

## ECONOMIC RESTRUCTURING AND SOCIAL REFORMULATING: THE 1997 FINANCIAL CRISIS AND ITS IMPACT ON SOUTH KOREA

PARK GIL-SUNG

*Korea University*

*The 1997 financial crisis created major ripples all across Korean society. The crisis has meant not only a halt to Korea's decades-long phenomenal economic growth, but also its subjection to comprehensive restructuring processes. Controversies and debates over the cause of the crisis notwithstanding, Korea has undergone profound transformations, swallowing a bitter pill prescribed by global capitalism in general, and the IMF in particular. This paper examines the nature of prescription by the IMF and the characteristics of Korean governments in conjunction with the financial crisis. The paper criticizes the IMF's imposition of the same ready-made policies to Korea, and characterizes the Korean governments as 'a reckless knight to the world' and 'a docile student of the IMF school'. Although much has been written about the financial crisis, especially on the causes of the crisis and preventive measures, little attention has been paid to its social and cultural impact. In view of this, this paper discusses how the financial crisis, ill-suited IMF measures and misguided economic policies of the Korean government have had far-reaching consequences on Koreans' worldview and identity, as well as on social problems, such as the weakening of the weak and destabilizing middle class.*

*Key Words: South Korea, IMF, Globalization, Financial Crisis, Restructuring, Identity, Class Structure*

### INTRODUCTION

Over the last four decades of the twentieth century, South Korea (henceforth Korea) experienced rapid economic growth, leading to its characterization as the "Korean miracle". However, this legacy came to an end in 1997 when the country was gripped by a financial crisis of historic proportions. The crisis humbled Korea into economic trusteeship under global capitalism, in return for bailout loans from the International Monetary Fund (henceforth IMF). A major part of the trusteeship was the Korean government's agreement to restructure the domestic economy under the auspices of the IMF, the leading international financial agency championing global capitalism. The crisis has meant not only a halt to Korea's decades-long phenomenal economic growth, but also its subjection to comprehensive restructuring processes at the societal level. Controversies and debates over the causes of the crisis notwithstanding, Korea has undergone profound trans-

formation, swallowing a bitter pill prescribed by global capitalism in general and the IMF in particular.

Very few scholars would deny that the last twenty years, spanning from the 1980s through the 1990s to today, could be named 'the age of global capitalism'. It is almost impossible to open a newspaper today without seeing a story about globalization and global capitalism. Korean society, having experienced a grave financial crisis, and in its aftermath the IMF's economic intervention, has felt the far-reaching impacts of global capitalism. The IMF, being a self-appointed agent of global capitalism, not only explicitly advises that something should be done about economic structure related to the financial crisis, but also demands implicitly that all social actors must shrug off the past routines and take up a new way of thought and behavior that is suitable for the so-called the global standard.

It is widely recognized that Korea's remarkable economic growth resulted in a pathway from the periphery, elevating it to the rank of the eleventh largest economy in the world, and entry into the OECD in 1996. Right after the declaration of financial crisis, virtually all socio-economic indicators fell into a miserable state within a day. For instance, the unemployment rate more than doubled within the first few months of the crisis, and the per capita GNP plummeted from over \$10,000 in 1996 to approximately \$6,000 in 1998, falling to the level achieved in 1991. Negative growth rates, corporate bankruptcies, paralysis of the banking and financial sector, steep asset deflation, and pervasive unemployment and homelessness, all of which were quite foreign to the populace of Korea, became widespread.

The most striking aspect of the post-financial crisis is that change is not limited to the economic sphere. Virtually every sector of Korean society, including corporate, banking, labor unions, government, state-run enterprises, politics, education, and even social habits and values have undergone and are undergoing significant changes. It is also apparent that there seems to be a profound sense of urgency to do away with traditional values and practices that hamper transparency and efficiency<sup>1</sup>(Kim and Park, 2003: 47).

<sup>1</sup> The 1997 financial crisis in Korea — and other Asian nations — has drawn attention to negative aspects of traditional values and practices that heavily hinge on Confucianism. For example, it has been noted that family loyalty has justified nepotism, while respect for authority has engendered passivity that allowed political and economic leaders to indulge in corruption. Moreover, reliance on personal networks rather than product competitiveness has eventually constrained the growth of firms. Also, reliance on relationships rather than rules in business transactions, especially in the banking sector, has also fostered widespread corruption.

