

"Why Do Some Nations Prosper: North and South Korea"

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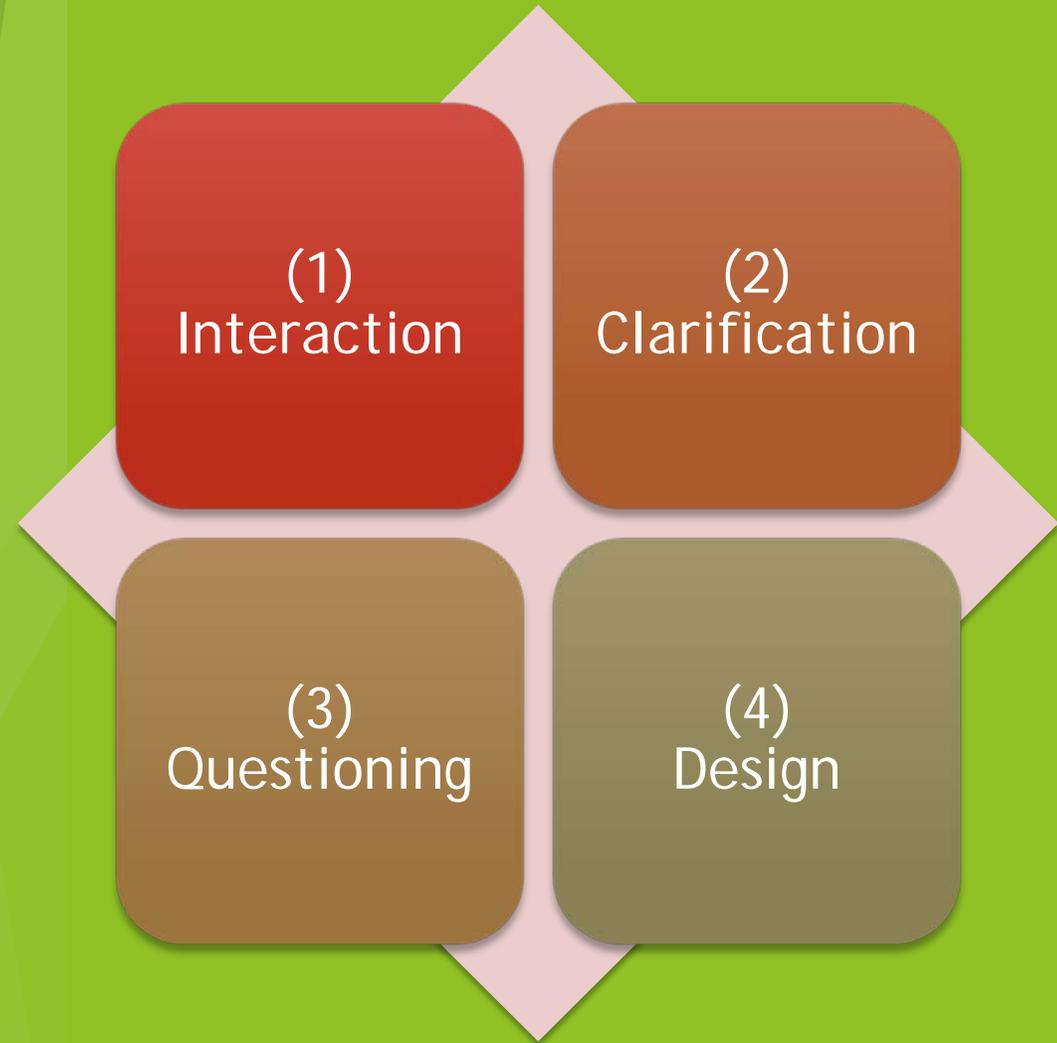
Overview

- ▶ Main objective - explain why some nations prosper while others do not
- ▶ Explain why this topic is important - media reports on N. Korea vs. S. Korea; socialism vs free markets (capitalism)
- ▶ Describe the methodology behind investigating the topic - (i) inquiry-based learning and (ii) sound economic reasoning
- ▶ Provide suggestions on how to use the topics covered during this session -
 - ▶ Help others understand what economics is and how to use it
 - ▶ Assist individuals interested in learning how to use economic reasoning to explain current events
 - ▶ Assist professionals charged with helping people take current events as reported by the media with consideration for diverse perspectives
 - ▶ Evaluate the differences between the performances of individuals in economies led by heavy-handed governments versus those guided by empowered individuals

Main objective

- ▶ Explain why rules and regulations defined by government matters.
- ▶ Command economy - heavy handed government designs policies that allocate resources for consumption, savings, production, and investment purposes. Agencies are monitor successes and failures.
- ▶ Market economy - empowered individuals allocate their resources to help others consume, save, produce, and invest. Individuals, not agencies, are held responsible and accountable for successes and failures.

