The Structure of the Economic Policy-Making Institutions in Korea and the Strategic Role of the Economic Planning Board (EPB)\textsuperscript{1)}

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This article seeks to analyze the institutional structure within which the Korean state has played the strategic developmental role, with a focus on its unique configuration of the economic policy-making institutions and the pattern of interactions it produced. After briefly describing the institutional characteristics of the economic policy-making in Korea with special reference to its strategic responses to the changing political-economic conditions, it analyzes why the Economic Planning Board (EPB) has occupied a preeminent place in the economic policy-making apparatus in Korea. Identifying the institutional autonomy and the consequent institutional flexibility as the key characteristics of the EPB, this article explains logically how the EPB has been strategically placed in selecting and changing economic policies at particular times and how the EPB has come to be viewed as the leading institution reflecting the politico-economic visions of the political leaders. While emphasizing the distinctive identity and competence of the EPB, this article warns against the recent tendency of the EPB to ever expand its jurisdiction and of the President to lodge a wide variety of operating responsibilities in the EPB. It finally suggests the ways in which the strategic role and distinctive competence of the EPB can be best preserved.

I. Introduction

Over the past three decades, the institutional structure of the Korean state has been subject to frequent changes. The transition in government and the politico-economic order each government represented, in particular, have brought a substantial change in the pattern of interactions among the state institutions. Again, along with the instituting of the new Constitution, which represents a significant step toward a more democratic governance in

\textsuperscript{1)} This article is adapted from the author's thesis, which analyzed the institutional characteristics and strategic actions of the economic policy-making institutions in Korea. It includes three case studies, each of which dealing with the economic policy reforms in the early 1970s, in the late 1970s, and in the early 1980s. See Institutionalizing A Liberal Economic Order in Korea: The Strategic Management of Economic Change, Unpublished Ph. D Dissertation, Harvard University, June 1987.
Korea, the issue of bringing the state institutions in line with the spirit of the new Constitution seems to be gaining a renewed interest.

Needless to say, the foremost concern in reorganizing the state institutions is how to democratize their internal decision-making process and policy networks with the major societal groups and other legitimate policy-making bodies such as the National Assembly and the political parties. As important as the concern for democratizing the state institutions is, this article argues, how to preserve the strategic developmental role which the Korean state has attained and is expected to continue to assume in a new and increasingly democratized policy environments. This concern is legitimate and seems particularly important for the case of reorganizing the economic policy-making institutions which have come to acquire distinct competences in the process of promoting economic development for almost three decades.

By defining some institutional characteristics of the economic decision-making in Korea in relation to its unique configuration of the economic policy-making apparatus, this article will show what aspects of Korea’s political and institutional arrangements of the economic policy-making in Korea has permitted a strategic and highly flexible response to the changing domestic and external political-economic conditions. It will then draw out some policy implications for the current debate.

II. Characterizing the Pattern of Interactions Among the Economic Policy-Making Institutions

Despite considerable interest, both at home and abroad, in the role of the Korean state in the process of economic development, existing studies on the structure and the workings of the economic policy-making institutions in Korea lack the sophistication of comparable

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2) In the mid 1960s, for example, the Park Chung Hee government espoused an export-led growth strategy, shifting away from the strategy of import-substituting industrialization followed since the Korean War. In the 1970s, the government stressed an import-substitution strategy to develop heavy industries in an effort to deepen Korea’s industrial structure, upgrade the composition of its exports, and increase its self-defense capability in the face of the changing geo-politics in the region and rising protectionism abroad. With the transition in government in 1980 (following the assassination of President Park), the central decision-makers reasserted economic liberalism, and moved boldly to institutionalize a substantially more market-driven political-economic order.

studies of such states as Japan\textsuperscript{4}) or the European industrial democracies.\textsuperscript{4}) Some viewed the economic policy-making process in Korea as "top-down," meaning a high concentration of decision-making power at the top.\textsuperscript{5}) Stressing the Korean government's tendency to take unreasonably drastic economic policy measures and reverse them with relative ease, others tried to direct attention to the high degree of centralization of economic decision-making in Korea.\textsuperscript{6})

While there is some validity to characterizing the process of economic decision-making in Korea as such, what is common for these views is the conception of the Korean state as "monolithic."\textsuperscript{7}) This conception has tended to obstruct a more complete understanding of the central coordinating role of the Economic Planning Board (EPB), the peculiar constellation of economic bureaucracies in Korea, the nature of interministerial relationships, and the pattern of conflict resolution among principal actors and economic agencies.

**The Peculiar Configuration of the Economic Policy-Making Institutions in Korea**

At the heart of economic policy-making of Korea is the "central" coordination by the Deputy Prime Minister (DPM), who also serves as the Minister of Economic Planning Board (EPB).\textsuperscript{8}) The DPM is the President's top economic advisor, the principal government


\textsuperscript{7}) While it is by now indisputable that the Korean state has played the strategic developmental role, what has permitted the Korean state to play the preeminent role remains largely unexplained. Part of the blame should be borne by the tendency to view the Korean state as "monolithic" or unitary decisionmaker and the continued reliance on this conception as the proper level of analysis of the role of the state.

\textsuperscript{8}) The meaning of central coordination needs some clarification. Central coordination is here defined as follows: Among a set of decision makers, coordination is central to the degree
spokesman on the economic policy, and the economic policy team leader. Investigating how and why the EPB, which was created later than other economic ministries and which has been autonomous in the sense that it has not been closely identified with any major societal groups, has come to play a dominant role illuminates the peculiarity of the economic policy-making process in Korea.

