The paradoxical effect of welfare knowledge: Unveiling income cleavage over attitudes to welfare in South Korea

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Abstract
The extent of the rich–poor divide in attitudes to welfare varies across societies. Existing studies focus on the progressivity of the welfare system and macroeconomic conditions to explain cross-society variation. We shed light on another factor that we believe is key to understanding the variation: the public’s knowledge of the welfare state. We suggest that the prevalent ignorance of how welfare state institutions work dilutes the rich–poor divide over social spending, especially in emerging welfare states. We empirically illustrate our point using original survey data from South Korea, a country where previous studies repeatedly found little or no effect of economic class on welfare state attitudes. We reveal a strong income-based cleavage over social spending in a subset of the Korean population with more accurate knowledge of the welfare system. Our findings carry important implications for understanding and projecting welfare state politics in a broader set of emerging welfare states.

Keywords
Welfare state politics, support for social spending, income cleavage, knowledge, South Korea

Introduction: The varying effects of income on welfare attitudes
In most societies, income is a significant determinant of support for the welfare state. A wealthy individual tends to be less supportive of social spending than a low-income individual. The size of the income effect on welfare attitudes, however, varies across societies, and the income-based
cleavage over the welfare state is stronger in some countries than others. What explains this cross-country variation?

Several studies attribute the variation to national welfare state institutions that shape self-interested individuals’ calculation of welfare benefits vis-à-vis costs. Others focus on macroeconomic conditions under which other-regarding and solidaristic motivations are heightened and, in turn, temper income-based self-interest. In this paper, we shed light on another source of variation: individuals’ knowledge/ignorance of the welfare state.

We argue that in some societies, the public has, by and large, a limited understanding of how the distributive institutions of the welfare state work. Citizens are often unaware of or not attentive to the fiscal constraints on public spending, despite the simple fact that more expenditure requires raising more revenue. Many are also surprisingly ignorant of the taxes they are paying. More importantly, as we elaborate in the next section, the lack of such knowledge is expected to have distinctive effects on the rich and the poor. We argue that wealthy people who are unaware of the tax system tend to be more supportive of the welfare state than more knowledgeable ones in the same income bracket. On the contrary, the less knowledgeable and less affluent are less supportive of the welfare state than those who are less affluent but well informed. Hence, the pervasive ignorance dilutes the income-based cleavage over the welfare state, and ironically, more knowledge leads to the aggravation of such cleavage.

Our study speaks to the extensive literature on the nexus between cognitive abilities and public policy preferences (Bartels, 1996; Haushofer and Fehr, 2014; Kuziemko et al., 2015). More concretely, we contribute to the literature examining how ignorance or misperception leads to the misalignment between self-interest and redistributive preference. Our contribution is twofold. First, recent studies on the misalignment focus on the biases in the assessment of inequality or of one’s relative economic position in society. Yet, such biases in economic assessment are found to be common across widely different societies (Engelhardt and Wagener, 2018; Fernández-Albertos and Kuo, 2018; Howell and Howell, 2008; Karadja et al., 2017) and thus have limited explanatory power in accounting for the cross-national variation in the social cleavages over welfare. We focus instead on citizens’ knowledge of institutions. As discussed below, the level of the public’s knowledge of welfare state institutions is expected to vary considerably depending on the maturity and stability of the institutions.

Second, and related to the first point, unlike most existing studies that derived expectations and conducted empirical tests in the context of mature welfare states in the West, we believe our argument is particularly relevant for societies where citizens have limited personal experience of contributing to and receiving benefits from the welfare state and where welfare state-related issues are yet to be highly politicized. With this motivation, we develop and test our argument in the context of an emerging welfare state in Asia: South Korea (see the research design section for more details about case justification). South Korea is considered to be a prototype Asian productivist/developmental welfare state where social protection has long been subordinated to economic growth (Haggard and Kaufman, 2008; Yang, 2013) and welfare state expansion has only recently been given center stage in national politics.1 Given the dearth of studies on welfare attitudes conducted outside Europe and North America, our findings from South Korea can offer new insights for scholarship that seeks to understand the politics of the welfare state in a broader context.

As a preview, our analysis employing original survey data from South Korea lends support to our argument. Similar to previous studies, our sample of 1804 Koreans confirms that there is no income-based cleavage over social spending – whether it is universal, flat-rate spending or a narrowly targeted spending only for the poor. We, however, find strong income-based cleavage among a subset of knowledgeable respondents. Higher-income respondents aware of fiscal constraints and
who can accurately identify key facts about the income tax system are clearly less supportive of social spending than the similarly knowledgeable low-income respondents.

Understanding how knowledge of the welfare system shapes social cleavages over welfare politics is of importance to both policy makers trying to reform the redistribution status quo and members of the public who want to form a coalition to demand more/less redistribution. Somewhat paradoxically, our findings imply that the more enlightened public would find it more difficult to agree on welfare issues. We discuss several policy ramifications in light of our findings in the concluding section.

