

Economic Democracy as the Prerequisite to Liberalization: A Systemic Approach

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This paper proposes dissenting views against a reborn orthodoxy. First, not only individual economic powers, particularly chaebols, but also undemocratic economic system itself is to be transformed to a rational one for 'capitalist democracy' and fair competition to operate. In view of the reform process, the strengthened markets that produce rationalizing effects is only one of its results rather than an instrument. In short, economic democracy is the prerequisite to liberalization.

Second, we argue that a mature 'democratic' economic system requires increasing roles of the state, trade unions and civil organizations in parallel with market deepening. If Korean economy and society have been suffering from excessive concentration of power, it is due significantly to the virtual absence of check and monitoring by the civil society. (JEL Classification: D63)

I. Introduction

Globalization could mean either a tendency that characterizes changes in the *modus operandi* of international economy, or a mere ideology that upholds interests of certain segments of capital. The distinction might be important as such. But what matters more is perhaps the way how economies react to intensified international competition as their systemic structures vary. Competition could act as a rationalizing force to upgrade efficiency but at the same time it

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might amplify structural flaws of an economy.

While many developing countries try to emulate the so-called Korean model, the very factors that have enabled the Korean miracle now emerge as the major hurdle for the Korean economy to transform to a high-productivity, high-wage economy. That is, the authoritarian economic system, inherited from the autocratic Park regime and consolidated through the rapid industrialization process is indeed going through a crucial test. As it is testified by the collapse of giant business groups such as Hanbo, Sammi, Jinro, Kia, their typical business behaviour and corporate governance structure are widely believed to have lost the *raison d'être* in terms of efficiency and stability.

In 1993 when the present government took power, the new government launched a wide range of drastic reforms called "the new economic policy" (The Government of ROK 1993) and it seemed that the government pursued it in earnest and rigorously. Furthermore, when the government announced the financial reform of the so-called real name account bill prohibiting to use false names, its resolution for the reform seemed firm against all odds.

However, when the wave of pressure to open the market for agricultural products arrived with the completion of the UR round, the government have shifted the focus of the reform. It began to argue that liberalization and free trade is an inexorable trend of the world economy, hence that deregulations must be implemented either to meet the so-called international standards of institutional setting, or to prepare for intensifying competition unavoidable in an open competition.

The aim and criteria of the reform have shifted accordingly : form fairness, rationality, transparency of economic process to market competition, market deepening. Globalism has become the key-word of economic reform. A view that takes globalization as an imminent and dominating force has quickly prevailed among influential academicians, government think-tanks, and even civil movements (Korea Economic Research Institute 1997). They argue that competitive market forces and market discipline in the free and open market shall induce rational behaviour among economic agents, in particular, chaebols. They claim that chaebols shall no longer be able to make easy money by exploiting small firms, monopolistic practices, land speculations, winning favours from the government through lobbying etc. In order to survive in the open market, they have to run

the business efficiently, develop technology and choose the best constellation of business group and optimal debt ratios etc. Now, globalism is understood to be a major *instrument* of economic reform as well as an ultimate goal to achieve.

It is true that the top-down system in the Park era has constrained the role of market to a significant degree and the state has been playing a considerable role for industrialization. Facing the global pressure of heightening market competition, however, the Korean economy needs admittedly more active role of market than before. Notwithstanding that competitive pressure is universal and economic units have to cope with adverse environments with their own effort, questions still remains; whether market discipline could be the major *instrument* of economic rationalization, if not a goal; whether it shall produce expected desirable rationalizing forces, given all sorts of entrenched economic power groups and vested interests under the existing irrational system.

This paper proposes a dissenting view against such a reborn orthodoxy. First, not only the individual economic powers, particularly chaebols, but also undemocratic economic system *per se* is to be transformed to a rational one which at least safeguard 'capitalist democracy' and fair competition to operate. In view of the reform process, the strengthened market that produces rationalizing effects is only one of its results rather than an instrument. In short, economic democracy is the *prerequisite* to liberalization. The conventional definition of economic democracy includes worker's participation in the shop floor or company affairs in general, equality and fairness in income distribution that goes beyond capitalist principle. However, we define economic democracy in a narrow sense with two criteria: ① whether it preserves the formal procedural capitalist principle - one-man one vote principle in the public arena and one-dollar one-vote in the private arena; ② whether state maintains a minimum level of public provisions for welfare and social purposes.

