

The Economic Examination of Korea's Universal Consumption Coupon in 2025: A Ricardian Perspective

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Abstract

This paper analysis the economic effect of the *Livelihood Recovery Consumption Coupon* on economy of South Korea. Using macroeconomic indicator and survey data, this paper predicts low MPC(Marginal Propensity to Consume) also pointing its long-term inefficiency and structural constraints. The result evokes questions about the effectiveness and fiscal sustainability of the policy.

Keywords: Fiscal Policy, Ricardian Equivalence, MPC (Marginal Propensity to Consume), Macro economic Impact, Consumption Coupon.

1 Introduction

On December 3, 2024, the Yoon Suk-yeol administration in South Korea abruptly declared a state of emergency martial law, citing domestic political instability and social unrest. This measure triggered severe political uncertainty within Korean society and significantly undermined international confidence in the country. In immediate response, the financial markets reacted sharply: the KOSPI fell by 49.34 points (1.97%) to close at 2,450.76, and the won-dollar exchange rate increased to 1,480 KRW per USD, its highest level since the subprime mortgage crisis.

Further exacerbating global economic anxiety, former President Donald Trump returned to power on 20 January 2025, reinstating his 'America First' foreign policy, which heightened global and South Korean concerns over trade and economic stability. Reflecting these concerns, South Korea's Consumer Confidence Index (CCSI) fell from 100.7 in November to 88.2 in December and slightly retreated to 91.2 in January(Statistics Korea, Household Income and Expenditure Survey 2025 [1]).

In this context, the Lee Jae-myung administration implemented the '*Livelihood Recovery Consumption Coupon*' policy in July 2025 as a countermeasure to stimulate depressed domestic demand and restore weakened consumer sentiment. The policy, backed by a budget of 13.9 trillion KRW, aims to boost short-term consumption and revive the domestic economy by issuing consumption-only coupons ranging from 150,000 KRW to 450,000 KRW per person, depending on income level. Additional amounts were allocated to rural areas facing population decline. The political and economic implications of this policy have drawn significant attention as it exemplifies a typical Keynesian approach to economic stimulus through government expenditure.

However, in addition to optimistic expectations, the policy has also raised concerns about its potential side effects. Although the short-term boost to consumption is acknowledged, critics have pointed out various negative economic consequences, including inflationary pressure, deterioration of fiscal

soundness, and issues of policy equity.

This paper analyzes the 'Livelihood Recovery Consumption Coupon' policy of the Lee Jae-myung administration, focusing not only on its short-term effects on consumption but also on its long-term adverse impacts, particularly on its actual impact and fiscal burden. By examining the broader macroeconomic implications of this policy, the article seeks to propose criteria for the design of similar policies in the future.

2 Literature Review

Variety of researches have focused on the relationship between the MPC (Marginal Propensity to Consume) and disposable income. Dhruva Murugasu et al.[2] focused on difference in MPC among different income brackets. Hayashi (March 1984[3]) emphasizes the absence in correlation between change in disposable income and change in expected expenditure.

However, few researches are conducted about the relationship between consumer's Ricardian behavior toward government's consumption coupon, which this study aims to address.

3 Data and Methodology

3.1 Data Sources

This analysis uses monthly trends in the Consumer Price Index (CPI), annual inflation rates, data from the Bank of Korea, and the monthly Consumer Sentiment Index (CSI), all provided by Statistics Korea. In addition, the IMF's Fiscal Monitor Report from April 2025 is referenced to provide a broader global fiscal context.

3.2 Government's Gross Debt position: % of GDP

As of 2025, South Korea's national debt stands at approximately 1,300 trillion KRW, representing 54.45% of GDP—a level that remains favorable compared to the average of advanced economies, which is 108.7%. However, given that South Korea's debt-to-GDP ratio was only 35.4% in 2019, and considering the rapid increase in welfare expenditures, the country's fast pace of population aging, and the world's lowest fertility rate (0.75 in 2024, compared to the OECD average of 1.5 in 2022), the long-term fiscal burden is expected to increase significantly.