The EPB was created in July 1961, immediately after the military coup led by the late President Park Chung Hee. The establishment of the EPB symbolized the military government's resolve to give top priority to economic development and its commitment to a systematic and sustained pursuit of long-term economic development plans. It took over comprehensive development planning functions and foreign cooperation activities from the Ministry of Construction, which was established only one month earlier by the military junta. (The Ministry of Construction was created from the Ministry of Reconstruction (1955~1961). It received a new Korean name of more progressive connotation, but its internal organization was only slightly modified.) The EPB also absorbed the Bureau of Budget from the Ministry of Finance and the Bureau of Statistics from the Ministry of Home Affairs to facilitate comprehensive planning and to insure effective execution of development programs.

Although the EPB was equipped both with planning (for setting investment priorities) and budget functions (for allocating budget resources, the most important investment that there is in the set one decision maker who (a) is much more powerful than the others; and (b) explicitly recognizes his task to be arranging the adaptations of decisions one to another, and to some significant degree arranges such adaptations. This definition is borrowed from Charles E. Lindblom, *The Intelligence of Democracy: Decision Making Through Mutual Adjustment* (New York: The Free Press, 1965), pp.103-105.

9) The economic planning efforts in Korea had been made from earlier on, well before the military coup. The first efforts at economic planning were begun during the Korean War by the foreign assistance agencies. But the program prepared by the Robert R. Nathan and Associates, called as Nathan plan, was never formally adopted or even recognized by the Korean government. In 1959, the Rhee Syngman government developed a seven-year plan. The first phase of the plan was formulated and approved by the cabinet in January, three months before the Rhee was overthrown. A new five-year plan (1962~66), prepared by the Chang Myon cabinet in 1961, suffered the same fate: the military coup in May. For the detailed account of the planning efforts in Korea, see David C. Cole and Young Woo Nam, "The Pattern and Significance of Economic Planning in Korea," in Irma Adelman, (ed.), *Practical Approaches to Development Planning: Korea's Second Five-Year Plan* (Baltimore: Johns Hopkins Press, 1969).

10) Taking cognizance of its implication for foreign aid, closely tied with reconstruction and development projects, the military junta decided to give it an English name: the Ministry of Development.
resources at the earlier stage of economic development), it faced with many difficulties as
the adverse effects of instituting the long-term economic development plan—notably, rising
inflation due to high budget deficits to finance public investment programs—mounted. Under
these circumstances, the EPB pressed for further strengthening of its mandate and its
preeminence in the economic policy-making machinery. To signify the seriousness of the
regime’s planning efforts, the military government elevated the head of the EPB to a rank
of the Deputy Prime Minister (DPM) in December 1963. 11)

The change did not go as far as to elevate the hierarchical order of the EPB Minister
among economic ministers, 12) but it endowed the DPM with a formal authority to coordinate
a wide range of economic policies for effective execution of economic development plans.
Other economic ministers were required to have prior consultation with the DPM when
they wanted to initiate major policy proposals. But when their policy proposals did not
involve budget expenditures, other economic ministers tended not to undergo the prior
consultation process. Although the purpose of creating the title of DPM and endowing the
EPB Minister with the new title was to facilitate economic policy coordination, it also
increased, potentially, interministerial conflicts between the EPB and other ministries in
competition for policy leadership.

Based on secure political mandate and its superior capacities to collect and analyze
economy-wide information, the EPB has evolved as the leading developmental institution
in Korea. The EPB has proved itself an effective economic agency giving a coherence to
a wide variety of developmental policies undertaken by other economic ministries. 13) The
EPB’s demonstrably successful economic policy management in the earlier period has led
the top decision maker to give even broader mandate to the EPB and hold the DPM
responsible for the overall economy’s performance.

The growing, open-ended, political mandate of the EPB and its ever-growing mission
have in turn led the EPB to take many policy initiatives and preemptive moves in a broad
range of policy areas normally under the jurisdictions of other economic ministries. Often
in alliance with the Blue House (President’s Executive Office) economic secretariat, the

11) The head of the EPB had been called Director and he had been a cabinet member.
12) As a result, the DPM’s influence as the economic policy team leader had fluctuated from one
DPM to another, depending on the effectiveness of the DPM to use his mandate, the
strength of the President’s confidence in him, his personal traits and expertise. The Presidents
have rarely given the DPM a voice in his economic ministerial assignments. Interview with
13) For the appraisal of the developmental functions of the EPB, see Mason et al., op. cit.
EPB has propounded new policy ideas, initiated new policy proposals, and pressured other economic ministries to take subsequent necessary steps.

The EPB's tendency to cut into domains of other economic agencies frequently entailed jurisdictional conflicts over policy leadership. The EPB's attempts at accelerating financial sector liberalization and import liberalization in the 1980s, for example, intensified jurisdictional conflicts between the EPB and the Ministries of Finance (MOF), Commerce and Industry (MCI), and Agriculture and Fisheries, which resisted such economic policy reforms. To a considerable degree, jurisdictional conflicts have been deliberately encouraged by the Presidents. As long as the EPB has tended to be at arm's length with business and other societal interest groups, the Presidents could effectively insure their important policy decisions against the parochial interests which other economic ministries tended to represent.

Mechanisms of Conflict Resolution

The asymmetry in institutional mandates, resources, and capacities between the EPB and other economic ministries responsible for implementing policies has led these agencies increasingly to engage in mutual adjustment. The pattern of resolving conflicts between the agencies have taken many forms. Most importantly, the EPB has tried to strengthen its policy leadership and the nexus between its policy initiatives and other economic ministries' subsequent policy actions by creating many formal policy coordination forums such as the Economic Ministers' Consultation Meeting (EMCM) and the Industrial Policy Deliberation Council (IPDC) chaired by the DPM. The EPB has sought to maintain its traditional means of control: planning and budgeting. The EPB's many attempts at strengthening policy review by introducing new budgeting systems such as the planning programming budgeting system (PPBS) and, to a certain extent, the zero-base budgeting, and instituting annual economic management plans were the manifestations of the EPB's continuous struggle for preeminence over economic policy-making.

