

“MBnomics”: A Review and the Road Ahead

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ABSTRACT

This paper reviews the first six months of MBnomics - its strengths, weaknesses, accomplishments and failures, along with suggestions for improvement. Throughout, the paper stresses the unevenness and lopsided nature of economic development which is viewed as the result of economic resources joining and concentrating towards competent, viable economic entities. Such an evolutionary process not only makes economic activity possible, but also leads to individual agents' and national economic development. After reviewing Korea's developmental experience over the past 4 decades, I argue that Korea needs to move away from the egalitarian policies of the past 15 years (the so-called "Egalitarian Trap") by learning from the earlier decades of high growth and economic development when the flow of resources to economically competent agents and regions was encouraged under highly discriminatory policies. In the past 6 months, so-called MBnomics which intended to establish a regime of "big markets and small government" has clearly underperformed with respect to what was originally anticipated, often being misguided and inconsistent in various areas. This paper argues that economic policy remained in line with its original intentions and focused on instilling the developmental spirit of self-help, diligence, and cooperation throughout all aspects of society by putting into place discrimination policies that "help those that help themselves." MBnomics must not shy away from the lopsidedness created by the development process and should promptly do away with those policies establishing equality at the expense of the economically viable agents.

KEY WORDS: complexity economics, economic discrimination and concentration, egalitarianism and de-concentration of economic power, big market and small government.

Introduction

Lee Myung-bak, referred to as MB in the media, was inaugurated as Korea's tenth President on February 25, 2008. He replaced Roh Moo-hyun, signifying the return of the conservative Grand National Party after its defeat in the presidential elections in 1998.

This article addresses various themes around one fundamental question in the minds of many observers and commentators of the Korean economy: Will the new leadership take Korea out of the economic stagnation of the past 15 to 20 years and put Korea back on the development path towards becoming an advanced nation? Specifically, what elements of MBnomics suggest a genuine change for the better, which areas need further work, strengthening, or emphasis to further Korea's economic development in the 21st century? Korea's future and place in this world depends heavily, as it always has in the past, on the government's visions and policies. This article looks candidly at where the Korean economy has been, where it is now and how it might unfold over the next four to five years under President Lee Myung-bak.

Some Observations on Economic Development

As an introduction, it should be useful to list briefly, as a kind of reminder, some of the "obvious" features of the process of development. Although a somewhat personalized view is presented in terms of focus and interpretation of developmental experiences, this brief section is meant to allow readers to get a sense of the arguments I make here as I reflect on and discuss Korea's economy.

First, economic development is a highly lopsided affair. It certainly does not happen everywhere equally, whether one thinks across regions or across time. To be sure, the bulk of economic resources and benefits have always polarized economically competent agents and regions from those agents and regions that lag behind. But, of course, this has been a non-stationary and ever-changing process in which successful agents may eventually fail, and vice versa. Second, economic development is a dynamic process and must be viewed as such. Here, front-runners in an economy, sometimes referred to as "economic champions," often serve as role models and sources of synergy, thereby providing inspiration for others as an example to imitate in one way another as they embark on their own developmental journey. Third, as much as markets are important, the role of government, too, is indispensable and instrumental in guiding and, in many cases, also misguiding national economic change. Fourth, economies are essentially made of organizations; the market-centric view that has dominated economic thought from Adam Smith to Hayek has somewhat overlooked the importance of organizations,

namely, firms as well as the government, in promoting economic growth and development. Fifth, also ignored in much of the economics literature is the empirical fact that economic development in the modern era has been driven by the business firm and corporations. It should be brought to mind that the modern development era began around the 1850's when the combination of legal and economic changes culminated in the creation of the company in the U.K in 1862.¹ Sixth, economic development has been driven and is also itself molded by political ideologies and institutions. Most notably, political and economic egalitarianism as exemplified in social democracies has tended to work somewhat against economic growth and development, despite good intentions, which not only add to the fragility of modern day democracies, but has demanded a better understanding of the role of ideologies and politics in economic development, especially in the post-Cold War period. Seventh, and not unrelated to the previous point, it remains to be explained why the experiences of various non-democratic regimes have spurred economic progress. There are a number of important experiences of rapid growth and progress that have been prompted by state intervention rather than despite of them.² Eighth, the society's "development mentality" or "Can-do-Spirit" has been a vital ingredient towards national success. There is a saying, "one can take the horse to the river, but one cannot make it drink." Ninth, with only a handful of exceptions, national economic development was largely a feature of the 19th century. One is prompted to ask, "What made the 19th century a "more suitable" period for economic development than the 20th or 21st centuries?" Tenth, that leadership has been indispensable for the success or failure of organizations, economies and nations throughout history is hardly disputed. We are challenged, then, to identify what it is about leadership that makes for great (or bad) leaders.

