

**SOCIAL RAMIFICATIONS OF SOUTH KOREA'S  
ECONOMIC FALL:  
NEO-LIBERAL ANTIDOTE TO COMPRESSED  
CAPITALIST INDUSTRIALIZATION?\***

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*South Korea's economic collapse of 1997 was no less dramatic than her earlier economic success for three and a half decades. Obviously, South Koreans overstretched their economic ambitions in the 1990s, so that suicidal investment in heavy industries using short-term foreign loans was destined to cause a major balance-of-payment crisis. The recent economic — and, for that matter, social — crisis, however, seems rooted in many more ills of the South Korean model of development. Particularly menacing are social problems emanating from the psychological bubble concerning material betterment, the welfare-suppressive accumulation strategy, and the authoritarian treatment of labor. These practices and habits were often considered instrumental to achieving rapid industrialization and economic growth, but their social costs remained unpaid. Incidentally, various risky social conditions which had been built up under the South Korean development strategy began to hurt South Koreans at the grassroots level, with the IMF programs working as a crucial catalyst. In this sense, the IMF could (and should) have been much more careful about the local social contexts in which its economic restructuring programs would take effects (and side-effects). Despite its immediate success in debt renewal and economic stabilization, the current South Korean government has failed to alleviate these risky social conditions effectively.*

\*Earlier versions of this paper were presented at the Conference on "Current Political and Economic Issues in Korea", organized by the Center for Pacific Asia Studies, Stockholm University, Sweden, 28-29 January 1999, at the International Conference on "The Economic Crisis in East Asia and the Impact on the Local Population", organized by Roskilde University, Denmark, 29-30 October 1998, and at a colloquium in the Department of Sociology, Brown University, 4 November 1998. Portions of this paper will appear under the title of "South Korean Society in the IMF Era: Compressed Capitalist Development and Social Sustainability Crisis" in Pietro P. Masina, ed., *Rethinking Development in East Asia: From Illusory Miracle to Economic Crisis*, Curzon Press, London (1999). The author is grateful to participants in these scholarly gatherings for offering me many insightful and constructive comments. Research assistance provided by Lim Chae-Yun, Park Jong-Hun, Kim Cheol-Sik, and Song In-Ju is cordially appreciated. Please direct all inquiries to Prof. Chang Kyung-Sup, Department of Sociology, Seoul National University, Seoul 151-742, South Korea; Email changks@plaza.snu.ac.kr; Phone 82 2 871 9147; Fax 82 2 873 3799.

## INTRODUCTION

South Korea's economic collapse of 1997 was no less dramatic than her earlier economic success for three and a half decades. Obviously, South Koreans overstretched their economic ambition in the 1990s, so that suicidal investment in heavy industries using foreign loans was destined to cause a major balance-of-payment crisis. The recent economic - and social - crisis, however, seems rooted in many more ills of the South Korean model of development. While South Korea's new president Kim Dae-Jung has managed to persuade the International Monetary Fund and foreign commercial lenders into emergency relief lending and debt renewal, his real challenge is to impose radical reforms on business (*chaebol*), labor as well as bureaucracy that may undo various entrenched privileges and instead demand *gotong-bundam* (pains-sharing) accruing to strict market principles. Kim is achieving what he can achieve with direct administrative orders. But *chaebol* heads are still demanding old preferential treatment for their restructuring programs, labor unions are refusing to drive workers into unprotected unemployment and poverty, and state bureaucrats are simply trying to buy time until President Kim runs out of energy and zeal for reform.<sup>1</sup> The addiction of business leaders and bureaucrats to the so-called "crony capitalism", however derogatory this term may sound, does pose a serious impediment to Kim's neo-liberal reforms.

A much more fundamental dilemma arises from the very social conditions and mechanisms with which the South Korean economy grew explosively, mobilizing grassroots resources and energies. First, the successive authoritarian governments allied with business to quell labor demands, thereby creating a highly spoiled industrialist class that was reluctant to prepare material and social conditions for conciliatory labor relations. As a result, the corporate structural adjustment programs have been more difficult to implement, because employers have difficulty securing cooperative responses from extremely suspicious and angry workers. Second, the developmentalist regimes refused to invest in social and economic protection measures for workers and other needy groups in order to maximize the allocation of national resources in economic projects and corporate subsidies.

<sup>1</sup> According to frequent surveys in South Korea, Kim Dae-Jung's early performance was rated as superb in the areas of financial crisis management and foreign policy. But Kim was considered disappointing in the areas of political and administrative reform, unemployment relief, *chaebol* reform, labor relations reform, etc. In these areas, only tiny minorities saw Kim's performance as satisfactory. See *Sisa Journal* (11 June 1998), etc.

The cost of lacking any meaningful social safety net against economic fluctuations became evident as massive unemployment instantly created a completely helpless population of fired workers and their families. Third, even under the hostile governmental and corporate policies concerning labor rights and welfare, grassroots people — most of whom had experienced war and extreme poverty in their immediate past — were largely satisfied with their material betterment, remained optimistic about their economic futures, and continued to mobilize individual and familial resources into education, job training, and entrepreneurship. However, the sudden loss of work at unprecedentedly massive scales amid the bleak economic forecast came to demolish the psychological underpinnings of grassroots participation in capitalist industrial development.

None of these crisis tendencies is necessarily the inevitable consequence of the balance-of-payment crisis of late 1997 itself, but often ramified from the supposed economic cures coerced by the U.S.-led International Monetary Fund. As many international figures have already criticized, the Fund's flat indifference to the particular local social and economic situations of the countries under its financial rescue programs has served to aggravate social pains and economic conditions. Unfortunately, this has been the case in South Korea more clearly than anywhere else. Kim Dae-Jung's loyal subscription to the IMF doctrine, and to neo-liberalism in general, has been certainly instrumental in persuading Western governments and international lenders to participate in debt-renewal and new lending, but none of his reform programs concerning business conglomerates (*chaebol*), labor relations, or government work has shown to be very effective. As a former democracy fighter, Kim has tried to enfranchise labor unions into the formal political process through the labor-business-government agreement framework. This seemingly social democratic political arrangement, however, has been (ab)used only to justify massive lay-offs as the core of corporate structural readjustment. Labor unions could not but feel betrayed and thus vowed to struggle instead of pursuing compromise. In the meantime, the unemployment rate continued its steep hike, and the downward leveling of the middle and poorer classes has increasingly been apparent. Despite the gradual recovery of macro-economic indicators, the symptoms of the social crisis are accumulating. In fact, the core condition for the economic recovery has been the plundering of the social foundations of South Korea's "economic development primarily dependent upon human resources."

TABLE 1. ECONOMIC GROWTH IN SOUTH KOREA

Year	GDP (billion \$)	per capita GNP (\$)
<i>amount in US dollars</i>		
1953	1.3	67
1955	1.4	65
1960	2.0	79
1965	3.0	105
1970	8.1	253
1975	21.3	594
1980	62.8	1,597
1985	94.3	2,242
1990	253.6	5,883
1995	456.5	10,037
<i>total growth rate</i>		
95/53	351.2	149.8
95/60	228.2	127.1
95/70	56.4	39.7
95/80	7.3	6.3
95/90	1.8	1.7

Sources: *Footsteps of South Korea Seen Through Statistics* (in Korean), p.315; *Social Indicators in Korea*, 1997, p.137; Author's calculation of total growth rate.

## SOCIAL CONDITIONS OF SOUTH KOREAN DEVELOPMENT

Up until the sudden financial crisis of late 1997, South Korea's experience with economic development had served as a main arena for new theories and concepts in development studies. Neo-classical economists, political economists, sociologists, political scientists, and historians joined the forum on the South Korean "developmental miracle." All conceivable factors for development were introduced: laissez-faire and free trade, state initiative, human capital formation, Confucian work ethic, state-business nexus, international product cycle, international political structure, colonial legacy, and abundant labor. Some saw the utility of the scientific tools already existing in their respective disciplines, whereas others invented new models and concepts to highlight various unique aspects of the South Korean developmental experience. In either way, as shown in Table 1, the stunning speed of economic growth and industrialization in South Korea compelled these scholars to verify their ideas (and ideologies) against perhaps the most notable developmental achievement in the latter part of the twentieth century.<sup>2</sup>

One line of debate drawing particular attention along the economic crisis across Asia was triggered by Paul Krugman. Krugman (1994) characterized the developmental experience of South Korea (and other Asian countries) as “input-driven” economic growth as compared to the supposedly “efficiency-driven” growth of Western industrial economies. Many (neo-classical) economists follow Krugman’s view, albeit without presenting systematic research outcomes. In Krugman’s perspective, the current economic crisis in Asia may well be an inevitable outcome of what could be termed *debt-driven growth*.<sup>3</sup> However, there are serious case studies of South Korean industrialization — for instance, by Alice Amsden (1989), Peter Evans (1995), and John Matthews (1995) — which evince how South Korean bureaucrats and entrepreneurs successfully strove to achieve a technically advanced industrial system.<sup>4</sup>

I do not intend to side with either one of these opposing parties of thought. In my observation, there is no denying that South Korean *chaebol* conglomerates, under the tacit encouragement of the previous president Kim Young-Sam’s *Singyeongje* (New Economy) administration, relied more on debt for their growth than on technological and organizational innovation. Still, these South Korean enterprises came to compete successfully with Japanese, American, and European enterprises in many of the most advanced industrial sectors. Since their overexpansion was accompanied by increasing competitiveness, it was certain to create worry — if not fear — among Western and Japanese enterprises in this age of global overproduction.<sup>5</sup> In the 1960s and 1970s, the South Korean economy took off through the utilization of nearly “unlimited supplies of labor” (cf. W. Arthur Lewis, 1954). The simple fact was that the economy grew too fast to hang on continuously in the primitive labor-intensive sectors. Thus, in the late 1970s, the

<sup>2</sup> I conceptualize these economic, social, and political achievements and changes of South Korea as *compressed modernity* (Chang, 1999).

<sup>3</sup> This does not imply that Krugman attributes all responsibility for the financial fiasco to Asia alone. At least since the International Monetary Fund (IMF) rescue programs in the region caused economic aggravation and social confusion, he has been a vocal critic of international financial manipulators, including both the IMF and transnational financial speculators.

<sup>4</sup> Moreover, in the 1960s and the 1970s, South Korea was by nature a transition economy (from family farming to capitalist industry), in which the combination of abundant village-provided migrant labor and new industrial technology led to economic growth, both input-driven and efficiency-driven. Without this condition, the Lewisian development could not have occurred (cf. Lewis, 1954). Krugman’s view on the efficiency-driven nature of Western economic growth takes for granted a stable, already industrialized economic system — a condition that cannot be taken for granted in non-Western, mostly transitional economies.

<sup>5</sup> See Palat (1999) for his emphasis on this overproduction problem.

South Korean government decided to undertake the transition from labor-driven growth to technology and capital-driven growth, and *chaebol* leaders successfully rode on the tide to receive various preferential governmental support in building up their industrial kingdoms. In this process of ceaseless industrial transitions, South Koreans proved themselves to be exceptionally capable OJTs (on-the-job-trainees) in capitalist industrialization.

