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ARTICLE

South Korea's Growth Trajectory: High Performance with a Profit Share Below One-Third in Emerging and Advanced Economies

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ABSTRACT

What is the growth model of emerging economies striving to develop rapidly to become advanced economies? South Korea is the only poor economy, sixty years ago, to have become an emerging economy and then an advanced economy. For advanced economies since 1961, a new growth and distribution model has been proposed to explain the increase in the profit share of income and, simultaneously, the significant decline in GDP growth and labor productivity. Macroeconomic developments in South Korea are analyzed in detail, with standardized data available since 1975. It appears that high GDP and productivity growth are also associated with a low profit share, less than one-third over the long period from 1975 to 2019, as was the case for advanced economies during the Golden Age of Capitalism. South Korea is also the only advanced economy since the 2008 financial crisis to maintain high GDP and productivity growth. The considered growth and distribution model provides important insights both for advanced economies and for an emerging economy becoming an advanced economy like South Korea. For rapid economic growth, the key factors appear to be a low profit share, well below one-third, income-led growth, reduced inequality, and high R&D spending.

Keywords: GDP Growth; Employment Growth; Profit Share; Growth Model; Emerging Economies

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1. Introduction

Are economies wage-driven or profit-driven? This question is crucial to the influence of income distribution on long-term macroeconomic performance.

According to empirical studies based on the Bhaduri-Marglin model[1, 2], the United States and the European Union have been considered primarily wage-driven economies in recent decades. However, European governments have demonstrated since the 1980s[3] that full employment is possible by reducing labor costs and allowing flexible, low-wage service jobs. How could such a situation have occurred in wage-driven economies?

For answering, we analyze the trajectories of 17 advanced economies (United States, Australia, Canada, Europe, and Japan) from 1961 to 2019; the necessary macroeconomic data (accurate and standardized) over this long period, coming from databases, are only available for these 17 advanced economies. It has been confirmed that GDP and productivity growth in these economies is wage-driven[4–6]. However, this is not the case for the relationship between employment growth and the profit share in income; there is a turning point around one-third for the profit share, with economies being profit-driven when the profit share is below this turning point, and wage-driven otherwise.

To explain all these facts, a new model of growth and distribution has been developed (Lorenzi-Villemeur model)[4–6], also called the new "neo-Ricardian growth model." The key ideas of Kaldor (chain-reaction), Schumpeter (creative destruction), Keynes (effective demand), and Ricardo (distribution between profits and wages) are considered as the basis of a new growth and distribution model. This model is described in detail in these references. The origins of this neo-Ricardian growth model and some useful developments are presented in **Appendix A**.

Are these lessons relevant to emerging economies? This question will be explored in this article.

South Korea is a very interesting economy: a poor economy six decades ago, which has become an advanced economy over the past two decades. With a population of 51 million, GDP per capita is currently around 33,121 $ US, similar to Japan's, and not far behind that of the European Union (World Development Indicators, 2025). South Korea is one of the few countries that has managed to move from a low-income to a high-income economy, i.e., from an emerging economy to an advanced economy, in just a few decades, with GDP per capita exceeding 30,000 $ US in 2008.

It is also the only emerging economy for which standardized macroeconomic data are available over the long term, thus allowing comparative studies with advanced economies since 1961; this is the case for an important variable, such as the wage share adjusted for factor costs, which is generally not known precisely for other emerging countries. It is worth mentioning that China is also an emerging economy experiencing rapid development since 1980, but it remains today an emerging economy far from an advanced economy in terms of GDP per capita (about 13,303 $ US in 2024). Of course, other countries that were poor fifty years ago have experienced rapid growth in more recent times, such as Brazil or Indonesia, but they achieve GDP per capita far below that of South Korea, for example 10,280 $ US, or 4925 $ US, respectively.

It appears that high GDP and productivity growth over the period 1975–2019 is associated with a profit share well below one-third, and that the neo-Ricardian growth model is consistent with macroeconomic data.

For the period 1975–1997, we show that strong GDP and productivity growth in South Korea is associated with a profit share well below one-third and a high investment rate, with economic performance comparable to that of advanced economies during the Golden Age of Capitalism and its rapid industrialization.

We also show that South Korea has the best macroeconomic performance after the 2008 financial crisis among all advanced economies: a key characteristic is the declining profit share, which remains well below one-third.

2. Materials and Methods

The methodology is based on two tools: the periodization of macroeconomic developments and the new neo-Ricardian model of growth and distribution. The main lessons learned from the study on the 17 advanced economies are also summarized.

2.1. The Periodization of Macroeconomic Developments

Large databases on GDP growth, employment growth (in hours worked) and the rate of gross investment, as well

as the profit share in income (**Appendix C**) since 1961 are available for the following 17 advanced economies and only for them: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Italy, Japan, Netherlands, Portugal, Spain, Sweden, United Kingdom, U.S. The economic fundamentals over the period 1961–2019 have been studied for these advanced economies[4–6].

It is necessary to define relevant periods in terms of business cycles for identifying the relationships to be studied. The periodization used (82 macroeconomic trajectories) is presented in **Appendix C** for each economy and the average of the main macroeconomic fundamentals is assessed (data sources in **Appendix B**).

2.2. The New Neo-Ricardian Growth and Distribution Model

In advanced economies, the profit share in income has increased since the 1960s, while GDP and productivity growth have declined. This phenomenon has been interpreted as characteristic of wage-driven economies. However, in European countries, economists have observed that an increase in employment growth can be associated with an increase in profits, which seems incomprehensible. Moreover, the U.S., Canada, and Australia experienced very high employment growth over the long period from 1961 to 2000, with a profit share of approximately one-third; this was even a characteristic of the American economy throughout the 20th century.

The new production function helps explain all these facts. A decline in GDP and productivity growth is expected when the profit share increases. It has been theoretically demonstrated that there is a turning point of one-third for the profit share relative to employment growth.

As an introduction to this model, it is important to distinguish between two types of investment: capacity investment and rationalization investment, to which, of course, is added replacement investment. Through capacity investment, entrepreneurs create jobs and produce more, with increasing returns. By using rationalization investment, entrepreneurs eliminate jobs while maintaining the same production. Two parameters play a major role in the growth process: the share of net investment in capacity or rationalization investment and, of course, the productivity of capacity investment.

The new production function is:

$$g_Y = \frac{1- \propto}{2 \propto} g_L + \frac{A}{2} i_n \tag{1}$$

The growth rates of production (e.g. annual GDP growth) and employment (e.g. annual employment growth, employment being measured in total hours worked) are symbolized by g_Y and g_L ; $\propto$ and i_n are the profit share in income (distribution between profits and wages) and the net investment rate respectively. A is the "Productivity of the capacity investment" (Pci), i.e., the productivity per unit volume of capacity investment (e.g. the ratio between the additional GDP and the volume of capacity investment); it is assumed to be constant in the time. The Pci reflects the productivity of the investments used in the growth of production.