Secondly, we argue that a mature 'democratic' economic system regardless of ones' structural peculiarities requires increasing roles of the state, trade unions and civil organizations in parallel with market deepening. If Korean economy and Korean society in general has been suffering from excessive concentration of power, it is due significantly to the virtual absence of check and monitoring by the civil society.

This paper does not intend to present new findings as for as

individual facts go. Instead, it tries to shed a new light on the well-known facts about the Korean economy from a systemic perspective: that those individual facts are not aberrations out of the existing economic system of Korea but the very elements supporting it or its necessary outcomes; and, by corollary, that the reform process should tackle this system itself, not individual aspects.

II. Basic Systemic Elements for Economic Democracy

Capitalist democracy is based on the duplication of power between public and private ones (Cho 1989). The state stands for the highest public authority representing the universal rights of the citizens. In other words, the state maintains economic and social order by monopolizing authority to bestow recognition on every citizen as a due person to pursue his/her economic interests using personal capacity and/or private property. It is the sole sanctioning authority against such acts as breaching one's contract or encroaching on other's rights by fraud or criminal activities. In principle, it is supposed not to intervene in private pursuits unless they endanger general interests of the citizens. Therefore it should not wield its power in any particular person's favour. The executing incumbents of the state take power through democratic process in which each person have the equal right of one vote.

Provided with basic rights guaranteed by state, each person freely pursues one's private economic interests in and through market. A market is said to be democratic when one dollar exercises one vote. The reality where the democracy of money prevails has been interpreted in opposing ways between Marxist political economy and liberalist economics. In the former it implies that money and property itself is the master, while human agents being its servants. If an owner and/or manager of resources does not contribute to its maximum expansion, he or she is voted out and penalized by being refused to access to the property. Even the owners of labour power (labour capacity) is voted out (unemployed etc.), unless he/she constantly refurbishes his/her 'property' so as to draw the attention of its potential buyers with some skills or palatable personality or with whatever personal attributes one could offer in the market.

On the other hand, liberalists regard the agents as the master, and the property as the instrument of material satisfaction and utility. In

a competitive institutional setting where monetary democracy prevails, utility maximization is theoretically expected to be achieved.

These opposing interpretations are, however, irrelevant for our present concern. As long as the system of capitalist market economy is preserved, the duplication of power and double 'democratic' principles have been maintained so that the systemic consistency should be secured.

Welfare state and other state interventions by no means suspend such principles. It is true that welfare state for instance suspends *partially* its operation, but as a whole such arrangements play the enhancing role for the workability and flexibility of market. For instance unemployment benefits can promote the flexibility of the labour market by ameliorating conflicts regarding the terms of contract. As will be discussed later, the restraint on capitalist democracy in the Korean economy seriously undermines the development of welfare state and an advanced role of the state, which in turn hinders the flexibility and deepening role of the market.¹ In advanced market economies, where the complex division of labour and productive units is maintained, the wider and sophisticated role of state is essential to uphold capitalist democracy.²

The development of productive power is accompanied by the increase in the size of productive units and thereby concentration of capital. Larger size of business companies can reap the benefit of economies of scale and scope for technical reasons or by economizing 'transaction costs'. But this tendency is not necessarily accompanied by the corresponding concentration of property or capital in individual capitalist's hand. It has usually been the case that the concentration of the latter lags behind the former due especially to the division of property ownership in the process of inheritance from generation to generation. To solve these contradicting tendencies, there develops the institution of joint-stock corporation, business firms hereby turning into quasi-public institution and its asset into joint property of shareholders.

Establishing as a public institution, corporations can mobilise a larger number of small investors as shareholders as well as debt-holders. In this situation major stakeholders try to design a

¹Note that this reflation implies that the two definitions of economic democracy is closely interdependent.

²Here our definition of economic democracy is nothing other than a generalization of the common features of advanced capitalist economy.

structure of corporate governance that best serves their interests.³ The issue now is how to exercise within organization the capitalist democracy of large number of stakeholders. The conventional arrangement is to set up the check-and-balance mechanism between three parties: board of directors-management-auditor. In theory, all shareholders' voting right proportionate to one's share retain the ultimate power. The board of directors holds mandates from the shareholders and directs and supervises management. Due to the potential interest-conflict between controlling shareholders and subordinate-shareholders, chief executive officers (CEOs) are recruited outside the shareholders, usually among the lower spectrum of managers.

