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DEVELOPMENT PROGRAMS AND STRATEGIES FOR  
MEETING BASIC HUMAN NEEDS AND  
RAISING INCOMES AND STANDARDS OF  
LIVING WITH EMPHASIS ON RURAL AREAS

by

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## I. THE SCOPE OF THE PROBLEM

1. Rapid growth is basic to any development strategy, and Korea's economy has grown impressively over the past fifteen years. In the course of implementing three successive five-year development plans, Korea has been transformed from a poor farming country into a self-sufficient, bustling, and rapidly industrializing economy. This period has been marked by unprecedented growth in output and income and by widespread structural changes in the economy.

2. Korea's economy has maintained an average annual growth rate of around 10 percent during these years. GNP per capita in current prices has risen from less than \$90 in 1962 to about \$850 in 1977 and, in real terms, the increase was still more than three-fold over this period. There has been little indication of slackening in the growth rate of GNP; rather, it accelerated from an average annual 7.3 percent in the first five-year plan period(1962-66) to 10.5 percent during the second five-year plan period(1967-71) and further to 11.2 percent in 1972-76, the period of the third five-year plan.

3. With the rapid growth of output and income, there have been dramatic changes in the economic structure, with modern industries increasing their shares of total output at the ex-

pense of the traditional sector. The extent of the structural change is highlighted by the sharp increase in the share of manufacturing in GNP from less than 12 percent in 1962 to over 35 percent by 1977, while at the same time the share of agriculture decreased from about 40 percent to less than 20 percent. During this period, value added in manufacturing grew at an average annual rate of 19 percent, compared with only 4 percent in agriculture.

4. The most striking aspect of Korea's development strategy has been the emphasis on exports. Various governmental measures have provided strong incentives to exports. Consequently, export expansion during the past 15 years has been spectacular, rising from \$55 million in 1962 to over \$10 billion by 1977. As a proportion of GNP in current prices, exports of goods and services increased from 5 percent in 1962 to 16 percent in 1970 and further to 38 percent in 1977.

5. The structural transformation of the economy has been accompanied by significant shifts in the structure of the population and the distribution of employment. With effective family planning programs, Korea was able to bring down the growth rate of population from nearly 3.0 percent in 1962 to 1.6 percent by 1977. Furthermore, as the difference in economic opportunities between urban and rural areas

widened, Korea also experienced very rapid urbanization. The expanding opportunities for a better job and life in the growing cities and the lagging economic prospects of the rural environment encouraged many people to leave the countryside. Urban population thus expanded far more rapidly than the total population.

6. Korea's export-led, urban-oriented development strategy, however, has created certain environmental problems as well as exacerbated inequality in certain segments of the society. Rapid urban-oriented industrial development brought with it all the typical problems of big cities, such as traffic congestion, housing shortages, over-crowded schools, air pollution, strains on family life, and the increased need for all public services. More people have migrated to urban areas than could be absorbed, and despite substantial investments in infrastructure, the result has been a severe strain on urban services designed to meet minimum essential human needs. It may be noted that urban population as a proportion of total population increased from 28 percent in 1960 to about 50 percent by 1977. And one-third of the total population reside in Seoul and Busan, the nation's two largest cities.

7. While there has been substantial improvement in the living standards of most people, the gap between rural and urban incomes still persists in Korea. While the gap in

rural-urban incomes was reduced significantly over the last 15 years, in real terms the 1976 average income of farm households amounted to about 90 percent of that of urban households. It must be noted, however, that the comparison understates the extent of the disparity because rural households are usually larger than those in urban areas and contain more workers.

8. A close analysis of other socio-economic data reveals that the rural population has not shared equally in Korea's economic progress. A high proportion of the rural population consists of the young, the old, the under-nourished, and the under-educated, many of whom lack a basic knowledge of sanitation and health care, including the ability to perceive illness and disease. Rural residents are largely self-employed family workers whose incomes are subject to extreme seasonal fluctuations. Only a small number of these people are engaged in non-farm occupations as regular wage and salary earners. Clearly, persons living in rural areas are in the greatest need of services to meet basic human needs such as health care, nutrition, a safe water supply and waste disposal, better housing, and educational improvement.

