

# Understanding Korea's Saemaul Undong: Theory, Evidence, and Implication

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This study attempts to derive a theory of Saemaul Undong (SMU) by identifying its key success factors and to discover its policy implications for economic development. The proposed theory argues that the success of the SMU was fundamentally driven by the government's strong adherence to the economic discrimination (ED) principle of "rewarding high performance and penalizing low performance," which is the basic function of the market. ED is the grand principle behind the success of the SMU. This study draws upon detailed historical and personal accounts about how the SMU was implemented by former President Park Chung Hee to show how faithful the SMU was to the ED principle. In addition, the study provides a new empirical model to estimate the effect of

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The main idea of this paper is originally from Jwa (2006) (in Korean), and a resource paper based on that idea, "Korea's New Village Movement: Success Factors and Implications on Development Economics" (K-Developedia, Seoul: KDI School of Public Policy and Management, 2015) is a precursor to this paper as well as the section on "Success Factors of Saemaul Undong" in Chapter 8 of Jwa (2017b). However, this paper now covers much broader topics than all those early related works. The author has benefited from his affiliations with Korea Development Institute (KDI), Korea Economic Research Institute (KERI), and the Kyeonggi Research Institute, as well as from teaching Korean economic development at Seoul National University, KDI school of Public Policy and Management, and the Park Chung Hee School of Policy and Saemaul of Yungnam University. The author appreciates two anonymous referees for their useful comments. The author further appreciates Professor Yong Yoon at Chulalongkorn University for his longstanding research collaboration and Dr. Tae-Joon Han, senior fellow at the President Park Chung Hee Memorial Foundation for useful comments as well as assistance in English editing. The author also thanks Dr. Taekyu Lee, an economist at the Korea Economic Research Institute and Dr. Byung-Ook Lee, a research professor at Seoul National University for their assistances in empirical work.

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the SMU on economic growth and shows that the SMU had been a significant contributor to Korea's high growth performance during the 1970s. One of the main policy implications of the SMU is that development and social policies should comply with the ED principle by preventing any political influence from working against the ED principle for the success and sustainability of those policies. Finally, the study argues that the SMU model provides an alternative or complementary perspective to the existing community development models.

*Keywords:* Saemaul Undong (SMU), Self-help spirit, Economic discrimination, Economic egalitarianism, Economization of politics, Theory of the SMU success, Marketization of economy, Park Chung Hee

*JEL Classification:* B5, D, O, Q1, R1

## I. Introduction

Saemaul Undong (SMU) is regarded as the highlight of the economic development in Korea. The success story of the SMU has been frequently referenced by Korean, as well as foreign, developmental economists and has compelled the Korea International Cooperation Agency and other international organizations, such as UN, to devote a substantial amount of resources into applying SMU experience to other countries. Moreover, some academic institutions in Korea attract foreign students by establishing SMU-related departments, colleges, or graduate schools. Internationally, less developed countries send their students and government officials to Korea to learn about the SMU. The question is, what tangible results have such efforts, which continued for quite some time, brought us?

Despite the increasing number of countries learning about the SMU, cases of the SMU becoming a successful national ideological reform movement or a catalyst of economic development have not been reported. Such absence of concrete results is not limited to the SMU. Similar cases of failure are accumulating in almost all fields, including economic development strategies or policies. Although efforts have been made to disseminate the Korean economic development experience around the world, including the SMU, finding countries that have brought visible changes by emulating the Korean experience is difficult.

The above phenomenon is caused by the Korean society and the

economic academia, not knowing exactly what the success factors of the SMU are and why the SMU was successful only during Korea's developmental era. The success of the SMU contrasts with the less than expected performance of other similar social reform programs, such as the well-known 4-H Movement and National Reconstruction Campaign before the SMU. In the foreign context, the tragic results of the Great Leap Forward of Mao Zedong in China and North Korea's Chollima Movement come to mind.

From a broader perspective, we need to ask why and how Korea succeeded in economic development with the so-called "heretical" policies and strategies, which the mainstream local and foreign economics academia were opposed to. For example, when one asks what the success factors of the SMU are, the immediate response is "the self-help spirit or can-do spirit." This answer will likewise be cited as the driving force behind Korea's economic development. Although not a completely wrong answer, it is less than half-correct. A truly correct answer should be able to answer the question, "Why did only people in the Korean peninsula in the 1960s and 70s, even excluding the Northern part of it, live up to the ideology of self-help and self-reliance, building 'New Villages' and leading the export drive, when no one else did around the world?" Which country would not know that the spirit of self-help and self-reliance is critical for the success in life and national development? The critical issue here is how we could transform a nation into people who help themselves. Which country or society in the world would not emphasize the spirit of self-help in textbooks for children? What more could we say when the Western world believes in the old saying, "God helps those who help themselves?"<sup>1</sup> Would people easily acquire self-help spirit if a country seeks to educate them on such an ideology? Then, which country would fail in initiating the SMU or triggering economic development? Until the 1960s, foreign experts in economic development agreed that Korea seems to have no future after having traveled the rural villages of Korea and seeing the people there appearing very lazy, dependent, and far from self-help. Thus, explaining how the same country transformed miraculously into an embodiment of self-help and self-reliance in only 20 years must not be easy.

<sup>1</sup> Samuel Smiles, a British writer and social reformist, became a huge sensation by writing the book *Self-Help* in 1859 and disseminating the importance of self-help in the United Kingdom and the United States.

The suggestion that self-help spirit is important and that such spirit produces good results does not explain the factors of success but rather describes the success per se. In other words, it is the same as saying that good spirit leads to good results, which is a mere tautology—explaining a certain endogenous result by the endogenous variables of the similar level of endogeneity rather than providing a scientific explanation of the endogenous result by exogenous (determining) variables. Thus, developing countries have difficulties in understanding the SMU and learning policy implications or deciding how and what to do about such a social reform. Despite knowing what the good results are, developing countries go astray since they do not know how to achieve those results, such as how to incorporate the self-help spirit into peoples' mindset and change their behavior.

Therefore, the present study aims to derive a theory of the SMU success by identifying the success factors of the SMU. Although some books and articles (especially in Korean) have been written with the same objective, they mostly describe the SMU, such as describing the goals and ideology of the SMU, defining the contents taught by SMU education, and discussing the SMU plans and outcomes.<sup>2</sup> Indeed, the usefulness of such descriptive studies should not be disparaged; however, their limitations in learning policy implications and passing on the success of the SMU are evident. For this reason, the present study seeks to complement the existing literature by developing a theory of the SMU success, centering on the strategies of inscribing the self-help spirit into people's minds and inducing them to work for the success of the SMU rather than simply providing a detailed description of the SMU.

This paper is organized as follows. Section II briefly summarizes the new theory of economic development (Jwa 2017a) as the theoretical framework for understanding the key success features of former President Park Chung Hee's policy paradigm in general and his SMU in particular. Section III outlines the brief history of the SMU with its background, implementation process, and outcomes. Section IV derives a theory of the SMU success on the basis of the implications of Section II and the observations on the key success features of President Park's SMU policies. Section V describes how the original SMU spirit was

<sup>2</sup> A good example in English is Kim (2015).

tarnished as the SMU was politically distorted since the Fifth Republic and thereafter. Section VI reports the results of empirical analysis on the effect of the SMU on economic growth. Section VII examines special implications of the SMU for economic development policies. Section VIII concludes and briefly summarizes the paper.

## **II. New Theory of Economic Development: A Framework for Discussion**

The success factors of Korea's economic development during her developmental era must be first considered prior to discussing the success factors of the SMU because the SMU was one of the main developmental policies adopted during the era. However, Park Chung Hee followed a non-traditional approach; thus, explaining Korea's economic miracle is not easy for the mainstream neoclassical growth model or any other traditional approaches. Therefore, a new theory of economic development is adopted in this study.<sup>3</sup> This theory has general implications by explaining not only the condensed Northeast Asian development experiences, such as those of Japan, Korea, and China, but also the Western extended development experiences. This section begins by summarizing the new principles of economic development, which is the basic framework for analyzing the success factors of the SMU.

### *A. Fundamental Driving Force behind Economic Development: Economic Discrimination (ED) by the Market*

Mainstream neoclassical economics regards the market as a mechanism of resource allocation. The market is interpreted as a device that efficiently allocates a given amount of resources to given ends. Given the ends, the order of the economy is also fixed. In this economy, economic development can only be described as a process of increasing the quantity of given outputs through efficient resource allocation, for example from 10 wagons to 100 wagons. This process is typically viewed as a ten-fold increase in productivity, income, and the size and development of the economy. Although such changes are

<sup>3</sup> Detailed discussion on the new theory of economic development can be found in Jwa (2006, 2008, 2012, 2017a, 2017b, 2018) and Jwa and Yoon (2004).

sensible from a linear perspective, they are far from reality. In reality, economic development is not a linear process of changing itself from an agrarian society, which produces wagons as a mode of transportation, to simply another agrarian society, which produces a greater number of wagons; rather, it involves a nonlinear successive order transformation process from a lower-order wagon-economy to a higher-order, train, automobile, airplane, and spaceship economy as the economy becomes more sophisticated and undergoes a qualitative change. Economic development is a process in which the complexity of the economy is amplified with the society's qualitative transformation from an agrarian into an industrial economy and finally into a knowledge-based economy. Infinitely adding new commodities and even creating new resources rather than resting on the status quo of the order of economy is the essence of the process of dynamic economic development. The market depicted in current economics textbooks is inadequate for explaining such a process because they usually assume the economy remains as order-fixed. The perspective toward the market must change to explain the order transformation of a complex economy.