This check-and-balance system resembles the similar structure of state (parliament-government-the court) only with different principles: in the former one-dollar one vote; in the latter, one-man one vote. The liberalist tradition rejects the necessity of the alienated power of the state, that is, the sovereign state standing above citizens. The state, according to liberalism, is simply the delegate elected *by* the people, representative *of* people and working *for* the people (Tucker 1994). Then, by the same token, liberalism denies the necessary emergence of *alienated* governing body which executes prerogatives of management in the name of the general interests of shareholders. So, for instance, directors are agent, and the shareholders are the principal (Jensen and Meckling 1976).

But one can equally argue differently in the tradition of Marxist political economy. That is, as much as money is the principal (universal equivalent) while ordinary commodities are its agents, and as much as the state is the principle while citizens being reduced to subordinates, the management as a alienated powerholder is the principal in the capitalist democracy. Whatever the case may be, the important thing is that without a mechanism of representation with a alienated centre, the so-called 'common interest' of separated individuals cannot be formed from the start. In other words one cannot hypothetize the initially given interests or aim to be represented later by some delegates. Without a mechanism of democratic representation, corporations can not serve

³In an early stage of capitalist development, a small family firm exclusively owned by an individual or a small number of relatives was the dominant form, hence no need for such a structure.

the shareholders' general interests. If an incumbent management does not behave rationally and perform well, it is voted out.

Also financial debtholders, especially banks and institutional investors, closely monitor the financial state of firm. If they are shareholders as well as creditors or are in the status of main banks as in Japan,⁴ they can send representatives as outside directors to the firm, thereby intervening in the management directly. In the USA and to a less extent in the UK, potential investors in the stock market (M&A market) constantly revalues the performance of incumbent management. Together with the mutual check and balance among the stakeholders, this market discipline serves to the maximization of profit (Jang 1996). In the language of political economy, the democracy of capital-owners, by generating mutual pressures, lets them pay heed to the maximum valorization of capital as the loyal servants of capital.

Regardless of variance in the structure of corporate governance, the principle of capitalist democracy operates in business organizations as well as in the market. And as pointed out above, active state intervention is an essential element of capitalist economic democracy.

III. Korean Economic System

One distinctive feature of the late-industrialization of Korea is the systematic denial of the general principles of capitalist democracy. It is often dubbed a model of state-led development. Those who praise the performance of Korean economy in the last 40 years focus on the role of state in development strategy, and try to draw lessons for other developing economies. They, however, rarely pay attention to its implications on capitalist democracy, which is required for sustaining the system when the state can no longer play a dominant role and market operation becomes the principal function of the system. Even a little closer analysis can reveal the naivety of such a view. If it cannot be easily implanted into other soils, it is also difficult to get rid of the system, since every aspects of the system constitutes an organic whole.

It was sowed by the Park regime in the early 60s and has been

⁴In the Japanese model, a main bank supervise the health of the member companies, together with the mutual monitoring by regular meetings of directors of a keirutsu. This is a kind of internal capital market(Lee 1996)

consolidated up until the end of the 1989s. The first civilian government of the Kim Young-Sam regime launched a drastic reform but ended up with caricaturing democracy; with only civilian 'junta' replacing military junta (*Hanahoi* in Korean); with abandoning reform in the halfway house; with private power groups buying off politicians and bureaucrats and thereby multiplying the unprofitable business groups with unpayable heap of debt.

The central feature of the Korean economic system is indeed the dominant status of the state. In a sense, the state has been the principal and managers of private firms have been the agents. the autocratic presidents keeps the omnipotent power in their hands, with the apparatus of the state, especially the department of finance, economic planning board, information agency (KCIA) who are the loyal personal servants of the president.⁵ The State, by turning the commercial and development banks into public corporations, has retained the power of distributing financial resources. The state also has controlled the mobilization of foreign loans by acting as the guarantor. The result is the denial of duplication of public and private power. In this way the president has firmly grasped the pivotal elements of the Korean economic system.

The state has picked up a small number of businessmen and concentrated resources and favours on them in return for political loyalty and political funds provided from profits earned.

The managerial asset that determines the fate of company are consisted of, most of all, the capacity of lobbying political power holders. Therefore the head of a company who happens to have a strong connection to political power bloc secures support from the state and naturally wields the domineering power within the company.