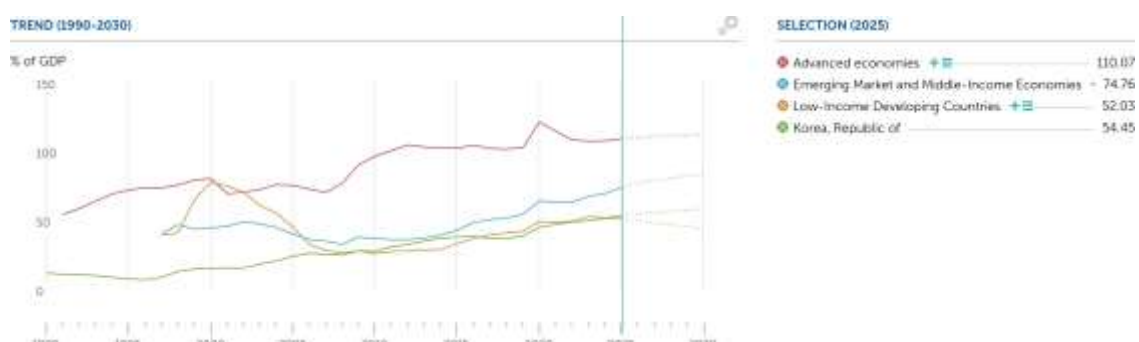


Figure 1: Trend of Gross Debt Position around the world.(IMF DATAMAPPER)

4 Counterargument Based on Ricardian Equivalence Theorem

4.1 Some opposed opinions

According to KDI's (Korea Development Institute) Policy Forum No. 281, [4]the marginal propensity to consume (MPC) from past cash-based relief programs distributed during covid was

estimated at around 26.2% to 36.1%. However, several experts argue that the *Livelihood Recovery Consumption Coupons*, unlike direct cash transfers, are time-limited and earmarked specifically for consumption. Therefore, they are likely to stimulate consumer sentiment more effectively and lead to a higher MPC. Professor Woo Suk-jin from Myongji University estimates the MPC of the current policy at 0.4.

4.2 Ricardian view

While Ricardian Equivalence is generally considered difficult to validate empirically, this study argues that under South Korea's unique conditions—namely, increasing fiscal anxiety and accelerated population aging—elements of Ricardian behavior may realistically emerge. Especially in the mid-2020s, the repeated media coverage regarding the expected depletion of the National Pension Service, rising public debt, and declining tax revenues have heightened public awareness of future tax burdens. Consequently, temporary income transfers from the government may be used more for saving or debt repayment rather than consumption.

Moreover, a report from KCCI presents decrease in overall APC by 3.1% within a decade. (Source: Korea Chamber of Commerce and Industry. "2025 Second Half Corporate Business Outlook Survey." [5])

In support to this, according to the Korean Gallup, a survey took in February 20, 2025 illustrates that 55% of the respondents opposed to Lee Jae-myung's *Livelihood Recovery Consumption Coupon Policy*. Suggesting people's awareness of South Korea's national debt risks ([6]).

As a result, compared to the 2020 emergency relief payments, this implies that the MPC may be relatively lower. In countries with a higher proportion of elderly populations, income transfer policies are more likely to induce Ricardian behavior, which can lead to overestimation of aggregate demand when relying on traditional Keynesian multipliers.

4.3 The influence of public opinion

According to a December 2023 survey conducted by the Korea Institute of Public Finance (KIPF), 65% of South Koreans consider the current level of national debt to be dangerous. Notably, the perception of risk increases among lower-income households, suggesting a counterpoint to the common assumption that low-income groups exhibit higher MPC.