Although much has been written about the financial crisis, especially on the causes of the crisis, its economic consequences, and preventive measures, relatively little attention has been paid to its social and cultural impact. A major part of this paper focuses on the impact of the financial crisis on identity formation and social inequality. The two consequences, seemingly unrelated to each other, are in fact two different effects of the same causes, the one being symbolic or cultural and the other material.

Although the statement that the economic crisis easily contributes to the identity and authority crises in everyday life is widely recognized, rarely has it been verified with empirical studies. This paper explores the financial crisis' consequences for the worldview, identity, and life-style of the Korean people. This paper also discusses the issue of social inequality, in which collapsing the middle class, in the context of class polarization, is regarded as one of the most noticeable transformations, in conjunction with the financial crisis. Further, the paper critically evaluates the IMF's policies toward the Korean financial crisis, and the Korean government's responses to the 1997 financial crisis.

#### IMF: READY-MADE PRESCRIPTION

The IMF's textual prescription for restructuring Korean society was ready-made, and therefore lacked flexibility and feasibility. When the IMF provided rescue funds for crisis-stricken Korea, the stipulation was that macro-economic stabilization policies and restructuring processes should be undertaken. It was the same stipulation that the IMF had imposed on many debtor countries all over the world, in order to diffuse the logic of market oriented neo-liberalism worldwide. The IMF program is now being severely criticized as the "same old belt-tightening adjustment" or "one-size-fits-all approach" (Lee and Rhee, 1999).

Different countries receive IMF rescue funds for different reasons, and under different circumstances. However, the IMF's prescription is ready-made and invariably the same. The IMF's packages of prescriptions, which were focused on austerity measures, exacerbated the credit crisis that corporations were already suffering from, triggered a chain reaction of bankruptcy, and drove the economy into recession. Austerity measures, the standard prescription of the IMF, were indiscriminately applied in the Korean case as well, although the country showed none of the symptoms typically associated with the austerity prescription. Unlike the South American countries, Korea recorded low inflation and a balanced budget. Also the economic fundamentals underlying the Korean crisis differed in many respects from the

crises in Southeast Asian countries, such as Indonesia.

The crisis in Korea was first and foremost a currency crisis. Korea's domestic economic fundamentals before the crisis were actually quite sound: saving rates were high, the government budget was in balance, GDP growth was strong, and unemployment was very low (Bank of Korea, 2001; KDI, 2001). Furthermore, most foreign loans were financing investments in export sectors rather than speculative asset positions and imports of consumer goods. The currency crisis was mainly caused by the liquidity shortage, resulting from the excessive borrowing of short-term funds by the banking and corporate sector. Thus, it was a mismatch between short-term borrowing and long-term investment. Once liquidity shortage was apparent, a mass move to recover loans and self-fulfilling pessimism overtook the money market.

The IMF austerity prescription targeted budget deficit reduction through raising taxes and cutting government spending, as well as a tighter monetary policy through higher interest rates and less credit availability. The IMF proposed a set of reforms that comprised three broad elements: a clear and firm exit policy; strong market and supervisory discipline; and increased competition. The IMF believed that an effective system of corporate governance and deregulated capital markets were essential ingredients to ensure an efficient allocation of resources in the future. However, these short-term macroeconomic policies in the face of temporary illiquidity rather than fundamental insolvency become controversial. The IMF package that the Koreans were forced to accept at year-end came with the usual fetters. Its contraction bias made the credit crunch that firms were already facing even worse, leading to a chain of bankruptcies and possibly driving the economy toward depression. The IMF's five percent inflation rate target was already too strict, given that the economy had to deal with a big rise in import prices due to devaluation. A common problem with IMF packages is that nominally set fiscal targets become tighter in real terms than had originally been foreseen (Feldstein, 1998; Piper and Taylor, 1998: 58). Regardless of the appropriateness of the IMF's role, the IMF regime apparently intended to restructure the entire economic structure and society. The IMF program for Korea goes well beyond standard IMF programs, calling for structural and institutional reform, even though they are not needed to resolve the currency crisis (Wade and Veneroso, 1998: 13). It sought the complete transformation of the Korean economic structure and the opening of all Korea's financial accounts to unrestricted access by foreign multinational corporations, banks, and financial investors.

