

RECASTING KOREAN *DIRIGISME*

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"Wealth is evidently not the good we are seeking;
for it is merely useful and for the sake of something else."
-- Aristotle¹

I. Introduction

Many development scholars now believe that people and the quality of their lives are at the center of the development challenge, and that political optimization and human development are necessary for developmental progress. For such rethinking about development, Korea² provides a good forum. Korea represents a particularly interesting case not only because of its general world-historical importance (one of the best success stories that has critically undermined the dependency or neo-Marxist explanation for the troubled industrialization experiences of non-Western countries³), but also because Korean *dirigisme*, or system of state-led development, carried with it a flawed authoritarian disease which withered the fruits of development by directing the development process without regards for the needs and lives of ordinary citizens.

In terms of development in a purely economic sense before the 1997 Asian financial crisis, Korea was the IMF's poster-child, the developing country that had obeyed all the rules and prospered. Korea, an OECD member since 1996, almost uniquely had made it out of the poor country category and into the ranks of the developed economies. After the wrenching financial collapse of 1997, however, Korea was often taken to illustrate the need for opening markets and to show the dangers of state-directed development. While there are elements of truth in both stories, neither provides an adequate account of Korean *dirigisme*. This paper offers an alternative understanding and a critique of how Korean development has been interpreted by those such conventional analyses.

The problematique this paper examines lies at the intersection of two areas of discussion-- development and the state-- often carried on separately and by different

professional and academic groups, but both must be understood together to make accurate sense of Korean *dirigisme*. Development economists,⁴ though increasingly in recognition of the role of the state in economic development, have *not* been interested in an empirical understanding of the state: what it does, how and why. For instance, this paper contends that *dirigiste* development strategies and the formation of societal support coalitions were the result of state leaders' or ruling cliques' joint political-economic choices, but such phenomena have simply been outside their purview. On the other hand, the states in East Asia-- especially Japan, Singapore, Hong Kong, Taiwan, Korea and China-- can hardly be thought about apart from their developmental agenda.⁵

The argument of this paper is two-pronged. One is a model of how *dirigisme* works. Developmental state proponents⁶ have argued that a rational and autonomous bureaucracy dedicated to development organized and led the phenomenal economic growth process in East Asia. Various developmental state arguments have clearly sharpened our understanding of *how* the state outperformed the market, and with *what kind* of intervention (its autonomous bureaucracies intervened in accord with market opportunities), but they have not addressed the question of *why* the state intervened in the way it did or problematic consequences of such intervention. Thus they cannot coherently explain, for example, why Japan, Taiwan, and Korea chose distinct *dirigiste* modernization strategies in spite of their common challenges in catching up with the West, homogenizing international pressures and constraints, and their broadly similar historical, cultural, and institutional legacies. Why did these similarly strong states take different roads to economic development and modernity? What Zysman⁷ calls credit-based, price-administered financial system well characterizes the three countries, but it cannot tell us much about why these similarly structured financial systems have been wielded differently to produce widely divergent industry structures. While small firms flourished as

the major employers and exporters in both Japan and Taiwan, for instance, the fate of small business in Korea appeared hopeless, at least until the early 1980s.⁸ Financial policy is a good indicator of the level of genuine state support for small business. Financial independence directly translates into social well-being and political participation, and the performance of small businesses shows how much average citizens have been able to partake of the respective nation's rapidly growing economic pie. By focusing on the case of Korea, this paper counters the developmental state arguments by elucidating the political nexus of power, and how state power holders used their position to direct development and divide the benefits in an imbalanced manner, with the majority of the benefit accruing to a certain few chosen as proxies in business to carry out the orders of the power holders.

The other argument is about people-centered development. This means an understanding that social cohesion, economic equity, and human dignity represent values as or more precious than narrowly defined economic efficiency or national competitiveness. A people-centered development aims to secure the well-being of people. Development has often been measured in terms of GNP growth or level of industrialization, but as Amartya Sen brilliantly argues, development is also inclusive of freedom and the increased capacity of ordinary citizens, including freedom of and open participation in the political, economic and social realms.⁹ In contrast, developmental dictatorships are fundamentally flawed. In Korea, dictatorial suppression of open dialogue and dissent in the name of political stability and economic growth was justified as a key element of *dirigisme* as practiced. Although developmental state scholars such as Amsden see no reason why a "strong" state cannot be compatible with political democracy, she points to the link between the authoritarian nature of the "strong" Korean state and the success of its economic policies.¹⁰ Wade also views the "authoritarian-corporatist" state as a key factor explaining Korea's successful interventionist

policies.¹¹

Developmental state proponents slight the fact that Korean *dirigisme* harmed equity, democracy, social cohesion, and thus the people=s ability to take the initiative, innovate or form viable civil society.¹² Evans argues that Korea=s information technology industries outperformed those of Brazil and India not only because Korean bureaucracies were professional, meritocratic and autonomous, but also because they were closely tied with the business sector.¹³ However, political power holders tightly controlled the recruitment and operation of ministries and other state agencies, resulting in rampant regionalism and politicization of government bureaucracies; the authorities= close ties with big business brought about collusion, cronyism and corruption on a grand scale.¹⁴

Top-down authoritarianism and a people-centered development are not compatible and actually stand in fundamental opposition to each other. In Korea, the authoritarian leadership's disregard for the dignity and importance of its weak and overlooked people inhibited the expansion of a people-centered development. Development centered on people, at its core, values the dignity of human beings-- down to the last person. While the state-led development provided access to greater amounts of material goods for the people, this was done at the behest of limiting or even subduing any active voice other than the *dirigiste* voice. Human dignity requires not just access to material goods, but also a meaningful and dignified place within the human family, society and social arrangements. This paper contributes to creating the bridge needed to link economic development and the building of a humane and open society. This is indeed the very purpose of development.

