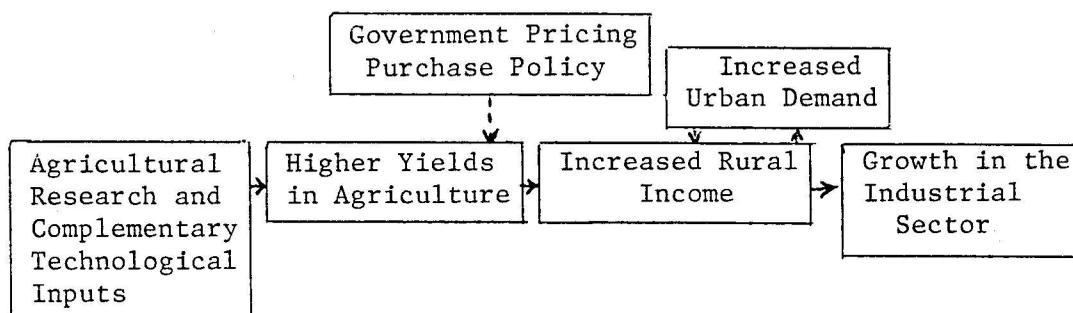


Growth in the rural sector can contribute to industrial output and employment growth. As real incomes in the farm sector increase, there will be greater demand for, and production of, industrial goods (farm machinery, farm inputs and consumer goods) and employment. This will lead to further expansion of industries supplying intermediate inputs required for the production in the initially expanded industries. This process can be seen to continue indefinitely in a diminishing and involuted sequence.

The magnitude of this indirect effect on output and employment growth depends on the structure of inter-industrial links within the economy. The Korean economy has a well-integrated inter-industrial structure. As such, the linkage effect on overall growth is substantial. These sequential impacts of new farm technology and government agricultural policy in a macroeconomic setting during the 1970s in Korea can be summarized in the diagram below:



Recently the government's agricultural income support policy has been increasingly subjected to criticism within the Korean Government and by donors. Apart from the argument of economic inefficiency resulting from the existing discrepancy between world market and farm support prices, there have been concerns about growing government deficits on account of the income support policy. According to the Economic Planning Board, in recent years the annual deficit amounted to as much as \$150 million. The accumulated total deficit in the grain management account is expected to be \$1.7 billion by the end of 1981, of which about 39 percent was caused by barley purchases.

Since these deficits have been drawn from the government general account in the form of increased currency supply, the effect of farm subsidy has obviously been inflationary. More importantly, during the last two successive years of economic stagnation the government was beginning to have increasing problems in financing the deficits, financing that runs counter to the government stabilization policy. Already there is some evidence that in recent years the terms of trade between farm products and purchased commodities have turned against the farmers.

An important lesson from the Korean case is that the Green Revolution could not have been successful without the vigorous enforcement of a government income support program. In the absence of the immediate prospects for a more favorable land-labor ratio or for the adoption of