In retrospect, the currency crisis might have been contained if Korea's

response had been on the mark and timely. Unfortunately, the IMF's conditions were too harsh and inappropriate for the nature of the crisis. As a result, the real economy was forced to contract more than was otherwise necessary, resulting in a surge in the number of business failures and the unemployed. No doubt the financial austerity policies worked to weed out inefficient marginal firms, but it is also true that many viable firms were victimized by the impact of these policies. The currency crisis rapidly developed into a financial crisis that further deteriorated into a full-scale economic crisis and, then into a social crisis, due to ill-suited IMF measures and the misguided economic policy of the Korean government (Nam, 1998: 1).

#### KOREAN GOVERNMENTS: A RECKLESS KNIGHT TO THE WORLD AND A DOCILE STUDENT OF THE IMF SCHOOL

Without preparing suitable institutional devices required for a transition to a market economy, the Kim Young Sam (henceforth YS) government (1993-1998) made hasty attempts to make economic reforms under the slogan of globalization. Due to overwhelming resistance from big businesses, the Chaebol reform ended in fiasco. Other restructuring programs left much to be desired, with no proper supportive measures being taken. Only capital market liberalization was hastily undertaken. It is fair to say that Korea was not able to adopt necessary reforms in its economy due to resistance from interest groups, including the Chaebol and other vested interests. In the name of financial liberalization, the government failed to monitor foreign borrowing activities, especially by inexperienced merchant banks. This resulted in a rapid buildup of \$150 billion of external debt, with 60 percent of the obligations having less than one year to maturity, and over 25 percent maturing in ninety days (Piper and Taylor, 1998: 57-8).

This indicates that governmental supervision of Korea's financial institutions was significantly lacking. The Korean government has steadily liberalized its financial market, especially after joining the OECD. However, monitoring of foreign borrowing by Korean financial institutions has been inadequate (Jung, 1999: 79). As deregulations on capital inflow (which were unavoidable because of Korea's joining OECD) made it easier for domestic financial institutions to borrow foreign funds, the domestic financial system was exposed to the inherent vicissitudes of international financial markets. Nevertheless, regulatory and monitoring devices became even looser. The crisis was caused by regulatory forbearance and the subsequent weakening of control over the liberalized financial market in the 1990s (Haggard, 2000: 138; Cho, 2003: 258-262). All these circumstances meant that domestic finan-

cial institutions tended to be more vulnerable to liquidity crisis. It can also be pointed out that necessary structural reforms were not implemented expeditiously enough by the government to forestall the impending crisis.

In a nutshell, the YS government decided to join the OECD, while it did not devise any institutional measures in preparation for the unfettered inflow of international capital that was an unavoidable corollary of becoming a member of the OECD. In this sense, we can characterize the YS government's globalization measures as 'enthusiastic propaganda globalization'.

Economic restructuring in the post-financial crisis period has been a process of accommodating global capitalism, in which especially the American version of global capitalism has invariably served as the model. The restructuring process that the Kim Dae Jung (henceforth DJ) government (1998-2003) persistently undertook can be said to be the process of overcoming economic crisis through neo-liberal transformation of Korean society; that is to say, it has been a process of exploring the possibility of a stable marriage with global capitalism. This position is supported by the argument that the DJ government has complied with almost all programs that the IMF recommended as if it were a docile student of the IMF school. The government has been more eager to get closer to the American style of economic management than any other Korean governments have ever been.

The DJ government declared the principle of democratic market economy, or parallel development of democracy and market economy as the theoretical foundation of its economic policies. However, as a practical guidance for specific policy formulation and implementation plans, it is severely unrealistic and lacks viability. The principle of democratic market economy aims to redress unfair economic policies and practices, and to form a healthy market economy in which fair rule of free competition reigns. That is all; the principle does not go any further. Ideologically, this principle embraces the value of democratic market economy based on order-liberalism. However, under the influence of IMF intervention, it seems structurally impossible to escape from neo-liberalism. Also, restructuring of the DJ government can be characterized as 'enforced restructuring', since it followed neo-liberal restructuring processes under the condition of external coercion.

Of course, the neo-liberalism of the DJ government cannot be totally ascribed to some external pressure like the IMF's prescription. The fact is that the concrete demands that the government made are, more often than not, much more liberalistic than the abstract guidelines the IMF has recommended. In terms of economic reform or restructuring, the policy keynote of the DJ government was in continuum with that of the YS government.

Though the two governments are chronologically separated, one coming to power before the IMF control and the other after, both share the same keynote of policy-making, i.e., neo-liberalism.