The production function is derived from two basic equations for the output growth rate and for the employment growth rate:

$$g_Y = Axi_n \quad g_L = \frac{\propto A}{1- \propto}(2x-1)i_n \quad 0 < x \leq 1 \tag{2}$$

x is referred to as the "Ratio of capacity investment" (Rci), the share of the net investment volume committed to additional production and employment. The output-employment coefficient $(1- \propto /2 \propto)$ is always greater than the same coefficient $(1- \propto)$ in the classic Cobb-Douglas production function[7]. The net investment rate and the Pci are exogenous data.

A salient insight lies in the remarkable value of 1/3 of the profit share in income; the labor productivity growth rate (or the wage growth rate) being written from equation (1):

$$g_{Y/L} = g_\omega = g_Y - g_L = \frac{1-3 \propto}{2 \propto} g_L + \frac{A}{2} i_n \tag{3}$$

For this profit share of one-third, wage growth is independent of employment growth. Thus, the wage gains in firms where employment is growing strongly will be equal to those observed in firms which are growing weakly.

This new production function and the value of 1/3 for profit share can be illustrated with the U.S. economy over the long period 1961–2000, this long period of prosperity with a profit share of 34.3%[4, 6]. The empirical and theoretical linear relationships between the growth rates of output and employment are the following:

$$\begin{gathered} \text{Empirical: relationship in \%} \\ g_Y = 1.00 g_L + 0.0189 \quad R^2 = 0.70 \\ \text{Theoretical: relationship in \%} \\ g_Y = 0.96 g_L + 0.0195 \end{gathered} \tag{4}$$

This relationship is significant and we find an output-employment coefficient, consistent with a profit share of 34.3% and the measurement made for different sectors and different historical periods[8].

2.3. Consistency Between the Neo-Ricardian Model and the 17 Advanced Economies

The neo-Ricardian growth and distribution model (1961–2019) is well-suited to describing the main trends in macroeconomic fundamentals over the long term. This demonstration is based, on the one hand, on the periodization of trajectories, based on economic cycles and numerous major crises, and, on the other hand, on the study of the correlation between the main fundamentals (GDP growth, employment growth, net investment rate, and profit share of income) and the profit share of income.

The study shows that the trend is downward for GDP growth, employment growth, and the net investment rate when the profit share increases (**Appendix A** and **Figures A1, A2, A3, A4**). This is not the case for employment growth. Employment growth increases when the profit share increases, and a turning point occurs around one-third for the profit share. In other words, employment growth declines for a profit share well above one-third. Maximum employment growth corresponds to a profit share of about one-third, as illustrated by the U.S. economy, which experienced maximum employment growth (1.6% per year) for a profit share of 34.3%, in average, over the long period 1961–2000.

The main limitations of the neo-Ricardian model lie in the assumption of stability of the profit share in income and of the investment rate over a long period. One solution to reduce these is to construct a limited period in which these variables exhibit small variations.

2.4. Main Lessons from Advanced Economies

The evolution of the annual profit share since the 1960s is shown in **Figure 1** for the U.S. economy and for the 17 advanced economies. In the U.S. economy, the profit share hovered around 1/3 until 2000, then rose steadily to reach 39%.

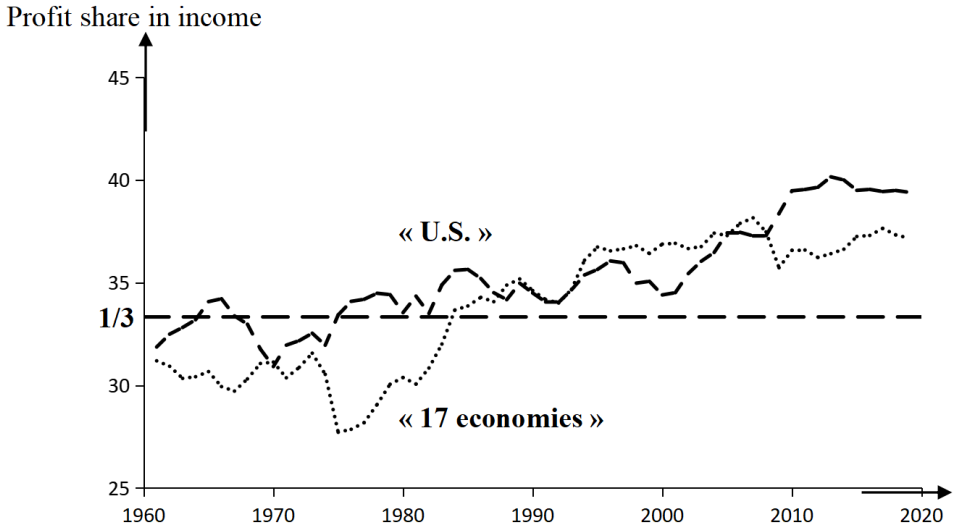

Figure 1. Profit share in income: what evolution for the U.S. and the 17 economies?

For all advanced economies, the profit share was more or less constant until the first oil shock in 1973, then declined with the implementation of Keynesian stimulus; since 1976, the profit share has risen steadily to reach 37%.

Figure 2 shows the main stylized changes in output and employment growth as a function of profit share[4–6]. This evolution reflects the absence of a trickle-down effect; growth stagnates at around 39–40% profit share. Productivity growth is also a decreasing function (not shown in **Figure 2**). From the point of view of production and productivity, the economy is "wage-led". Employment growth peaks at about 1/3 of the profit; economies are "profit-driven" when the profit share is less than 1/3, and "wage-driven" otherwise.

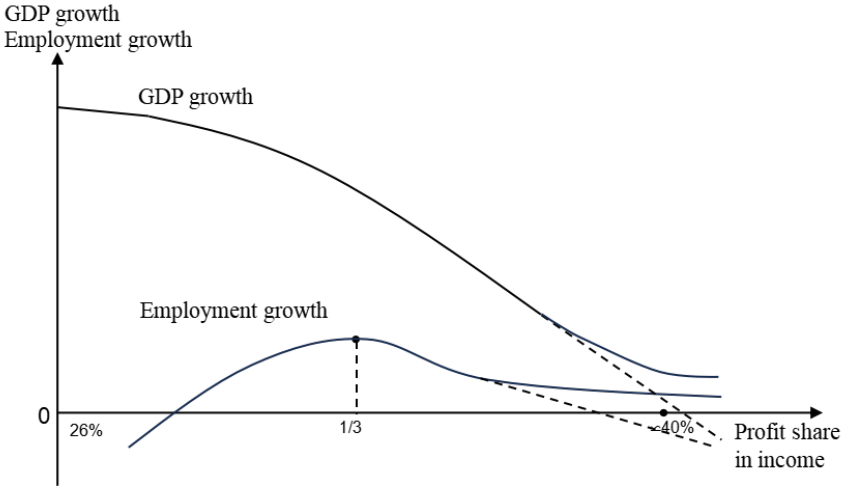

Figure 2. GDP and employment growth as a function of profit share (stylized facts).

