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**LARGE CORPORATIONS AND THE DOMINANT WING
OF THE CAPITALIST CLASS IN SOUTH KOREA**

**By
Kwangmin Park**

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ABSTRACT

LARGE CORPORATIONS AND THE DOMINANT WING OF THE CAPITALIST CLASS IN SOUTH KOREA

By

Kwangmin Park

This study addresses two interrelated issues: 1) the ascendance of the industrial bourgeoisie in the postwar period and the particular development of capitalism in South Korea; and 2) the internal structure of the capitalist class.

The first finding of this study is that the internal composition and hegemonic ascendance of the Korean bourgeoisie were outcomes of historical contingency. Land reform undertaken during the formative period of Korean capitalism contributed to elimination of the landed class and provided a fertile condition for the rise of an industrial bourgeoisie. Since the 1960s the state, in its role as banker, has supported the emergence and development of industrial capitalists. Given the state's provision of financial capital and the relative absence of foreign capital, the Korean industrial capitalists have achieved primacy in the economic realm. During the market liberalization of the 1980s, the hegemonic position in the nation's economy held by the large corporations led to an erosion of state regulatory power.

Second, this study refutes managerialist claims of the

breakdown of property-owning class in favor of class hegemony theory. Korea's large corporations are owned and controlled by relatively few of the industrial bourgeoisie. The capitalist class is internally differentiated along the line of property ownership. The members of the propertied class were interconnected with other members of Korea's ruling class vis-a-vis extensive marriage ties and successfully converted their economic assets to cultural capital (i.e., educational credentials). This study argues that the most critical factor underlying class hegemony in Korea is the ownership of property and social networks established to consolidate class unity. Even though the industrial bourgeoisie wields monopolistic economic power and exclusive claim over corporate control, their hegemonic rule over 'civil society' is not complete. Ideological hegemony remains problematic for the Korean bourgeoisie who lacked moral legitimacy due to the nature of capital accumulation and political support of military rule over the past four decades.

Third, direct participation of capitalists in the state bureaus in Korea was not significant in comparison with advanced societies because of the different formation and structure of the ruling class in Korea where state elites - the military and economic technocrats - wielded much political power. Yet the dominant segment of the class has been successful in transmitting economic interests into the policy-making process through the peak organization of the Federation of Korean Industries.

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INTRODUCTION

The dominant class in South Korea (hereafter Korea) is industrial bourgeoisie. Not all but small segment of the bourgeoisie are representative capitalists par excellence in Korea. Large corporations they run has dominated economic affairs as some calls "Industrial Might". These corporations are so large that even some of them became internationally recognized, for example, in 1990 Korea's eleven largest companies were included in the Fortune's 500 biggest corporations including the U.S.¹.

The big corporations are of course the main unit of organizing capitalist economy; large scale production, employment, and sales. The influence they make is not only confined in production domain but on everyday lives of Korean people; one cleans up with tooth-plate made by Lucky, has an instant meal made by Samyang, goes to his office by driving 'Sonata' made by Hyundai, on the way to home he drops by a bar and drinks a glass of beer made by Oriental Brewery and goes to his apartment built by Hyundai or Hanyang. The vast part of all products consumed by ordinary people are made by about 30 or 50 largest corporation groups. These groups of large corporations have been considered as an essential driving force to bring about the nation's rapid economic growth over the past three decades.

In a parallel with the rapid capitalist development in Korea, there has been an increasing attention paid to the economic growth in general and relationship between capital and state in particular from various perspectives; e.g., from a political economy of development (Lim 1985; Deyo 1987; Haggard 1991; Kim 1987; Yoon 1988), liberal economy (Jones and Sakong 1980), besides numerous articles on the subject. Yet there exists few work done from a 'sociological' perspective in proper.²

The missing spot left by those writers can be filled by paying more close attention to the internal structure of the large corporations and the capitalist class: for example, who are they?, where did they come from? How do they own and control large corporations?, How have they created mechanisms to reproduce themselves and to maintain their property?, what ideas do they express to the public and what is ideology underlying their ideas and views? How do they become a hegemonic segment of the dominant class? Needless to say, these questions are not merely exploratory, but entails significant theoretical implications as well.

Without answering those fundamental questions, it seems superficial to come to terms with much larger issue of the development of capitalism and internal composition of capitalist class. Yet, this task is hardly accomplished by investigating an individual capitalist (corporation). For example, Eckert (1991) has recently attempted to explore the

origin of Korean capitalism by examining as a case study the first modern corporation of Kyongsung Textile Co. which was established by a local bourgeoisie.

With the problematic in mind, this study aims to clarify and explore the crucial issues associated with the ascendance of industrial might by focusing on the dominant segment of Korean bourgeoisie. Specific issues addressed in this study are as follows;

1. What are the main forces bringing about the ascendance of the industrial bourgeoisie into the hegemonic segment of the capitalist class? What are other rivalry segments of financial capital or landlords as seen in advanced capitalism? What role has the Korean state played in promoting capital accumulation of the local bourgeoisie?

2. Have the big corporations affected the internal structure and composition of the dominant class? What implications can be drawn from the "separation of ownership and control"? Have capital-owning class 'surrendered' to professional managers? Is there the process of internal differentiation of the capitalist class?

3. How did the capitalist class maintain class cohesion as the dominant class? What are the reproductive mechanisms that make them as they are? To what extent do they translate their

economic power into social and cultural hegemony?

4. To what extent have they represented their economic interests through politics? Are they also members who rule Korea? Has the relational power between the state and big capital changed?

Those seemingly separate questions constitute in fact an integral part of analyzing properly Korean industrial bourgeoisie.

CHAPTER 1. A CONCEPTUAL FRAMEWORK FOR ANALYSIS

A. The Capitalist Class

1. Definition

For Marx, the determinant of class is "property". Property, however, must not be understood in terms of purely passive wealth, but as an effective force of production, as "ownership of means of production", and its denial to others. In this sense, "relations of productions" i.e., the power relations resulting from the distribution of effective property in the realm of (industrial) production, constitute the ultimate determinant of the formation of classes and the development of class conflicts. The capitalists possess factories and machines, and buy the only property of proletariat, their labor power and expand their capital.

In the later development of Marxism, two different conceptions of class have been prevalent; class based on objective' economic conditions and class based on 'political' and ideological consciousness. L. Althusser and E. Thompson may be regarded as representative figures regarding at least class conception.³ For former, class is determined in the social relation and structure of production while for latter class is 'made' through consciousness or collective action.

Thus, Thompson (1963:11) argues that "[C]lass is defined by men as they live their own history, and, in the end, this is only definition".

[T]he outstanding fact of the period between 1790 and 1830 is the formation of 'the working class'. This is revealed, first, in the growth of class-consciousness: the consciousness of an identity of interests as between all these diverse groups of working people and as against the interests of other classes. And, second, in the growth of corresponding forms of political and industrial organization (Thompson 1963: 194).

By defining class in terms of consciousness and organization, i.e., of conscious collective action, E. P. Thompson implies that class membership is determined by an act of will rather than by the objective situation. If the petty bourgeoisie see themselves as part of the working class and if they participate in working class organization, then they are working class and the petty bourgeoisie disappears, despite the difference between the objective situation of the petty bourgeoisie and that of the working class. The same is true for 'lumpen-proletariat' who are involved in political struggle and even capitalists who regard themselves workers.

Parkin (1979) argues that the principal conception of

social class is in terms of collective action: "the mode of collective action is itself taken to be the defining feature of class".

social classes [should] be defined by reference to their mode of collective action rather than to their place in the productive process or the division of labour. The reason for this is that incumbency of position in a formally defined structure does not normally correspond to class alignment where it really counts - at the level of organized political sentiment and conduct (Parkin 1979: 113).

Races, ethnic, sexual differences exist, of course. As Parkin (1979: 93-4) has demonstrated in South Africa, the white working class is part of the dominant class because 'exclusion' is its primary closure practice and the source of its privileges. Yet it must be emphasized that even if white workers in South Africa support the exclusion of other class and then maintain the privileges, power, and resources, these are meager compared with that of the white bourgeoisie.

I do not defend all theories of structural Marxism but assert that in class-divided societies of modern capitalism, private property constitutes a fundamental objective condition in the organization of economy and class is defined in such a

situation. Capitalism is defined as the private ownership of productive resources and the social labour process which produces commodities. In this context, Bottomore (1989:4) gives us a concise definition of the capitalist class; "a constituent element in the class structure of a society based upon the capitalist mode of production". The capitalist class is thus not an abstract category but an "empirical reality": "the set of people who own and/or manage business firms, or who have primary kinship ties to those holding such positions". Not an individual members of the class but family provide a more heuristic implication as a unit of class (Scott 1991).

2. Formation and Evolution

Although classes are defined in terms of the property ownership and relations in production, processes of class formation and evolution differ widely from society to society; e.g., while the working class had been 'making' themselves in England, the Korean counterpart has been 'made' by the state, albeit being in the same objective class situation as sellers of their labor power. The process of class formation is contingent upon historically specific situation. Once capitalist mode of production becomes dominant in any societies, class have definite attributes or properties in

common determined by the objective situation. So, it should not be confused between the process of class formation and the essential class properties embedded in objective relations of production. Understood in this way, Thompson (1963) is correct that every real social class is also a historical class, not a mere social category or analytic abstraction, and class relations have been shaped by the specific historical experience of the society of which it is a decisive constituent.

The emphasis on 'political' factors in class formation becomes extremely important when states have become ever more involved in the 'making' of social classes. As Polanyi (1957) claims, the development of capitalism is not *sui generis* and a "self-regulating" market system, but largely circumscribed by state intervention as manifested, for example, in preventing labor from being degraded. The process of class formation in developing countries have been mediated through the intervention of the state, especially in the (post-colonial) developing capitalist societies. It has been frequently demonstrated that one of the emergent features in the formation of social classes in dependent development resides in the lack of autonomous capitalists. Different class formation and evolution in each society in turn are reflected in the diverse composition of the dominant class and the nature of the class. In advanced capitalism, with some variations, the dominant class is mainly composed of financial

and industrial capital (Baran and Sweezy 1966; Mintz and Schwartz 1983; Mizruchi 1983). Even landlords have continued to a part of 'ruling class' in England (Scott 1986; 1991). In contrast, the class structure and internal composition of the dominant class in developing or 'dependent' capitalism shows a different configuration. In Chile, landlords constitute an important segment of the nation's dominant class along with finance capitalists (Zeitlin and Ratcliff 1988). In Korea, the industrial bourgeoisie has been the dominant class with the accompanying process of proletarianization since the dominance of the capitalist mode of production in the 1960s (Koo 1990).

Along with the capitalist development, the nature of class has been effected by 'external' forces. Frank (1968) has maintained that the dominant class in Latin America were "lumpen-bourgeoisie" by elaborating the structural relations between core and satellite societies and developed the thesis of the "underdevelopment of development". He has argued that the nature of dominant class was 'determined' by asymmetric level of production forces between core and satellite and the internal class structure. By contrast, the local bourgeoisie in Korea have been often characterized as 'national' because of the different articulation of the local economy with external forces and the state. The relative absence of foreign capital and the 'strong' (military) state have largely determined the nature of the local bourgeoisie. One critical role of the state has been identified as 'mediating' foreign

capital for 'mercantile' purposes (Haggard and Moon 1983; Cumings 1984; Woo 1991). In short, Korean capitalist development was "a revolution from above" primarily carried out by the Korean bourgeoisie.

With advanced capitalism, a process of capital 'fragmentation' has been taking place. For Marx, there are three distinctive fractions of capital; industrial capital (the essential feature of capitalism), merchant capital and money capital, depending on the mode of appropriating surplus value. While interclass conflict revolves around the creation of surplus value at the point of production, intraclass conflict stems from different modes of appropriating surplus value. The deepest division within the bourgeoisie has historically been between landed property and industrial capital. Yet the resolution of intra-class conflicts depends on the specific historical context. For example, the landed property has been 'fused' into the financial segment of capital in England (Scott 1991). Likewise, the intraclass friction between industrial and money capital have been resolved by the rise of "finance capital" in advanced capitalism (Hilferding 1981 [1910]). Thus, it has been widely claimed that finance capital becomes the dominant segment in advanced capitalism.

In developing capitalism, the process of class differentiation and coalescence has been often obscured by the intervention of the state. For example, no such rival segment

of capital has been identified in Korea because the state assumed the role of financier at the beginning of rapid capitalist development. The state as 'banker' has replaced the role of the independent segment of finance capital. The absence of a 'private' segment of bank capital constitutes a unique configuration of the dominant wing of the Korean capitalist class.

B. Internal Structure of Large Corporations and
Differentiation of the Capitalist Class

With the rise of large corporations (monopoly capital) and institutional development of the stock-company, the internal structure of the capitalist class has become a subject of intensive debate in advanced capitalism. The controversy revolves around whether the capital-owning class has been replaced by newly rising professional managers (Zeitlin 1974). Parsons and Smelser, Bell, Darendorf, and Touraine among others are prominent figures who advocated the 'demise of capitalism' in one way or another; the break-down of "family capitalism" and the rise of "post-industrial society".

One issue is the separation of ownership and control. Proponents of the "management revolution" argue that "the

dissolution of the atom of property destroys the very foundation on which the economic order of the past three centuries has rested"; that the families who once "controlled through ownership most of the big business ... by and large failed to consolidate their positions as the dominant class in the society"; Owners are subject to the imperatives of capital accumulation and maximization of profit while managers are subject to other imperatives, particularly corporate stability and growth The implication in a strong case is that capitalist class disappears (Berle and Means 1967; Parsons and Smelser 1957; Bell 1961).

Against the alleged disappearance of the capitalist class as the dominant social group, the abolition of the internal contradictions, exploitative relations and social domination characteristic of private ownership and control of capital, a number of authors have argued that the form of control has transformed from personal to institutional but the locus of control has remained in the hands of small group of property owners (Zeitlin 1974; 1976; Glasberg and Schwartz 1983). The control mechanism is through either interlocking directorships or indirect ownership. Large corporations are under the control of a handful of large shareholders who claim control over financial institutions or industrial firms (Mintz and Schwartz 1981; Mariolis 1984). A major gulf exists between those executives who participate at the highest levels of decision-making, and those whose activities are confined in

day-to-day operational matters (Herman 1981; Scott 1991).

More specifically, it is argued that a conceptual clarification of control has to be made in order to identify properly the locus of control. This is because that the relationship between "the actual locus of control, formal authority (bureaucratic executive posts), and legal rights (shareownership) is problematic (Zeitlin 1974: 1090)." In a similar vein, Vroey (1975) argues that ownership and control are functionally differentiated among capitalists, indicating only changes in the form in which the capitalist system is operating. That is, it only refers to the question of whether the bourgeoisie itself does the job of making capital function or whether this is done through a delegation of power.

The alternative conclusion is that capitalist control resides in the ownership of capital (stocks), although the form has been transformed from individual ownership to institutional (either banks or a collectivity of financial intermediaries). Has capitalism been superseded and the capitalist class fallen into the 'dustbin' of history?

C. Class Reproduction and Hegemony

Capitalists maintain their property and social privilege in various ways. The specific modes of class reproduction differ from society to society, depending on the level of

development of capitalism and social structure. Yet class reproduction involves capital reproduction in any capitalist society. Social practices of marriage and education seem universal.