The economic change of the Korean society was nothing more than a transformation process to a new economic structure centered on international capital. It aimed at opening up all markets in Korea so that foreign corporations, banks, and investors could more easily purchase Korean institutions. Legal barriers that had hindered the take-over of Korean firms by foreigners were repealed. More importantly, the IMF was now demanding obliteration of all remaining barriers in the flow of international capital. If this demand was satisfied, foreigners could invest in Korean financial markets with the same status as Koreans. Specifically, if policy control over the ultra-short-term speculative fund, so-called hot-money, was also repealed, then the Korean institutions would become more at risk of foreign takeovers. If each and every regulation on capital mobility was totally abolished, then all forms of international capital, including hot-money, would be literally free to come into and go out of Korea. It is generally agreed that if Korean markets were completely opened, stability and autonomy of the Korean economy would be totally dependent on the credit ratings determined by speculative foreign capital. The Korean economy would then be helplessly exposed to another foreign exchange crisis.

The question then remains, 'why did the Korean government accept such a demand?' That the Korean government, desperately seeking foreign capital in order to get out of the crisis on hand, had no choice might be an answer. However, the problem is that injection of foreign capital continued well beyond the level necessary to bail out a cash-strapped government. Chaebols viewed the IMF as leverage for getting what they wanted from labor unions and the government. They believed that they could take advantage of the IMF in order to acquire significant accessions from labor unions, and to shrug off cumbersome government regulations, including restrictions on overseas borrowing. Planting a neo-liberal structure into a non neo-liberal country could be facilitated by the benefits that domestic corporations came to acquire from the emergence of a neo-liberal global economy (Crotty et al., 1998: 136-7). Indeed, it is obvious that capital will gain absolute advantage over labor. Viewed from this perspective, the restructuring process in Korean society can be characterized as a process through which a short history of balance of power between capital and labor has finally come to an end, and capital began to obtain the upper hand. The IMF's structural adjustment process during the financial crisis period can be summarized as a process of capital's gaining absolute advan-

tage vis-à-vis labor at the high point of capital-labor confrontation. As a result, labor issues lose flexibility.

## SOCIAL CONSEQUENCES OF THE FINANCIAL CRISIS

### *Reconstruction of Identity: Dualistic Directions*

The financial crisis and its subsequent restructuring have created major ripples all across Korean society. In particular, there was a noticeable change in identity. The financial crisis is not only an economic problem, like introduction of a new market mechanism and labor-capital conflict, but also more significantly, a cultural problem — the problem of defining identity, of how to redefine the concept of ‘we’. In a survey, the following question was delivered to a sample of university students: “What do you think is the most harmful effect of globalization on Korean society?” 36.6 percent of the respondents cited loss of cultural identity as the answer, 31.5 percent cited instability of employment, and 16 percent cited concentration of wealth (The Yonsei Annals, 2001). The survey indicated that the loss of identity crisis is regarded as the most important in the age of globalization.

Identity is very important for a society to achieve and maintain an adequate level of social cohesiveness and integration. Experiencing an economic crisis, in conjunction with globalization whose inherent feature is instability, the question of how the self-identity of the Korean people is constructed and reconstructed is an important topic. Before the crisis, Koreans shared many common ideas, including conventional ways of doing business, expectations of life-time employment, trust in business culture, beliefs about the nation’s international status and prospect, and above all, pride in being Korean, all of which contributed to the expansion of the collective consciousness of the Korean people, in Durkheimian terms. The financial crisis required that Koreans discard everything they had if it lacked competitiveness. Under this circumstance, it might be natural that the meaning of ‘we’ becomes vague. Trust in social relations that has been ascribed to ‘us’ or ‘we Korean’ is now being rapidly undermined.

According to an international comparative study conducted from September to October in 1997, just before the crisis, national solidarity among Korean people was at a much higher level than for Americans, British, Germans, Italians, and Japanese. Koreans recorded very high ratings on the item that “my country’s prosperity is my prosperity” (The Public Information Bureau, 1997). However, nowadays we can easily witness a tremendous decline in Korean self-identity.



Koreans' identity was established through the economic modernization process that shaped Korean society in the last half of the twentieth century. Nationalism undoubtedly played a major part in the economic modernization of Korea. Nationalism, when articulated in association with industrialization and modernization, is an ideological source of massive mobilization. Equating economic modernization with national aspiration had galvanized people to commit themselves to Korea. Modernization in Korea was undertaken through the expression of homogeneous national identity and nationalism (Kim and Park, 2003: 39-44).