By looking at the way in which the state meddled with the economy as a deliberately selected course, an analytic account can be taken of the dysfunction of developmental statism, which I also term diseased *dirigisme*. The diseased *dirigisme* originated in the Park Chung

Hee era;¹⁵ and despite some state-guided modifications of its worst pathologies in the following regimes, the fundamental institutional structure and policy legacies remain, limiting and constraining policy options, injuring the social fabric and preventing the inclusion of the ordinary citizens in society. The inequity between the often-bitter deprivations suffered by small firm operators and other ordinary citizens and the sweet gains reaped by a few big business conglomerates, known as *chaebol*,¹⁶ remains symptomatic of Korea's *dirigiste* disease. The diseased, undemocratic *dirigisme* had four essential characteristics which distinguished it from development centered on people: 1) top-downism; 2) use of vested interests as proxies; 3) growth-at-all-costs; and 4) battle speed.

II. Top-downism

Top-downism is characterized by vertical political structure, centralized and monopolized policymaking, the absence of institutionalized checks and balances, and a uni-directional flow of power and influence that discourages bottom-up policy feedback.

This vertical structure can be seen as a "brain-dominant" state, where policy choices reflect the political aims of the ruling elite, and the body politic's ability to give feedback to the power center is limited. While top-downism can provide rapid GNP growth, ascending numbers alone do not describe development. This view leaves out people's actual social and life conditions. Focusing on growth numbers alone creates patterns that become over time dysfunctional, posing rigid obstacles to renewal and further development.

Top-downism: the Korean Experience

Power in Korea remains highly concentrated in the central state, symbolized by the presidential residence, the Blue House. Given the relative weakness of societal forces in

checking the power holders' control and exploitation of *dirigiste* state apparatuses and policy instruments, control of the central state or the presidency mattered the most in terms of power balance. Government policies were the outworking of political and economic choices of modernization strategy by *dirigiste* regime coalitions. Developmental state arguments notwithstanding, career bureaucrats were in no position to make strategic decisions. Key power holders decided on a strategy, or strategic shift, which best suited their political needs and interests-- including needs for economic growth-- by heeding some technocrats' advice and not others.¹⁷ President Park Chung Hee's modernization strategy in the early 1960s instituted this militarized system of strictly hierarchical decision-making, where the body politic was relegated to uniformly carrying out decisions made at the top.¹⁸

The *dirigiste* state was not, to be sure, totally indifferent to societal interests, as the authoritarian character of the regime underlined the necessity of its building some semblance of popular support or acquiescence. Because the military regime in Korea came to power through violent means, its rule always had to contend with the threats to power that illegitimacy and popular disaffection posed for it.¹⁹ Hence, concern about the political ramifications of choices of modernization strategy created some room for input from below. But the societal participation was limited. What critically influenced the strategic choice was the formation of competing coalitions within the ruling elite and the winning coalition's task of building legitimacy and authority.²⁰

Korea's top-downism was extremely dramatic, arbitrary and sweeping. In 1961, for instance, Korean authorities nationalized private banks, which had been denationalized in 1957, only to privatize them again in the early 1980s. And in 1972, they practically nullified all informal curb market loans, the chief beneficiary of which was the largest debtors, i.e., the *chaebol*.

Park's military authoritarian state, especially during the 1970s, approached economic development by running a series of military campaigns that turned industrial workers into "industrial warriors." The military, in Korea as elsewhere, values ends above the means: how a war is won matters less than the victory achieved. Subordinates have very limited input. A popular book during the time of rapid industrial expansion was a re-make of Sun Tzu's *The Art of War*; however, this modern version interpreted the war to be not a military one, but an economic one, and talked about conquering the world not by colonialism, but by market share. Even today, preoccupations with efficiency and international competitiveness smack of the powerful rhetoric of war, leaving human and social factors out of the equation. The top-down *dirigiste* state left the human element outside of its purview for many decades. People were seen as mere cogs in the wheel of the economic-growth machine, and such a militaristic operation left little room for their feedback.

This top-downism proved quite useful in the early stages of Korean development, since many people lived in dire poverty and lacked the skills and sophistication to move forward with modernization by themselves. The state, with its strong-willed general-turned-leader at the helm, could catalyze rapid change. But as the political economic system grew more complex and the body politic gained confidence beyond carrying out the production orders, top-down statism outgrew its usefulness and hindered flexible innovation and change.

III. Using Vested Interests as Proxies

Using vested interests as proxies refers to the selection of a rather small number of big entrepreneurs who carry out developmental orders as agents of the state and in return receive privileged access to investment credits, and oligopolistic, if not monopolistic,

licenses. In the diseased *dirigiste* state, those who monopolize political power have every incentive to make the policymaking process non-transparent to preserve their control of the state and ensure their political survival. Divergent voices are excluded, and those not easily excluded are actively suppressed.

Such a system is often riddled with corruption, for as Lord Acton astutely observed, power tends to corrupt, and absolute power corrupts absolutely. However, our concern here is not crony capitalism per se or corruption in general (from which all societies suffer in one way or another), but a particular kind of corruption: the political-funds-for-economic-favors exchange, caused, reinforced and reified by the principal-proxy nexus between the exclusionary *dirigiste* state and politically-connected big businesses. The central problems of such a system lie in the absence of independent outside checks, public accountability, and inclusion of the ordinary citizens and civil society in both the policymaking and implementation processes.

Using Vested Interests as Proxies: The Korean Experience

Korea's long history of cronyism or political-funds-for-economic-favors deals was made possible by the concentration of power in the central state, but President Park's modernization strategy was a deliberate choice within the political and economic constraints. Park decided to utilize a small number of *chaebol* as the main proxy of economic growth for two reasons. First, he calculated that it would be easier to control a few big capitalists at the top than a multitude of small business people. Park, at heart, was an anti-capitalist and would probably have preferred to use state-owned enterprises to engineer rapid industrial expansion, as Taiwan did. However, because Park needed to show the United States that he was unquestionably anti-Communist, he could not choose this path. Instead he picked a few

private proxies. Second, it was easier for Park to raise the necessary political funds through a few *chaebol* owners rather than a thousand small business entrepreneurs. Thus the politics of proxy was born.