**How knowledge conditions welfare state attitudes**

While it has been widely recognized that a wealthy individual tends to be less supportive of social spending than a low-income individual (Iversen and Soskice, 2001; Meltzer and Richard, 1981; Scheve and Stasavage, 2006), recent studies on welfare attitudes explore why some societies show a stronger rich–poor divide than others. We briefly review two strands of the literature that address this issue.

The first strand draws attention to macro institutions that shape the calculation of self-interested individuals’ costs and benefits. Beramendi and Rehm (2016) suggest that the income-based preference gap is greater in countries where the welfare state is funded by more progressive taxes such as the US. This trend can be explained because, under more progressive tax systems, the net benefits from the welfare state for the rich are smaller and the ones for the poor are larger. Others (Alt and Iversen, 2017; Fernández-Albertos and Manzano, 2016) emphasize the role of labor markets. In countries with dual/segmented labor markets, social policies tend to be less redistributive as they benefit predominantly middle-class labor market insiders. Such insider-oriented policies reduce net benefits for the underprivileged and increase net benefits for the wealthy from the welfare state, which attenuates the negative income effect on support for the welfare state.

The other strand of studies focuses on other-regarding or solidaristic motivations that temper self-interested preferences. It is suggested that individuals are genuinely concerned about the social welfare of the population as a whole and prefer a more egalitarian society (Norton and Ariely, 2011), although how much causal impact such a concern has on policy preferences varies across societies and over time (Lü and Scheve, 2016). One macro-level factor that can provoke other-regarding motivations among citizens and strengthen cross-class demand for inequity-reducing redistribution is increasing inequality (Dimick et al., 2017; Kenworthy and Pontusson, 2005).

Both strands of existing explanations commonly presuppose that citizens are capable of inferring the distributive effects of the welfare state by factoring in relevant institutions and macroeconomic conditions. In discussing how progressive tax rates affect the income cleavage over welfare politics, Beramendi and Rehm (2016: 537), for example, state that their framework requires an assumption that citizens ‘have a general sense of their net benefits derived from the welfare state’. But do the general public in all societies share that general sense?

We contribute to the literature by offering an additional explanation for the varying effects of income on welfare attitudes. We argue that the size of the income effect may in part be explained by the compositional effect of individual citizens’ knowledge/ignorance of the welfare state itself. Instead of identifying required aspects of welfare knowledge, this paper focuses on and theorizes about a few factors the lack of which is expected to hinder such calculation. More specifically, we claim that citizens must hold (a) a basic awareness of fiscal constraint and (b) a relatively more advanced knowledge of the tax system. The rest of this section lays out our propositions on how such knowledge (or the lack of thereof) mediates the nexus between one’s income position and
welfare attitudes at the individual level and, in turn, shapes the income-based cleavage over welfare politics at the society level.

**Awareness of fiscal constraints**

Existing studies repeatedly find that citizens who support an increase in government spending often oppose any tax increase (Sears and Citrin, 1985; Winter and Mouritzen, 2001). This ‘something for nothing’ mindset is ‘entrenched among a substantial portion of the citizenry in all segments of society’ (Sears and Citrin, 1985: 260). In the context of redistributive social spending, it has been suggested that the ‘something for nothing’ mindset is observed predominately among the poor and vulnerable who rationally seek to free-ride on the welfare system (Edlund and Sevä, 2013).

We suggest that non-vulnerable, affluent citizens would also exhibit the tendency when they simply fail to take the revenue side of the budget into account in forming their redistributive spending preferences. The misunderstanding that more welfare programs can be implemented without cost would make those with higher incomes more supportive of such spending than they would be otherwise. This inclination would be more likely observed in less mature welfare states and in less/newly democratic settings where citizens lack prior experience with institutionalized welfare programs and significant exposure to relevant partisan debates.

Assuming that citizens are driven by their self-interest, increased awareness of fiscal constraints would affect their attitudes towards redistribution. If the public were encouraged to take into account the fiscal constraint in financing the welfare state, rational individuals would realize that the opportunity cost of increasing a unit of social spending is greater than zero. In particular, the opportunity costs would be higher for the wealthy groups, who now must ‘buy’ something that is not beneficial to them when the same amount of money could have been spent on something else or saved for later, thereby decreasing their level of support for the welfare state. On the other hand, the support among the poor, who are the beneficiaries of the redistributive programs and value the programs more than most other government outlays, would be stable or reduced by a lesser degree.

This mechanism effectively suggests that at the societal level, increased knowledge of fiscal constraints widens income-based cleavage over welfare spending, and we propose the following hypothesis to be tested:

**H1**: The effect of income on social spending preferences is more salient when the population is aware of the fiscal constraints of social spending.