The most conspicuous feature of Korean identity is the absolute sense of homogeneity that is generated by the overwhelming strength of national identity. Though there have been many changes recently, still it is true that Koreans take the three separate entities — state, society, and nation — as one and the same, as if they were a homogeneous organism which has its own life. Actually, national identity and nationalism served in the process of industrial modernization as a spur which stimulated Korean people to work harder. In pursuing modernization, national identity played the role of a catalyst for mobilizing complete compliance from the people. While Korean identity, characterized by uniformity and homogeneity which are byproducts of powerful national identity, is seemingly strong enough, it is, paradoxically, very susceptible to external shocks. Identity that has been formed by pressures of national sameness turns fragile when it is hit by a blow from outside.

Therefore, demands of globalization and experience of the IMF intervention can easily contribute to an identity crisis. Koreans, who were equipped with an identity of homogeneity and uniformity that formed when the experiences of democracy were meager and the pressures to conformity were so strong, now suffer from severe identity crisis, having lost sets of meanings ascribed to them. They often show multiple and inconsistent responses to the same situation. For example, even though they have been feeling embarrassed at being Koreans, they easily become, whether at an individual or collective level, proud of being a Korean and make up their minds to do their best as a Korean when they are exposed to slogans arousing national identity such as "You Koreans, Get On Your Feet and Run Again!" (Chung, 2000: 16).

Financial crisis and the ensuing period of the IMF intervention were, in the middle of the tide of globalization, the very hotbed of identity loss for the Korean people. The loss of identity stemmed from the loss of status as a social existence. Social problems and deviations, which steeply increased after the crisis, are symptoms of anomic chaos and identity loss, which sig-

nifies that our established modes of life are losing their meanings. According to a survey, the pain index of Korean people increased from 1.5 in 1997 to 20.9 in 1998, which means that after the crisis Koreans suffered from fourteen times as much pain as they did before the crisis (Jungang Il Bo, 1998. 11. 10).

Under the crisis and IMF trusteeship, responses of Korean people to national identity were broadly divided between two directions, the one involving sticking to a nationalistic mentality ever more faithfully, the other dismissing the nationalist conceptions altogether. Most immediate responses were to appeal to ethnic nationalism and patriotism. This is supported by the fact that Korean people labeled the day of December 5, 1997 as the day of national infamy because it was on that day that the memorandum to provide fifty-five billion dollars of urgent rescue fund was signed between the IMF and the Korean government. Also, the Korean people thought that after the day of infamy, Korea was put under an IMF trusteeship just as it had been put under Japanese trusteeship about a century ago. Various movements were resorted to in order to mobilize national identity. Through mass media, people were encouraged to collect gold<sup>2</sup> and dollars, and to refrain from purchasing foreign liquors, foreign cigarettes, and even coffee. "Independent Coke 815" was the brand of a newly marketed domestic product named after August 15th, the Korean Independence Day, to get the upper hand over famous foreign brands, such as Coca-Cola and Pepsi. In a similar vein, the Hangul & Computer Company, having narrowly escaped being taken over by Microsoft, with the help of a nationwide donation campaign, made a new version of Hangul named "Version 815". These are among typical cases where the politics of identity were employed.

On the other hand, there were undeniable tendencies to escape from the influences of nationalist conceptions. Attitudes toward emigration, promotion of English as another official language, and attraction of foreign capital became affirmative. Emigration increased persistently from 1962, the year when the emigration act was first legislated, to 1980, when a total of 37,510 Koreans migrated to foreign countries. However, the opposite trend had set in from 1981 onward, reaching a record low of 12,484 emigrants in 1997. After 1997, emigration increased again. This time, it is characteristic that the proportion of emigrants who left Korea by invitation of their relatives abroad has declined drastically, while the rate of business-or-employment-related emigration has increased. A survey in 2001 indicated that 45.3 per-

<sup>2</sup> Called "Save the nation" drive, it raised 225 tons of gold in a couple of months, out of which 196.3 tons were exported, bringing in \$1.82 billion in badly needed hard currency (Korea Herald, 1998. 3. 16).

cent of Koreans would consider immigration if they had that option (Dong-A Il Bo, 2001. 4. 4). In the mean time, the number of return-emigrants, having increased steeply from 1980 to 1997, slowed down in 1998. Moreover, considering that the emigration of those with more money and professional expertise increased during the crisis, we can conclude that the recent increase in the number of emigrants cannot be explained by economic factors only, and is closely tied to the change in national identity.