The pattern of resolving conflicts has also depended crucially on the institutional capacities of other economic ministries responsible for implementing development programs. Some agencies such as the MCI have demonstrated their capability to infuse their concerns into

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14) For an empirical analysis of the operation of various mechanisms for economic policy coordination in Korea, see Choi, op. cit., Chapter 2.
the policy initiatives taken by the EPB or jointly by the EPB and the Blue House. From the perspective of the EPB planners, such institutional resistance was not necessarily a problem. Paradoxically, other ministries’ capacities to mitigate the radical appearance of the policy initiatives taken by the EPB tended to accord the EPB planners greater freedom in initiating policies, particularly when the EPB took new and bold initiatives, as was the case with economic liberalization measures in the late 1970s and early 1980s.

III. Explaining the Relative Power of the Economic Policy-Making Institutions

The State/Society Linkages and Institutional Flexibility

What characteristics of the EPB has permitted it to assume a preeminent place in economic policy-making in Korea? How different is the EPB’s institutional structure from that of other government agencies? How does it influence interaction among the governmental institutions, officials, and between the state and society?

The argument here is two-fold: (1) The difference in the state/society linkages between the EPB and other state agencies not only influences the policy positions and preferences these state agencies take, but it is the crucial determinant of which policy options will be selected; and (2) The different scope of mission of the EPB and other state agencies in fulfilling the visions of central decisionmakers (e.g., the preeminent importance of economic development in Korea’s political order) influences the relative power of these state agencies. These two crucial arguments are interrelated. But it is useful to differentiate between them, because they have different policy implications.

The first factor which influences the relative strength of state institutions in the process of economic policy change is the nature of their linkage with society. Unlike other government agencies, the EPB is relatively autonomous from any particular groups in society. This institutional autonomy permits the EPB to maintain a broader economic policy perspective, provide relatively objective analysis (as opposed to ostensibly partisan analysis as usually done by other ministries), and therefore, render a unique service to the President.


17) In Lindblom’s view of policy-making, “analysis is an instrument of control in political inter-
and to the nation. Without the constraint of parochial institutional interests, the EPB can make “less biased” statements about where the national and public interests lie, and suggest where the economy should be headed.

The institutional autonomy of the EPB should not be construed as indicating its total independence from societal groups, however. What should be emphasized here is the indirect and arm’s length relationship of the EPB with any of the societal groups. Two facts contribute to this relationship. First, a broad political mandate of promoting economic development, which has historically been lodged in the EPB, has led the EPB to consider flexibility as important to discharge its institutional mission. To increase and protect its institutional flexibility, the EPB has kept societal interest groups at arm’s length and resisted being identified closely with any of them. Second, as its major developmental tasks changed in the process of rapid economic growth, the EPB’s relation to societal groups shifted. In the process of promoting rapid economic growth in the 1960s and the early 1970s, for example, the EPB took a position more favorable to big business interests; and in time of high inflation in the late 1960s and the late 1970s, the EPB took a position protecting the interests of low income class and small and medium-size enterprises. The shifting positions of the EPB, in turn, deprived it of the basis of constructing an enduring relationship with any major groups of society.

In stark contrast, many operating state agencies in Korea have major groups of society as their constituents: the MCI serves the interests of business; the Ministry of Agriculture and Fisheries the farm community; the Ministry of Labor the labor groups; and so on. These ministries’ linkages with their easily identified constituent groups are strong for two reasons. First, the absence or weakness of other linkages tended to reinforce the interdependent relationship between these government agencies and their constituent groups. action; it makes interactive roles of various participants in political interactions and it provides them with an instrument of persuasion.” In this sense, every analysis is partisan. See, Charles E. Lindblom, The Policy-Making Process, second edition (1980), op. cit., Chapter 4.

18) Obviously, it is a rough distinction, since the two economic policy goals—economic growth and inflation—cannot be dealt with in isolation.

19) In bureaucratic-authoritarian political regimes such as that of Korea, political parties (even the ruling party) are not allowed to be deeply involved in the economic policy-making process. For the characterization of Korea’s political system bureaucratic-authoritarian regime, see, for example, Sung-joo Han, “Political Institutionalization in South Korea, 1961~1984,” in Robert A. Scalapino, Seizaburo Sato, and Jusuf Wanandi (eds.), Asian Political Institutionalization (Berkeley: University of California Press, 1986), pp. 116–137; Chong Lim Kim (ed.), Political Participation in Korea: Democracy, Mobilization, and Stability (Santa Barbara: Clio Books, 1980); Dae-Sook Suh and Chae-Jin Lee (eds.) Political Leadership in Korea (Seattle: Univer-
As one result, government agencies play a crucial role as intermediaries of the influence of major societal groups, such as chaebol (big business groups), labor, and medium- and small-size enterprises. Even chaebol, which the public believe politically powerful, exerts its influence through the government agencies.

A second factor which has strengthened the interrelationship between these agencies and their constituents is strategic: In the politicized market economy, a relatively small change in sectoral policy (e.g., import protection measures) makes a big difference in consequences for the private (as opposed to social) profitability of many economic activities.20 Therefore, clientele groups have a keen interest in keeping a close relationship with governmental agencies to protect their interests. On the governmental side, as long as their constituent industries embody their institutional goals and visions of legitimate actions, government agencies have every incentive to foster growth of their constituents.

The difference in the state/society linkage between the EPB and other state agencies has important implications for the ways in which policy preferences and options of societal groups are formed; and the process through which societal groups’ conflicting policy preferences and options are weighed against each other; and administrative means to carry out policy decisions is selected.

By virtue of its institutional autonomy, the EPB can enjoy a high degree of flexibility, compared to other state agencies. The public presume what the EPB proposes for the economy is in the broad national interest. It is in this capacity that the EPB could set long-term economic policy agenda authoritatively. It is also in this capacity that the EPB could use nationwide economic education programs to build support for its economic stabilization and liberalization policies in the 1980s.