9. Recent studies indicate that incomes are more equally distributed in Korea than in most other countries at a

similar stage of development, largely due to the land reform and the wider spread of education. However, an estimate by the Korea Development Institute shows that about 5.5 percent of the population, roughly 2 million people, are still living in absolute poverty. This total represents persons who are eligible for public assistance program under the Livelihood Protection Law. Nearly 55 percent of them are in the rural areas. They have very limited access to existing assets, including land. Most are children under 18 years of age or persons over 60 years of age. Females comprise 53 percent of the total. Also included in this group are the mentally and physically handicapped persons who are incapable of earning incomes.

10. While increased output and income are the necessary conditions for improved living standards, the realization of rapid growth in output does not automatically result in an adequate degree of improvement in fulfilling basic human needs for all segments of the population. There is ample evidence in the literature on economic development that rapid economic growth does not necessarily increase the share of national income received by workers or the needy members of society outside the labor force. While steady jobs with adequate incomes can help reduce the amount of need and destitution, the incomes

of many families are still reduced or cut off entirely by the premature death of the breadwinner, old age, disability, sickness, or unemployment. For them assistance in the form of cash payments or other means of income maintenance is needed.

11. In recent years, government policy in Korea has shown increasing recognition of the fact that rapid economic growth is a necessary but not sufficient condition for improving incomes and living standards of the masses. A more equitable distribution of opportunities and income has become a more prominent objective of socio-economic development policy in Korea. It has, therefore, explicitly focused on the major issues of employment, income distribution, and rural community development. The Saemaul Movement, which was initiated in late 1971 as a comprehensive rural development program, is a crucial instrument in lifting incomes and improving the standard of living in rural areas. The Fourth Five-Year Development Plan (1977-81) also reflects these concerns and stresses an expansion of social development activities.

## II. PROGRAMS AND STRATEGIES FOR ECONOMIC COOPERATION

1. Poverty in the midst of affluence is today the major issue facing the world. Almost everyone agrees that all of the world's citizens should be able to earn enough to maintain a sense of economic security and personal independence. The fundamental problem of poverty is that the earning capacities of many individuals fall far short of what is generally regarded as sufficient for a minimum standard of living. Lifting the incomes of impoverished families above this level has long been an accepted socio-economic goal in many developing countries. The war on poverty, or the improvement of the present well-being and future opportunities of low-income families, is one of the most important program objectives of international organizations today.

2. The war on poverty can be fought on several fronts with a great variety of weapons. But three basic approaches to solving the problem of meeting basic human needs can be identified: measures to create more jobs for the poor as well as for others; government transfers of funds to make up the income deficiencies of the poor; and the provision of essential goods and social services. Each of these approaches, however, should not be considered in isolation, since in

reality they are not incompatible alternatives but complementary necessities.

3. Many policy measures to promote rapid economic growth also reduce the size of the poverty population by creating greater employment opportunities. Employment-creation can serve as a positive means to increase the incomes of those now living below minimum levels. Thus a healthy economy with a high level of employment is a prerequisite for any effort to deal with poverty. Korea is probably a classic case of a nation in which the benefits of growth are distributed in the form of increasing employment opportunities. As the economy has expanded and the demand for labor increased, the potential work force has been increasingly absorbed into the more productive sectors of the economy. The reservoir of manpower to fuel growing industrialization consisted of the marginally employed, the unemployed, and rural people moving to the cities and industrial areas. Thus, Korea's development strategy based on labor-intensive manufacturing has measurably improved the employment situation and thereby helped to reduce poverty.