What are the limits of the profit-sharing interval? For a profit share well below 1/3 (always above 26%), we experience strong economic growth and job creation or destruction; this was the reign of the industrial economy. For a profit share well above one-third (always below 44%), we see a marked slowdown in GDP and employment growth in many economies.

It is interesting to note that, in a historical perspective spanning several centuries (e.g. for the U.K. and France), the profit share was between 20% and 40%[9], reinforcing the idea that economic growth is unsustainable for a very high profit share.

Two types of trajectories are schematized in **Figure 2** when the profit share is above 39% in the long term, one for the American or European trajectories, the other for the Japanese trajectory, with jobs destruction.

3. Results

The evolution of South Korea's macroeconomic fundamentals reveals two main transformations that are studied. The first has seen this economy become an advanced economy, at least since the Great Recession of 2008. The second has transformed it from an "export-led economy" to an "income-led economy."

3.1. South Korea: From Emerging Economy to Advanced Economy

The South Korean economy is the thirteenth largest in the world in 2025. The "Hangang River Miracle" transformed one of the world's poorest countries at the end of the Korean War into an economy with a per capita GDP comparable to that of some European countries[10]. When South Korea joined the OECD in 1996, it had already experienced more than three decades of exceptional growth, thanks to an export-oriented economy supported by a hard-working and increasingly skilled workforce, as well as high savings and investment rates[11].

South Korea's real GDP grew by an average of more than 8% per year between 1962 and 1990[12]. Through an export-oriented industrialization model, the South Korean government encouraged companies to develop new technologies and improve their productive efficiency to compete in the global market.

The first civilian government (1993–1998) since the early 1960s launched "simultaneous transitions," namely democratization and neoliberalization. The 1997 financial crisis was a major shock to the South Korean economy, marking the biggest economic crisis that led to a bailout by the IMF; 11 chaebols collapsed in 1997 and 10 others among the 50 largest chaebols were on the verge of bankruptcy. The South Korean government accepted the prevailing view that the crisis was due to a malfunction of the old East Asian growth model; the end of the state-led financial system was decided[13, 14]. The government introduced market-oriented neoliberal economic reforms, such as corporate restructuring to reduce debt ratios and a major financial restructuring involving considerable public funds; in December 1999, the president declared the end of the currency crisis[15].

After the 2008 Western financial crisis, the South Korean economy, aided by timely stimulus measures and strong

domestic consumption of products, was able to avoid a recession unlike most industrialized economies. From 2008 to 2019, South Korea experienced high GDP growth rates, well above those of other advanced economies.

3.1.1. The Growth and Distribution Model

To analyze macroeconomic developments in greater depth, it is necessary to take into account the availability of data for this long period. Standardized data on annual GDP growth, annual employment growth, annual investment rates, and the annual profit share are only available since 1975 (**Appendices B, C** and **D**).

South Korea has experienced strong GDP and productivity growth for five decades, at around 6–7% per year (**Table 1**); this performance has enabled it to join the group of advanced economies, at least since 2008. This macroeconomic performance is similar to that of Japan over the period 1961–1991 (GDP growth of 6.1% over 1961–1991) where the net investment rate was 24%, and the profit share also 27%. As in advanced economies, strong GDP and productivity growth in Korea is associated with a profit share well below one-third (**Figure 3**).

Table 1. South Korea: macroeconomic fundamentals over the period 1975–2019 (in %).

South Korea	GDP Growth Rate	Employment Growth Rate	Productivity Growth Rate	Net Investment Rate	Profit Share	Rci	Pci
1975–2019	6.5	1.0	5.5	23.2	27.1	63.6	44.2

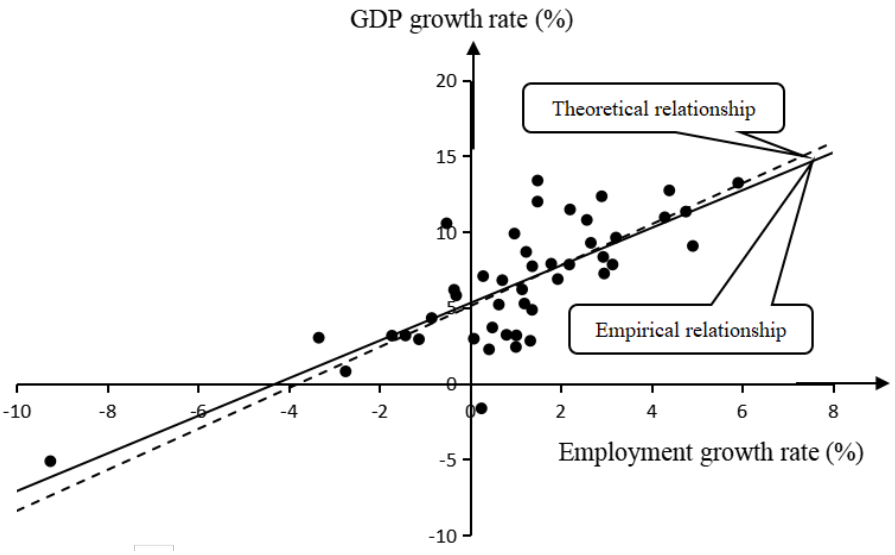

Figure 3. South Korea economy (1975–2019): annual paths, and linear relationships.

Figure 3 illustrates the annual growth trajectories for the period 1975–2019, as well as the empirical and theoretical relationships between them. What is the empirical linear relationship between the growth rates of output and employment, using the annual data (**Appendix D**)?

$$\text{Empirical relationship (1975–2019) in\%} \quad g_Y = 1.24 g_L + 5.3 \quad R^2 = 58\% \tag{5}$$

The empirical relationship (**Figure 3**) is significant, and we obtain a production-employment coefficient of 1.24, which theoretically corresponds to a profit share of 28.7%.

What is the theoretical production function (equation 1)? The relationship (**Figure 3**) is determined from the average values of the share of profits, Pci, and the net investment rate (**Table 1**).

$$\text{Theoretical relationship (1975–2019) in\%} \quad g_Y = 1.35 g_L + 5.1 \tag{6}$$

The differences between the theoretical and empirical coefficients are around 8% and 4%, respectively. Thus, the new production function is very consistent with the macroeconomic performance of this long period of rapid growth in the South Korean economy.

A good fit is also observed when the linear relationship also includes the net investment rate:

$$\begin{gathered}\text{Empirical relationship in\%} \\ g_Y = 1.20 g_L + 0.230 i_n \quad R^2 = 89\% \\ \text{Theoretical relationship in\%} \\ g_Y = 1.35 g_L + 0.221 i_n\end{gathered} \tag{7}$$

Furthermore, the empirical production-investment coefficient is 0.23, giving a value of 0.46 for the productivity of capacity investment, very close to the average value of 0.44 (**Table 1**).