A complete discussion of all the above characteristics would be impossible here. Rather, while referring to other features as appropriate, the bulk of the discussions in this article will focus, more or less, on the very first point: that economic development is a lopsided phenomenon. A quick observation should confirm the fact that economic development is by no means consistent or evenly distributed. Only a few nations in the world have been fortunate, for one reason or another, in achieving some form of economic development. Only a couple of dozen nations of the world's 200 nations today have achieved advanced economic status, while over two-thirds, the majority of over 6.6 billion human beings living on earth as of 2008, are still locked in the nasty grips of poverty. Moreover, within any country, in any single year or across time, the differences between the rich and the poor remain clearly visible. British

economic historian Angus Maddison, Emeritus Professor of Economic Growth and Development at the University of Groningen, does, in fact, remind us that economic development is a recent phenomenon in the history of mankind. Although humans have existed for at least 2.5 million years, economic development as we know it today is something that appeared only from around 1850's. Be that as it may, economic development is being the goal of every single nation on earth has remained elusive and highly misrepresented; clearly, there are many mysteries to be solved.

In hindsight, it might seem peculiar that anyone would highlight the "obvious" point that development is a highly lopsided phenomenon. But, for a number of reasons, much of mainstream economics ignores this fact.³ Not only because they assume away the unevenness and differences in economic agents, but also because they are essentially static and do not fully treat organizations; mainstream economics is incapable of dealing properly with the process of economic change and development. What is more, much of mainstream microeconomics, which can be described as the science of distribution (or allocation) of scarce resources in the economy seems to ignore completely not only the political process, but also the relative positions and differences of economic agents in the allocation and utilization of resources. Of course, economists have not remained ignorant of these weaknesses, which are now serious areas of research carried out at universities and research institutes, and which have led to the burgeoning of extensions as well as some new approaches to mainstream economics such as information economics, endogenous growth theory, modern industrial organization, the economics of democracy, and other exciting multi-disciplinary works.

The view I adopt here follows a somewhat different line (from the mainstream) of economic theorizing that has been more or less molded under the evolution paradigm and new-institutional economics. More specifically, I adopt various aspects of complexity and evolutionary economics, with slightly different emphasis and adjustments, in search of a better understanding of the process of economic development. The advantages of this approach over mainstream economics are numerous, including, among others; 1) modeling of increasing returns; 2) full treatment of dynamism and change; 3) modeling of non-linear interaction; 4) treatment of self-emergent systems; and, 5) consistency with the second law of thermodynamics or entropy.⁴

Indeed, the approach of complexity economics allows for a simpler and more general understanding of markets and organizations in economics. With refinement markets which are indispensable for attaining economic efficient allocation can be easily interpreted as a

selection or discrimination mechanism.⁵ That is, markets are instruments that “help those who help themselves.” This interpretation links economic development with economic concentration, conglomeration and agglomeration. The firm in economics, which has been treated rather loosely in mainstream economics, is also a “discriminating” device not unlike markets, in which the “best” practices and agents are identified, selected and rewarded. Through such an evolutionary process, economic development is experienced as success begets success.

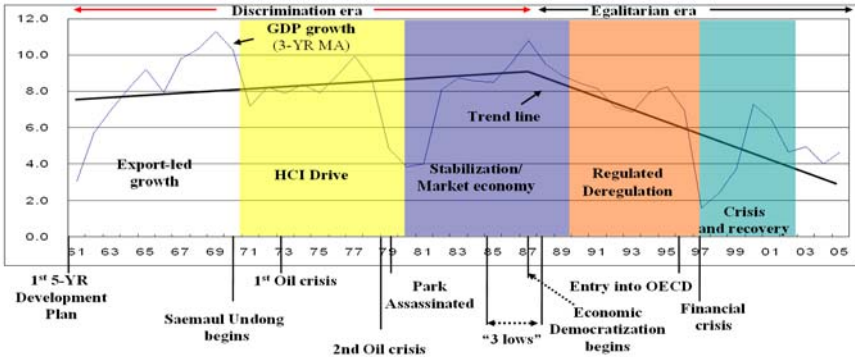
What is troublesome is that economic concentration or the “joining” of economic resources under one roof or organization has been largely scorned as something to be feared and disliked; for example, it is easy to find proponents that use terms like “economic power” in a negative sense. This is unfortunate, however, as it is clearly impossible to create goods and services without so-called “economic power.” To be sure, resources are joined together, whether in markets [impersonal connections] or in firms [personal connections], for economic reasons [production, consumption and exchange]; the economy cannot exist, leave alone progress, without markets and firms, and hence economic concentration of one kind or another. It might seem strange that such an obvious fact needs be stated here.⁶ As previously mentioned, a however, a pressing issue nowadays is that not only does mainstream economic modeling largely ignore economic concentration, but the same is true for the current democratization trend, which has leaned towards a kind of egalitarianism that does not interpret such phenomenon (economic concentration, conglomeration, and agglomeration) favorably, but rather as economic side-effects or threats to development. Simply put, in Korea and many countries elsewhere, particularly with the dominance of egalitarian ethos, any kind of differences and, in particular, “bigness” has been scorned in favor of a more-equal and uniform society. The threat posed to national economic development of this particular brand of egalitarianism, which I term “The Egalitarian Trap,” is something that I wish to warn about in this article.