Different Scope of Institutional Mission in Fulfilling the Visions of Central Decisionmakers and Institutional Power

The second factor which influences the relative power of state agencies is the different scope and dimension of mission of the EPB and other state agencies in fulfilling the visions of central decisionmakers. The EPB has come to have broader political mandate than any other economic institution in Korea. The EPB embodies a certain vision of the need for coordination of economic development policies as well as has certain capacities to effect that coordination.

Since it was created in 1961 by the military government of Park Chung Hee as an institution undertaking systematic and sustained pursuit of long-term economic development plans, the EPB has continuously expanded its strategic roles. Equipped with planning and budgeting functions, the EPB has proved itself an effective economic agency giving a coherence to a wide variety of developmental policies undertaken by other economic ministries. The title of the Deputy Prime Minister (DPM), given to the EPB Minister; the DPM’s formal authority which was brought with the title; and the DPM’s demonstrably successful coordination of sectoral policies, in the earlier period of economic development, led the President to centralize ever greater power in the EPB, give a broader mandate to the EPB over time, and hold the EPB responsible for the overall economy’s performance.21)

Since its inception, concern for inflation has become the hallmark of the EPB. Although inflation influences all sectors of the economy, inflation has been only a minor consideration for many other economic ministries.22) In identifying policy options and weighing their consequences, these ministries have been less concerned with the effects of their policy preferences on other sectors in the economy than with fostering growth of their constituent industries.

Consider the process which led to the adoption of the import liberalization policy in the

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21) The President’s repeated practices to hold the DPM ultimately responsible for the economy’s performance has in turn led the public, to a considerable degree, to relate the economic conditions to the leadership of the DPM as the economic policy coordinator.

22) One important exception is the Ministry of Finance (MOF). As the highest monetary authority in Korea, the MOF has keen interest in keeping the value of the money stable. But the target annual growth rate of the money supply has been set in the annual economic management plan which is under the jurisdiction of the EPB. More importantly, although the money supply is the most important cause of inflation, the rate of inflation can rise for many other reasons, such as structural and sectoral imbalances in supply and demand, changes in consumer tastes, and increases in prices of imported materials, on which the MOF has no control and, therefore, cannot be held responsible. In contrast, the EPB is held responsible for inflation, whatever the causes of inflation.
late 1970s. It illustrates how the institutional vision of central decisionmakers influences the relative strength of policy preferences and the options which governmental institutions take; and how economic policymakers' perceptions of these visions are influenced by their institutions' political mandate and mission. In the face of the rising inflation in the late 1970s which tended to aggravate the challenges to the Yushin/ heavy industrialization regime, different institutional players developed different policy perspectives. President Park believed unflinchingly that despite the escalating inflation, rapid economic growth would sustain the legitimacy of his regime. Encouraged by his strong commitment to sectoral policies, including the heavy industrialization and many rural projects, many operating ministries continued to pursue parochial sectoral interests, exacerbating the tensions of the Yushin/ heavy industrialization regime. Concerned about the escalating inflation, the EPB advocated a import liberalization policy. Why did the EPB respond differently?

With its broader economic policy perspective and strong analytical capacities, the EPB realized the significance of the escalating inflation problem. Being autonomous from any societal groups, the EPB had little reason to be constrained by the existing economic policy, which frustrated its efforts to curb inflation. The EPB's predicament was that inflation was regarded only as the EPB's problem.

Under these circumstances, how did the EPB manage the process to make its policy prescription prevail? The EPB's strategy was to make inflation the President's problem.

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23) As will be examined in the next section, the bureaucratic politics model often ignores the influence of the macropolitical order on the shaping of policy positions by institutions and players.

24) Despite rapid economic growth, escalating inflation rapidly eroded tolerance for income inequality and exacerbated the vulnerable nature of the Yushin/ heavy industrialization regime. Albert O. Hirschman argues that, during a first phase of rapid economic development, even those who are left behind will feel encouraged and will tend to support the existing order for a while because of the hope that their turn will surely come. However, he argues, when that economic progress is restricted to one particular distinct and closed group is perceived by the rest, the political and social tension escalates. See Hirschman, "The Turn to Authoritarianism," in David Collier (ed.), The New Authoritarianism, op. cit., p. 63.

25) It should be remembered that the EPB has the Bureau of Statistics, the largest of the sort in the nation, and its analysis is supported by the Korea Development Institute (KDI), its think-tank.

26) On the two principal tasks or functions of the state—entrepreneurial and reform function—in the course of the economic growth process, see Albert O. Hirschman, The Strategy of Economic Development, op. cit., pp. 202-205 and his article, "The Turn to Authoritarianism in Latin America," op. cit., pp. 87-92. This dichotomy can be more profitable if we distinguish institutional characteristics and structure of the state agencies, as I did in the analysis.
Lacking any direct connection with any disaffected groups in society, and lacking direct control over other economic ministries, the only way in which the EPB could make its proposal prevail was to persuade the President and then bring his influence to bear in inducing other economic ministries to go along with the EPB.

In persuading the President, the EPB argued that the adoption of the import liberalization policy would not only help reduce inflationary pressures in the economy, but it would provide a better economic environment for accelerating the heavy industrialization and other sectoral programs, which were persistently on top of the President's policy agenda. The EPB further sought to induce the desired behavior of other ministries indirectly by influencing their clientele groups such as export industries suffering from high inflation. The EPB also used the press to provoke consumer reactions and public opinion calling for some fundamental anti-inflation measures and brought their pressure to bear on other ministries reluctant to cooperate with the EPB. In doing so, the EPB did not reach out these groups. The EPB made statements where the national economic interest lay, thereby defining the parameters within which other ministries could protect their constituent groups.