Another indicator reflecting that some change has been occurring in Korean national identity can be found in the controversy over whether English should be made another official language. According to a survey, 56.7 percent of Korean people replied "yes" to the question of English as another official language, while the percentage of the opponents was 39.3 percent (Dong-A Il Bo, 2000. 10. 31). This result suggests that Korean national identity has been weakened.

The financial crisis was a rude awakening, prompting Koreans to reflect on their values, worldviews, and the overall Korean life-style. It was disheartening that their prized ways, at least in the economic sphere, proved to be inefficient and to a certain extent, even irrational. The controversy over Asian values is a case in point. Koreans have long prided themselves on having embraced Asian values - i.e., deference to societal or group interests, emphasis on self-cultivation and education, respect for probity and loyalty, emphasis on social harmony, respect for authority and consensus over confrontation. They believed in their superiority over western individualism in achieving rapid industrialization and sustained economic growth. However, the financial crisis highlighted the dark side of these cherished values. The question of what is national can no longer serve as a criterion for distinguishing between the good and the bad, between 'us' and 'them'. The belief that Korean identity is Korean nationality and vice-versa has gradually been diluted. Koreans are growing out of the old identity based on the concept of 'we'.

According to Durkheim, the weakening of collective consciousness and ensuing identity crisis triggers a series of reactions on the part of the group members. By highlighting the commonality or sameness within the group through various means (which Durkheim referred to as boundary redefinition), the group seeks to strengthen the collective consciousness among members, and thereby to redress the identity crisis. The boundary crisis and boundary redefinition go hand in hand in a period of weakened collective consciousness and identity crisis. Dualism in the Korean identity problem in which the episodes of 'the politics of nationalism' is posed against the counter example of the withering away of Korean national identity can be

explained by resorting to the Durkheimian conceptions about boundary crisis and boundary redefinition. The dualistic reconstruction of Korean identity crisis can be characterized as a manifestation of the weakening of the Korean people's collective consciousness and the simultaneous efforts of Korean society to overcome the identity crisis by emphasizing the similarities most Koreans share.

### *Weakening of the Weak and Destabilizing Middle Class*

Since the financial crisis, very unstable circumstances are prevalent in Korean society, where everybody runs the risk of being unemployed or being demoted to non-regular jobs. The crisis is worse because the social safety net was hardly established in this society. While unemployment and low job-security became facts of life, the safety net was too precarious to meet the increased welfare demand. The weakening of the weak becomes more evident when we consider dwindling of the state capabilities. The state capabilities dwindle not only due to the state's inability to escape from the external pressures of neo-liberalism, but also due to the lack of material economic foundations necessary for a new integrative restructuring. Indeed, restructuring efforts without a sufficient material basis are bound to trigger a wave of conflicts among various social groups.

Neo-liberal economic restructuring policy, with the free-operating market mechanism at its core, leads to polarization of class structure, magnifying current inequalities among social strata and occasioning the collapse of middle classes and the emergence of a new poverty class. On the other hand, central issues of strikes by labor unions are almost always defensive ones such as avoidance of lay-off and unemployment. The gap between the rich and the poor has widened, urban middle-class households are falling into desperate situations, and lower-income classes depend on debts for daily livelihood. These conditions reflect the severity of ongoing social disintegration. Under these circumstances, labor issues become less and less flexible, although maintaining labor flexibility is the top-priority policy objective.

Instability of employment and unemployment are at the core of the social crisis. Korean society has been immersed in sustained growth for so long that it did not prepare itself for, nor even anticipate the possibility of massive unemployment. An enduring unemployment rate of approximately 2 percent seemed to free Korean society from the risk of an unemployment crisis. Lifetime employment or lifelong job security has been the norm symbolizing the Korean employment system. After this unemployment-free period, the unemployment rate skyrocketed to around 8 percent, and a

record number of unemployed amounted to 1.8 million in early 1998. The impact was profound. The monthly average real income per urban household recorded a 20 percent decrease in the third quarter of 1998 from a year ago. In addition to the sharp decline in income level, income distribution has deteriorated at significant depth and speed. The Gini-coefficient drastically rose to 0.3222 in the third quarter of 1998 from 0.3005 in the same period of the previous year (Moon, et al., 1999: 38).