Korea’s Developmental Experience

Here I give an overview of Korea’s economic development experience since the 1960’s, identifying key events and characteristics over the past 40 to 50 years. Roughly speaking, the higher-developmental era of the 1960’s and 1970’s is contrasted with the later democratization era of the late 1980’s to recent times. Essentially, I show that the early period of policy favoring economic concentration is reversed in the latter period by diffuse, equal-treatment policies, which I argue has been a critical reason behind the slowdown in economic

growth over the past couple of decades. In particular, I argue that the nation's "anti-bigness" sentiment encouraged by economic democratization since the late-1980's, "the egalitarian trap," has acted as a serious constraint on the private sector, including business activities required to move Korea into advanced nation status at a more rapid pace.

Figure 1: Korea GDP Growth (3-year Moving Average: 1961-2005)



Note: Slope (t-stat) for 1961-1987 is 0.037 (with t-stat 0.636), and for 1987~2005 is -0.32 (with t-stat 4.35) respectively.

The Early Developmental Decades (Park Chung-hee Era)

The Korean War (1950-53) left Korea in almost complete devastation. With regards to the country's consequent recovery and particularly the unprecedented economic take-off in the 1960's and 1970's, various commentators on the Korean economy have credited in various degrees state-intervention (Ledde-Neurath, Haggard, Wade, Chang), the switch to an export-led strategy and a favorable external environment (Balassa, World Bank), the autonomy of technocrats (Westphal), the growth of the chaebol (Jones and SaKong, Amsden), a highly literate and diligent labor force, and so on. Be that as it may, Korea as a Confucian state is, and has for a good proportion of her history, been heavily influenced by the state, and it is increasingly being acknowledged that it is, in fact, Park Chung-hee and his economic policies that deserve the bulk of the credit for initiating Korea's economic development.

Economic take-off requires enormous effort to join together economic resources, including managerial and technological know-how, risk-taking activities or entrepreneurship, as well as the physical resources, capital and labor under a "single" roof or organization. In this respect, the consciously-directed flow of economic resources to *viable* firms and organizations was an important feature of Park Chung-hee's economic policy that has not received enough credit in the literature.⁷ On

the contrary, many were quick to criticize his “heavy” handed approach at literally directing and managing the economy by citing authoritarian command and over-concentration of “favored” firms and regions. Many of the criticisms against the direct-hand of the government at the time, however, fail to grasp the point that allocation (indeed whether by government control or markets)⁸ should be judged essentially by whether it addressed the needs of economic agents that have furthered their success and contribution to the economy.

To be sure, as exemplified in export review sessions,⁹ a rigorous evaluation and relocation system guiding and evaluating business performances of exporting firms was an important mechanism ensuring efficient allocation of scarce resources and support by the government. This was, in fact, what also happened with the SME promotion policies, where firms were selected for support on the basis of their export performances; such a discriminating mechanism ensured the efficient utilization of scarce economic resources was critical in maintaining competitive pressure as well as mitigating moral hazard behavior. The HCI drive in the 1970’s encouraged many *already* viable firms through a competitive/discriminative process to enter the high-risk HCI industries. In other areas, the *Saemaul Undong* Movement, for example, granted successful villages (rather than those left behind) further resources and support for rural development projects. All these policy measures under the tight control of Park Chung-hee heightened competitive pressure, mitigated potential moral hazard behavior, free-riding as well as any complacency, and most importantly resulted in the 8 to 9 percent economic growth for over two decades.