**Understanding of the tax system**

Awareness of fiscal constraints may not be enough for individuals to be able to form self-interested preferences. One might still lack understanding of how the fiscal resources for the welfare state are raised. Studies have long suggested that many citizens do not know the amount of tax they pay (Enrick, 1963), let alone the progressive tax rates faced by different income groups (Gensemer et al., 1965). When it comes to the direction of the information bias, studies suggest that citizens tend to underestimate the tax burden (Dolley and Worthington, 1996; Wagner, 1976) and, in turn, significantly underestimate the taxes needed to provide various public services.

In Western societies, this underestimation is often attributed to a fragmented and highly complex tax system with many small and invisible taxes (Sausgruber and Tyran, 2005). But recent
empirical studies find that such underestimation is pervasive even in cases where taxes are quite large and visible such as personal income taxes (Sanandaji and Wallace, 2011). Ignorance of income taxes would be especially common in emerging economies that previously relied on trade and consumption taxes and only relatively recently increased taxes on personal income and wealth (Kato and Tanaka, 2019).

We argue that the underestimation also affects the income cleavage over the welfare state. In particular, the underestimation of income tax would lead those with higher incomes to underestimate their fiscal contribution and be overly supportive of social spending. We thus expect that wealthier citizens with accurate knowledge of the tax system are less supportive of redistributive social spending than those who underestimate the tax progressivity. For lower-income groups, awareness of fiscal constraints combined with the underestimation of tax progressivity may suppress their support for social spending. Not knowing that a larger share of the burden would be borne by the affluent via the progressive tax system, lower-income citizens might be overly concerned about their share of the fiscal burden. The effects of income tax underestimation on distinct income groups suggest that the pervasive underestimation across all groups would reduce the income cleavage over social spending. In contrast, we would observe a clearer income-based preference gap among the knowledgeable subset of the population, which implies that at the societal level, increased knowledge of the tax system may aggravate income-based cleavage over welfare spending. From this perspective, we propose the following hypothesis:

H2: The effect of income on social spending preferences is stronger when the population is more knowledgeable of the tax system.

In sum, we argue that lack of understanding of how the welfare state works suppresses the income cleavage over social spending. Only when citizens are sufficiently knowledgeable about fiscal constraints in social spending and the tax system determining their fiscal contribution, can we expect to observe a salient divide between high- and low-income groups. As a corollary, a dynamic version of our expectation implies that the income cleavage over social spending within a country might be aggravated as the public becomes familiar with welfare state institutions over time.

Research design

Case selection

We test our hypotheses using original survey data from South Korea. Both strands of existing explanations we reviewed in the previous section suggest that South Korea is a less likely case to exhibit an income-based cleavage over social spending. The country’s tax and transfer system is among the least redistributive in the Organisation for Economic Co-operation and Development (OECD), and its labor market is highly segmented (Shin, 2013), which, according to existing explanations, suppresses income-based cleavage. Moreover, the country industrialized under an ‘exceptionally low’ level of inequality (Acemoglu et al., 2007) and a high level of ethnic and racial homogeneity, which tends to reduce the social distance between the rich and the poor. Rising inequality and economic insecurity since the late 1990s (Koo, 2007) are thus expected to have influenced citizens, especially the empathetic wealthy, to become more pro-redistribution.

Figure 1 confirms that South Korea is indeed one of the countries with the weakest income cleavage. The plot uses the 6th wave of the World Values Survey (WVS, 2010–2014) covering 55
countries across the globe. As the dependent variable, we use a composite index based on five WVS questions on the desired government role in redistribution and social protection (Table A1–Online Supplementary Material provides the full list of the questions). We refer to this dependent variable as Pro-Welfare State Index. The variable ranges from 1 to 10, and we fit a linear mixed effects model. Our key independent variable is the 10-category ordinal Income variable. Random (i.e. country-varying) Income effects on Pro-Welfare State Index are visualized in Figure 1. The random effect estimate for South Korea is close to zero.

Figure 1. Cross-country variation in the effect of income on pro-welfare state index.
South Korea, however, is not the only country with weak income cleavage. The same Figure 1 reveals that several other emerging economies in Asia, such as Malaysia and the Philippines, exhibit a similarly weak income cleavage. The South Korean case thus allows us to think about the cleavages over social spending in a broader set of countries with similarly less-mature welfare state institutions, particularly in Asia, compared with mature welfare states. In fact, the Korean welfare state is considered to be a prototype Asian productivist welfare state where social protection has long been subordinated to economic growth (Haggard and Kaufman, 2008; Yang, 2013). It is only recently that welfare state expansion has been given center stage in national politics.

