

# APRIL GENERAL ELECTION AND ITS IMPACTS ON ECONOMY

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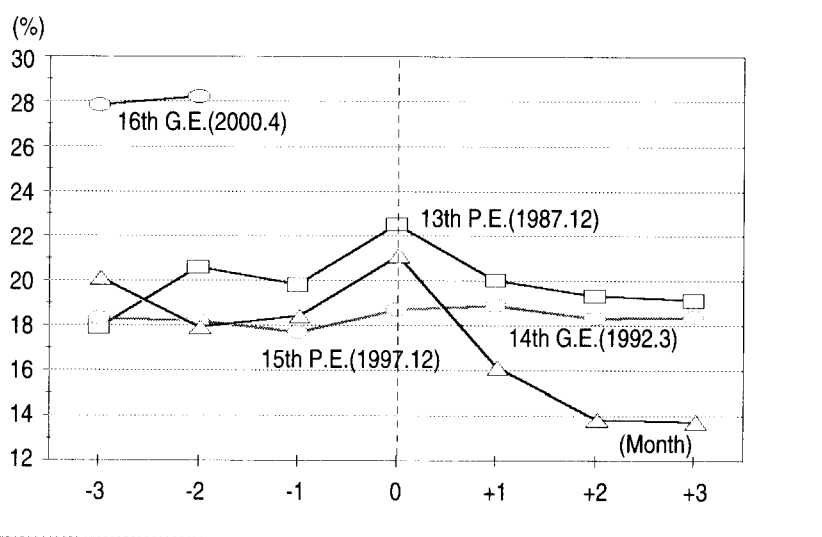
## General Effects of Election on Economy

Election fever has hit Korea. With the nation's recovery from the financial crisis, it seems as though interest has shifted from the economy to politics and the impending election. Elections are thought to have a close relation to the economy. In developed countries, beginning with the US, researchers have been exploring this link since the 1970's. There has also been some Korean research on the topic.

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In general, an election has several effects on the economy. First of all, changes in consumption and money supply due to campaign spending influence the interest rate and price index during the election season. The possibility of policy changes and political power shifts affects the stock market. Investment by businesses is also affected by changes of fund supply structure and political instability. Because election campaigns attract manpower from the economy, they have an effect on production, exports, and wages. In addition, various economic distortions arise because of the public's expectations arising from unrealistic election promises.

Figure 1. Increase of M2 Supply



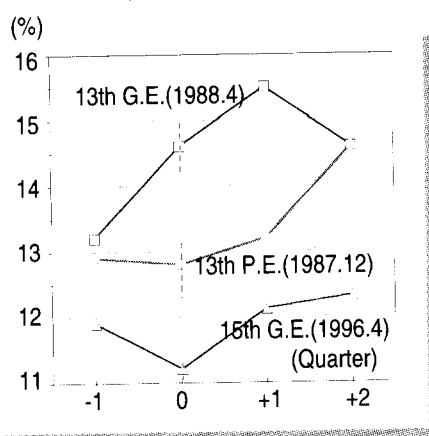
\* P.E. : Presidential Election G.E. : General Election

### Experiences from Past Elections

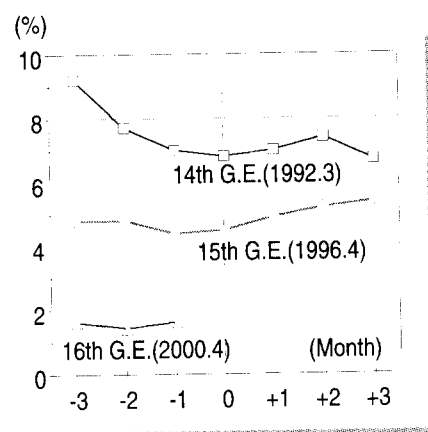
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The Korean economy showed a number of changes during the four general elections and four presidential elections held after 1982. In many cases, prices decreased before an election and increased in the three months after the election. This seems to be due to factors such as increases in money supply and higher spending. Financial policy also seems to be affected by political timetables. Money supply usually increases for a short time before the month of the election, while interest rates fall until the quarter of the election, and rise -especially during economic expansions- after the election. In the corporate sector, investment seems to stagnate while production decreases, because much of the liquidity in the economy is used for campaign funds, and management uncertainty rises. Facility investment in particular was relatively weak during the election quarter and the preceding quarter, while exports declined due to factors such as shrunken investment and leakage of manpower. There is little clear evidence that elections have an effect on the stock market. However, in election season, investor sentiment is usually cautious, causing stock prices to remain weak and to rise after the election is over.

— Figure 2. Corporate Bond Yield —



— Figure 3. CPI Inflation —



### General Election and Economy in 2000

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The election in 2000 is not expected to have a significant impact on most macroeconomic indicators. Economic recovery and growth is expected to continue, with the real and financial sectors of the economy stabilizing. However, there are some elements of instability related to the election, and some concerns that instability will spread to the labor market. Prices may become unstable after the elections because of cost factors such as higher oil prices, increase of liquidity, and inflationary expectations. Although interest rates are expected to remain at their current level, aided by the government's low interest rate policy, instability may arise after the election due to factors such as increased demand for funds, or mismatch with low

price policy. The stock market is not expected to show much definite change, and the stock price index is expected to increase after a period of relative constancy. However, it is possible that the stock market, influenced by factors such as changes in investor expectations or large capital flows, will experience wide fluctuations in a short run. In addition, tension in the labor-management relationship may arise because of concentrated struggles before and after the election, and the arrival of labor as a political force.

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After the election, the Korean government will concentrate on countering the above mentioned factors. In this case, it is important that the policies are consistent and rise above mere slogans. Structural reform policies in each sector of the economy will continue after the election because these policies were promised to foreign investors. Delays and cancellations will not help the Korean economy to recover. In this sense, privatization of public enterprises will continue at an even faster pace than before the election. With the end of the election, some political burdens can be mitigated.

Because the National Assembly performs a check and balance function under the presidential system, the outcome of the general election will not change the main policy stream. Although there may be some differences in how fast a policy is carried out depending on the party composition of the legislature, the basic policy frame and policy direction is unlikely to change.

### HRI Survey on General Election and Voters' Economic

According to a survey<sup>1)</sup> by HRI, inflation was considered the biggest factor of instability in the current economy, and inflation was stated as the factor that will have the most harmful effect on the economy after the election. 51% of the non-experts and 58% of the economic experts responded that the election would have a negative effect on the economy. The negative effects included: inflation after the election, delay of restructuring prior to the elections, and labor-management instability. **VIP**

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**Table 1. Negative Economic Effects of Election 2000**

	Inflation	Economy Overheating	Delay of Restructuring Policy	Instability of Business Labor Relation	Increase of Interest rate	Decrease of Investment	Decrease of Export	Others
non-experts	34.1%	19.5%	15.6%	13.6%	7.3%	5.5%	3.4%	1.0%
economic experts	44.7%	5.3%	24.2%	12.9%	3.8%	6.8%	1.5%	0.8%

1) During February 1st to 15th, HRI surveyed 507 non-experts and 132 economic experts on the economic effects of the April 13 General Elections. The survey was conducted from Telephone/Fax to Fax.