The reproduction of the capitalist class involves the reproduction of married households with similar 'life chances'. Their class reproduction is a direct consequence of their personal ownership and control of capital. Although the system of individual property holding has become more complex, reliance on direct personal shareholdings is nothing new.

Studies of the dominant class in Chile have shown that kinship linkages reinforced by the common ownership of property create an internally differentiated class that is dominated by interest groups (Zeitlin and Ratcliff 1988). This is because the formation and organization of the dominant class has different forms such as kinship ties while retaining similar pattern of internal differentiation of the capitalist class - a group of individual capitalist class of "kincon". This interwoven kinship ties have been observed to maintain class unity.

Extensive intermarriage among propertied families not only results from close mutual interaction, but also serves (whether intentionally or not) to establish reciprocal obligations and loyalties and to buttress and reinforce the economic basis of

class unity (Zeitlin and Ratcliff 1988:89).

Education credentials reproduce capitalist class. Conceived of as 'cultural capital', educational credentials provide an institutional chance to maintain economic property. A number of prestigious 'public' schools and 'private' universities in England and America consolidate membership in the 'upper class' (Domhoff 1967; Scott 1991). Exclusionary mechanisms may be involved in recruiting only 'capable' members of a privileged class (usually the proprietary class). Educational credentials are also highly emphasized by managerialists who note that technical experts and managers obtain high levels of education.

The capitalist class is generally believed to be dominant culturally against other classes and groups. The foundation of its dominance is the ownership of the major productive resources of society, which bestows the power to shape and direct the whole social labor process. This economic dominance is the main source, sometimes in indirect and complex ways, of a general social dominance (hegemony); i.e., the acquisition of social privileges and the permeation of social life and institutions with a capitalist ethos.

For Gramsci, "the permeation throughout civil society of an entire system of values, attitudes, beliefs, morality, etc. is one way or another supportive of the established order and the class interests that dominate it".

Hegemony in this sense might be defined as an 'organizing principle', or world-view (or combinations of such world-views), that is diffused by agencies of ideological control and socialization into every area of daily life. To the extent that this prevailing consciousness is internalized by the broad masses, it becomes part of 'common sense'; as all ruling elites seek to perpetuate their power, wealth, and status. they necessarily attempt to popularize their own philosophy, culture, morality, etc and render them unchallengeable, part of the natural order of things (Boggs 1976:39).

In reality, however, capitalist hegemony has not always been dominant. Sometimes it has been vulnerable to social criticism and hostility to the ways wealth and property were amassed in business (e.g., Schumpeter 1942). Social dominance does not flow automatically from economic power.

D. Class Cohesion and Political Power of the Capitalist Class

The capitalist class is a more effective collective actor than other classes. One reason for this is that it forms

something close to an 'organized minority' - a higher circle, in which there is a relatively high degree of social and political interaction among the members through family connections, associations deriving from a distinctive educational experience, interlocking directorates, business associations, and so on. A second reason is that the capitalist class disposes over ample resources both economic and cultural for coordinating action and implementing decisions.

The capacity of the capitalist class is variant with that of other subordinated classes or groups and its intrinsic cohesion, although they have critical economic assets, means of production. In general, two theories have been developed in advanced capitalism. One is the so-called structuralism initiated by Poulantzas (1973) and instrumentalism by Miliband (1969).

Much of the structuralist theoretical model rests on the premise of a divided bourgeoisie. They have generally been more concerned with unravelling the logic of the capitalist system as a whole, and with showing how this logic structures the operation of institutions (such as the state) and gives rise to class conflict. Thus, they have often tended to deduce the behavior of the capitalist class from the supposed logic and constraints of the system as a whole. Whatever the merit of this approach may be, it has obscured the problem of "how the capitalist class organize themselves" (Whitt 1980). This

is a central issue that needs much empirical research and theoretical elaboration.

The two competing theories are contrasted in views of class power and cohesion. According to structuralism, the development of capitalism entails a conflicting division of capital fractions (competing interests) so that capitalists themselves have no capacity to 'unite themselves' in contrast to working class. Yet the capitalist system is maintained by the 'relative autonomous' state. In contrast, instrumentalists argue that the capitalist class preserve their class interest through direct participation in state bodies - the government, parliament, and judiciary. The argument has been empirically demonstrated by overrepresentation of the capitalist class or its segment.

In a way, the two views (theories) were socially constructed frames in a specific society and they generalized, i.e., France ('strong' state intervention) and England (less so). So, it is not irrelevant with the fact that U.S. is more similar with England than France in terms of social formation. In fact, Miliband (1969) was largely influenced by the American sociologist C.W. Mills (1956). This has led a number of writers to empirically demonstrate the ways in which the capitalist class 'holds' governmental officialdom and the extent to which the capitalist class is involved in decision-making processes.

In the U.S., class cohesion is mainly preserved by social

networks (Domhoff 1967; Scott 1991), interlocking directorships (Mintz and Schwartz 1981; Mariolis 1984; Soref 1976), "inner group" (Useem 1982, 1984, Useem and McCormack 1981), etc. The theoretical objective underlying empirical research is to show that the dominant class is not 'divided' and maintain their class unity. Therefore, interlocking directorates and inner group members interconnect seemingly different class interests of financial and industrial capital into a 'class-wide' rationality.

In the words of Useem, the inner group constitutes "a special segment of the capitalist class, a class segment can be defined as a subset of class members sharing a social location with partially distinct interests. Though the common concern with capital accumulation unites the inner group with the remainder of the capitalist class, at the same time, the inner group's greater stake in class-wide interests sets it apart" (Useem, 1979; 556).

The participants in this network [inner group] are prone to favor government programs coincident with the common and longer range concerns of most large corporations. The advocacy of classwide politics is sure to be opposed by many if not most corporate managers when these policies adversely affect their own firms, but the classwide principle asserts that there will be a segment of the corporate elite with

at least a nascent capacity to promote the broader needs of big business, to act as political leadership of the entire corporate elite (Useem 1982: 202).

From a similar perspective, Zeitlin argues that multiple directors and their networks can be seen as constituting a segment of capitalist class who have "a relatively distinct location in the social process of production and, consequently, its own specific political economic requirements and concrete interests which may be contradictory to those of other class segments with which, nonetheless, it shares essentially the same relationship to ownership of productive property" (Zeitlin et al. 1976: 1009) which gives them a distinct political role to perform as a dominant segment of the ruling class: "Uniquely positioned to transcend, however imperfectly, the narrowness of political vision imposed upon most company directors, this fraction has assumed a political role on behalf of the class as a whole" (Useem and McCormack 1981:399).

Some insight can be drawn from these writers in the context of non-advanced capitalism despite the different configuration of the dominant class. Since class reproduction inevitably entails capital reproduction, a segment of class might play the similar role in reproducing property and class system although the mode of connections to link interests of

the dominant class to political domain are less 'formal'. In the literature of 'development', for example, a number of authors indicated such a informal connection established between state officials and big capitalists in Korea, besides formal channels (Krueger 1974; Jones and Sakong 1980; Kim 1974; Woo 1991).

E. Organization of the Study

The first theme of this study is that processes of internal differentiation of the dominant class and intra-class conflict resolution in post-1945 Korea had much to do with the formation and evolution of the hegemonic position of the industrial bourgeoisie. This constitutes the main part of Chapter 2 and 3. Two critical conditions were the elimination of landlords and the state's role as banker, which might be conceived of as 'the 1st and 2nd internal differentiation of the dominant class', respectively.

I provide an analysis of the historical context in which landlords failed to continue as a dominant social class by focusing on the land reform undertaken during the 'formative' period of the Korean bourgeoisie (1945-1960). In order to come to terms with Korean industrial capitalists, I give an account of the social attributes characteristic of their social origin.

In Chapter 3 I explore how the state came to assume the role of a 'banker' which allowed for the hegemonic dominance of industrial capital. With the absence of independence of financial capital, the state has been a 'faithful' partner with the local bourgeoisie in the promotion of industrial accumulation.

The state's role as banker entails capital accumulation from above, a lack of primitive capital accumulation on the part of the domestic bourgeoisie and foreign source of capital. The discussion covers most the 1960s and 1970s, the so-called "economic miracle". Concluding this chapter, I also discuss the state's role in market intervention. The specific role of the state and relationships between state and capital have largely determined the formation and structure of contemporary industrial capital in Korea.

The second theme is the contemporary internal structure and composition of the dominant capitalist class. This issue is approached in reference to the debates on ownership and control. I also explores internal divisions between the capital-owning class and professional managers - the internal differentiation of the capitalist class. The nature and form of corporate ownership is largely responsible for the internal constellation of corporate directors or 'functionaries'. I show that there is a strong tendency and likelihood for owner-capitalists to have unlimited capacity than 'professional managers', although the latter might have the same class

interests as the former. This has been demonstrated in analyzing career mobility, the locus of managerial control, and the means of translating economic interest into political power. I examine how locus of control power is identified with specific properties of family and education within the capitalist class (Chapter 4).

Within the second theme of economic hegemony grounded on property ownership, I demonstrate how capitalists have succeeded in reproducing themselves. The third theme concerns the mode of class unity or cohesion. Such topics as internal class mobility within generations, education, marriage, and ideas constitute the main body of Chapter 5. I have paid great attention to ideas recently expressed by capitalists which disclose their ideology.

Finally, I examine the ways in which dominant class interests have been translated into political power in order to preserve their property. What mechanisms and channels have they developed to translate their class interests into the political domain? To what extent has the Korean industrial bourgeoisie been a ruling class? How do "they organize themselves" in the exercise of political power? To what extent has the class capacity of the Korean bourgeoisie been circumscribed by state intervention?

F. Method and Data

This research primarily focuses on the dominant segment of the capitalist class, not the class as a whole in Korea. I only focus on large capitalists - the owners and top managers of large corporations along with their family members.

Compared with voluminous literature on 'upper class' in advanced capitalism, there are few works dealing with the Korean counterpart in and outside Korea. There are two works dealing with Korean bourgeoisie by Eckert (1991) and Jones and Sakong (1980). Eckert explored the origin of Korean capitalism and emphasized colonial legacies in a better understanding of later development of capitalism in Korea. Disciplined in anthropology, he used the method of case study and historical analysis. As a case, he selected Kyongsung Textile Co., the first Korean manufacturing firm established during the Japanese colonial rule. The method and approach he adopted seem less useful for our analysis because the primary concern of this study is with more general analysis of the formation, internal structure, and power relations of contemporary group of the Korean bourgeoisie.

By contrast, the study of Jones and Sakong is more oriented toward sociological analysis. It deals with issues associated with relationship between government and business. In the theoretical framework of 'supply and demand', they examined "private entrepreneurship" as an important part of

the supply side in the economic development of Korea. They employed the survey method based on questionnaire and interview and drew the sample of 311 from the total manufacturing firms employing more than 50 workers as of 1975. The method was used for more general understanding of the Korean development at large. Thus, they did not discriminate internal divisions within the private corporations, i.e., large and small one. The sample was in fact skewed toward smaller-sized corporations - 31.2 % of 0-0.1 billion won and 1.0% of 20.0-50.0 in terms of corporate asset. Besides the distribution of sample, the problem of low rate of response (63%) might diminish reliability of their analysis.

For the reasons above, I selected a limited number of sample by targeting only contemporary largest capitalists who I believe well represent 'core segment' of the class. Despite the small sample size compared with Jones and Sakong, this method of target sampling is more appropriate than theirs for our purpose.

Total 30 target capitalists were drawn from those who founded the largest business groups (LBGs) and the list of the groups is exhibited in Appendix B. As explored in detail later, a brief comment on the business group is needed. The business group in Korea is often designated as chaebol, an equivalent to the Japanese counterpart of (pre-war) zaibatsu or conglomerate in the United States. Here I rather prefer the term of business group to chaebol because the former is more

neutral and 'academic' than the latter. Thus, I only use the word chaebol when necessary. The ranking of the LBGs was listed in Korea's 50 Largest Corporate Groups published by Korea Management Efficiency Institute in terms of sales as of 1992. Included in our sample are the contemporary LBGs such as Hyundai, Samsung, Daewoo, Lucky-Goldstar, Sunkyong, Hanjin, and Lotte etc. The basic data for our analysis of social origins of the Korean large capitalists are displayed in Appendix A.

Two kind of materials are used in this study. Secondary materials were employed to historically account for the process of capital accumulation and monopolization which constitute the main discussion of Chapter 2 and 3. Primary materials were used to empirically demonstrate and analyze issues and questions addressed in this study. For example, the information to formulate Appendix A are from primary source of materials.

As sociologists please to say, journalists have complied useful materials and information about 'businessmen' for sociologists' analysis. Since the unambiguous identification who are capitalists and their family members is necessary for this study, I consulted various biographical materials and articles dealing with the subject such as "Chaebol and Kinship", "Son-in-law and Family-in-law", and "Marriage Web of Chaebol" etc issued in various monthly journals. Added to these, a series of articles (every Monday) issued in the Seoul

Economic Newspaper from April 1990 to February 1991. Those articles are the most reliable and comprehensive source of information published thus far in Korea. Beginning from the Samsung group, the Newspaper covered almost all LBGs and contained useful information about their families such as their members, marriages, ages, occupational positions etc.

The information for the analysis of the ideas expressed by propertied class was drawn from published books written by four Korean large capitalists; Kim Woo-Joong (chairman of Daewoo Group), Chung Ju-Young (honorable chairman of Hyundai Group), Koo Cha-Kyong (chairman of Lucky-Goldstar Group), and Lee Kun-Hee (chairman of Samsung Group). Three books were written by J.Y. Chung, J.K. Koo, and W.J. Kim and the last was edited by an author who also included personal statements of the chairman made in official meetings. The LBGs they own and control are the 'Big Four' by any economic standard in Korea and they themselves are representative figures in and outside Korea.

Both qualitative and quantitative analysis are required to explore the issues and themes addressed in this study. The account of historical development of Korean capitalism and processes of capital accumulation consists of qualitative analysis while the empirical investigation consists of simple tabulations with percentages and ratios for clarity of presentation. The following are the main sources of information for quantitative analysis: the directory of Who's

Who in Korea Annual, The Company Yearbook compiled by the Seoul Economic Newspaper, A Handbook of Listed Companies by Boram Security Company. The Company Yearbook (1993) provides detailed information about the year of establishment of corporations, corporate assets and list of their directors and so on. The 'Who's Who' in Korea Annual (1990) provides the single most reliable and systematic directory of Korean business 'elites' published in English and includes the birth date, education, previous career, and present corporate position. The Handbook contains information about principal shareowner of the corporations listed in Korea Stock Exchange as of 1992. The scope of this study is the post-independence period of Korea (1945-1992).

CHAPTER 2. THE FORMATION AND SOCIAL ORIGINS OF CAPITALIST CLASS

This chapter deals with the internal differentiation of dominant class during the formative period of industrial capital (1945-1960). Two themes are examined in this chapter: (1) social origins of Korean capitalists (2) formation of capital accumulation. By doing so, we are concerned with the particular socio-political mechanisms involved in the accumulation of capital and wealth as well as social characteristics of them.

