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BOOK REVIEW: 'Guns over butter' in North Korea

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POLICY AND ECONOMIC PERFORMANCE IN DIVIDED KOREA DURING THE COLD WAR ERA: 1945-91

By **Nicholas Eberstadt**

American Enterprise Institute, \$25, 313 pages

Reviewed by Doug Bandow

@\$:South and North Korea provide a stark contrast between systems. The two nations share a common ethnicity, history and geography. The South, democratic and capitalist, enjoys one of the world's largest and most vibrant economies. The North, a dismal Stalinist backwater, is one of the world's worst economic performers.

Today, that result seems preordained. But Nicholas Eberstadt, a long-time Korea analyst, notes that until the 1960s, North Korea appeared to be winning the economic race. His book attempts to explain why this is the case - and why Seoul nevertheless ultimately won.

After Japan's defeat in World War II, the Korean Peninsula was divided by the Soviet Union and the United States. The result was an almost perfect social-science experiment. This once united but isolated territory was separated into competing economic and political systems.

By end of the Cold War, "the results of the 'experiment' had been more or less conclusively established," Mr. Eberstadt writes. The Republic of Korea was growing rapidly, soon to join other industrialized states as a member of the Organization for Economic Co-operation and Development. The Democratic People's Republic of Korea, in contrast, "was mired in stagnation, its citizens exposed to increasing privation; within a few years, North Korea

would suffer a catastrophic food shortage."

Mr. Eberstadt's task is not easy. Simply measuring the North's economy is difficult, with estimates varying wildly. He surveys multiple data and comes up with some surprising results:

"By the late 1980s, they suggest, per capita output in South Korea was higher than in North Korea - although exactly how much higher is extremely difficult to gauge. Over the generation between the early 1960s and the late 1980s, they suggest, per capita growth was more rapid in South Korea than in North Korea - although, again, precisely how much more rapid is not clear. In the early 1960s, by some indications, per capita output had been higher in North Korea than in South Korea."

In short, for the first two or three decades, Pyongyang appeared to be winning the economic race. These results contravene "comfortable and mechanistic presumptions," Mr. Eberstadt observes. In explanation, he offers detailed analyses of both economies, the details of which at times may overwhelm the nonspecialist.

North Korea started with important advantages. The northern section of the peninsula was more industrialized and enjoyed a higher per capita income. The Korean War wrecked much of the economy, but North Korea enjoyed substantial "fraternal aid" from other communist states, led by the Soviet Union, through the 1960s.

During the same period, South Korea was not the country we know today. Its politics were authoritarian rather than democratic; its economy was not particularly free. Trade was falling in importance to the economy. Per capita gross domestic product may have dropped back to levels of the 1920s and probably was lower than in the North.

North Korea's advantage at this point might reflect the relative "benefit" of ruthless totalitarianism over inefficient authoritarianism. Stability offers obvious economic advantages, perhaps even in statist systems.

But the evidence suggests that the North started losing whatever economic advantage it had during the 1960s. Why?

On Pyongyang's side, Mr. Eberstadt points to a significant military buildup. North Korea perceived greater international vulnerability and shifted its resources accordingly. By choosing guns over butter, he suggests, the North Koreans "may have engineered a major dislocation in their national economy and inaugurated the obvious economic slowdown reflected in various official data series."

It's a conclusion American policymakers should consider in setting U.S. military expenditures. The United States continues to spend far more than any other country on defense, yet it has paid a high economic price as well - just not as obvious as in North Korea, given the former's much greater wealth and economic growth. The Cold War provided Washington with a justification for historically high defense outlays, but massive ongoing deficits and debts pose a much greater threat to the United States than does potential communist aggression.

In South Korea, the rise of Park Chung-hee, who dramatically transformed economic policymaking, fueled the South's surge. But Park was no practitioner of laissez-faire. Mr. Eberstadt notes the resulting challenge posed by South Korea's success to free-market advocates.

One wonders if some of the result was simple luck: South Korea's dictator may have systematically made better decisions than North Korea's dictator. Moreover, Mr. Eberstadt points to the military dimension, which may have provided some temporary development advantages to South Korea's "hard state" compared to a more liberal system.

Nevertheless, state planning had obvious costs: the "burdens, costs, and inefficiencies were very much as conventional economic analysis would predict," Mr. Eberstadt writes. In many ways Seoul's economic intervention slowed growth.

Of course, counterfactuals are impossible to prove. Nevertheless, Mr. Eberstadt notes that South Korea's economic growth rate did not match what one might otherwise have expected from that country's expansion in capital and labor. He writes:

"Although the South Korean growth rate has been exceptional, the pace of improvement in the efficiency with which resources were utilized evidently was not. This rate of improved efficiency would have been anticipated, we may emphasize, by a 'market liberalism' (or even a conventional neoclassical economic) analysis of the South Korean state's development policies."

Mr. Eberstadt offers a sophisticated analysis that still leaves much unexplained. He writes of an economic analysis by William Easterly: "The difference between actual and predicted growth amounted to roughly 3 percent a year in each of these specifications. Put another way, nearly half of South Korea's per capita growth during the years under consideration were 'unexplained' by the structural variables in the exercise." Obviously fertile fields remain for future research.

"Policy and Economic Performance in Divided Korea During the Cold War Era" is a

challenging work. Mr. Eberstadt doesn't trim his conclusions to fit other people's ideological presumptions. His book is an invaluable guide to economic policy on the Korean Peninsula.

It also provides more evidence of the complexity of human behavior and the unpredictable impact of human institutions. It's a lesson we all should remember.

Doug Bandow is a senior fellow at the Cato Institute. A former special assistant to President Reagan, he is the author of "Tripwire: Korea and U.S. Foreign Policy in a Changed World" (Cato Institute, 1996) and co-author of "The Korean Conundrum: America's Troubled Relations With North and South Korea" (Palgrave/Macmillan, 2004).

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