Experience with the welfare state and, in particular, exposure to vibrant debates over it may serve as one of the key mechanisms through which citizens acquire information about their welfare state institutions, which, in turn, is used to align their policy position with self-interest. In emerging welfare states where few such debates take place, citizens may in general lack relevant information to determine their position about the welfare state. From this view, our macro-level finding that income does not predict welfare attitudes in many Asian countries including our case of South Korea can in part be explained by the fact that welfare politics is new in these countries.

To corroborate this point and contextualize our case selection, we provide additional cross-country analyses in Table A2 (Online Supplementary Material). Using the Comparative Manifesto Dataset, we construct the country-level measures of welfare state issue salience and polarization among political parties for 19 countries including South Korea (see the Online Supplementary Material for more details). The degree of welfare state polarization in South Korea (5.92), for instance, is much lower than in countries such as Sweden (10.22) and the US (18.33). We then merge these macro indicators with the WVS dataset to explore whether they moderate the effect of income on Pro-Welfare State Index. Our regression analysis shows that the salience and polarization of the welfare state increase the effect of income on Pro-Welfare State Index. In other words, the income cleavage is larger where the welfare state is more salient and more politicized in domestic politics. The finding holds even after controlling for the political ideology of individuals, suggesting that it is the information effect, not just partisan cues or elite discourses, that drives income cleavage.

In essence, the cross-country analysis provides tentative evidence that the absence of income cleavage over the welfare state in South Korea and other emerging welfare states is attributable in part to the dearth of relevant debates and the resulting public’s general lack of information. If so, income should be a significant predictor of welfare attitudes only for a subset of the population capable of making an informed judgement based on their knowledge of welfare state institutions. Within such a subset of the Korean population, we should be able to detect a clear income cleavage over the welfare state.

The following section introduces our original South Korean dataset and discusses our operationalization strategy.

**Operationalization**

Our data were gathered in December 2016 from a sample of 1804 Korean adults. The sample was drawn by a Korean survey firm, opensurvey, from their opt-in online panel. Stratified sampling was employed to match the national population parameters for sex, age, and residential locations at the metropolitan city/provincial level.

As our main dependent variables, the survey includes two items to assess welfare attitudes. The first, crude measure is the respondents’ approval/disapproval of the following statement on a five-point scale ((1) strongly disagree to (5) strongly agree): ‘It is the government’s responsibility to
reduce income inequality.’ The response captures general attitudes towards redistribution (hereafter, Support redistribution). We employ the measure in our baseline models. In line with existing studies finding a weak or nonexistent income effect in Korea, we anticipate income to be insignificant in these models.

Then, in our main analysis, we use another item that asks for respondents’ support for a hypothetical income transfer proposal by their local government (hereafter, Support social spending). More specifically, we present respondents the following income transfer proposal: ‘[This is a hypothetical scenario.] Your local government has a significant budgetary surplus this year due to successfully hosting an event. The government proposed that the surplus money should be spent on an income transfer program.’ Note that we first externalize the cost of the program by mentioning a significant budgetary surplus from the success of a local event. We then ask, ‘Would you support this proposal?’ The respondents respond on a five-point ordinal scale: (1) strongly oppose to (5) strongly support. This measure is hereafter referred to as Support social spending (budget surplus).

To examine how awareness of fiscal constraints affects the income effect on redistributive preferences (i.e. H1), we ask a follow-up question. More specifically, we say ‘This year’s budgetary surplus is unusual.’ The follow-up question asks, ‘If the income transfer program is to continue on an annual basis even in the absence of the budgetary surplus, would you support the program?’ The respondents also answer this question on a five-point scale. The latter measure is referred to as Support social spending (fiscal constraints). Although it is common to ask respondents about their support for social spending with an indication of a tax increase, in our opinion, this kind of question can lead to measurement errors. If we only ask a single question that implicitly internalizes costs (i.e. asking respondents about their support for a new social program), the responses are expected to be shaped by the two distinct elements: (a) respondents’ preference for a social program, which we would like to measure; and (b) their consideration of how the program affects fiscal constraints. By explicitly externalizing and then internalizing costs, we can control for variation in the consideration of the fiscal constraints, and separately estimate our measure of social spending preference.

Comparing the responses to the first and second questions allows us to examine how factoring in fiscal constraints influences support for social spending. We expect that, once costs are internalized, those with higher incomes are likely to reduce their support more than their lower-income counterparts. To test this expectation, we construct another dependent variable, Sensitivity to fiscal constraints, by taking the difference between Support social spending (fiscal constraints) and Support social spending (budget surplus). This variable should capture the attitude change resulting from the explicit reference to the fiscal constraint (i.e. from an increased awareness of fiscal constraints). It ranges from –4 (when a strong supporter (5) becomes a strong opponent (1)) to 4 (when a strong opponent (1) becomes a strong supporter (5)). The more negative the value is, the more averse to fiscal constraints is the respondent. For instance, if a respondent who strongly supported social spending under a budget surplus (Support social spending = 5) changes their answer to the neutral option under fiscal constraint (Support social spending = 3), then the value of Sensitivity to fiscal constraints for this respondent is 3–5 = –2.