Korea continues to suffer from this problem of corruption-permeated elite politics. In a speech at the annual meetings of the World Bank and the IMF in 2000, World Bank president James Wolfensohn said that President Kim Dae Jung "was elected to deal with corruption and cronyism, but has not yet been successful in doing so.... You can mask the problems by economic growth, but you have within it the seeds of the next crisis."²¹ But attention on symptoms of cronyism and corruption should not obscure the *dirigiste* disease deeply underlying the pathological phenomena.

The legacy of the principal-proxy nexus between state and *chaebol* persists to this day. It is a key factor underlying the "miracle" and near "meltdown" of the nation's economy and the debilitating public resentment, cynicism and distrust that strain the social fabric and bog down state efforts at reform or reconstruction.²² Despite developing an impressive array of fair trade laws and policy tools to relax the concentration of economic power since the early 1980s, the share of the five largest *chaebol* in manufacturing sales and value-added in 1995 recorded 26 and 27 percent, respectively.²³ The share of monopolies and oligopolies in Korean manufacturing in 1990 also remained extremely high at 81 percent in terms of number of products and 64 percent of total sales volume.²⁴ The often coinciding interests of state power holders and the domestic market-dominant *chaebol* limit the reform of the same oligopolistic structures that laid golden eggs for them.

One of the most glaring consequences of Korea's collusive state-*chaebol* nexus was the comparative underdevelopment of small business. As of 1986, for instance, Korean small firms accounted for only 35 percent of manufacturing exports vis-a-vis over 60 percent in

both Japan and Taiwan. The backwardness of Korea's small business sector was also reflected in an abundance of petty firms and a dearth of healthy medium-sized corporations. Petty businesses with 5-19 regular employees made up 72 percent of all firms in 1995, while medium-sized firms with 50-299 employees constituted only nine percent in the same year.²⁵ As of the early 1990s, petty manufacturers with 1-19 regular employees comprised nearly 82 percent of all small manufacturers; yet they accounted for less than ten percent of aggregate sales and nine percent of value-added by small manufacturers.²⁶ Moreover, only 30 percent of Korean small manufacturers were fully independent in 1993.²⁷ In other words, 70 percent of the country's small manufacturers depended in varying degrees upon big firms' purchasing power and oligopolistic market control to sell their parts, components, or semi-finished products.²⁸

IV. Preoccupations with Growth

Economic growth entails social pain, and rapid growth is particularly wrenching. Modernization and economic change had terribly destabilizing effects even in Britain, which developed earlier and thus at a slower-pace than late industrializers. Karl Polyani points out:

At the heart of the Industrial Revolution of the eighteenth century there was an almost miraculous improvement in the tools of production, which was accompanied by a catastrophic dislocation of the lives of the common people.²⁹

What Polyani underlines here is the often ignored fact that while modernization and economic progress do ultimate good for society, the process itself can be quite destructive. Without proper government intervention to ameliorate the social costs of industrialization, modernization may become unsustainable. The growth-at-all-cost mentality constitutes the third element of the diseased *dirigisme*.

A growth-at-all-costs approach has two features: 1) a dominant focus on increased GNP, export growth, or material wealth and 2) neglect of the social consequences of industrialization. These flip sides of the same coin reflect a concept of economic growth pursued almost as a crusade. Indeed, society's single-minded obsession with growth justifies otherwise unjustifiable social costs as a necessary means.

Even such an obsession may well serve a society attempting to pull itself out of dire poverty. When even the mundane needs of the people are not met, an emphasis upon economic growth may be warranted. Among people living in abject poverty and lacking in economic development experience, a powerful stimulus is needed to change the societal trajectory, and single-mindedness-- even tunnel vision-- may be called for. However, this preoccupation can soon become pathological with its tendency to benefit a few to an extreme, and the majority of people to a lesser extent. Then, as this mindset becomes institutionalized and entrenched among the main profiteers, social integration and other human considerations are disregarded.

Growth Preoccupations: the Korean Experience

In its quantitative results, Korean economic development has been a huge success. President Park initiated this lifting of the nation out of poverty through sheer will power and monumental effort. Such economic progress was vitally important in a country as desperately poor as Korea was at the beginning of the second half of last century. But that does not legitimize the enormous social side effects incurred by the growth-at-all-costs strategy and its policy legacies. Many marginalized groups like factory workers and small business operators were compelled and coerced to make deprivating sacrifices. Workers had to put in extraordinarily long working hours in highly accident-prone industrial environments, and

female workers faced culturally and socially embedded discrimination in employment and wages as the *dirigiste* state exploited their already low social status. And the state demonstrated pronounced financial policy bias toward big business at the expense of small business.³⁰

President Park's obsessive focus on the goal of economic growth was already evident from his early writings. Park has stated:

One must eat and breathe before concerning himself with politics, social affairs, and culture. Without a hope for an economic future, reforms in other fields could not be expected to yield fruit. At the risk of repetitiveness, I must again emphasize that without economic reconstruction, there would be no such things as triumph over communism or attaining independence.³¹

Park saw economic development as a battle to be fought and won at all costs. He took a military campaign-like approach toward social and economic change. Desiring to make Korea strong, he viewed Korean tradition as backward, an obstacle to economic growth and an enemy to face and defeat. On the necessity of an industrial revolution, he wrote:

We must fight and win. We must win because a defeat will mean nothing less than our destruction, an end for all eternity. This is precisely the reason why the May 16th military revolution should be a "national revolution" and why this, in turn, should be translated into an industrial revolution.³²

Park's justification of the costs of such an approach to modernization remained harsh and unyielding:

Steep hurdles will be in our path. They will prove to be challenging enemies. But the dice have been cast, and we have proclaimed a ten-year war. A war is not always fought on the front. Rear support can be decisive. We risk our lives at the front: the rear supports must be equally dedicated. The trials will be great. You will feel tired. However, we must not turn away. The people's discomfort from the first five-year plan will be great. The challenge will be overwhelming. I am well aware of that! But Korea is a young boy, and when young, one must purchase suffering as the saying goes. A young Korea must go through suffering. We have endured plenty before. Are we to continue this misery or are we to expect a better future by volunteering for a little more suffering?³³

Such single-mindedness of purpose successfully mobilized the population in the

initial stages of economic development. Arising out of hopelessness after 35 years of Japanese exploitation and a devastating Civil War, the driving obsession to grow out of poverty might have been necessary to jumpstart the campaign to improve the lives of Korea's deprived masses. Many still deemed the accompanying social costs and sacrifices as necessary, for past economic misery remained still too vivid in their memories. But as people became less impoverished, the dehumanizing, militaristic growth machine became increasingly undesirable and intolerable, particularly as the benefits were spread out in a skewed manner, further marginalizing weaker and overlooked social groups. The preoccupation with growth, however, was not slowed or adjusted in order to ameliorate the social detriments and promote a more equitable development.

