income surveys as an independent item, nor have the two items of regular private transfers been included separately. But, we can assume that most private transfers come from family or other relatives in Korea³ and Taiwan, as in all the national datasets regular private transfer from charity is separately surveyed.

Table 1 about here

Similarly, the deduction of personal income tax and social security contributions from gross income is not possible in some national datasets. In Austria, Greece, Italy, and Spain, both payroll and income taxes are not separated from factor income variables (wages and salaries, self-employment incomes). In France, only income taxes were surveyed separately. Therefore, all types of income aggregates are provided with the form of 'net' income such as FInet, MInet and GInet by deducting payroll and income taxes in these countries.

Finally, it is necessary to discuss the issue of the equivalence scale. Equivalence scales have been designed to adjust household income to account for different needs of different types of households. One of the most popular and simplest ways to equalise household income

² Any lump-sum income is excluded from any category of income aggregates of the LIS.

³ According to the National Survey of Family Income and Expenditure Data of 2000, the newest micro income dataset distinguishing between private transfers from charity and from other family members, the portion of regular income transfers from charity is only 0.35% in overall private transfers (author calculation). In the research, we also assume that the portion of private transfer from charity would be negligible. .

in comparative studies is to divide it by the value square root of the number of household members (Atkinson et al., 1995). We also adopt this method in the analysis.

Measurement of Income Inequality and Poverty Reduction Effects

Our empirical work to measure the effects of private and public transfers is two-fold; we look at income inequality and poverty. First of all, there are many methods to summarise the overall income distribution such as the percentiles of distribution as the percentages of the median, the Gini coefficient, the Atkinson inequality index, and so on. In this article, however, we only employ the Gini coefficient in measuring income inequality. Since the Gini coefficient tends to be fragile to very high and very low scores, the LIS recommends applying the method of the ‘bottom and top coding’. By adopting the ‘bottom and top coding’, zero and minus income is replaced into 1 per cent of median equivalised disposable income and very high income is recoded as 10 times of the median equivalised income. In the case of poverty measures, we employ both a head-count poverty rate and the poverty gap. Whilst the poverty rate is the concept to find the extent of poverty, the poverty gap provides information on the depth of poverty. The poverty line is set at 50 per cent of median equivalised income for the purpose of international comparisons⁴.

The effects of private and public transfers are computed as the notion of ‘reduction effects’ by comparing the figures pre- and post-transfer. In our study, three reduction effects are computed as follows:

$$\text{Inequality reduction effect} = [(\text{pre-transfer Gini} - \text{post-transfer Gini}) / \text{pre-transfer Gini}] * 100 \quad (\text{per cent of Gini changes})$$

$$\text{Poverty rate reduction effect} = [(\text{pre-transfer poverty rate} - \text{post-transfer poverty rate}) / \text{pre-transfer poverty rate}] * 100 \quad (\text{per cent of poverty rate changes})$$

$$\text{Poverty gap reduction effect} = [(\text{pre-transfer poverty gap} - \text{post-transfer poverty gap}) / \text{pre-transfer poverty gap}] * 100 \quad (\text{per cent of poverty gap changes})$$

⁴ We have applied 40 and 60 per cent standards at the same time, but the results are not significantly different.

Findings from the LIS: Public Transfer vs. Private Transfer

As the first step of the empirical analysis, the differences in the income package of different countries are examined (see Table 2). At first glance, the relative importance of private transfers seems marginal (on average 0.8%) in western welfare states regardless of the types of welfare regimes. Except in Austria, the ratio of private transfers to DPI is less than 1 per cent. Instead, transfer income from the public sector is an essential part of household income. On average, one-fourth of DPI comes from the public sector though there are considerable differences among different welfare regimes – i.e., the importance of public transfers is much higher among those countries in Nordic and Continental Europe but is relatively low in liberal welfare states. On the other hand, private transfers in Korea and Taiwan have a greater importance than in their Western counterparts. The ratio of private transfers to DPI is 5.8 per cent in Taiwan and 6.5 per cent in Korea respectively – seven or eight times higher than the average of western welfare states (0.8 per cent). In contrast, although the size of public transfers has become bigger than that of private transfers resulting from recent welfare expansion, the importance of public transfers in the two East Asian countries, however, is much lower, around 5 per cent of DPI.