Given that the South Korean economy developed through both maximum input mobilization and substantial technological progress, my question is how South Koreans were able to drive maximum amounts of social and economic resources into the industrialization process. It has to be acknowledged that even input-driven economic development is a highly difficult task, at which only a handful of non-Western countries have had success. I do not think that South Koreans had some magical ability in this regard. Material sacrifice, political suppression, and self-consoling optimism on the part of grassroots South Koreans were the basic social requirements for the economic growth strategy centered on the concentration of material and human resources in state-selected industrial enterprises.

First, the successive South Korean administrations exhausted their public budgets on economic development projects, whose benefits were immediately monopolized by private industries. They therefore had to minimize state programs for protecting and improving the everyday lives of ordinary citizens. Until quite recently, social security had not been a significant component of national politics or government policy. Moreover, an integrative framework for social policy had not existed. Second, military-turned political leaders did not hesitate to support exploitative private industrialists, often using brutal physical violence, when workers argued for decent wages and work conditions. Labor had to be suppressed supposedly for the sake of international (price) competitiveness, and South Korean political leaders' deep confrontation with the Labor Party in North Korea intensified their hatred against the proletariat. Under such political auspices, a heavily spoiled capitalist class arose in South Korea which continued to deal with labor mainly on the basis of state-provided physical coercion.<sup>6</sup> Third, no South Koreans opposed the national industrialization project even when they were alienated or adversely affected by it. Even under these hostile conditions, many workers did experience increasing income, although such increases were usually far behind the profit growth of their employers.

<sup>6</sup> In addition, the owner management of *chaebol* (i.e., the direct control of corporate management by *chaebol* owners) precludes the Dahrendorfian conciliation between employee managers and workers (cf. Dahrendorf, 1959). The target for workers' class struggle has always been clear — *chaebol* head and other owner-managers from his family.

More importantly, most grassroots people motivated or hypnotized themselves to become loyal supporters of the national industrialization project. Their “today” did look better than “yesterday,” whereas their “tomorrow” would be even better than “today.” Their “yesterday,” without too many exceptions, was filled with poverty, hunger, confusion, and war. This mentality induced them to accept austerity measures voluntarily and to allocate all financial resources for education, savings, and other future-oriented social and economic investment.

These social conditions were not exclusive to South Korea but widespread in rapidly industrializing capitalist economies. Poverty, suppression, and illusion are rather typical symptoms of unfair domination, and I would not expect that South Koreans could have enjoyed an exceptionally humane capitalist economic system. However, abusive social conditions cannot, and should not, be perpetuated too long if a sustainable social and economic system is to be established. The crucial mistake made by South Korean politicians, bureaucrats, and business leaders was that they clung to an unrealistic premise that such conditions could be maintained endlessly. Even at the time South Korea faltered into the current financial crisis, such problematic conditions had not been alleviated to any meaningful extent. The social pains triggered by the financial fiasco (and the IMF regulation programs for it) are much more acutely felt because of these conditions.

#### ECONOMIC BUBBLE, PSYCHOLOGICAL BUBBLE

After experiencing three and a half decades of sustained and rapid income growth since the early 1960s, most South Koreans began to experience substantial reductions in or loss of income. The national economy suffered a 5.8 percent decline in GDP (Gross Domestic Product) in 1998 (*Hankyoreh*, 24 March 1999). In U.S. dollars — against which the value of the Korean won nearly collapsed — the same year recorded a devastating 32.5 percent shrinkage of the national economy. Once ranked as the eleventh largest economy in the world, the South Korean economy was demoted to the seventeenth. Likewise, per capita GNI (Gross National Income) plummeted to 6,823 U.S. dollars — a 33.8 decrease from the previous year, or the same level reached seven years before. South Koreans became a less-than-affluent people whose income level was only the 42<sup>nd</sup> highest in the world. Other crisis symptoms were in line. Corporate and private assets were devalued at unprecedented scales, innumerable corporations went bankrupt or liquidated, and workers in almost every industry faced massive lay-offs and pay-cuts.

The value of stocks, houses, and land plummeted as a result of the national financial crisis. According to a report by Samsung Economic Research Institute (quoted in *Hankyoreh*, 18 September 1998), the total value of listed stocks decreased by 54.6 percent between May 1997 and July 1998; the total value of houses (including apartments) shrank by 11.8 percent between November 1997 and July 1998; and the total value of land dwindled by twenty percent between the fourth quarter of 1997 and the second quarter of 1998. Obviously, these value depreciations far exceeded the level of economic “bubble bursting.” It may appear rather surprising to many outside observers that most South Korean firms survived the stock price collapse. Ironically, according to the apt analysis of Robert Wade (1998), this outcome should be attributed to the fact that the financial structure of South Korean firms has been sustained by borrowing, and not by stock prices.<sup>7</sup> The depreciation of housing and land values and the freezing of housing and land markets effected a finishing blow to many middle class families and small industrialists who had maintained their financial basis by investing in real estate.

Ever since the financial crisis erupted, the unemployment rate continued to climb (see Table 2). Even the seemingly exceptional two months of August and September 1998, were not real exceptions, because the increase of those giving up their job searches contributed to reducing the denominator of the unemployment statistic. Official figures, which count unemployment still under ten percent by regarding even those working a few hours per week or staying home on unwanted leave as employed, severely underrated the actual situation. The number of people under unstable and/or tentative employment has been considered even larger than the number of unemployed people. If these practically unemployed people and those who have helplessly given up on the job search are taken into account, the actual number of unemployed people may well have reached three to four million, accounting for nearly fifteen to twenty percent of the working-age population.

Because of these economic collapses, South Koreans became the second most damaged population in Asia amid the region-wide financial crisis. (The Indonesian economy, as widely known, suffered the greatest damage.) As shown in Table 3, the “misery index” — the pressure of unemployment and inflation beyond economic growth — increased most dramatically in

<sup>7</sup> It is this feature of the South Korean economy that IMF officials ignored in devising their supposed rescue programs based upon high interest rates, thereby aggravating the situation critically.



**TABLE 2.** CHANGES IN THE OFFICIAL UNEMPLOYMENT RATE

Month	Unemployment rate	Number of unemployed people
November 1997	2.6	574
December 1997	3.1	658
January 1998	4.5	934
February 1998	5.9	1,235
March 1998	6.5	1,378
April 1998	6.7	1,434
May 1998	6.9	1,492
June 1998	7.0	1,529
July 1998	7.6	1,651
August 1998	7.4	1,578
September 1998	7.3	1,572
October 1998	7.1	1,536
November 1998	7.3	1,557
December 1998	7.9	1,665
January 1998	8.5	1,762
February 1998	8.7	1,785

Note: The official unemployment rate in South Korea is calculated by assuming one hour of work per week constitutes the employed status, and thus excludes severely underemployed workers (who are usually considered "unemployed" in advanced industrial economies).

Source: Compiled from the Data Base of the National Statistical Office.

South Korea among all Asian countries.<sup>8</sup> Since the pains from an economic crisis are relative to the pre-crisis conditions of life, South Korea's difficulty appears particularly severe.

The pains, however, were not felt evenly among different classes. As shown Table 4, the poorest segments of the population were hit particularly hard. The richest people were clearly an exception, as they experienced a nominal income increase in the first half of 1998 (in part due to skyrocketing interest rates). These income disparities widened with time. It should be noted that these statistics omit those at the extreme ends of the economic hierarchy (i.e., urban capitalist households, on the one hand, and unemployed and underemployed persons' households, on the other), and thus cannot fully describe the actual extent of the existing inequality. On average,

<sup>8</sup> Relatedly, a survey of 15,900 people in nine Asian countries in 1998 (conducted by the South Korean branch office of FSA Sofres) revealed that, among South Koreans, ninety percent experienced income reductions, eight-nine percent experienced reductions in purchasing power, and seventy-eight percent experienced reductions in asset values (quoted in *Hankyoreh*, 16 October 1998). These were the highest figures for the nine surveyed countries surveyed.

TABLE 3. MISERY INDEX IN 1997 AND 1998

Country	1997	1998
<i>Asian countries</i>		
South Korea	1.5	20.9
Indonesia	6.8	96.5
Thailand	10.6	25.1
Malaysia	-2.4	10.8
China	-1.0	-0.1
Hong Kong	2.6	9.6
Taiwan	-3.2	0.7
<i>Advanced countries</i>		
United State	3.4	2.8
Japan	4.3	6.7
France	11.4	10.0
Germany	10.7	10.0
England	5.4	5.8
Sweden	7.1	4.8
Italy	12.5	11.8
Spain	19.4	18.1
Canada	7.1	6.7
Australia	5.6	6.7

Notes: Misery index is computed as unemployment rate plus inflation rate minus GDP growth rate; 1998 figures cover January to October.

Source: Abridged from data in Daewoo Economic Research Institute, 1998, "The Phenomenon of Pain Transfer from Advanced Countries to Asian Countries and Its Implication for the South Korean Economy" (in Korean; an unpublished report).

TABLE 4. ANNUAL INCOME CHANGES AMONG URBAN WORKER HOUSEHOLDS BETWEEN 1997 AND 1998

Income group	Quarter			1998/1997
	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	
All	-2.8	-5.3	-14.4	-6.7
Highest 20%	0.9	2.3	-8.0	-0.3
2nd high 20%	-3.1	-5.6	-15.2	-8.0
3rd high 20%	-4.4	-6.9	-18.3	-9.9
2nd low 20%	-5.5	-8.8	-19.6	-11.8
Lowest 20%	-12.0	-14.9	-24.4	-17.2

Source: Compiled from the Data Base of the National Statistical Office.

urban worker households suffered nominal income reductions between 1997 and 1998: by 2.8 percent between the first quarters, by 5.3 percent between the second quarters, and by a devastating 14.4 percent between the third quarters, and by 3.8 percent between the fourth quarters (National Statistical Office, 1999). It should also be noted that the economic crisis already broke out in the fourth quarter of 1997, so that the comparison between the fourth quarters of 1997 and 1998 does not fully represent the effect of crisis.<sup>9</sup> The year of 1998 as a whole showed a 6.7 percent decrease from the previous year.

As a consequence, every household was forced to reduce consumption. The consumption expenses of urban worker households decreased between 1997 and 1998, by 8.8 percent between the first quarters, by 13.2 percent between the second quarters, by 16.8 percent between the third quarters, and by 4.0 percent between the fourth quarters (National Statistical Office, 1999). The entire year of 1998 showed a 10.7 percent decrease from the preceding year. It is quite notable that South Koreans' consumption expanded rapidly until the very moment of their country's financial collapse. That is, the third quarter of 1997 marked an 8.2 percent increase in the consumption expenses of urban worker households over the previous year.