V. Battle Speed

In some late industrialization experiences, the speed of economic change has assumed stupendous velocity. What took England over two centuries to accomplish has taken a latecomer like Korea only a generation. The massive increase in the material standard of living in so short a time period is something to be admired, but at the same time there exists a dark underside to this battle speed process, which is the fourth self-defining feature of the diseased *dirigisme*:

It should need no elaboration that a process of undirected change, the pace of which is deemed too fast, should be slowed down, if possible, so as to safeguard the welfare of the community. Such household truths of traditional statesmanship...were in the nineteenth century erased from the thoughts of the educated by the corrosive of a crude utilitarianism combined with an uncritical reliance on the alleged self-healing virtues of unconscious growth.³⁴

Polyani also writes:

[A] social calamity is primarily a cultural not an economic phenomenon that can be measured by income figures or population statistics. Cultural catastrophes

involving broad strata of the common people can naturally not be frequent; but neither are cataclysmic events like the Industrial Revolution-- an economic earthquake which transformed within less than a half a century vast masses of the inhabitants of the English countryside from settled folk into shiftless migrants.³⁵

Polyani's central point here is that while modernization is disruptive of the social fabric, rapid modernization causes a much higher rate of disruption and dislocation in people's lives. The idea of slowing down modernization to ensure social sustainability, however, is absent in a diseased *dirigisme*. The obsession to speed up the process of economic development makes culture or people's traditional way of living seem an impediment to change rather than something to conserve, cherish and nourish. Here, the idea of a self-correcting market or blind faith in the market alone is dangerous. Markets have a natural tendency to become monopolistic or oligopolistic; "in markets, money talks, not people."³⁶ The government can play a positive role in protecting such essential values of human life as social cohesion, thereby preventing "the degradation of human beings into commodities" in what may be an ultimately beneficial process of modernization. However, the government in Korea did not. It in fact was determined to pull off rapid growth through collusion with *chaebol* and did not mind the social cost.

Battle Speed: The Korean Experience

The obsession with battle-speed growth began with decisions Park Chung Hee made in the early years of his military rule. Coming to power in an undemocratic and thus illegitimate manner, Park knew he had to speedily deliver economic growth, or risk instability or even an ousting. One way to do this was to funnel society's forcibly mobilized capital and other resources to a few selected companies.³⁷ Park's regime was thus able to boost economic performance by repressing labor, helping a handful of big firms to acquire

mass production capabilities, and adopting an export-oriented industrialization approach. In effect, the state became a medium to keep one man in power and ensconce a few with economic means so that they would support this man in power, and then together they used the ordinary citizens to keep going this system of personal privilege where only a few benefitted.

By pushing growth at battle speed, Korean authorities neglected social cohesion and small business support. Even in economic terms, however, slighting small firms proved counter-productive. As many observers agree, Korea's *chaebol*-based modernization, which emphasized mass production of price-competitive export goods, is increasingly unworkable.³⁸ Not only in responding to intense price competition on low-end products from the People's Republic of China and Southeast Asian countries, but also in competing with Japan³⁹ by shifting from labor-intensive to technology and knowledge-intensive industries, the role of small business is increasingly becoming critical and indispensable.

Noting the rising economic importance of small business in the post-Fordist era, Piore and Sabel advocate a "flexible," instead of a mass production mode, as exemplified by business districts of small firms like Northern Italy and Silicon Valley.⁴⁰ Florida and Kenney agree with Piore and Sabel on the importance of small firms, even though they argue that Silicon Valley may be good at break-through but not at "follow-through" innovations in products and manufacturing processes.⁴¹ Thus Florida and Kenney stress the long-term future oriented supplier network of small firms for Japan's large firms like Toyota as a key to Japan's success in incremental production innovation.⁴² The Japanese government itself explicitly credited the extensive, trust-based network of small subcontractors for producing high-quality, customized parts and products, thereby enhancing the international competitiveness of Japanese industries.⁴³

Despite disagreements about the shifting mode of production or the exact role of small business in formulating a winning production system, one thing becomes crystal clear: small business matters, and more so as the economy matures. Yet the underdevelopment of small supplier firms in Korea has been notorious, not to mention the lack of Silicon Valley-type high-tech small companies. One such indicator is the fact that still in 1985, Korea needed to import 28 percent of input to produce one unit of output, in contrast to seven percent of input for Japan.⁴⁴

Even more critically, the collusive state-*chaebol* nexus, which excluded the ordinary citizens from sharing equally in the benefits of growth, led to widespread corruption, public cynicism and resentment, and weakened social cohesiveness. In October 1995, for instance, the nation was shocked by unfolding revelations about former President Roh Tae Woo's secret fund raising from big business during his 5-year presidency. Chun Doo Hwan's Ilhae Foundation had created a scandal by raising \$100 million worth of political slush funds and/or Chun's personal fortunes from the *chaebol*. Roh, who succeeded Chun as the president in 1988, claimed to be an "ordinary man" and reformer, but his secret funds amounted to \$667 million.⁴⁵

Another ill effect of the elite collusion can be illustrated by the markedly increased inequality in the nation's distribution of wealth over time. For instance,

[t]he top 1 percent owned 44 percent of total land value in 1988; the top 10 percent, 77 percent. Land values between 1974 and 1989 appreciated at an estimated rate that was three times as fast as real gross national product (GNP) and in some years the resulting capital gains exceeded total GNP growth.⁴⁶

The resultant sense of relative deprivation is potentially far more explosive than that of absolute deprivation in any society,⁴⁷ and it is deep-seated in Korea. The nation was dismayed in the fall of 1994 by the news of horrifying murders committed by a small,

organized group of young adults with poor family backgrounds, who targeted anyone driving a luxury automobile.⁴⁸ Shortly before their arrest, they were about to go after some 150 conspicuous consumers whose names appeared in a list of the biggest shoppers of a Seoul department store. Although extreme, this incident reflected a widespread general discontent, resentment and disapproval that the have-nots harbored against the haves, a great cause for alarm and reflection about the state of affairs that drove some people to such an extreme expression of hopelessness.