Under the pressure of enforced adjustments, the labor market began to be extorted. Also, extorted patterns of unemployment became fixed. The proportion of involuntary unemployment steeply increased from 35.7 percent in 1997 to 80.1 percent in the first quarter of 1998. Although it gradually decreased after that, it is still higher compared to that of average years (Ministry of Labor, 2001). The representative forms of involuntary unemployment included unemployment of the youth and long-term unemployment. Unemployment of youth, aged 15 to 29, became a severe social problem; the unemployment rate among young people is twice as high as that of the total population. Unemployment of the youth can no longer be regarded as unemployment of cyclical patterns. It begins to reflect the pattern of structural unemployment. The proportion of youth unemployment increased even after 1999, when the economy slowly began to move into the phase of recovery.

Long-term unemployment also increased both absolutely and relatively. Of the total unemployed people, the proportion of those who have been unemployed for more than one year is getting higher. In 1996, before the crisis, it was 4.2 percent, but it increased to the average of 15.3 percent from 1998 to June of 2000. Duration of unemployment has been systematically extended. Above that, the proportion of the re-unemployed, those who had ever been employed before they became unemployed, was around 50% before the crisis, and increased to the average of 92.5 percent thereafter (Bureau of Statistics, 2001). That means it becomes more difficult to get another job after losing one.

The percentage of non-regular job workers also increased greatly. The new structure of the labor market that was created by neo-liberal restructuring processes is consolidating the expansion of non-regular jobs and, as a result, the gaps between regular and non-regular jobs are becoming more serious. The fact that in 1999, 92 percent of the newly employed workers got non-regular jobs emphatically shows that the Korean labor market is undergoing the process of dual-structuration, which will radically divide the labor market into two sub-sectors. Recent research shows that there are 7,580 non-regular job workers, 58.4 percent of the entire wagedworkers.

Nevertheless, the workload of non-regular job workers is heavier than that of regular job workers. The former works an average of 47.5 hours weekly, whereas the latter works 47.1 hours. Acts of discrimination against non-regular jobholders are also found in the areas of social insurance and labor conditions. Among regular jobholders, the percentage of those who took out major social insurances, including a national pension fund, workplace medical insurance, and employment insurance, ranges from 74 to 94 percent, while it hardly exceeds 20 percent among non-regular job workers (Bureau of Statistics, 2001).

The basic objective of the government's unemployment policy is first to conclude restructuring quickly and successfully, and then to promote competitiveness of firms, and finally to create new jobs. It is modeled after unemployment policies of the United States and the United Kingdom, which attempt to create jobs by strengthening corporate competitiveness with market-oriented economic policies, while keeping the labor market as flexible as possible. If the Korean government keeps on pursuing this kind of unemployment policy, Korean society will invariably wind up with a society of long-term structural unemployment, as was witnessed in Europe. However, in Korea, the social safety net is not as well-equipped. The Korean government is now rushing head-on toward western-style unemployment policies without a western-style safety net. Korean society is in a situation in which serious unemployment is imminent, but the safety net is not well-developed. The Korean labor market makes the cleavages ever more crystalized between the employed and the unemployed, and between regular and non-regular jobs, accelerating the weakening of the weak in Korean society. A polarized society is threatening to become a stark reality in Korea.

In the mean time, the noticeable decline of middle class identification was observed in conjunction with the financial crisis. Over the past several decades, since the mid 1960s, Korea's middle class has rapidly expanded with the country's successful industrialization and economic growth. During the 1980s and 1990s, Korea's economic growth significantly resulted in the spread of middle class habits and life-styles throughout the country; even blue-collar workers assumed a middle class consciousness. Roughly speaking, Koreans began to take the values and life-style of the middle class as a yardstick for social order. It is a widely accepted argument that the middle class is inclined to favor a multicultural society, where a diversity of values and ideologies coexist, and where one can attain one's goals through education and the burning passion to climb the social ladder. The middle class tends to value equal opportunity more than other classes. The middle class also relatively champions fair competition. It expects to enjoy greater

**TABLE 1. SELF-IDENTIFICATION OF CLASS MEMBERSHIP**

	Upper Class	Middle Class	Low Class
Before the Crisis	4.3	61.1	34.3
After the Crisis	0.6	45.1	54

Source: Hankyoreh, 1999. 4. 13.

civil rights and political freedom, stressing the role of the state in supra-partisan and national mediation. Therefore, an upswing of the middle class is a sign of social change toward greater economic growth, democracy, and social integration (Park, 1998). A comparative survey in 1998 demonstrates a marked decline in the number of respondents who identified themselves as belonging to the middle class (Table 1). Fear is now growing that this social order embedded in the middle class may be collapsing in Korea today.