These firms, having eventually grown to chaebols, have nominally all the elements of democracy of shareholders: board of directors, CEOs, auditors; the check-and-balance mechanism between them. But, in practice, by appointing his men in the board, for auditors and CEOs, he becomes the autocratic ruler of the firm. At the economy level, this owner-cum-manager attempts to extend his power by multiplying the number of member firms and by maximizing the size

⁵The Excessive concentration of power in the early 60s traces back to the political process during the post colonial period, 1945-60, whereby all the democratic and nationalist elements in society had been entirely wiped out(Korean Association of Social and Economic Research 1994, p.75).

of the company through large amount of credits. In the underdeveloped capital market, credits are granted with collaterals and/or guaranty. Chaebols by means of mutual guaranty among member companies stand in a for favorable position in the capital market. Mutual investment among the member companies create fictitious capital whereby the owner-manager secures the majority position among shareholders, improving capital-debt ratio which in turn makes borrowing easy.

In the Korean economic system, the small number of core groups in the state (politicians and bureaucrats) and business organizations monopolise power and exercise more than one vote per man or per dollar. Autocracy in the state begot and have been sustaining the autocracy in the economy.

The members of these core groups are recruited not based on merits in the competitive process, but by personal connections. The medium of their relations is quite archaic, that is, familial ties, regional, and common educational background. They are exclusive to outsiders and organised on a feudalist principle, characterized by undemocratic personality, top-down order, hierarchy, nepotism, and crypticality. Those who ar outside of the groups are thrown into the market.

The market in this system is severely crippled. First, the public authority is heavily biased toward only a fraction of agents in the market. Given the dominant position of the state, this bias is fatal to the unfavoured. Second, very often big businesses circumvent the market and penalise small firms by unfair contracts. Third, to maximize the lobbying power, the size of firms tend to increase beyond the economically justifiable level. Hence the operation of such organizations replace the function of market to enhance the bargaining power, which inevitably restrain development of the market.

From the discussion so far, the Korean economic system is defined as a system of mobilization, whose characteristics are ① steering the economy both by discretionary order and market, but the former being primary, ② the divide-and-rule (division between core groups and the rest), ③ combining carrots to the core groups and sticks to the excluded.

At the systemic level, all these elements brings about various social and political anomalies, not to mention economic, all of which drag down economic productivity eventually. First, the concentration of political and economic power at the central government has resulted

in the overdevelopment of seoul and a few metropolitan cities, which generates severe urban problems of traffic, housing, environment, and most of all speculation in land and enormous amount of unearned incomes.

Second, since being a graduate of some top universities is crucial in gaining chances to belong to the core group, it intensifies fierce competition of university entrance examination down to as early as kindergarten. This seriously cripples education for rich development of personality and creativity. The ratio of the college graduate among the same age group is now about 50% and will reach over 70-80% in a few years, definitely an overexpansion of higher education that is caused again by the nature of the system.

Third, since economic and other organizations are closed to outside due to their feudalistic and exclusive nature, the labour market, especially for those in their middle careers, is deformed and very small. In the period of rapid economic expansion, the practice of labour contract based on personal relations did not pose much problem, and seemed sensible because employers could secure devotion from their employees and keep scarce managerial resources within the firm, in return for rapid promotions and other remunerations. And from the employees' point of view, it contributed to the job security.

Now when it comes to the age of slow growth, rapid technological change and constant industrial restructuring, the flexibility of labour market is crucial for the substantiality of accumulation. The attempt by the government in the recent reform bill of the labour laws to allow employers a freer dismissal met strong resistance and protests from the labour unions. Without a flexible labour market from workers' point of view, dismissal means the threat to the livelihood, not to mention the end of almost all the career that has been pursued. A situation of dilemma like this traces back to the Korean economic system.

The financial reform is in a similar catch-22 situation. The commercial banks have been privatized in terms of ownership during the last decade, but its management is still in the firm grip of the state, especially the ministry of economy and finance. Unlike private despots as in the industry, in the financial sector, the bureaucrats and politicians are the virtual decision makers. This has been the breeding ground for the flagrant financial scandals for the last couple of years. Against the opposition of the bank directors, a circle of power

men in the state directed unjustifiable loans to certain chaebols in return for bribery, thereby squandering public money. These financial scandals highlighted the urgency of reform in the sector. But the snag is that the only candidates in the private sector who have the ability of mobilizing capital to buy enough shares to secure management right and who have accumulated experienced managerial resources are chaebols, which already dominate the industry. State-finance or chaebol finance seems to be the only option in hand. Managerial control in the banking sector with the ownership dispersed is also being suggested. But without of no effective structure of governance structure that could secure accountability to the stakeholders, this option could yield the classical principal-agent problem. On the other hand, if the management of banks is taken by chaebols, the stability of financial system will be seriously jeopardized, given their vulnerable financial structures. No satisfactory solution seems visible in this matter.