A consideration of the founding year of major corporations in contemporary Korean capitalists provides a sense of business history. The information of the top 100 largest corporations as of 1992 has been obtained from the Company Yearbook.

As seen in Table 2.1, the vast majority of contemporary largest corporations (88) had their business history after Independence of 1945 from Japan while only 12 had colonial origins. If divided abounding 1960s when Korea began to 'take off' in Rostovian sense, almost same number of firms were established in each period (49 and 51). Korean business history is on average about 30 years, although we can trace as far back to 1924 for manufacturing firm. However important corporate origin may be, no firm remains as it used to be. The process is also important. For example, Samsung Co.- the

Table 2.1 The Number of 100 Largest Corporations By
Establishment Year

Est. Year	Number
pre - 1945	12
1946 - 1960	37 (1)
1961 - 1970	29 (1)
1971 - 1990	22
Total	100 (2)

Source: compiled from Company Yearbook, 1993.

Note: the number in the parenthesis means public enterprises;
Korea Electric Corporation and Pohang Iron and Steel
Corporation.

largest Korean firm by sale with over 5,000 employees in 1992
- started from a small rice-milling shop in 1938.

For any firm, the interim period between establishment to
the present time is a fluctuation of growth and decline. No
less than other post-colonial societies, Korea has experienced
tremendous socio-political events; division of the Korean
peninsula, military rule and even war. Some of the largest
firms could not escape such an extra-corporate environment.
Others once prosper had to decline and even disappear in

business world.

Given the corporate age of 30 years or so, those founder 'businessmen' became a core segment of capitalist class. Who are they? How did they make business? Answering these basic questions is to adequately understand subsequent development of Korean capitalism as well. In a theoretical term, we might ask; Did they come from aristocratic landlords in the colonialism? (a transition issue) If not, how did they become a capitalist? What socio-political factors were involved in the rapid accumulation of capital?

A. Social Origins and Primitive Accumulation

1. Class, Educational, and Regional Background

To see whether there is any continuity of 'class' origins from landlord class, a comparison is made of two groups of large capitalists. The one group is composed of those who were in 1950s.

Kim Yon-Soo (Samyang) can be considered as the first and representative capitalist during the colonialism who started in 1927 with modern corporate form and technology in textile manufacturing industry (Eckert 1991). Lee Byong-Chul (1910-1987) has been known as most wealthy and most 'successful

businessman'. Both came from large landowning families.

In terms of individual biography, these two capitalists might represent 'a spirit of entrepreneurship' in Korea. The Samyang group (now ranked 27th) is a case in point in which the conversion of traditional aristocratic landowners took place into modern industrial capitalists. Yet it is a entirely different matter to approach those businessmen from a class perspective. Most of founding businessmen came from middle or low level of social strata. Out of 30 largest businessmen, only 9 were came from wealthy families of large and medium-sized landlord. The rest had their family background (father's

Table 2.2 Parental Occupations of the Largest Capitalists

Occupation	Number	Percentage
Landlord	5	16.7
Medium Farmer	4	13.3
Small Farmer	10	33.3
Small Merchant	1	3.3
Others	3	10.0
Unknown	7	23.3
Total	30	100.0

Source: Appendix A.

social status and occupation) of small merchant, small farmer, and educator etc.

If we conceptualize the category of parental occupation in terms of class, landlord and medium farmer may be defined as 'feudal' ruling class. Medium farmer owned more than 500 sok (1 sok is equal to 5.12 U.S. bushels) of product of rice from tenancy annually (e.g., Lee Byong-Chul) and landlord owned as much as 15,000 sok (e.g., Kim Yon-Soo). Although unknown cases (20%) might influence an adequate interpretation, it seems safe to say that those cases are not likely to be either landlord or medium farmer. From our sample, it appears that 30.0% of capitalists had 'upper' class origin as their fathers occupation shows.

A deep exploration of each capitalist reveals that there are two cases in which one landlord origin and other medium farmer' had escaped from North Korea. This fact suggests that they might lose their material basis as a landlord. But it is not entirely clear whether other 'escapees' failed to transform themselves into capitalists. Available evidence shows that some of the northerners were successful in their business initially so that they established chaebol groups in the post-1945 period. However, as discussed in the regional origin later, not all of them continued to be successful. Small farmers are either self-cultivating farmer or tenant which belong to lower class. In our sample, one third (10) came from such low-class families.

For a comparative understanding, I like to introduce a study done by a Korean sociologist (K.W. Oh 1974). According to this study, it was found that 13 cases came from the ruling class families out of the total sample of 31 - much higher percentage than mine. The discrepancy can be interpreted in terms of the difference in time when the samples were drawn. It means that some number of large capitalist in the sample of his study did not appear in mine - changes in composition of large capitalists between two periods of time. At any rate, a majority of the contemporary large industrial bourgeoisie of Korea did not have their class origins as landlord.

In terms of education, our data clearly show that the amount of formal education received by the founding fathers of the LBGs was much greater than what the general public acquired. According to comparative educational statistics, nearly all (i.e., 93%) received a fair amount of formal education. The figures in Table 2.3 show that larger percentage of the founders have received high school and college education (63% including drop-out), more realistically, the actual amount of education acquired by them probably was more evenly divided (a bit less in college) among the three levels of education, e.g., elementary and secondary school and college. Only about 7% had no formal education. The educational level of the general public, in contrast, was skewed toward no education.

As shown in Table 2.3, those who had no education in 1944

were 87.3% of the total population, with successively small percentages for higher levels of education, e.g., 10.6% for elementary, 1.8% for high school and 0.3% for college level. In other words, a significant difference in educational level existed between the founders of the LBGs and general male population. In relation to the general public and founders with college educations represented 78 times more, while the founders with high school and elementary education show 22 and 2.8 times higher ratios respectively than the total population. The ratio of founders with no education to the total population with no education is 0.08.

From this finding we can assume that Korean large capitalists had a good educational opportunity during the colonialism in comparison with the general public. Yet it is also emphasized that no less than 36% of the founders had a minimum level of educational attainment. This fact allows us to speculate that there is no direct relationship between the formal educational attainment and becoming a founder of the chaebol. Some biographical evidence suggests that Chung Ju-Yong who had acquired a minimum level of formal education (literacy) made a foundation to establish the Hyundai Group with "credit and diligence". Among founders who had college education, a majority of them had been educated in Japan.

Table 2.3 Educational Background of Founders of the Large Business Group

Educational level	Founders (a)		Percentage of	
	Number	%	Total Male Population (b)	Ratio (a/b)
None	2	6.7	87.3	0.08
Elementary School	9	30.0	10.6	2.8
Middle School	12	40.0	1.8	22.2
College	7	23.3	0.3	77.7
Total	30	100.0	100.0	

Sources: (a) Appendix A, (b) Population as of 1944, Bank of Korea, Korean Economic Yearbook, 1948

What geographical regions do the founders come from? It might be assumed that the place of birth makes no difference in terms of one's prowess in business or becoming founders of the LBGs in a country like Korea where the people's cultural heritage is considered homogeneous. So, a random distribution of regional origins of the founders throughout the country would be observed. However, there is a clearly discernible pattern in the regional distribution of the founders of the LBGs. In Korea, the regional origin has entailed a significant

differential effect in the social organization. In the corporate world, it is not the exception.

To increase a validity of our analysis, I include the regional distribution of founders from whom were selected the sample of the large chaebols (founders) in the 1960s (O.K. Whan 1974) and that of male population living in S. Korea as of 1960. According to Table 2.5, 31.8% in the 1960s and 10.0% in the 1990s (our sample) of the large capitalists came from the North (Ibuk), while only 5% of the people living in South Korea were born in the province. In other words, proportionately there are 2-6 times more founders who were born in the North Korea than the relative number of founders represented in the entire region of Korea. The overrepresentation has been often interpreted in a 'cultural' factor - "their heritage, outlook, and attitude toward modernization."⁴

When comparing two groups, however, we also find that northerners decreased from 31.8% to 10.0% during about three decades. The dramatic reduction of the number of the large capitalists cannot be accounted for solely in the cultural terms. One possible explanation is that large number of northern businessmen were discriminated against by the military juntas many of whom had their regional origin of Kyongsang province in the early 1960s for various political reasons.⁵

Table 2.4 Distribution of Regional Origin by Two Groups of Large Capitalists, 1960 and 1990.

Province	Large Capitalists in the 1960s (a)		Large Capitalists in the 1990s (b)		Male (c) Population
	No.	%	No.	%	%
Seoul & Kyonggi	3	13.6	6	20.0	14.2
Kangwon	1	4.5	2	6.7	6.0
Chungchung	1	4.5	2	6.7	16.5
Cholla	1	4.5	4	13.3	26.1
Kyongsang	8	36.4	13	43.3	32.2
Ibuk*	7	31.8	3	10.0	5.0
Unknown	1	4.5	-	-	
Total	22	100.0	30	100.0	100.0

Source: (a) K.W. Oh, 1974. (b) Appendix A. (c) Population and Housing Census of Korea 1960, Seoul, 1963.

Note: * means North Korea. See the regional map in Appendix C.

The second most well-represented provinces among the founder group were Kyongsang-do, which numbers 8 (36.4%) in the 1960s and 13 (43.3%) of all founders of each group. Both percentages reflects a much higher ratio than the relative population size in the same province, which were 32.2% of all total male population. The increase of absolute number and relative portion of this group can be explained by the fact that the region has been: (1) a central trade region with Japan during colonialism; (2) less destroyed by the Korean War (1950-53), and (3) favorably treated in the course of capitalist development since the 1960s. The last reason can be partially explained by the same regional origin of three ex-Presidents; Park Chung-Hee (1961-1979), Chun Doo-Whan (1980-1987), Roh Tae-Woo (1988-1992). Interestingly enough, current President Kim Yong-Sam (1993-) was born in the same region.

In contrast, only a small number of the founders came from Cholla-do in both period. They constitutes a mere 4.5% and 13.3% of all founders of each group, in contrast to the population in the region of more than 26% of the total male population in Korea. Similarly, Chungchung-do and Kangwon-do produced a relatively small number of large capitalists.

The data shows that the geographical distribution of both founder groups is skewed toward Kyongsang-do and away from Cholla-do. The unequal distribution of regional origins has made a continuous effect on unequal development of Korea because many business firms and production facilities were

located in the same province as the founder's. As discussed later, a pattern of recruitment among large firms is not unrelated to the founders' regional origin.

2. Capital Accumulation During the Formative Period

We have examined basic social attributes of the founders of Korean largest business groups. In this section, I like to highlight some features associated with their initial business with reference to the establishment year and types of initial business.

As seen earlier in Table 2.1, 37 firms out of total 100 largest firms were established during the 'formative' period between 1945 and 1960. Our data of the establishment of the 30 largest business groups shows that 86.7% of the LBGs were established after Independence while only 4 firms established during the colonial period had grown into the chaebol status. In this sense, Eckert (1991) study on Kyongsung Textile Co. (1924) might be regarded as a origin of Korean capitalism. But this study is hardly viewed as representative of that of large capitalist class. Out of 26 founders, two out of three firms had been founded in the formative period. As well documented in the literature of economic growth, post-1960s period saw 8 firms (26.7%) established.

Table 2.5 Distribution of Founding Firms by Period

Period	Number	Percentage
- 1945	4	13.3
1946-1960	18	60.0
1961-	8	26.7
Total	30	100.0

Source: Appendix A

Then, what were the lines of business that the founders first started? Answering to this question shows how the founders had initially accumulated their capital through business activity. We may group the types of business that they initially began in three categories: (1) the industries that required large capital and advanced technology, e.g., large manufacturing firms; (2) the industries that required middle-level technology and moderate amount of capital, such as small manufacturing and construction companies; and (3) the business that required a small amount of capital, such as small-scale transportation businesses, trading companies, haberdasheries, and rice merchandizing and milling.

Table 2.6 Distribution of Founders by Type of Their Initial Business

Type of Business	Number	Percentage
Large Manufacturing	5	16.7
Small Manufacturing	3	10.0
Rice Shop or Milling	3	10.0
Transportation	2	6.6
Haberdashery	8	26.7
Trading Co	4	13.3
Construction &		
Material Sale	5	16.7
Total	30	100.0

Source: Appendix A

An analysis of available data shows that all founders had previous business experiences. As shown in Table 2.4, the largest number of founders were initiated in small businesses that required small capital and low technology. Out of 30 cases known, 25 people had been involved in such a business. Jobs of the self-employers were owners of rice-milling shop, clothing shop, miscellaneous shop etc.

Those who had their business in large manufacturing

constitutes a small portion of our sample (16.7%). This group of founders can be understood as proper large industrialists at the outset. Yet, it must be cautioned that some of the large manufacturers had in fact had no their own capital. As discussed later, they merely handed over then Japanese factories because they were either employees of the factories or government official. In our sample, I can find out three cases in which no large capital had been required - founder of Korea Explosives (10th largest), Haetai (20th) and Kangwon Ind. (23th). Thus, only two founders (out of 5) initiated their business in large manufacturing with their own capital which had been transferred from either landownership or commerce at the beginning.

The most popular line of business of the founders in their first ventures seems to have been haberdashery - small merchants. This category made up nearly 26.7% of business they initially engaged in. The second most popular business was trading companies (13.3%), rice-retailing, typically combined with the operation of rice cleaning mills and trading (10.0%), and transportation (6.6%). Most of the businesses that they started were of small scale. The other groups, namely, companies requiring large amount of capital and the medium sized ones made up 16.7% and 26.7% respectively of the initial businesses of the founders. The medium size investment include small manufacturing (10.0%) and construction material sales (16.7%).

Based on this finding, we also note that most popular businesses were related with commerce activities, either retailing and trading. This fact would account for the socio-economic situations where they began their business. If taking into account the 'class' origin of the founders, we safely conclude that majority of Korean large capitalists (as shown in our sample analysis) had originated from middle- or low-level social hierarchy and transformed themselves into industrial giants through the initial businesses with less involvement in large-scale manufacturing. These finding, albeit limited, reveals that almost all businessmen started their business from a small scale.

This distribution of class origins can be compared with that of large businessmen in the 1960s. Comparing the two samples of large capitalists, it was found that only 8 businessmen out of 22 in the former sample continue to be in large business in the present. From a view of current corporate world, 32 business groups had grown from either small business in the 1960s or newly emerged after the period. At any rate, there has been a profound shift in the process of capital accumulation and fluctuation of corporate rank which reflect a political economy of capitalist industrialization in post-Independence Korea.

B. Landlords, Merchant and Industrial Capitalists

As seen above, the majority of the large capitalists in Korea did not come from landlord class. Then a question is raised of how the landlords failed to transform themselves into capitalists as commonly seen in advanced capitalism? Here we have to explore socio-political elements involved in the 'transition problem' in a historically specific country of Korea.

A proper understanding the process of class formation of the capitalist class requires an account of larger socio-historical context. It entails an analysis of class structure and class relations in a historically grounded context. In this section, a more structural analysis is made to provide how the class differentiation within the dominant class had taken place and merchant/commerce capital had been transformed into industrial capital.