To explore the impact of tax system knowledge on people’s attitudes (i.e. H2), we employ two questions in our survey. First, to assess their basic understanding of the tax system, we ask respondents about the standard value added tax (VAT) rate in South Korea (i.e. 10%). We then move on to asking them about Korea’s top marginal income tax (MIT) rate (i.e. 38% in 2016). We assume an (approximately) correct answer (i.e. 35–41%) to the second question to indicate advanced knowledge of tax system progressivity. In light of existing studies, we expect that a large proportion of respondents would underestimate the highest MIT rate. Following our argument, we
predict that the wealthy with more accurate knowledge of the tax system to be less supportive of welfare spending than those who underestimate progressive tax rates.

Our survey also includes an experimental component that allows us to take into consideration the existing explanation emphasizing how welfare state preferences are shaped by benefit progressivity (Fernández-Albertos and Manzano, 2016; Holland, 2018). We randomly vary one aspect of the hypothetical social spending: its beneficiaries. We assign the respondents to three different proposals: (a) universal flat-rate transfer; (b) targeting the pro-poor with a narrow means-test (below 40% of the median income); and (c) targeting the pro-poor with a moderate means-test (below 80% of the median income). The first proposal says ‘everyone’ will receive an equal amount of the transfer. For the latter two, our respondents are told about the exact income threshold in Korean Won for a household to be eligible for the transfer. If the existing explanations hold in Korea, the group that read about pro-poor proposals should exhibit a stronger income-based cleavage over the transfer than the group treated with a universal proposal. By contrast, in light of our argument emphasizing the importance of fiscal constraint awareness and tax system knowledge, we expect to find no income-based cleavage regardless of treatment groups.

Our key independent variable is Income. Respondents are presented with ten brackets that correspond to the 2016 household gross income distribution in deciles published by the Korean Statistical Information Service and are asked to choose the income bracket in which their monthly household gross income is located. For each bracket, the respondents are shown a numeric monthly income range, for instance, ‘(6) 2.69 million Korean Won – 3.73 million Korean Won.’ While one might use the measure of household income that takes the size of household into account, we only have a decile (1–10) measure of income and a 5-category ordinal measure of the Household size: (a) single person, (b) two persons, (c) three persons, (d) four persons, and (e) five or more. We thus control for Household size in all our models.

In addition to the aforementioned variables, our models include a set of common control variables including Age (20−69) and Gender (1=male). Because we do not provide the knowledge factors as random treatments (e.g. in the form of vignette experiments) but ask our respondents to reveal their own knowledge, it is also important to control for factors that could potentially affect the probability of having such knowledge. If highly educated respondents have better factual knowledge of welfare state institutions, what we find might be an artifact of general education, not of specific welfare knowledge. Thus, we control for the Education variable (ordinal; 1: primary or less, to 5: graduate degree) in all specifications. We also control for perceived level of Employment insecurity (0−100) and political Ideology (a five-point ordinal indicator ranging from (1) conservative to (5) progressive). The Online Supplementary Material provides a summary of descriptive statistics.

Our empirical analysis proceeds as follows. We begin by confirming the absence of income effect in South Korea in Table 1. Then, we move on to testing our hypotheses on the effect of fiscal constraint awareness (H1) and tax system knowledge (H2) in Table 2. Given the nature of the dependent variable, Support social spending, we employ ordered logistic regression. As an additional robustness check, the Online Supplementary Material includes models that selectively relax the proportional odds assumption.

**Empirical analysis**

We first report results from our baseline analysis using Support redistribution as the dependent variable in Models 1 (without controls) and 2 (with controls). The insignificant income coefficient in both models confirms the general absence of income effect in South Korea, which is in line with findings from existing studies (Beramendi and Rehm, 2016; Kim and Yeo, 2011).


Table 1. The lack of income effect.