4. Reflecting the rapid growth in manufacturing employment, total employment increased at an average annual rate of 4 percent during 1963-77, compared with 3 percent for the

potential labor force. Between 1963 and 1977, 5.3 million new jobs were created, but over 42 percent of these were in the manufacturing industry. Evidence of an employment effect is also provided by the growth in real wages during 1963-76 of about 6 percent a year. The rise in real wages in the rural sector particularly helped those small farmers who supplemented their incomes by working for wages.

5. In Korea a variety of measures have been used to bolster farm incomes, the most important of which has been the price support program. Improvement of roads and irrigation systems also contributed significantly toward increasing farm incomes. The basic problem, however, appears to be the slow growth of non-agricultural incomes in the rural sector. Nonfarm sources of rural income still remain at around 20 percent of total farm household income. This compares unfavorably with the corresponding figure of over 50 percent for Taiwan. The government is currently attempting to change this by establishing factories outside existing industrial estates. One of the important objectives of the Saemaul Movement is to create more industrial jobs in the rural areas and thus expand off-farm employment opportunities.

6. Efforts should also be made in other developing countries to explore or expand areas in which more productive employment can be created. The hope of escape from poverty lies in the rapid transfer of population from the low-productivity traditional sector to the high-productivity modern sector. Sustained increases in the incomes of the poorer sections of the population will depend largely on the expansion of wage-earning employment in the modern sector. No developing country, however, can rely entirely on the modern sector to provide enough employment and income. The smaller the modern sector and the faster the population growth, the greater the need for exploring every possibility of providing additional productive employment in other areas.

7. A sound agricultural policy can open up possibilities of productive employment. While new technology may increase the demand for farm labor, full mechanization can actually reduce the demand for labor. From the employment point of view, therefore, it is important to prevent capital-intensive mechanization not essential to the growth of agricultural output. A special machine technology for small-scale agriculture needs to be developed. A wider range of agricultural development projects should also be implemented to increase employment and improve the living standards of the rural poor.

8. Asset holding is an important measure of the level of living, i.e., those who lack productive assets, including land, are unable to provide for their families except by selling their labor. In countries where there is great inequality in the distribution of land ownership, land redistribution can create additional productive employment. It can also have a significant impact on the rural economy and reduce rural poverty. The land reform measures adopted by Korea in the late 1940's and the early 1950's, for instance, resulted in fairly even distribution of assets. These important measures redistributed about three-fourths of the cultivable land and benefited over half of the rural households. Most farms in Korea are now operator owned and their size is limited to three hectares of cultivable land per household, except in the new upland areas recently developed for cultivation.

9. Agrarian reform can improve the living standards of the rural poor most effectively when it is carried out as an integral part of creating an overall social and institutional framework more conducive to rural development. This would imply the importance, not only land reform, but also of instruction in improved farming techniques, the introduction of modern credit and better marketing systems, the promotion

of cooperative organizations, the modernization of social patterns in the villages, and other institutional changes. All these changes combine to provide the rural poor with the necessary conditions for rapid expansion of productive employment, and thus for increasing incomes and living standards.

10. In Korea, the Saemaul Movement, which is based on the spirit of "self-help, diligence, and cooperation," has been initiated and supported by the government in order to encourage local initiative and the active participation of the village population in development projects. A total of 1,360 billion won or approximately \$2,800 million was invested in various Saemaul Movement projects during the seven-year period of 1971-77, with 466 billion won in 1977 alone. Nearly 47 percent of the total investment was provided from the government, with the remaining 53 percent contributed by the villagers, mainly in volunteer labor.

11. The Saemaul Movement emphasizes three mutually interrelated aspects of the program, i.e., spiritual enlightenment, improvement of the living environment, and increased income. One of the major objectives of the Movement is to improve sanitation and eliminate inconveniences in rural life. Relevant projects include the construction of clean

and sanitary villages and the expansion and opening of village roads or farm feeder roads. Other projects include rural electrification, sanitary water supply, reclamation of idle land, and improvement of telecommunication facilities. One of the important measures being undertaken to attain the goal of raising the incomes of farm households is the establishment or inducement of manufacturing factories in the rural area. The objectives of the Saemaul Factory program are to increase off-farm incomes of rural families, utilize seasonally unemployed farmers, and facilitate specialization of rural industries.