Park Chung-hee’s dictum, “The government helps those who help themselves” which emphasized diligence, self-help, and cooperation perfectly sums up his approach in accelerating the endogenous evolution process of markets by exogenously sharpening the discrimination (or selection) mechanisms throughout the economic and social fabric of the entire nation. The dynamic allocation and concentration of economic resources more and more to successful firms, as well as the agglomeration of the Seoul metropolitan area and other large cities, was not simply a negative side-effect of economic development, but rather the fundamental engine driving change towards the better quality of life for all.

The Era of Korea’s Democratization (Late ‘80s to Present)

Following the assassination of Park Chung-hee on October 26, 1979, stabilization policy quickly replaced the HCI program as the main government concern following high inflationary pressure, the poor

export performance and harvest failure at the turn of the decade. More importantly, policy became redirected more broadly and “uniformly” (indiscriminately), for example, towards supporting various kinds of SMEs, focusing on rural development, and so on. Furthermore, catchphrases like “de-concentration,” “de-conglomeration,” “de-agglomeration,” and so on, which were directly in opposition to economic “bigness,” “urbanization” and “agglomeration” became particularly popular after the late 1980’s.

The democratic sentiment that spread throughout Korea like wild-fire, culminating in the nation’s democratization in 1987, which although a huge step forward for the Korean people, often did not translate into good economics. In particular, the amendment in 1987 of Paragraph 2, Article 119, of the Korean constitution was most significant. It read: “The State may regulate and coordinate economic affairs in order to maintain the balanced growth and stability of the national economy, to ensure proper distribution of income, to prevent the domination of the market and the abuse of economic power and to democratize the economy through harmony among the economic agents.” This amendment contained many of the ideals of what a Korean democracy is about. Economic policy, and Korea’s public policy at large, has come on the receiving end of influences from a kind of egalitarian ethos which has aimed to achieve “balanced” growth, “proper” income distribution, and “economic democratization,” and to remove enterprises’ “domination of markets and abuse of economic power.”¹⁰

In fact, this “economic democratization” has translated into the long declining growth trend of Korea’s economy through much of the 1990’s to the present time. The “Can-do-Spirit” of the earlier development era characterized by diligence, self-help, and cooperation was eroded and replaced by an egalitarian-equalization fever that landed a sympathetic ear, initially to the weaker, less-performing economic agents (namely, SME’s) and then to other social arenas such as the unemployed, the homeless, and rural enterprises. I am, of course, sympathetic to the intentions of such policies, which also cover the disabled, the young and elderly members of society, and other under-privileged parts of society, but what seems to have happened was an over-shooting of the pendulum, so to speak. Not only did policy adopt “uniform” application, which allowed free-riding by economic agents that would otherwise have worked hard with the “Can-do-Spirit” under a more discriminate and competitive system, but many policies took on a populist stance that stressed disfavoring the strong and successful in the name of social balance and equalization. This egalitarian trap could only result in dampening the dynamism of economic vigor while infusing apprehend-

sion in those that wished to succeed. In short, success was greeted with envy, distrust, disrespect and even punishment! Moreover, such policy acted against what the market was, in fact, doing, namely, identifying and rewarding the distinguished, and reversed much of the spirit and policies that the Park Chung-hee government had established in the early developmental era.

To be more specific, I list below a number of public policies that characterize the democratization era and which had a serious tendency to mitigate, if not reverse, economic growth and development to carrying degrees; 1) the regulation of the 30 largest business groups since the mid-1980's under the KFTC, which, with the aim of achieving "balanced" development rather than promoting competition, aimed at de-concentration through a series of legal penalties directed on "large" business groups;¹¹ 2) SME promotion policies that support small- and medium-sized firms *only* because they are small or medium; eligibility for support was not only arbitrary, but also policies treated those receiving assistant uniformly and indiscriminately (i.e. was not based on economic performance); 3) regulation on metropolitan regions by, for example, banning the physical location of plants and factories of large corporations and campuses of four-year colleges or universities inside these regions; this was meant to reverse population-densities and resources flow concentrating in metropolitan areas since the early 1980's; 4) supporting local and rural regions to achieve balanced regional development; again the packages were equal and uniformly (1/n) applied; 5) the desire for educational "equalization," an egalitarian policy widely adopted to try eliminating educational differences among students, teachers, schools, and universities; 6) tax exemption for the poor was widened, while the tax burden on the rich and affluent class increased steadily, as for example, the recent surtax on high priced residence; 7) introduction of a much-too-lenient and lax social safety net often imitating the social democratic European welfare system that has been already proven incompetent; and, 8) favor of labor and labor unionization because they were assumed to be in a weaker (economically and political) position vis-à-vis business and capital.