Reductions in consumption were relatively small among the richest and the poorest groups, however, for diametrically different reasons (Cheil Communications, 1998). The most destitute people did not have any room for cutting down on consumption any further. The most affluent people, with their cash assets bloated abruptly thanks to "IMF-pushed" ultra-high interest rates, may have had an interest in expanding their conspicuous consumption, but social rage and political pressure against them amid the national financial fiasco forced them to feign repentance by abstaining from lavish spending.<sup>10</sup>

The figures in Table 5 reveal that the economic crisis induced *hahyang pyeongjunhwa* (downward leveling) of income as the proportions in the lowest income groups increased drastically. The "collapse of middle class," which has been talked about frequently in media articles and academic sem-

<sup>9</sup> For instance, the third quarter of 1997 showed a seven percent increase in the urban worker household income over the previous year, whereas the fourth quarter of 1997 showed only a 0.6 percent increase (National Statistical Office, 1999).

<sup>10</sup> Media have presented many mutually contradictory reports about lavish consumption by rich people under the economic crisis. The rich have been portrayed as unconscionable conspicuous consumers enraging unemployed workers and other troubled ordinary citizens. Their expanded consumption, however, has been called for in order to stimulate the national economy. For instance, see *Sisa Journal* (11 June 1998).

**TABLE 5.** CHANGES IN MONTHLY INCOME AND SELF-PERCEIVED CLASS STRATUM BEFORE AND AFTER THE “IMF CRISIS” IN FOUR LARGEST SOUTH KOREAN CITIES (N=2,500)

	Pre-crisis (1997)	Post-crisis (1998)
<i>Monthly income (in million won)</i>		
401 and more	6.5	3.8
301-400	11.2	7.5
251-300	16.3	13.2
201-250	24.3	20.0
151-200	21.6	22.3
101-150	16.5	23.0
100 and less	3.6	10.2
<i>Self-perceived class stratum</i>		
High	1	1
High middle	12	6
Middle	65	60
Low middle	19	26
Low	3	7

Source: Compiled from data in Cheil Communications, 1998, “IMF Half Year, Self-Portrait of South Koreans” (in Korean; an unpublished survey report), pp.6-7.

**TABLE 6.** REPORTED INCOME CHANGES BY SELF-PERCEIVED CLASS STRATA BEFORE AND AFTER THE “IMF CRISIS” IN FOUR LARGEST SOUTH KOREAN CITIES (N=2,500)

	Great decrease	Some decrease	No change	Some increase	Large increase
All	36.9	42.5	19.5	0.9	0.3
High/high middle	28.7	39.3	30.3	1.6	0.0
Middle	30.4	47.5	21.3	0.7	0.5
Low middle	46.3	38.0	14.6	1.2	0.0
Low	57.9	26.2	15.9	0.0	0.0

Source: Cheil Communications, 1998, “IMF Half Year, Self-Portrait of South Koreans” (in Korean; an unpublished survey report), p.7.

inars, does appear a serious possibility in any future. It might be safe to say that a monthly household income of at least two million won is a prerequisite for basic human subsistence in big cities (whose cost of living has been ranked among the world highest). It was already about a decade ago (i.e., in 1989) that Hanguknochong (the Federation of Korean Trade Unions or FKTU) estimated about a million won per month as the absolute household-level poverty line (as quoted in Lee, et al., 1991, p.168). Class-specific pat-

**TABLE 7.** SURVIVABLE MONTHS AFTER THE UNEMPLOYMENT OF HOUSEHOLD HEAD BY INCOME GROUPS IN SOUTH KOREA

Income group	Survivable months after unemployment of household head
1st (Lowest 20%)	17
2nd (21-40%)	21
3rd (41-60%)	31
4th (61-80%)	36
5th (Highest 20%)	122

Source: Bae Jun-Ho, 1998, "Life Changes of Low Income Strata under Employment Uncertainty" (in Korean), Paper presented at the National Statistical Office Seminar on "The Changes and Trends in the Living Conditions of South Korean Households," 1 September 1998.

terms of income reduction, as shown in Table 6, are largely similar to the findings in Table 4. Again, the poorer they were, the more seriously their income decreased in the course of the current economic crisis.

The bursting of a sort of *psychological bubble* accompanied the income reductions in South Korean. South Koreans' self-perceived class status has been falling substantially. On the eve of the current economic crisis, as shown in Table 5, sixty-five percent of South Korean urbanites classified themselves as "middle" class, twelve percent as "high middle" class, and nineteen percent as "low middle" class. Six months into the economic crisis, those perceiving themselves as "high middle" or "middle" class decreased notably, if not dramatically. Such psychological downslide is far from over, as additional unemployment resulting from corporate structural adjustment and exhaustion of household savings are still in order for many subjectively and objectively middle class families. As shown in Table 7, about forty percent of the South Korean population would lose all means of subsistence within two years, and the next 40 percent within three years. Even if the rapid economic recovery promised by the current state leadership is realized, many of these demoted South Koreans will never be able to regain their earlier economic and social status.

In my view, this psychological dejection is what haunts South Koreans most seriously and destabilizes the social and political basis of South Korean development most critically. When the authoritarian developmentalist state denied them social rights to humane living conditions, and when greedy industrialists refused to give reasonable compensation for their work, grassroots South Koreans still remained highly motivated and optimistic about their economic futures. An interesting ramification of this attitude was a sort of *false middle class consciousness*. Figures in Table 5 illustrate that, at least before the economic crisis, almost everyone thought of them-

selves as middle class. A nation-wide survey in 1994 by the South Korean Consumer Protection Board reported that 81.3 percent classified themselves as “middle class” as opposed to 7.1 percent and 11.7 percent who saw themselves as “upper class” and “low class” respectively (as reported in *Sisa Journal*, 11 November 1998). South Koreans’ “workaholism” was largely fueled by such psychological self-aggrandizement. The recent demoralization of grassroots South Koreans cannot but lead to a catastrophic constraint on socially sustainable development.

The precise factors generating the bloated self-perceptions of South Koreans in the social and economic hierarchy are yet to be analyzed. However, I may consider the following three matters critical. First, most South Koreans were enjoying better lives, at least as compared to their miserable existence in the pre-Park Chung-Hee era with a per capita GNP of less than one hundred US dollars. In locating their class position, South Koreans seem to have used, as the basic reference category, their destitute past more importantly than the living standard of their contemporaries. Almost everyone was feeling gratified by recollecting their memory of “cold and hungry old days.” Second, and relatedly, most South Koreans were expecting even better lives in the future. Interestingly, poor late-comers in social and economic competition showed particularly conservative attitude about the national developmental situation. Besides hard proletarian work, educational certification, real estate speculation, and small self-employed entrepreneurship were the most popular conduits for class advancement. Under a sort of *makcha* (last train) effect, those underclass individuals who had just prepared educational certificates, speculation funds, or business ventures were desperately hoping that the asymmetrical economic opportunity structures be maintained, at least until they could finally receive differential returns on their arduous investments. Third, South Koreans’ material as well as psychological attachments to adult children, parents, and siblings induced them to tie their class status to those of their extended family members (in particular, successful ones). Poor old parents would consider the social and economic situation of their successful children, if any, more importantly than their own situation in evaluating their class status. Adult (as well as young) children, even when lacking educational, technical, and financial resources for independent living, would identify themselves as part of their rich parents’ family, if any, in evaluating class status.

For these and many other reasons, grassroots South Koreans used to maintain a highly positive and optimistic attitude about material advancement.<sup>11</sup> This attitude underlay the widespread political conservatism of the lower classes that was apparent in parliamentary and presidential elections.

More importantly, the same attitude induced them to adopt voluntary austerity measures and to allocate all of their financial resources for education, savings, and other future-oriented social and economic investments. Such future-oriented investments were customarily made on a familial basis — i.e., educational investment for children and siblings, savings pools for family business, etc. (Chang, 1997b). As compared to the “social investment state” proposed recently by Anthony Giddens (1998) for the “renewal of social democracy” in the West, South Korea has manifested what may be called *the social investment family*. Recent statistics by the Organisation for Economic Cooperation and Development (OECD) concerning educational investment reveal that South Korea was far ahead of other OECD member countries in the family-provided portion of the expenses for higher education during the 1990-95 period.<sup>12</sup>

The significance of this self-generated social and economic efficacy may be proved conversely by the fact that grassroots South Koreans have nevertheless been fully aware of the unjust and biased nature of the “crony capitalist” order.<sup>13</sup> That is, even acknowledging the highly corrupt nature of wealth and power in their society, South Korean people strove to positively integrate their mental energy for the on-going process of national development. As illustrated in Table 8, most (urban) South Koreans in the mid 1990s perceived the economic opportunity structure as skewed and unfair. Nearly half also thought that law and order had been abused for the sake of injustice. Not surprisingly, such negative perception of social order has exacerbated since the national economic crisis of 1997. Likewise, even a 1998 survey conducted by the Free Enterprise Center — the official ideological apparatus of *chaebol* conglomerates — revealed an embarrassing reality that ordinary citizens’ perceptions of large corporations and business leaders were extremely negative (see Table 9). Obviously, grassroots South Koreans do

<sup>11</sup> A similar situation is observed even in China, a much poorer but relentlessly growing economy, where a majority classify themselves as middle class in various social surveys (e.g., Korea Broadcasting System and Yonsei University, 1996).

<sup>12</sup> The figure for South Korea was around eighty percent, and the second highest was Japan’s fifty to sixty percent (*Hankyoreh*, 25 November 1998).

<sup>13</sup> As Ravi Palat (1998) points out, the term “crony capitalism” should be qualified in regard to its different developmental consequences for different countries. Even grassroots South Koreans would not deny that some positive economic outcomes were produced by the state-business collusion. It is ironic that, confronting the boomerang effect of the Asian and Russian economic crises, even the U.S. government had to reveal its crony capitalist position by rescuing Long-Term Capital Management, a notoriously speculative hedge fund, from bankruptcy with astronomical amounts of public financial resources. Inevitably, this self-contradictory act caused wide criticism both within and outside the United States (*Hankyoreh*, 21 October 1998).

**TABLE 8.** PERCENT OF AGREEMENT ON THE UNFAIRNESS OF SOCIAL ORDER IN FOUR LARGEST SOUTH KOREAN CITIES (N=2,500)

	Only rich people can make more money	Success is not possible with honest effort alone	People obeying law and order get disadvantage
1994	75	70	39
1995	74	70	42
1996	74	71	44
1997	78	75	53
1998	80	75	56

Source: Cheil Communications, 1998, "IMF Half Year, Self-Portrait of South Koreans" (in Korean; an unpublished survey report), p.18.