In this study, the market is regarded as an *ED device, which induces the motivation for development by providing differential reward according to performance*. Such discrimination by the market is the driving force behind the advancement of the economy to a higher order. For any society to integrate and maximize its wealth creation efforts, it should be able to maximize the incentive for growth and development by matching rewards to performance for every member of the society. In other words, people become motivated when they are fairly rewarded for their actions. However, this role of the market has not been well recognized. In this perspective, the market is the device that leads all members to push the economy to a higher order. Such ED by the market is the driving force behind economic development.

The market's discrimination function can be better understood in connection with reality. In the market, we as consumers vote with purchasing power (money) only for companies and individuals who supply goods and services that most suit our taste. Banks lend larger sum of money at a lower interest rate only to those who economically perform better; stock market investors selectively buy shares of only good companies that are successful; and the brightest people only compete for the best companies, and companies seek to hire only the brightest of the brightest and conduct business with only the best-

performing companies. Therefore, all players in the market help concentrate economic power to superior players by selecting only those who are producing the finest results. Just like the God in the dictum, "God helps those who help themselves," the market, via ED, induces all economic agents to exert themselves to their fullest to be the chosen one. Such "differential treatment by the market" is the driving force behind economic development. Thus, we as market players turn out to be none other than the basis of economic inequality.

Consequently, our better performing next-door neighbor becomes more popular and richer, and economic development itself inevitably becomes an uneven phenomenon. The concentration of economic power to well-performing companies and the disparity in the level of personal or regional development are natural outcomes. Therefore, development is impossible without the concentration of resources to companies and individuals who perform well as a result of their hard work. Therefore, in reality, the market is a motivator that induces people to work hard and become successful themselves, with the threat of falling behind via economic inequality, which is created by the relatively greater compensation to those who economically perform better.

#### *B. Market is always Imperfect in ED*

Nevertheless, in reality, the market cannot perfectly conduct its role of providing differential compensation due to imperfect information in the market. Which company is top-notch and which person is truly doing well is difficult to determine. In many cases, economic development is a process in which one learns the knowledge of one's successful predecessors and often outperforms them. Such success know-hows are a valuable asset for the latecomers to learn; however, adequately compensating the forerunners for passing down such valuable assets is difficult. Given the abstract and elusive nature of the so-called success know-hows as a commodity, setting market prices without incurring high transaction costs is difficult. This phenomenon is caused by the market transaction always involving a price discovery procedure among market participants as they haggle over prices, wherein positive transaction costs arise. Therefore, free-riding on the forerunners' success know-how by the latecomers becomes ubiquitous due to the high transaction costs. Information is imperfect because human beings are imperfect. Hence, the market is bound to fail in perfect ED.

Then, what would happen if all of us market players perform poorly on adequate compensation, in other words, if we all free-ride on forerunners' valuable success know-how? Society, which provides less compensation compared to one's level of performance inevitably falls into complacency. Would people attempt to work hard when they are treated unfairly? This situation can be referred to as sabotage, from which socialist regimes have collapsed. The number of hard-working people decreases, and growing businesses and talented workers gradually disappear; hence, the economy becomes stagnant or degenerates into an underdeveloped state. Such market discrimination failure or development failure is the reality of underdeveloped countries or non-developing developed countries with a stagnant economic growth.

*C. Market needs to be rescued by Corporate Firm, which however is not enough*

In the early stage of industrial revolution, the capitalist economy invented the joint-stock company, which has been supplementing the market's developmental failure and leading economic development all along. Corporate firms can avoid the transaction costs due to their structure of vertical command system, unlike the market mechanism based on mutual agreement on the terms of trade, such as price and quantity. Corporate firms can therefore help solve market failure in ED by internalizing know-how sharing (exchanging) activities and eventually help expand the extent of the market network and domain.<sup>4</sup> This is how corporate firms arise as the economic discriminator that reinforces the market function and the key locomotive for economic development of the capitalist economy ever since its inception. The joint-stock company is the key feature of the capitalist economy, which was nonexistent in agrarian economy; meanwhile, market exchange

<sup>4</sup> This argument is consistent with that of Simon (1991), who considered the market as the network of organizations that play the substantive role in the economic system while the market is simply a network among them. He argued that the organizational economy better describes the nature of capitalist economy than the market economy. Corporate organization is the main private organization. This author used to contend that a capitalist economy is a corporate economy rather than the market economy, which is usually overlooked in economics. See Jwa (2017a) for an extended argument.



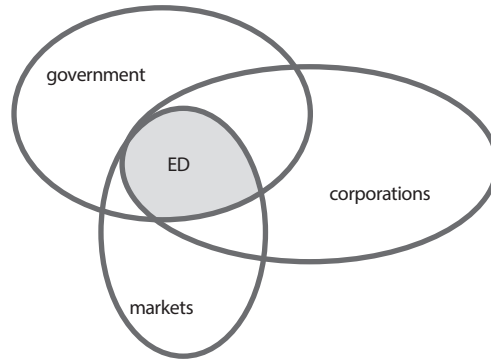
is common in both economies. Capitalistic joint-stock company is the emergent organization with potentially unlimited capital base evolving from the agrarian blacksmith shop.

However, corporations alone cannot completely overcome the problem of free-riding because successful forerunner companies are also subject to the latecomers' free-riding on their success know-how; thus, successful forerunners are not sufficiently compensated by the market. Consequently, successful corporations appear only sporadically and never last forever; likewise, superior civilizations and superior economies can never last forever, which can be compared to a bus company that goes bankrupt due to free riders.

*D. Economic Development Function of the Government: Helping those who help themselves by ED*

The more underdeveloped the economy is, the greater the imperfection of information in the market is. Expecting the market discrimination to be active in a stagnant agrarian society is unlikely. The most imperative mission of underdeveloped countries—or more specifically, the political leaders of underdeveloped countries—is to determine how to motivate and incentivize dormant individuals, small- and medium-sized enterprises (SMEs), rural villages, and the entire society to grow and develop. History tells that countries who accomplished this mission succeeded in development and vice versa for those who failed.

The role of the government becomes important at this point. How should the government address this problem? Traditional mainstream economics, which regards the market as a perfect place of resource allocation, still does not properly appreciate such a problem and cannot provide any good answers. The role of the government becomes evident according to our view of the market. In other words, we reach the proposition that *the government should complement and strengthen the vulnerable ED function of the market and give preference to market players who help themselves to succeed*. The government should create the incentive and motivation for growth and development, which tend to be weak by market alone, by giving adequate compensation for excellent results produced by individuals and corporate firms who help themselves to succeed. This approach indeed will foster the “can-do self-help spirit,” which is the ideology behind economic development and can help trigger the competition for success within the economy.



Source: Jwa (2017a)

**FIGURE 1**

ED AND HOLY TRINITY OF ECONOMIC DEVELOPMENT

After all, taking the lead in expanding the domain of the market and strengthening rather than weakening the market function are the fundamental developmental roles of the government. Economic development can be initiated through building “an incentive system that guarantees corresponding reward to results” by closely observing the economic performance of market players.

*E. ED and Holy Trinity of Economic Development, Market, Corporation and Government*

The new general theory of economic development can be summarized as shown by Figure 1, where sustainable economic development can only occur when the “holy trinity” of development, market, corporation and the government jointly exercise the principle of ED. The area noted as ED, which represents the joint efforts of the holy trinity, can result in sustainable economic development.

What would happen if the government or politics—just as many countries after the World War II pursued revised capitalism or social democracy or sought to become a welfare state, not to mention the now collapsed socialist economies—seeks to continue implementing “social or redistribution policies that provide more compensation to low performance rather than high performance in order to achieve an economically more equal society,” claiming that the market malfunctions and the results went wrong with economic inequality?

Market discrimination would stop working, economic development would discontinue, and the economy would degenerate due to the misalignment of incentives. It would be difficult for the economy to recover if the double standards of politicians, intellectuals, and the general public remain, as they continue to support the political voice for compensating low performance in the expense of high performers while they all eagerly reward high performance in the private market. We should remember that humans are all epitome of economic discrimination endorsing the natural economic inequalities in the market. From this perspective, Jwa (2017a) states a grand principle of economic development that ED is the necessary condition for economic development while economic egalitarianism, by mitigating ED, becomes a sufficient condition for economic stagnation.

*F. Economic Policy Paradigm of the Park Chung Hee Era: "ED Policy through the Economization of Politics"*

This section discusses President Park Chung Hee's economic policy paradigm. President Park applied strict ED principle not only on economic policies but also on social policies throughout his era. By definition, ED means rewarding those who perform well and penalizing those with poor results. In fact, this is exactly what we all do in the market every day. President Park strengthened the market function of providing differential incentives and boosted rivalry by allowing the market domain to expand through the strict application of ED principle. He consistently emphasized to the people as well as businessmen, both privately and publicly, that "high performance rather than low performance should be compensated." Although he knew that adhering to and asserting this principle would be politically unpopular, he kept his adherence sometimes, even if he had to submit himself to political risk. The SMU, which is the main subject of this study, is one of such cases as will be explained later.