"Hell is paved with good intentions" is the warning heeded by the 18th century philosopher, Samuel Johnson. Starting from the slant-towards-labor, the later 1980's up to the present period has witnessed various spouts of labor militancy, where labor market inflexibility has in recent times been a stumbling block to FDI as well as domestic investment. Like pouring fuel on fire, the nation's legal system has tended increasingly to favor labor while incurring huge costs in industrial and business relations. Notwithstanding the turn of political events away

from creating economic growth poles towards re-distribution for a more “equal” society, the actual incentive mechanism for nearly all measures were, in fact, seriously flawed as it worked against good intentions of providing some relief for the poor and under-privileged. By introducing a “flat” system, where any agent meeting the criteria could apply for benefits (except “large” firms, of course), the delivery of support was essentially indiscriminately applied and politically clouded. Support was not based on economic performance, nor was there an appropriate evaluation mechanism in place. This allowed for morally hazardous behavior and corruption to increase becoming a huge cost to society in terms of mitigated competitiveness, free-riding and unaccountable behavior, and missed opportunity. It cannot be over-emphasized that the egalitarian sentiment across the nation, in her policies, media and in the general public’s mind, culminated in the economic woes of the 1997/8 financial crisis. Rather than helping the poor and disadvantaged, “economic democracy” killed off national competitiveness.

Table 1: The New and Old Developmental paradigm

New Developmental paradigm (Towards Advanced Country Status)	Old Developmental Paradigm (Industrialization Period)
Development through synergies among nations and societies	Government-led development
Qualitative development; virtuous circle of growth and welfare	Quantitative growth; growth-first, welfare-later
Establishment of the rule of law and respect for the Constitution	Divergence between the Constitution and reality; authoritarian rule
Respect for various individual values and creative talents	Mass-production with educated labor treated uniformly and communally
Harmony between global and local standards	Closed nationalism
High-trust society	Low-trust society

MBnomics: Characteristics and Evaluation

MBnomics is a rough term often used in the media to denote macroeconomic policies of the present government.¹² In contrast, I have taken the liberty to look more closely at the microeconomics aspects of MBnomics, which I loosely define as economic policy that directly affects economic agents in the context of Korea’s economic development

for the next four to five years, which also have potential for far-reaching macroeconomic implications.

The new government interprets Korea's history as that of development, and as such proposes the need for a new model that continues and upgrades the nation's history of nation-building, industrialization and democratization. In line with this, the new government has set the following new developmental paradigm as a national goal, the features of which are contrasted with the old development paradigm in the table below:

Under this new paradigm, the new government adopts the vision of turning Korea into a first-class, advanced nation, and, to achieve this vision, has taken on "creative pragmatism" as the basis for policymaking. With the new developmental paradigm, characterized by the national vision of the first-class nation and the action strategy of creative pragmatism, the new government has set the following five national priorities as an agenda;

1. Dynamic market economy
2. Home of talented people
3. Welfare program reforms
4. Small government serving people
5. Mature global nation,

Despite the ambitious paradigm shift to upgrade the nation, Lee Myung-bak's government has faced a series of pressing and controversial issues since assuming power in February 2008. Some of these have included the Grand Korean Waterway, cabinet appointments, foreign policy (especially relations with the U.S and North Korea), Korea-U.S FTA, the U.S beef controversy, and education policy. The economy was a key issue behind his election campaign when his stated goals were expressed in the "747 Plan", implying 7% annual growth in GDP for 10 years, \$40,000 USD per capita, and making Korea the world's seventh largest economy. But since the new government came into office, Korea's economy has shown lower growth, a decline in consumer spending, unstable prices, and evidence of other economic malaise that have added to public resentment against the new leadership.

As a proponent of "small government and dynamic markets," MB has stated that his priorities include the revitalizing of the Korean economy by creating a pro-market and pro-business environment in a "pragmatic" fashion.¹³ With respect to this, the main features of MBnomics to achieve a dynamic market economy seem to be: 1) a strong drive for FTA and an aggressive policy for attracting FDI; 2) aggressive

deregulation of the private sector, as well as privatization of some public organizations; 3) promotion of technological innovation; 4) establishing harmony between development and the environment; and, 5) establishing harmony between markets and public interest.