<table>
<thead>
<tr>
<th></th>
<th>Support redistribution</th>
<th>Support social spending (without fiscal constraints)</th>
<th>Universal flat-rate</th>
<th>Targeted (narrow)</th>
<th>Targeted (moderate)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
<td>(4)</td>
<td>(5)</td>
</tr>
<tr>
<td>Income</td>
<td>0.003 (0.026)</td>
<td>0.011 (0.027)</td>
<td>0.002 (0.026)</td>
<td>0.0001 (0.045)</td>
<td>-0.02 (0.046)</td>
</tr>
<tr>
<td>Household size</td>
<td>-0.018 (0.041)</td>
<td>-0.018 (0.042)</td>
<td>0.038 (0.041)</td>
<td>0.075 (0.073)</td>
<td>-0.057 (0.070)</td>
</tr>
<tr>
<td>Gender</td>
<td>0.212** (0.091)</td>
<td>0.183** (0.089)</td>
<td>0.138 (0.158)</td>
<td>0.357** (0.154)</td>
<td>0.038 (0.153)</td>
</tr>
<tr>
<td>Age</td>
<td>-0.002 (0.004)</td>
<td>0.010*** (0.004)</td>
<td>0.013* (0.007)</td>
<td>0.006 (0.007)</td>
<td>0.013** (0.007)</td>
</tr>
<tr>
<td>Education</td>
<td>0.017 (0.070)</td>
<td>0.073 (0.068)</td>
<td>0.137 (0.121)</td>
<td>0.011 (0.118)</td>
<td>0.052 (0.115)</td>
</tr>
<tr>
<td>Insecurity</td>
<td>0.013*** (0.002)</td>
<td>0.001 (0.002)</td>
<td>0.002 (0.003)</td>
<td>-0.002 (0.003)</td>
<td>0.004 (0.003)</td>
</tr>
<tr>
<td>Ideology (progressive)</td>
<td>0.320*** (0.045)</td>
<td>0.229*** (0.043)</td>
<td>0.186** (0.079)</td>
<td>0.291*** (0.075)</td>
<td>0.250*** (0.074)</td>
</tr>
<tr>
<td>N</td>
<td>1804</td>
<td>1804</td>
<td>1804</td>
<td>601</td>
<td>600</td>
</tr>
</tbody>
</table>

*p < .1; **p < .05; ***p < .01.

Note: All models use ordered logistic regression. The estimates of the cut points are not reported, to save space.
Table 2. Awareness of fiscal constraints (H1) and knowledge of the tax system (H2).

<table>
<thead>
<tr>
<th>DV:</th>
<th>Sensitivity to fiscal constraints</th>
<th>Support social spending (fiscal constraints)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Targeted</td>
<td>High income</td>
</tr>
<tr>
<td></td>
<td>(7) (8) (9) (10) (11)</td>
<td>(12)</td>
</tr>
<tr>
<td>Income</td>
<td>$-0.047^{***}$</td>
<td>$-0.082^{***}$</td>
</tr>
<tr>
<td></td>
<td>(0.013)</td>
<td>(0.025)</td>
</tr>
<tr>
<td>Wrong VAT</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overest. MIT</td>
<td></td>
<td>$0.379^{**}$</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.181)</td>
</tr>
<tr>
<td>Underest. MIT</td>
<td>$0.249^{**}$</td>
<td>$-0.384$</td>
</tr>
<tr>
<td></td>
<td>(0.118)</td>
<td>(0.445)</td>
</tr>
<tr>
<td>Income*Overest</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income*Underest</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>$-0.154$</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.208)</td>
<td></td>
</tr>
</tbody>
</table>

| N | 1804 | 1804 | 1203 | 1629 | 1629 | 220 | 1041 | 207 |

*p < .1; **p < .05; ***p < .01.
Note: Model 7 uses an ordinary least squares regression, and all other models employ an ordered logistic regression analysis. For the estimates of other control variables, see Table A5 (Online Supplementary Material). Cut points in the ordered models are not reported, to save space.
Models 3–6 replicate Model 2, using our original dependent variable, *Support social spending (budget surplus)* that, in theory, does not involve any new fiscal burden for citizens. Model 3 pools all treatment groups together, and Models 4, 5, and 6 separately examine each of the three groups that received different income transfer proposals. All models use ordered logistic regression. Table 1 clearly shows that the coefficient estimates of the *Income* variable, shaded in gray, are *not* statistically significant at the 10% level in any of these specifications. There seems to be *no* income-based cleavage in Korea even over the narrowly means-tested transfer that only benefits those households earning less than 40% of the median income.

**H1**: *Knowledge of fiscal constraints*

Models 7–10 in Table 2 test the hypotheses concerning knowledge of fiscal constraints (H1). The same set of control variables as in Table 1 is included but not reported due to space limitations. In Model 7, the dependent variable is *Sensitivity to fiscal constraints*. Recall that the variable ranged between –4 and 4; the more negative the value is, the more averse to fiscal constraint is the respondent. We thus employ a linear regression. We argued that the affluent would reduce their support more (i.e. more averse to fiscal constraint) than the less wealthy. The negative and significant income coefficient in Model 7 confirms the expectation.

Based on Model 7, Figure 2 visualizes the predicted *Sensitivity to fiscal constraints* (or *change in support level* on the y-axis) across different income groups. The shaded areas indicate 90% confidence intervals. When all other covariates are held at the median, the predicted *Sensitivity to fiscal constraints* is –0.43 for those at the top income decile. For those at the bottom income decile, *Sensitivity to fiscal constraints* is close to zero, suggesting that they are unlikely to change their welfare attitudes even with information about fiscal constraints.