12. Employment and training programs are important policy measures for remedying poverty. Skill training must be focused on increasing the earning capacity of low income persons through measures intended to enhance their job skills and employability. However, there are limitations on the extent to which the poverty population can be reduced through either economic growth or employment. Inevitably, the effect of economic growth and employment on those poor who are isolated from the mainstream of the economy is extremely limited. Such people include most of the aged, young persons in families headed by a female, and the handicapped. Even the best employment and skill training programs cannot, by them-

selves, be of much assistance to people who are unable to make use of the opportunities presented.

13. Employment is certainly not a cure-all for the ills afflicting the poorest segment of population. Income transfer programs are now receiving increasingly widespread support as an important instrument for providing minimum standards of living for persons who are outside of the work force, who have a marginal attachment to it, or who are unemployed. Employment programs must go hand in hand with a greater emphasis on income support. The combination of a healthy economy, employment programs, income maintenance, and the provision of essential goods and services can help solve the problem of poverty in rural areas.

14. Broadly speaking, a system of transfers has private as well as public components. Transfers take the form of subsidies, insurance benefits, philanthropic activities, government transfers of cash and services, and inter and intra-family payments. There is, however, a worldwide trend for private transfers to assume less importance, and for public income support programs to assume greater importance. This trend underscores the rising recognition of societal responsibility for improving the living standards of the poor. Government transfer payments, although small relative to disposable

income, have been increasing as a proportion of disposable personal income in Korea. They rose from one half of one percent in the late 1950's to 2.7 percent in 1976. These programs include transfers in money and in kind, including food and limited social service assistance, provided on the basis of need.

15. The list of programs usually considered as belonging to government transfer includes: 1) social insurance programs for old age, sickness, work injury, and unemployment benefits; and 2) public assistance programs. Thus, two major approaches can be distinguished in how transfer payments are provided. In the social insurance schemes, programs are financed mainly from special contributions by employees and/or insured persons. Benefits to individuals are related to the size of their contributions and the programs are usually compulsory. Public assistance programs, on the other hand, are financed mainly from tax revenue sources, and the benefits are related to the "needs" and "resources" of the recipient. Income supplements can be expected to provide the basic public assistance for dependent families with limited employment prospects for the family head and probably for the working poor.

16. Government transfer payments affect the production and supply of goods and services when they are spent. These transfers raise disposable income by putting purchasing power in the hands of those who otherwise would not enjoy it. They also influence the composition as well as the level of consumption expenditures. Transfer recipients are mostly low-income persons, and their expenditure patterns are quite different from those of other consumers. Because a major portion of benefit payments go to poor persons, very small amounts of government transfers will be used to purchase new appliances, furniture or other durable goods. They are most likely to be used to buy basic necessities such as food and clothing.

17. The pattern of consumption expenditure in Korea is a typical one for a developing economy. As real per capita income steadily increased, the percentage of total expenditure allocated to food consumption decreased rapidly from 56 percent in 1962 to 49 percent in 1970, and further to 42 percent in 1977. Since the consumer was spending a declining proportion of his income on food, the percentage being allocated for both durable goods and services has also increased. In view of the present level and rate of increase in income, most consumers should be able to continue to expand their purchases of non-food items even with

a relatively small increase in their expenditures for food. However, low-income households, particularly those in the rural areas, continue to spend greater proportion of their incomes for basic necessities such as food and housing.