However, since the democratic political system with the "one-man, one-vote" principle unfortunately tends to introduce economic policies in a way to maximize votes, a risk of creating institutions and policies exist, which go against the market function of ED. This phenomenon is the backdrop to the birth of welfare states, social democracies, and revised capitalism, as well as populist politics, as has been widely witnessed in South Korea now and many other countries in the post-

war era. Although President Park's non-democratic, authoritarian political rule has been criticized; denying that such type of rule had partially contributed to preventing the political distortion of the ED policy is difficult. In other words, his authoritarian rule had protected the ED principle from distortion by egalitarian populist politics, which demand "anti-discrimination" or "more compensation to low performance according to egalitarianism." Hence, this study argues that Park's paradigm of economic policy is *a paradigm of ED through the economization of politics*.

Some of the Park-Era discrimination policies that are noticeable in the above perspective are as follows<sup>5</sup>: 1) export promotion policy that provided support only to those companies with high export sales; 2) heavy and chemical industry promotion policy that allowed only superior exporters to participate; 3) SMEs promotion policy that consistently supported high-exporting companies; as will be elaborated below, 4) SMU that provided support only to high-performing villages and 5) Saemaul factory promotion policy that only supported those high-performing factories. Although the aforementioned policies are particularly noteworthy, Park did not fundamentally deviate from the discrimination principle when appointing people to government posts or implementing other public policies. Hence, the government-led ED policy allowed the Korean economy to take a great leap forward.

### III. History of SMU

#### A. Background

As is well-known, the key driving force for the SMU was the strong will of former President Park that the rural mindset, which lacks in motivation for growth and development and accepts poverty as their fate due to the lack of self-help spirit, should change to a development-friendly, self-help one.<sup>6</sup> After having seen in person on August 4, 1969 and been so impressed with the flood-damage reconstruction site, which

<sup>5</sup> The detailed accounts for the economic discrimination nature of the policies can be found in Jwa (2017b).

<sup>6</sup> Bishop (1897) observed that such attitude was prevalent during the late Chosun Dynasty (old Korean kingdom) and was formed under the exploitive rules of the game, which had been long set by the Monarchy.

was managed successfully in a self-help manner by the villagers in Sindo-ri, Chungdo-eup, Kyungsang-bukdo, President Park was known to decide to seek such a new village development campaign. Later, on April 22, 1970, he announced his determination for the SMU at the national meeting of provincial governors for anti-drought measures.<sup>7</sup> President Park himself declared “diligence, self-help, and cooperation” as the Saemaul spirit.

Although the SMU was launched under the backdrop of President Park’s strong leadership, it appears to have several pressing purposes, such as (i) improving the poor performance of social reform movements, such as the 4-H Movement or the National Reconstruction Campaign, which had been conducted in rural communities since the previous administration; (ii) narrowing the income gap between urban and rural areas, which had been widening as a result of a seven-year-long industrialization policy; and (iii) resolving the overproduction problem of the domestic cement industry caused by the stagnation of the Southeast Asian cement export market in the early 1970s.

#### *B. Implementation Process and Outcomes of the SMU*

##### a) The first round (November 1970–May 1971)

The SMU was implemented during the off-farming season and was centered on infrastructure improvement. An average of 200–300 sacks of cement were distributed to approximately 34,000 villages<sup>8</sup> with some variations according to their respective sizes, and about 10 new village projects were proposed for rural infrastructure improvement (*i.e.*, repairing village access roads; modernizing house roofs and fences; installing public wells and wash places; renewing streams; building bridges, compost facilities, temporary water supply facilities, and farm roads; and renovating houses and conducting productivity increase campaigns). The selection of projects and their implementation were left to the discretion of the village general assemblies.

<sup>7</sup> April 22 is now designated as the SMU Day and celebrated every year.

<sup>8</sup> The total number of villages turns out to be different depending on the researchers and even among the President Park and his aides. This number (34,000) is an approximation of about 34,660 villages from Kim (1990), which may be more precise. Nevertheless, 34,000 is used in this study because it seems more consistent with President Park’s approximation in his remark, as quoted in Section III.

b) The second round (1972)

After monitoring and evaluating the villages' performance, an average of 500 sacks of cement and 1 ton of reinforcing steel bars were provided exclusively to high-performing villages (about 16,000), and the rest (about 18,000 villages) who were lagging behind were excluded from government support and were told to be left out from the SMU unless they make progress in the next round with their own efforts. Cash subsidies of around 1 million KRW<sup>9</sup> were also provided to some of the villages with exceptionally good results.

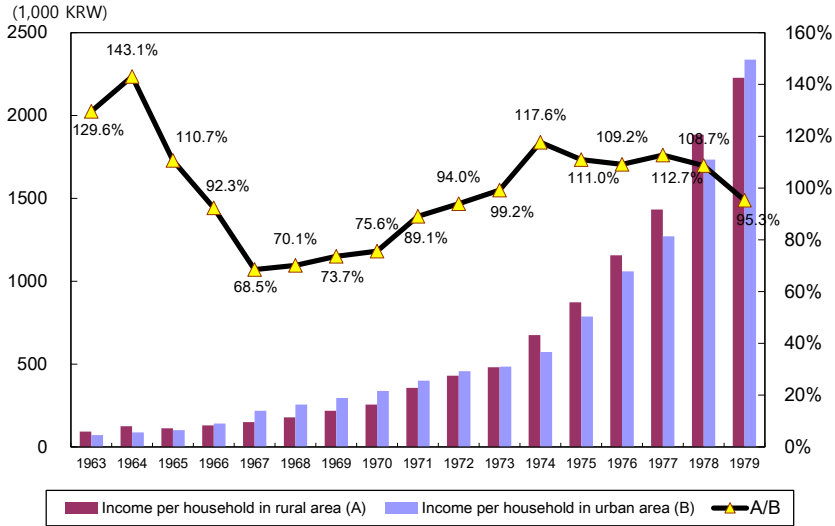
c) Since then, every village was categorized into either a self-reliant (*jahrip*), self-help (*jahjo*), or basic (*gheecho*) village according to the level of its performance, and government support was only centered on the high-performing, self-reliant, and self-help villages, whereas the underperforming basic villages were excluded.

d) Implementation of the Saemaul factory promotion policy since 1973

As part of the SMU, the government implemented the Saemaul factory promotion policy, which was a strategy to industrialize rural areas by building agricultural food processing plants in the *eup* and *myon* areas (small local administrative units). Support was provided in the form of tax credits, export subsidies, and operating cost subsidies. This policy was implemented under the principle that support should be determined on the basis of performance. According to the performance analysis of the then Ministry of Commerce and Industry in the first evaluation year (1973–1974), out of 270 Saemaul factories, approximately 30% performed well, whereas the other 70% performed poorly. Accordingly, the government increased support to only those high-performing 30%, whereas it cut back on support to the others.<sup>10</sup>

<sup>9</sup> This approximates the current value of USD 100,000.

<sup>10</sup> According to the then manager (division chief) of the Saemaul Factory Support Project under the Ministry of Commerce and Industry (Cho Nam Hong), the Blue House (Presidential Office) took the lead in conducting the policy of differential support on the basis of performance. Against such policy, Mr. Cho appealed by arguing that the low-performing 70% would be able to perform well if they were given slightly more support; however, he was demoted to another post, and the policy was implemented as originally designed.



Source: The Bank of Korea

**FIGURE 2**  
COMPARISON OF AVERAGE INCOME PER HOUSEHOLD BETWEEN RURAL AND URBAN AREAS

e) Results

The *Newsweek* reported some impressive outcomes of the SMU on November 17, 1975 (pp. 19-20) as follows, “As the President and his Saemaul leaders explain it, the aim of the program is to revitalize the South Korean spirit, to promote national unity and to instill an ethos of self-help for development. And statistically, at least, the results are impressive. The Movement claims to have improved the water supply systems in nearly 16,000 villages, built thousands of village meeting halls and, sometimes against the villagers’ wishes, replaced more than million thatched farmhouse roofs with modern tile. Saemaul-seeded cottage industries have helped boost rural income per household from 747 USD in 1970 to 1,760 USD last year.”

According to the report by Ministry of Home Affairs (1980), by 1977, 98% of the villages became “self-reliant,” and no basic villages were left. Every village became either a self-help or self-reliant village, and the income gap between urban and rural areas narrowed, thereby boosting income per household in rural areas which surpassed that in urban areas since 1974 (See Figure 2).