Table 2 and 3 about here

With regards to the overall income distribution, as seen in Table 3, the primary distribution through the market is much more equal in Korea and Taiwan (less than 0.4) than in western welfare states. As easily anticipated, the UK (0.4967) and US (0.4859) show the highest inequality of market income. Even in Norway, the Gini coefficient is over 0.4 even though her income inequality is recorded at the lowest level among twelve western welfare states. If we move to the income distribution of DPI, however, the picture of inequality is dramatically changed. The level of inequality is markedly reduced through the income transfer system in all western welfare states even though the differences among them seem outstanding, as some previous studies have indicated (Mitchell, 1991; Atkinson et al, 1995). Nordic welfare states reduce the inequality of market income by 44 per cent on average, followed by 42 per cent in Continental Europe and 29 per cent in Southern Europe and liberal welfare states. In particular, it is noteworthy to emphasise that the vast majority of

the inequality reduction effects have been caused by the public transfer system through both paying-in (public transfer income) and paying-out (payroll and income taxes) whereas the effect of private transfers is highly insignificant. By contrast, the importance of private transfers is clearly conspicuous in Korea and Taiwan. When comparing the Gini coefficient of the market income to the one after private transfers only, income inequality is reduced by 7.8 per cent on average. Evidently it is higher than the effect of public transfers in both countries (5 per cent on average).

Our analyses of the poverty reduction effect also tell a similar story. As Table 4 indicates, the head-count poverty rates based on the market income vary from 26.6 per cent (US) to as much as 37.2 per cent (France), but these rates are greatly reduced when public income transfers are included. In spite of significant variability, public transfers reduce poverty rate by at least 40 per cent even in the most laggard welfare state (US), or up to 88 per cent in one of the most advanced welfare states (Sweden). However, the poverty reduction effect of private transfers remains trivial, if any, in those countries, even in Southern European countries. On the other hand, the importance of private transfers can be found again in Korea and Taiwan. Private transfers reduce the poverty rate by 19 percent in Korea and by 25 per cent in Taiwan. Compared with the figures for their western counterparts, the poverty reduction rates of private transfers for Korea and Taiwan are approximately ten times higher on average. But the effect of public transfers in both countries remains 16.5 per cent on average, i.e. one-third to one-fifth of their Western counterparts (55 per cent in liberal welfare states and 84 per cent in Nordic welfare states). Furthermore, as seen in Table 5, the dominant effects of private transfers over public transfers in Korea and Taiwan are also found in the analysis of the poverty gap reduction effect. The depth of poverty is greatly reduced by public income transfers in western welfare states whilst the poverty gap reduction effects of private transfers are greater than those of public transfers in Korea and Taiwan. These results are not different when applying a different poverty line.

Table 4 and 5 about here

Finally, it needs to be mentioned that, in Korea and Taiwan, the overall level of income distribution and poverty based on DPI is not much worse than the average of Western counterparts (except for the poverty gap in Korea). The average Gini coefficient (DPI) of

the two East Asian countries is 0.3188, which is better than that of liberal and Southern European welfare regimes. Similarly, the head-count poverty rate is better than (Taiwan) or close to (Korea) the average level of those two regimes. This is interesting, not least when we remember the marginal role of public transfers in the two countries. The reasons are twofold; one is the relatively equal primary distribution of market income, and the other is the role of the family (or private transfers) in complimenting their weak public transfer system.

To sum up, the empirical analyses discussed so far have provided consistent results; private transfers play a greater role than public transfers in income inequality and poverty reduction in Korea and Taiwan, whereas there is almost a 'zero effect' of private transfers in the western counterparts. The findings suggest that the difference between western welfare states and newly emerging East Asian welfare states is more outstanding than the differences found between different welfare regimes in the western world.

Towards new familialistic welfare states?