The development of capitalism in Korea is not like that of advanced capitalist societies. This is particularly so because of the experience of colonialism. Historical contingencies have played a crucial role in shaping the Korean capitalist class. Among others, the breakdown of landowning class was a most substantial structural change critical for the formation of the early class structure and class differentiation. In this sense, land reform undertaken during the 1950s can be considered as a critical social change to

bringing about radical class structure. Therefore, it has been widely acknowledged that industrial capitalists have evolved under little conflicts with landowning classes due to the effect of the land reform (Hamilton 1986; Cumings 1984).

A sole concern for the discussion of the historical account entails the process of class formation of the large capitalists as a dominant social forces in contemporary Korea - in what ways the alleged class conflict between landlords and industrial capitalists had been resolved? First I attempt to show that class structure and relations during colonialism was altered through land reform whereby feudal relations of land had been broken down. Here the process of failure to transform landowning class themselves into industrial capital will be examined.

Then I examine the effects of state's measure on the formation of industrial capital by focusing on disposal of reverted property and political economy of foreign aid which was critical not only for the formation of domestic bourgeoisie but also the nation's economy as a whole. In doing so, I seek to explore the process of dominant class formation which would link to transformation of dominant form of industrial capital in later stages of capitalist development. One of the premises on which the analysis of accumulation assumes in Korea is that 'extra-economic' factors are much associated with capital accumulation.

1. Land Reform and Landlords

Feudal land ownership based on tenancy and 'extra-economic' constraints on tenants maintained a pivotal axis of social relations up until land reform in Korea. The relation was firmly grounded in landlord-tenant and exploitation of high rate of tenancy. Landlords had remained still a dominant class albeit losing a economic basis related with enclave economy of colonialism (1910-1945). Throughout this period, the number of tenant household had consistently increased in that self-cultivating farmers and owner-tenants had been differentiated into tenant status. For example, the percentage of tenant household increased from 37.8% in 1918 (when Land Survey was completed) to 52.8% in 1932 while that of landowners remained stable around 3%.⁶

The class structure in Korea had remained untouched except the changes in the ruling political body immediately after Independence from Japan to United States Military Government (USMG, 1945-1948). The widespread practices of tenancy in rural area and 'pre-capitalist' social relations inherited from colonial legacy were predominant.

There were two steps involved in the process of land reform carried out during the USMG rule. As a first step, in 1945 the USMG announced a promulgation related with tenancy rate which had been extremely high to the extent that rural population undergone poverty and deprivation etc. This measure

was to set the limit of tenancy rate which would not exceed one third of total agriculture products.⁷ This measure was not a complete land reform in a strict sense because it did not entail any changes of ownership right on agriculture land. Escalating demand for land reform among rural farmers and announcement of land reform plan in North Korea forced the USMG to make a land reform legislation which began from 1947.

The land reform legislation was handled in the Transitional National Congress (TNC) by the need for legislature purposes and ideological consideration for Korean people. But the composition of the Congress could hardly represent then diverse social classes and groups because majority of its members consisted of 'conservative' politicians who had a good reason to represent the interests of landlords.⁸ Through several feedback processes, a final form of land reform drafted by the USMG was passed on the TNC in September 1947. But this proposal was blocked by the TNC and finally turned out to be abortive in January 1948. The main reason of opposition was that such an extremely important legislation as land reform should be handled after the establishment of Korean government. One Korean commentator has argued that although the reason seems valid for the attitude of Congress members who was supposed to prepare the building of a self-determined state they should be responsible for the later problems of rural poverty by taking advantage of opposing and delaying the land reform.⁹ At any rate, despite

the opposition the USMG made a resolute announcement to distribute at least the former Japanese-owned land.

On the issue of land reform, at that time there were three different views among diverse social and political groups in accordance with their political ideology from 'left' (free appropriation and free distribution) and center (payable appropriation and free distribution to 'right' (payable appropriation and payable distribution). The 'socialist' proposal was beyond consideration and 'liberal' one was also turned down because of financial consideration of the government. Thus, the principle of "appropriation and distribution based on payment" was finally adopted.

At this point, it should be noted that there was a tendency in which some landlords attempted to sell agriculture land to their tenants by force for the fear of 'free appropriation' during the period when the land reform legislation had been delayed and finally repealed. This made a causal effect on the diminution of the size of agriculture land subject to land reform on the one hand and those tenants who were forced to be self-cultivating farmers had to be falling into again tenant status after land reform being carried out by the Korean government. In 1947 Dong-A Ilbo described the 'tragic' event under the head of 'Large landowners who are busy in selling land in the face of land revolution'. The following quote makes this point clear:

At that time there was a strong tendency to sell tenant land by force in rural areas when the rumor has been prevalent that land reform was coming close. Landlords cajoled their tenants into buying the tenant land by saying that "'cause I must sell to others the fertile land you cultivated, if it is done, buy the land". And those tenants who were ignorant of the world tended to purchase the land through the sale of plow oxen and other household belongings.¹⁰

As a result, the size of land owned by large landowners had been rapidly reduced; for example, large landowners (above annual farm rent of 500 sok) decreased in number from 1,630 in 1943 to 1,084 by the end of 1946 - 33.5% decrease. The similar reduction occurred in the amount of farm rents (33.4%) for about three years of period.¹¹

As mentioned above, the USMG started to distribute former Japanese-owned land which were reverted to the New Korea Company (former Oriental Company in colonialism). The reverted land was estimated to be 13.4% of total arable size and 27% of total rural household. The Company was to function as a substitute for former Japanese landowners. For the USMG income derived from farm rent constituted 90 percent of the total annual income of the Company (1947-8).¹² Based on the principle of 'payable distribution', those land properties

were distributed at the land price which was estimated to be three-times of the price of annual outputs produced at the land. Farmers were supposed to pay 20% of annual products for 15 years. As a whole, the total size of land distributed under the plan marked 11.6% of entire arable land as of 1945. Therefore, the rest of majority land had to be handed over to Korean government for distribution.

Three significant points can be made about the land reform undertaken during the USMG rule. First, as mentioned earlier, it was an incomplete reform since the large portion of land was untouched. Second, landlords remained still a dominant class which had succeeded in representing their interests through the activities of Congress members. Third, the USMG was not concerned that a complete land reform would undermine a stable social structure sustained by the landowning class. The last point may be clarified by comparing Occupational Policy of land reform in Japan. In Japan, land reform was immediately and completely undertaken. For U.S. the ruling class in Japan - zabaitsu and warriors had to be abolished for the sake of 'democracy' and social reform.¹³ Yet under confrontation with communist threat in Korea, there seemed to exist no urgent necessity to radically restructure the society.

The task of land reform was then handed over to Korean government of S.M. Rhee (1948-1960). Well known for 'adroit' politician, Rhee successfully manipulated politics at the time

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of nation-building and effectively excluded from the state power landlords who were finally forced to turn to political enemies of Rhee. Without any sufficient political basis in Korea (after a long-time stay in America) but with a high national reputation for liberation movement, Rhee had to rely on the USMG and realized the most effective way to gain power with a firm belief in democracy and 'anti-communism' which turned out no accidentally conterminous with principal tenets of American foreign policy towards East Asia. The process of land reform during the Rhee regime had been immediately interrupted by Korea War (1950-53) when government enacted the agricultural land law in May 1950. It has been widely believed that the reform law represented the interests of landowners rather than tenants. One remark made in the 1st Congress would reveal this point.

The impression I had in reading the agricultural reform law is this: we should change the title of the law into 'the disposal law by landowners' instead. Especially, the compensation rate of 300 percent (for landowners] would exceed twice the market price (of tenants' land).¹⁴

The original draft passed on from the government dictated 200% of compensation rate for landowners. So, the movement within the Congress to raise the rate to 300% definitely

indicates whose interests were there.

It seems adequate that we should make a proper compensation and protection for landowners, help them to transform themselves into industrial capitalists and (ultimately) to contribute towards national development. (Therefore) [t]he compensation rate of 300 percent with 10-years payment is appropriate, if not the best.¹⁵

Finally, the agriculture reform law included the interests of landowners and excluded those of tenants, respectively until 1957. One of the effects of the reform can be seen in the composition structure of tenants. The majority of tenant has been decreased from about 50 % to merely 7% at the time when the reform was nearly completed in 1965 (see Table 2.7).

From a view of tenants and rural economy at large, the reform has been evaluated to be 'negative' among many Korean scholars with some exception of official writers. Yet it is commonly believed that the reform had contributed to the abolition of (semi-) feudal landownership (based on tenancy) so that the reform was partially limited. Yet our concern lies in the process of landowners who were supposed to be "industrial capitalists ... [who] contributed to national development". So, we need to consider the reason of how they

failed to do so.

Table 2.7 Owner-tenant Distribution of Farm Household, 1945
and 1965

Category	1945	1965
Full owner	13.8	69.5
Owner-tenant	34.6	23.5
Tenant	48.9	7.0
Farm labors and others	2.7	-
Total	100.0	100.0

Source: Ban et al., 1980, p.286.

First, land ownership had become less attractive because rents, traditionally very high (50%), were more difficult to collect from an increasingly truculent peasantry. The Land Reform Act (1950) decreed that former tenants were to pay for their land 1.5 times the normal output of the main crop, payable for five years to the government. Landlords were to receive the equivalent in government bonds (whose value was to be expressed in terms of rice). However, the Rhee government often did not redeem the bonds on time and most landlords were

not allowed to use the bonds as collateral for business loans and the price of these bonds in the market fell sharply. Thus it was found that landlords received compensation equivalent to about 15-20 % of their former land assets.¹⁶

Second, direct disposal of land by landlords, between 1945 and 1951 573,000 chongbo (0.99 hectare) were sold privately. According to Pak and Gamble (1975), most landlords were bankrupt in the early fifties. But this harsh conclusion failed to take into account the fact that more land was sold privately by landlords to tenants in the 1945-1951 period in advance than was appropriated under the land reforms (Ban et al 1980:286). Moreover the bonds of the disposed landlords were exchangeable for industrial facilities formerly owned by the Japanese. However, it was not always the landlords who acquired the vested property this way, for many bonds were sold on the market "for prices between 30 and 70 percent of their face value" to thrusting entrepreneurs (Jones and Sakong 1980:35).

Third, although the reform law well represented landowners' interests as mentioned above, the class interests could not be necessarily materialized in the course of enactment of the law. The question is this: why the landlord had a special difficulty in converting rentier assets into merchant or industrial capital. The Land Reform Act decreed that former tenants were to pay for their land 1.5 times the normal annual output of the main crop (rice), payable over

Table 2.8 Distribution of Landowners By Land Compensation

	Number	Percent (%)
- 100 sok*	154,355	90.9
100 - 1,000	14,543	8.6
1,000 - 10,000	884	0.5
10,000 -	21	-
Total	169,803	100.0

Source: Bank of Korea, Economic Yearbook, 1955.

Note: * 1 sok is about equal to 0.99 hectare

five years to the state. Landlords were in turn to receive the equivalent in government bonds. However, since the state often did not redeem the bonds on time and since most landlords could not use them as collateral on business bonds, the market price of the bonds fell sharply. Thus landlords received compensation equivalent to around 15-25% of their former land assets (Ban et al 1980: 290). Moreover, the bonds of the dispossessed landlords were exchangeable for industrial facilities formerly owned by the Japanese. Yet it was not always the landlords who acquired the vested property this way because many bonds were sold on the market to thrusting businessmen for prices between 30-70 percent of their face

value (Jones and Sakong 1980: 228). Most landlords were bankrupt in the early fifties (Pak and Gamble 1975: 33).

Finally, the power struggles between Rhee regime and landlords (represented by political party of Hanmin Tang (The Party of Korea People) and skillful political leadership of Rhee ultimately undermined landlords' economic basis while the newly emergent merchant and industrial bourgeoisie formed a class alliance with the state power. Thus, the attempt at converting landlords into capitalists is generally held to have been a failure.

Korea's land reform forced landowners to make a sacrifice and contribute only to the formation of capital by newly-rising capitalists.¹⁷

The analysis shows the processes in which the landlord, traditional dominant class, had been effectively losing class hegemony. This is also supported by the fact that few contemporary large capitalists had inherited from landlord status. Out of 30 LBGs, only three had found their roots in the colonial land, e.g., Lee Byong-Chul the founder of Samsung. That means that Korean capitalists have the same fortune with industrialization without a significant heritage of "feudalism". Next, I examine the processes of capital accumulation in the context of disposal of Japanese reverted property and foreign aid.

2. Merchant and Industrial Capital, 1945-1960

The failure of landlords to transform themselves into industrial capitalist laid a firm ground for the class differentiation. The land reform was a sole foremost factor to undermine class capacity of landlords and provided an structural conditions on which incipient bourgeoisie could convert themselves to industrialists. One of the social significance of the breakdown of landowning class has been that it made a continuous social impact on the class structure of contemporary Korea and cultural ideas as well. This is critical for the internal composition of Korean dominant class which differs from, e. g., Britain (Scott 1986) and Chile (Zeitlin and Ratcliff 1988) where landlords have remained a distinct segment of dominant bourgeoisie up until now and contributed to formation of its particular constellation of ruling class. At least, in Korea the class on landed property has played no significant role in both economy and politics. In short, the historical task of the bourgeois hegemony was handed over to industrial capitalists.

Yet it should be kept in mind that the elimination of landlords does not replace automatically dominant hegemony of Korean society to industrialists. One question remains how industrial capital as a segment of capital has become dominant. How did merchant capital provide a precondition on which capitalist production relations has become predominant.

A wide societal account should be taken of nation-building process and external relations associated with economic aid.

The class structure and relations evolved during the colonialism has begun to change as Korea became an independent nation in 1945 and the transition to industrial capital grew out of changes in the fifties. This requires an understanding of the class structure and political development after the Korean war, including the role of U.S. How it was that industrial capital became the dominant economic force in the sixties.