#### IV. Theory of the SMU Success

The existing studies on the SMU have so far been listing and emphasizing many elements of the Korea's SMU as the success factors; such elements include effective political leadership, efficient administrative arrangements, high quality of the SMU leadership (including female leaders), traditional convention of cooperation in rural villages, ideological reform, Saemaul education, community participation, and community-driven development. However, although these studies provide useful information as a description on the SMU, they remain tautological only by listing the outcomes without explaining why and how these good outcomes could only be achieved with the SMU.<sup>11</sup> Particularly, previous studies have failed to determine the key nature of good political leadership behind the success of the SMU. Moreover, the studies did not discuss why and how those ideologically dependent, blaming-others, non-cooperative, and unproductive villagers, including future Saemaul leaders who had been regarded for long as hopeless of development, suddenly turned into active, competitive, cooperative, self-help, and pro-developmental people and led the community development to a success. Was it all because of the Saemaul education? History tells that education alone is insufficient. The new institutional economics perspective (North 1990; Jwa 2017a, 2017b) strongly suggests that for the success of the SMU, a development friendly institutional reform in the rules of the SMU game must come into existence to change the peoples' mindset and behavior, which are prone to strong path-dependence, into being self-help and development-friendly. In this regard, a theory of the SMU is needed to answer such "why and how" questions and provide the nature of development-friendly institutions, thereby setting the direction of institutional reform. However, thus far, many descriptive studies but no theory has been the

<sup>11</sup> See, for example, Kim (2015) for the detailed description of the so-called success elements of the SMU; however, this study is only descriptive and tautological, without explanation on why and how the elements were achievable only with Korea's SMU for Park Chung Hee era but not with any other times and any other similar efforts in domestic and international contexts. That is, the reasons why and how all the villages and people known for long as dependent have suddenly turned into self-help individuals and led the SMU actively have yet to be discovered.



case with most of the existing SMU studies. Thus, the present study intends to fill this gap by developing a theory of the SMU success.

Using only few factors may be difficult to account for the success of the SMU; however, "the government-led discrimination policy of providing exclusive support to self-helping villages" may be the single most important factor for success among the various other factors, considering the previously discussed basic principles of economic development. The Korean process of implementing a government-led ED principle was indeed dramatic in the following sense.<sup>12</sup>

The basic philosophy of former President Park Chung Hee who led the SMU is as follows, "Those peasants who complain as if their poverty is due to the fault of others, believing that they are in poverty since the government does not support them and lamenting that poverty is their fate, cannot stand up on themselves even if several hundred years pass by. It is a waste of money to support those without motivation. For lazy people, even the government cannot help them."<sup>13</sup> This message of the former President was addressed to the peasants during the SMU.

In November 1970 when the SMU started, the government provided 200–300 sacks of cement, some steel bars, and few cash grants to approximately 34,000 villages according to their respective sizes. In the following year, about 16,000 villages attained most of the goals, whereas the other 18,000 villages, which accounted for more than half of all villages, failed to do so. Government inspection reports indicated that many of the villages left cement sacks heaped on the field and did not even cover them from the rain. A heated controversy existed over the method of supporting the second-round SMU project after such disappointing results. Despite counterarguments by ministers and politicians who advocated egalitarian support as they did in the first round, President Park insisted on ceasing any type of support to the low-performing 18,000 villages and increased the amount of cement by 100–200 sacks only to those high-performing 16,000 villages with some cash grants to the best performers, even by practically risking the fate of his authoritarian power that was not very popular at that time. He

<sup>12</sup> Most of the discussion henceforth is quoted and/or translated from the author's previous work in Korean (2006, pp. 272–275).

<sup>13</sup> Re-quoted from Kim (1997, p. 257)

kept the principle of helping those who help themselves, that is, ED.<sup>14</sup>

Starting from the second round, the government had notified instructions that it would not subsidize villages who do not perform well in the SMU. Interestingly, the result of second round showed that 6,000 villages among the unsupported 18,000 voluntarily participated and exceeded the target. The third-round support was then extended to those 6,000 villages as well.<sup>15</sup> Similar discriminatory selection and support principle had been applied to the successive rounds.

Present-day politicians of Korea will surely argue that the government should support and promote the low-performing “basic villages” first “for the success of the SMU.” Moreover, regardless of the possibility of the success of the SMU, they will be more prone to make such arguments to win votes, even if the theory tells the egalitarian support will lead to failure rather than success.

President Park’s remarks on the necessity for the SMU to be based on discriminatory principles are as follows:

“As a result of supporting 32,000 villages in the whole country, albeit not enough to awaken farmers’ and fishermen’s self-help spirit, there were some villages which performed well and others which didn’t. Making use of such experience, we decided to reject the idea of uniform support and to support only 16,000 successful villages, which accounts for roughly half of the villages supported last year. It means that villages which did a poor job last year should be left behind and those which did well will be continuously supported in the second round. The selected 16,000 villages will be screened again in autumn and those with high performance will be promoted to 3<sup>rd</sup> grade next year.

<sup>14</sup> The then Chief Secretary of President Park (Kim Chung-yum) told an interesting story about the process of deciding such discriminatory support. The initial cabinet decision was to provide egalitarian support as before in the second round—possibly having considered the political burden of not doing so; however, the government’s final decision adopted discriminatory support since President Park insisted on doing so even if it might mean losing his political power. The then Secretary General of the ruling Republican Party (Gil Jeon-Sig) and Minister of Home Affairs (Kim Hyun-Ok) attempted to persuade the President in vain and five political heavyweights of the ruling Republican Party had attempted again but also in vain. This episode was confirmed by the authors’ personal conversation with the then Chief Secretary of the President, Kim Chung-yum.

<sup>15</sup> The aforementioned SMU performance data was quoted from Kim (1990, pp. 189-190).

And those villages which failed the test last year but endeavored to unite and make progress this year will be re-selected to be promoted to 2<sup>nd</sup> grade and be provided with the same amount of support as this year. If their performance gets worse next year, they will be downgraded but otherwise, they will be promoted to 3<sup>rd</sup> grade. Re-evaluating these 3<sup>rd</sup> graders, promoting those who do well to 4<sup>th</sup> grade and providing full-fledged support to them is the basic government policy for the SMU.

Why do we have to do so? The answer is simple. We have witnessed that providing uniform support to rural villages did not bring results as good as expected. I think we should first help those diligent villages which perform well. Even if two villages are neighbored, it is always possible for one to substantially improve in income and living environment while the other could be left far behind.

It is rather unfair if we provide the same amount of assistance to those decadent villages indulging in gambling and drinking and the other hard-working villages struggling to live a better life. Those villages which made steady progress will be able to stand on their own with a little more government support. Of course, those left behind would complain. The voice of lazy villages which are lagging behind may sound loud while those who perform well remain silent, but there is no need to listen to their complaints.<sup>16</sup>

Interestingly, this statement is perfectly in accordant with “The Parable of the Three Servants” in the Gospel of Mathew (Chapter 25 in the Bible), in which the servant who doubled the value of bags of gold during the absence of his master was given high appraisal, even with an additional bag of gold, whereas the one who failed was deprived of even the bag of gold previously given to him. Here, we believe that the discriminatory support policy of the government contributed to raising the pro-developmental “self-help and can-do” spirit in rural communities and helping spread the SMU throughout the entire nation. According to our principles of development, the SMU might have not succeeded if the second-round program was based on egalitarian

<sup>16</sup> This is the author’s translation of a part of President Park’s speech delivered to Kyungsang-bukdo provincial government officials on Feb. 7, 1972. Another English version of the same speech can be found in Park (1979, pp. 117-118). In this quotation, the total number of villages (32,000) should be read as about 34,000, as reported by Kim (1990), which provides the precise number (34,660). Seemingly, the President possibly attempted to approximate this number.

distribution of subsidies.<sup>17</sup>

Moreover, the field of behavioral economics has already discovered that two systems of differential incentive structure can be powerful in driving the peoples' economic behavior; one is the gain framing, which means rewarding those who performed well, and the other is the loss framing, which indicates punishing those who performed poorly by taking back the promised reward; Between the two, loss framing is more powerful.<sup>18</sup> Interestingly, the discriminatory incentive structure of the SMU also involved not only the gain framing of giving positive reward to better-performing villages but also the loss framing of leaving out the non- or less-performing ones from the SMU support. The SMU, intended or not, combined both framings cleverly.

Another important feature of the SMU from the perspective of the holy trinity of economic development is the official designation of the entire village as an economic entity, as well as a basic administration unit to represent all member villagers. This feature enabled villages to act like a corporate firm to internalize the aforementioned market failure. The village, as a market with villagers left considerably to their own self-discretion, may be subject to high transaction costs, stemming from consensus-building and concerted actions and eventually lead to free-riding and market failure. The consolidation of the entire village into an economic team or organization working toward common goals helped minimize such inefficiency and maximize the consolidated effort of individual villages to meet the stiff performance competition among themselves under the rule of ED set by the government. In this context, the SMU leaders who embodied self-help spirit could emerge and play an important leadership role as an entrepreneur of village organization.<sup>19</sup> From this perspective, Korea's SMU is perfectly consistent with the implications of the general theory of economic

<sup>17</sup> One can find President Park's speeches and remarks on Saemaul Undong are full of such philosophy of discriminatory incentive. See Park (1979) for the details on this. In addition, Kahn (1979, pp. 358-360) is a very early and rare precursor who observed such discriminatory support policy as the important aspect of successful SMU.

<sup>18</sup> See for example, Kahneman and Tversky (1979), Tversky and Kahneman (1981), and Gneezy and List (2013) for this perspective.

<sup>19</sup> The government also worked hard to educate the SMU leaders, as well as social leaders in general, to be fully informed about the purpose and spirit of the SMU and learn about the leadership role.

development (Jwa 2017a) summarized in Section II. The holy trinity—interpreted here as consisting of the village as a market, with the villagers being individual market agents; the village as an organization playing the unit of competition led by the SMU leaders; and the government setting and enforcing the SMU rules of the game—all worked together and guided by the ED principle, which eventually led to the remarkable success. In this process, as the SMU expanded into the Urban and Factory Saemaul Undong, which eventually turned into a nationwide movement, the Saemaul spirit of “diligence, self-help, and cooperation” had naturally been instilled not only in the mindset of the villagers but also in all Koreans.