This research illuminates the relatively unknown aspects of the newly emerging welfare states, i.e. the effects of public and private transfers in poverty and inequality reduction, by directly comparing them to existing welfare states. In so doing, we also reveal the performance of their welfare programmes. Our empirical analyses have shown that the income inequality and the poverty reduction effects of private transfers outperform those of public transfers both in Korea and Taiwan, which is clearly opposite to what is found in western welfare states. Also, contrary to the findings in some western countries (OECD 2001, Cox 1989), the poorest section of society in both countries benefits from private transfers. Despite using more recent dataset, this verdict accords with the results of Jacobs (2000) and Kwon (2001). In other words, the analyses demonstrate that in spite of seemingly fundamental socio-economic changes together with the development of welfare programmes family still matters in these countries. However, before we reach any conclusion with these findings and apply them to the debates on the East Asian welfare model, there are some critical issues to be discussed.

First of all, some would argue that those effects of private transfers in Korea and Taiwan could be temporary ones because their welfare states have not been crystallised yet. In other words, the effect of private transfers could disappear or be reduced greatly once their welfare states mature. In relation, two arguments can be discussed. Firstly, although social expenditure has increased and welfare programmes have been expanded, the recent spending of the public welfare system has reflected the characteristics of their previous welfare regimes rather than the newly reformed welfare regimes. In effect, previous welfare programmes were designed to provide benefits mainly for civil servants and employees in large enterprises, which could rather strengthen inequality. Secondly, related to the first point, their welfare states are still immature. The National Pension in Korea is a typical example. Although it was introduced in 1988 and expanded to almost all of the labour force in 1999, since this is a contributory system, it takes at least 20 years to start to provide a full old-age benefit. Similarly, newly designed public assistance schemes and unemployment benefits could take some time to be mature and to benefit all sections of society. Therefore, it could be naïve to jump into any conclusion on the East Asian welfare model.

Secondly, it is important to take the demographic change and household transformations into account. The demographic change can have various impacts on poverty and inequality. Given that the unit of analysis is a household, private transfers between children and parents can be invisible when living together. However, as the number of traditional 'three-generation model' family has rapidly reduced, it is likely that transfers between two generations become more visible, which can be one of the reasons why the size of private transfer remains strong. For example, in Korea, the co-residence rate of elderly people aged 60 and more has fallen down from 54.5% in 1998 to 42.7% in 2002 in Korea (NSO 2004), though the rate is still high compared to that of western counterparts. In the status of co-residence, the elderly without income can still be counted as non-poor, but if they do not live together with working children, they are more likely to be poor. As the fertility rate in these two countries has almost reached one in recent years, it is anticipated that the rate of co-residence will continue to decrease.

Closely related to the above point, it should be born in mind that this result is based on the 'cash' side of welfare states and family rather than on the 'care' side. Decreasing the co-

residence rate could mean the substantial reduction of family's caring role. Also, possibly cash transfers might to some extent replace the care function that family used to take. By contrast, the almost invisible role of cash private transfers should not be interpreted as 'no welfare function of family' in the western world. The 'care' side still remains important in the western world, particularly in Southern Europe. Also, Motel-Klingebiel et al (2005) argue that welfare states in western world have not crowded out help from families and support the 'mixed responsibility' hypothesis in the western world. It will be an interesting research question how the 'cash' and the 'care' aspects of family have interacted with each other, which is beyond the scope of our research.

Finally, however, it is equally naïve to presume that private transfers would simply disappear as these welfare states become mature. There are three possible reasons for this. Firstly, undeniably, a family-centred culture, apparently declining but still prevalent, exists in these societies. Secondly, in line with the rapid socio-economic changes, poverty and inequality have been significantly increasing (CEPD 2007). In particular, the increasing inequality of market income is noticeable. In this context, it is highly questionable whether recent developments of social policy in these countries could solely cope with these changes and crowd out private transfers. Last but not least, the family component in welfare provision could be maintained and strengthened by governments' efforts. It is highly possible that both governments, reluctant to increase public expenditure, fully take advantage of private transfers as part of welfare provision by way either of institutionalising family responsibility or of intentionally leaving a gap for family to fill in. Therefore, depending on welfare politics in these countries, it is more than possible that private transfers settle as one of the important parts of East Asian welfare states. In this scenario, despite the expansion of state welfare, family would still carry substantial burden in terms of risk sharing, which would be interpreted strongly as forced dependency.