18. The rapid pace of industrialization and the subsequent increases in income resulted in the consumption of more and better food in Korea. There are indications that Koreans are now eating significantly more meat, dairy, and processed food than in the past. Between 1965 and 1976, for example, the proportion of the average urban household food budget spent on cereals decreased from 60 percent to 45.5 percent. At the same time the share of meat and fish increased steadily from 12.6 percent of total food expenditures in 1965 to 17.0 percent in 1973. However, it then declined to 14.8 percent in 1976, a drop which was mainly attributable to price increases. In absolute terms, the daily consumption of meat rose from 15.9 grams in 1965 to 25.4 grams in 1975, while that of milk and eggs almost doubled from 10.7 grams to 19.7 grams. During these years the total average calorie intake also increased from 2,189 calories to 2,390 calories.

19. While the increase in the consumption of meat and dairy products was evident during the last ten years, the level of per capita meat consumption still remains too low.

Korea's per capita meat consumption is estimated to be less than one half of that of Japan and less than one-third of that of Brazil. Thus Korea must rely heavily on a single cereal -- rice -- for its nutritional needs, which sometimes lead to malnutrition with possible serious mental implications. The sharp increase in food prices in recent years also poses a threat to the nutritional status of some Koreans, especially those children in the poorer areas of the cities and countryside.

20. Following decades of effort to achieve self-sufficiency in rice, Korea now faces a different kind of food problem. The rice surplus now in the making should allow the government to pursue more actively the objective of providing balanced and adequate nutrition to low-income persons in rural and urban areas. The major tasks are: the increased production and supply of better food at reasonable prices; the improvement of dietary habits through better use of locally available food, the development of the domestic food processing capacity, and the exploration of the use of new foods. In view of the fact that nutrition is a multi-sectoral concern, an effective nationwide nutrition program requires a cross-sectoral approach and needs to be integrated with the overall social development program.

21. Closely related to the problem of improving the nutritional status of the rural poor are the household environment, sanitation, education, and health. Housing, like food and clothing, is one of the basic human needs. A substantial increase in investment in housing construction is required in view of continuing urbanization and rapidly rising household formation resulting from the emergence of the nuclear family system. The provision of adequate housing to the urban poor and the improvement of substandard housing in rural areas will also require considerable government investment in residential construction. In Korea the Saemaul Movement contributed significantly to the improvement of the household environment in the rural areas. The environmental upgrading of households, which was one of the initial projects of the Movement, included the replacing of straw-thatched roofs with tile or tin, improving toilet facilities and the sewerage systems, and repairing and modernizing kitchens. The government provides the materials free for this self-help program. The government also provides low-cost loans to encourage farm families to replace their dilapidated houses with moderate-cost standard housing units.

22. Providing adequate access to essential public services is an important means of improving living standards of

the poor. A critical element of any strategy for remedying poverty is thus an allout effort to bring these services, such as education and health, to the poor. The population of Korea has been characterized by a high level of literacy and education. The efforts and accomplishments of the past have been impressive, but present educational programs still need substantial improvement to meet the increasing demand from the poorer segments of the population. Educational institutions in Korea are heavily concentrated in urban areas. This is an obstacle to the attainment of the equity objectives of the nation's socio-economic development plan. It also places additional pressure on the rural population to further migrate to urban areas. Thus future government investment in education should be directed toward broadening educational opportunities in the rural areas; eliminating over-crowded classes and schools; extending compulsory education; improving the quality of education; and toward increasing the emphasis on vocational and technical education.

23. Health conditions in Korea have improved considerably during the past decade. Economic development has been accompanied by rising food intake and the consequent mitigation of disease and illness related to dietary deficiencies. The substantial investment in water supply systems, sewage

disposal facilities, and housing improvements has had a generally favorable impact on health status by reducing overcrowding and the incidence of water-borne disease. The past efforts on the part of the government to improve the health levels of its people payed off in health conditions that are superior to those of other developing countries in the world.