Although it may be too early to evaluate the achievements of MBnomics after only six months in office, it can be said that, despite the initial excitement of the early promises, the new government has met with various difficulties and stumbling-blocks that have delayed setting into motion key parts of the new economic agenda.

Specifically, regarding the objective of a dynamic market economy: 1) tax reductions to invigorate investment are not yet visible (partly due to a partisan standoff in the National Assembly); 2) deregulation of large corporations (especially the removal of the regulation on Chaebols' equity investment and separation of financial and industrial sector) has not yet been strongly pursued (mainly because of a partisan standoff); 3) the denationalization of public enterprises has lost steam as it faces great resistance, particularly by the Public Sector Labor Union; 4) FTA issues have not been moving as quickly as intended and deregulation of metropolitan region has been delayed. Overall, the 7% economic growth and creation of an additional three million jobs (as promised during the Presidential campaign) has not been met. The truth of the matter is that no economist really expects such high economic performance, especially with the deteriorating external environment acting as a serious barrier.

Secondly, regarding the aim towards establishing a home of talented people: 1) deregulation of entrance exams into universities has not been seriously pursued (mainly due to negative public opinion); and, 2) the strengthening of public education on English is without a concrete plan as yet.

Thirdly, regarding reforming the nation's welfare programs, or more specifically, the national pension system reform to improve financial soundness, planning remains in the very early stages.

Fourthly, regarding the aim to create a small government that serves her citizens: 1) re-structuring government organization is complete, but the changes have not been on the scale originally planned (mainly due to political resistance); 2) reform of pension plans for public employees has not yet been pursued; 3) denationalization of public enterprise has been delayed for reasons stated above; 4) re-establishing the Rule of Law has met with enormous difficulties, for example, with the recent "candle-light" demonstration (these demonstration were in fact initiated by sections harboring anti-American sentiment opposed the reopening of markets to American beef imports.)

Fifthly, with regards to making Korea a mature global nation: 1) diplomacy and politics continue to present many difficulties and challenges; 2) the policy of “no nuclear weapon, openness, 3000 dollars” (that South Korea will help North Korea to achieve 3000 dollars per capita income level if the North gives up its nuclear weapons and opens its economy) was established with the aim of reinforcing cooperation with North Korea; 3) a 21st century creative Korea-USA relationship; 4) diplomacy with the new Asia vision; and, 5) a Korean peninsular economic community for cooperation with North Korea. These policies have been pursued, but with only lukewarm interest.

In sum, MB has not faced an easy transition into power.¹⁴ Most importantly, it seems that the legacy of the previous regime remains stubbornly in the background, fueling opposition to change and progress (e.g. the months-old candle light vigils, the growth of anti-American sentiment coupled with the U.S beef issue, etc.) Recently, the new government has announced its intentions of re-activating its original promises, by announcing a tax-cut, green-belt deregulation, and military zone deregulation, as well as showing its intentions of lifting stringent regulations in metropolitan regions. How quickly the president is able to shake off the economic worries left by the previous regime and pursue change will be a huge factor in the success or failure of his reforms.

Suggestions for Improving MBnomics

Following the above discussions, the following are broad issues that require further work by the current government:

1. The “big market and small government” approach should be retained and strengthened. So far the policy record has been mixed, somewhat slow and at times inconsistent with market principles.
2. “Creative pragmatism” needs to be molded under a coherent philosophy with well-defined and clearly laid out principles. This so-called “creative pragmatism,” which lacks a degree of concreteness as an ideological or philosophical basis for MBnomics, could be the reason for confusion and a tendency towards populism. Effective pragmatism requires proper judgment based on a set of coherent principles, which broadly speaking, MBnomics seems to be lacking. No clear principle in terms of the ideological spectrum, conservative, liberal, or any other, for example, can be identified and associated with MBnomics. At worst, the weak signal can be translated as a lack of credible leadership, which Korea so desperately needs at this time in her history.

3. Privatization and deregulation policies should be reinforced. Once the parliamentary activities return to normalcy, the quick passing of bills, including the scrapping of regulation that limits large companies' investments in their affiliates as well as proposals designed to encourage investments by reducing corporate taxes will be an important step towards revitalizing the private sector.
4. The new government should also stress promoting safety, trust and the rule of law.
5. A challenging issue is how to improve welfare programs and systems so as to minimize morally hazardous problems. Here, creating "a system that helps those that help themselves" is vital to mitigate moral hazard behavior and free-riding problems. Discriminating mechanisms rather than "uniform" treatment to promote self-help, diligence and cooperation should be applied.
6. The market spirit should be strengthened in designing not only economic but also social policies. Self-help, freedom and responsibility could be key words for the "big market and small government" slogan.
7. The government should refrain from making things even out in its egalitarian policies. For example, statements such as "to establish harmony between markets and public interest," if not clearly defined, could delay the process in reversing the dominance of egalitarian ethos and populism of the past 20 years or so. Any harmony will be better established if the public is re-oriented with a clearer understanding of the role of markets as a discriminating mechanism, where equality is often sacrificed for change and progress.