Together with these issues, there are further research agendas. First of all, although the two welfare regimes have shown the similar dynamics of public and private transfers, compared to western countries, the performances are also different partly due to their different policy approaches. It will be important to research their different performances, not only similarities. Secondly, researching a specific section of population, e.g. elderly households or single households, will be required in order to reveal who are the beneficiaries from

income transfers. Further empirical studies will greatly enhance the understanding of the nature and the dynamics of East Asian welfare states.

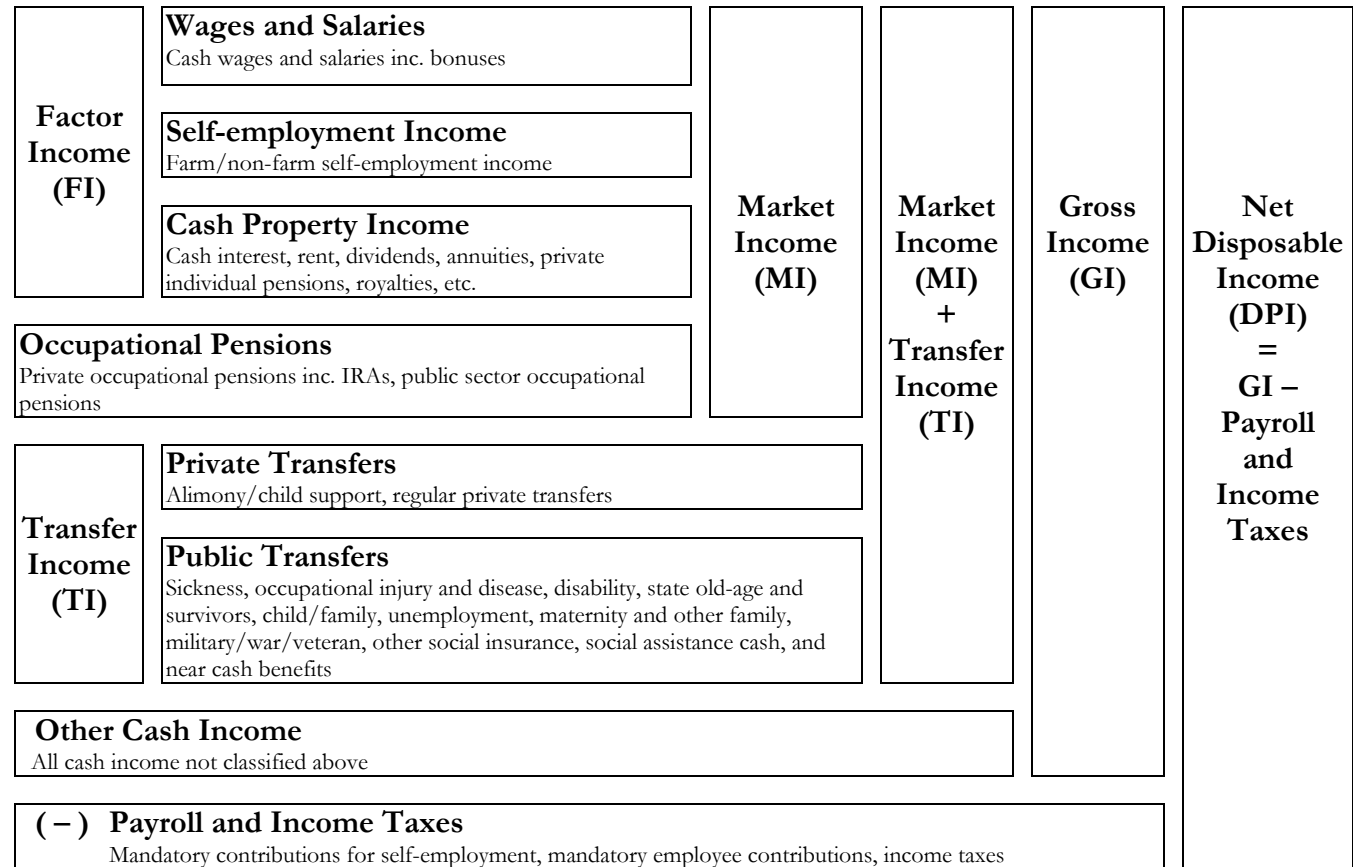
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Figure 1. Definition of Income Aggregates: Classification and Components



