

# **Policy Forum 07-091: North Korea Meets Keynes: Demand and Supply in Our Style Socialism**

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## **Recommended Citation**

"Policy Forum 07-091: North Korea Meets Keynes: Demand and Supply in Our Style Socialism", NAPSNet Policy Forum, December 13, 2007, <https://nautilus.org/napsnet/napsnet-policy-forum/north-korea-meets-keynes-demand-and-supply-in-our-style-socialism/>

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Policy Forum Online 07-091A: December 13th, 2007

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By Rudiger Frank

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**I. Introduction**

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Rudiger Frank, Professor of East Asian Economy and Society at the University of Vienna, an Adjunct Professor at Korea University, and Director of the Vienna School of Governance, writes, "The current South Korean efforts at the rehabilitation of the North's economy and transportation networks, combined with a future relaxation of international trade and investment restrictions and a relaxed, open-minded government in Pyongyang might be just what the trading women at North Korea's markets need when they are praying for more customers."

The views expressed in this article are those of the author and do not necessarily reflect the official policy or position of the Nautilus Institute. Readers should note that Nautilus seeks a diversity of views and opinions on contentious topics in order to identify common ground.

## II. Article by Rudiger Frank

- "North Korea Meets Keynes: Demand and Supply in Our Style Socialism"

By Rudiger Frank

The Financial Times recently ran an excellent piece by Anna Fifield ( [Selling To Survive](#) , Nov. 19, 2007) on the economic difficulties that North Koreans are facing in their everyday fight for survival. The article confirmed that despite the governments reservations and occasional counter-measures, in general we can observe a major shift in the way the domestic economy is run and how individuals adjust to the new conditions. As a result, eventually an alternative, non-state related path to advance in North Korea's society will emerge, seriously challenging the legitimacy and the power monopoly of the current leadership. In Eastern Europe, similar developments took decades to result in changes; so while nothing is impossible, we might have to expect a long process. However, there are also more immediate conclusions to be drawn.

The article quoted a North Korean saying that "The men still have to go to work and have their name checked off but there is nothing to do... They don't get paid but sometimes, in a good month, they get 15 days' worth of corn in rations". The man continues to explain how North Koreans get along: "People survive by selling. They do whatever they can to earn money - selling fried dough sticks or repairing shoes and clothes."

What is the message behind these quotes? Obviously, the state is not able to pay the workers. The role of women in society is substantially upgraded since they become the principal breadwinners. And the only way to survive for many is to sell something on the markets. These are the facts, but what is missing in this picture?

A deal always needs two sides: the one who sells, and the one who buys. This is no rocket science. John Maynard Keynes became one of the most prominent economists in Western history after claiming that the demand side matters and that economic policy should be aimed at strengthening this factor to overcome or prevent economic crises. The one-million-Dollar question now is: If the men don't receive any salary, then who are their wife's customers? Who makes the families survive by purchasing the vendor's products? Where does the money come from?

The one obvious answer is China, where North Koreans either sell their workforce or products. The FT article mentions narcotics, but one could think of more legal goods such as fur, gold or ingredients for oriental medicine. Another source of purchasing power is selling political or administrative favours, also known as corruption. A third and vital origin of income are foreign aid and assistance, especially if they are diverted. Finally, not every North Korean factory or office is closed, so there is some liquidity on the market. At a price of 900-1200 Won per kilogram of rice, the lucky ones who are producers of agricultural goods also have a good chance to generate handsome revenue that they will eventually spend as consumers.

Implications are manifold. But since the outside world keeps asking what could be done to improve the livelihood of the North Korean population, one lesson should be emphasized that is both obvious and important: If the purchasing power of the economy as a whole is increased, it won't be long until this trickles down to the lowest income levels of society. As long as a market mechanism is in place - and that seems to be the case despite all fears of an eventual government crackdown - any measure to strengthen demand in North Korea will be equivalent to a Keynesian economic policy and, en passant, help resolving the difficult situation of ordinary North Koreans.

Aid, corruption and narcotics are not universally welcome and can only function as a short-term remedy. For a sustainable solution, demand must be strengthened by legal domestic means, including enablement of North Korean factories to pay their worker's salaries again. They can't do so because of an inefficient economic system, but also because there is a strong investment deficit, infrastructure is in a sad condition, and external trade is seriously limited. The current South Korean efforts at the rehabilitation of the North's economy and transportation networks, combined with a future relaxation of international trade and investment restrictions and a relaxed, open-minded government in Pyongyang might be just what the trading women at North Korea's markets need when they are praying for more customers.

### **III. Nautilus invites your responses**

The Northeast Asia Peace and Security Network invites your responses to this essay. Please send responses to: [napsnet-reply@nautilus.org](mailto:napsnet-reply@nautilus.org) . Responses will be considered for redistribution to the network only if they include the author's name, affiliation, and explicit consent.

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