These strategic actions of the EPB not only show that the institutional autonomy and flexibility of the EPB made a difference in shaping policy preferences and options, but that the EPB's broader scope of institutional mission in fulfilling the visions of central decisionmakers led EPB leaders to have not only broader policy perspectives but the strategic managerial orientation, which provided a unique service to the President. As the above example illustrates, EPB leaders consciously managed their political mandate (at least in the past) by always trying to make the EPB look like the nexus of discussions over overall economic policy and by steering clear of executing responsibilities.

Furthermore, the EPB's organizational culture has been strong and congruent with many of its responsibilities, such as forecasting, budgeting, planning, and Presidential advising. These responsibilities gave the people in the EPB access to great information, various sources of indirect influence, and resources to monitor continuously external, macroeconomic, and microeconomic conditions. Moreover, the EPB's prestige attracted high quality minds with impressive credentials.

Nonetheless, the EPB's high degree of political attuning exhibited some problems. In the

27) This is an excellent example of partisan analysis. For the details of this strategic partisan analysis of the effects of the import liberalization policy on inflation, see Choi, op. cit., Chapter 4. There, I explained the EPB's strategy in terms of the idea of "substituting one problem with the other," which was developed by Hirschman.
early 1970s, when the Yushin/ heavy industrialization regime was instituted, for example, the EPB quickly adapted itself to the top decisionmaker's macropolitical strategy and his visions of economic development (and defense-related industrial development) in Korea's political order. The EPB could have hardly challenged the top decisionmaker's macropolitical strategy, reflected in the defense-related heavy industrialization, as it was couched in terms of the national security and strategic response to other external threats (e.g., rising protectionism abroad) to the future of Korean economy.28)

By contrast, in the late 1970s, the EPB sought to influence the President's policy choice by stressing the need to adopt an import liberalization policy. But even the EPB's insistence on import liberalization did not produce the desired result. The major change in economic policy to control inflation was made only several months before the assassination of President Park, when he really came to grips with the serious political consequences of escalating inflation, reshuffled the cabinet, and gave the newly appointed Deputy Prime Minister (DPM) a clear mandate to devise comprehensive policy measures to combat inflation. In the 1980s, with the transition in government, the EPB has consolidated its policy prescriptions for a more market-driven politico-economic system, which have been reflected in its continued pursuit of economic stabilization and liberalization policies and a strong enforcement of the anti-monopoly and fair-trade regulations.

Obviously, the character of the DPM's in these periods and the economic conditions in each period are important factors determining the degree and direction of political attuning of the EPB. Nonetheless, we can identify a trend. The EPB's influence in Presidential decision-making started to rise during the late 1970s. Since the early 1980s, the EPB's preeminence has become even clearer, as it actively sought to infuse its policy preferences for a more market-driven economic system with the new political leaders who came to power with little knowledge and experience in economics.

The Macropolitical Change and the EPB

The transition in government in 1980, following the assassination of President Park, seems to present a serious challenge to the institutional analysis made thus far which stressed the strategic actions of the EPB in selecting and promoting particular economic

28) Moreover, President Park's personal interests in these sectoral policies and the mechanisms instituted to facilitate his personal direction of these sectoral policies, such as the Heavy and Chemical Industrialization Planning Council (HCIPC), put the EPB persistently on the defensive during the 1970s. As one result, the EPB's distinctive role as "protector of the national interest" tended to diminish and became tainted.
policies at particular stage. One can argue, for example, that the demise of the unpopular Yushin regime, the transition to a new government, and the rise of new political leaders may have dictated a major policy changes in the 1980s. Such a view is not warranted. Although there was a big change in the political scene, the economic policy changes initiated under the previous political regime maintained a remarkable continuity in the 1980s. How can we explain this?

In explaining major economic policy change, state-centric models suggest that policy legacies and economic crisis are important factors in increasing the state autonomy to overcome these challenges. These models focus on the ways in which a government can increase its capacities to effect its distinctive policy preferences. In my view, these models are useful in understanding how the state can narrow policy choices, but we still need additional variables to understand why a specific course of economic policy change was chosen and by whom. To explain this, I argue that we have to examine divergent policy preferences among state institutions and state officials, which the state-centric models tend to ignore.

Although the bureaucratic politics model addresses this concern, I have also found it unsatisfactory as a framework for explaining Korean economic policy reform in the 1980s. Its many organizing concepts (such as players in positions, parochial perceptions, political goals and institutional interests, faces of issues, action channels, and so on) provide useful guidance to probe why different players take different positions and actions. But this model neglects the overwhelming importance and constraining effects of the political regime’s macropolitical objectives on the positions which principal players take, and of the possibility of changing the variables which the bureaucratic models implicitly assume as given.


30) For the bureaucratic politics, see, for example, Graham T. Allison, Essence of Decision: Explaining the Cuban Missile Crisis (Boston: Little, Brown, and Co., 1971) and Morton H. Halperin, Bureaucratic Politics and Foreign Policy (Washington, D.C.: Brookings Institution, 1974).

31) On a similar criticism of the bureaucratic politics, see Michael Barzelay, The Politicised Market Economy, op. cit., p.97. Barzelay notes that macropolitics is part of Allison’s Model III, but he points out that it is not much distinguished from other political process.

32) In the process of Korea’s economic liberalization in the 1980s, the strategic players manned important posts with similar-minded people. They established the Industrial Policy Deliberation Council (IPDC), and they, through the nationwide economic education and economic policy debates in preparation for long-term economic development plans, tried to influence other
The preeminent position of the EPB vis-a-vis other economic ministries in the economic policy-making machinery in Korea further limited its application to this particular case.

Despite the transition in government and the change in the new military regime's macro-political strategy, why did the new political regime choose to continue the economic policy which had been advocated by the EPB in the late years of the previous government? First, the top decisionmaker relied heavily on the EPB as an institution to carry out economic policy reform. Why, did he decide to do so?