Thus, the production function of the new neo-Ricardian growth model is also well suited to explain the macroeconomic performance of an economy such as Korea's.

3.1.2. Three Periods of Macroeconomic Performances Over the Period 1975–2019

A key element is the evolution of the profit share in income between 1975 and 2019[16]. Schematically, the profit share evolves as follows:

- It fluctuated around 24–25% before the 1997 financial crisis
- It increased from 1998 to 2010, between the last crisis and the 2008 financial crisis, the latter only affecting Korea in 2009
- It declined after 2010, and rapidly after 2017.

We will therefore examine three specific periods (**Table 2**):

- 1975–1997: a period of strong GDP and productivity growth, reflecting rapid development in the decades following the end of the Korean War. The profit share is very low, around 25%, well below one-third.
- 1998–2008: a period of strong GDP and productivity growth following the 1997 financial crisis. The profit share rose over the period, from 21% to 30%.
- 2009–2019: a period of high GDP and productivity growth, despite South Korea's status as an advanced economy. The profit share followed a downward trend, falling from 33% in 2011 to 28% in 2019.

Over a long period of five decades, we see that GDP and productivity growth decline as profit share increases. This is consistent with the findings of a study of 17 advanced economies between 1961 and 2019.

We cannot draw any conclusions about employment growth, as the profit share never reaches one-third and the employment growth rate follows a downward trend towards stagnation. The main constraint comes from the annual population growth, which decreases rapidly from 1.7% in 1975 to 0.3% in 2019. Nevertheless, over this long period, it is consistent with the "Employment growth, constrained" regime (**Appendix A**); the Rci is 63.6% on average, which is very close to the optimum (2/3) for rationalization investment in this growth regime.

Table 2. South Korea: macroeconomic fundamentals over 1975–2019 (in %).

South Korea	GDP Growth Rate	Employment Growth Rate	Productivity Growth Rate	Net Investment Rate	Profit Share	Rci	Pci
1975–1997	9.0	2.2	6.8	24.4	24.9	79.6	46.5
1998–2008	4.9	−0.4	5.3	22.4	27.5	45.0	48.7
2009–2019	3.1	0.0	3.1	21.7	31.3	50.7	28.1

3.1.3. South Korea: From "Export-Led Growth" to "Income-Led Growth"

The three periods identified above are studied in detail because they illustrate the transformation from an export-led economy to an income-led economy.

3.1.4. 1975–1997: Strong "Export-Led Growth" with Profit Share Well Below One-Third

Strong GDP growth is associated with high investment rates and very low profit shares. The first period, resembles that of advanced industrialized economies during the Golden Age of capitalism. Many variables are like those of these advanced economies, reflecting rapid industrialization, particularly that of the Japanese economy between 1961 and 1973, before the 1973 oil crisis. GDP growth, productivity growth, and the net investment rate are of the same order of magnitude; Korea's Pci is also close to the average Pci of industrialized economies (1961–1973).

During this period, high wage gains led to a rapid improvement in socioeconomic inequalities; for example, the

Gini coefficient fell from 0.310 in 1982 to 0.274 in 1997[17]. This period reflects the benefits of Keynesian stimulus measures for the economy, with a high wage and public investment.

For the period 1975–1997, **Table 3** presents the empirical relationships observed and the theoretical relationships expected, considering the average values of macroeconomic fundamentals. The adjustment is satisfactory for the Pci, which is about twice the production-investment coefficient. This is also the case for the production-employment coefficient, with the difference between the theoretical and empirical coefficients being only about 20%.

Table 3. South Korea: the three periods and empirical and theoretical relationships (in %).

Economy	Empirical Relationship	Theoretical Relationship
1975–1997	$g_Y = 1.2\ g_L + 0.256\ i_n\ R^2 = 0.91$	$g_Y = 1.5\ g_L + 0.232\ i_n$
1998–2008	$g_Y = 1.0\ g_L + 0.238\ i_n\ R^2 = 0.94$	$g_Y = 1.3\ g_L + 0.243\ i_n$
2009–2019	$g_Y = 0.5\ g_L + 0.143\ i_n\ R^2 = 0.88$	$g_Y = 1.1\ g_L + 0.141\ i_n$

3.1.5. 1998–2008: High "Export-Led Growth" with a Rising Profit Share, but Still Below One-Third

After the 1997 financial crisis, market-oriented neoliberal economic reforms were introduced[14] and brought an end to the state-directed financial system. The profit share in income rose rapidly, from 21% to 30% at the end of the period as in many emerging economies[18]. GDP and productivity remained high, although lower than in the previous period. Nevertheless, the profit share is well below one-third, contributing to the strong performance.

There were fears that this post-crisis restructuring would bring an end to the growth model that had made it so successful, leading to a very sharp slowdown[13]. But this did not really happen. Once again, this period resembles that of an industrialized economy such as Germany before the 1973 oil crisis.

The strong macroeconomic performance can be explained by a profit share of well below one-third, as in advanced economies, but also by the sharp increase in exports to China after the crisis. China's rise offered an opportunity to prosper through an export-driven economy, while holding back wage increases and accentuating inequalities[16].

During this period, inequality increased despite strong GDP and productivity growth, with the Gini coefficient rising from 0.274 in 1997 to 0.325 in 2007, its highest level in 30 years[18, 19].

For the period 1998–2008, **Table 3** presents the observed empirical relationships and the expected theoretical relationships, considering the average values of macroeconomic fundamentals. The adjustment is satisfactory for the Pci, which is approximately double the production-investment coefficient. This is also the case for the production-employment coefficient, with the difference between the theoretical and empirical coefficients being only around 20%.

3.1.6. 2009–2019: High "Income-Led Growth" with a Declining Profit Share, Still Below One-Third

After the 2008 financial crisis, the profit share continued to rise, peaking in 2010 at one-third. Unlike other advanced economies, the profit share did not continue to rise, reaching 39%, 38% and 37% for the United States, Japan and European economies, respectively.

South Korea is the only advanced economy to experience such high GDP and productivity growth after the Great Recession of 2008. South Korea's GDP growth remained at 3.1% over the period, compared with 1.8% for the United States, around 1.0% for Europe, and only 0.4% for Japan. It should be noted that most advanced economies experienced economic stagnation!

Wage increases began in 2011 and accelerated in 2017 under the liberal government of Moon Jae-In, who was elected that year. The new government criticized the two previous administrations for adopting an economic policy based on trickle-down theory and persisting with an export-based model. It argued that this had led to lower wages for workers and lower domestic demand in general, and that South Korea needed a change of growth model. A new policy, called "income-led growth," was implemented[20, 21]. The wage share rose from 68% in 2017 to 72% in 2019, a significant increase in three years.