Sources: Authors' reconstruction from 'Definition of Summary Income Variables' and LIS Variable Definition List' (<http://www.lisproject.org/techdoc.htm>, 27/8/2008)

Table 1. Features of National Datasets of the LIS

Regime Group	Country	Year	wave	Private Transfer			Payroll and Income Taxes		
				Alimony/ child support	Regular Private Transfer:		Payroll	Income Taxes	
					Total	From relatives			From charity
Liberal	Australia	2003	6	✓	✓		--	✓	✓
	United Kingdom	2004	6	✓	✓	✓	✓	✓	✓
	United States	2004	6	✓	✓	✓	--	✓	✓
Continental	Austria	2000	5	✓	✓	✓	✓	--	--
Europe	France	2000	5	✓	✓	✓	--	--	✓
	Germany	2000	5	✓	✓	✓	--	✓	✓
Southern	Greece	2000	5	✓	✓	✓	✓	--	--
Europe	Italy	2000	5	✓	✓	✓	✓	--	--
	Spain	2000	5	✓	✓	✓	✓	--	--
Nordic	Finland	2004	6	✓	✓	✓	--	✓	✓
	Norway	2000	5	✓	--	--	--	✓	✓
	Sweden	2005	6	✓	--	--	--	✓	✓
East Asia	Taiwan	2005	6	--	✓	--	--	✓	✓
	South Korea	2006	6	--	✓	--	--	✓	✓

✓ surveyed and included in the dataset

-- not available

Table 2 Income Composition (Non-equivalised Income)

Regime Group	Country	Year (LIS Wave)	Market Income (MI or MInet)	(Per Cent of Net Disposable Income)			Gross Income (GI or GInet)	Net Disposable Income (DPI)
				Transfer Income		Sub-total		
				Private	Public			
Liberal	Australia	2003 (6)	109.1	0.7	14.7	15.4	124.7	100.0
	United Kingdom	2004 (6)	105.8	0.9	19.0	19.9	125.8	100.0
	United States	2004 (6)	110.4	0.8	13.5	14.3	124.9	100.0
Continental	Austria ¹	2000 (5)	68.9	1.4	29.7	31.1	100.0	100.0
Europe	France ¹	2000 (5)	73.3	0.8	32.2	32.9	106.6	100.0
	Germany	2000 (5)	105.9	0.9	29.5	30.3	136.2	100.0
Southern	Greece ¹	2000 (5)	77.1	0.8	23.6	24.5	100.0	100.0
Europe	Italy ¹	2000 (5)	72.0	0.5	27.4	27.9	100.0	100.0
	Spain ¹	2000 (5)	76.3	0.4	22.4	22.8	100.0	100.0
Nordic	Finland	2004 (6)	102.0	0.9	33.6	34.6	134.3	100.0
	Norway	2000 (5)	109.3	0.7	22.7	23.4	132.8	100.0
	Sweden	2005 (6)	101.2	0.6	36.6	37.2	138.8	100.0
Type 1 Mean	(MI, GI)		106.2	0.8	24.2	25.0	131.1	100.0
Type 2 Mean	(MInet, GInet) ¹		80.0	0.8	26.5	27.3	107.2	100.0
East Asia	Taiwan	2005 (6)	92.6	5.8	6.4	12.2	104.9	100.0
	South Korea ²	2006 (6)	96.7	6.5	3.6	10.1	106.8	100.0
	Group Mean		94.7	6.2	5.0	11.2	105.9	100.0

Note 1. In Austria, Greece, Italy, and Spain, payroll and income taxes were not separated from factor income variables (wages and salaries, self-employment incomes). In France, only income taxes were surveyed separately. Therefore, MInet and GInet are provided, instead of MI and GI, in these five countries (Type 2).