In such a social context of elite corruption, maldistribution and relative deprivation, and despite the nation's long history of repressed civil society and consequent public apathy and dependency on the state, the Korean military-turned ruling parties were only able to narrowly win direct and popular elections, with the exception of the 1960s. Popular discontent further intensified in the 1980s; despite continued rapid economic growth: Roh Tae Woo managed only a narrow plurality (36 percent)⁴⁹ of the votes in the 1987 presidential election. Kim Young Sam, a long-time opposition leader, obtained the ruling party candidacy by succumbing to the desire for power and cutting a compromising deal with President Roh's Democratic Justice Party and Kim Jong Pil's ultra-conservative New Democratic Republican Party to create the new ruling Democratic Liberal Party in January 1990-- isolating Kim Dae Jung's then the largest opposition Party for Peace and Democracy; Even with Kim Young Sam, however, the ruling party won the Blue House office with an unimpressive 42 percent in 1992.⁵⁰ Finally the ruling party's choice candidate, ex-judge Lee Hoi Chang, lost the election to Kim Dae Jung (who won it even though he received only 40 percent of the vote) in the midst of financial crisis in 1997. The public lack enthusiasm for participation in a political system of limited choice which will only persist as is; the ordinary citizens have

little confidence or trust in the *dirigiste* state which has persistently showed a pronounced institutional bias against them.

The state now presses on with the globalization and marketization campaign at a familiar battle speed. The state's mind-boggling dash to free market liberalization and efficiency enhancing endeavor takes place at a speed as disorienting as the old, unapologetically *dirigiste* state's drive to modernization and national competitiveness did. The unreconstructed state takes for granted the "globalize or die" rhetoric, unconcerned for the social costs that necessarily accompany elite collusion and rapid change.

The analogy of an athlete in a distance race may help elucidate the diseased *dirigisme*. A top-down or brain-dominated athlete can display remarkable mental toughness in a race and more readily tolerate the suffering that a long race exacts. Speed (an analogy to the growth preoccupation and battle speed), of course, is essential to winning the race, and some neglect of social or bodily suffering can be beneficial, allowing the runner to persevere despite pain. A proclivity towards favoring one part of the body (*chaebol* bias) can also be useful for a certain period of time, but this becomes harmful in the long run. Ignoring the social or physical costs of running (or modernization) becomes self-defeating and counter-productive. In a long-distance event, pace is as important as speed. An athlete who tries to run at full speed all the time will not get very far.

VI. Toward Fresh Discourse about Development and the State

My diseased *dirigisme* argument is set forth over both various variants of structural models-- international structure, domestic political structure, or domestic economic constraints-- and various types of technocratic, developmental state models. Both have a strong overlay of determinism: that what happened was in one sense or another the only

possible way things could have gone, or the only possible good way to go. In contrast, my perspective offers an optic through which the development process is viewed not as a predetermined one, but as choice of one of a set of possibilities. There were umpteen different options that could have been chosen, and even within the technocratic, developmental state model that was taken, there existed various possible ways to go forward.

According to the proponents of structural models, *dirigiste* state policy was a result of structural constraints that determined how things would go, although arguments of structural determination do not necessarily imply that the way things worked out was best, desirable, or good. According to the globalization hypothesis,⁵¹ in particular, the imperatives of international competition and the rapidly growing integration of capital, markets and production processes have increasingly driven the Korean state and its liberalization efforts since the early 1980s.⁵² From this perspective, basically the only option for a developing state like Korea to choose is to go down an efficiency-enhancing path. This mode of interpretation has been at its peak in discussion of and in the aftermath of the 1997 Asian financial crisis.

The globalization hypothesis, however, overestimates the extent to which international market forces dictate domestic institutional change and economic policymaking. It also underestimates the impact of domestic politics and state structures on government policies. No matter how constraining the systemic factors, there is almost always ample room for different states to maneuver in various ways in response to similar external pressures. This is because the international system does not make policies-- powerful actors and organizations do. International pressures alone cannot generate or determine policy changes, unless they can instigate powerful players of the political regime to respond.

By moving down from the systemic level of analysis to the state level, the technocratic, developmental state models better capture the motivating forces behind state action, but these models also suggest a determination, if a rational determination: that a group of competent and wise bureaucrats dictated a course of policy that uniquely was the one best designed to achieve development. Thus what happened was determinate in the sense that good design achieved an excellent outcome and the policies chosen to promote development were determined by the economic or technical requisites of "best practice" or "sound economic policy."

The common image various developmental state arguments project is that state policies are directed technocratically by a bureaucracy which has the institutional position and skills as well as requisite understanding of development to lead it. Indeed, a capable bureaucracy is necessary to achieve any kind of state-led development. However, the state power holders proved autonomous not only from societal interest groups but also from their own bureaucracies in choosing developmental paths.

In contrast, my diseased *dirigisme* problematique conceptualises that the state ruling elites carved out a particular strategy of their liking, designed to be both economically and politically viable. This makes it possible to understand why variations in *dirigiste* strategies exist and indeed are to be expected. It was not, therefore, a technocratically optimal plan, nor was it determined by necessity or "best practice," but rather resulted from sub-segments of the ruling elite vying for legitimacy, authority, and public support. In short, my argument differs from conventional views in that it sees the *dirigiste* choices as having been (1) a joint political-economic choice and (2) a choice in which those political power holders set the parameters for the technical blueprints that bureaucrats drafted. The politicians were not ruled by the bureaucratic draftsmen's plans.