Prior to capital accumulation in industrial production, various forms of 'primitive accumulation' have existed throughout history depending on specific historic circumstances. Despite the existence of modern capitalist class relations during colonialism, this was less significant in scope and scale due to the colonial policy of discouraging Koreans from developing - Company Law (1910). Accordingly, at the time when the Japanese retreated from Korea in 1945, the firms owned by Korean businessmen was merely 6 6%.¹⁸

The majority of production facilities and infrastructure left by the Japanese were a crucial material basis for the primitive accumulation for Korean capitalism (Cumings 1984). The diverted physical assets and properties left by the Japanese consists of 2,500 factories and enterprises, social infrastructures such as railroad, harbor, and land etc. According to an estimate, the number of these properties

marked 166,301.¹⁹ These reverted properties were handed over to the USMG in 1945 and sold between 1949 and 1957. In 1948 it was estimated that the proportion of these properties held 21.6% and 59.9% of total number of factories and employees. These factories are large enterprises with more than 30 employees which constituted 80%.²⁰

One thing to note in the disposal procedure was tremendous benefits to those who had 'political' access to the government. According to the Repatriated Property Liquidation Law (RPLL) formulated in 1949, the major contents of the disposal conditions are (1) eligible persons are those with ties or employees who are 'moderate' in thought and possess capability of business (2) at the "current market price", (3) to be paid in total, or (4) in installments for the maximum of 15 years within a 10 % downpayment. The specific eligibility or priority for the purchase of the property was given to those who were (1) renters or consigned managers, (2) former stockholders and employees who served two years or more on the given enterprise, and (3) former landowners who lost land through the land reform program.²¹

Under the Law, the typical transaction involved installment payments, in which the purchaser agreed to pay a down payment of one-tenth of the purchase price and the rest in 10 equal annual payments. Even though there exists no systematic and comprehensive information of who got what, mere access to these properties could provide an initial material

condition for those who received them. The procedure of disposal of these properties involved not only economic but also political considerations. Available data show that at least 13 out of 50 business groups, or about 26%, acquired a significant number of former Japanese business properties - 3 cases founded in our sample.²² The price of property taken over was at "almost no cost," certainly far below its market prices. Let's take an example of;

a textile factory at which the market price was about 3 billion won in 1947. This property was assessed to be 0.7 billion won and later sold at 0.36 billion won. Thus, the actual selling price was no more than about one tenth of market price and just half of the so-called assessed price. This price would become further smaller to nothing if considering inflation rate and installment conditions of 15 years, further under the condition of a preferential loan.²³

Even though it seems hard to estimate the precise magnitude of the gap between their worth and the prices at which those properties were bought, it was reported that on the average the purchase prices were no more than one-quarter the prices of the properties.²⁴

While businessmen with political ties with government

officials were eager to 'purchase' the windfall gains, they were also tremendously active in trading and commerce transactions, especially due to Korean war (1950-1953). For Koreans at large this war was destructive and painful but it also provided a good opportunity for some businessmen. For those who had no sufficient capital, profits derived from trading could serve as a critical basis for industrial capital. During this period, 'Maccao Trade' was the case in point.²⁵

It was in this period that modern form of business groups had become emergent in the effort of reconstruction from the Korea War with the support of foreign aid. Majority of contemporary large business groups had their roots in this soil, although as mentioned earlier several capitalists had begun earlier such as Lee, Byong-Chul (Samsung), Koo In-Hoe (Lucky), Kim Song-Kon (Ssangyong), Chung Jae-Ho (Samho) etc.

The process of capitalist formation at this early period was inseparably connected with the role of foreign aid which increased in amount and kind since the war. Capitalist industries built during the colonial period were almost destroyed during the Korean War and slowly reconstructed under the auspice of the U.S. aid and commercial loans in the 1950s and 1960s.

The economic activities involved both merchant and industrial capital in nature albeit the former being predominant. The economy based on foreign aid in grant had

inevitable social and political repercussions. During the 1953-1958 period, more than 70% of imports and 80% of total fixed capital formation was financed from U.S. bilateral aid (Cole 1980). Although Korea showed some industrial development in the 1950s - industrial sector increased from 14% in 1954 to 21% in 1957 - the economy was still dominated by the agricultural sector, which represented more than 65% of the labor force and 42% of the GNP in the late 1950s.

Despite predominance of agriculture, some primitive industries had begun to emerge through the import raw materials, cotton, sugar, and wheat, processing industries. The "three white" industries - sugar, wheat, and cotton - were important source of capital accumulation during this period. **Let's** take an example of cotton industry.

At the time of 1945, as mentioned earlier, most **production** facilities were owned by the Japanese: 94% in **manufacturing** sector and 80% skilled workers. Aggravated by **the** south-north division, heavy and chemical industries were **left** in the North, let alone electricity (92%) and natural **resources** such as ore (99.9%) and coal (99.7%). Thus **production** facilities left in South Korea were several **chemical** fertilizer factories and spinning and weaving **factories**. These were the properties reverted to the USMG and **later** disposed. As mentioned before, these factories were **managed** by those who were appointed and sent by the USMG. Yet **without** skilled workers, they found it difficult in operating

Table 2.9 Foreign Aid of Kind and Amount (mill. US \$)

	United States				United Nations			Total
	GARIOA	AID	ECA	PL480	FOA	CRIK	UNKRA	
1945	4.9							4.9
1946	49.5							49.5
1947	175.4							175.4
1948	179.6							179.6
1949	92.7		23.8					116.5
1950			49.3			9.4		58.7
1951			32.0	21.9	74.4			128.3
1952						155.5	2.0	161.3
1953						158.8	29.6	188.4
1954					82.4	50.2	21.3	153.9
1955					205.8	8.7	22.2	236.7
1956		271.0		33.0			22.4	326.4
1957		323.3		45.5			14.1	382.9
1958		265.6		47.9			7.7	321.2
1959		208.3		11.4			2.5	222.2
1960		225.2		19.9				245.1
Total	502.1	1,293.4	105.1	157.7	288.2	457.0	121.8	2,951.2

Source: Bank of Korea, Yearbook of Economic Statistics, 1963

Note: GARIOA (Government and Relief in Occupied Area)
 AID (Agency for International Development)
 ECA (Economic Cooperation Administration)
 PL480 (Public Law 480 under which financing for food imports could be obtained)
 FAO (Foreign Operations Administration)
 CRIK (United Nations, Civil Relief in Korea)
 UNKRA (United Nations Korea Reconstruction Agency)

these facilities. Naturally, product output decreased to the extent that it was merely 40% as of the output in 1939 and operation rates drooped below 40% as well. Under this circumstances, the significance of textile industry and difficult management allowed the USMG to dispose on the one hand and began to import raw cotton.

As can be expected, the competition to get raw cotton had become severe and fundamental to 'life and death' issue for the textile industry. Organizing themselves around Korea Textile Association in 1947, businessmen began to contact with officials in the USMG for the problem of import and allocation. GARIOA - commodity aid between 1945 and 1949 - played a key role in not only alleviating inflation but also providing a sufficient amount of raw cotton for the industry. The same situation can be also found in chemical-fertilizer industry in the similar way; USMG's take-over -> management -> disposal -> aid.

In terms of the nature of industrial capitalist class proper emerged during this early phase of industrialization, the Korean bourgeois can be designated as merchant capitalist who profited from trade and commerce. This form of capitalists was not unrelated with the pattern of foreign aid and its management. Between 1953 and 1960, commodity imports accounted for about three-quarters of all aid. One half of this was agricultural commodities, with the rest going primarily to fertilizer and petroleum products. Of the remaining project-

Table 2.10 Foreign Aid by Production and Consumption

Foreign Aid	Production	Consumption	Total
GARIOA	31 (7%)	379 (93%)	410
ECA	6 (3%)	170 (97%)	176
SEC	-	26 (100%)	26
CRIK	-	457 (100%)	457
UNKRA	86 (70%)	36 (30%)	122
ICA	485 (28%)	1,260 (72%)	1,745
PL 480	-	203 (100%)	203
Total	608 (19%)	2,531 (81%)	3,199

Source: Bank of Korea, Yearbook of Economic Statistics, 1963

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related aid, only 16.5% went directly to manufacturing. This configurative account can be further verified by examining the composition of foreign aid poured during this period. As can be seen in Table 2.10, ICA, PL 480, CRIK, and ECA constitutes large amount of consumer products and consumer goods produced in the locality were primitive consumer goods like flour, cotton, and sugar which little attracted TNCs with no tolerable domestic market of Korea.

Nonetheless, the relative small portion of imported commodities going to manufacturing contributed to local industries for processing and became the basis for the development of a number of large monopoly Korean firms. Under the circumstances mentioned above, a number of incipient businessmen found good opportunities in such industrial activities as manufacturing of sugar, cotton, wheat. Notoriously enough these industries were dramatically expanding for the imported raw materials were monopolized. For example, it was reported that the net sales of Samsung's Cheil Food & Chemical Co. (ranked 24th in 1992) had made over 800% profit in 1954 (ratio of profit and net capital). Based on such huge profits and monopolistic right of imported raw materials, it was possible to further expand production facilities in that the percentage of market share of sugar product had increased from 54.5 % to 69.3% in 1960.²⁶ Cheil Textile Co. (56th) was also established in 1954 under this profitable corporate business. Thus, among contemporary

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largest business groups had consolidated its material basis at this latter half of the 1950s.

By the end of 1950s Korea saw a group of large monopoly capitalists who got the status of chaebol. Related with foreign aid, it was stated that: since a great portion of foreign aid was consumption goods, it was inevitable to invest capital (derived from foreign exchange) in consumption-related industries. Beginning from Cheil Foods & Sugar (a major firm of Samsung chaebol) in 1953, Cheil textile Co., Lucky Chemical, Taehan Textile, Kyongnam Textile, Taehan Milling, Samyang Sugar and numerous wheat-milling and cotton spinning firms were established thereafter. It was Samsung (B.C. Lee), Samho (C.H. Chung), Lucky (I.H. Koo), Taehan (K.D. Sol), Tong Yang (Y.K. Lee), Geumsung (now Ssangyong: S.K. Kim) that had rapidly grown into then newly rising chaebol groups by taking advantage of the consumption industries.²⁷

The architect of Korean capitalism, Lee Byong-Chul, founder of Samsung chaebol, had been able to purchase shares in about half the nation's commercial banks, including ownership of 85% of what is now Hanil Bank, nearly 50% of Choheung Bank and 30% of the Commercial Bank of Korea.

Despite existence of manufacturing capital, the actual mechanism for expansion of capital lay in profits gained from commerce and transaction by taking advantage of monopoly price and raw materials. Such a 'windfalls' could not be possible without political connections to state officials. That is the

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main reason underlying the notion of 'bureaucratic capitalism'. Or the notion of "rent-seeking" society refers to the relationship between state and capital in the period (Krugger 1974). As seen in Table 2.6, most of the largest corporations during this period had benefitted from either reverted Japanese property and foreign aid.

There are two points to emphasize in relation with major features distinctive of capitalist corporations in this formative period. First, it was 'extra-economic' factors that had contributed to accumulation of large corporation in Korea, i.e. so-called 'primitive accumulation' based on in large part monopoly of commercial profits through transactions of foreign aid and foreign exchanges, interest rates rather than industrial profits based on production relations. While land reform eliminated the legacy of 'feudalism' and landowners as a class, which provided a favorable soil for industrial capital, the subsequent events - served as a critical material base for large corporations and a segment of capitalist class.

Second, this tended to reinforce a 'bureaucratic' nature of capital which had close political relations with the state - special considerations and political connections allowed a selected group of merchant capitalists to monopolize at the end of 1950s.

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**Table 2.11 10 Largest Corporations That Received Reverted
Property and Foreign Aid, 1961**

Group	Est. Yr.	# of Comp.	Major Industries	A	B
Samsung	1938	13	Trading, Foods, Bank	0	0
Samho	1950	7	Trading, Textile, Bank	0	0
Kaepoong	1949	9	Trading, Cement, Bank	X	0
Taehan	1946	5	Trading, Foods, Textile	0	0
Lucky	1947	4	Trading, Foods, Textile	X	0
Dongyang	1953	4	Cement, Foods	0	0
Kukdong	1947	4	Trading, Shipping	0	0
Hankuk Glass	1954	2	Trading, Glass	X	0
Dokrip	1949	2	Trading	0	0
Taechang Tex.	1916	2	Trading, Textile	0	0

Source: C.K. Kang et al., 1991, p. 128

Note: A and B refers to a receipt of reverted assets and foreign loan, respectively

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Conclusion

This Chapter explored the important theme associated with the rise of the capitalist class in the historical context of post-independence of Korea. Analysis of basic social attributes of the target group of the contemporary large capitalists showed that (1) they did not at large come from landlords class who had been a dominant class in colonialism; (2) received higher education than that of the population at that time; (3) came disproportionately from Kyongsang and Cholla regions which have developed unequally throughout the course of capitalist development in Korea. The initial businesses they involved in the post-independence period were various kinds of merchants (e.g., rice-milling and trading) and small-scale industries.

The historical contingencies of colonialism and incorporation of the world system made great effects on the configuration of class structure of Korean bourgeoisie. The failure of transformation of landlords to industrial capitalists helped to give rise to the relatively homogeneous dominant class. Most important factor contributing to the elimination of landlords as the dominant bourgeoisie was the land reform undertaken during the United States Military Government (1945-1948) and Rhee regime (1948-1960).

The Transitional Congress served during the USMG represented dominantly landlords interests against tenants.

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Given the urgency of land reform, many landlords sold their land to tenants. The government bonds they received in exchange for their disposal of land did not redeem the market prices. Available evidences suggest that they failed to convert land assets to industrial capital. Added to this economic factor, the Rhee regime established his political party by excluding the landlords who became political opponents throughout the regime. Thus, at the end of 1950 when the land reform was almost complete, landlords were detached from their land and became an insignificant socio-political group.

Along with the process of land reform, former Japanese-owned property (e.g., factories and mines) was disposed to Korean people who were eligible for acquisition of those production facilities. In the process of disposal were involved large number of the contemporary big capitalists. In our sample included three businessmen. The incipient industrial capitalists accumulated capital and wealth through market transaction of foreign exchanges and trade. These business activities were accelerated by the influx of consumer products viz-a-viz foreign aid. Windfall gains derived from monopoly of import materials were enormous and widespread rent-seeking practices were prevalent. In the amidst, some processing industries were growing on the basis of foreign aid - sugar, cotton, and wheat.

CHAPTER 3. STATE AND INDUSTRIAL CAPITALISTS

The political economy of the post-1960s period made a great impact on class formation and capital accumulation in Korea. It has been well documented that a number of factors have contributed to the rapid capital accumulation, 'docile' and educated labor force, foreign capital, and 'strong state'. Among other factors, the role of the state has been agreed to be most critical (Lim 1982; Deyo 1987; Evans 1987; Haggard 1991; Wade 1989; Johnson 1987).

The Korean state has been capitalist in nature and at the same time 'developmental' in role. "States have played a strategic role in taming domestic and international forces and harnessing them into national goals" (White 1988:2). In Asia's Next Giant, Amsden (1989:139) claims that "instead of the market mechanism allocating resources and guiding private entrepreneurship, the government made most of the pivotal investment decisions". Those writer refer to the state whose power was taken over by General Park Chung-Hee in the early 1960s. Within the framework of capitalism, the state had formulated and implemented various policies for the promotion of capital accumulation by intervening in the market.

Economic structure had began to change from agriculture to industry by the 'revolution above'. Proletarianization has proceeded ever since (Koo 1990). 'Korea Inc.' had began to

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operate (Jones and Sakong 1980). The development processes were the outcome of combined interactions that promoted and facilitated 'dependent development' (Lim 1985; Evans 1987). At the center of these processes lay the mercantile state (Haggard and Moon 1984). The state orchestrated the Export-oriented industrialization by including big business through the cooptation and by excluding labor through political control (Deyo 1987). It seems not necessary to review all aspects associated with accumulation process in this period. An overall theme entails that the formation and expansion of local capitalists could not be properly understood without taking account of the role played by the state.

The industrial capital as a dominant segment has now wielded a hegemonic position in the national economy. Within the sector, the manufacturing corporations under the umbrella of 30 largest business groups held 34.7% in sales and 23.7% in employment.²⁸ Within three or four decades, the industrial capitalists expanded and reproduced their economic power rapidly making a profound effect on social structure and relations as well. It is in this sense that there was a 'miracle' involved in the expansion and deepening of the accumulation process.

The post-1960 period can be divided into three periods for clarity of presentation. In each period, there are distinctive major industries; textile and chemical fertilizer in the 1960s, electronics and petrochemicals in the 1970s, and

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automobiles in the 1980s. It is not by accident that the pattern of accumulation of industrial capital is roughly parallel with that of growth pattern of Korea.

