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The Wage-led Growth Policy in Korea: Issues and Perspectives

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Abstract:
While mainstream explanations point out technological changes as the main determinant of income inequality and admit that globalization has had negative effects on the wage share in advanced economies, the proponents of wage-led growth argue that the declining share of wage income and the increasing share of capital income has been the major cause of stagnation in the global economy after the global financial crisis in 2017. In advancing their proposition, proponents of wage-led policy rely on the Kaldor-Verdoorn law in Kaldor (1957) which claims that there is positive relation between the growth rates of GDP and the growth rate of labor productivity. It suggests that demand-led growth will have an impact on the supply components of growth. Earlier empirical studies including McCombie (2002), Marquetti (2004), Storm and Naastepad (2008) and Hein and Tarassow (2010), Onaran and Galanis (2012) and Pyo (2018a) have shown the mixed and inconclusive results on the effectiveness of wage-led growth policy. The new government in Korea established after the impeachment of the President Park has adopted a wage-led growth policy and expanded it into income-led growth policy as the main theme of its economic policy programs. They have increased minimum wage level and social welfare benefits drastically to accommodate the demand for a more equitable distribution of income and wealth in Korea. But the success of such a income-led growth will depend on whether such socio-economic condition as institutional maturity for wage-restraint is met. The policy of income-led growth in a small open economy can be more effective if it is led to increase investment for innovation rather than debt-financed consumption. The case of Korea will serve as an instrumental empirical case since the income-led growth policy adopted in Greece, Portugal and Italy during 2000s and in Brazil and Venezuela after the global financial crisis in 2017 have by and large failed due to fiscal and financial constraints.

Hak K. Pyo is Professor Emeritus at the Faculty of Economics, Seoul National University and Visiting Scholar, Asia Center, Seoul National University. He has served as Professor of International Economics and Econometrics at Seoul National University since 1981 until February 2013. He recently offered e-school lecture, Korean Economy-Past, Present and the Future at Tuebingen University for Fall/Winter 2017 and University of Hanoi for Fall/Winter 2018. “Chapter 23 Productivity and Economic Development” in Emili Tatje, Knox Lovell and Robin Sickles eds. Oxford Handbook of Productivity Analysis, The Oxford University Press (2018)