The policy choices made were not the only feasible or available choices, but in each case a selection of one particular alternative out of many. The choice of possibilities was political much more than it was economically based. Thus, the best way to explain the variations of the *dirigiste* policies is to view them as the outcome of a particular leader's choice or as his successful attempt to build a coalition of political support. It goes without saying that at different times, different choices benefited different groups in a varying manner. The *dirigiste* state and the power holders who had effective charge of the state did not act in some way uniquely determined by their circumstances (political and economic or domestic and international), but rather they *chose* a particular path of action.

That the state and its power holders can and do choose among successful development strategies and are not led upon a certain development path by some sort of predetermination enables us to take an analytic account of diseased *dirigisme*. This analytic lens identifies the central source of the problems as a top-down, unresponsive, unaccountable, and elitist state direction of the economy, underlying state-big business collusion. The lens focuses on political sources of *dirigiste* state action and thereby provides a window into the problem of declining social cohesion and weakening public confidence in the integrity of the government and political leaders, a dysfunctional trait which results from the *dirigiste* disease, the elite-level "grand" corruption and the consequent lack of state attention to the lives, opinions, or objections of the ordinary citizens.

This link between the state-led and people-centered arguments shows why my argument is of broad and future-oriented relevance: not just to developing countries or East Asian *dirigiste* states, but to discourses of economic policy in the developed world. The dominant themes in the current economic discourses are privatisation, marketization, deregulation and the rollback of the welfare state. This paper contributes to fresh discourse

about principles of policymaking and state-action to broaden the valuation of development beyond economic efficiency or competitiveness. My work suggests that the hope for the future of Korea, and the more advanced of the developing societies in general, rests upon a people-centered concept of development.

In a people-centered development, the engine and purpose of development lie in ordinary citizens. The systemic and enduring collusion between the state and *chaebol* remains the primary underlying cause of Korea's debilitating elite corruption and societal distrust, and liberalizing the economy without state reform may well aggravate the *dirigiste* disease. Thus, purging the diseased, undemocratic conditions of *dirigisme* is certainly necessary to reconstruct a "strong" state. However, the idea of a strong state is not in and of itself totally bad. Not all forms of *dirigisme* are dysfunctional. There is such a thing as healthy or democratic *dirigisme*, and a reconstructed state can be a protective association, empowering ordinary citizens and their voluntary associations and thereby sustaining a development process that enables each and every member of society to lead a dignified human existence.

Therefore, crafting a democratic *dirigisme* constitutes Korea's pressing task in its quest for a good society that respects the human dignity of ordinary citizens. Democratic *dirigisme* requires institutionalizing a new, transparent, accountable, and radically and viably decentralized public policymaking process, which makes the government more honest, upright and fair. Such reconstruction of the state does not necessarily weaken or wither its capacity. The reconstructed state can and does play a positive role in empowering financial institutions, transforming state-society relations, providing social safety nets and actively inventing a vibrant civil society.⁵³ Thus the key concern revolves around what mixture of state and market and how to forge it. Here especially in the East Asian statist context, where

the public continue to look to the state to redress their grievances, democratic *dirigisme* can be as robust an alternative as any other paradigm for continued, people-centered development. Transformation of Korea's diseased *dirigisme* is likely to come from a creation of transforming regime coalition, a critical mass of empowering political leaders who take the initiative to construct the institutions of autonomous bureaucracy and civil society.

As Levy points out, the Japanese state constitutes a model of rather healthy and benevolent *dirigisme*.⁵⁴ The effectiveness of the Japanese state as what Okimoto⁵⁵ calls a "network" state stemmed in part from the autonomy of its professional and non-politicized elite bureaucracies.⁵⁶ While the U.S. Occupation authority in Japan had purged conservative politicians and demolished big business conglomerates called *zaibatsu*, the purge of the government bureaucracies remained negligible; the U.S. Occupation staff ruled indirectly through the Japanese bureaucracies. As a result, especially during the early postwar decades, the ministries stayed largely insulated from politicians, and particularly the key ministries governed the economy-- not by the imposition of their arbitrary wills, but by forming a partnership with business. Instead of acting unilaterally, the Japanese government constantly consulted with the private sector for policymaking and policy implementation. The presence of such an autonomous government bureaucracy can be a key to healthy, democratic *dirigisme*. In fact, the presence of a Weberian professional bureaucracy could have helped to check Korea's undemocratic, highly centralized and highly personalized *dirigisme* and thereby prevent the formation or operation of collusive nexus between state power holders and the *chaebol*.

In short, the fundamental flaw in Korea's militaristic growth-at-any-cost modernization campaign was lack of people-centeredness. The state's failure to reconstruct itself and cure its *dirigiste* disease-- albeit under the guise of enhancing efficiency and global

competitiveness-- would further damage or could fatally disrupt "the fabric of society." The corrosive preoccupation with growth-at-any-cost and the consequent use of vested interests as proxies resulted not only in traumatic cycles of cataclysmic crisis and change in Korean political economy, but also in the public's deep-seated cynicism and distrust of the elite and the way they ran the authoritarian *dirigisme* like the spoils system.⁵⁷ One must watch out for the problem of undemocratic *dirigisme* in any assessment of the Korean model of development.

Notes

1. Cited in Amartya Sen, *Development as Freedom*, (NY: Alfred Knopf, 2000), p. 14.

2. Korea means South Korea, unless otherwise noted.

3. Immanuel Wallerstein viewed the states in the periphery as having no autonomy or capacity vis-a-vis the core, unless they withdrew from the international system and resorted to autarchy. Wallerstein, *The Modern World System*, (New York: Academic Press, 1974).

4. A. Hirschman, *The Strategy of Economic Development*, (New Haven: Yale University Press, 1958); W. W. Rostow, *The Stages of Economic Growth*, (Cambridge: Cambridge University Press, 1960); A. Gerschenkron, *Economic Backwardness in Historical Perspective*, (Cambridge: Harvard University Press, 1962); S. Kuznets, *Modern Economic Growth*, (New Haven: Yale University Press, 1966); G. Myrdal, *Asian Drama*, (Harmondsworth: Penguin, 1968); P. Samuelson and W. Nordhaus, *Economics*, 13th edition, (NY: McGraw-Hill, 1989); Sen, *Development as Freedom*.