The state initially set the scope and extent of the outward-oriented growth strategy and provided a favorable condition for the growth of industrial capital in the 1960s. The concentration of industrial capital was promoted by the heavy-industry drive of the 1970s. By the late 1970s, all major heavy industries came to be dominated by a segment of industrial capital. Since the 1980s, the state begun to shift the mode of intervention in the name of liberalization.

A major concern in this chapter is to trace the process of concentration of capital- monopolization and to explore what state intervention in the market had to do with the rise of the industrial giants. In addition, this also provides a preliminary context for understanding later discussions that followed. It is assumed that the hegemonic dominance of industrial capital entails simultaneous processes of the expansion of capitalist production relations. Based on this assumption, I demonstrate the ways in which the state has intervened in the market through its role of finance control among others.

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A. The State, Industrial Capital, and Foreign Capital, 1961-

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The material base of Korean economy in the 1950s was foreign aid. Economy based on foreign aid allowed consumption industries to prosper on the one hand and to further undermine agriculture. At the end of the 1950s, industrial capital has been concentrated around textile, sugar, wheat milling, petrochemical fertilizer, and cement industries. Yet the economic base was shattered by the decline of foreign aid beginning in 1957. From the peak year of 1957 the aid notably declined 383 million to 321 million in 1958 and 222 million in 1959.²⁹ Most struck by the reduction were the very prosperous "three white industries". The decline of foreign aid also tremendously affected financial capacity of the state. Unemployment rose, operation rate dropped, and political corruption of the Rhee regime became widespread, all of which contributed to producing a socio-economic background for the civil revolution of April 19 and later military coup d'etat in 1961.

At the time of regime change in 1961, the local bourgeoisie did not enjoy total class hegemony in society because of the rent-seeking practices (e.g., windfall gains from foreign exchanges) and collaboration with government officials and politicians. The system of import quotas and the manipulation and control of scarce banking resources had

together formed the backbone of a mutually corrupting and mutually profiting system of cooperation between a number of businessmen and state managers under the Rhee regime.³⁰ The class hegemony was further undermined by the military junta's attack. When the military junta took power in 1961, it enacted, in an apparent effort to ensure the legitimacy of the military coup and 'populist' ideology, the Special Law for Dealing with Illicit Wealth Accumulation to confiscate the illegally amassed fortunes of the big bourgeoisie. It has been documented that as many as 42 businessmen were arrested among whom included businessmen B.C. Lee (Samsung), C.L. Lee (Taehan), J.H. Chung (Samho), and many others.

Due to the comprehensiveness of the Law,³¹ there was few bourgeoisie left. Then a question follows; who could undertake the 'bourgeois revolution'? This was an extremely difficult dilemma for the military junta because "the only viable economic force happened to be the target group of leading entrepreneurial talents with their singular advantage of organization, personnel and capital resources".³² So, it had to be decided what to do with them. J.P. Kim (2nd power-holder next to C.H. Park) recently has expressed that;

[P]ardoning the illicit wealth accumulation was an obvious violation of the revolution's pledge to eliminate corruption and old evil practices. If we punished businessmen under corruption charges, it

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was evident that our economy would be paralyzed. Of course, members of the revolutionary council insisted on prosecuting them, but I opposed it. It was essential to coopt them in order to carry out revolutionary tasks. I personally persuaded General Park to release those arrested and to give them new tasks.³³

Realizing the dilemma and accepting Kim's advice, General Park finally summoned the ten major business leaders and made a deal with them. In exchange for exempting businessmen from criminal prosecution and respecting their properties, those businessmen 'paid' fines levied on them by establishing industrial firms and then donating shares to the government.³⁴ In short, this was a 'historic compromise' between state and capital, ensuring business compliance and cooperation with the implementation of "state-led industrialization" in the near future. The basic state-capital relationship was thus patterned by this coercive measure under the "revolutionary" circumstance.

This compromise defined the collaborative relationship that has been dominant throughout the 1960s and 1970s. While the state set "the rules of the game" for accumulation, the local bourgeoisie has carried out most industrial development projects. Announcing full support for the regime's first five-year economic plan, B.C. Lee helped to create a new business

organization, the Association of Korean Businessmen (AKB), the predecessor of the Federation of Korean Industries (FKI), which became one of Park's pillars of support, and served as the first president.

1. Foreign Capital

The development strategy of EOI set a turning point in the transformation of Korean society. Needless to say, there were external pressures on the shift from the ISI of Rhee regime. As mentioned above, the phasing out of American aid at the end of 1950s set a limit on the balance of payment problem and economic trouble - inflation from the exhaustion of ISI at the end of 1950s. As a sole patron of security and economic growth of Korea, the United States changed the form of economic aid. The amount of grant-aid declined rapidly from the early 1960s; from \$ 165 million in 1962, to \$ 119 million in 1963, \$ 88 million in 1964, and \$ 71 million in 1965 (by contrast, grant-aid in 1960 had been \$ 225 million).

In its place, foreign capital in the form of loan and direct investment had come to play a key role in financing domestic industries. The state did take part in the process as a mediator and guarantor of the foreign capital. The role of foreign capital in accumulation is controversial whether it

has contributed to "dependency" or "dependent development" (Frank 1967; Evans 1979). This is not a main interest here, although the latter seems more compatible with empirical reality (Lim 1985; Evans 1987; Gereffi and Wyman 1990). Instead, I highlight mechanisms and implications associated with the state's role in mediating the financial resource and accumulation process.

As seen in Table 3.1, we can identify three distinctive and important trends of the flux of foreign capital and pattern of its composition and volume. First, commercial loans rapidly increased and predominated over both public loan and direct foreign investment in volume since the shift of outward-looking industrialization after 1965. The increase of foreign capital was mainly due to the rapprochement with Japan in 1965: \$300 million in grants, \$200 million in government loans, and \$300 million in commercial credit. The total (\$800 million) was no small sum for a country whose entire export in 1964 amounted to \$200 million.

Second, public loans to Korea were significant compared to other developing countries because of the country's strategic importance to the United States in the 1960s and 1970s even though the volume of public loans declined significantly. These loans have been invested largely in infrastructure such as roads, harbor, and electric facilities. The investment in public sector also contributed to establishing state enterprises which have complemented the

accumulation of private capital.

Third, direct foreign investment (DFI) has played a minor role in Korean capital formation and has been much less important compared with other developing countries (e.g. Brazil and Mexico). DFI accounted for less than 5% of the total foreign capital inflows between 1965 and 1970 and 1% of domestic capital formation during the 1960s. The relative absence of the DFI can be traced to an obvious reason; being a resource-poor country; no bananas, no tin, no oil- Korea had little to offer the TNCs. Also, the domestic political instability dismayed potential foreign investors. Loans really remained the main source for financing domestic industries.

After the announcement of support for the military regime, local capitalists did three important tasks. First, B.C. Lee and other members of the Association of Korean Businessmen suggested establishing an industrial estate at Ulsan which now functions as a 'mecca' of the Korean economy, housing many heavy industries such as Hyundai Shipbuilding, Hyundai Motors, Hyundai Chemicals, and so on. Second, in 1964 B.C. Lee headed a delegation to the US and secured Korea's first foreign commercial loan of about US \$40 million, to finance what was then the world's largest fertilizer plant. Not surprisingly, Lee was soon to own a majority share in this enterprise.

Table 3.1 The Source and Amount of Foreign Capital, 1961-1970 (million US \$)

Year	Private	Public	DFI*	Total
1961-64	49.7	7.6	1.2	58.5
1965	36.1	5.0	1.8	42.9
1966	109.0	75.8	3.2	188.0
1967	124.0	105.6	7.7	237.3
1968	268.4	70.3	19.2	357.9
1969	408.9	138.9	12.7	560.5
1970	366.7	115.3	66.1	548.1

Source: Economic Planning Board, Major Economic Statistics, 1990.

Note: * Direct foreign investment

Finally, they were deeply involved in the "Normalization with Japan" before its completion in 1965. This historic event needs a bit of comment. The attempt to restore the foreign relation with Japan under the Park's regime provoked a nation-wide protest as seen in the following observation;

the political crisis throughout Korea was not opposition to Japan, but opposition to the Korean government, which it was feared would use financial resources from Japan to further consolidate its internal control, and in so doing would create an economic dependence on Japan in order to stay in power.³⁵

Despite the massive protest, the final agreement was reached on the terms mentioned above - \$ 800 million. There is no doubt that the financial resources has been critical for the economy and political rule of the state.

2. The State as Banker

The role of banker assumed by the state means that the independent development of bank capital has been not possible. And the state's control over the allocation of foreign loans and settings of interest rates are considered a powerful

instrument for intervening in the market (Wade 1988). State-controlled banks in Korea has been not only critical for capital accumulation but also for the configuration of the internal structure of the dominant wing of capital.

The continuous control over commercial banks until recently profoundly effected the internal structure of the dominant class. The role of financiers in advanced capitalist societies has been delegated to the state in Korea with the sole purpose of economic growth. Under this system, bankers were bureaucrats not entrepreneurs.

How then did the state assume the role of 'financier'? Prior to the establishment of the military regime, Korean commercial banks were privately owned - for example, B.C. Lee (Cheil Bank) and J.H. Chung (Choheung Bank).³⁶ The nationalization of the commercial banks was part of policy measure to materialize the 'spirit of the revolution' through the Special Law for Dealing with Illicit Wealth Accumulation mentioned earlier.

Due to state's controlled banking system, almost all foreign loans had to be screened and allocated. Since the arrangement for a loan was to be worked out directly between the borrower and the lender, it required also state approval. Thus, the state had unlimited control over the volume of foreign financing and its allocation among competing sectors.³⁷ The main secret promoting the inflow of foreign loans was a state guarantee of repayment of privately borrowed

capital. With such a guarantee, foreign lenders need not be concerned with the viability of the particular enterprise wishing to borrow funds, but only with the validity of the state's promise. For political and economic reasons, the U.S. was the major actor in the international financial system. In the words of financial experts;

The conditions for attracting private credits were relatively favorable because Korea had practically no foreign debt obligations, and also because it was generally felt that the United States would not for the foreseeable future allow Korea to fall into default on debt repayments.³⁸

Thus, it was not surprising that the flow of foreign capital increased 13 fold during five years; from \$ 42.9 million in 1965 to \$ 548.1 million in 1970.

Although there existed no precise information about who were recipients of foreign loans, available evidence suggests that large business groups were the main beneficiaries, as seen in Table 3.2. The ten business groups received \$ 502 million - 21% of the total foreign loans as of 1969. Why were foreign loans so attractive? The answer lies in the different interest rates between domestic banks and loans carrying the state's guarantee. It is observed that state bank loans usually carried half the interest rate of 'curb' market loans

Table 3.2 10 Largest Recipients of Foreign Loan, 1969
(US \$ million)

Group	Amounts
Ssangyong	150
Lucky	123
Daenong	95
Hanil Synthetic	41
Chunwoosa	21
Samyangsa	15
Panbon	17
Kaepung	17
Kolon	12
Hwashin	11
Total (A)	502
Total (B)	2,295
Percent (A/B)	21%

Source: D.S. Park. 1969.

(underground private money market); most of the time bank loans offered negative rates of interest. Thus, foreign loans and credit from domestic banks meant a sort of windfall gains for those who were 'eligible' to receive them.³⁹

Not accidentally, one of the common factors among those capitalists who borrowed the massive amount of foreign loans was that they had close ties with government officials or ruling party members. Even some of them participated in politics. The three largest recipients of loans, for instance, were firms owned by the ruling party politicians and/or their siblings: Ssangyong, whose founder (Kim Song-Kon) was an influential politician, was a recipient of more than \$150 million in foreign loans in the late 1960s; Lucky-Goldstar received \$123 million in loans; and Daenong received \$95 million.⁴⁰

It was not surprising that under such preferential conditions certain businessmen were connected with the top-ranked business groups; Lucky Chemical (I.H. Koo), Ssangyong Cement (S.K. Kim), Shinjin Motor (C.W. Kim), Samyangsa (S.H. Kim), Hanil Nylon (W.M. Lee), Taehan Ind. (K.D. Sul), Incheon Heavy Ind. (D.J. Lee), Tong Yang Cement (Y.K. Lee), Ryonhap Steel (C.H. Kwon), Hyundai Const. (J.Y. Chung). Yet Samyang and Samho did not participate in this 'business' so they tended to decline thereafter.⁴¹

Since commercial loans required state approval and repayment guarantees, there was a 'kickback' practice in

politics and business. For example, to obtain the necessary state guarantee, businessmen were required to pay 10-20% of the loan amount.⁴² One powerful figure in the ruling party admitted that "businessmen who had received more than \$10 million in foreign loans expressed considerable 'gratitude', meaning political contribution. Another politician said: "If some businessmen in the past [Rhee regime] did not comprehend the resolve for modernization of the ruling party, they do now. They understand who they owe their wealth to ... For the party, it is more convenient to collect big from a few than to collect small from hundreds."⁴³ This practice was summarized as follows;

[Businessmen] accumulated capital mainly through such "non-rational" processes as speculation, price-fixing, tax evasion, and taking advantage of cumulative inflation. More crucial to this process, however, was that they played on political connections to gain economic favors in exchange for political contributions.⁴⁴

What this mode of connection implies is that Korean large corporations not only gained profits in the production process, but heavily relied on the rent-seeking practices. Furthermore, this give-and-take linkage was indispensable for the maintenance and consolidation of "power block" - groups

against "civil society".

Two events also contributed to promoting capital accumulation during this period. Privatization of public enterprises was made under extremely favorable conditions for purchasers were got good deals due to high inflation and lower interest rates. For example, Hanjin bought Korea Airlines in 1969 and the payment was made over the next 10 years. At least 20 out of the largest 50 business groups acquired more than one of public enterprises.⁴⁵

The Vietnam War not only helped to finance the Second Five-Year Economic Plan but also consolidated the political power of Park.⁴⁶ During 1966-68, commercial exports (including military products), construction and services, and civilian and military repatriation amounted to \$376 million which constituted 16% of state revenues. It provided a good opportunity for Korean businessmen as well. Hyundai and the Korea Airlines (Hanjin) were two most outstanding examples. The first international contract ever granted to Hyundai was from the U.S. government for projects in Southeast Asia: the Pattani-Narathiwat Highway in Thailand and dredging work in Vietnam. In the service sector, Hanjin signed a contract for \$7.9 million for supplying transportation for the U.S. Air Force.⁴⁷

Finally, these not only promoted capital accumulation but also personal wealth as well. As of 1966, the top 20 wealthy businessmen in Korea were chairman of large business groups

which had received preferential loans and foreign capital. A majority of those wealthy businessmen were the same persons charged by the Law in 1961. It was reported that the wealth of B.C. Lee had grown six times during a period of five years. Out of the 20 wealthy men, 12 of their business groups are now listed among the largest 50 groups as of 1992 - groups in parenthesis in Table 3.3.

