

## **Juyeol Lee: Employment and growth: roles of macroeconomic policy and structural reform**

Opening address by Mr Juyeol Lee, Governor of the Bank of Korea, at the 2016 Bank of Korea International Conference, “Employment and Growth: Roles of Macroeconomic Policy and Structural Reform”, Seoul, 30 May 2016.

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Good morning,

Ladies and gentlemen!

I am delighted to welcome you all to the 2016 Bank of Korea International Conference. Let me begin by expressing special thanks to our keynote speakers, St. Louis Federal Reserve Bank President James Bullard, and IMF Deputy Managing Director Min Zhu, and to all of our session speakers, moderators, discussants, and panelists. I would also like to express sincere appreciation to Professors Thomas J. Sargent and Barry Eichengreen, for their contributions in preparing this conference. Without their devotion and support, the Bank of Korea International Conference could not have received the significant recognition that it now enjoys.

Almost eight years have passed already since the global financial crisis. But global economic growth, which we had expected to gradually approach its pre-crisis trend level, has recently shown signs of deceleration. Employment conditions are also not clearly improving. In some countries, including Korea, employment is increasing quantitatively, but in qualitative terms employment conditions are not improving.

Considering this, I believe that our discussion of “Employment and Growth” at this year’s conference is very meaningful and timely.

Despite active policy efforts by individual countries, to enhance their economic dynamism through various unconventional measures, economic recoveries are being delayed. And this suggests the possibility of structural changes in the global economy since the crisis. From the aggregate demand perspective, the structural change is associated mainly with population aging, growing debt and worsening income imbalances, which result in a decline in consumption and investment. From the aggregate supply perspective, meanwhile, a prominent cause is our inability to improve productivity in a timely manner due to a shortage of investment.

We need to pay close attention to concerns about the so-called “secular stagnation” of the global economy, recognizing that such structural changes in the economic environment could make our current trend of low growth become chronic.

If this low growth is attributable in large part to structural changes in the economy, then I think we need to shift our policy response paradigm to address it. Specifically, rather than working to enhance short-term growth, a more effective strategy will be seeking sustainable and balanced growth over a long-term horizon.

There are of course a multitude of tasks that we must push ahead with to promote sustainable and balanced growth. But I would like to focus here on employment, since that is today’s theme.

I believe that the 2008 global financial crisis gave us an opportunity to rethink the importance of employment. Until the crisis, the role of employment had not moved beyond supporting the demand for labor needed for economic growth.

Given the persistence of low growth since the crisis, however, it is now widely recognized that employment should play an active role in stimulating growth. And this seems to reflect an expectation that both the effective demand shortage on the aggregate demand side, and

the stagnation in production capacity on the aggregate supply side, can be simultaneously addressed through employment policy.

And so let me touch briefly now on some policy operations necessary to ensure that employment can drive growth.

First, we need to boost aggregate demand by actively pushing policies to expand employment, the source of household income. To this end, we should strive to maintain the macroeconomy in a stable manner, so as to create conditions favorable to employment. And from the microeconomic perspective, we should also implement measures to create new jobs, by for example encouraging more people to start their own businesses, and strengthening the competitiveness of the service sector with its huge job creation potential.

Next, I would like to emphasize the need for efforts to ensure that the increase in income stemming from expanded employment also leads to an increase in consumption. To this end, it is necessary to alleviate people's uncertainties about the future, by reducing the imbalances in wage and employment conditions among workers, and strengthening our social safety nets.

What I want to point out lastly is the great importance of nurturing innovative and creative human resources. Many people anticipate that, after the ongoing digital innovation and the so-called "fourth industrial revolution," the demand for labor will decrease and employment will shrink. But if more and more people become able to assimilate and utilize various digital technologies, such as artificial intelligence and big data, then I think such technological advancements will instead positively affect employment and growth. A bigger pool of creative talent will enable the creation of new industries and new markets, and as a result new jobs. This will in turn boost effective demand, and bring about a virtuous cycle of growth and employment.

Ladies and gentlemen!

So far I have discussed how employment-led economic growth can be achieved. As recently emphasized by the IMF, however, a success of this policy requires that structural reforms in various areas such as the labor market, industry and finance should be implemented in harmony.

I look forward to a variety of insightful ideas being proposed here today and tomorrow, through enthusiastic discussions and constructive sharing of opinions among conference participants. I hope that the ideas proposed here will lead to tangible outcomes.

Thank you.