Thus, the present study proposes that the economically discriminatory incentive structure (as the new rules of the SMU game) imposed on the villagers, as well as the villages, and enforced by the government was the most critical success factor for the SMU. This study also claims that the ED is the key feature of the SMU behind all the good outcomes. This principle should then be the key element of a development-friendly institutional reform. In sum, *the ED principle is the grand theory of the success of the SMU.*

## V. Loss of the SMU Spirit due to Egalitarianism

The spirit of the SMU began to be rapidly lost due to the spread of egalitarianism in the Post-Park Chung Hee Era. President Park Chung Hee emphasized from the beginning of the SMU that the campaign of “Let us prosper,” which had been the catchphrase for the SMU, should be a voluntary self-help and self-reliant movement on the basis of grass-roots level and strictly prohibited any attempt to use the SMU for political purposes. The then opposition party denigrated the SMU as a political campaign; however, there using the SMU for elections became unnecessary since the *Yushin* regime started in 1972,<sup>20</sup> and finding evidence that the SMU was used for political purposes is difficult. The

<sup>20</sup> In October 1972, President Park Chung Hee introduced the so-called *Yushin* political regime under the emergency Martial Law by adopting the new constitution that mandated the indirect election of the president, thereby almost guaranteeing permanent presidency for him. This episode became the most critical “Achilles tendon” for his political career even if economic efficiency of political system had improved as he argued in support for the *Yushin* regime.

efforts to keep the discriminatory support system intact from political manipulation in the second round of the SMU and thereafter, as well as in the Saemaul factory promotion policy, are vivid evidence of how President Park was wary of political distortion against the SMU.

However, since the Fifth Republic (1981–1987), after the death of President Park in October 1979, the SMU started to become politicized, deviating from its original non-political, social reform purpose. As Korea became rapidly democratized with the Sixth Republic (1988–1992), the policy for the SMU has also turned into anti-discriminatory, egalitarian supportive policy, in addition to becoming politically distorted. Especially, as the issue of liberalization and opening of the agricultural market became more pressing with Korea's accession to the World Trade Organization, the restructuring of the agricultural sector became a matter of national concern and a controversial political issue. During Kim Young Sam's administration (1993–1997), restructuring funds worth more than 100 trillion KRW were distributed to the agricultural sector in a non-discriminatory manner regardless of restructuring performance. The same situation occurred during Kim Dae Jung's administration (1998–2002), which declared debt relief for rural communities, thereby uniformly cutting interest rates on rural debts regardless of their effort and performance.

After all, why is agricultural restructuring still overdue despite all the money invested in it, and why does opening up the rice market remain such a difficult problem? Did all the claims for restructuring not end in vain? Comparing the successful SMU by President Park Chung Hee with the agricultural restructuring policy that has been ongoing for the last 20 years is an interesting subject. A thought-provoking question would be what caused the enormous difference in the amount of fund invested along with the results brought out by them. The answer seems simple. President Park's SMU adopted an ED strategy, which induced the motive for change; whereas the restructuring policy implemented an anti-discriminatory, egalitarian support policy, which became an impediment to the motivation for change. Public policies, which provide uniform and indiscriminate support and reduced interest rates for farmers regardless of their performance, are a reverse discrimination against those farmers who have performed well because these policies give preferential treatment for relatively low-performing and high-indebted farmers. For more than 20 years, the restructuring policy in the agricultural sector has demotivated farmers and discontinued their

incentives to grow and develop and has gone against restructuring by preferring those stagnated farmers over farmers who are eager to change and improve their businesses. Therefore, the unsatisfactory result of the agricultural restructuring policy was due to the departure from the “policy of ED according to strict meritocracy, ‘never failing to reward a merit or letting a fault go unpunished.’” Indeed, the poor result was also partially caused by political populism, which politicized and distorted the economic policies due to the political concern over votes after democratization. In the end, everything can be traced back to the lack of political leadership that values the nature of ED policy.

## VI. Empirical Analysis of the Effect of SMU on Economic Growth

Thus far, none of the studies on Korea's SMU has undertaken systematic empirical works on its effect, although researchers have speculated and argued from anecdotal evidence (Figure 2) that the positive impact of the SMU must be the case. The main stumbling block to the systematic empirical works has been the existing production function approach, which cannot distinctively identify the effect of the SMU from the overall efficiency gains stemming from the total factor productivity (TFP) increase, institutional improvement, or any other factors in addition to those of capital and labor. Therefore, to address this problem, a new framework must be developed, as shown as follows.

Suppose we adopt the traditional production function approach as

$$y = A \cdot f(K, L), \quad (1)$$

where  $y$  is the aggregate output,  $A$  is the efficiency factor,  $K$  is the total capital stock, and  $L$  is the labor stock. In Equation (1), any other factors not captured by  $K$  and  $L$ , including the effects of technological changes (usually known as the source of TFP) and institutional reform, are assumed to be represented by  $A$ . Similarly, the SMU can only be assumed to be represented by the efficiency factor  $A$  because it works through changing the peoples' mindset and economic behavior, which is similar to institutional change. Therefore, in this case, the effect of SMU cannot be easily separated from the usual effect of TFP, not to mention the effect of various institutional changes, given that the variable measuring SMU is not easily obtainable. Furthermore, the fact

that the TFP is usually estimated as the residuals of Equation (1) makes it almost impossible to attribute the residual estimates into the effects of TFP, SMU, other institutional reforms, and the remaining residuals.<sup>21</sup>

To address this problem, a new model of macroeconomic productivity analysis is adopted in this study based on the concept of a corporate production function developed by Jwa (2017a and 2018) to be consistent with the general theory of economic development summarized in Section II. Although the traditional production function (Equation (1)) implicitly assumes that the market is a grand aggregator of factors of  $K$ ,  $L$ , and others, an aggregate corporate production function assumes that a corporate firm is the grand aggregator and can be expressed as follows:

$$y = A \cdot g(CA, L), \quad (2)$$

where  $y$  is the aggregate output; and  $A$  is the efficiency factor as in Equation (1) but now representing economic institutional effects surrounding the corporate sector as a whole.  $CA$  is the economy's total corporate assets that aggregate the economy's total productive assets which are actively utilized by the corporate sector, such as capital and any other type of non-human productive resources, including technology.  $L$  is the total number of employed labor. In Equation (2), the aggregate output is a function of aggregate corporate assets and labor, and the TFP, as well as the effect of capital  $K$ , can be captured by  $CA$  because the technology, as well as the capital, is internalized by  $CA$ . Assume that function  $g$  is linearly homogeneous of degree one with respect to  $CA$  and  $L$ . Then, Equation (2) can be rewritten as follows:

$$y/L = A \cdot g(CA/L), \quad (3)$$

where per capita income ( $y/L$ ) is a function of per capita corporate assets ( $CA/L$ ).<sup>22</sup> Furthermore, factor  $A$  can now be interpreted as the

<sup>21</sup> In addition to this problem of identifying the true effect of TFP, Equation (1) has the measurement problem of capital, labor, and technology, as well as the theoretical definitional problem of capital, as shown by the well-known Cambridge capital controversies on the concept of capital.

<sup>22</sup> Here, if Equation (3) is assumed as a linear form as  $(y/L) = \alpha + \beta(CA/L) + \varepsilon$ , then  $(y/L)$  can be interpreted as permanent annuity flow,  $\beta$  as discount rate



**TABLE 1**  
DATA ON THE WEIGHT OF SELF-HELP VILLAGES

Year	1972	1973	1974	1975	1976	1977	1978	1979
Weight of self-help villages	0.469	0.693	0.822	0.885	0.991	1.0	1.0	1.0

Note: Data are calculated based on the numbers of self-help and self-reliant villages compiled by Ministry of Home Affairs (1980).

effect of institutional change, such that the effect of the SMU can be estimated without being compounded by the effect of TFP. Accordingly, the identification problem is greatly alleviated while the issue of how to separate the effects of institutional changes via SMU and other channels remain. One can only hope that the remaining identification problem can be minimized by utilizing an instrumental variable specifically related to the SMU, although imperfectly.

Equation (3) is used to test the hypothesis that the SMU had been effective in increasing per capita income for the period of 1972–1979. This period is when the SMU, as an institution, had been actively enforced in motivating self-help spirit or mindset to change the people's economic behavior. This hypothesis will also help verify whether the SMU has been effective in the post-Park Chung Hee Era under the anti-ED egalitarianism.

Two proxy variables are utilized for the SMU: One is the dummy variable, which is 1 for 1972–1979 of the active SMU period but zero otherwise; and the other is the weight of self-help villages that needs some explanation, and its data are given in Table 1. The SMU identified three classes of villages depending on their respective performances. The qualifications for the self-help village set by the government are 1) house

and  $(CA/L)$  as the sum of the present values of discounted annuity flows  $(y/L)$  discounted by  $\beta$ . In other words, the stock of national productive assets,  $(CA/L)$  creates the income flows  $(y/L)$  at the rate of  $\beta$ , the nation's marginal productivity. The constant term,  $\alpha$  can be interpreted as per capita income of the purely agrarian economy void of any corporate production. The similar interpretation is also applicable to a log linear form. See Jwa (2017a) for more details on this model. In addition, here,  $L$  is interpreted as the total population instead of total employees, such that  $(y/L)$  and  $(CA/L)$  are interpreted as per capita, not per employee mainly due to the convention of using per capita measure and the data availability in actual regression.

roof improvement  $\geq 70\%$ ; 2) farmland irrigation facility improvement  $\geq 70\%$ ; 3) village fund  $\geq 0.5$  million won; and 4) average household income  $\geq 0.8$  million won. The qualifications for the self-reliant village are 1) house roof improvement  $\geq 80\%$ ; 2) farmland irrigation facility improvement  $\geq 85\%$ ; 3) village fund  $\geq 1$  million won; and 4) average household income  $\geq 1.4$  million won. The remaining lowest performers are classified as the basic village. The data on the weight of self-help villages combine two groups of self-help and self-reliant villages and take on the weight of these villages out of total number of villages.