More specifically, individual policies in need of quick overhaul include:

1. Deregulation of metropolitan regional regulations.
2. Support to the local regions should not be uniform and equal. 1/n equal support has harmed regional competitiveness.
3. Deregulation of large corporate activities and especially "bigness" alone should not be a reason for regulation.
4. Support to the SMEs should be based on their economic performance. Eligibility and qualification for SME packages

should not be based on size alone.

5. The equal-education policy should be promptly replaced by a more competitive system recognizing excellence and achievement in education, research and other scholarly activities.
6. The tax system that has leaned towards “robbing” the rich to give to the “poor” needs reform. In particular, a new set of real estate measures could help correct the bad-sentiments against the richer members of society.
7. Labor unions should be disciplined with the strict application of the law, and industrial relations should be upgraded to those of global standards and practices.
8. Given the weakening position of Korea as a destination for FDI, FDI promotion that attracts the very best from all over the world should be given a high priority.
9. More aggressive FTA should be sought to speed up globalization and absorption of international standards.

Conclusion

The main argument in this article is that Korea’s meager economic performance since the late-1980’s can be largely attributed to an “egalitarian trap” which has frustrated Korea’s ambitions towards becoming a newly-advanced nation. However strong political pressures might be, MBnomics should terminate any policies with a tendency to “reverse-discriminate,” that is, penalize or disfavor success, whether it be individuals, groups of individuals, organizations, firms or regions. More specifically, economic policy should stress economic performance through a vigorous evaluation/discriminating system that avoids placing fear and regulation on the basis of bigness, economic concentration and/or agglomeration. Rather, support and incentives should be maintained in a competitive manner that takes care of the competent and viable economic agents, while at the same time stepping up discriminatory policies in sectors’ lagging behind. We should keep in mind that competitive and economically viable individuals, firms, organizations, and regions, including the relatively rich and affluent class, successful business leaders, and innovators all remain indispensable sources of synergy that feed into the economy heading for change and progress.

As much as we sympathize, arbitrary support for those under-performing simply because they claim to be less privileged will not do. Public policy should not lose sight of providing the right incentives to

encourage everyone (those ahead of the game and those still struggling to find their worth) to work even harder and to overcome their own difficulties towards success. The “hidden” costs of the past couple of decades (free-riding, moral hazard behavior, discouraged investors and risk-takers, etc.) should be avoided as much as possible.

In terms of public sentiment, MB has a huge challenge to lesson public disrespect, suspicion and sometimes outright hatred for being “big” and being “excellent.” Namely, to get out of the egalitarian trap, the current attitude of anti-large corporation, anti-metropolitan, anti-rich, and anti-excellence should be discouraged. The fear in the public’s mind of economic concentration, conglomeration and agglomeration should be erased as promptly as possible. As much as I welcome the recent stance by the government to aggressively push for economic deregulation following the recent public review of the past six months in office, I would like to stress once again that the public needs to be reminded, if not re-oriented, to the realization that “bigness,” being rich and achieving excellence in one’s area of expertise should never be a reason for mistreatment, disfavor or punishment.

As a final note, given what is certainly the beginnings of a global economic recession at the time of this writing, an economic downturn which has provided sentiment against “free markets and small government,” it is perhaps worthwhile to dwell on the issue of whether MBnomics can survive the second round of attacks by the left wing opposition (after the first round attack i.e. the candle-light demonstrations), this time triggered by the U.S. and world financial crisis. Broadly speaking, MBnomics is an ideological product of Thatcherism or Reaganomics, the so-called neo-liberalism camp, which is currently under serious attack by the liberal camp, not only in the U.S., but globally as well. Echoing this trend, in recent weeks, MBnomics has been similarly criticized by the left wing in Korea.