**TABLE 9.** IMAGES CONCERNING CORPORATIONS AND BUSINESS LEADERS (five most negative ones in percent)

Images	Percent
<i>Corporations</i>	
Voracious ( <i>muneobalsik</i> ) expansion	15.9
Sudden riches, greed	13.0
Exploitation of small enterprises	12.0
Government-business collusion	11.8
Insolvency	10.4
<i>Business leaders</i>	
Dogmatism, authoritarianism	21.3
Government-business collusion	11.8
Only profit-seeking	8.8
Immorality	7.4
Extravagant life	5.3

Source: Survey data released to the press by the Free Enterprise Center, the Federation of Korean Industries, covering 800 ordinary people and 200 professionals in 1998, as reported in *Hankyoreh*, 25 September 1998.

not have much respect for the very kind of people they try to emulate. In the past, they tolerated these ruthless, greedy, dishonest, and immoral figures and their political and bureaucratic supporters only because they thought wishfully about their own chances of joining the economic parade and sharing its perks. Now, suddenly realizing that this possibility may well be unattainable in a foreseeable future, grassroots South Korean have every reason to accumulate psychological fuel for revolt.<sup>14</sup>



## GROWTH FIRST, DISTRIBUTION LATER, AND STRUCTURAL ADJUSTMENT NOW?

What does the state offer for economically dislocated and psychologically dejected South Koreans? The immediate answer — if not from government officials — will be an emotionally charged “Nothing!” Interviews and surveys of unemployed individuals and their dependants report unequivocally that most needy people have not received any public relief benefit, are not aware of any usable relief programs for them, and would not expect much help from the government anyway (e.g., Park, 1999; Kim, Lee, and Yang, 1998; Korea Institute for Health and Social Affairs and Korea Labor Institute, 1998).<sup>15</sup> Even those who have received some assistance express very low satisfaction. For instance, according to a newspaper survey of July 1998, 19.4 percent of the respondents expressed satisfaction with relief assistance (*Hankyoreh*, 31 July 1998). On the other hand, newspapers and television news have carried almost daily reports of fraudulent use and even embezzlement of the special unemployment program budget by government officials and welfare contractors (e.g., *Hankyoreh*, 30 September 1998; *Sisa Journal*, 13 August 1998). It is not unusual to hear candid confessions from government officials that they are simply inexperienced and do not know what to do in this kind of situation (*Hankyoreh*, 6 August 1998).

Ironically, it is this inexperience and irresponsibility on the part of the state concerning the social conditions of people's lives that help to protect politicians and bureaucrats from critical political challenges by grassroots citizens. Simply speaking, few grassroots South Koreans have serious expectations for social protection and relief by the state against unemployment and poverty. They saw the successive authoritarian developmentalist regimes either explicitly call for “growth first, distribution later” or made state work implicitly in that direction. As displayed in Table 10, the South Korean government committed itself to social security far less than those of

<sup>14</sup> In this context, it is quite understandable that, in late 1998, the South Korean government was busy publicizing optimistic predictions for the economic situation of the coming year. Its research organs began to present predictions for economic growth in 1999 which were much more optimistic than predictions by international agencies and domestic *chaebol*-run research institutions (*Kukmin Daily*, 9 November 1998). Government officials reportedly pressured *chaebol*-run research institutions to cooperate with the government by presenting similarly rosy predictions (*Digital Chosun*, 6 November 1998).

<sup>15</sup> According to Korea Institute for Health and Social Affairs, only about 10 percent of the unemployed people in 1998 received unemployment allowances, and most of them received benefits for no more than four months (*Hankyoreh*, 18 November 1998).

TABLE 10. GOVERNMENT EXPENDITURE IN SELECTED COUNTRIES

Country	Year	Gov't expendtr as % of GDP	% of Total gov't expenditure			
			Social security	Education	Economic affair	Defense
Australia	1995	27.9	33.8	7.6	7.1	7.6
Canada	1992	25.2	41.3	3.0	8.3	6.9
Chile	1994	19.7	33.3	13.9	15.4	8.8
Egypt	1993	35.7	11.0	12.3	8.0	8.7
France	1992	45.0	45.0	7.0	4.7	5.7
Germany	1991	32.5	45.3	0.8	9.7	6.4
Japan	1993	23.7	36.8	6.0	3.3	4.1
Kuwait	1994	56.2	16.6	10.9	8.0	22.3
Mexico	1990	17.4	12.4	13.9	13.4	2.4
South Korea	1995	19.9	9.3	18.1	24.0	15.7
Sweden	1994	48.5	48.2	5.0	13.2	5.5
Thailand	1992	15.0	3.9	21.1	26.2	17.2
United Kingdom	1992	43.1	29.6	3.3	6.6	9.9
United States	1994	22.0	29.6	1.6	6.4	18.1

Source: *Social Indicators in Korea*, 1997, p.533.

other late developing countries at similar levels of development, not to mention those of Western industrialized countries.<sup>16</sup> It is questionable whether any previous South Korean administration had an integrated conception of social policy per se.<sup>17</sup> As far as social issues were concerned, the successive South Korean administrations remained completely *laissez-faire* under the doctrine that may be called *developmental liberalism*. Supposedly for the sake of sustained rapid economic growth, the state showed a near indifference to social welfare.

*The only social entitlement for grassroots South Koreans was work.*<sup>18</sup> As most

<sup>16</sup> Simultaneously, the Confucian family ethic for mutual support was emphasized repeatedly as a fulcrum for social stability (Chang, 1997a). It has been an important task for the Ministry of Health and Welfare to find out, and award special prizes to, individuals whose self-sacrificing effort for supporting aged parents, handicapped children, and other needy persons under extremely destitute situations could be considered exemplary to other people.

<sup>17</sup> Even under the Kim Young-Sam administration, ministers in charge of welfare, health, labor, and environment used to attend the "Policy Meeting of Economic Ministers" in order to adjust their public work according to the guidelines set by the ministers in charge of economic affairs. There was no separate meeting for ministers of social policy matters.

<sup>18</sup> Rapid economic growth, as the core condition for supposedly full employment in South Korea, was somewhat comparable to Amartya Sen's (1981) social entitlement system.

of the available national economic resources were allocated to economic development projects and corporate subsidies, South Koreans had to find work through which they could reap some benefit from the economy-centered system. Without work, therefore, they would suffer from total social alienation. This very situation has surfaced in South Korean society. The most crucial dilemma of the incumbent South Korean administration has been that it has to persuade workers to accept such total alienation. Even if South Koreans may not complain too noisily about not receiving social security benefits from the government, they would not tolerate bureaucrats and politicians demanding their resignation from work for the sake of "structural adjustment" in the economy. Thus, at factories, offices, and other places of work, they do not hesitate to express their individual and collective anger at employers and government authorities whenever their *work entitlement* comes under threat.<sup>19</sup>

Another factor contributing to the desperate resistance of workers to layoffs is corporate welfare. Under the slogan of "company as family," many large companies used to offer employees such fringe benefits as housing, children's school tuition, medical protection, life insurance, child care, leisure and vacation facilities, and even graduate study opportunity, although these benefits do not constitute corporate legal responsibilities (Song, 1995). In particular, major *chaebol* conglomerates have called themselves *gajok* (family), like Samsung Gajok and Daewoo Gajok, and have provided workers with various paternalistic aid. Also, a crucial political reason has existed for bountiful corporate welfare, in particular, since 1987. The demise of Chun Doo-Hwan's military dictatorship paved the way for a sudden upsurge of workers against the government and its client industrialists. Roh Tae-Woo's next government tried to elude political confrontation with organized labor by leaving labor matters between business and labor. At large factories and offices where organized labor was able to exercise pressure and threat, employers had to reach compromise by offering various fringe benefits in addition to higher wages. With the government maintaining its abstinence from social welfare (even in times of huge budget surplus), corporate welfare became a significant tool for improving living conditions, at least for those lucky workers employed in large *chaebol* compa-

<sup>19</sup> In fact, once they are laid off, they cannot maintain labor union membership of any kind. Against the urgings of the ILO (International Labor Organization) and the labor-business-government agreement in early 1998, the right of unemployed workers to maintain or seek union membership at an industrial or regional level still remains legally prohibited under the strong resistance of prosecutors and other conservative bureaucrats (*Hankyoreh*, 19 November 1998). Thus, unemployment automatically leads to detachment from organized social power.

nies. These days, such corporate welfare benefits evaporate as soon as workers are discharged from their companies in the process of personnel shake-up.

As massive lay-offs have become an indispensable part of the structural adjustment program in an overexpanded economy, the South Korean government is at last realizing the true *cost of lacking a comprehensive and functioning welfare system*. In this context, the so-called *sahoeanjeonmang* (social safety net) has suddenly become the key word for public discourse. Without the social safety net, a democratic government such as Kim Dae-Jung's may not be able to persuade its people into massive unemployment, for it would mean nothing other than free fall to the ground. In this context, the South Korean government is apparently struggling to reinvent itself as a *social policy state*, albeit, at a fairly rudimentary level. The tragedy is that, while political leaders and government officials use most of their time in a trial-and-error manner, thousands of grassroots South Koreans are losing their jobs and incomes every day.

Two factors in particular have intensified the anger of grassroots South Koreans. As explained in detail below, in January 1998, labor unions reached a historical agreement with government and business leaders on how to overcome the current economic crisis in a cooperative and peaceful manner. The core tenet of the historically unprecedented tripartite compromise was *gotongbundam* (pains-sharing). As workers are supposed to accept lay-offs and pay reductions "under certain urgent managerial situations," the government and corporations should have embarked on thorough organizational reforms, expunging their entrenched and unjust prerogatives. Neither government offices nor *chaebol* corporations have shown any meaningful initiation of such reforms. In fact, their intention to implement such reforms itself is under question.

According to a 1998 survey of 1,030 residents in the six largest South Korean cities, as many as 50.6 percent of the respondents indicated that the occupation they most preferred for the spouses of their daughters or sisters was government official (see Table 11). *Sinbunbojang* (status guarantee) attached to these public jobs is an obvious reason for the preference. Nowadays, this status guarantee is called "the iron rice bowl" — a term borrowed, ironically, from socialist China where urban workers used to enjoy similarly secure employment conditions.<sup>20</sup> In early 1998, the government

<sup>20</sup> Owning a large restaurant was a distant second, preferred by 11.3 percent of the respondents. The preference for large restaurant ownership is interesting, but quite understandable in that the restaurant business — a self-employed activity without worry for getting fired — has become fashionable among those with certain amounts of capital.

**TABLE 11.** MOST FAVORED OCCUPATIONS FOR SPOUSES OF DAUGHTER OR SISTER (N=1,030)

Occupation	Percent
Official	50.6
Big restaurant owner	11.3
Big company employee	7.7
Professor	6.0
Physician	5.5
Businessman	4.4
Professional	2.3
Prosecutor	1.9
Technician	1.8
Foreign currency dealer	1.6
Reporter/Producer	1.3
Judge	1.0

Source: A survey by Weekly Chosun of residents (aged 20 years and older) in the six largest cities, 28-30 September 1998 (*Weekly Chosun*, 22 October 1998).

announced a plan to reduce the number of administrative personnel by ten percent, but not many have actually been laid off. Natural retirement and some one-year-early retirement soon provided the promised ten percent reduction. Even the very intent of the political leadership to reform the government bureaucracy came under wide suspicion when it announced its government organizational restructuring plan on 23 March 1999 (*Hankyoreh*, 24 March 1999). Contrary to the recommendations of the special committee which had carried out base studies, President Kim Dae-Jung adopted a plan which would require the addition of one ministry and one semi-ministry to the already bulky administrative bureaucracy, omitting any significant reduction in his administrative staff. The privilege attached to public occupations is manifest even in the process of the so-called structural adjustment. When workers were discharged from state-funded and/or state-run organizations, including banks, they were offered *wirogeum* (consolation money) amounting to hundreds of thousands of U.S. dollars. Not many private workers could have dreamed of saving that much amount, even throughout their entire careers. Popular outrage was intensified further when Kim Dae-Jung remarked, "as far as people's legal sentiment allows, it is necessary to generously forgive" the petty corruption of government officials in the past (*Hankyoreh*, 26 March 1999). While this remark was intended as an offer of "carrot" to extremely resistant bureaucrats (whom Kim had not been able to discipline), the expectation held by ordinary citizens to see

**TABLE 12.** THE DEBT STRUCTURE OF FIVE AND THIRTY LARGEST CHAEBOL CONGLOMERATES IN SOUTH KOREA (in billion won)

	1996 end	1997 end	June 1998
<i>Five largest chaebol</i>			
Bank loans	92,993.2	148,066.7	153,709.5
Corporate bonds	20,438.2	41,989.4	53,580.4
<i>Thirty largest chaebol</i>			
Bank loans	166,051.7	243,540.8	240,994.8
Corporate bonds	33,224.6	62,970.4	75,262.5

Source: Data released to the press by the Bank Inspection Board, as reported in *Hankyoreh*, 22 October 1998.

corrupt bureaucrats punished as part of the pains-sharing measures and to be served by a clean and efficient government evaporated.