Inquiry- based presentation



Clarification

- ▶ What are the facts?

North Korea CIA Fact Book	South Korea CIA Fact Book

Questioning based on economic reasoning

1. People choose when they live in a world of scarcity - time, talent, and treasure.
2. Every decision has a cost, especially an opportunity cost.
3. People respond to incentives in predictable ways.
4. Voluntary trade creates wealth.
5. Institutions matter.
6. Today's decisions have future consequences.

Clarification

FOOTNOTES

Why Do Some Nations Prosper? The Case of North and South Korea

Lucien Ellington • Tawni Hunt Ferrarini • April 26, 2017 • Asia Program

<https://www.fpri.org/article/2017/04/nations-prosper-case-north-south-korea/>

Institutions matter.

- ▶ Compelling question: What explains the differences among nations in long-term economic growth in North Korea and South Korea when they have a shared history and culture?



Institutions matter.

- ▶ Economic systems matter.
- ▶ What explains the differences among nations in long-term economic growth in North Korea and South Korea when they have a shared history and culture?
- ▶ North Korea relies on a command and control system while South Korea increasingly leans on a free market system to guide resource allocation.



The institutional story

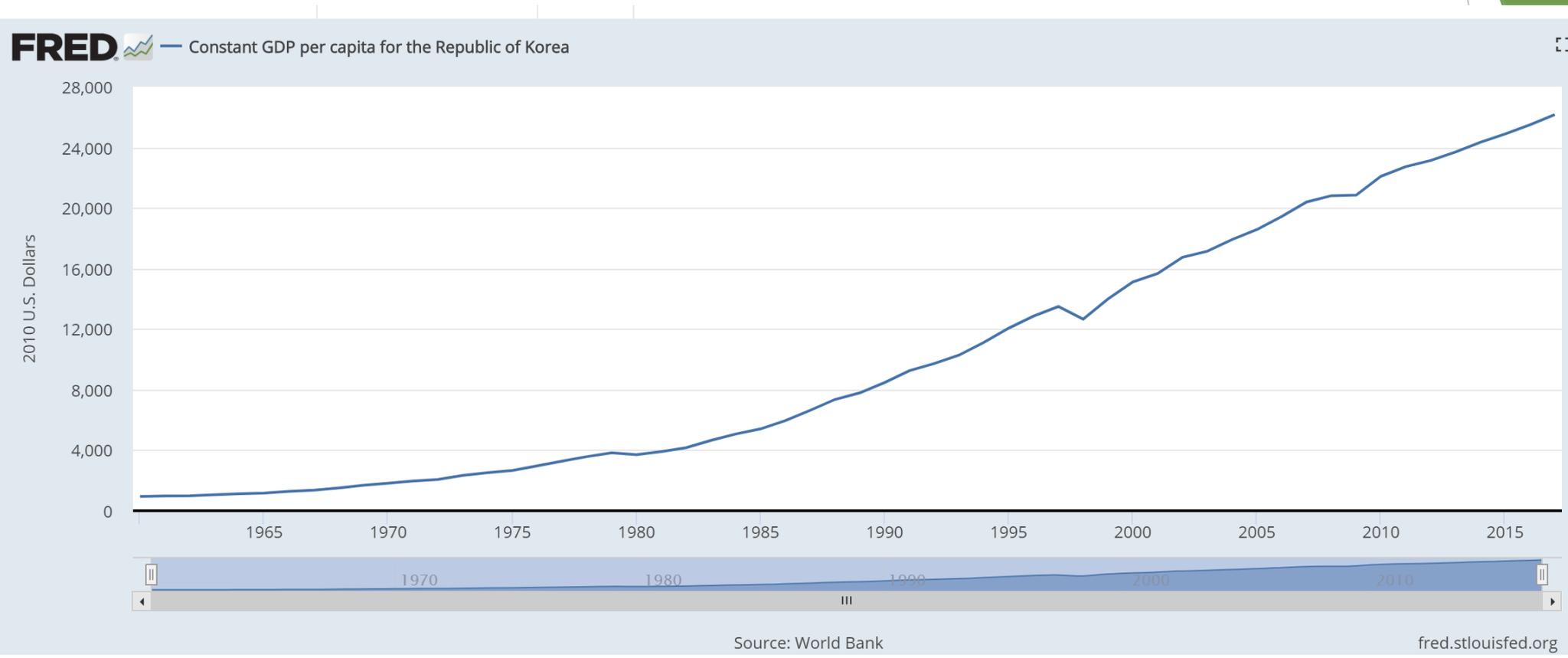
Shared beginnings and separation

- ▶ Hermit Kingdom
- ▶ Japanese occupation
- ▶ One peninsula: two Koreas

Different institutional trajectories

- ▶ Park ended the very experiment with democracy.
- ▶ Land reform (started with US assistance and under Rhee.)
- ▶ Education initiative (started with US assistance and under Rhee.)