Interestingly, the current U.S. financial crisis is being regarded as a result of financial deregulation during and since the Reagan era. However, according to my analysis done elsewhere,¹⁵ the fundamental cause of the financial bubble which eventually burst causing the current financial crisis, can be traced to President Bill Clinton’s drive in 1995 to provide housing ownership for all citizens, for example, by reinforcing the Community Reinvestment Act (CRA). By simplifying the CRA mortgage loan screening procedures, the Act in fact encouraged banks to extend large numbers of loans, even to people below credit-worthy status. In addition, the outstanding balances of such CRA loans were then used as a basis for favorable review from authorities for branch expansion and M&A activities. At the same time, the Department of Housing and Urban

Development encouraged Freddie Mac and Fannie Mae to more actively guarantee CRA mortgage loans. In general, such a move allowed many banks to extend even sub-prime mortgage lending. With the government's uncompromised support, the incentive structure for banks and other financial institutions in the U.S. were changed towards expanding their financial reach into mortgage-related businesses.¹⁶ Although deregulation in the financial sector since like the repeal of the Glass-Steagall Act did increase financial risk and vulnerability, it is not the fundamental cause, as some observers tend to argue, but rather just an amplifier among many other factors behind the U.S financial bubble. More precisely, it is the mistaken government intervention (beginning with the Clinton administration) driven by an egalitarian ethos that, although done with good intentions, went against fundamental market principles by nullifying the economic discrimination function of the market. This has led to the worst financial and economic crisis the U.S has faced in decades.

Given the analysis and arguments made in this article, and the unwarranted attacks against MBnomics (as well as against Thatcherism and Reaganomics), the emphasis on "big market and small government" should continue as it is certainly developmental-friendly, and, if properly pursued, should guarantee Korea's vision towards becoming a first class nation, thereby vindicating MBnomics as the "right" developmental strategy for Korea in the 21st century.

Notes:

¹ See Micklethwait and Wooldridge (2005) for a fascinating history of the company.

² The success of the 2008 Beijing Olympics is another recent testimony of this.

³ Essentially trained to think in mindset of the First Law of Thermodynamics, the young economists are often exposed to models that assume "identical agents," "homogeneous goods," "free-information," "no barriers to entry and exit," etc.

⁴ A more complete treatment of complexity economics and my new development economics is presented in Jwa (2008).

⁵ See Jwa (2002b, 2005) for further details.

⁶ One could argue that food is necessary for physical growth and development, just as firms and markets are for economic development. But this does not mean that we need not discuss or criticize the food we eat, nor the kinds of markets and firms we have. So what's the issue? Read on.

⁷ Park Chung-hee even took political risks to engage local businesses that had been accused of amassing wealth immorally, tax evasion, etc. in the previous regime. He realized that leaving out the business know-how acquired by these business people would have translated into huge economic costs for Korea.

⁸ It is true that the allocation of scarce resources was done more directly by government than markets in the early years of Korea's modernization, but this could only be the case as markets were under-developed and often non-existent.

⁹ Park Chung-hee set up three important agencies to oversee economic development, namely the Economic Planning Board (EPB), the Ministry of Trade and Industry (MTI) and The Ministry of Finance (MoF). He would sit in many of the meetings where government officials, bankers and business CEO's would reside not only discussing plans and features, but setting targets and evaluating performances and faults. The president would directly command government ministers and bankers to provide additional support to firms that had shown exceptional and promising export results. At times, failing firms would be literally handed over to other firms in a better position to reinforce and expand markets.

¹⁰ See also Jwa and Yoon (2004a, 2004b).

¹¹ The Korea Fair Trade Commission (KFTC), the main body that carries out laws on competition and monopoly regulation, classified on an annual basis the top 30 chaebols to which special regulation has been applied. For further discussion on regulation of chaebols see Jwa (2002a, 2003).

¹² For example, " 'MBnomics' Under Stress as Oil Prices Soar," *Chosun Ilbo* (2008-05-29).

¹³ This has led to a number of criticisms particularly in The *Hankyoreh* newspaper (e.g. "Lee administration reversing democratic achievements" (26 May, 2008); "What are Lee Myung-bak's true colors?" (28 August 2007)).

¹⁴ The political ride so far has been pretty volatile; Lee's approval rating even plunged to as low as 7 % in early June of 2008.

¹⁵ This analysis is done in Korean and published as CEO report by Gyeonggi Research Institute; see Jwa and Hwang (2008).

¹⁶ For example, the reason why AIG, one of the largest insurance companies in the world, fell into trouble was not only because of the mortgage-backed securities it held, but also because it had sold lots of insurance contracts (credit default swaps) on other companies' mortgage-backed securities (an area that they were evidently not experts on).