5. The analyses, and critiques, presented in this paper are restricted to Korea, but the basic lines of analysis have applicability (of course, in somewhat altered ways) to

other Asian countries with closely related *dirigiste* backgrounds.

6. Chalmers Johnson, *MITI and the Japanese Miracle*, (Stanford: Stanford University Press, 1982); idem., "Political Institutions and Economic Performance," in Frederic Deyo, ed., *The Political Economy of the New Asian Industrialism*, (Ithaca: Cornell University Press, 1987); Alice Amsden, *Asia's Next Giant*, (NY: Oxford University Press, 1989); Robert Wade, *Governing the Market*, (Princeton: Princeton University Press, 1990); Peter Evans, *Embedded Autonomy: States and Industrial Transformation*, (Princeton: Princeton University Press, 1995).

7. John Zysman, *Governments, Markets, and Growth: Financial System and the Politics of Industrial Change*, (Ithaca: Cornell University Press, 1983).

8. Hun Joo Park, "Small Business in Korea, Japan, and Taiwan: *Dirigiste* Coalition Politics and Financial Policies Compared," *Asian Survey*, 41:5, (September/October 2001); Idem., *Diseased Dirigisme: The Political Sources of Financial Policy toward Small Business*, (forthcoming).

9. Sen, *Development as Freedom*.

10. Amsden, *Asia's Next Giant*, p. 18. Johnson similarly underlines the "soft

authoritarianism" factor in his "Political Institutions and Economic Performance."

11. Wade, *Governing the Market*.

12. Korea during the development decades sacrificed efficiency as well; it was only after the early 1980s that many economist-reformers began to emphasize efficiency as key standard for marketization and liberalization.

13. Evans, *Embedded Autonomy*.

14. See Hun Joo Park, *Diseased Dirigisme*.

15. I find Korean *dirigisme* in the early 1960s more justifiable (even though the origins of the *dirigiste* disease can be traced back to this "soft authoritarian" period), but not so at all after 1969 when President Park changed the constitution to eliminate the term limit of the presidency.

16. No other societal interest group has developed to match or check the power and influence of Korea's rich, resourceful, politically connected *chaebol*, the top five groups of which account for over one-third of GNP. (It was only after the early 1990s that labor and citizen-led groups began to spring up.) A rather vast literature exists on the *chaebol*, including Leroy Jones and Il Sakong, *Government, Business and Entrepreneurship in Economic Development: The Korean Case*, (Cambridge:

Harvard University Press, 1980); Seok Ki Kim, "Business Concentration and Government Policy: A Study of the Phenomenon of Business Groups in Korea, 1945-1985," Ph.D. diss., Harvard University, 1987; Eun Mee Kim, "From Dominance to Symbiosis: State and *Chaebol* in the Korean Economy," Ph.D. diss., Brown University, 1987; Kim Yung Ho, *Kwankwon Kyongje T'ukhye Kyongje* [State-run Economy Preferential Economy], (Seoul: Chungam, 1989); Richard Steers, *The Chaebol*, (New York: Harper, 1989); and Dong Sung Cho, *Hankuk Chaebol Yongu* [A Study of Korean *Chaebol*], (Seoul: Mael Kyongje Shinmunsa, 1990); Park Se Kil, *Hankuk Kyongjeeui Ppuriwa Yolmae* [The Roots and Fruits of the Korean Economy], (Seoul: Tolpegae, 1991); Yoo In Hak, *Hankuk Chaebolpumi Haebu* [An Anatomy of Korean *Chaebol*], (Seoul: Pulbit, 1991); Seoul Economic Daily, *Chaebol kwa Kabol* [*Chaebol* and the Family Clique], (Seoul: 1991); Chung Pyong-Hyo and Yang Young-Shik, *Hankuk Chaebolpumuneui Kyongjepunsok* [An Economic Analysis of the *Chaebol* Sector in Korea], (Seoul: KDI Press, 1992); Seok-Jin Lew, "Bringing Capital Back In: A Case Study of the South Korean Automobile Industrialization," Ph.D. diss., Yale University, 1992.

17. Hun Joo Park, "Small Business in Korea, Japan, and Taiwan."

18. Park's ideas about top-down style of modernization came primarily from his experiences in the Japanese military of the 1930s.

19. Korea also remained a divided country facing constant Communist threat from the

North.

20.Ibid.

21.*South China Morning Post*, September 26, 2000.

22.Hun Joo Park, "After *Dirigisme*: Globalization, Democratization, the Still Faulted State and Its Social Discontent in Korea," *The Pacific Review*, 15:1, (2002).

23.Lee Jae-Hyung, "The Current Status and Performance of Korean Business Groups," Ph.D. diss., Sungkyunkwan University, (1997).

24.Cha Dong-Se and Kim Kwang-Suk, eds., *Hankuk Kyongje Pansegi* [The Half Century of Korean Economy], (Seoul: KDI, 1995), p. 397.

25.KFSB, *Chungsokiop Hyonhwang* [The Current State of Small Business], (Seoul: 1997), p. 81.

26.Kim Chung Soo, *Chungsokioppei Kyongyong Chonryak* [Strategic Management of Small Business], (Seoul: Daehan Kumyung Kyongje Yonguso, 1993), p. 298.

27.Independent small manufacturers produce finished products and sell them independently in the market.

28. *Maeil Kyongje*, May 20, 1993.

29. Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time*, (New York: Farrar & Rinehart, Inc., 1944), p. 33.

30. Hun Joo Park, "Small Business in Korea, Japan, and Taiwan"; Idem., *Diseased Dirigisme*.

31. Park Chung Hee, *The Country, the Revolution, and I*, (Seoul: Hollym Corp., 1970), p.168.

32. *Ibid.*, p. 173.

33. *Ibid.*

34. Polanyi, *The Great Transformation*, p.33.

35. *Ibid.*, p. 157.