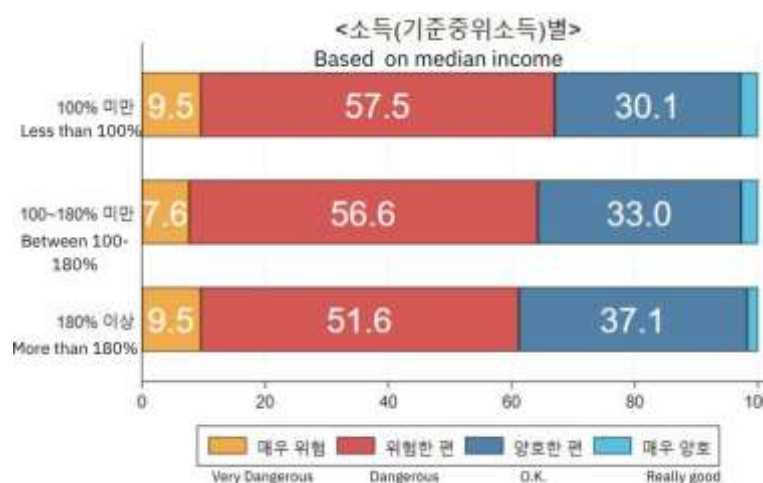


Figure 2: Awareness of National Debt Based on survey takers' median income

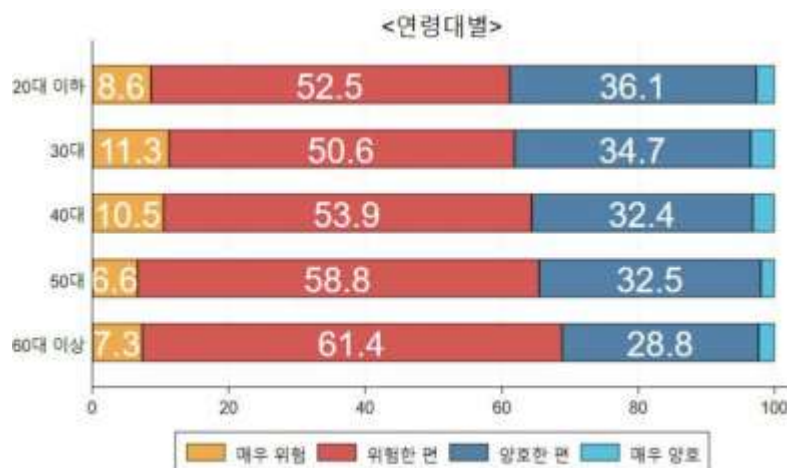


Figure 3: Awareness of National Debt based on survey takers' age
(Source: KIPF, Dec. 2023 - "National Perceptions on Fiscal Sustainability and Policy Directions"[7])

This indicates that the Household consumption in South Korea could gradually decline because of not only due to economic downturn but also due to the combined structural factors such as society's population structure, income level, and psychological reasons.

4.4 Various Worries-Balloon effect

As reported by many news in Korea, many micro-enterprises are worried by the consumers' tendency to buy expensive whiskeys and Coupons for exchanging expensive electronic items at the convenience store. The government regulates the use of consumer coupons to businesses with annual sales of less than 3 billion won, but many convenience stores sell expensive alcohol and coupons for electronic devices. Previously, when the similar consumption coupons were distributed to people in Korea during COVID-19 in order to increase the overall consumption in South Korea, issues were made as many people posted themselves buying expensive alcohols and electronics. For that reason, the government of Korea ordered the Korea Convenience Store Industry Association to refrain from selling expensive products [8]. However, it seems difficult to evade this balloon effect as long as the government bans these sales.

5 Short-term economic impact

5.1 MPC Assumption

F. Hayashi (1984) states that "expected change in expenditures is correlated neither with past expenditure changes on other commodities nor with expected change in disposable income, if its own lags are controlled for" Illustrating that change in disposable income will not impact the consumption (expenditure), leading to low MPC.

Therefore, this study argues that the government's consumption coupon policy will not effectively stimulate economy. So, this study assumes a marginal propensity to consume (MPC) in the range of 0.25 to 0.35 for the *Livelihood Recovery Consumption Coupon policy*.