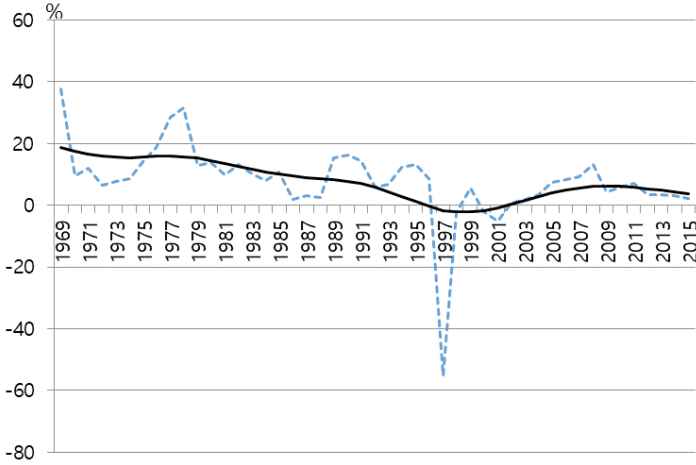
Table 2 reports the estimation results of Equation (3) in a log linear form, together with information about the variables given in the note. The results show that the SMU hypothesis is statistically supported. For now, in view of Korea's overall economic performance over the last 60 years, a 1% increase in total per capita real corporate assets is associated with approximately 0.57% increase in per capita real income, which can be considered macro marginal productivity of the corporate sector. Korea has undergone two important institutional changes during the last 60 years: one is the political democratization in 1987, and the other is the corporate restructuring reform with Asian financial crisis in 1997 that brought Korea to the brink of sovereign debt default; in view of the effects of these institutional changes, Ln per CA (88~) and Ln per CA (97~) are used for the former and the latter, respectively, the explanation of which is given in the note of Table 2. The empirical results show that both events seem to have contributed to minor improvement in the macro marginal productivity. Korea's economic policy paradigm began to depart from the ED policy regime from the early 1980s with the Fifth Republic and rapidly turned into an anti-ED egalitarian policy regime with political democratization in the late 1980s. The newly adopted anti-ED policy regime since the Fifth Republic introduced anti-corporate growth policies to reduce economic power concentration, thereby seriously weakening the incentive for growth in the corporate sector. Consequently, the growth rate of per capita real corporate assets began to decline since the early 1980s and had drastically declined after the 1997 financial crisis. (See Figure 3). Accordingly, Korea's growth rate of per capita real GDP had also begun to decline after the political democratization, from approximately 8% in the late 1980s to about 2.5% in recent years in terms of the trend growth rate. The drastic cut in the growth rate of the corporate sector, even with the marginal increase of the corporate sector productivity

**TABLE 2**  
REGRESSION RESULTS OF EQUATION (3) WITH SMU PROXY VARIABLES

Variables	(1)	(2)	(3)
	Ln per GDP	Ln per GDP	Ln per GDP
Ln per CA	0.551*** (0.0288)	0.565*** (0.0250)	0.560*** (0.0251)
Ln per CA (88~)	0.016*** (0.0034)	0.017*** (0.0032)	0.017*** (0.0033)
Ln per CA (97~)	0.043*** (0.0026)	0.043*** (0.0026)	0.043*** (0.0026)
Three-low boom (86–88)	0.086** (0.0356)	0.107*** (0.0341)	0.108*** (0.0348)
SMU dum (72–79)		0.097*** (0.0265)	
Weight of self-help villages (72–79)			0.105*** (0.0305)
Constant	6.210*** (0.4588)	5.949*** (0.3963)	6.029*** (0.3946)
R <sup>2</sup>	0.993	0.994	0.994
observations	48	48	48

Notes: 1) Standard errors in parentheses are calculated by using EViews to be robust to serial correlation and heteroscedasticity: \*\*\*p < 0.01, \*\*p < 0.05, and \*p < 0.1.

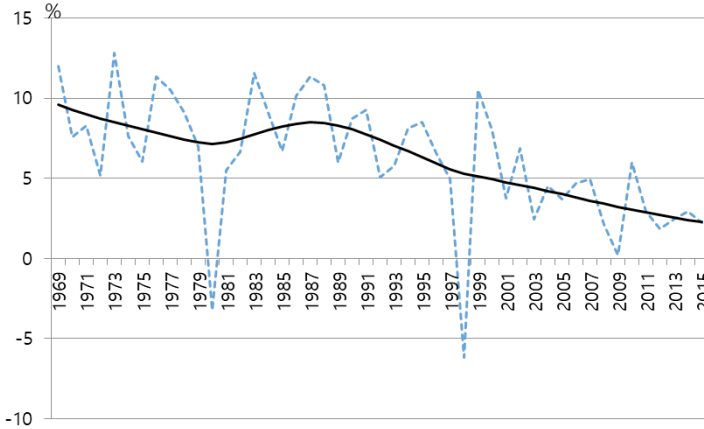
2) Note on the variables: Per GDP is Korea's per capita real GDP from the Bank of Korea shown in Figure 4. Per CA is Korea's per capita real corporate assets shown in Figure 3, which is obtained by deflating the per capita nominal corporate assets from Jwa (2017b) by the GDP deflator. Per CA (88~) is the same as per CA for 1988–2015 (post-democratization era) and zero otherwise. Per CA (97~) is the same as per CA for 1997–2015 (post-financial crisis era) and zero otherwise. Three-low boom (86–88) is the dummy variable, which is 1 for 1986–1988 and zero otherwise, reflecting the three-low boom. SMU dum (72–79) is the SMU dummy, which is 1 for 1972–79 and zero otherwise. The weight of self-help villages (72–79) is the weight of self-help and self-reliant villages for 1972–1979 and zero otherwise. All variables are in natural logarithm (with Ln affixed), except for three-low boom, SMU dum, and weight of self-help villages. The sample period is from 1968–2015.



Note: Data are available up to 1969 only. The dotted line denotes the actual growth rate, and the solid line represents the growth trend by Hodrick–Prescott filter. Nominal per capita corporate assets in Jwa (2017b) are deflated by the GDP deflator.

Source: Appendix in Jwa (2017b)

**FIGURE 3**  
GROWTH RATE OF PER CAPITA REAL CORPORATE ASSETS



Note: Data are only up to 1969 to be consistent with the data on corporate assets in Figure 3. The dotted line denotes the actual growth rate, and the solid line represents the growth trend by Hodrick–Prescott filter.

Source: The Bank of Korea

**FIGURE 4**  
KOREA'S GROWTH RATE OF PER CAPITA REAL GDP

through the painful restructuring efforts during the corporate regulation era, has adversely affected Korea's per capita real income growth (See Figure 4).<sup>23</sup> In addition, Korea experienced a remarkable boom during 1986–1988 due to favorable global economic conditions dubbed as “three lows”, that is, low interest rates, low oil prices, and low dollar (with weak won and strong yen). The dummy variable (three-low boom, which is 1 for 1986–1988 and zero otherwise) is utilized and shows a significant positive effect.

Turning to the effects of the SMU, the result with the SMU dummy implies that it contributed to an increase in growth rate of per capita income by 9.7% for the period of 1972–1979, which amounts to an annual average growth of 1.16% over 8 years at a compounded rate. The result with the weight of self-help villages as a proxy for the SMU implies that per capita income increased by 10.5% for the period of 1972–79, which amounts to an annual average of 1.26% growth over 8 years at a compounded rate. In sum, both cases imply a slightly higher than 1% annual growth rate of per capita income for the period of the SMU (1972–1979). These results also statistically support the hypothesis that the SMU had been ineffective in the Post-Park Chung Hee Era from 1980 onwards, because the proxy variables for the SMU, namely, SMU dum (72–79) and weight of self-help villages, are assumed to be zero before and after 1972–1979. Thus, the hypothesis that the SMU had been effective in promoting economic growth in Park's Era but its spirit as well as effectiveness has been lost in the post-Park Era since 1980s cannot be rejected.

## VII. Implications of SMU on Economic Development Policy

The success of the SMU has several significant implications with respect to economic development theory and policy.