During this period, as expected, significant progress

was made in income equality, with the Gini coefficient falling from 0.39 to 0.34 in 2019 [16, 21].

For the period 2009–2019, **Table 3** presents the observed empirical relationships and the expected theoretical relationships, considering the average values of macroeconomic fundamentals. The adjustment is satisfactory for the Pci, which is about twice the production-investment coefficient. This is not the case for the production-employment coefficient, due to very low employment growth, with employment not contributing significantly to GDP growth.

3.1.7. From "Export-Led Growth" to "Income-Led Growth"

Korea's relative success in restoring high GDP growth compared to other advanced economies deserves analysis.

After 2007, the export-led growth model posed problems related to falling wages and rising inequality, leading to stagnant domestic consumption. As a result, the Moon Jae-In government introduced an "income-led growth" plan aimed at increasing the wage share and improving income distribution in order to promote economic growth. It was a South Korean version of the wage-led growth advocated by post-Keynesian macroeconomists and the ILO (International Labor Organization), calling it a new economic paradigm. They argued that an increase in the wage share could increase aggregate demand when its positive effect on consumption outweighed its negative effect on investment [22, 23]. This approach was in line with the concept of domestic demand-led growth advocated by macroeconomists who criticized the viability of the export-led growth model [24]. It was also broadly consistent with the idea of inclusive growth promoted by international organizations after the global financial crisis (G20 2017) and with the idea that inequalities affect economic growth [25].

The Moon administration's income-led growth plan comprised three broad categories of measures, namely increasing household income, expanding the social safety net and social benefits, and reducing the cost of living [26]. The government increased the minimum wage by 16.4% in 2018 and 10.8% in 2019, while providing benefits, known as "employment stability funds," to small businesses that hired minimum wage workers and increasing the EITC (earned income tax credit) to boost household income. The government expanded social protection by increasing pension benefits for the elderly, introducing family allowances, and expanding the scope and coverage of unemployment insurance. Finally, the government reduced the costs of medical care, childcare, and housing. Public social spending rose from 10.1% GDP in 2017 to 12.3% in 2019.

The macroeconomic performance recorded during this period can be compared to that of the United States over the long period 1961–2000, when GDP growth was consistently high, the profit share relatively constant (around one-third) and the economy was the most innovative.

Another key factor contributing to the high macroeconomic performance after the 2008 financial crisis was Korea's massive investment in R&D. This reached around 4.6% of GDP, a record for advanced economies. This R&D effort, which was only 2.2% in 2002, rose to 3.0% in 2008 (data from the World Bank Group). These investments promote capacity investment in new products and services, helping to maintain high innovative demand and high growth. This fact can be illustrated by comparison with the United States during its long period of prosperity (1961-2000): on average, capacity investments (the product of the net investment rate and the Rci) stood at 14.0% of GDP for the United States and 14.8% of GDP for Korea between 1975 and 2019 (**Table 2**).

Thus, Korea's high macroeconomic performance after the 2008 financial crisis is mainly due to an increase in the wage share, with the share of profits remaining well below one-third, combined with a reduction in economic inequality and huge investments in R&D. Korea is the only advanced economy to have combined such large-scale structural policies, and its economic performance appears to reflect the benefits of these policies.

4. Discussion

Strong economic growth and significant productivity gains are associated with a profit share of less than one-third in advanced economies. This is also the case for South Korea over the long period from 1975 to 2008; even though the profit share increased, it always remained below one-third. Unfortunately, not all the macroeconomic data (South Korea) necessary for comparison with advanced countries have been available since 1961; in particular, data on employment growth and the profit rate are not available for the period 1961–1975. However, during this latter period, the strong GDP growth, rapid population growth, and very high investment rate appear to reflect a growth and accumu-

lation regime very similar to that of the subsequent period 1975–1997, which ended with the financial crisis.

In contrast, employment growth is highest when the profit share is one-third in advanced economies. It is not possible to verify this main lesson for South Korea for two reasons. The first is that the profit share never reaches one-third over a long period. The second is that South Korea's population growth rate declined rapidly from 1961 to 1997, from about 3% per year to 1%, and even lower after the 2000s. In this context, it is not possible to verify that employment growth is driven by profits when these are less than one-third.

South Korea has emerged as a unique case for such a fast-growing economy over such a long period compared to other emerging countries; but so, has the value of the profit share, with other emerging countries having experienced a profit share generally always above one-third and often above 50%[21]. These facts highlight the turning point of one-third of the share of profits in income, even for emerging economies.

5. Conclusions

Three major lessons can be drawn. The first is that strong macroeconomic performance has always been associated with a profit share of less than one-third and a high level of investment. Over the long period from 1975 to 2019, South Korea experienced very strong GDP growth (6.5% annually) and labor productivity growth (5.5% annually), while the profit share remained well below one-third, averaging 27%. This macroeconomic performance is similar to that of Japan over the long period 1961–1991 of rapid industrialization before the stock market crash.

The second lesson is that there is a good fit between macroeconomic developments over the period 1975–2019 and the neo-Ricardian growth and distribution model. The long-term linear relationship observed between annual GDP growth and employment is consistent with the linear relationship predicted by the neo-Ricardian model. This model therefore appears to be suitable for representing both emerging and advanced economies over the long term. Thus, South Korea's emerging economy is driven by innovation and demand like advanced economies, with income distribution playing a key role in establishing the growth regime.

The third lesson lies in South Korea's exceptional macroeconomic performance since the 2008 financial crisis. It is the only advanced economy to have experienced annual economic growth of more than 3% between 2008 and 2019, i.e. between the Great Recession of 2008 and the Covid-19 pandemic, but also significantly higher than that of advanced economies, where the profit share generally rose well above one-third. In South Korea, the profit rate in income has remained well below one-third and is even declining, as part of a national policy known as "income-led growth." Other factors have contributed to this economic performance, such as the reduction of socioeconomic inequalities and very high investment in R&D, which is record-breaking among advanced countries.

Ultimately, it appears that income distribution has a strong influence on the economic performance of advanced economies, but also on that of emerging economies such as South Korea, which has successfully transformed itself into an advanced economy.

South Korea's trajectory shows, both as an emerging and advanced economy, that high long-term economic performance requires a profit share well below one-third, income-led growth, and significant R&D spending.

The example of South Korea's economic trajectory, exemplary in its high performance over long time, should inspire economic policymakers in emerging countries as well as in advanced countries.

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Conflicts of Interest

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Appendix A. The New Neo-Ricardian Growth Model

In this section, we recall the development of the new neo-Ricardian growth model and the main lessons [4–6], in a succinct and synthetic way, in order to make the theoretical extensions that are then developed understandable.

Appendix A.1. The Origins of the Neo-Ricardian Growth Model

This new endogenous growth model is in line with the great ideas of Kaldor, Schumpeter, Keynes, and Ricardo, with the entrepreneur being the principal agent at the heart of the growth process.