- ▶ Investment in physical and human capital continues.
- ▶ Export-led growth (managed through chaebol).

South Korea: the bright peninsula



Between 1960 and 2015 real gross domestic product per capita increased by a remarkable 2640 percent from \$945 per person to \$25,900, in 2010 USD!

1

During the early 1980s, strategic steps away from the chaebol. Moved back from heavy investment in military production.

2

High technology industries takeoff. Samsung and Hyundai become global brand names.

3

Real gross domestic product per capita increased by a remarkable 248 percent from \$530 to \$18,500 in 2011 USD!

4

And then...

- Asian financial crisis of 1997-98
- International Monetary Fund (IMF) provides \$57B bailout in exchange for more plans to decentralize.

5

Result more growth and development with the "creative economy" stepping forward

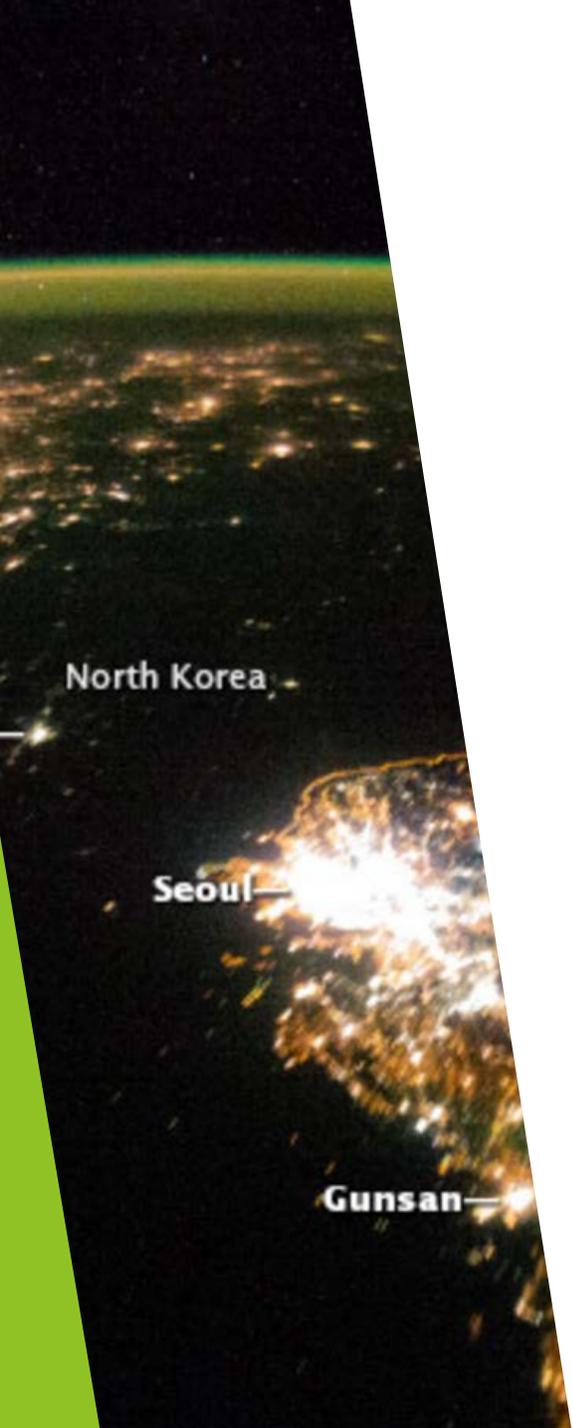
South Korea from the 1980s to today

North Korea: the dark peninsula

- ▶ Central planners simply “assume” they have the knowledge, expertise, and skills to know what works and what does not when, where, and at what price.
- ▶ Turn to the trials and tribulations of South Korea to investigate the difficulties this type of system presents. South Korea’s adoption of command and control system was not continuous. It moves away from it. With each step, more and more people are lifted out of poverty and open to higher standards of living.
- ▶ No property rights, limited investment in human capital, technology is imported, limited investment in human capital across the masses, closed economy to international trade with restricted trade with China