In aggregate terms, the performance of the Korean economy has always been impressive at least up until the mid-90s.⁶ But the constitution is so feeble that even with a small barrier, it tends to falter, often developing into system-wide instability and crisis. This is the consequence of monopolizing resources by the small number of chaebols; their suppression and exploitation of small firms, undermining the productive base of the economy which in turn drives the big firms to concentrate on very risky big-size, final assembly, and small number of 'hit products'. In 1996-97, the Korean economy is under recession in the midst of the booming world economy due to overproduction and excessive competition among Korean chaebols in the world market. Some are even concerned about a premature arrival of de-industrialization due to the rapid exodus of production base to South Asia and China. The problems of low productivity relative to wages and high financial costs are also closely related to the domination of chaebols over small firms.

From the discussion so far it is clear that chaebol is a part of the economic relations, that is, a sub-system of Korean economic system. Chaebol has indeed no historical precedent except zaibatsu in the prewar Japan. The average portion of the shares of the owner-manager and his/her relatives are roughly 10-15% of the

⁶The growth rate in the real GNP for the last 30 years from the early 60s is over 8%.

total capital net of the fictitious capital created by mutual ownership, but he/she behaves as the despotic rulers. Considering the fact that the debt that each firm is using as if it were its own money are on average three to five folds of the total asset, the owner-manager actually exercises 40, 100 votes per dollar instead of one vote. This is the essential fact of economic autocracy, i.e. the outright violation of the very principle of capitalist democracy.

The chaebol system is often understood in view of its outward features, say, unrelated diversification, fleet-style management, family and owner management and so on (Kang *et al.* 1992). But as is shown above, the essence of the chaebol system is economic autocracy, and the outward traits are merely its outer form that is tailored for realizing the despotism.

Some observers argue that chaebols are the only business entities that have competitive advantage in the world market and their size is not so big compared to many giant international businesses. It is no wonder that such economic organizations as chaebols which monopolize all the best resources bear high productivity. But their seeming efficiency is only possible by regularly hijacking profits from the weaker sectors through typical means such as monopolistic practices, land speculation, and favours from the state. A serious doubt arises whether chaebols could maintain the past track record of growth in the absence of such means when international competitive forces arrive. Then the answer is clear that the balanced development and mutually beneficial competition have to be promoted and the undemocratic system and the elements that reproduce the system including chaebols have to be reformed.

On the other hand, some analysts pay attention to the active role of the state in the Korean economy. They argue that, as it has been proved during the last thirty years of industrialization, the state could steer the economy most effectively by linking incentives and subsidies with higher performance. Provided with various supports of the state, firms could invest aggressively and get over numerous obstacles. It is indeed true that the state has been virtually the sole supervisory authority in the Korean economic system; no M&A market, no check from the board of directors within companies, no effective auditing, and no check from the small shareholders. According to the terminology of transaction economics, this system has been very efficient because it dispensed with various costs associated with multiple scrutiny and decision making process, especially when the

market mechanism were weak.

At present, the assessment on these controversial arguments is not an issue.⁷ The point is whether such mechanism is still feasible when the autocratic power of the state is weakened as civil democracy is advancing. As clearly shown in the democratization struggle in 1989, people would not permit an arbitrary execution of state power by handful of politicians. Related to this, parts of society which have been excluded from the fruits of material improvement put stronger social pressure. Lastly the instruments of the state to control and tame the private giants (chaebols) have inevitably been eroding. It is due to either the settled status of the firms or diminished need for financial resources guaranteed and/or permitted by the state since they have accumulated their own resources and the capacity of mobilizing credits.

However, the erosion of such a primitive system of accumulation does not necessarily imply the emergence of a new system. Even after about two decades of the downfall of Park regime, there is no clear sign indicating the birth of a new system. What has been happening during the last decade or so is the gradual appropriation of centralized power by the rank and file of bureaucrats, middle managers of public organizations. This is also the case even in big firms with autocratic and centralized structure of power. There are symptoms of a 'Mafia capitalism' where multiple power groups in both public and private sphere, being sometimes in collusion and sometimes in fierce rivalry with on another, exercise effective control of the system.⁸

IV. Policy Implications

If our argument so far were valid there directly follows two policy implications. The economic system itself has to be overhauled and reformed so that the long overdue democratic principle of capitalism should be put into practice, i.e. the principle of one-man-one-vote and

⁷This reciprocity formed between the state and private firms was interpreted by Amsden (1989) as pivotal for Korean economic 'success'. What she does not see is apart from the arguable and hasty conclusion for Korean economy to become the next giant in Asia, that this very feature turns necessarily to a major hurdle sooner rather than later.