A crucial factor which influenced the President's selection of the EPB as the institution to carry out the economic policy reform was the EPB's institutional autonomy. The task of correcting the policy legacies of the previous government could not be entrusted with the economic ministries which were a part of these legacies. Over the two decades, ministries such as the MCI and the MOF had deeply intervened in the economy. Of course, the EPB had not been an exception. But in contrast to these ministries, the indirect nature of the EPB's intervention, its institutional autonomy and its consequent flexibility permitted it to break out of these legacies more easily. The key role played by Kim Jae-ik, the First Economic Secretary to the President, as a link between the President and the EPB, also contributed to the preeminence of the EPB. In a sense, the macropolitical change increased the value of the EPB's distinctive institutional assets—institutional autonomy and flexibility, rather than dictating a specific set of economic policies.

The second reason for the continuity of the EPB's economic policy reform was the rise of liberal economists in several key economic policy-making positions. When a transition in government takes place, new officials inevitably come in. A more important question is why and how certain similar-minded people came to hold the center of the economic policy-making machinery? Two facts stand out: first, Shin Hyon Hwak, the last Deputy Prime Minister (DPM) who served President Park, brought in advocates of economic stabilization and liberalization within the EPB and promoted such group of people in the EPB, who

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33) The new regime wanted to distance itself from the previous one, while manifesting its ability to bring political and economic stability by dealing swiftly and decisively with policy legacies of the Park Chung Hee government: for example, high inflation, high concentration of economic power in the hands of chaebol groups, excessive investments in heavy industries, financial sector entangled with too much regulations and non-performing debts, and retardation of small and medium-size enterprises.

34) For a detailed analysis of the policy and institutional legacies of the Yushin/heavy industrialization regime in the 1970s, see Choi, op. cit., Chapter 3.
had constituted a minority section within the EPB, to higher ranks. DPM Shin, a bureaucrat-turned politician, clearly understood that his mandate was to fight against inflation. He knew that his party rallied behind him.\(^{35}\) By virtue of his political career, he knew how to protect the EPB's policy prescriptions from major societal pressure groups (big businesses and agriculture, for example) by mobilizing support from the environment. He wanted people who could offer him strategic analyses.

Second, Kim Jae-Ik had been sent to the Special Committee for National Security (SCNSM) in May 1980 to serve as its Economics Subcommittee chairman, since he was the leading advocate of economic stabilization and liberalization in the EPB. Ever since he served General Chun Doo Hwan, Chairman of the SCNSM's Standing Committee, he was the most trusted economic advisor for the President. Later as the First Economic Secretary to President Chun, he exerted a great influence in the Presidential appointments.

IV. Structuring Interactive Roles Among Institutions and Institutional Actors

Defending the EPB's Distinctive Competence and "Institutional Integrity"\(^{36}\)

In the preceding section, we have identified as the distinctive identity of the EPB the institutional autonomy and the consequent flexibility, its broader scope of mission in fulfilling the visions of central decisionmakers, and the strategic managerial orientation of EPB leaders.

Particularly since the transition in government in 1980, the EPB has anxiously embraced new roles and ever strengthened its economic policy coordinating role. I question the wisdom of centralizing ever greater power in the EPB, particularly its embracing of operating functions.

In my view, the President and the leaders of the EPB may have learned the wrong lessons from the EPB's achievement of great influence in recent years. Rather than seeing the EPB's growing influence as the result of its strategic analyses and good management

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\(^{35}\) The cabinet reshuffle was made in December 1978, right after the National Assembly election, in which the ruling Democratic Republican Party was defeated by the opposition New Democratic Party in popular votes. The major factor which costed this defeat was high inflation.

of its internal and external environment and its distinctive competence, they may have seen
the EPB as generally competent, with respect to anything having to do with economic
planning and policy-making.

Some evidence can be adduced in support of this argument.

Example 1: The secretariat of the International Economic Policy Council (IEPC), which
was established in January 1983 as a separate wing of the EPB to effectively coordinate
foreign economic policies, represents a good example. The most immediate impetus toward
creating the IEPC came with the need to coordinate many foreign economic cooperation
issues which were generated by President Chun Doo Hwan's state visits to many countries.
Since around 1984, the IEPC secretariat has taken on functions of negotiating with foreign
governments' representatives regarding trade disputes and promoting foreign direct invest-
ments. In the course of negotiations in 1985 with the U.S. regarding opening Korean
market in many areas, including both trade and service industries, public discontent and
protests, interministerial disputes, and political pressure from the ruling Democratic Justice
Party, against the IEPC's relatively accommodating approach continued to build. Under
this pressure, the newly appointed DPM dissolved, after the President's approval, the IEPC
and restored external negotiating functions to the relevant ministries in early 1986.

Example 2: The creation and operation of the Industrial Policy Deliberation Council
(IPDC), chaired by the DPM, has been also problematic, although it served as a major
vehicle through which the EPB has accelerated economic liberalization process. The creation
of the IPDC in 1982 was a clear expression of the EPB's attempt to consolidate its
industrial policy leadership within the FPB. The proposed "Industrial Assistance Law," which
provided for the establishment of the IEPC, was opposed vehemently by the MOF
and the MCI, because they saw this legislation as an evisceration of their legitimate

37) The negotiation was initiated by American government's unfair trade practice charges (Article
insurance market for the American companies, and imports of agricultural products were the
hottest issues. The negotiation had been protracted until 1987, and many of the issues were
finally settled by the ministries such as the MOF and the MCI which have restored their
negotiating mandate from the EPB.

38) My review of major newspaper articles on the issue of economic liberalization (particularly
the opening of the Korean market) indicates that the public discontent and protests by the
political opposition quarters (the opposition party, students, labor unions, and so on) against
the government's "accommodating" response to foreign pressure has intensified since the
IEPC's negotiation with the U.S. in 1985. Ironically, this tainted the government's (and the
EPB's) claim that it pursues economic liberalization for the good of the Korean economy.