#### CONCLUDING REMARKS: TOWARDS SOCIAL INTEGRATION

The financial crisis has had wide-ranging impact on Korean society, out of which insecure jobs and employment, widening economic inequality, dualistic features of nationalism, and new ways of identity formation have been most noticeable. The financial crisis and its subsequent impact could have triggered an excellent opportunity for Korea to overhaul the social rationality of Korean society. Furthermore, the idea that there is indeed a gigantic change in the world, so called relentless globalization, is gaining momentum in Korea.

As neo-liberal restructuring leads to the deconstructive change of Korean society, various actors involved in the ensuing conflicts become entwined with each other. During the IMF intervention, state capabilities have greatly weakened. The weakening of state capabilities was occasioned not only by the inability to escape from the external pressures of neo-liberalism, but also by lack of material economic foundations necessary for a new integrative restructuring. Indeed, restructuring efforts without a sufficient material basis are bound to cause conflicts among various social forces, and as a corollary, disintegration of the social fabric will surely be accelerated.

The situation is now very serious. The public sector restructuring has yet to be started, corporate restructuring leaves much to be desired, and moral hazards are rampant in some public corporations and workout firms. Corporate profitability continues to decline. Labor unions, faced with the possibility of lay-offs, are prepared to wage an all-out war against the tor-

rent of restructuring. Chances of a labor-capital compromise are meager. Tensions among various social sectors and forces are unprecedentedly high. This is the very situation where contentious implementation is badly needed.

How then can the foundation of social integration be constructed? First of all, a balanced tension among the state, the market, and civil society is urgently required. Amid the high-water of neo-liberalism, the state has no choice but to go slim and defensive. Unlike in the past, it is under too many restrictions to take responsibility for pursuing the common good or promoting public interests. Here, a redefinition of the nature of civil society is needed. We should regard civil society not as a counterforce against the state, a conception that was formulated in the age of modernity, but as a partner collaborating with the state to promote public interests, and especially to coordinate the conflicts caused by the processes of deconstructive restructuring. From this perspective, the state-civil society relation should be considered as that of balanced tension. In particular, considering that there can be no such society as propagated by neo-liberalism, we need a new political project of state-civil society relations.

Also, we must form certain kinds of counter forces against the one-sided intrusion of global capitalism. Nowadays, the internal forces that counter-vail the external threat of global capitalism are very fragile. The spread of global capitalism is irrevocable. However, its scope and speed must surely be kept under control, as any other processes of social development should be. In the past, the right to control or the right to refuse to control belonged in part to government officials in the economy-related departments, which was common within the framework of the developmental state. However, a forceful about-face towards neo-liberalism made these 'controllers of the last resort' helpless, leading to a state of anarchy in countervailing neo-liberal policies. Now, the active role of social associations and/or civil society could have never been more important.

Korea is one of the typical contemporary cases of not only practicing massive globalization, but also of confronting anti-globalization. Undeniably, demands for globalization contain justifiable components. However, these demands would be more justifiable if uniformity and conformity were less emphasized and diversity and variety more encouraged. The global village will be the place where bilateral, multilateral, and multi-dimensional communication will take place. It will not be the world of uniformity in which unilateral isomorphism and enforced conformity will prevail.

Globalization has been generating economic growth on the basis of powerful and global driving-forces. The problem is that the economic growth



thus generated is unable to induce social integration. This means that we must go beyond the efficiency-first models of development towards an employment-first model. It would be difficult to stop the identity crisis brought about by deconstructive social crisis and the weakening of the weak, in so far as neo-liberal policies are held. Moderated and managed globalization, as an alternative to the current forms of neo-liberal globalization, is required to accomplish a new form of restructuring conducive to social harmony, stability, and integration in Korean society today.

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**PARK GIL-SUNG** is Professor in the Department of Sociology at Korea University. His teaching and research interests include economic sociology, social development, and globalization issues. His recent writings include *Restructuring Korean Society: Forced Adjustments and Contentious Implementation* and "Corporate Governance Structure and Market Authority."