36. James Scott, *Seeing Like A State*, (New Haven: Yale University Press, 1998), p. 8.

37. It is now conventional wisdom that economic modernization means taking

advantage of economies of scale and scope in technology, organization and marketing. Among others, Alfred Chandler argues that large industrial companies have been the engine of growth in the past 100 years and will continue to be so. See his *Scale and Scope: The Dynamics of Industrial Capitalism*, (Cambridge: Harvard University Press, 1990).

38. The nation's economy was literally on the verge of bankruptcy in December 1997, and surviving the crisis seemed to require full adoption of the American-style market economy.

39. Korean companies compete head-on with their Japanese counterparts in the automobile, electronics, steel, petrochemicals, and shipbuilding industries, which together make up over 50 percent of Korea's exports.

40. Michael Piore and Charles Sabel, *The Second Industrial Divide*, (New York: Basic Books, 1984).

41. Richard Florida and Martin Kenney, *The Break-Through Illusion*, (N.Y.: Basic Books, 1990). In fact, what Japan does better than the U.S. is in achieving incremental innovations in products and production processes. Thus, Japanese automobile companies take about 3.5 years to take a new design from the conceptual stage to commercial introduction, compared to 5 years for the American. Michael Dertouzos, et al., *Made in America*, (N.Y.: Harper, 1989), p. 37. The participation of

"white-collarized" blue-collar workers in Japan has also been instrumental in making incremental, shop-floor innovations. Kazuo Koike, "Human Resource Development and Labor-Management Relations," in Takashi Inoguchi and Daniel Okimoto, eds., *The Political Economy of Japan, Vol. 1*, (Stanford: Stanford University Press, 1988).

42. See also James Womack, et al., *The Machine That Changed the World*, (N.Y.: Macmillan, 1990).

43. *The Small Business White Paper*, (Tokyo: 1987); Samil Accounting Corporation, *Chungsokiopeui Songkong Chogon* [The Conditions for Small Business Success], (Seoul: Kimyungsa, 1993), p. 46.

44. Byung-Nak Song, *The Rise of the Korean Economy*, (Oxford: Oxford University Press, 1990), p. 121.

45. Korea Broadcasting System, *9 O'clock News*, 27 October 1995; *New York Times*, 17 November 1995; *Washington Post*, 21 November 1995.

46. David Lindauer et al., *The Strains of Economic Growth: Labor Unrest and Social Dissatisfaction in Korea*, (Cambridge: Harvard Institute for International Development, 1997), p. 5.

47. "A house may be large or small; as long as the surrounding houses are equally

small it satisfies all social demands for a dwelling. But let a palace arise beside the little house, and it shrinks from a little house to a hut....and however high it may shoot up in the course of civilization, if the neighbouring palace grows to an equal or even greater extent, the occupant of the relatively small house will feel more and more uncomfortable, dissatisfied, and cramped within its four walls." David McLellan, ed., *Karl Marx*, (Oxford: Oxford University Press, 1977), p. 259; quoted in Andrew Janos, *Politics and Paradigms*, (Stanford: Stanford University Press, 1986), p. 15.

48. The story of the *Chijonp'a*, as the group members called their organization, occupied newspaper headlines for more than a week from September 20, 1994, not only for the atrocious manner of their murders, but also for their proclaimed hatred for society. See *Joongang Ilbo*, 22 September 1994.

49. Kim Young Sam and Kim Dae Jung, the two key opposition figures, divided the rest of the votes between them. Had they united, their combined votes could have perhaps led to an electoral victory, and a potentially transforming regime coalition could have been born. Had they won by joining broader, democratic forces at the time, they could have made a united and unprecedented effort at radically democratizing the state. However, the historic opportunity was missed, and although they took turns in taking power in subsequent elections, they failed to transcend their persistent personal rivalry for broader public good.

50. Kim Young Sam's compromising himself ended up reducing his capacity to effect

fundamental change in the existing governance system.

51. Competing interpretations of the globalization claim can be found in Robert Skidelsky, "The Decline of Keynesian Politics," in Colin Crouch, *State and Economy in Contemporary Capitalism*, (New York: St. Martins Press, 1979); Stephen Gill and David Law, *The Global Political Economy*, (Washington, DC: Johns Hopkins University Press, 1989); Paulette Kurzer, "The Internationalization of Business and Domestic Class Compromises," *West European Politics*, (October 1991); Jeffrey Frieden and Ronald Rogowski, "The impact of the international economy on national policies," typescript, (September 1994); Chung Chin Young, ed., *Sekyehwa Sidaeeui Kukka P'alchon Chonryak* [The National Development Strategy in the Globalization Era], (Songnam: Sejong Institute, 1995); Suzanne Berger and Ronald Dore, eds., *Convergence or Diversity?*, (Ithaca: Cornell University Press, 1996); Steven Vogel, *Freer Markets, More Rules*, (Ithaca: Cornell University Press, 1996).

52. See Chung, ed., *Sekyehwa Sidaeeui Kukka P'alchon Chonryak*; Yonhap News Agency, *Korea Annual 1995*, (Seoul: YNA, 1996); *Business Times*, Industry Report Supplement, September 1995.

53. Jonah Levy, *Tocqueville's Revenge*, (Cambridge: Harvard University Press, 1999).

54. *Ibid.*, Conclusion.

55. Okimoto, *Between MITI and the Market*.

56. See Robert Spaulding, *Imperial Japan's Higher Civil Service Examination*, (Princeton: Princeton University Press, 1978); Johnson, *MITI*; B.C. Koh, *Japan's Administrative Elite*, (Berkeley: University of California Press, 1989); Tsuji Kiyooki, *Komuinsei no kenkyu* [A Study of the Civil Service System], (Tokyo: Tokyo Daigaku Shuppankai, 1991).

57. The stark contrast between Korean public's frenzied cheering of its national soccer team during the June 2002 World Cup games and the dismal 48 percent turnout in the mid-June local elections represents only the latest manifestation of the ordinary citizens' normal cynicism and deep distrust toward the exclusionary ruling elite and their long-suppressed desire to be connected and respected as members of the society. Guus Hiddink, a Dutch who had been scouted to head the team one and a half years before the World Cup, led the previously winless team to the semi-finals by building the team with players without regard to their family, school, or regional background.