39) The EPB, however did not abdicate its coordinating role of international economic policy
altogether. The IEPC secretariat exists now in its reduced form.
institutional mission and functions. Under strong resistance by these ministries, the FPB's legislation attempt was aborted. After intense turf struggle between the EPB and these ministries, the MCI finalized the "Industry Development Law," and the MOF amended the "Law Regarding the Reduction and Exemption of Taxes" by their own hands.

Example 3: The creation of the Fair Trade Committee and the Office of Fair Trade, the Committee's staff organization, within the EPB is another example. With the transition in government in 1980, anti-monopoly and fair trade regulation has become an economic banner of the "just" society that the new political leadership espoused. The legislation of the Anti-monopoly and Fair Trade Law in 1981 and its enactment signified the new government resolve to regulate chaebol groups' monopolistic market practices and to prevent high concentration of economic power. The FPB has actively consolidated fair trade enforcement as its new, important institutional mission. It had been controversial, however, whether the Committee should be put under the DPM. At the public hearings on the legislation of the Fair Trade Law, all the participants argued that the Committee should be established as an independent body under the President or the Prime Minister to insure the enactment of the Law against changing economic conditions. The EPB insisted to have the Committee within the EPB as a deliberative, standing committee, and had won the day. The EPB argued that "it is desirable to have the Committee within the EPB in view of the fact that the government has no experience of fair trade enforcement and that it would allow the EPB to secure consistency in seeking industrial structural adjustment." 40)

These examples indicate that the EPB's attempt to concentrate ever greater power within the EPB may have bent over backwards. This tendency must be curbed. The EPB's distinctive competence is not consistent with these operational activities. Increased interministerial jurisdictional conflicts aside, they tended to impair the EPB's institutional integrity. The EPB's new operating functions such as negotiations with foreign governments and anti-monopoly and fair trade regulations seem to have damaged the EPB's distinctive identity. The EPB has been criticized for its accommodating approach toward foreign demands to open Korean markets and for its lukewarm approach toward big businesses in fair trade enforcement. Although it is hard to substantiate such public charges, they are nonetheless important signals indicating that the EPB's distinctive identity and public image suffers.

40) Testimony of the EPB's Vice Minister before the Legislative Council for National Security, December 1980.
What should be regarded as the EPB’s distinctive competence? What should be the EPB’s unique role? As we have analyzed in the preceding section, the EPB’s distinctive values, competence, and roles flow partly from the EPB’s autonomy from any societal groups and the consequent institutional flexibility, and its broader institutional mission in fulfilling the visions of the top decisionmaker, and discharging of its mission remarkably well in the past. It should be remembered that the EPB’s distinctive identity is a historical resultant.

The distinctive competence and institutional integrity are different sides of the same coin. To maintain distinctive competence, it is important, therefore, not to impair the institutional integrity. The EPE’s role should be focused on its central mission: offering “less biased” and “more objective” analysis and advice to the President: and coordinating economic development policies.

In the past two decades, Korea, as a late developer in its special place in the international economic system, could benefit greatly in terms of economic development from a certain degree of coherence in economic policy-making and implementation. No one would doubt the contribution of the EPB in giving coherence to many developmental policies. The EPB performed this role based on its superior analytical capacities. The EPB evaluated the anticipated consequences of alternative economic policy options, identified long-term and short-term economic policy issues and opportunities, and kept the President’s policy choice open. From the vantage point of view of the President, these functions were extremely important.

The superiority of the EPB’s analyses, in turn, came from its distinctive mission, organizational resources, and its autonomy from societal pressure groups. To preserve the EPB’s distinctive competence and valued functions, it would be better not to overload the EPB or lodge in the EPB operating and administrative functions such as negotiating with foreign governments and enforcing anti-monopoly regulations, which tend to deflect its central mission.

Maintaining Constructive Interministerial Relationship

Another distinctive function of the EPB, which is important from the vantage point of view of the President, has been the coordination of economic policies undertaken by many

operating ministries. We have noted that the broad political mandate of the EPB encouraged the EPB’s tendency to cut into domains of other economic agencies, which frequently entailed jurisdictional conflicts over policy leadership. For example, the EPB’s attempts at accelerating financial sector liberalization and import liberalization in the 1980s intensified jurisdictional conflicts between the EPB and the Ministries of Finance (MOF), Commerce and Industry (MCI), and Agriculture and Fisheries, which resisted such economic policy reform.

But we have also noted that the asymmetry in institutional authority, mandate, resources, competence between the EPB and other economic ministries led them to engage themselves finding compromise solutions which were politically more realistic. Various schemes of mutual adjustment among economic ministries, such as the advance notice system and import monitoring system, which were instituted in the late 1970s, illustrate this point. The EPB’s initiatives toward import liberalization pressured other ministries which have authority to implement the policy to come up with their compromise solutions, and they became, in most cases, final policy outcomes.\(^{42}\)

From the perspective of the reform-minded policymakers, other ministries’ effort to protect their constituent industries was not necessarily problematic, because they could take full advantage of institutional expertise and capacities of other economic ministries to the extent that they threatened their ultimate policy objectives. In view of the uncertainties and risks involved in pursuing economic liberalization, the compromise solutions provided the reform-minded policymakers with politically realistic options.

The ever greater centralization of power in the EPB through incorporating operating functions may stifle this meritorious aspect of Korea’s economic decision-making process. Rather than overtaking functions of other ministries, the EPB resolved interministerial conflicts through the use of ordinary mechanisms for economic policy coordination, such as the Economic Ministers’ Conference (EMC) and the Economic Ministers’ Consultation Meeting (EMCM), both of which are chaired by the DPM. Is there any particular reason that these mechanisms no longer work that way?