5.2 Fiscal Multipliers and Total GDP Increase

- Government spending increase: $\Delta G = 13.9$ trillion KRW
- Marginal propensity to consume: $MPC \in [0.25, 0.35]$
- Multiplier formula: $\kappa = \frac{1}{1-MPC}$

- Total GDP increase: ΔY
- Increase in GDP calculating formula: $(\Delta G \times MPC) \times \kappa$

Fiscal Multipliers

Case 1: When $MPC = 0.25$, $\kappa = \frac{1}{1-0.25} = \frac{1}{0.75} \approx 1.33$

Case 2: When $MPC = 0.35$, $\kappa = \frac{1}{1-0.35} = \frac{1}{0.65} \approx 1.54$

Total GDP Increase

Case 1: $\Delta Y = (13.9 \times 0.25) \times 1.33 \approx 4.62$ trillion KRW

Case 2: $\Delta Y = (13.9 \times 0.35) \times 1.54 \approx 7.49$ trillion KRW

Therefore, the estimated total GDP increase is between 4.62 trillion Won to 7.49 trillion Won.

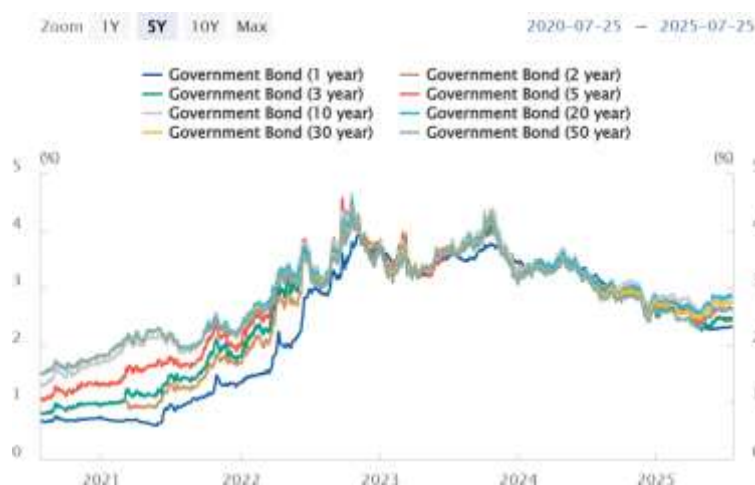


Figure 4: Korean Government Bond yields by Maturity [9]

6 Long-term economic impact

6.1 Government Bond Interest Cost

According to the Bank of Korea, the interest rates of the Korean Government Bonds are around 2.3%-2.8 based on their maturity date.

With this rate, we can calculate the total amount interest that the South Korean government to pay.

Showing that the annual interest for the 'Livelihood Recovery Consumption Coupon' is 13.9 trillion Won:

Annual Interest

$13.9 \times 0.023 \approx 319.7$ billion Won

$13.9 \times 0.028 \approx 389.2$ billion Won

6.2 Fiscal Inefficiency and Structural Constraints

The annual budget of local governments like Gurye-gun(348 Billion [10]) or Suyeong-gu(553 Billion [11]) is also the same as the annual interest payment of KRW 400 billion. This payment is a product of the Livelihood Recovery Coupon's deficit financing. This also raises the pertinent policy question about long-term fiscal obligations versus the marginal short-term stimulus. This amount could also be used for targeted programs such as public childcare infrastructure, rural ICT education, or public childcare infrastructure which have long-term returns. Each of these programs have tangible returns which can be measured.

7 Conclusion

This paper tries to shed light on both the short-term and long-term effect of the *Livelihood Recovery Consumption Coupon policy* from the Korean Government with macroeconomic perspective including Ricardian view. The study suggests that due to public anxiety and balloon effects, the estimated marginal propensity to consume (MPC) of this policy will be lower than expected-leading to potential Ricardian behavior.

Short-term analysis shows that with the study's estimated MPC, the total increase in GDP will be around KRW 4.62 trillion to KRW 7.49 trillion. Significantly lower than the fiscal input (KRW 13.9 trillion). On the other hand, the estimated annual interest created due to this policy shows approximately 320-390 billion KRW, which is equivalent to the annual budget of some small-medium sized city. This significant estimated debt illustrates its burden to the government's budget management and increase people's distrust to government. Moreover, this study suggests the policy's fiscal inefficiency and structural constraints. As this policy is not a sustainable policy but rather just an urgent solution, this study suggest that the structural limitation and inefficiency of urgent-short term solution compared to sustainable policies such as social welfare policies such as education, elderly support, and support for people in rural areas.

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