2. South Korea has joined the LIS from 6th wave, but the dataset (2006) has not been available in the LISSY system yet. So we gained and utilized the '2006 Household Survey Data' (the original dataset that Korea has provided to the LIS) for our empirical analyses through reclassifying the data into the LIS standard.

Table 3. Income Inequality Before and After Transfers: GINI Coefficients, OECD scale

(GINI Coefficients, Per Cent of GINI changes)

Regime Group	Country	Year (wave)	Market Income (MI)	(+ Transfer Income						Gross Income (GI)	Net Disposable Income (DPI)		
				MI + Private		MI + Public		MI + Total Transfer					
Liberal	Australia	2003 (6)	0.4653	0.4606	(-1.0)	0.3639	(-21.8)	0.3597	(-22.7)	0.3593	(-22.8)	0.3121	(-32.9)
	U.K.	2004 (6)	0.4967	0.4908	(-1.2)	0.3732	(-24.9)	0.3680	(-25.9)	0.3679	(-25.9)	0.3448	(-30.6)
	U.S.	2004 (6)	0.4859	0.4818	(-0.8)	0.4205	(-13.5)	0.4168	(-14.2)	0.4159	(-14.4)	0.3724	(-23.4)
	Group Mean		0.4826	0.4777	(-1.0)	0.3859	(-20.1)	0.3815	(-20.9)	0.3810	(-21.0)	0.3431	(-29.0)
Cont.	Austria	2000 (5)	0.4280	0.4244	(-0.8)	0.2608	(-39.1)	0.2581	(-39.7)	0.2574	(-39.9)	0.2574	(-39.9)
Europe	France	2000 (5)	0.4873	0.4823	(-1.0)	0.3037	(-37.7)	0.2997	(-38.5)	0.2989	(-38.7)	0.2775	(-43.1)
	Germany	2000 (5)	0.4783	0.4735	(-1.0)	0.3295	(-31.1)	0.3252	(-32.0)	0.3252	(-32.0)	0.2747	(-42.6)
	Group Mean		0.4645	0.4601	(-0.9)	0.2980	(-36.0)	0.2943	(-36.7)	0.2938	(-36.9)	0.2699	(-41.9)
South.	Greece	2000 (5)	0.4626	0.4575	(-1.1)	0.3421	(-26.0)	0.3379	(-27.0)	0.3335	(-27.9)	0.3335	(-27.9)
Europe	Italy	2000 (5)	0.4766	0.4761	(-0.1)	0.3339	(-29.9)	0.3335	(-30.0)	0.3335	(-30.0)	0.3335	(-30.0)
	Spain	2000 (5)	0.4769	0.4752	(-0.4)	0.3403	(-28.6)	0.3391	(-28.9)	0.3358	(-29.6)	0.3358	(-29.6)
	Group Mean		0.4720	0.4696	(-0.5)	0.3388	(-28.2)	0.3368	(-28.6)	0.3343	(-29.2)	0.3343	(-29.2)
Nordic	Finland	2004 (6)	0.4675	0.4634	(-0.9)	0.3005	(-35.7)	0.2976	(-36.3)	0.2976	(-36.3)	0.2521	(-46.1)
	Norway	2000 (5)	0.4073	0.4034	(-1.0)	0.2935	(-27.9)	0.2906	(-28.7)	0.2905	(-28.7)	0.2508	(-38.4)
	Sweden	2005 (6)	0.4453	0.4403	(-1.1)	0.2774	(-37.7)	0.2735	(-38.6)	0.2735	(-38.6)	0.2367	(-46.8)
	Group Mean		0.4400	0.4357	(-1.0)	0.2905	(-33.8)	0.2872	(-34.5)	0.2872	(-34.5)	0.2465	(-43.8)
East Asia	Taiwan	2005 (6)	0.3542	0.3247	(-8.3)	0.3361	(-5.1)	0.3091	(-12.7)	0.3086	(-12.9)	0.3053	(-13.8)
	S. Korea	2006 (6)	0.3825	0.3550	(-7.2)	0.3635	(-5.0)	0.3372	(-11.8)	0.3372	(-11.8)	0.3323	(-13.1)
	Group Mean		0.3684	0.3399	(-7.8)	0.3498	(-5.0)	0.3232	(-12.3)	0.3229	(-12.4)	0.3188	(-13.5)

Note. Bottom and top coding applied (1 per cent and 10 times of median equivalised income respectively).

