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Book Review

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Book review

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Seeing the government of a country pursue economic policies advocated by post-Keynesian economists is still a rare occurrence. It is thus fitting for *EJEEP* to provide a review of the book that analyses the *income-led* growth policies that have been pursued by the South Korean government led by Jae-in Moon in 2018–2019. These income-led policies are the Korean version of what post-Keynesian economists have been calling *wage-led* growth policies. As revealed by the movie *Parasite* directed by Joon Ho Bong which received the Palme d'Or at the Cannes Film Festival in 2019, the poverty rate is quite high in Korea, particularly among the elders. The Moon administration thus designed a three-prong strategy designed to improve the state of the less fortunate, by increasing household income and basic pensions, as well as the healthcare and employment safety net. The new policies are based on the claim that more income equality is likely to be associated with faster, not slower, GDP growth, a claim that first arose among international organizations from the International Labour Organization (ILO), driven in particular by the tenacity of Sangheon Lee, himself a South Korean. The results of his advocacy can be found in the book by Lavoie/Stockhammer (2013).

Besides the introduction, the first chapter is devoted to ascertain whether the South Korean economy is in a wage-led or in a profit-led demand regime. The authors first show that the wage share, however computed, gradually fell in Korea between the mid 1990s and 2010, with a small rebound after that, losing about 11 percentage points between 1996 and 2018. They then apply the Hein/Vogel (2008) single equation approach, also adopted by several other Kaleckian researchers, and find that the Korean economy is indeed in a wage-led demand regime, driven by the large positive impact of the wage share on consumption, with no discernible effect on investment, and with a minor negative impact on net exports, particularly during the 1999–2018 period.

The authors show that the strategy pursued by the Moon administration did manage to somewhat decrease income inequality and relative poverty rates. However, GDP growth in South Korea decreased to 2.7 per cent and 2 per cent in 2018 and 2019, accompanied by slow growth in employment, and a reduction in the number of worked hours by part-time workers. The authors blame this on a number of causes: the trade tensions that arose between China and the USA; the reduction in the growth rate of household debt while the construction industry collapsed (whereas it had been a key driver in the preceding years); and, perhaps most importantly, the *de facto* turn towards fiscal austerity, with an overall budget surplus close to 2 per cent of GDP in 2018.

The authors argue that the Moon government mainly relied on increases in the minimum wage to pursue its income-led growth policy. Indeed, the minimum wage grew by 16 per cent in 2018 and 11 per cent in 2019, raises that generated, as one would expect from a conservative society, a lot of criticism. As a result, the hike was only 3 per cent in 2020. While increasing the minimum wage had no negative impact on government finances, the authors argue it had detrimental consequences on the large number individuals running small businesses or self-employed individuals, since their own income decreased.

The other pillar of the income-led policy was to lower the spending burden of health costs and to improve and expand welfare and safety nets. There were some improvements in unemployment benefits, public housing, child benefits, daycare centres, and, as already said, basic pensions. The authors argue that the most important achievement was the expansion of the public health insurance coverage. Still, they conclude that its improvement, when all is considered, was relatively modest.

The last chapter of the book deals with industrial relations. The authors recall that there has been some evolution among international organizations, such as the OECD and the IMF, not being so sure any more that structural reforms for more labour market flexibility are such a good strategy. The authors argue that a wage-led strategy whose purpose is to increase the wage share must rely on substantial changes in industrial relations, so as to provide more countervailing power to labour unions. The authors provide three different but similar lists of policy recommendations that have been made in the past by various post-Keynesian authors in order to achieve a wage-led strategy (pp. 195–198). Workers and trade unions must be provided with more legal protection. In particular they insist that centralized bargaining is key in achieving high coverage ratios of collective agreement. In Korea, with the mix of the *chaebol* system with a network of small and medium-sized enterprises, both unionization rates (at 10 per cent) and coverage ratios are particularly low, with the current law allowing only firm-level bargaining.

The authors conclude that the Moon government focused 'on boosting income and reducing spending burdens of households, instead of protecting labor and strengthening its bargaining power. In this sense it is different from the original vision of wage-led growth' (p. 208). Furthermore, I would assert as my own conclusion that a wage-led growth strategy cannot be pursued on its own; it must be accompanied by the support of an expansionary fiscal policy, as post-Keynesian authors have come to realize, and as argued recently for instance by Onaran (2016).

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