### *A. Success Principle of the Government's Industrial Policy: Discriminatory Support According to Performance*

The so-called industrial policy is still one of the most controversial public policies for economic development. At the heart of the dispute regarding industrial policy is the manner in which the government

<sup>23</sup> See Jwa (2017b) for further details.

selects the winners beforehand and supports them, known as the issue of “picking the winner.” Those who support a market-centric approach believe that since the government cannot know who the winners will be in advance, subsidizing certain industries or companies by the government is not only unfair but also failure-prone. Furthermore, the government intervention in the market results in resource misallocation, unhealthy government–business collusions, political corruption, and rent-seeking behavior by subsidized companies or industries. Therefore, market-oriented mainstream economics does not recommend government interference in the market through such means as industrial policies. Although the pro-government school argues that the government can improve market outcomes through industrial policies, it is not gaining considerable approval. Moreover, nearly every country in the world is implementing industrial policies in various forms—despite differences in the name of the policies or in the degree of interference—without exception but not many countries have managed such policies successfully. Hence, the controversy continues without any conclusion. Nevertheless, the success of the SMU may possibly answer this heated dispute.

Korea has one of the few successful cases of industrial policy in the last century. As a rural development policy similar to industrial policy, the SMU can be considered a success. What type of general success factors of government development policy could be drawn from this particular case? The SMU provides important lessons with respect to industrial policies, as discussed as follows.

First, the principle of ED, which provides differential support according to actual market performance, should be constantly re-implemented on a regular basis in every market cycle. Support should not be continued for the reason that a certain company was selected once. Companies to be supported should be always newly selected by re-evaluating their performance whenever appropriate (every year or six months) to prevent rent-seeking behavior and induce all market players to concentrate on competition and provide them the motivation to grow. The SMU and the Saemaul factory promotion policy allowed every village to compete for self-help, bringing them out to market competition by re-selecting those to be supported on a regular basis through performance reevaluation. Second, the evaluation criteria should be based on the actual achievements of the company rather than vague standards, such as future growth potential, for a transparent and acceptable

evaluation. Future growth potential is important but cannot be ensured and can only be predicted with the current performance. In the case of corporations, actual revenue or profit can be an adequate criterion. The possibility of political interference or manipulation can be minimized when evaluation criteria are based on such transparent records. Hence, the issue of “picking the winner” is no longer controversial by switching it with selecting the present market winner. Third, such policy process should be legislated into a transparent rule and strictly implemented without any exceptions. Fourth, performance evaluation should be fair, which will make the results acceptable to everyone.

Such “discriminatory support policy according to performance” can guarantee the fiscal sustainability of the government public policy in general, as well as industrial policies, by motivating the subsidized companies and individuals to work hard for success, thereby lowering or eliminating the necessity for continual government support, as discussed in the following section.

#### *B. Sustainability Principle of Government Public Policy*

Nowadays, many countries worldwide are suffering due to the lack of sustainability in their government public policy. Welfare and social policies are poorly managed and are becoming a serious burden on governments' finances, thereby threatening the sustainability of such policies. However, Korea's SMU is a groundbreaking case, in which a social (reform) policy also functioned as an economic development policy, thereby achieving ideological reform and income boost and eventually enhancing the sustainability of social policy by relieving the government of its financial burden. Although the SMU started as a social policy, the above results were made possible by inducing the development of rural villages and contributing to economic development. In other words, the SMU had served two ends, that is, social reform and economic development.

Economics views economic and social policies in a different angle. Economic policies should place importance on the achievements made from the support given to gain economic efficiency, whereas social policies have greater significance in securing the income of those who are in need of support. In such perspective, social policy would have difficulties in becoming sustainable by itself because it cannot supply the necessary resources indefinitely unless the number of those who

are in need continues to decrease. This problem is encountered in social policies of most countries these days. However, the SMU halved the necessity of the government support for social policy by promoting self-reliance through ideological reform and the resulting income boost.

The success of the SMU was made possible because the government could turn social policy into an economic development policy by strictly applying the ED principle of “providing support to high performers and not supporting low performers” or “supporting self-helping villages and not supporting villages that do not help themselves” even in implementing social policies. President Park Chung Hee’s classification of villages into 1<sup>st</sup> (basic villages), 2<sup>nd</sup> (self-help villages), and 3<sup>rd</sup> grades (self-reliant villages) and providing support only to 2<sup>nd</sup> and 3<sup>rd</sup> graders was the driving force behind the change of social policy into an economic development policy. *The case of the SMU reveals that even social policy can be switched to an economic development policy by applying the ED principle.*

This reference can be helpful to the reform of social and/or welfare policies in many countries globally. If one agrees that the eventual goal of social policies is to bring the weak and vulnerable in the shades out to the light, then the ED principle of the SMU can be the optimal social development policy principle. The policy principle of “those who help themselves are treated better” can save the welfare policies of the world from collapsing. Moreover, a discrimination policy, such as that implemented in the SMU, will be helpful at a time when populist democracy is running rampant and economic development policies that should be “rewarding high performers” are degenerating into egalitarian or social policies that “ignore performance.”

### *C. Principle of Creating a Development friendly Culture, Ideology, and Tradition*

Economic development begins from the development friendly ideology of “self-help spirit.” The SMU transformed the seemingly hopeless rural community of Korea into a society ignited with self-help spirit. This phenomenon was made possible by President Park Chung Hee’s discrimination strategy of “supporting only those villages which help themselves.”

Then, what is the general lesson that we could learn from the SMU? First of all, institutions and policies (the rules of the game) that prefer



self-helping people should be introduced and strictly implemented. The rules of the game work as the society's incentive structure. Therefore, a behavioral change can naturally occur only if an incentive system that favors self-helping behavior is strictly and continuously implemented, thereby making people accustomed to the self-help behavior and pertinent spirit. Campaigns and education are insufficient for the change. Coercion cannot be the answer either because it may change formalities but not the substance. In the end, economic institution and policies, which embody the incentive structure favoring the self-help spirit, should be adopted and be allowed to let people naturally adjust to and comply with. By eventually becoming accustomed to such policies, people's self-help behavior would become part of the culture. This case was true for the SMU reform.

Unfortunately, the present Korean society seems to have been degenerating into an anti-self-help society who blames the government, society, and other people for their misfortune. The legal system and policy culture of the Korean society (*i.e.*, the rules of the game and the ensuing incentive structure) have changed to those that provide approval and preference to people with anti-self-helping behavior. This change occurred because the SMU or the agricultural support policy after political democratization since the late 1980s turned to a strategy that "approves and prefers low performance" and discarded the ED strategy. The present-day Korean society is a "society in which discussing self-help is mocked at."

*A self-helping society can come into being only if a system that provides proper treatment to self-helping behavior is established and is continuously implemented, which is the lesson of the SMU.*

#### *D. Importance of Leadership of ED*

Whether to adopt the ED strategy of "rewarding high performance and penalizing low performance" as the governing principle of the country ultimately depends on the leadership of the country. History shows that the leadership that embraced such strategy reaped success, whereas that, which "tolerated and privileged low performance," pulled the country into stagnation albeit it may have enjoyed popularity at the moment.

Former President Park Chung Hee's decision to reject the suggestion of cabinet members and influential politicians and provide support on

a discriminatory basis in the second round and thereafter serves as a good lesson to all political leaders in the world regarding leadership. None other than President Park—who refused to provide populist subsidies and decided to provide discriminatory support, in other words, who *economized politics*—can be the epitome of discriminatory leadership. The entire process of the SMU as well as Korea’s remarkable economic development in the Park’s Era was the vivid demonstration of such discriminatory leadership.

*E. SMU as a “Marketization Movement of the Economy” via Government-led ED*

The supposed marketization process, that is, awakening a dormant rural society and incorporating it into a capitalist market, is a necessary step for underdeveloped countries that pursue industrialization or those in transition from a socialist to a capitalist economy. However, mainstream economics has yet to elucidate the success strategy of marketization. Although it insists that institutionalizing private property rights and promoting economic freedom, which are the pillars of the capitalist economy, are urgent tasks to be accomplished, there exist neither many successful cases of industrialization in the Post-WWII Era nor dynamic economic development amongst transition economies except for China which, however, has not been faithful to mainstream policy advices. Economic institutions are the rules of the game working as the incentive system for the society. The private property right and the economic freedom are the rules of the game, which guarantees one’s right to possess and inherit property that is earned through personal effort. Then, why is it the case that people do not immediately change and go for profit maximization even after the introduction of this system? In other words, why do people not rush in the competition for wealth despite the introduction of the necessary market system? The reason is people who have been complacent about the rules of the past are trapped in path dependence, thereby unwilling to move forward regardless of the new rules. The incentive for change is not that strong for them due to the force of habit. Thus, the rural villages in Korea were left helpless for 20 years before the SMU, although they were equipped with most of the devices needed for the market system. The same goes for the people of a transition economy. Although they have been incorporated into capitalism for longer than 20 years, they seem to be

still caught in the socialist ideology.

What is the way to overcome path dependence and activate the market spirit? In other words, what is the approach to stimulate marketization? The success factors of the SMU are the answer to this question. First, the market is an incentive mechanism of inducing people to set out on the highly competitive path for growth and success by increasing the pressure of being lagged behind via ED. The essence of the market is motivation through discrimination on the basis of performance, thereby promoting competition for success. As an incentive system, the private property right and the economic freedom are useful for the development of a capitalist market economy due to their function of amplifying potential economic difference and inequality based on market performances. However, such market system fails to trigger economic take-off despite its long-term presence because the market discrimination function is not sufficiently strong due to market imperfection. What activated the rules of competition with strong discrimination effects in Korea was the government-led SMU, that is, the government-led ED, which is already acknowledged as consistent with the incentive structure of the gain and loss framing in behavioral economics.