The resistance of *chaebol* leaders to structural reforms is even more problematic. Practically no one thinks that *chaebol* conglomerates have undergone serious reforms in ownership, management, or financial structure. From outside, the IMF, World Bank, international credit appraisal companies, and foreign political leaders consider *chaebol's* sneaky disobedience as the most serious blemish of South Korea's otherwise satisfactory structural adjustment. At the first meeting between then president-elect Kim Dae-Jung and major *chaebol* leaders in December 1997, the late Chey Jong-Hyon, then president of the Federation of Korean Industries, remarked, "These days, we businessmen have no word to say. The economy got into this mess because of our fault. We are the worst among all sinners." (*Dong-A Ilbo*, 25 December 1997). This seemingly remorseful attitude, however, has not left any clear imprint in terms of self-denying corporate reforms. In fact, it appears that the five largest *chaebol* conglomerates (Hyundai, Samsung, Daewoo, LG, and Sunkyung) have been trying to expand their corporate bodies further, again through borrowing (Yun, 1998; see Table 12). It was reported that these largest *chaebol* conglomerates monopolized the corporate bonds market, thereby accumulating operating funds in amounts large enough to counter governmental threats (or bluffs?) to withdraw bank loans in case of disobedience (*Hankyoreh*, 22 October 1998). In the mean time, the government, under the unexpected but inevitable encouragement of the IMF and other Western authorities, declared on 9 September 1998 to embark on a program to boost the economy through expanded public spending, lowered interest rates, etc. Even though Kim Dae-Jung would not likely agree, there is every indication that *chaebol's* strategy of buying time has

**TABLE 13.** ANALYSIS OF CORPORATE MANAGEMENT PERFORMANCE IN THE FIRST HALVES OF 1997-1998 (N=2,328)

Performance item	1997	1998
Total sales increase rate (%)	9.1	5.0
Sales profit ratio	7.5	8.8
Total profit ratio	1.4	-0.4
Per worker sales increase rate (%)	13.9	20.0
Per worker value-added increase rate (%)	11.4	9.3
Per worker expense increase rate (%)	8.3	-4.7
Worker expenses to sales ratio	12.0	9.4
Finance costs to sales ratio	6.2	9.3
Total debt ratio (year-end for 1995-97)	396.3	387.0

Source: The Bank of Korea, 1998, "The Analysis of Corporate Management in the First Half of 1998" (in Korean; an unpublished survey report).

largely been effective, nullifying the governmental initiative for corporate structural reforms.<sup>21</sup>

Grassroots people do not have as much freedom to refuse reforms as government offices and *chaebol* corporations. As indicated above, the unemployment rate continued to climb well into 1999. Moreover, an ever increasing number of people were even giving up job search. The mighty *chaebol* firms do not lag behind smaller firms in resorting to massive lay-offs. Between January and September 1998, about ten percent of the employees of the five largest *chaebol* conglomerates lost their jobs (*Chosun Ilbo*, 28 October 1998). Among about nine hundred thousand workers employed by the thirty largest *chaebol* conglomerates as of October 1998, still one third of them were expected to be eliminated through the process of corporate structural adjustment in the coming months.

As a result of relentless labor reforms, South Korean companies were able to reduce the ratio of personnel expenses to total sales to 9.4 percent in the first half of 1998, marking a 2.6 percent point decrease from only a year before (see Table 13). Despite (or because of) such drastic reductions in personnel expenses, South Korean companies still enjoyed a 9.3 percent increase in the per worker amount of value-added and a remarkable 20.0 percent increase in the per worker sales volume in the first half of 1998.

<sup>21</sup> It is paradoxical that Kim Dae-Jung has relied on business initiatives from *chaebol* in his most praised political work, the "Sunshine Policy Toward North Korea". In particular, the Hyundai Group's North Korea tour programs and other business deals with North Korea constitute the crux of Kim's "politics-business separation" policy (*Sisa Journal*, 19 November 1998).

Largely due to labor reform effects, the operating profit rate of South Korean companies in this turbulent economic period reached 8.8 percent, achieving a 1.3 percent point *increase* from a year before. The trouble, however, lay elsewhere. The burden of debt service, in terms of the ratio of finance costs (interests, etc.) to total sales, increased drastically in the first half of 1998 to reach 9.3 percent, recording a 3.1 percent point increase from a year before. After paying huge finance costs which were comparable to total personnel expenses, South Korean companies had to experience a current loss rate of 0.4 percent. The fruits of their personnel lay-offs, pay-cuts, and harder work were all expended to deal with the financial mess created by the owners and managers of these companies. However, in the judgment of most South Koreans, these business owners and managers have not been repentant about their wrongdoings.<sup>22</sup>

“Development with sizable structural unemployment” has become a new saying since the economic shock. However, though unrecognized previously, it has long been a hard reality. South Koreans now realize not only that economic depression and structural adjustment necessitate massive lay-offs at various ranks and sectors of the economy, but also that almost full employment, unlike their perception and governmental statistics, has never been a true reality. A large proportion of the officially employed population were in effect under chronic and severe underemployment which never allowed them secure living. Temporary workers at construction sites, sales and service workers, and part-time home service workers constituted the very first group to experience unemployment (Nam and Lee, 1998). Their transitory occupational status made it difficult to institute social security programs for them. The current economic shock hit these people most brutally as they were exposed to total unemployment with no personal or public means of relief.<sup>23</sup>

The newly unemployed have been trying every possible self-help mea-

<sup>22</sup> According to a 1998 survey by the Korea Development Institute (1998), of one thousand ordinary South Koreans, 40.9 percent of the respondents thought that business owners and managers had no remorse whatsoever for corporate mismanagement. Another 46.4 percent replied that the remorse of these businessmen was insufficient. Such negative perceptions were even stronger among 305 economic affairs specialists surveyed separately. According to forty-two percent of them, South Korean businessmen had no remorse for corporate mismanagement; according to 51.1 percent of them, South Korean businessmen had only insufficient remorse.

<sup>23</sup> According to an estimate of government-affiliated researchers in June 1998, only 6.6 percent of the unemployed population received unemployment allowances from the national employment insurance (*Hankyoreh*, 29 July 1998). It is suspected that a large majority of the currently unemployed population are formerly underemployed people.



sure. Some have decided to return to their home villages for farming, and others have flown to foreign countries recollecting the years of the Middle East construction boom and the Vietnamese war.<sup>24</sup> Where possible, many workers have attempted to resurrect their bankrupt companies by taking over ownership and management. People under on-spot unemployment — i.e., new graduates from colleges and high schools — have tried to evade their ill fate by applying for military service (which is already full) and higher learning.<sup>25</sup>

Most importantly, many unemployed people have turned to their families and kin (parents, children, and siblings) for such emergency relief measures as role switching, complementary wage earning, cash lending, bank payment guarantees, housing sharing, etc. (Park, 1999; Chang and Kim, 1999; Korea Institute for Health and Social Affairs, 1988). These familial relief arrangements have enabled many to earn time for preparing their comeback, and their family relationships, in turn, have been further solidified (Cheil Communications, 1998: 32). Still more people, however, are seeing their families dissolve, as extreme material destitution places them and their family members in uncontrollable stress, and induces them to neglect family support responsibilities. A 1998 government survey of unemployed people in Seoul and Pusan revealed that separation and divorce were increasing rapidly due to the material and psychological distress of unemployment (*Hankyoreh*, 26 September 1998). The numbers of children and youth in need of protection — such as deserted babies and out-of-wedlock babies, physically and mentally abused children, run-away youth, and students skipping meals — have also been increasing seriously.

The misery of elderly, youth, children, and handicapped in poor neighborhoods, while simply taken for granted by the government and society, is likely to worsen as scarce public attention and support tend to dwindle even further under *the primacy of the unemployment issue*. In the near absence of public welfare protection, needy people used to depend for their sheer survival on generous family members and relatives with regular jobs and stable incomes (Chang, 1997a). Nowadays these generous family members and relatives themselves have been losing jobs and incomes without much hope for reemployment.<sup>26</sup> The pains of people in the poorest and most

<sup>24</sup> According to figures from the Ministry of Agriculture, 4,141 urban households moved back to villages for the first six months in 1998 (*Sisa Journal*, 19 November 1998). This is more than double the figure for the entire year of 1997, i.e., 1,823 households.

<sup>25</sup> In promoting their own material interests in this dire situation, college students have not been able to show the same effectively organized power as they commanded in their political struggle against military dictatorship in earlier decades.

needy segments of society cannot be concealed or contained within private support networks anymore; nor do they want to be institutionalized in notoriously managed (dis)welfare asylums.<sup>27</sup> Unemployment has induced a chain-reaction social disintegration for grassroots South Koreans.<sup>28</sup> It is no wonder that recent newspapers have been full of stories about the misery of these helpless groups, abandoned by the state and separated from generous but unemployed kin providers.

### LABOR-BUSINESS-GOVERNMENT COMPROMISE, LABOR-BUSINESS BIGOTRY

South Korean workers may well take high pride in the political efficacy that has been achieved through decades of unbending struggles with ruthless employers and authoritarian governments. Their rise as a politically and economically competent class within a surprisingly short period is an outcome of the complex interplay between labor-capital class conflict and state-society political struggle (Koo, 1993; Chang, 1999). The current process of economic structural adjustment is also a complicated political economy played out by the intrusive state, aggressive monopoly capital, and resolute organized labor.

Politically, the most significant achievement of Kim Dae-Jung's govern-

<sup>26</sup> It is paradoxical that recent legal changes and decisions encourage children to support for elderly parents by allowing those providing for parents to receive larger portions of parental inheritance (*JoongAng Ilbo*, 28 July 1998; *Chosun Ilbo*, 30 September 1998). Although not many ordinary citizens would oppose such legal arrangements, provider children may ask for functioning public welfare programs to share their burden.