This new growth and distribution model starts from Kaldor's vision of the economic growth process [27] as a chain-reaction. For Schumpeter [28, 29], the entrepreneur is the source of creative destruction through innovation and investments to "produce more" or "produce differently". For Keynes [30], the entrepreneur makes decisions on output and employment by anticipating the supply-demand balance ("principle of effective demand"), taking into account a long-term forecast of the marginal return on capital ("marginal efficiency of capital"). For Ricardo [31], "To determine the laws which regulate this distribution is the principal problem of Political Economy".

We consider three types of investment (volume I):

- Replacement investment: with replacement investment, entrepreneurs maintain output and jobs. The volume of the replacement investment is δI, δ being the proportion of replacement. The volume of net investment is $(1-\delta)I$.
- Capacity investment: through capacity investment, entrepreneurs create jobs and produce more, with increasing returns. The share of the net investment volume committed to additional production and employment is x; it is referred to as the "Ratio of capacity investment" (Rci). The volume of capacity investment is $x(1-\delta)I$.
- Rationalization investment: by using rationalization investment, entrepreneurs destroy jobs and maintain the same production. The volume of the "rationalization investment" is $(1-x)(1-\delta)I$. So, the Rci reflects the choice of production techniques.

Economic growth results from a chain-reaction–between demand escalations, induced by increases in supply and supply escalations, evoked by increases in demand. Each process triggers the next, a characteristic of a chain reaction; the subsequent process can be boosted (resulting in an economic boom) or stifled (leading to stagnation or an economic recession).

In the short term, entrepreneurs formulate expectations about fundamentals, taking into account a long-term view of the marginal efficiency of capital, which reflects their confidence in the long-term state. They place themselves at the equilibrium of effective demand. At the same time, they aim to obtain the most competitive productive combinations, while considering the prevailing conditions in the different markets. For example, they must decide on the volume of capacity investment or rationalization investment, as well as the volume of jobs created or destroyed. They use simple criteria such as retaining projects with minimum total cost per unit of output, considering labour and financial market conditions.

These main ideas are the basis of a model of a growth process based on entrepreneurs anticipating effective demand and competitive supply. The methodology is as follows: the chain reaction being modeled for the short term, so we get the elasticities as function of profit share, Rci and marginal efficiency of capital. Then, for the long term, we determine the steady states [32], over the long term, assuming that the expectations of the entrepreneurs are satisfied and that the long-term growth is balanced, capital productivity constant according to Harrod [33, 34] and Domar [35] and that the profit share in income and the net investment rate are constant over time.

Appendix A.2. The Assessment of Rci and Pci

Using the average values over the period, we can evaluate the key parameters of the growth and distribution model, namely the Rci and the Pci, characterizing the period:

$$x = \frac{\propto g_Y}{2 \propto g_Y - (1- \propto) g_L} \quad A = \frac{g_Y}{x i_n}$$

These parameters are evaluated for all trajectories, for the 17 advanced economies (**Appendix C**), and for South Korea (**Tables 2** and **3**).

Appendix A.3. GDP and Productivity Growth: the Wage-Driven Economies

What is theoretically the influence of profit share in income on output and on labor productivity if there is a constraint on employment. Suppose the economy encounters constraints on employment growth, for example due to full employment or due to an inefficient labor market with a limited number of skilled people, where *n* is the bounded job growth rate: The output growth rate and the productivity growth rates are:

$$g_Y = \frac{nx}{2x-1}\frac{1-\propto}{\propto} \quad g_{Y/L} = \frac{n}{(2x-1)}(1+\frac{x}{\propto}-3x)$$

It is easy to demonstrate that production and productivity growth rates decline as the profit share rises. With limited growth in the working population, economies are driven by wages.

Thus, this neo-Ricardian growth model predicts the same effects on output and productivity growth as the Bhaduri-Marglin[5, 23] model.

Appendix A.4. The Three Growth Regimes

Employment growth is a key variable giving rise to three growth regimes[5] that have been identified for different economic periods. Each growth regime seems to reflect the decisions of entrepreneurs seeking to optimize the return on investments, whether they are capacity investments or rationalization investments. The three growth regimes are:

- the "Employment growth, unconstrained" regime, where the optimum is maximization (without constraint) of the return on capacity investment. The Rci is above 80%, capacity investments are dominant. The optima path is for a Rci of 100%.
- the "Employment growth, constrained" regime, where the optimum is maximization (under constraint) of the return on capacity investment. The Rci is between 50% and 80%, capacity investments are again dominant but rationalization investments are above 20%. The optima path is for a Rci of 66% (exactly 2/3).

The "Employment decline, constrained" regime, where the optimum is maximization (under constraint) of the return on rationalization investment. The Rci is below 50%, the rationalization investments are dominant, that induces the destruction of jobs. The optima path is for a Rci of 44%.

Appendix A.5. Macroeconomic Impacts of an Increase in the Profit Share

Figures A1, **A2, A3,** and **A4** show the averages of the main fundamentals (82 macroeconomic trajectories) as a function of the profit share in income for the 17 advanced economies and all periods (1961–2019). Profit share varies from 26.1% (Portugal, 1961–1974) to 44.0% (Greece, 1994–2007), with 34.6% as an average value.

GDP and labour productivity growth rates tend to fall as the profit share rises (**Figures A1** and **A2)**. The highest rates are obtained for profit shares well below one-third. The lowest growth rates are associated with profit shares above one-third. **Figure A4** also shows the same effect on the rate of investment. Thus, advanced economies are wage-driven, both in terms of GDP, labour productivity, and investment rate.

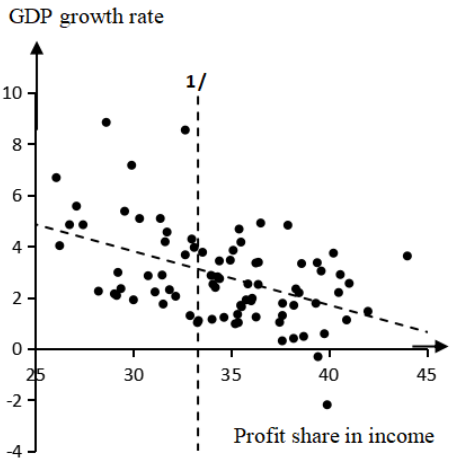

Figure A1. Relation between GDP growth and profit share in income.

