Learning From South Korea’s Fight Against Inflation

One lesson from South Korea’s battle against runaway inflation in the 1980s: The importance of public communication.

By Yong Kwon
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Many American policymakers are casually aware of South Korea’s rapid economic development during the second half of the 20th century. But fewer people know about the country’s success in bringing down inflation that had run 21 percent per year on average in the 1970s to around 3 percent by the mid-1980s. Looking back on this case study amid price increases around the world today, the vast differences in macroeconomic conditions make a direct comparison difficult. But one still-salient lesson on economic governance emerges: public communication is a critical component of achieving price stability.

When one thinks about macroeconomic policy, the importance of public communication may not be immediately intuitive. But the phenomenon of rising prices creates winners and losers with whom the government foregoes engagement at its own expense. At the most basic level, rising prices benefit borrowers while hurting savers and people on fixed incomes. Simultaneously, privileged members of society are able to shift their financial position to take advantage of changes in market conditions more quickly than their peers who earn lower incomes. As a consequence, dislocations resulting from inflation are likely to reflect and exacerbate existing inequalities. Left without acknowledgement, the experience of being disadvantaged by the system could metastasize into a toxic political ideology.

Moreover, inflation is not just a monetary phenomenon. Societal response to price increases in the market creates a feedback loop. For instance, expectations of higher prices in the future could prompt people to maximize their current income by purchasing goods rather than saving. Such behavior could
accelerate inflation. Once again, the government’s engagement with the public on expectations could prevent a vicious cycle from forming in the first place.

However, with prices in the United States rising rapidly, the White House has been slow to communicate with the public in recent months, choosing instead to respond to criticisms and assign blame without presenting a clear solution. South Korea’s example underscores the merits of an alternative path.

A multitude of factors contributed to price instability in South Korea during the 1970s. President Park Chung-hee chose to channel preferential loans to industries in “strategic fields” at the expense of investments in domestic consumer goods. This exacerbated the effects of existing restrictions on imports, creating shortages and raising prices. There was simultaneously a shortage of skilled workers in the domestic labor market, as many went to the Middle East to work on lucrative civil engineering projects. These workers then sent home wages that generated higher demand for goods at the exact moment when they were less available.

All this meant that a growing pool of money was chasing too few goods, resulting in inflation. The government had recognized that this was a problem by the late 1970s, but price fluctuations went into a tailspin with the political instability following Park’s assassination in 1979 and the subsequent coup d’etat orchestrated by General Chun Doo-hwan.

The new junta made price stabilization its number one economic goal. Led by Senior Economic Advisor Kim Jae-ik, the government achieved this objective by restructuring firms in
strategic industries so that they were less reliant on low-interest loans; allowing more imports; expanding public skills training programs for high-demand vocations; and undertaking a myriad of other reforms.

But what the government did is perhaps less relevant to modern audiences than how they implemented the reforms. These stabilization measures required significant social coordination. For example, authorities asked workers to postpone demands for higher wages while corporations were asked to give up stakes in highly-prized industries and accept competition from foreign goods in the domestic market.

To build consensus within society, Kim Jae-ik mobilized the whole of the public sector. The government trained all civil servants and officials, including the president, to speak fluently on the country’s economic challenges and act as advocates of the reform measures. Educational institutions held lectures and seminars on inflation and also served as a platform for the government’s proposals to address this instability. Similarly, think tanks like the Korea Development Institute worked with public broadcasting stations to create documentary programs that emphasized the urgency of tackling inflation. The government formed comparable partnerships with the press, opinion leaders, and businesses to deliver its plan to the people.

Nam Sang-woo, counselor to the deputy prime minister during this period, acknowledged the difficulty of quantifying the role that the public education campaign played in building consensus around the government’s price stabilization efforts. But in 2013, long after the fall of the Chun administration freed public
institutions to speak critically of the efforts during this period, the Korea Development Institute School of Public Policy and Management advanced its assessment that these efforts likely smoothed the government’s ability to take aggressive anti-inflationary measures.

Other case studies reaffirm the central role of public confidence in achieving price stability. Otmar Issing, former chief economist of the European Central Bank, observed that West Germany avoided high inflation in the late 1970s partly thanks to a broad social consensus around the importance of moderating price instability.

Placing South Korea’s example next to the United States today, there are obvious areas where the comparison between the two time periods do not overlap. For one, South Korea was then a dictatorship where the executive branch enjoyed higher degrees of control over the media and other means of public engagement than a democratic government today could possibly hope to wield. But one must also take into account that large segments of South Korean society considered Chun’s government as illegitimate – it had come into power through a military coup and committed human rights crimes almost as soon as it seized power. By comparison, a democratically-elected U.S. administration today starts off with significantly more public trust and faith.

There might be fears that the public will respond poorly to the government’s acknowledgement of its failure to preemptively address the issue. However, precedent in the United States also suggests this concern might be overblown. President Jimmy Carter’s speech in July 1979 laying out his concern that the then-ongoing economic challenges in the United
States stemmed from a deeper “crisis of confidence” was well received. While misremembered today as a pessimistic speech that doomed his presidency, polling actually shows that Carter’s approval ratings hit a nadir in mid-1979 and rapidly rebounded after the speech – almost reaching 60 percent in early 1980.

These cases all underscore how proactively addressing a clear and present problem strengthens a government’s grip on the policy reins. While South Korea in the 1980s might feel like an esoteric case study, the appointment of Susan Collins – a Massachusetts Institute of Technology-trained economist who has written on South Korea’s liberalization during this period – to the presidency of the Federal Reserve Bank of Boston could mean that the lessons might be studied in greater depth by today’s inflation fighters.

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