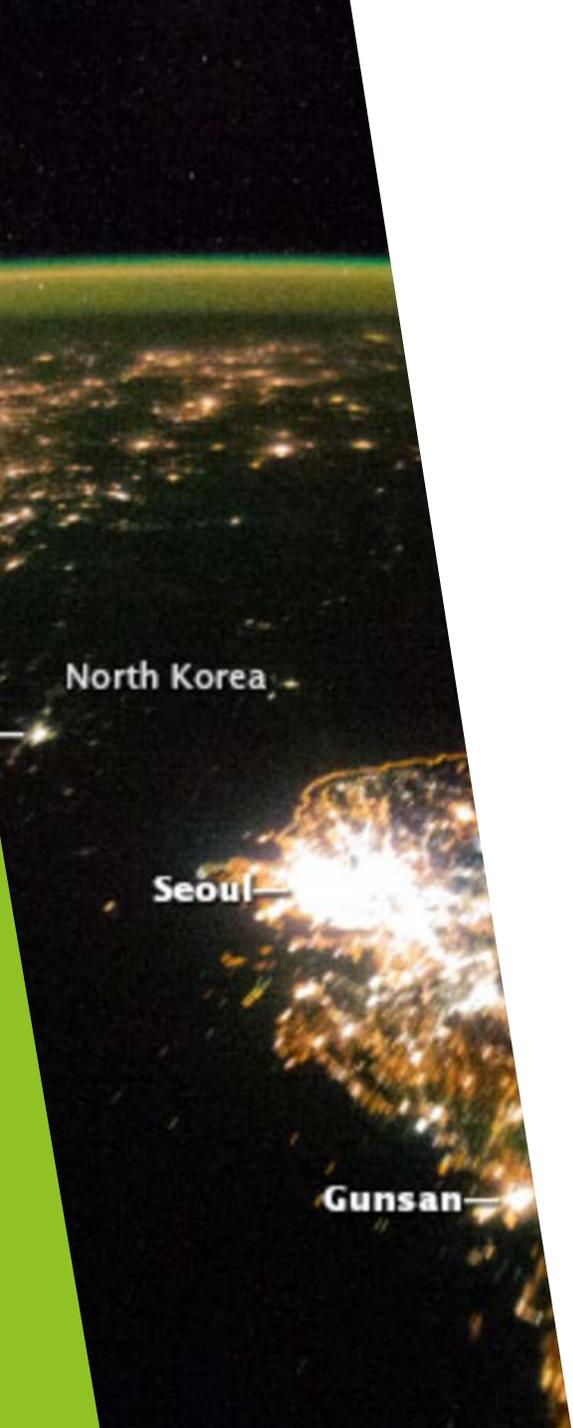
North Korea: the dark peninsula

- ▶ Income in North Korea is one-thirtieth (1/30th) of that of South Korean,
- ▶ Average height is about 5 inches shorter,
- ▶ Weight is 15 pounds lighter in the North than in the South;
- ▶ Life expectancy at birth is ten years less in the North than in the South;
- ▶ 26.2 percent of North Korean infants die at birth compared to less than 3 percent of infants in South Korea;
- ▶ South Korean annual global exports and imports total well over one trillion (U.S dollars), while North Korean global exports and import totals are about 8.7 billion (U.S. dollars).



Institutions matter.

- ▶ What explains the differences among nations in long-term economic growth in North Korea and South Korea when they have a shared history and culture?
- ▶ Economic systems!
- ▶ South Korea increasingly values life, liberty, and the individual's personal choice of how to pursue happiness. By contrast, North Korea spends tremendous amount of resources restricting individual rights and freedoms.



Compare and contrast

North Korea	South Korea
Command control economy	Relatively free market economy
Government policies and political decisions decide what to produce, how to produce, when to produce, and at what price	Individuals decide what to produce, how to produce, when to produce, and at what price
No relationship between profits/losses and resource allocation among government agencies in the public sector	Relatively tight connection between profits/losses and resource allocation among individuals in the private sector
People are punished for inventing, discovering, and behaving entrepreneurially	Rewards motivate individuals to invent, discover, save, and invest
Poverty, high infant mortality rates, poor nutrition, and so forth	Relatively high standards of living
Few imports and exports; primarily a closed economy	Open economy with impressive exports and imports

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