Table 4. Poverty Rate Before and After Transfers: 50% Median DPI, OECD scale

(Head-counts, Per Cent of Poverty Rate Changes)

Regime Group	Country	Year (wave)	Market Income (MI)	(+ Transfer Income			Gross Income (GI)	Net Disposable Income (DPI)
				MI + Private	MI + Public	MI + Total Transfer		
Liberal	Australia	2003 (6)	27.5	26.9 (-2.2)	12.3 (-55.3)	11.4 (-58.5)	11.3 (-58.9)	12.2 (-55.6)
	U.K.	2004 (6)	30.3	29.4 (-3.0)	8.9 (-70.6)	8.1 (-73.3)	8.0 (-73.6)	11.6 (-61.7)
	U.S.	2004 (6)	26.6	26.0 (-2.3)	16.1 (-39.5)	15.6 (-41.4)	15.4 (-42.1)	17.3 (-35.0)
	Group Mean		28.1	27.4 (-2.5)	12.4 (-55.1)	11.7 (-57.7)	11.6 (-58.2)	13.7 (-50.8)
Cont.	Austria	2000 (5)	32.9	32.0 (-2.7)	8.4 (-74.5)	7.7 (-76.6)	7.7 (-76.6)	7.7 (-76.6)
Europe	France	2000 (5)	37.2	36.7 (-1.3)	7.9 (-78.8)	7.2 (-80.6)	7.0 (-81.2)	7.3 (-80.4)
	Germany	2000 (5)	30.0	29.4 (-2.0)	7.7 (-74.3)	6.8 (-77.3)	6.8 (-77.3)	8.4 (-72.0)
	Group Mean		33.4	32.7 (-2.0)	8.0 (-75.9)	7.2 (-78.2)	7.2 (-78.4)	7.8 (-76.3)
South.	Greece	2000 (5)	31.8	31.4 (-1.3)	14.6 (-54.1)	14.1 (-55.7)	14.3 (-55.0)	14.3 (-55.0)
Europe	Italy	2000 (5)	33.8	33.6 (-0.6)	13.0 (-61.5)	12.8 (-62.1)	12.8 (-62.1)	12.8 (-62.1)
	Spain	2000 (5)	32.8	32.5 (-0.9)	14.8 (-54.9)	14.5 (-55.8)	14.2 (-56.7)	14.2 (-56.7)
	Group Mean		32.8	32.5 (-0.9)	14.1 (-56.8)	13.8 (-57.9)	13.8 (-57.9)	13.8 (-57.9)
Nordic	Finland	2004 (6)	30.6	30.1 (-1.6)	5.0 (-83.7)	4.4 (-85.6)	4.4 (-85.6)	6.5 (-78.8)
	Norway	2000 (5)	23.4	22.7 (-3.0)	5.4 (-76.9)	5.0 (-78.6)	5.0 (-78.6)	6.4 (-72.6)
	Sweden	2005 (6)	29.5	29.2 (-1.0)	4.0 (-86.4)	3.5 (-88.1)	3.4 (-88.5)	5.6 (-81.0)
	Group Mean		27.8	27.3 (-1.9)	4.8 (-82.3)	4.3 (-84.1)	4.3 (-84.2)	6.2 (-77.5)
East Asia	Taiwan	2005 (6)	16.0	12.0 (-25.0)	12.7 (-20.6)	8.6 (-46.3)	8.4 (-47.5)	9.5 (-40.6)
	S. Korea	2006 (6)	20.2	16.4 (-18.8)	17.7 (-12.4)	13.8 (-31.7)	13.8 (-31.7)	14.8 (-26.7)
	Group Mean		18.1	14.2 (-21.9)	15.2 (-16.5)	11.2 (-39.0)	11.1 (-39.6)	12.2 (-33.7)