Neither the EPB’s tendency to proliferate advisory and deliberative committees within the EPB seems warranted. Often, the EPB has justified its establishing many interministerial committees within the EPB or under the chairmanship of the DPM, claiming the formal

\(^{42}\) Implementation always makes or changes policy in some degree. For this view of policy implementation as policy-making, see Charles E. Lindblom, \textit{The Policy-Making Process} (2nd ed.), op. cit., Chapter 8.
economic policy leadership of the DPM. But it is nothing but a rhetoric to conceal the EPB’s continuous quest for a greater centralization of economic decision-making.\textsuperscript{43} For example, various schemes of mutual adjustment that we have examined in the above were instituted, before the Industrial Policy Deliberation Council came into being.

Korea has developed effective mechanisms of economic policy coordination such as the EMC and the EMCM. One may argue that the creation of specialized interministerial committees may contribute to a greater specialization in identifying, deliberating and assessing alternative policy options, and that it may contribute to increasing the political significance of the specific policy issues.\textsuperscript{44} May be true. But proliferating such committees would likely do more harm than good, because increased specialization and diffusion of economic decision-making authority will make integration more difficult.\textsuperscript{45} In my view, the proliferation of such interministerial committees also tends to relegate the status of the EMC and the EMCM to \textit{ad hoc} mechanisms of economic policy coordination.

The Division of Labor Between the DPM and the Presidential Economic Secretary

One particular point to be emphasized in reorganizing the state economic institutions in Korea is the proper division of labor between the DPM and the Presidential Economic Secretary. The division of labor between these two important players has evolved over time. Nonetheless, we can identify a patterned relationship. First, the broad mandate and perspective of the Presidential Economic Secretary tends to bring him closer to the DPM and the Minister of Finance than to other economic ministers who are subject to their own constituents’ parochial interests. Second, the Economic Secretaries have usually come from the upper echelons of the EPB or the MOF since around the early 1970s. When the DPM

\textsuperscript{43} Institutional “expansionism” is a widespread phenomenon. In many cases, institutions disguise their expansionism with managerial values, such as efficiency, comprehensiveness, improvement in the division of labor, orderly flow of information, and easier and effective coordination. The quest for ever greater centralization can have far-reaching effects which would outweigh managerial gains. Most importantly, it may endanger the maintenance of desired values and distinctive identity.

\textsuperscript{44} For these reasons, the Presidents have the natural tendency favoring adhocracy. For the strengths and weaknesses of adhocracy, see Roger B. Porter, \textit{Presidential Decision Making: The Economic Policy Board} (Cambridge: Cambridge University Press, 1980), Appendix, pp. 229–252.

\textsuperscript{45} It should be noted that many of these interministerial committees consist of the same players. This seems to mitigate my case against the proliferation of similar committees somewhat. But it is always legitimate and necessary to ask whether it endangers the proper operation of the existing ones.
and the Economic Secretary disagreed, the DPM usually held the economic policy leadership. Based on their formal authority to coordinate economic policy, DPM's in the last two decades have generally maintained economic policy team leadership, despite a considerable variance in how effectively the DPM exercised his power. In his role as an economic policy advocate, the Presidential Secretary's position has rarely varied from that of the DPM. He has tended to buffer the EPB not only from pressures from other ministries, but also from the private sector, political parties, and so on.

Depending on the Presidents' style of economic policy management and the characters of the DPM and Presidential Economic Secretary, the relative power of these two key economic policymakers has varied: Sometimes, it was the Presidential Secretary, rather than the DPM, who played a leading role. In institutionalizing a liberal economic order, the Presidential Secretary (Kim Jae-Ik) played a crucial role as a policy entrepreneur. It is a clear example of diverging pattern of the division of labor between the DPM and the Presidential Secretary.

No matter how effective and neutral the Presidential Economic Secretary's role as policy advocates would be, this has potential drawbacks. As long as they identify themselves closely with a particular policy alternative, they cannot be expected to seek a wide range of policy alternatives or to take necessary measures and precautions in dealing with different views and positions. The shortcomings of their taking particular positions may be far greater in a political regime such as that of Korea, in which other legitimate players (such as key members of the ruling party) than a small number of technocrats in the executive branch have not been regularly invited to participate in the Presidential decision-making process. Moreover, as the Presidential Secretaries' opinion tended to be circumscribed by the President's personal interests, preoccupation, commitment, and beliefs, their other important roles, such as that of the Presidential guardian and policy manager, would be inevitably impaired. 46)

It is very difficult to generalize which pattern would be more desirable in Korea. The judgement depends on many things: the President's decision-making style, their personal

46) For the definition of roles of the Presidential Secretary, see, Roger B. Porter, Presidential Decision Making, op. cit., pp. 73-83.
47) In the sense that each player's performance is dependent on other's, their close interrelationship tends to be encouraged. But it is important that they reach an explicit agreement on their respective roles by themselves. The Presidential Secretaries have been given lower rank than that of the DPM. It is one way of defining their relationship. But what really counts is in whom the President places more confidence.
relationship, their characters, and so on. But it would be prudent to say that the division of labor, which we characterized in the above, should prevail. The role as advocate of particular economic policies should belong to the DPM, who is the President's top economic advisor, the economic policy team leader, and the principal government spokesman on the economic policy. This is the way, in which the features of Korea's economic decision-making machinery can be fully exploited.

V. Concluding Remarks

This article has been devoted to analyzing the structure of the economic policy-making institutions in Korea, with a particular focus on its strength in responding domestic and international political-economic challenges. I have tried to direct particular attention to the valued and strategic functions of the EPB in selecting and promoting particular economic development policy goals. Warning against the recent tendency of the EPB to ever expand its jurisdiction and of the President to rely too much on the EPB to such a extent that the unique and distinctive functions of the EPB might be impaired as a result, I have suggested some necessary modifications into the EPB's current organizational structure.

The analysis of the current structure of the economic policy-making institutions from the perspective of democratizing the state institutions may lead to a different set of policy recommendations for restructuring them. Any trade-offs arising between the two most important concerns in restructuring the state institutions in Korea—democratization and preservation of strategic roles—can only be left to the political judgement.

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