Table 3.3 Top 20 Wealthy Businessmen, 1966 (million won)

Rank	Person (Group)	Assets
1	B.C. Lee (Samsung)	30,601
2	J.H. Chung (Samho)	22,173
3	I.H. Koo (Lucky)	1,780
4	C.R. Lee	1,477
5	S.J. Kang	1,454
6	H.R. Lee (Tongyang Chemical)	1,338
7	S.D. Hyon	987
8	S.K. Kim (Ssangyong)	917
9	T.S. Chun	909
10	T.J. Yang	874
11	Y.K. Lee (Tong Yang)	830
12	J.Y. Chung (Hyundai)	772
13	C.H. Kim (Korea Explosives)	712
14	H.J. Cho (Hyosung)	707
15	H.K. Lee	699
16	K.D. Sul	697
17	I.C. Park (Keumho)	668
18	T.S. Chung	644
19	D.B. Park (Doosan)	631
20	H.S. Park	624

Source: reformulated from M. M. Im, 1968.

B. Monopolization, 1971-80

Internally, the single most important economic problem stemmed from the massive and reckless inducement of foreign loans. As a measure of "debt crisis", the debt-service ratio (ratio of debt to export) jumped from 5.2% in 1965 to 28.3% in 1970. Unable to repay the interests and principle of commercial loans, a number of firms went into bankruptcy. Yet the crisis was not merely a matter of those individual firms. The state had to be responsible because of the role of guarantor. Pressure from international financial institutions (e.g., International Monetary Fund) required the Korean state to reduce the amount of government expenditure which in turn reduced investment and further aggravated the economic crisis; export growth rates fell down from 36% in 1968-69 to only 27% in 1970-71. The growth of GNP also decreased from 13.8% in 1969 to 7.6% in 1970.

Economic growth based on 'cheap and docile' labor had been in trouble. Massive urban struggles triggered increasing wage rates which would have interfered with the rapid growth of labor-intensive exports. Thus the state intervened in industrial relations in order to contain rising wages within limits that would not undermine the 'comparative advantage' of low labor costs on the international export market. Wages rates were determined by state's wage guideline, not by market. The forced containment of wage pressure during this

period of rapid growth aroused an intensive conflict between capital and labor.

Socio-economic turmoil led to a political restructuring to the now famous political system of "authoritarian bureaucracy" (O'Donnell 1973). Although debates on the timing and nature of the political system has existed among Korean scholars, this is not our primary concern.⁴⁸ Suffice to say that B-A regime or BAIR (Bureaucratic Authoritarian Industrializing Regime, Cumings 1984) turned out to be an 'effective' political system for overcoming the crisis at least initially and government policies provided for incredible capital concentration and monopolization.

We can find three ways of managing the crisis mentioned above. First, the state intervened forcefully in the private financial market by freezing corporate debt. Second, the heavy industrialization drive (HID) policy was undertaken to overcome the limits of economic capacity based on light manufacturing industries. Third, more emphasis was put on exports with strong state incentives and harsh political repression of labor (Long 1980; Launis 1984; Deyo 1989). These are all closely related with the process of capital accumulation and monopolization.

1. Forceful Intervention in Private Financial Market; 8.3
Measure

The economic slowdown induced by both domestic crisis and international pressure further aggravated the chronically unstable and weak financial structures of many business firms, especially large and highly leveraged ones. Between 1965 and 1969, for example, the total domestic indebtedness of manufacturing industries to financial institutions had increased from 2.6% to 9.2% of GNP, and the amount of the curb-market loans was reported to have reached about 900 billion won, or about 28% of domestic credit.⁴⁹ From a negligible amount in 1965, gross external borrowing had reached US \$1,800 million in 1969, about 189% of Korea's total exports.⁵⁰

Because of the heavy reliance on borrowed capital during the 1966-1969 investment boom, the average debt/equity ratio of manufacturing industries reached 400% by 1971. The percentage of debt of those firms was incredibly 95%. By 1971, the number of bankruptcies of enterprises receiving foreign loans increased to a record two hundred.⁵¹

In 1971, the Federation of Korean Industries (changed from Korea Businessmen Association in 1965) called for direct state intervention and made a number of policy recommendations, including the conversion of curb-market loans into bank claims, reduction of corporate tax, and lower

interest rates.⁵² The situation was considered a national default.

The response of the state was a massive bail-out for financially fragile firms. Hardly thinkable in a free-market system, the state intervention was called the 'economic coup d'etat' of August 3 1971. Enactment of the coercive Emergency Decree included (1) freezing curb market loans and transform them into bank loans at an interest rate of 1.35 % (or 16% annually), with a repayment period of five years, having a three-year grace period; (2) forcing banking institutions to issue special financial bonds worth 200 billion Won, used to replace 30% of short-term loans for businesses.⁵³

The goal of the Decree was obviously to secure economic growth against accumulation crisis. It helped capital recover from the depression by relieving the financial difficulty of domestic enterprises.⁵⁴ Even if the emergent measure was meant for 'capital in general', the effect showed sectoral differences among fractions of capital. The large business groups were the main beneficiaries of the Emergency Decree, while the small and medium-businesses were not helped substantially.

According to a Congress report, some 600 large firms accounted for 60 % of total curb market loans. Furthermore, in only 547 cases (1.5% of the total number of cases) did firms contract for more than \$ 252,000 (about 100 billion Won), but the total amount of these loans was \$460 million (193 billion

Won), accounting for 52.9 % of total curb market loans.⁵⁵

Politically, the Decree further consolidated the existing tie between the state and big capital. Economically, the Decree helped to produce the monopolization process in certain key industrial sectors-the heavy and chemical industries. The chaebol groups were left free to expand without competition from small and medium-sized firms. This pattern of capital allocation differed from the 1960s, when it was more or less evenly allocated between industrial sectors. Most important, big capitalists became convinced that the state would protect them to the end. From the vantage point of the 1980s, this belief served in the heavy industrial drive discussed below.

2. The Shift to Heavy Industrial Drive; Policy Loans

The Korean economy had entered the second round of 'take-off' through the heavy industrial drive (HID) backed up by a 'strong' developmental state (Johnson 1987: Haggard 1991). The state concentrated financial resources on target industries. The economic growth achieved by the HID was remarkable. On average, the period of 1962 to 1971 saw 9.8 % annual GNP growth and the industrial structure changed from predominantly agriculture to (heavy) industry. Behind this economic growth lay tremendous costs to the political and civil rights of the majority of social groups and classes.

Six industries (steel, chemical, metal, machine-building, ship-building, and electronics) were targeted for upgrading from labor-intensive to capital-intensive. Large industrial complexes were created with production facilities for each target industry, for example, the Yosu-Yocheon complex for petrochemicals, Changwon for Machine-building, Pohang for steel, Okpo for shipbuilding, the Kumi Complex for electronics, and finally Onsan for nonferrous metal industry.

The state installed infrastructure and encouraged big capital to participate in the project with fiscal and financial incentives and exemptions on commodities and customs taxes on imported capital goods. Between 1977 and 1979 80% of total investment in manufacturing went to heavy industry, which consumed 97% of total planned investment in the first years of the fourth five-year economic plan [1977-81].⁵⁶ As a result, contemporary large industrial conglomerates such as Hyundai, Samsung, Daewoo and Lucky-Goldstar entered world markets with their automobiles, ships, and electronics.

It has been widely believed that credit allocation in developing countries is based less on economic efficiency than developmental strategy.⁵⁷ In Korea, resource allocation for economic growth took precedence over profit maximization from the viewpoint of the state. Furthermore, the allocation of financial resources in the form of credit was crucial for controlling the flow of capital and thereby enabling the state to pursue 'strategic' industrialization (Wade 1988).

How did the state achieve the goal? It was estimated that the difference in interest rates between official (banks) and curb market reached a remarkable 25.2 % during the period 1974-1980.⁵⁸ The implication is that domestic loans were an enormous source of capital formation and benefit.

Large firms were primary beneficiaries from the customary practice of bank lending in Korea,. There are two reasons. First, Korean bankers were not primarily interested in profits because of the role of bureaucrats as mentioned earlier. Second, large firms possess more real estate (land and building) for loan collateral than small and medium-sized firms. Under circumstances of high inflation and favorable access to domestic and foreign capital, the Korean big bourgeoisie often made money from speculation on land and in the curb market.

In addition to the preferential bank loans, the Korean state devised a special loan category known as "policy loans". Unlike setting interest and lending rates, the policy loans specified a target of funds to sectoral (agriculture or manufacturing) and carried extremely low rates with longer maturity and were virtually nondefaultable because of a state guarantee. Policy loans claimed over 50% of total domestic bank loans and were instrumental in financing HID projects ⁵⁹ (see Table 3.4). Of all policy loans, National Investment Fund (NIF) created in 1974 was the most crucial for the completion of the HID.

Table 3.4 Policy Loans and Bank Credit, 1972-79 (million won)

Year	Policy Loan	Total Loan	Ratio (%)
	(A)	(B)	(A/B)
1972	7,338	15,413	47.6
1973	10,387	20,370	51.0
1974	14,556	30,118	48.3
1975	19,579	38,568	50.8
1976	25,767	48,672	52.9
1977	36,116	63,433	56.9
1978	60,627	93,160	65.1
1979	84,530	130,642	64.7

Source: Bank of Korea, Yearbook of Economic Statistics 1980

One of the key aspects of the NIF loans was the subsidized rates. In 1978, for example, the lending rates varied from 6% for export suppliers credit to 16% for the loans to the heavy and chemical industries with three- to eight-year maturities, whereas the interests rates on NIF deposits ranged from 6 to 18.6%.⁶⁰

Korean favoritism toward heavy industries and large firms eventuated out of necessity: the economies of scale demanded by heavy industry could be met only by the large firms, thus policy loans to big capital. It was estimated that the share of large firms in bank credit was over 70 % on average during most of the 1970s.⁶¹

The share of heavy industries in manufacturing output rose from 36.0% in 1970 to 54.9% in 1980. Exports of heavy manufactures, which had claimed 18.2% of total exports in 1970, rose 47.6% by 1980. In contrast, the share of light industries in total manufacturing output had stood at 64.0% in 1970, but dropped to 45.1% in 1980, the importance of light-industrial commodity exports also dropped from 81.8% to 52.4% by 1980.⁶²

While the state HID policy produced a remarkable economic performance of heavy industry, the procedure was not without problems such as the inflationary investment boom in the later 1970s; investment shares of GNP jumped from 26% in 1976 to 37% in 1978 (Kuznets 1982). Added to this, large inflows of foreign exchange from Middle East construction contracts also

had an expansionary effect on the economy and drained skilled workers in Korea, putting an additional pressure on labor market which pushed real wages up.⁶³

At any rate, major Korean LBGs expanded their size during the period of the HID. As can be seen in Table 3.5, with very few exceptions that are marked with asterisks, all acquisitions were made post-1973. Thus, it was not uncommon for the LBGs to triple the number of their affiliated firms during the latter half of the 1970s, with new acquisitions often in the heavy and chemical sectors.

**Table 3.5 Participation in Heavy and Chemical Industries by
Large Business Groups, 1974-78**

Group	Number of Affil.		Acquisitions in H & C industries
	1974	1978	
Hyundai	9	31	automobile*, machinery*, iron & steel, shipbuilding, aluminum, oil refining heavy chemical, heavy machinery
Samsung	24	33	shipbuilding, general machinery, electric switching system, petrochemicals
Daewoo	10	35	machinery, automobile, shipbuild.
Lucky- Goldstar	17	43	petrochemicals*, oil refining* electronics*
Hyosung	8	24	heavy electrical, machinery, auto part, petrochemicals
Kukje	7	22	iron & steel, machinery
Sunkyong	8	23	chemical, machinery
Ssangyong	17	20	cement*, heavy machinery, shipbuilding, heavy electrical
Kumho	15	22	iron & steel, petrochemicals
Kolon	6	22	heavy electrical, petrochemicals

Source: J.E. Woo, 1991, p. 168

3. Export Promotion

Another institutional incentive provided by the state to help expand corporate size was stimulating exports. In 1974, the state devised general trading companies (GTCs) following the Japanese *sogo shoshas*, to promote exports. In 1975, five GTCs were licensed; in 1976, nine; in 1977, eleven; in 1978, thirteen; and in 1979, twelve.

By 1979, half of the nation's total exports were handled by the GTCs and net sales reached 1,975.1 billion won, 9% of Korea's GNP total. GTCs have spearheaded diversification of exports, and are credited for having promoted heavy industrial products sales such as industrial plant machinery. The proportion of exports carried by GTCs rose to 48.2% in 1982, up from 13.3% in 1975 (see Table 3.7).

The Korean LBGs, until recently forbidden to own banks (unlike their Japanese counterparts), in turn relied on GTC export credits to finance their industrial empire. Those licensed GTCs were monopolized by top-ranked business groups as seen below. Again, a significant point associated with the GTC lies in the promotion of capital concentration. The reason is quite simple: prospective trading companies had to merger and/or take over other companies to meet the qualifying requirement mandated by the state in order to get a license. That is why the number of affiliated companies have dramatically increased, in addition to the effects of

participation in the HID.

Table 3.6 A Profile of General Trading Companies
(million won)

Company	Group	Est. Year	Sales
Samsung Co.	Samsung	1975	232,907
Daewoo Ind. Co.	Daewoo	1977	188,633
Hyundai Corporation	Hyundai	1978	177,100
Hanil Synthetic Fiber Ind. Co.	Hanil	1978	169,530
Sunkyong Ltd.	Sunkyong	1976	120,674
Bando Sangsa Co.	Lucky	1976	111,498
ICC Corporation	Kukje	1977	102,051
Hyosung Corporation	Hyosung	1977	88,293
Keumho & Co., Inc.	Keumho	1976	73,146
Samwha Company	Samhwa	1979	67,309
Ssangyong Corporation	Ssangyong	1978	45,869

Sources: Korea Exchange Bank, 1979 and Company Yearbook, 1993

Table 3.7 The Share of Exports By Types of Firm, 1975-82 (%)

Year	Korean GTCs	Large-scale export prod.	Small-scale export prod.	Japanese GTCs
1975	13.3			
1976	17.2			
1977	21.7			12.1
1978	27.0	36.6	36.4	10.2
1979	33.9	37.4	28.7	10.4
1980	41.0	33.4	25.6	10.0
1981	42.9	30.6	24.5	10.0
1982	48.2	29.5	22.3	10.0

Source: S.H. Jo 1991, p.518.

A most typical case is the Daewoo Group which affiliated 14 companies through merger, management participation, or take-over beginning in 1972. Almost all LBGs were busy making themselves bigger; Samsung (5), Kukje (8), Samhwa (6), Sunkyong (4), Keumho (4), Ssangyong (2), Hyosung (2), Lucky-Goldstar (3), Kolon (2), Lotte (2), Kia (1), Oriental Brewery (2), and Taekwang Industry (1), and so on.⁶⁴ That is, capital concentration further intensified during the latter half of the 1970s.

In the early 1970s, the Korean state began a major push for construction contracts in the Middle East, subsidizing construction firms with preferential loans and a 50 % corporate tax reduction.⁶⁵ The Korean GTCs did not lose the opportunity to expand their business size by entering the construction boom. In 1977, 25 LBGs merged 31 construction firms in order to go to the Middle East.⁶⁶ Hyundai Group ranked first in the late 1970s mainly due to the Middle East construction business. Most construction firms involved in overseas activity merged into the 50 LBGs at present; Hyundai, Daelim, Dong-Ah, Samwhan, Keukdong, Sambu-Togun, and Hanyang to name a few.