Note. Poverty rate defined as number of persons in households below the poverty line (50% of median adjusted disposable income) in per cent of the total population

Table 5. Poverty Gap Before and After Transfers: 50% Median DPI, OECD scale

(Income Gap Ratio, Per Cent of IGR Changes)

Regime Group	Country	Year (wave)	Market Income (MI)	(+ Transfer Income			Gross Income (GI)	Net Disposable Income (DPI)
				MI + Private	MI + Public	MI + Total Transfer		
Liberal	Australia	2003 (6)	73.7	72.6 (-1.6)	30.2 (-59.1)	28.6 (-61.2)	28.4 (-61.5)	27.7 (-62.4)
	U.K.	2004 (6)	70.5	69.9 (-0.9)	29.4 (-58.3)	26.2 (-62.8)	25.5 (-63.8)	26.5 (-62.4)
	U.S.	2004 (6)	60.6	59.7 (-1.4)	37.9 (-37.4)	36.6 (-39.6)	36.3 (-40.1)	35.3 (-41.8)
	Group Mean		68.3	67.4 (-1.3)	32.5 (-51.6)	30.5 (-54.5)	30.1 (-55.1)	29.8 (-55.5)
Cont.	Austria	2000 (5)	68.8	68.4 (-0.6)	30.8 (-55.3)	27.7 (-59.7)	27.7 (-59.7)	27.7 (-59.7)
Europe	France	2000 (5)	67.9	66.9 (-1.4)	24.2 (-64.4)	20.7 (-69.6)	20.7 (-69.4)	21.9 (-67.8)
	Germany	2000 (5)	76.1	74.8 (-1.8)	33.1 (-56.6)	28.4 (-62.8)	28.4 (-62.8)	26.9 (-64.6)
	Group Mean		70.9	70.0 (-1.3)	29.4 (-58.8)	25.6 (-64.0)	25.6 (-64.0)	25.5 (-64.0)
South.	Greece	2000 (5)	67.8	66.5 (-1.9)	33.2 (-51.0)	30.6 (-54.9)	30.7 (-54.7)	30.7 (-54.7)
Europe	Italy	2000 (5)	70.4	70.0 (-0.5)	33.1 (-53.0)	31.8 (-54.8)	31.7 (-54.9)	31.7 (-54.9)
	Spain	2000 (5)	69.5	69.2 (-0.4)	28.2 (-59.5)	27.4 (-60.6)	27.6 (-60.3)	27.6 (-60.3)
	Group Mean		69.2	68.6 (-0.9)	31.5 (-54.5)	29.9 (-56.8)	30.0 (-56.6)	30.0 (-56.6)
Nordic	Finland	2004 (6)	73.8	73.3 (-0.7)	23.7 (-68.0)	22.7 (-69.2)	22.7 (-69.2)	20.7 (-71.9)
	Norway	2000 (5)	64.6	64.4 (-0.2)	29.4 (-54.4)	30.0 (-53.6)	30.0 (-53.6)	28.7 (-55.5)
	Sweden	2005 (6)	67.4	65.9 (-2.2)	32.1 (-52.4)	32.7 (-51.5)	32.1 (-52.4)	27.0 (-60.0)
	Group Mean		68.6	67.9 (-1.0)	28.4 (-58.3)	28.5 (-58.1)	28.3 (-58.4)	25.5 (-62.5)
East Asia	Taiwan	2005 (6)	51.9	36.3 (-30.0)	43.6 (-16.0)	25.3 (-51.2)	25.0 (-51.8)	25.3 (-51.3)
	S. Korea	2006 (6)	63.8	52.1 (-18.3)	56.6 (-11.2)	44.2 (-30.7)	44.2 (-30.7)	45.0 (-29.5)
	Group Mean		57.9	44.2 (-24.2)	50.1 (-13.6)	34.8 (-40.9)	34.6 (-41.2)	35.2 (-40.4)

Note. Poverty gap (Income Gap Ratio, IGR) defined as average income gap for poor persons from the poverty line as a percentage of poverty line. Also, bottom coding is adopted.