In Model 8, we directly employ *Support Social Spending (Fiscal Constraints)* as the dependent variable. Recall that in the Models employing *Support Social Spending (Budget Surplus)* as the dependent variable, the income coefficients were not statistically significant. In Model 8, the income coefficient, –0.082, is now negative and statistically significant at the 1% level. In Model 9, we only include those respondents treated with a means-tested income transfer proposal and exclude those who read about a universal flat-rate proposal. The size of the income coefficient in
this model (−0.074) is similar to and even slightly smaller than that in Model 8, suggesting that the information about the spending’s progressivity, in and of itself, does not aggravate income cleavage in Korea.

Overall, the findings suggest that when encouraged to ponder the revenue side of welfare state expansion, higher-income groups, whose perceived opportunity costs of social spending is higher, tend to reduce their support for social spending. And, as a result, income-based cleavage at the macro-level should become more pronounced when citizens become more aware of the fiscal constraints of social programs. This finding is consistent with H1.

**H2: Knowledge of the tax system**

We move on to examining the effect of knowledge of the tax system (i.e. H2). When it comes to the standard VAT, not surprisingly, the vast majority (73%) are able to identify the rate accurately. When it comes to more advanced knowledge, consistent with the literature, a vast majority of the respondents underestimate the rate with a significant error (over 10% points). See Figure A2 (Online Supplementary Material) for the responses by income group.

Model 10 includes the variables capturing the variation in knowledge of the tax system. In addition to a dummy variable *Wrong VAT* indicating those who fail to identify the correct VAT rate, we include a 3-category nominal variable capturing knowledge of the highest MIT rate (*Accurate, Overestimated, Underestimated*; the baseline is *Accurate*). While *Wrong VAT* is not statistically significant, both *Overestimated* and *Underestimated* are associated with higher support for social spending.

More importantly, in Model 11, we interact the knowledge about the MIT rate with the *Income* variable to test H2. Among those who accurately identified the rate (i.e. 38% plus/minus 3% points), the effect of income is strongly negative and statistically significant at the 1% level. The income coefficient (−0.15) is more than double the magnitude of the income coefficient from Models 8–10. We visualize the income effect based on Model 11 in Figure 3 along with the income effect estimated from earlier models (Models 3 and 8). In the figure, the downward slope of the blue-shaded line (based on Model 11) is visibly steeper than the other two lines. This finding is consistent with H2.¹⁰
Comparing the three lines suggests that both awareness of fiscal constraints and knowledge of the tax system spur income-based cleavage over social spending in South Korea. Comparing the distance between the lines across the x-axis reveals that the effect of tax knowledge is more salient among higher-income individuals. The effect among lower-income groups is less clear as indicated by the overlapping confidence intervals on the left side of the plot.

In Models 12–14, we further explore how tax system knowledge might have distinct effects on different income groups by splitting the sample: Model 12 only includes the high-income groups (9th and 10th income deciles, \( n = 220 \)), Model 13 is for the broad middle class (5th to 8th deciles, \( n = 1041 \)), and Model 14 is for low-income groups (1st to 4th deciles, \( n = 207 \)).

We find that, among high-income Koreans (i.e. Model 12), those who Underestimated income tax tend to be more supportive of social spending than the rest of the high-income earners, which is consistent with our expectation. Among the middle class (i.e. Model 13), Overestimated as well as Underestimated are associated with greater support for social spending. Lastly, we find that the low-income groups’ social spending preferences are not significantly influenced by their knowledge of tax system. One plausible explanation for this stability in attitudes is that for the self-interested poor, knowledge of the tax system has two countervailing effects. On the one hand, they understand that the rich pay substantially more for welfare state expansion. On the other hand, even under a progressive tax system, the poor are not entirely exempt from contribution when the government wants to expand spending. Given the decreasing marginal utility of income, the poor may react more negatively to a small increase in tax contributions. This offsetting effect of potential tax increases on low-income group’s welfare attitudes might account for the lack of knowledge effect among the poor.

One might raise concerns of reverse causality with regard to our findings. For example, the rich who are less supportive of social spending might report a higher income tax burden in an attempt to confirm their predisposed ideological position. If so, it is not the knowledge of tax system progressiveness that shapes their welfare attitudes; rather, their welfare attitudes color their perception of tax system progressiveness. To address this concern, we explore whether respondents’ political ideology and income are significant determinants of the tax system knowledge. If the reverse causality concern were valid, we would find that the highest MIT rate reported by rich conservatives, on average, is greater than the number reported by others including rich liberals. Both models reported in Table A8 (Online Supplementary Material) find no such evidence.

Importantly, we find that education is a significant determinant of the reported highest MIT rate (see Table A8). The more educated tend to report a higher rate (i.e. less prone to underestimation) controlling for income, political ideology, and their interaction variables. This finding provides an additional piece of evidence that the reported highest MIT rates are a function of knowledge attainment rather than a function of predisposed redistributive attitudes.