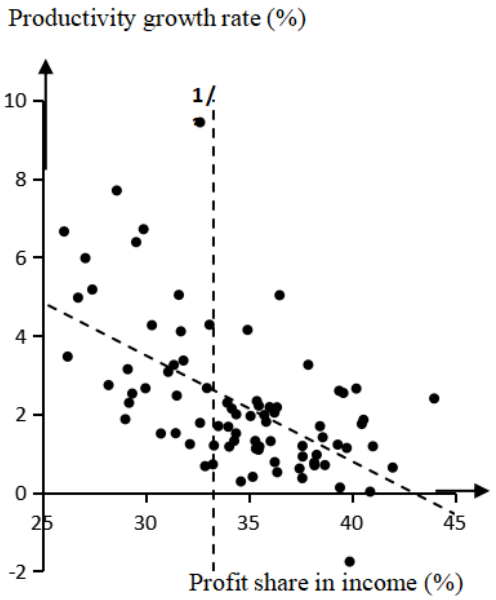

Figure 2. Relation between productivity growth and profit share in income.

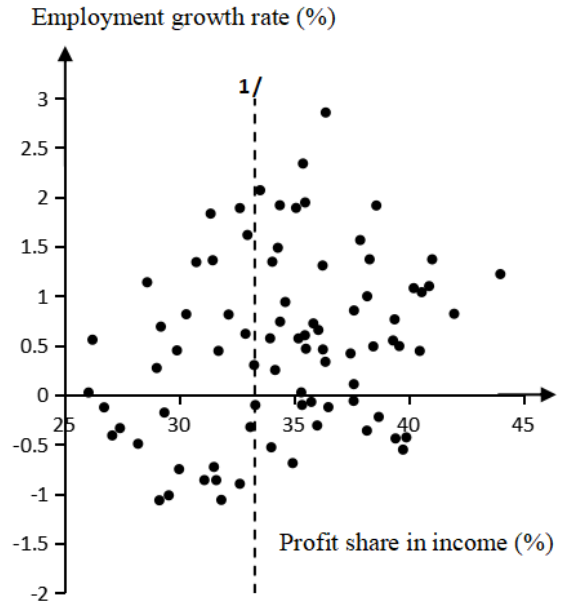

Figure 3. Relation between profit and employment growth rate.

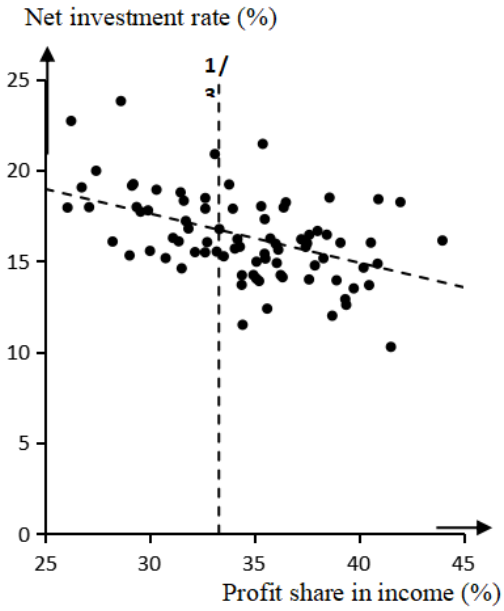

Figure A4. Relation between net investment rate and profit share in income.

On the other hand, **Figure A3** shows that there is no apparent trend in employment growth, but rather a possible upward trend followed by a downward trend, with a turning point around 35%. To understand these relationships, further considerations are necessary. From a theoretical point of view, we have demonstrated that there is a maximum for a profit share of income of 1/3; this relationship is confirmed by the study of the evolution of employment in the United States, Canada and Australia, the economies having created the maximum number of jobs over the period 1961–2000, with a profit share close to 1/3.

Appendix B. The Data Sources

Appendix B.1. For the 17 Advanced Economies (1961–2019)

Data are from the World Bank (World Development Indicators-WDI-November 2024) for the GDP growth rate and the gross investment rate (in % GDP), from the Groningen Center for the growth rate of total hours worked (The conference Board and Groningen Growth and Development Center, Total Economy Database, November 2024, http://www.ggdc.net). Data on the profit share in income (adjusted share to factors costs) from 1961 to 2019 is taken from the European Commission[36]. The sometimes-missing data (between 1961 and 1969) come from the European Commission[37]. In the absence of net investment in databases, it is assumed that the proportion of replacement investment is typically 30%.

Appendix B.2. For Korea economy (1975–2019)

Data are from the World Bank[38] for the GDP growth rate and the gross investment rate (in % GDP). For the growth rate of total hours worked, data are derived from the number

of persons engaged and the annual average hours worked by persons engaged; these data are from the Groningen Growth and Development Centre. Data on the profit share of income (adjusted share to factor costs) from 1975 to 2019 [16].

Appendix C

Table A1. Periodization of the 17 Advanced Economies and Economic Data for the Period 1961–2019 (in %).

Economy	*Period*	g_Y	g_L	i_n	$\propto$	*Rci*	*Pci*
Australia	1961-1974	4.7	2.3	21.4	35.4	92.1	23.6
	1975-1992	2.9	1.4	18.8	31.5	103.2	14.8
	1993-2000	4.2	1.9	17.3	35.5	86.9	27.7
	2001-2008	3.3	1.9	18.5	38.6	92.3	19.4
	2009-2019	2.6	1.4	18.2	41.0	81.5	17.2
Austria	1961-1974	4.8	−0.3	20.0	27.4	45.8	52.9
	1975-1993	2.3	−0.2	18.0	29.4	45.8	28.5
	1994-2000	2.9	0.6	17.9	34.0	62.1	25.8
	2001-2008	2.2	0.5	17.0	38.5	60.9	21.1
	2009-2019	1.0	0.4	16.9	37.5	75.6	8.1
Belgium	1961-1974	4.9	−0.1	18.2	36.5	48.9	55.0
	1975-1993	1.9	−0.8	15.5	30.0	34.3	35.8
	1994-2000	2.8	1.3	15.2	30.8	106.5	17.6
	2001-2008	2.1	0.8	16.2	32.2	86.0	14.7
	2009-2019	1.3	0.6	16.7	32.9	97.6	7.9
Canada	1961-1974	5.1	1.8	16.1	31.4	82.5	38.3
	1975-1992	2.5	1.4	15.7	34.1	103.6	15.5
	1993-2000	3.4	1.9	13.7	34.4	107.3	23.3
	2001-2008	2.3	1.4	15.4	38.3	94.9	16.0
	2009-2019	1.8	0.9	16.6	37.6	83.2	12.8
Denmark	1961-1973	4.6	0.4	17.2	31.7	55.9	47.4
	1974-1993	1.7	−0.7	14.6	31.5	34.4	34.7
	1994-2000	3.3	1.3	14.2	36.3	76.2	30.9
	2001-2007	1.6	0.5	15.8	35.5	67.4	15.4
	2008-2019	1.0	-0.1	14.5	35.4	45.8	15.3
Finland	1961-1973	4.8	−0.1	19.0	26.7	48.3	52.6
	1974-1993	2.1	−1.1	19.1	29.1	30.8	35.3
	1994-2000	4.8	1.6	14.8	37.9	68.1	48.0
	2001-2008	2.9	1.0	16.6	40.6	67.8	25.7
	2009-2019	0.3	−0.1	16.1	37.6	42.9	4.4
France	1961-1974	5.6	−0.4	18.0	27.1	45.5	68.1
	1975-1993	2.2	−0.5	16.1	28.2	39.1	35.8
	1994-2000	2.7	0.7	14.2	34.4	67.4	28.5
	2001-2008	1.7	0.6	15.8	35.5	73.9	14.5
	2009-2019	1.0	0.3	16.0	33.3	71.0	9.0
Germany	1961-1973	4.2	−0.9	18.3	31.6	40.9	55.8
	1974-1993	2.3	−1.1	16.8	31.8	33.5	41.0
	1994-2000	1.9	−0.1	16.2	35.8	48.4	24.3
	2001-2008	1.3	0.1	14.6	37.6	53.7	16.5
	2009-2019	1.2	0.5	14.3	36.3	74.2	11.6
Greece	1961-1973	8.5	-0.9	18.5	32.7	45.1	102.5
	1974-1993	1.5	0.8	18.2	42.0	81.8	9.8
	1994-2007	3.6	1.2	16.6	44.0	63.7	34.2
	2008-2019	−2.2	−0.4	10.1	39.9		
Italy	1961-1974	5.4	−1.0	17.7	29.6	40.8	74.3
	1975-1993	2.4	0.3	16.2	34.2	55.6	26.5

