Notes

Chapter 1
1. Korea's method of calculating GNP was changed in 1985. Unless noted otherwise, we have used data based on the new System of National Accounts (SNA) method. This issue is discussed further in the Data Appendix.
2. For example, see the Korea Development Institute/Harvard studies on modernization of the Republic of Korea, which focus on the period from 1945 to 1975. The volumes are summarized in Mason et al. (1980). More recent studies of macroeconomic developments include World Bank (1987) and Dornbusch and Park (1987).

Chapter 2
1. Other discussions of Korea's economic history include Cole and Lyman (1971) and the summary in Mason et al. (1980).

Chapter 3
1. Foreign bank "A" accounts are defined as foreign currency funds borrowed by the branch offices of foreign banks from their headquarters or from other branches.
3. Errors and omissions became large during 1979–84 and have since declined. While it is difficult to tell exactly what the errors are, there is a general consensus to rule out the possibility that they represent capital flight. Other alternatives are that they are the counterpart to overestimated exports—exporters were under considerable pressure to expand, particularly during 1980–84—or that they represent countertrade transactions, for example, with oil exporting countries. In any case, the most likely scenario seems to be that they arise from underestimates of the current account deficit.
4. See Hong (1979, 130–41), Krueger (1982), and Cole and Lyman (1971) for further discussion of foreign aid allocations.
5. The average interest rates are the ratio of the total interest payment to the outstanding debt, lagged one year.
6. Cole and Lyman (1971), Hong (1979), and Krueger (1982) provide additional discussion of both the loan application process and the allocation of loans.

Chapter 4
1. There are two measures of labor productivity. One gives value added per employee. The other, produced by the Korea Productivity Center (KPC), measures output per production worker. The two series do not always tell the same story. Throughout most of our discussion, we report both.
2. This period is discussed in detail in Cole and Park (1983, ch. 3). See also Gurley, Patrik, and Shaw (1965) and McKinnon (1973).
3. Unfortunately, growth rates statistics for 1970 are not strictly comparable with earlier and later years, because pre-1969 data are computed with different base prices and the old SNA method. See the Data Appendix for further discussion.
4. The parities of the major currencies relative to the dollar were adjusted during 1972 and subsequently allowed to float.
5. See Cole and Park (1983), especially pp. 158–68, for further discussion of this period.
6. See Hong (1979, 144) for additional information.
7. These figures are based on Customs Administration data.
9. Bank deposits increased in the first few months after the interest rate adjustment.
10. A scandal in the curb market forced two large corporations to go bankrupt. The incident triggered a contraction in the availability of curb market loans, and many firms threatened to default.
11. These figures all use value-added measures of productivity.

Chapter 5

1. Korea is certainly not the only country with data problems that make the price versus volume decomposition of imports suspect. For example, considerable recent attention in the United States has been given to problems with the price deflator for capital goods imports. The matter has been discussed in various recent issues (esp. 1987, 1988) of the Survey of Current Business.
2. See Bacha (1986).

Chapter 7

1. Dornbusch and Park (1986) point out that the 1983 import coefficient for investment may be misleading because it does not take into account the decumulation of inventories in the early 1980s. Inventories have been rising since 1983, and the true coefficient is likely to exceed 0.38.
2. The Denison method of estimating the sources of growth assumes that there is a linear, homogenous, aggregate production function and that the relative price of each factor of production reflects its marginal product. Using this framework, together with detailed data, the contribution of each factor to output growth is estimated. Account is taken of changes in factor quality as well as changes in the quantity of factor inputs. The remaining increases in growth are accounted for by a number of factors, including economies of scale in production and reallocation of resources. See Kim and Park (1985) for a detailed discussion of their methodology and for additional references.
3. In these figures, the total change in factor productivity is measured as the residual which cannot be explained by measured increases in factor inputs.
4. The figures used for intercountry comparisons are standardized growth rates.
5. The terminal year of 1982 may give an abnormally low level for Korean inventories.

6. For example, see the World Bank’s World Development Report 1986, a study of seventeen heavily indebted middle-income countries.

7. There were also substantial increases in overseas construction in other countries. As an indication of the increased construction activity, the number of Korean construction workers employed overseas rose from 0.5 percent of the total Korean labor force in 1977 to 1.2 percent in the peak year, 1982.

Chapter 8

1. For example, see the discussion in the World Bank’s World Development Report 1986.

2. We do not examine the 1965 episode here because of data constraints. This would be an interesting extension.

3. A number of authors, including Nam (1984) and Dornbusch and Park (1986), have pointed out the recent shift toward investment in services.

4. The material in this section come from the Government of Korea (1983). The plan includes detailed projections of national income, the balance of payments, and external debt over the plan period.

5. Yusuf (1985) argues that investment has behaved cyclically, focusing on gross investment figures. Excluding the highly cyclic inventory component, there is little evidence of a relation between real growth and investment shares.


Chapter 9

1. For further discussion of trade and industrial policies, readers are referred to the following sources which focus on the period through the mid-1970s: Frank, Kim, and Westphal (1975), Westphal and Kim (1977), Hong (1979), and Nam (1981). K. S. Kim (1986), Y. C. Park (1985a, 1985c), and World Bank (1987) focus on more recent developments.

