Chapter 3

Consumption Repression, Frugal Consumers and Passive Retail Industry in Rapid Economic Growth in the 1970s

1 Introduction

The Korean economy, which had begun to recover in the 1960s, experienced high economic growth continuously during the 1970s, even if there were occasional serious recessions. The average annual growth rate in the 1970s was over 8 per cent and in the case of 1976, it was over 10 per cent (BOK, National Accounts, annual). It is said that Korea’s economic growth was led by industrial policy and investment for exports, or a good combination of the market system and the state (Amsden 1989; Wade 1990; World Bank 1993; Rodrik 1995). At any rate, the Korean government did play an important role in economic growth in terms of both allocations of resources, and provision of a market. The government had been able to act as the provider of capital because for a long time it had been the main borrower of foreign capital. At that time the Korean government preferred loans from abroad as a source of capital rather than direct foreign investment. Even when companies tried to borrow from abroad, they needed the government’s permission because it was impossible to borrow without a guarantee from the bank, which the government owned (Cole and Bak Yeongcheol 1984: 72–76). The government also held full power over internal capital through its hold over the banking system. Moreover, it frequently encouraged savings at the national level. One such example was the government presentation of a national prize for savings on the establishment of ‘Savings Day’ in 1963, which became an annual event. The winner became a hero or heroine as his/her indomitable story concerning savings became known to the Korean people. This greatly influenced the saving habits of younger Koreans and had a significant role in the continuous high rate of savings (Jo-seon-il-bo 26 September 1970, 23 January 1972a, 26 October 1973b). In fact, the government had almost complete control over the collection and use of capital. Under such conditions, the Korean government made a drive towards economic growth through, mainly, industrial policy. As some scholars (White and Wade 1988; Rodrik 1995, etc.) pointed out, it consistently placed an emphasis on production and exports through investment in the manufacturing sector, even though there was a transition from light industry in the early period of
development, to heavy and chemical industries. The government made use of its immense power to direct capital towards these industries. The ‘Five-Year Plan for Economic Development’ started in 1962, began the implementation of a policy that lasted twenty years.

Such a tendency in the policies followed by the Korean government meant that the consumption and retailing sectors were neglected in terms of supporting policy. Instead, they were aggressively repressed as an obstacle to economic growth even in the 1970s. The government sometimes displayed the attitude that consumption was harmful for economic growth and encouraged people to view frugality as a virtue. Furthermore, it often criticised the consumption of imported goods, and periodically punished people for importing and consuming foreign goods regardless of whether it was legal or not (Jo-seon-il-bo 6 June 1974a, 12 June 1974b, 30 May 1975a, etc.). In this social situation, prosperity in the retail industry was difficult to attain because most people showed temperate behaviour towards consumption. The government had an unfriendly attitude towards the retail industry, which it saw as bolstering consumption and getting excessive profit. It also regarded the industry not as an important sector contributing to economic growth but as merely a tool to make the economy function. Accordingly, the government did not place a great deal of weight on the development of the retail industry, even if it sometimes tried to improve and stabilize the distribution network. In particular, even in the case of its rare support, it is clear that the government was giving preferential treatment to the protection and improvement of traditional retailers, and ignoring the development of a modern retail industry for the 1970s.

As a result, during the period of rapid economic growth in the 1970s the prosperity of the manufacturing sector coexisted alongside the relative backwardness of the retail sector; there was even a tendency to argue that the former was necessarily accompanied by the latter, particularly in terms of raising capital.\(^1\) Therefore, the retail industry could hardly be expected to develop in an environment where government intervention was disadvantageous to its development, irrespective of whether the economic environment was receptive or not. Furthermore, the role of government was not just one among various factors to influence the development of an industry at that time. As has been pointed out, the Korean government exercised its power by controlling matters of life and death for industry in general in the 1970s, and so that period in the Korean economy could be called the period of policy dominance. In this

\(^1\) Some scholars pointed out that the repression of the industries concerning the consumption sector by the Korean government was one of the key factors to boost the Korean economy (Jones and SaKong 1980; White and Wade 1988).