<sup>27</sup> Incidents of human right abuse such as slave labor, physical violence, and sexual abuse have been revealed in numerous welfare institutions across the country (*Hankyoreh*, 11 April 1998). But officials of the central and the local governments in supervisory positions have never taken serious measures to improve the situation fundamentally. Part of the reason, of course, lies in the rampant corruption of these officials. The most recent case was in Yangjimaoul, where accommodated homeless people were found out to have suffered from beating, sexual assault, lock-up, unpaid forced labor, and death (*Hankyoreh*, 6 August 1998). Responsible officials, not to mention managers of this institution, denied any such incident even after media made a comprehensive report about the shocking reality. Civil organizations and activists called for the break-up of the collusion between *bokjijokbeol* (welfare mafia family) and the welfare bureaucracy as the most crucial condition for solving the problem. Incidentally, the South Korean government was then discussing the urgent need to establish numerous welfare institutions to accommodate the rapidly increasing population of homeless, runaway, and deserted persons amid the economic crisis.

<sup>28</sup> This problem is particularly serious among female-headed families. Women have been the first to be laid off, and many of these newly unemployed women have families whose sheer survival depends on their income. For a description of the desperate situation of unemployed women and their dependent families, see Kim, Lee, and Yang (1998).

ment is indisputably the *nosajeong* (labor-business-government) cooperation system which began in early 1998. It does attest to Kim Dae-Jung's democratic inclination to incorporate various grassroots groups in national politics under the slogan of "participatory democracy". However, a more fundamental condition for the landmark tripartite agreement system was derived from the fact that, merely a year before (i.e., in early 1997), labor unions had successfully defeated the attempt of the Kim Young-Sam regime to implement serious labor reforms against workers' economic and political interests in an exclusionary manner (cf. Stepan, 1978). Labor had fought its own way toward a full membership in Kim Dae-Jung's inclusionary state corporatist arrangement (Chang H., 1999; Lim, 1997). However, South Korean bourgeoisie, i.e., *chaebol* heads, are not accustomed to being treated equally with labor by state authorities. Even many bureaucrats are having difficulty reforming their high-handed approach toward labor.<sup>29</sup> The political economic order of what may be called *exclusionary developmentalism* seems to have a strong inertia. In today's South Korean politics, however, labor unions have been much more competent than *chaebol* and bureaucracy, which are held jointly responsible for the current economic crisis.

The tripartite agreements, described in the "*Nosajeongwiweonhoe* (Labor-Business-Government Committee) Co-Declaration" of 20 January 1998, included: 1) the government's acceptance of its responsibility for the economic crisis and duty to prepare serious protection measures concerning unemployment and living conditions, reform government organizations thoroughly, and supervise fundamental corporate restructuring; 2) corporations' obligation to pursue active structural adjustment, reform managerial practices, and avoid indiscreet lay-offs and unfair labor practices; 3) labor unions' obligation to cooperate with corporations in improving productivity and, under urgent managerial situations, adjusting wages and working hours; 4) workers' and employers' commitment to industrial peace through dialogue and compromise; 5) the cooperation among labor unions, corporations, and the government to create an attractive environment for foreign capital (see Appendix).

<sup>29</sup> In 1998, a high-ranking official in Ministry of Labor circulated into various government offices and newspapers a statement which directly criticized the conciliatory posture of the current political leadership toward labor and called for harsh measures for compelling workers' and unions' compliance with labor reform programs. He was considered to reflect the widespread reservation of bureaucrats to the corporatist treatment of labor (*Hankyoreh*, 31 July 1998). On the other hand, many bureaucrats have attempted to sabotage the current political leadership's attempts at a thorough overhaul of *chaebol* conglomerates, among other practices, by withholding crucial information on corporate financial structures (*Hankyoreh*, 16 October 1998).

Perhaps, it was this historical compromise among time-worn foes that built confidence in the minds of foreign creditors and those of South Korean citizens about the possibility of orderly economic recovery. In particular, the virtual acceptance by labor unions of lay-offs "under urgent managerial causes" was praised by foreign lenders and observers as a critical first step to an economic comeback in South Korea. South Korean employers should have felt blessed. However, a dilemma arose when employers and workers returned to their factories and offices and had to take concrete steps for economic structural reforms. When left to their own devices, little trust existed between labor and business, with each group resorting to manipulation, deception, and/or threats. The first test case concerned the Hyundai Motor Company. Ever since the company announced the plan for *jeongrihaego* (personnel shake-up), mutual accusations of breaching the labor-employer agreements prevailed, and even instances of serious physical violence were reported. Ultimately, the settlement of the feud required the intervention of major governmental and political figures including a vice president of the ruling party and the Minister of Labor. By and large, the settlement of 24 August 1998 appeared more acceptable to labor. *Chaebol* and their client media, therefore, began to mobilize negative opinions on it (*Hankyoreh*, 3 September 1998). This tactic paid off. The next major labor dispute at Mando Machinery Company was physically quelled by police on 3 September 1998, paving the way for liberal lay-offs (*Sisa Journal*, 17 September 1998). In this manner did the current administration stay neutral between labor and *chaebol*.

As *chaebol* companies have continued to resist the national and international pressure for structural reform in management, ownership, and financial structure, the rationale for the tripartite agreement system has come under serious question.<sup>30</sup> After all, the agreements reached at the tripartite meetings are not legally binding. Workers seem to have every reason for growing indignant although they still believe in the political values of the tripartite agreement system. *Chaebol* heads have never been sincerely interested in these multi-party consultation and compromise meetings. In their experience, secret manipulation and lobbying are much more effective means for realizing their business goals. An increasing number of South Koreans now believe that *chaebol's* attempts have been largely successful.

In the second year under the tripartite agreement, the feeling prevailed

30 The two national unions, Minjunochong and Hanguknochong, claimed that only two of the fifteen reform items business leaders agreed to implement as their responsibility in February 1998 had actually been fulfilled (*Hankyoreh*, 21 October 1998).

among labor leaders that the seemingly social democratic political arrangement had been (ab)used only to justify massive lay-offs supposedly for the sake of corporate structural readjustment. Minjunochong (the Korean Confederation of Trade Unions or KCTU), the progressive umbrella organization of labor unions, finally declared its withdrawal from the tripartite committee on 24 February 1999, vowing to stage street demonstrations and strikes (*Hankyoreh*, 25 February 1999). On 28 March 1999, even the more moderate Hanguknochong (the Federation of Korean Trade Unions or FKTU) announced its possible withdrawal from the committee in early April, unless the government should agree to change its unfair reform policy (*Hankyoreh*, 29 March 1999). While workers alone have difficulty mobilizing social and political support from the general public, the serious unemployment situation and the political weakness of the current administration are certain to help labor unions to exercise formidable threat in the coming months and years.

#### THE IMF ENIGMA: IMPERIALIST FINANCE AND LOCAL POPULATION

The Asian economic crises have spilt over not only into Russia and Latin America but also into international financial regulators including the IMF. The IMF programs for austerity-based structural adjustments in Asia have been harshly criticized by both neo-classical economists (e.g., Paul Krugman and Jeffrey Sachs) and political economists (e.g., Robert Wade) for ignoring the unique characteristics of Asian economies. Even officials in the Organisation of Economic Cooperation and Development (OECD) and, more recently, the World Bank began to express pessimism about the outdated IMF doctrine. Ironically, even George Soros came to join the IMF-bashing by criticizing its lenient treatment of creditors (including himself?) at a recent congressional hearing in the United States (*Hankyoreh*, 17 September 1998).

In particular, the 1997-98 annual report of the OECD on the South Korean economy prepared in mid-June 1998 (in a draft version) staged an outright attack on the mistakes of the IMF and instead suggested lower interest rates and expanded public spending on welfare as indispensable requirements for economic recovery (*Chosun Ilbo*, 27 July 1998). It did not take long for the IMF to modify its position, consciously or unconsciously, in the direction suggested by the OECD. As early as 28 July 1998, the director of the Seoul office of the IMF confessed in a media interview that the high interest rate policy had devastated already troubled Asian economies and that more public spending would be necessary, in particular for establishing an effec-

tive social safety net (*Sisa Journal*, 13 August 1998). At an international seminar on 14 September 1998, the director of the Asia-Pacific division of the IMF even called for the South Korean government to boost the economy by expanding deficit spending (*Hankyoreh*, 15 September 1998). Taking into account its failure to predict the Asian financial crises, the IMF seems to have bungled its mission both for prediction and prescription.

In the South Korean context, however, the IMF mandate for remedying the “crony capitalist” structure of the South Korean economy received a heartfelt welcome from reform-minded economists. Many of them in fact claimed that the IMF regulatory system could serve as an opportunity to redress all the inefficient and corrupt practices ensuing from state-*chaebol* collusion and unnecessary state intrusion into private economic activities. Long before the IMF and Western observers began to criticize “crony capitalism” (as the supposed cause for the economic crisis in South Korea and elsewhere), South Korea’s reform-minded scholars had called for the dismantling of the government-business collusion. Without political influence, however, these scholars were frustrated by policy decisions and corporate activities which were going in the exactly opposite direction. When the “IMF occupation” began, they welcomed, out of desperation, many of the Fund’s prescriptions concerning financial, corporate, and administrative reforms. Kim Dae-Jung’s ready accommodation of the IMF recommendations on *chaebol* reform may be understood similarly. At least on the urgent need for *chaebol* reform, the IMF, the OECD, international credit appraisal companies, and South Korea’s political leadership, labor, and intellectual community were all in agreement. The staunch and sly resistance of *chaebol* further reinforced this agreement.<sup>31</sup> In addition, the increasing emphasis of the IMF and the World Bank on the establishment of a sound social safety net has received a warm welcome from reform-minded South Koreans.<sup>32</sup>

Nevertheless, the liberal outlook of IMF officials (or financial liberalism based upon contradictory state-interventionist austerity principles) reflected the spirit of the times, i.e., American-dominated global economic laissez-faire underwritten by docile Third World states. After all, they *asked to be invited* in order to rescue the South Korean economy from bankruptcy and thereby ensure the payment of South Korean debts to foreign lenders.

<sup>31</sup> Even Bill Clinton personally remarked the need for thorough *chaebol* reform during his meeting with Kim Dae-Jung in Seoul, late November 1998 (*Hankyoreh*, 22 November 1998).

<sup>32</sup> According to its list of requirements for the social safety net, the World Bank suggested seventeen social policy goals for South Korea, including a decent standard of living for the elderly, welfare benefits for the unemployed, the medical coverage for the sick, etc. (*Hankyoreh*, 21 September 1998).

Additionally, their recent concern about social safety net came far too late. The everyday existence of grassroots South Koreans was predicated upon paid work and occasional kin assistance, and their devotion to work was buttressed by the satisfaction and optimism generated by the prospect of continual material improvement. These basic social conditions for South Korean development have been pulverized by the austerity-based economic structural adjustment programs of the IMF which made massive and sudden unemployment inevitable in order to ensure the repayment of South Korean debts. By ignoring the fact that the entire social system in South Korea operated on the basis of everyone's economic participation, the IMF's cherished panacea of austerity, requiring massive bankruptcy and unemployment, turned out disastrous.<sup>33</sup> As Philip Golub (1998) aptly describes, "what was really being asked for was a radical overhaul of traditional methods of institutional working and economic and social balances that had allowed development and social cohesion to be combined."