24. The general health status of Koreans compares favorably with other developing countries in Asia. Life expectancy at birth is estimated to be almost 70 years, and the crude death rate per 1,000 population is 6.4. Infant mortality is another important indicator of health as it refers to a segment of the population most vulnerable to health hazards. Infant mortality rates in Korea, however, are relatively high as compared with those in other Asian countries such as Thailand and Taiwan. There is a substantial problem of morbidity, the prevalence of which is highest among rural residents, children under 5 years, and adults over 40 years of age. Women usually have a much high prevalence rate than men. Another critical aspect of morbidity relates to days of activity restriction and the causes of incapacity. The rural poor usually experience significantly more disability than urban dwellers, due to socio-economic and environmental differences.

25. It is obvious that persons living in rural areas are in the greatest need of health services. Yet health resources are predominantly concentrated in urban areas. The difficulties of transport and communications and the scarcity of health resources contribute to the lack of medical services in rural areas. It is estimated that almost 83 percent of the physicians and 87 percent of the medical facilities are located in urban areas. In comparison, only 48 percent of the nation's population reside in urban areas. Whereas the nation's two largest cities, Seoul and Busan have one-third of the total population, more than one half of the professional health personnel practice in one of these two cities. Thus, the gross imbalance in the distribution of health resources between urban and rural areas is a problem of enormous magnitude in Korea.

26. Health is a key element of socio-economic development policy in Korea. For the first time, Korea is actively engaged in major health sector planning aimed at improving the organization, delivery, and financing of health care. A new national health planning strategy is incorporated in the creation of the National Health Council, the National Health Secretariat, and the Korea Health Development Institute. The ultimate objective of these sector planning ef-

forts is to provide access to adequate medical care to the entire population regardless of income, age, or place of residence.

27. To attain these objectives with maximum efficiency, the government of Korea has recently launched three pilot projects through the newly established Korea Health Development Institute. The major objective of these demonstration projects is to develop more effective methods for providing better health care at low cost, particularly in remote rural areas. In particular, the programs hope to accommodate the changing patterns of health needs which have resulted from rapid industrialization and urbanization. The results of these demonstration projects, which are expected to come out within two to three years, will have a great impact on the attempt to better health services for the rural community throughout the country. In this connection the Saemaul Movement is also expected to contribute significantly to the improvement of primary health care of the rural community.

28. During the 1960's and the 1970's, the major emphasis of national economic policy in Korea was placed on industrial development and the expansion of exports. Thus, the nation's priorities in the allocation of public resources were accorded to investment in plant and equipment to expand

the productive capacity of the nation. However, the coming decade will mark the turning point in fiscal policy. The major focus is expected to gradually shift from industrial expansion to social development programs in order to meet rising basic human needs and the demand for improvement in the quality of life.

29. Government finance must play an increasingly important role in this process of shifting policy emphasis toward the achievement of sustainable improvements in the living standards of those too poor to satisfy their own basic needs. Thus, unless the economic development expenditures of the budget are drastically reduced, the size of the government budget is bound to expand over time. The major issue facing Korea over the next decade will be that of determining "what comes first." However, the core of the problem is not so much the allocation of resources between the private and public sector, but the question of where and how we assign priorities in the public sector.

30. In order to meet the rising expenditure requirements of accelerating the delivery of services to meet basic human needs, tax revenue must increase substantially in the coming decade. One of the major tasks of fiscal policy is to develop and maintain an equitable tax system so as to

guarantee a minimum level of living and a fair distribution of income and wealth. Capital gains from many forms of assets currently receive preferential tax treatment under various special tax provisions introduced to achieve specific policy objectives. In the coming decade, however, this preferential tax treatment should be gradually removed in order to prevent the further erosion of the income tax base and to improve the income redistribution effect of the overall tax system. Therefore, policy measures should be adopted to guarantee minimum living standards for low-income taxpayers. Furthermore, efforts should also be made to improve the redistribution of income through the expansion of social security programs and the equitable taxation of income and wealth.

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