Overall, our findings suggest that at the aggregate level, enhancing the Korean public’s knowledge of the welfare state might have the unintended effect of widening the rich-poor divide while reducing the overall level of support for the welfare state.

**Conclusion**

This article argues that the lack of knowledge about welfare state institutions accounts for the weak income cleavage over social spending in emerging welfare states. Our analysis using original survey data from South Korea finds that income becomes a significant negative predictor of support for social spending (a) when fiscal constraints are explicitly communicated, and (b) when citizens have accurate knowledge about the tax system.
We discuss below two implications of our findings. The first concerns the two-way feedback between government policies and citizens’ policy preferences. On the one hand, the public’s lack of knowledge of fiscal constraints and the tax system might work in favor of a government that pursues an expansionary social policy. This scenario is particularly plausible if the rich are not fully aware of the fiscal burden such a policy entails, thereby naively accepting a new policy proposal. On the other hand, a substantial expansion of the welfare state requires a highly motivated government, which is unlikely where lower-income groups fail to appreciate the distributive gains from social spending and are reluctant to increase demand for such spending. After all, the absence of income-based cleavage might incentivize the government to endorse a modest level of social spending.

Second, the prevalent lack of understanding of how the welfare state works has implications for democracy more generally as redistributive policies are at the heart of democratic processes (Boix, 2003). If politicians can exploit public ignorance to pursue their agenda, as the flip side of the coin, ill-informed citizens cannot exercise their control over the government and assure its democratic accountability (Caplan, 2007; Popkin and Dimock, 1999). One of the key campaign pledges that helped the former South Korean President Park Geun Hye win the 2012 election was ‘welfare expansion without any tax hikes’, which she soon failed to keep. Her security and public administration minister Chong Jong-sup later stated, ‘People can be lured in by the idea that welfare will be provided without a tax hike, but the funds have to come from somewhere. There is no way other than by paying taxes.’

Having said that, we believe a high level of public ignorance exploitable by government should be a transitory phenomenon. Citizens are likely to become more knowledgeable about their welfare institutions as the issue of social spending becomes more salient in public debate. Indeed, discussion of fiscal burden-sharing for welfare expansion has recently become salient in Korean politics, which may have a positive impact on public awareness of this matter. At the same time, based on this article’s findings, we believe this awareness would somewhat paradoxically foment a clearer income-based cleavage among voters over welfare policy, because the wealthy who become more knowledgeable about the welfare state are likely to oppose an expansionary social policy. This possibility could pose new democratic challenges for emerging welfare states in Asia and beyond.

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Supplemental material

Supplemental material for this article is available online.
Notes
2. A sustained high level of inequality with limited inter-class interactions can offset or reverse such an effect (Lane, 2001; Rueda and Pontusson, 2010).
3. In 2014, the percentage reduction in market income inequality after taxes and transfers (8%) was less than a third of the OECD average (27%).
4. We control for age, gender, educational attainment, and job insecurity perception at the individual level. For more details, see http://www.worldvaluessurvey.org/WVSDocumentationWV6.jsp. We control for GDP per capita (constant 2010 US$) and government size (General government final consumption expenditure, % of GDP); these variables are from the World Bank data.
5. Since the introduction of the Local Autonomy System in 1991, local governments in Korea have gradually expanded their control over welfare budget and programs.
6. The information was collected in a follow-up survey (January 2017) conducted 3 weeks after the first survey. Ninety percent of the initial pool of respondents participated in the follow-up survey.
7. The question is presented with a single sentence definition of the term. The rate is applied to annual incomes exceeding KRW 150,000,000. Among our respondents, those whose household monthly income belongs to the 9th/10th decile may be subject to the rate.
8. We ask, ‘Imagine 100 people with skill set profiles similar to yours. How many of them do you think might lose their jobs in the near future?’
9. Since we measure the difference between two ordinal variables with an upper bound of 5 and a lower bound of 1, strictly speaking, the resulting variable is censored at both the left (−4) and right (4). The censored regression (tobit) yields almost the same coefficient estimates.
10. To ensure that our finding is not driven by the resentment towards high tax rates in general but by the knowledge of tax system progressivity, we report additional models in the Online Supplementary Material where we examine the effect of over/underestimating the VAT rate (Table A7). We do not find evidence that VAT over/underestimation shapes support for social spending, nor do we find any interaction effect between VAT over/underestimation and income.
11. In our earlier models, the political ideology variable was a consistently significant predictor of welfare attitudes controlling for income, which suggests that the variable does reflect one’s predisposed redistributive attitude.
12. The *Korea Times* (22 September 2014), ‘Park under pressure to hike tax for welfare.’
13. Yonhap News Agency (19 July 2017), ‘Questions linger over funding needed to implement Moon’s campaign promises.’

References


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