⁸Note that the members of core groups usually have personal ties and/or one of the common collegial, familial, or regional background.

one-dollar-one-vote. Second, a new role of the state including most of all welfare state as found generally in the advanced capitalist economic system should be strengthened. The existing inequalities among sectors of the economy and the society have to be eliminated because they are not the outcome of fair competition in the market but a creation of prolonged biased intervention of the state. When people do not accept the legitimacy of the present state of wealth distribution, market discipline cannot be effectively imposed. Moreover some minimum welfare provisions are an essential condition for maintenance of the flexible labour market.

Logically the reforms for democratic principle has the priority since without a capitalist democracy welfare provisions might not be effective enough and there is the danger of the concomitant tax increase meeting massive tax evasion or resistance to increased taxation.

Globalists argue that bigness will not pose any problem in a globalized world market because its power is to be mutually neutralized by competitive forces, forcing participants to behave rationally. Therefore according to them what is necessary is not to upgrade the regulations against chaebols but on the contrary to speed-up deregulation and liberalization (Chun and Kong 1995). Containment of welfare state is also included in their policy proposition.

The complaints of the big firms are understandable in a sense. Many policies on chaebols have been symptom treatment ('allopathic medicines'), not directly addressing its real causes (Lee 1997). In the Korean proverb, it amounts to giving disease from one hand and medicine from the other. It is not surprising that they are perceived to be only nuisance for 'free profit making' without significant results like the restraint on monopolistic practices and size-maximization by diversification, debt-mobilization, lobbying etc.

Then can deregulation and liberalization produce desirable results? Can intensified and extended competition works as a pressure on chaebols to behave rationally? We argue that economic democracy is prerequisite (necessary condition) to safeguard efficiency and rationality. One should note that the seemingly competitive advantage of Korean chaebols stems not much from productivity but mostly from such methods as exploitation of subcontractors, favours from the state, land speculation, M&A of lucrative small firms, hijacking promising fields of business which are often pioneered by small firms with lots of toil and investment. And even in the big firms themselves long working hours, one-sided mobilization rather than development

of cooperative network and the division of labour etc have been the primary sources of productivity. So if competitive pressure increases with opening-up of markets, chaebols are likely to reinforce the old mode of extracting profits, given the wider autonomy of business and undemocratic state of economic systems. This kind of retrogressive action might be a rational choice from the chaebol's point of view, politically and economically. And there is no reason to believe that they try not to exploit such improved power in the system. Similarly, chaebols are expected to reinforce its despotic power facing market pressure. Other options available in face of harsh market pressure will only jeopardize the position of despotic rulers of chaebols. To repeat, its competitive edge is not based on its own productivity. It stems from its domination over the weaker parts of the economy. After all, the reaction of firms is bound to differ depending on the environment the firms find themselves in.

If deregulation means demolition of the old system, the former is implied in democratization. But it is a contingent effect all along rather than a precondition of the latter. Moreover many reregulations with different substance would be necessary in a democratic economy.

Followings are the specific issues of transformations necessary for economic democratization in Korea. First, a genuine political democracy must be realized. Second, the duplication of public and private power has to be maintained as strictly as possible. For instance, the state should oversee so that the contracts between firms, in particular between big firm and subcontractors should be fair and fairly executed. The state should keep the neutral position vis-à-vis private capitals. Third, democratic governance structures have to be institutionalized including the protection of the rights of subordinate shareholders, debt holders, employees. Especially some outside directors, representatives of main banks and employees have to be included in the board of directors. For such arrangement the dual board system, that is, executive board and supervisory board dually making up the board, can be created as in Germany. By making the management transparent the chaebol system will naturally lose its ground for existence. These measures would be more effective than any forced dissolution of chaebols to induce transformation of the structure of firms away from the chaebol system. Fourth, banks should remain independent of industrial firms. Fifth, various measures for technological and financial support for small firms in so far as they do not violate the WTO agreement should be implemented. Last but

not least, welfare state has to be reviewed thoroughly and reinforced.

Considering that the main source of productivity and its improvement in advanced countries is, without exception, not one big breakthrough made by a small number of economic agents but by numerous small bits made by countless people, economic democracy whatever version one might take, is the only means to realize such potentiality.

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