In sum, the IMF could (and should) have paid much more careful attention to the particular local social contexts in which its economic restructuring programs would take effect (and side-effect). The initial IMF programs for structural adjustment through high interest rates, increased taxation, decreased public spending, comprehensive corporate reforms, and unconstrained lay-offs may well be criticized in terms of stifling the social conditions for sustainable development. More critically, there is no denying that various potentially hazardous social conditions which had arisen under the particular development strategy of South Korea began to generate actual pains to grassroots South Koreans with the IMF programs working as a crucial catalyst.

<sup>33</sup> In fact, the IMF had in earlier years urged South Korea to liberalize and open financial markets, with essentially the same mistake of ignoring the local context, i.e., the unrestrained propensity of South Korean companies for borrowing and the poor governmental capacity for monitoring and regulating international financial transactions. No sooner had the financial markets been liberalized and opened externally than national and corporate debts began to snowball. The ratio of the total national debt to GDP remained around the ten percent level in the early 1990s, and then swelled to 32.5 percent in 1996 and 34.9 percent in 1997 (Samsung Economic Research Institute, 1998). Thanks to the near collapse of the South Korean won since late 1997, the ratio reached 50.2 percent as of August 1998. In this respect, South Korea cannot be said to have overcome her financial crisis. Instead, the financial malady has been only anesthetized with a much enlarged locus.

## RECASTING THE STATE: NEO-LIBERAL SOCIAL DEMOCRACY AS A SOUTH KOREAN ALTERNATIVE?

It is a truly unique phenomenon that the state corporatist arrangement of *Nosajeongwiweonhoe* (Labor-Business-Government Committee) has functioned to facilitate supposedly neo-liberal economic reforms in South Korea. In European political history, state corporatism was the political mechanism for establishing and maintaining social democracy. For South Korean labor, great political significance may be attached to the fact that the tripartite committee allowed their incorporation into national politics on a stable basis for the first time in South Korean history. Kim Dae-Jung, as a globally known democracy fighter, may attach a similar political significance to this fact. More importantly, the historical utility of the so-called neo-liberal economic reforms may differ between South Korea and Western social democracies.

What is being reworked and undone in South Korean reform is not a dysfunctional welfare economic system with bloated state engagement in private life, but a *degenerated developmental state system* with unproductive state intrusion in private economic activities. Above all, the state-*chaebol* financial nexus mediated by defunct banks and corrupt bureaucrats had been criticized by South Korean opposition politicians, intellectuals, workers, and other citizens since long before Westerners suddenly identified it as the supposed cause of the current economic crisis. At least since the mid 1980s, the state-endorsed bank financing of *chaebol's* audacious business expansion has been an unquestionable failure. Thus, everyone agrees on the need to dismantle the financial linkages between the state and *chaebol*. South Koreans' mistake in this regard is that they adopted a skewed and partial remedy, namely, liberalization according to market principles. That is, following foreign and domestic neo-liberal advice, they concentrated reform efforts in rescinding state policies and regulations, leaving *chaebol* free to overexpand into suicidal business projects and distort social and economic order through their monopolistic status. Furthermore, the rash opening of financial markets, which had been advised and sometimes coerced by the IMF and Western political leaders, allowed *chaebol* to finance their risky projects liberally with direct foreign borrowing. If neo-liberal reforms had also mandated the organizational restructuring and disciplining of *chaebol*, even workers and unions would have welcomed them with open arms. Workers want their employers to remain economically viable. The IMF and neo-liberal observers suddenly discovered that *chaebol* restructuring should be a core



part of neo-liberal reforms and that they should encourage the South Korean government to take decisive action for it, even without being bothered by supposed “market principles.” Thus a capable and autonomous regulatory — if not developmental — state has been called in to deal with *chaebol*.<sup>34</sup>

Labor reform is an entirely different matter. The successive authoritarian developmentalist regimes in South Korea never treated labor as a dignified partner for national development and politics. The paradoxical consequence was that the political weakening of the authoritarian regimes immediately led to a revolt by indignant workers against political leadership and business. Particularly in the late 1980s and the early 1990s, organized labor was able to pressure employers to make many concessions with the softened political regime looking on. In this context, the neo-liberal slogan of “labor market flexibility” seems to have sounded quite appealing to South Korean employers. Business leaders managed to make successful efforts to persuade the Kim Young-Sam regime for the legal changes necessary for a flexible labor market. Incidentally, the Kim Young-Sam regime wanted not only a flexible labor market but also a politically contained working class. Neither was welcome on the part of workers and labor unions, who successfully fought back against the Kim Young-Sam regime’s surprise attack to legalize labor market flexibility and political detainment of unions. Then, why did unions agree on liberal labor reform with Kim Dae-Jung’s administration? It was because unions considered some labor reform indispensable for *chaebol* reform, particularly under this kind of national economic crisis. Workers and unions are at best inimical to such neo-liberal euphemisms as labor market flexibility, especially when it is virtually synonymous with the denial of their entitlement to work.

There was an unforeseen bonus from the consent of unions and workers to liberal labor reform. In the course of implementing labor reform, it became obvious that the macro-level tripartite compromise alone would not suffice in persuading workers actually to accept lay-offs, pay-cuts, etc. These concessions would mean nothing less than a free fall to the ground in the absence of any meaningful social relief programs. It did not require ideological rebirth for notoriously conservative South Korean bureaucrats to

<sup>34</sup> Mahathir’s apparent success in protecting the Malaysian economy from the harassment of international financial speculators on the basis of strict foreign currency control presents an even stronger case for the necessity of active state intervention (*Sisa Journal*, 17 September 1998). His strategy has drawn supporters from many regions and lines of thought. Paul Krugman’s recent prescription for controlling the so-called “hot money” presents a serious sympathy with Mahathir.

accept the urgent need to establish a comprehensive and workable social relief system as a prerequisite for sustainable economic structural adjustment. Even neo-liberal supervisors from the IMF and the World Bank had encouraged the South Korean government to prepare better social relief programs and expand public spending on them. Business leaders, even if not outspoken advocates for social security, saw the same rationale as far as new relief programs did not require immediate increases in corporate taxes.<sup>35</sup> However, the direct beneficiaries of the new relief programs, i.e., workers and other grassroots people, have not been impressed too much, because the inexperience, inefficiency, and even corruption of government offices and officials tend to prevent the new relief programs from generating meaningful effects. Nevertheless, social security measures, as summarized under the concept of "social safety net", now constitute the very central political agenda for the first time in South Korean history. This political agenda has an obvious political constituency (i.e., grassroots workers) whose political power may no longer be ignored. Although it may not warrant the rise of a full-fledged *social policy state* within a short time, a step has been taken toward social democratic transition in South Korea.

One ironic repercussion of the inexperience, inefficiency, and corruption of bureaucracy in the provision of social relief has been the rapid establishment of various civil social relief efforts. These civil efforts have been provided by all types of voluntary and private organizations such as neighborhood groups, labor unions, religious institutions, welfare movement organizations, professional associations, unemployed self-help groups, student leagues, university organizations, intellectual associations, hometown associations, media, as well as individual families.<sup>36</sup> Unlike governmental relief programs, many of these civilian relief programs have successfully assisted unemployed and other destitute people (e.g., *Sisa Journal*, 8 October 1998).

<sup>35</sup> Most of the new budget for social relief programs is to be secured by the drastic increase in indirect taxes. Among the 3,393.9 billion won increase in taxation for 1999, indirect taxes will account for 66.4 percent (*Hankyoreh*, 21 October 1998). This will reverse the relative weights of direct and indirect taxes in the total budget in favor of the latter, i.e., 49.3 percent versus 50.7 percent. As a consequence, according to a report by the Korea Institute of Public Finance, the tax burden increased far disproportionately for the poorer classes. For those urban households earning 850,000 won (roughly 700 U.S. dollars) or less a month, the combined tax burden (i.e., direct income taxes and indirect consumption taxes) literally skyrocketed from 7.1 percent in 1997 to 14.1 percent in 1998. For those earning 3,610,000 won (roughly 2,970 U.S. dollars) or more a month, it remained unchanged at 10.3 percent in this period (*Chosun Ilbo*, 15 March 1999).

<sup>36</sup> For instance, see various proposals for civil social relief efforts submitted to the Office of the National Movement for Overcoming Unemployment (*Hankyoreh*, 19 October 1998, 16 November 1998, 18 March 1999).

Civilian social movement organizations have also taken lead in pressuring the government and the parliament to prepare better social relief programs as well as to implement stern measures for *chaebol* reform. They have also filed many *gonggiksosong* (public interest suits) against *chaebol* and the government in order to protect the legal rights of grassroots citizens to basic economic justice.

On 8 November 1998, civil social movement organizations, labor unions, and other grassroots interest groups held the "People's Rally for Defending Survival Right, Dismantling *Chaebol*, and Opposing the IMF." At a press conference on 20 November 1998, these groups demanded ten important reforms by the Kim Dae-Jung administration: 1) an inquiry into the real cause of the economic crisis and the punishment of responsible persons; 2) the dismantling of *chaebol* and the resignation of dishonest and corrupt *chaebol* heads; 3) a revision of the IMF agreements and the writing-off of external debts; 4) the strengthening of the policies for women, job-creation, and unemployment, and the establishment of the social safety net; 5) the setting-up of comprehensive anti-corruption measures; 6) the fixing of laws and institutions for media reform; 7) the improvement in fair taxation and realization of tax justice; 8) a reconsideration of large state public projects; 9) the execution of full-scale political reform; 10) the upgrading of national competitiveness through governmental organizational reform (*Hankyoreh*, 21 November 1998). In the long run, these civilian social movements, along with labor unions, will comprise the core force of sustainable democracy and progressive politics (cf. Rueschemeyer, Stephens, and Stephens, 1992:274).

The Kim Dae-Jung regime has tried to incorporate all these changes into its political doctrine for "Jeigeonguk" (the Second Foundation of the Nation) (*Internet Hankyoreh*, 14 August 1998; also see Choi, 1998). No one may be able to dig out any coherent ideological or theoretical tenet in that doctrine. Kim Dae-Jung has found himself swarmed by so many mutually contradictory historical necessities and thus is juggling them on a day-to-day basis. He has been making promises to bolster democracy, free market economy, a responsible and efficient state, welfare rights, industrial peace, civil society, human rights, and even globalism. His meetings with both neo-liberal international financial supervisors and politicians and with European new left leaders have been equally congenial. Regardless of Kim Dae-Jung's own political position, the social, political, and economic structures of South Korea have been reshaping in every possible direction (except state socialism) — for instance, neo-liberal, state mercantilist, social democratic, nationalist, and globalist lines, among others.<sup>37</sup> The true ingenuity of Kim Dae-

Jung — and of all South Koreans — should be proved by the skillful integration of all such contradictory historical necessities.<sup>38</sup> This is a crucial part of the *compressed modernity* of South Korea (see Chang, 1999).