Table A1. *Cont.*

Economy	*Period*	g_Y	g_L	i_n	$\propto$	*Rci*	*Pci*
Italy	1994-2000	2.2	0.4	13.7	40.5	58.7	27.3
	2001-2007	1.1	1.1	14.9	40.9	170.9	4.4
	2008-2019	−0.3	−0.4	13.0	39.4		
Japan	1961-1973	8.8	1.1	23.8	28.6	59.6	62.3
	1974-1991	4.0	0.6	22.7	26.2	62.1	28.5
	1992-2007	1.2	−0.5	19.6	34.0	34.5	16.9
	2008-2019	0.4	−0.4	17.2	38.2	28.9	8.1
Netherlands	1961-1974	5.1	0.8	18.9	30.3	61.3	43.8
	1975-1993	2.1	0.3	15.3	29.0	59.2	23.6
	1994-2001	3.8	2.1	15.3	33.5	109.8	22.5
	2002-2008	2.0	0.7	14.9	36.1	71.0	18.6
	2009-2019	1.0	0.6	14.2	35.2	108.8	6.3
Portugal	1961-1974	6.7	0.0	17.9	26.1	50.3	74.1
	1975-1993	3.0	0.7	19.2	29.2	69.5	22.3
	1994-2000	3.7	1.9	17.9	32.7	106.8	19.2
	2001-2008	1.1	−0.1	17.0	33.3	45.7	14.1
	2009-2019	0.5	−0.2	12.2	38.7	36.5	10.7
Spain	1961-1974	7.2	0.5	17.8	29.9	54.0	74.6
	1975-1993	2.2	−0.9	16.3	31.1	34.9	39.0
	1994-2008	3.4	2.9	18.1	36.4	192.2	9.7
	2009-2019	0.6	−0.6	13.9	39.8	29.1	14.4
Sweden	1961-1975	4.0	−0.3	20.9	33.1	46.2	41.0
	1976-1993	1.3	0.0	18.0	35.3	50.9	14.6
	1994-2000	3.7	1.1	14.6	40.2	63.7	40.0
	2001-2007	3.0	0.5	15.9	39.6	57.1	33.3
	2008-2019	1.7	1.0	16.7	38.2	95.5	10.6
United Kingdom	1961-1973	3.5	− 0.7	14.2	35.0	42.2	57.6
	1974-1992	1.9	−0.3	15.9	36.0	43.6	26.9
	1993-2000	3.4	0.8	12.6	39.4	60.6	44.0
	2001-2007	2.5	0.7	12.7	35.9	67.2	29.5
	2008-2019	1.2	0.9	12.0	34.6	182.0	5.1
USA	1961-1973	4.3	1.6	15.5	33.0	81.2	34.1
	1974-1991	2.8	1.5	15.8	34.3	101.6	17.5
	1992-2000	3.8	1.9	15.0	35.1	91.8	28.0
	2001-2007	2.5	0.3	15.8	36.4	56.6	28.1
	2008-2019	1.8	0.6	14.3	39.3	65.7	18.9

Appendix D.

Table A2. South Korea and economic data for the period 1975−2019 (in%).

Korea	g_Y	g_L	i_n	$\propto$
1975	7.8	2.2	20.0	23.0
1976	13.2	5.9	19.3	23.9
1977	12.3	2.9	21.1	25.6
1978	11.0	4.3	24.1	26.4
1979	8.7	1.2	26.2	26.2
1980	−1.6	0.2	23.8	27.9
1981	7.2	2.9	22.5	27.8
1982	8.3	2.9	22.4	24.2
1983	13.4	1.5	22.7	25.0
1984	10.6	−0.5	22.6	25.7

Table A2. *Cont.*

Korea	g_Y	g_L	i_n	$\propto$
1985	7.8	3.1	22.6	25.4
1986	11.3	4.7	22.8	24.8
1987	12.7	4.4	22.8	27.1
1988	12.0	1.5	24.4	27.0
1989	7.1	0.3	25.7	25.3
1990	9.9	1.0	27.7	24.4
1991	10.8	2.6	28.9	23.6
1992	6.2	1.1	27.1	22.6
1993	6.9	1.9	26.4	23.6
1994	9.3	2.7	27.0	24.8
1995	9.6	3.2	27.3	24.7
1996	7.9	1.8	27.6	20.9
1997	6.2	−0.4	26.0	23.6
1998	−5.1	−9.3	19.4	21.3
1999	11.5	2.2	21.7	24.2
2000	9.1	4.9	23.0	26.2
2001	4.9	1.4	22.1	26.1
2002	7.7	1.4	21.8	28.4
2003	3.1	−1.7	22.6	28.4
2004	5.2	0.6	22.8	30.7
2005	4.3	−0.9	22.8	28.8
2006	5.3	1.2	23.1	28.2
2007	5.8	−0.3	23.2	30.5
2008	3.0	−3.3	23.6	29.6
2009	0.8	−2.8	20.6	29.8
2010	6.8	0.7	22.8	33.3
2011	3.7	0.5	23.3	33.0
2012	2.4	1.0	21.9	32.6
2013	3.2	1.0	20.9	31.9
2014	3.2	0.8	20.9	30.9
2015	2.8	1.3	20.7	30.7
2016	2.9	0.1	21.1	31.0
2017	3.2	−1.4	22.6	31.9
2018	2.9	−1.1	22.0	30.7
2019	2.2	0.4	22.0	27.9

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