2. The changes in industrial policies are detailed in Koo (1985).

Chapter 10

1. The unusual relationship between exchange rates and wages has been discussed by Dornbusch and Park (1986).

2. Lindauer (1984) compares household-based surveys of the economically active population with establishment-based wage and employment surveys. He estimates that official earnings data may account for as little as one-third of total urban employment.

3. Employee compensation is approximately 85 percent of the total labor cost to firms, with severance pay, welfare costs, and other payments required by law accounting for the remaining 15 percent. In contrast, compensation amounts to 77 percent of labor cost in Japan and 90 percent in the United States.

4. S. Kim (1982, 57–58) claims that total compensation is more or less equated across firms for particular skill levels, despite the large differences in basic wages. These differences arise because employers and employees agree on the total compensation, while the basic wage is determined as a residual after the other benefits are set to comply with labor laws.
5. S. Kim (1982) cites one study of the shipbuilding industry in which allowances accounted for 27 percent of compensation for production workers and for from 5 to 35 percent for managers, professionals, and technicians.

6. The comparable figures for the United States and Japan are 34 percent and 13 percent, respectively. However, the percentages expecting to continue work at reduced take-home pay with no workforce reduction were 27 percent in the U.S., 41 percent in Japan, and only 16 percent in Korea. These results are discussed in S. Kim (1982, 4–6).

7. See Jones and Sakong (1980), or their summary in chapter 8 of Mason et al. (1980), for a useful discussion of the relationships between government, business, and labor through 1975.

8. No price increases were denied because of this regulation.

9. The legality of this resolution has been strongly disputed by the Federation of Korean Trade Unions. See S. Kim (1982, 79) for further discussion of the resolution. Haggart and Moon (1986) and Amsden (1986) both stress the increasingly important role played by credit control in the relationship between business and government.

10. Government employment accounts for 18 percent of total "formal" employment.

11. This experience makes it easier to understand the concern of the Koreans that the projected growth rates in excess of 10 percent for 1986 would overheat the economy. Rapid growth concentrated in manufacturing has at times created a scarcity of skilled labor, fueling wage and price inflation.

12. The period through the early 1970s has generally been characterized in terms of a Lewis labor surplus model.

13. The narrowing of wage differentials may also be a consequence of social and/or government pressure to reduce earnings dispersion. A recent World Bank (1984) study concludes that the "rigid maintenance, until recently, of wage relatives suggests a deep concern for distributive justice with social pressures ensuring that no group is left far behind" (91).

Chapter 11

1. See Cole and Park (1983) and Mason et al. (1980) for more detailed discussions of the development of the monetary and fiscal systems.

2. The bank financing from the fiscal accounts differs in its treatment of government loans to deposit money banks, credit from BOK to the Fertilizer fund, and payment carry-overs.

3. This shift continues the historical trend away from defense spending and general services toward social and economic services which Mason et al. (1980, 312–13) discuss for the 1953–75 period.

4. The Korea Telecommunications Authority was removed from the Communications Fund in 1982, and the Civil Servants Pension Fund was removed from the central government accounts in 1983. These changes reduced public sector spending by over 2 percent of GNP. The implied reductions in nontax revenues were partially offset by rising tax revenues.

5. They calculate fiscal indicators following the IMF and the OECD definitions. Advantages and disadvantages of these indicators are discussed in their paper.

6. Corbo and Nam regress the IMF measure of fiscal impulse of real growth, obtaining the following results (t-statistics are reported in parentheses):
\[ FI = -0.16 - 0.21\Delta Y \quad (R^2 = 0.496) \]
\[ (0.57) \quad (3.14) \]

7. See Hong (1979, 110–30) for a detailed discussion of loan allocation policies during 1953–76.

8. In addition to restructuring interest rates, authorities introduced a number of other measures to encourage deposits and to enhance the allocation of loans. In particular, the Korea Exchange Bank was created along with other new banking institutions. Local banks were authorized to extend commercial banking to the provinces, and some foreign banks were allowed to open branches.


Chapter 12

1. Data problems and differences in demographic and other factors imply that measures of income distribution are not strictly comparable across countries.

2. See Mason et al. (1980, 419–24) for further discussion of the land reforms.

3. Mason et al. (1980) shows that between-group inequality and total inequality measures are sensitive to the treatment of business income. If business income is weighted by its share of income tax data, intergroup inequality accounted for just 4.7 percent of total inequality in 1963. This figure had declined to 0.4 percent by 1970. Even if the much larger weights from national accounts are used, intergroup inequality accounted for 20.7 percent of total inequality in 1963 and had fallen to 16.5 percent in 1970. For further discussion, see pp. 409–15 and tables 117 and 133 in Mason et al.

4. Poor households are defined as those with incomes below the poverty line (see Suh 1980).

Chapter 13

1. These data, for 1983, are quoted from table 6 in Aghevli and Marquez-Ruarte (1985, 21).

References


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