The actual worth of the SMU is the nationwide drive it created towards market competition among villages and people (villagers). The SMU brought them into marketization and competition possibly without anybody being aware of it by creating the rules of the game according to ED principle of the market and inducing the participation of all people. As competition was promoted and excellent results were produced with the SMU, the discrimination function of the market was naturally inscribed on people's minds, thereby providing momentum to the economy's marketization and becoming the basis of Korea's unprecedented economic development. Hence, the SMU is the epitome of "the marketization movement," which may be a necessary step for developing countries, countries with transition economies, and especially North Korea to catch up, the pragmatic answer to which is difficult to find in mainstream economics. The SMU also has useful implications for developed countries, which have to be re-marketized because their market spirit become increasingly dormant after a long period of an egalitarian political economy system, including revised capitalism and social democracy.

*F. SMU: An Alternative or Complement to Existing Community Development Models*

The success of the SMU has important implications for the community development model. Two different approaches of this model exist in the literature; one is an external approach and the other an internal approach. The former emphasizes the central role of external assistance, whereas the latter approach focuses on the resources within a community.

The external approach, which is a need-based approach, attempts to identify problems within a community and then to seek external resources to solve them. However, this approach produces serious negative consequences, such as ruining the self-help spirit of community members as they depend on external assistance. Meanwhile, the internal approach emphasizes various forms of internal community resources, such as individual and community talent, skills, and even social relationships as the source of community development. This approach is referred to as asset-based community development (ABCD) (Kretzmann and McKnight 1993; UN-HABITAT 2008; Stoltenberg 2015). It argues that a community can actively promote the development process by themselves through utilizing internal assets. While this approach identifies what should be done in stepwise in implementing ABCD such as mapping the assets and capacities in the community, mapping the core groups or organizations to work together, setting the vision and goals to target on, leveraging additional resources and activities from outside and so on, it lacks an incentive structure to generate self-help spirit among the community members, as well as leaders.

Both approaches may be complementary because for community development one has to identify the community needs as well as to map the community's assets and capacities to meet the needs. However, whether to take the need-based and the asset-based approaches, holistically or alternatively, the normative statement of what steps need to be taken may be one thing but the positive policy question of how to motivate community and its members to organize and utilize most efficiently those assets and capacities for their own needs in the spontaneous, community-driven way is another thing. Generally, the existing community development models fail to provide a strategy to create self-help spirit, which transforms the development process to

a built-in spontaneous, community-driven process and motivates the involvement of not only the entire community but also all communities in the country. In this regard, the SMU provides an entirely new but necessary complementary perspective to the existing models. The strategy of ED adopted in the SMU helped create the self-help spirit, thereby transforming the SMU into a community-driven process and motivating voluntary participation of all villages, which is the key lesson to be learned by any community development models. In sum, the differential performance-based incentives can help transform community development programs into a spontaneous rivalry game with voluntary participation of all villages or communities in the country.

Recently, community capacity-building programs, such as teaching how to fish instead of catching fish for them, have been emphasized. However, the lessons of Korea's SMU imply that such programs may not be sufficient to wake up a dormant community. Knowing how to fish does not necessarily mean being a productive fisherman, or even worse, going fishing. A more relevant question may be how to drive the fisherman to fish in the sea or lake and not go on a picnic on the mountain with a fishing rod on the shoulder, in addition to teaching how to fish. Creating an appropriate incentive structure for generating a strong rivalry among fishing villages seems necessary for the government or any outside donors. A "fishing contest" may be introduced among all villages for the concerned region or for the entire country. The game should be played based on the ED principle, in which better performers are given more public recognition and reward. It should also be replayed on a regular basis, with the performance ranking being always open to change, which is the necessary condition for creating the self-help spirit and rivalry among villages on a continual basis without creating rent-seeking or moral hazard behavior. Let the players be all villages that compete among themselves and then discriminate them based on their performances. This strategy can help create a national community development game for the entire country.

However, recently, a new approach, which helps rebuild some model villages and hope to be emulated by others, is becoming popular.<sup>24</sup>

<sup>24</sup> This new approach is Professor Jeffrey Sachs' UN Millennium Village Project.

From the SMU perspective, this approach only has a slim chance to succeed because it provides no strong incentive for others to emulate the model villages voluntarily and actively; thus, the game will face serious moral hazard problem on the part of villages. In this regard, the SMU experience can guide and supplement the existing models of community development.

### **VIII. Summary and Concluding Remarks**

Korea's SMU has been regarded as one of the most successful socioeconomic development policies in the country's developmental era. During a period that was shorter than a decade, Korea's rural villages, who were seen as blameful of others for their misfortune and hopeless of development, had turned around to adopt self-help principle and become dynamic with the SMU, eventually surpassing the urban cities in average household income. However, a theory on the reasons for this phenomenon and the main implications for economic development theory and policies have not been well understood yet, which might be the reason why few successful replicas of the SMU have been observed despite the efforts by many developing economies to learn from it.

This study argues that the key success factor for Korea's SMU lies in the "government-led ED policy," which reinforced the market's ED function by exercising the fundamental principle of economic development (*i.e.*, the principle of "good performances should be rewarded, whereas poor performances should be penalized"). The former President Park Chung Hee consistently favored the better-performing self-help and self-reliant villages to the basic under-performing villages. He made the ED policy as a rule during his entire 18 years as the nation's leader and had strictly enforced it in implementing the SMU. This ED policy, which was based on the actual performances with the SMU projects, provided a strong incentive and motivation for self-improvement and development on the part of the villages and led all of them (approximately 34,000 villages in Korea) to escape from the status of being basic villages (the village category without any development achievements) in only 8 years. In addition, President Park worked hard to protect the discrimination policy from political influences, preventing it from being distorted for political purposes. He consistently placed political purposes at a lower priority, below the goal of economic development, thereby successfully achieving "an economization of

politics” not only for the SMU but also for other developmental policies. His efforts to depoliticize the socioeconomic policy paved the road for successful implementation of ED policies in general. In this regard, the empirical analysis on the effect of the SMU on Korea’s economic growth confirms that the SMU became the significant contributor to the miraculous growth during the Park Chung Hee Era of economization of politics during 1970s (but not during the Post-Park Era of politicization of economy).

In addition, the organizational structure of the SMU turns out to be consistent with the general theory of economic development. Designating an entire village as an economic organization to work as a unit of competition in the SMU helped minimize the potential market failure; such failure could have stemmed from high transaction costs incurred if the consensus building and decision making for the SMU were left to the opportunistic behavior of unorganized individual villagers. In this regard, the SMU organizational structure, which is consistent with the framework of the holy trinity of economic development, market, corporate organization, and government working under the ED principle, should be regarded as one of the key features for the success of the SMU.

A few important implications for economic development theory and policies can be summarized as follows. First, the key success principle of government socioeconomic policies for economic development, including industrial policies, is ED, which posits that “on the basis of market performance, success should be rewarded, whereas failure should be penalized.” Second, even social policies inclusive of welfare policy, as well as social empowerment policy, can be transformed into a growth and development policy if the ED principle is adopted in the policy implementation process as an incentive and motivation mechanism. This lesson may help save the current downward spiral of social welfare and empowerment policies around the world, which are based on egalitarian support systems and undermine the incentive to grow and develop. Third, if any country wants to change people’s mindset regarding their self-help spirit for development, it should adopt the ED principle of “helping those who help themselves” into the socioeconomic institutions and policies. Fourth, a political leadership which has a good understanding of ED principle and is determined to implement and protect it from political distortion is a precondition for successful economic development. Fifth, this study argues that

the SMU worked as a mechanism to expedite the marketization of the Korean rural economy by allowing every village, as well as villagers, to be involved in the competitive game under the rule of ED. This mechanism could be usefully emulated by countries with developing economies that seek marketization of the economy for development, including North Korea. It could also help the developed countries under economic stagnation reverse their slide into anti-ED egalitarian regimes and revive their growth dynamism. Sixth, the experience of Korean SMU provides an important alternative or complementary perspective to the existing community development models.

In conclusion, although accounting the success of the SMU with only a single factor seems presumptuous, Park Chung Hee's ED policy of providing exclusive support to "self-helping" villages is the most important and necessary part of Korea's success story. This occurrence is consistent with the basic principles of economic development as expounded by Jwa (2017a, 2017b, 2018). Stated differently, *ED is a theory of the SMU success*.

All in all, the SMU should certainly not be regarded as something of the past to be archived into the cabinets of history. The success of the SMU is now increasingly being recognized globally, and a number of countries and regional institutions have adopted the SMU as a base model for rural development. The SMU has now been utilized by more than 70 countries.

With the Economics Nobel Prize having been recently awarded to Richard Thaler for his work on behavioral economics,<sup>25</sup> we could re-emphasize that Park Chung Hee's SMU implemented the idea of "gain framing" and "loss framing," in which loss framing is discovered as generally more powerful in driving behavior. The SMU awarded positive reward to better-performing villages, which corresponds to gain framing (helping those who help themselves) while leaving out the non-performers from SMU support—such loss framing (leaving out the underperforming villages) spoke volumes to all villages.

Hopefully, the relevance and lessons of Korea's SMU and the developmental strategy under Park Chung Hee continue to be widely acknowledged and adopted in the years to come, in which ED would provide for the future progress of our collective livelihood.

<sup>25</sup> See Thaler and Sunstein (2008).



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