## CONCLUSION

This paper has identified three major problems concerning the social ramifications of the current economic crisis in South Korea. First, both material and psychological conditions for the renowned hard work of grassroots South Koreans have been crumbling. Few could expect better income or maintain illusions about future material betterment when unemployment and bankruptcy, as nowadays, have left them worried daily about food and shelter. In the past, even the majority of South Koreans below the official poverty line used to classify themselves as middle class and remained optimistic about catching up with more affluent neighbors. Many of the poorer segments of society accepted a competitive and unequal economic system, at least until they finally had the opportunity to attain economic success through education, business, or even speculation. Since late 1997, the trials of dreadful everyday economic realities have been severely aggravated by the psychological distress emanating from unaccustomed expectations of a *worse tomorrow*. In persuading grassroots people to accept mass unemployment and poverty, the South Korean government can no longer replace immediate measures for material protection with empty propaganda for some affluent future. No sooner had South Koreans awakened from the hypnosis of future economic success than they fell into ever-deepening desperation and anger.

Second, South Koreans could not but realize the true costs and benefits of the absence of a sound and comprehensive social safety net against mass unemployment and poverty. Under the slogan of “growth first, distribution later,” the government used to maintain an extremely conservative position concerning social welfare. Officials, whether in economic or welfare bureau-

<sup>37</sup> A popular news magazine recently branded Kim Dae-Jung as “neo-liberal statist” (*Sisa Journal*, 26 November 1998).

<sup>38</sup> The recent visit of Anthony Giddens — Tony Blair’s mentor for his “third way politics” — to Seoul in October 1998 had left an interesting repercussion. While it is not certain if his speeches on contemporary politics gave the South Korean audience any coherent idea about the supposedly new line of politics in Tony Blair’s United Kingdom, many South Korean politicians and scholars aired quite congenial expressions during their meetings with Giddens. Part of the reason may be due to the fact that Tony Blair’s third way politics itself is a similarly complex mixture of various mutually contradictory goals and policies. See Anthony Giddens’ *The Third Way: The Renewal of Social Democracy* (1998).

cracy, unequivocally viewed social welfare as unproductive. South Korean social citizenship consisted of work, not of socially protected welfare. Even the growing political power of labor since the late 1980s failed to pressure the government to change its anti-welfarist orientation, but instead forced many large business firms to implement various corporate welfare programs for their employees. The family has been the only institution working for general welfare. It was only after the outbreak of the current economic crisis that the South Korean government came to understand the economic value of social security programs. After exhausting the abundant budget for irrational mega-size construction projects and highly questionable business subsidies, the government was no longer in a position legitimately to ask grassroots people to accept massive lay-offs as part of the structural adjustment program. In the meantime, all of the burdens of unemployment and poverty fell on individual families, so that widespread family dissolution was destined to threaten the essential fabric of this extremely *familist* society (Chang, 1997b).

Finally, the neo-liberal ethos of the non-interventionist and non-authoritarian state has been being defeated not only by politicians and bureaucrats who feed on state power but also by mutual suspicion on the part of business and labor. When the South Korean government tried to mobilize grassroots resources and energies for rapid industrialization and economic growth, it neither bothered to induce grassroots consent to unfavorable terms of economic exchange nor seriously persuaded business leaders to develop harmonious relationships with labor. Up until 1987, the military-*chaebol* alliance was politically invincible, and labor was simply disorganized. In 1998, *chaebol* heads (and numerous sympathetic bureaucrats) became extremely angry at Kim Dae-Jung for accepting labor as an equal political partner in the major decision-making process for economic restructuring. The landmark tripartite agreements among labor, business, and the government in early 1998 failed to have sufficient impact when business and labor had to take concrete steps in business offices and factories. Now, Kim Dae-Jung's staff are dealing separately with (and inevitably lying to) labor and business, although the labor-business-government committee is still in formal existence. Lies, suspicion, and anger — instead of repentance and concession — tend to dominate the on-going reform process. Once again, South Koreans (including both workers and employers), and foreign lenders, seem to want decisive and determined, if not authoritarian, state leadership although their reasons may differ diametrically.

To what extent does the IMF share responsibility for these problematic social tendencies? When IMF officials advise the South Korean government

to expand public spending on social security programs, does it indicate an acknowledgment of liability for the pains of grassroots South Koreans? The obvious answer is “No!” Their liberal outlook (or financial liberalism based upon contradictory state-interventionist principles for austerity) reflected the spirit of the times, i.e., American-dominated global economic *laissez-faire* underwritten by docile Third World states. After all, they asked to be invited in order to rescue the South Korean economy from bankruptcy and thereby ensure the repayment of South Korean debts to foreign lenders. On the other hand, the psychological bubble concerning material betterment, the welfare-suppressive accumulation strategy, and the authoritarian treatment of labor were all local practices and habits that had existed in South Korea prior to the IMF intervention. Nonetheless, the IMF could (and should) have been much more careful about the particular local social contexts in which its economic restructuring programs would take effect (and side-effect). Its programs for austerity and structural adjustment through high interest rates, increased taxation, decreased public spending, comprehensive corporate reforms, and unconstrained lay-offs have already been criticized for stifling the social conditions necessary for sustainable economic development. More seriously, there is no denying that various potentially hazardous social conditions which had accumulated under the particular development strategy of South Korea began to generate actual pains to grassroots South Koreans with the IMF programs working as a crucial catalyst. Even when South Korea eventually recovers from the current economic crisis, whether the extreme material and psychological distress of grassroots South Koreans nowadays has been unavoidable for the economic recovery will remain a fundamentally controversial issue

This having been said, South Koreans still appear quite impressive in swiftly cleaning up the financial mess and satisfying IMF officials, Western political leaders, and potential investors through the adoption of quick reform actions. Is the most successful late industrializer going to become the most successful neo-liberal reformer?<sup>39</sup> Is that the primary motive of Kim

<sup>39</sup> When Bill Clinton visited South Korea in late November 1988, he offered his highest praise for Kim Dae-Jung’s compliance with American economic and political policies. He was explicitly thankful for Kim’s defense during the APEC summit in Malaysia of the open and free economic relationship (i.e., the American doctrine to deal with Asia). *Los Angeles Times*, on 23 November 1988, explained that Kim’s congenial stance toward the United States amid the rapidly spreading anti-American sentiment in Asia provided a critical support for the American influence in the region. It is no coincidence that Clinton avoided, without giving any convincing excuse, participation in the APEC summit only a week before where an unfavorable and even hostile feeling against the United State was expected concerning the Asian economic crisis.

Dae-Jung, if not of ordinary South Koreans? What of the serious concern for labor and the poor expressed by Kim throughout his political career? Of course, at least within the South Korean context, Kim's reform policy may be considered socially progressive. Unemployment reductions and the alleviation of poverty receive no less emphasis than economic restructuring in policy discussions. The pronouncements of Kim and his staff concerning labor, poverty, education, housing, and other social concerns closely resemble those of Western social democracy. At the same time, Kim does not hesitate to accept and implement those programs suggested by Western neo-liberals as conservative reactions to their own social democratic pasts. It remains to be seen whether these inconsistencies reflect his own indecisiveness or constitute a truly inventive doctrine for national development.

## POSTSCRIPT

Again, things move dizzily fast in South Korea. As I reexamine this paper six months after its completion in March 1999, it is rather difficult to discover any clear symptoms of an economic crisis in the lavish and crowded streets of Seoul. According to most sources (including the South Korean government and the IMF), the South Korean economy is expected to grow by five or six percent in 1999. From a glance at commercial centers, business districts, and industrial sites, one may accept rosy official statistics on consumption and investment as quite realistic. With this pace of economic recovery, can South Korea pull herself out of the social crisis I explained above? In other words, can a rapid economic recovery enable South Korea to solve the social predicaments of her earlier conservative developmental rush and recent financial crisis? Or, can South Korea repeat her earlier developmental strategy predicated upon welfare suppression, labor control, and grassroots conservatism into the next century? Extending the implications of the above analysis of the South Korean situation, none of these questions can be answered positively.

The current economic recovery itself has been sustained by the aggravating social conditions of grassroots South Koreans, including massive unemployment, wage reductions, etc. There are no clear signs of sustained reduction in economic inequality and unemployment. The welfare budget for the year of 2000 will not be increased to any meaningful extent as the administration has exhausted available funds to rescue defunct financial institutions and *chaebol* corporations. Consequently, despite the rapid improvement in macro-economic indicators, grassroots indignation about their miserable living conditions continues to intensify. As a desperate measure for quick eco-

conomic recovery, the South Korean government has practically induced a speculative overheating of the stock market and the real estate market, which will inevitably exacerbate the already serious economic inequality while pacifying the worries of the rich about the immediate economic situation. However, the apparent ineffectiveness of *chaebol* reform has led to strong public reservation concerning the sustainability of economic recovery itself. Besides, economic recovery has failed to rescue mammoth business entities like Daewoo, once the second largest *chaebol* conglomerate in South Korea, from financial collapse and virtual dissolution. Nothing seems to have changed fundamentally. Ironically, the mechanisms for achieving a very swift economic recovery are exactly the same as those used for the earlier economic growth, i.e., welfare suppression, labor exploitation, and public delusion. South Korea is trying to revert to a developmental course, the social conditions of which have been undermined critically.

APENDIX: “Nosajeongwiweonhoe (Labor-Business-Government Committee) Co-Declaration” of 20 January 1998.

1. The Government shall prepare the basis for sound economic development by sincerely accepting the responsibility for the current economic crisis and inspecting its causes thoroughly. In order to cope with the expected rapid increase of unemployment, the Government shall prepare a landmarking unemployment measure and a stabilization measure for workers' living including price stabilization, by the end of January and seek the measures for cutting the 1998 budget and reshuffling and reducing government organizations by mid February. Also, the Government shall prepare a master plan for increasing corporate managerial transparency by the end of February, to include prohibiting the mutual payment guarantee between corporations, obliging the writing of integrated financial statements, etc. In addition, the Government shall make efforts to ensure the creativity and autonomy of corporate management and the basic labor rights of workers and to protect the living of low income strata by expanding social security measures.

2. Corporations shall pursue active structural adjustments and do their best to prevent indiscreet lay-offs and unfair labor practices in this process. Also, corporations shall take the lead for improving corporate managerial transparency, for instance, through the sincere disclosing of managerial information, and for the normalization of corporate management, for instance, through the improvement of corporate financial structures.

3. Labor unions shall do their best to improve productivity and quality for the resuscitation and competitiveness strengthening of corporations and, under urgent managerial causes, make strong efforts for the adjustment of wage and working hours in order to minimize unemployment.

4. Workers and employers shall try to maintain industrial peace by solving every problem through dialogue and compromise. Also, the Government shall strictly counter unlawful activities at industrial sites, which take advantage of the economic



crisis.

5. We, *Nosajeongwiweonhoe* (Labor-Business-Government Committee) shall do our best to prepare environments for inviting overseas capital and, in consideration of the schedule of the provisional session of the National Parliament in February, reach a package settlement on the agendas agreed on and adopted by this committee as soon as possible through labor-business-government grand compromises.

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