Due to state ownership of commercial and special banks, LBGs affiliated with insurance companies and short-term financial funds companies. As of 1977, 15 insurance companies were under the control of business groups out of the total 16 companies: Samsung (2), Shindonga (2), Hanjin (1), Lucky (1),

Table 3.8 The Share in Manufacturing by the LBGs (%)

Group	Sales			Employment		
	1978	1980	1981	1978	1980	1981
Top 5	15.7	16.9	22.6	9.5	9.1	8.4
Top 10	21.1	23.8	30.2	13.9	12.8	12.2
Top 20	29.3	31.4	36.6	18.2	17.9	16.0
Top 30	34.1	36.0	40.7	22.2	22.4	18.6

Source: S.K. Lee, 1987, p. 145

Ssangyong (1), Korea Explosives (1), Shinil (1), Taehan (1), Choyang (1), Daewoo (1), Samhwa(1), and Taekwang (1). Provincial commercial banks, investment financial funds, security companies and other financial intermediaries were monopolized by a handful of LBGs as well.⁶⁷

Differentiation between big and small segments of capital have thus proceeded. For instance, in 1982 there were 35,971 firms in the manufacturing sector, but the 271 manufacturing firms affiliated with LBGs accounted for more than one-third of the value of shipment, value-added, and capital in the entire manufacturing sector.⁶⁸ The 30 LBGs held 40.7% in sales and 18.6% in employment by 1981 (see Table 3.8). The rapid

changes in business environment have forced the Korean LBGs to look for new opportunities. If they failed to develop new business in time, they would fail. This accounts for the tendency to diversify into products and markets that are not related to the current lines of business of the LBGs.⁶⁹

C. Liberalization, 1981-90

The processes of accumulation and monopolization of the Korean LBGs has been more or less stabilized since the 1980s. Economically, problems associated with overinvestment in the HID (e.g., distortion of financial resources) and ideas of neo-liberalism have forced Korea to restructure her economy. Politically, there occurred regime changes from Park Chung-Hee (1961-1979) to Chun Doo-Whan (1980-1987) and Roh Tae-Woo (1988-1992). Changes in the role of the developmental state of Korea have been apparent.

During 1979-1980 Korea faced a severe economic crisis like the late 1960s. Growth rates averaging 9.9% during 1962-1978 period fell to 2.2% in 1979-1981, and inflation soared to 26.4% from an annual average rate of 16.1% from 1962-1978. Real growth in exports fell from an annual average rate of 27.4% during 1962-1978 to 7.5% during 1979-1981. The current account deficit grew from \$1.1 billion in 1978 to \$4.4 billion

in 1981.⁷⁰ As a result, Korean external debt, which stood at \$14.8 billion in 1978, increased to \$40.4 billion in 1983, and \$46.8 billion in 1985. At the end of 1980, Korea was the world's second largest borrower after Brazil.⁷¹ The 1979-1980 crisis resulted from interaction between external and internal factors. Critics who have emphasized the importance of internal factors behind the crisis have usually focused on the 'policy errors' made by the Park regime; a rapid pursuit of heavy industrialization.⁷² Externally, the second oil shock greatly impacted non-oil producing Korea like elsewhere.

By the turn of the 1980s neo-liberalism (understood as "market-conforming" rather than "market-shaping") had spread in the world and gained a strong attraction with intellectuals and policy-makers (Espinal 1992). One of the major themes associated with the new 'ideology' was that states should not directly intervene in the market. When necessary, the state can rely on monetary control (Biersteker 1990). In Korea, some economic technocrats began to criticize the 'nationalistic' market-shaping state role and voiced a liberal proclivity. They proposed to reshape the role of the state in economy.⁷³

The newly established Chun regime continued to be more authoritarian. The state first announced an annual wage policy in 1981 to check wage increases and plans for implementing a minimum wage system were to be delayed. Yet state action was not limited to checking the wage increase. The Chun regime devised various labor control policies as well as directly

interveningd in management of labor disputes. Through amendments to the Trade Union Law, the state altered the existing union structure, decentralizing the union movement to the company level. A new Labor Dispute Law increased state power in the mediation of disputes, subjected collective action to prior state approval, and prohibited the involvement of outside groups (church organizations like the Urban Industrial Mission and students) in labor disputes (Launius 1984; Monthly Review of Korean Affairs; Minjo-nojo 1989). So, the number of labor disputes recorded by the Ministry of Labor went down from 407 incidents in the year of political turmoil of 1980 to 88 in 1982.⁷⁴

State Interest and Financial Reform

The role of the Korean state as banker was instrumental in bringing about rapid capital accumulation and monopolization. The role of the state as banker which were instrumental in mobilizing and allocating financial resources has undergone a change and its relation with local capital consequently had to be reshaped in the course of managing macroeconomic crisis which had been brought about by both external market forces and internal contradictions of state intervention. Together with ideological impact of liberalization and marketization, misnomers of "statism" had

arisen in the sectors of economic actor who had been ironically benefitted from the very state's beneficial support.

The financial reform taking place since the early 1980s can be understood in the situational context which had been embedded in the state intervention in finance and its effects on local capital on the one hand and external pressures imposed by changing global economy. From the experiences gathered during the difficult period of economic adjustment in the early 1980s, the direct and selective intervention by the state in the allocation of financial resources would only entail far more intricate problems and the state undertook a series of policy measures to liberalize the financial sector. Increasing complexity of market mechanism and growing market size could no longer provide a rational expectation in advance with a limited source of traditional instruments for coping with challenge.

There are various reasons for financial reform. The 1979-1980 economic crisis provided an immediate rationale for financial reform; the rise of high international interest rates of the early 1980s forced domestic firms to be financially fragile and even bankrupt. This in turn caused banks' financial difficulty because of the non-performing bonds associated with those firms. These structural problems could no longer be considered as appropriate for state's intention for utilizing banks for development purposes as had

been before. The debt accumulation forced the state to change in the mode of economic management from state-led growth strategy to 'private-sector-led capitalism'. More fundamental was the effort to realign the state's role in the economy by pursuing a more market-oriented style of economic management.

Liberalization aimed at greater bank autonomy in the determination of credit allocation, in part through the privatization of the state-owned commercial banks. Policy loans and administrative guidance over bank portfolios have been reduced, though the state still exercises influences over banks viz-a-viz appointment of key personnel. The state's retention of bank management reveals that the time was right; it was not ripe for the state to liberate itself from designing and directing economy. The reason why the state was moved to liberalize finance was the desire to reduce the burden of socializing risk - the problem of 'national default' - in a system where the state was creditor. Giving up completely economic control has not been easy for the state.⁷⁵ Some problems were inherent in the system of the state-guaranteed loan which are "placing a potentially large financial burden on government" (World Bank 1988:ix).

The restructuring of financial sector in Korea was also a response to dependency on foreign loans. The relative 'underdevelopment' of financial market due to state's priority of growth was believed to stem from low interest rates,

Table 3.9 Stock Ownership of Banks by Chaebol Groups, 1988

Group	Hanil	Cheil	Commer.	Choheung	Seoul	Provincial
Samsung	6.3	5.3	11.0	7.4	2.7	Daegoo (11.0)
Hyundai	1.9	2.2			4.5	Kangwon (23.6)
Lucky	3.9	3.2	1.0			
Daewoo						Choongbuk (1.7)
Sunkyong						Chungbuk (1.6)
Ssangyong				1.2		Kyongki (4.5)
Korea Explo	4.3					
Hanjin	4.6					Choongchung (11.3)
Hyosung						Kyongki (11.2)
Daelim	3.7					Kyongnam (4.1)
Shin Donga	1.1	6.5		6.5	6.3	
Hanil						Kyongki (13.2)
Dong-A					4.2	Kyongnam (1.2)
Taekwang				8.7	1.1	
Donkuk Steel					1.5	
Total	24.8	17.2	12.0	23.8	23.3	

Source: Maeil Economic Newspaper, May 19, 1989

overexcessive policy loans, and state intervention in the operation of state-owned banks. The state eliminated various policy loans and sold its stock holdings beginning with Hanil Bank.

Although there was a limit to ownership of bank to 8% per individual or corporation, the LBGs purchased larger shares through their affiliated firms. 37% of the commercial banks' total equity share was accounted for by the largest 20 business groups. Among them, three top groups held enough shares to control the management of some commercial banks. As seen in Table 3.9, five commercial banks were owned by LBGs (from 12.0% to 24.8%).

The coalescence of industrial and bank capital will increase the possibility that the loans and credit are allocated in favor of the LBGs which already monopolized smaller provincial banks, insurance companies, and security companies. The reason is quite clear; LBGs wish to secure stable financial capital at low interest rates.

Despite the state's administrative role in positioning high managers and in lending policies through the Bank of Korea, the ownership transfer clearly showed state's preference toward market-oriented system, which necessarily enhanced the economic power of the dominant wing of capital. It was observed that

the chaebol's ability to acquire significant

influence in the commercial banks was a significant step towards tilting the state-chaebol balance of power toward the chaebol. The very control over credit that had previously appeared as a component of the state power in pursuing its industrial policy objectives has now become a liability.⁷⁶

State 'rationalization' of the banking system has allowed greater competition and encouraged the rapid growth of non-bank financial intermediaries such as the short-term financing and investment companies, mutual funds and insurance companies. The state lifted restrictions limiting competition among different types of financial institutions, resulting in a dramatic surge in the non-bank private financial sector (i.e., secondary financial institutions). This sector, which includes investment and insurance companies, grew rapidly during the early 1980s. The LBGs had moved aggressively into this area as indicated above.

The market share of non-bank financial institutions (NBFIs) has dramatically increased from 16.3% in 1971 to 47.6% in 1985 by deposits and from 23.7% to 41.3 % by loans.⁷⁷ The concentration of loans and credit to LBGs in the secondary financial institutions was more severe than that of banks. For instance, 44% of the total loans of NBFIs (14 trillion won) was lent to the 30 LBGs and 24% of bank loans was lent to them as of 1991.⁷⁸ As seen in Table 3.10, the LBGs operated more

than one NBFIs and possessed a majority of stockshares. The short-term working capital was financed from them. As of 1990, 30 business groups owned a total of 47 NBFIs; investment fund and credit card companies (21), insurance companies (10) and security companies (16). The 5 largest business groups owned 22 NBFIs (47%).

What implications can be drawn from such a monopoly ownership of financial capital? First, the increasing monopolization of the secondary financial institutions and privatization of commercial banks indicate that big industrial capital tends to take the form of finance capital. Second, Korean big capital is more 'freer' from the state which formerly controlled the bulk of financial resources. This also implies changes in power relations between the state and capital as precisely pointed out as follows:

its [strong and autonomous state's] very success as a framework for structuring the accumulation of industrial capital has changed the nature of relations between capital and state. Private capital has become less dependent on the resources provided by the state and the relative dominance of the state diminished (Evans 1989; 575).

Table 3.10 Ownership of Financial Non-Bank Institutions by
the Largest Business Groups, 1990 (%)

Group	NBFIs	Ownership
Hyundai	Hyundai Security	26.3
	Hyundai Marine & Fire Insur.	83.3
	Int'l Total Finance	23.1
	Hyundai Investment Council	100.0
Daewoo	Daewoo Security	20.3
	Daewoo Investment Finance	23.5
	Daewoo Investment Council	100.0
Samsung	Samsung Life Insurance	37.0
	Ankuk Fire & Marine Insur.	27.1
	Dongsung Investment Council	100.0
	Samsung Credit Card	96.0
Lucky-Goldstar	Lucky Security	20.7
	Lucky Fire & Marine Insur.	35.0
	Keumsung Investment Finance	32.1
	Pusan Investment Finance	33.9
	Lucky Investment Council	100.0
	Bumin Credit Fund	85.5
	LG Credit Card	91.7
Ssangyong	Ssangyong Investment Security	38.4
	Korea Fire & Marine Insur.	23.0
	Ssangyong Investment Council	100.0
Hanjin	Hanil Security	100.0
	Dongyang Fire & Marine Insur.	30.3
	Hanbul Total Finance	32.3
Korea Explosives	Cheil Security	39.9
	Cheil Fire & Marine Insurance	28.9
	Samhee Investment Finance	25.8
	Cheil Investment Council	100.0

Source: Choongang Economic Newspaper, Nov. 27, 1990.

Conclusion

In this Chapter, the processes of capital concentration and monopolization were examined. The pattern of the LBGs' growth during the Park regime was closely related with the state's economic policies.

In 1961, when Park Chung-Hee came into power through a military coup' d'etat, he attempted to prosecute 'corrupt' businessmen. For political legitimacy, the military junta needed a 'scapegoat'. Yet, economic development necessitated them to make a compromise with the businessmen who happened to be crucial resources for the nation's economic growth. So, the developmental coalition between the state and big capital was established and played an important part in 'economic miracle'.

The state's role of banker at the time of capitalist industrialization of the 1960s determined the nature of dominant capital and promoted capital accumulation. With the relative absence of foreign direct investment, the state mediated, allocated, and guaranteed foreign capital (largely private loans) through the state-controlled financial system for purpose of economic growth. Control of the volume and flow of foreign loans gave the state great leverage over the management of economy and a crucial means to guide market. Yet under market capitalism, the state had to rely on private capital for the actual implementation of economic policies

designed by the state. Here the 'developmental alliance' came into play of role in the accumulation regime of Korea (Haggard and Moon 1990; Wade 1988).

The chosen businessmen were big capitalists and their relationship with state elites were collaborative. This research showed that those practices were rampant because big capitalists had easier access to the scarce financial funds than small ones. State elites acquired funds to maintain political rule viz-a-viz allocation of foreign loans. While the collaborative relationship is in part a central pillar to sustain the Korea Inc., it also eroded moral legitimacy for the Korean bourgeois. The specific mode of connections between capitalists and state elites have been identified - 'kickback' practices of donation of political funds and favorable treatment for big capitalists.

When contradictions of accumulation became apparent, the state did not hesitate to intervene in the market even by going beyond the limit of a 'free market system'. The direct and often forceful state intervention helped to promote Korean big capital. Allocation of preferential policy loan was made to accomplish the HID and provision for establishment of GTCs was made to promote exports. Korean big capital took advantage of these opportunities to expand its size and volume. For Korean capital, the size was crucial because it guaranteed non-bankruptcy because, under the state-control banking system, the state was a guarantor for large corporations which

had to rely on external finance. With massive size and easy access to financial funds, Korean big capital financed new ventures and maintained control over affiliates which are not necessarily related to each other in the production process. Korean big capital was the backbone of the economy. That is reflected in the dominance of the LBGs and in the common destiny between the state and big capital.

Yet changes have occurred in the 'accumulation regime' since the early 1980s. Driven by severe economic hardship and new ideological claims of neo-liberalism, the Korean state was forced to change the mode of intervention in the market - liberalization. Overinvestment in the heavy industrialization drive and second oil crisis hit the nation's economy at the end of the 1970s. This economic hardship was further aggravated with the political turmoil associated with assassination of Park Chung-Hee. The newly established military regime of Chun Doo-Hwan attempted to reorganize economy. Debts marked record. The program of "structural adjustment" came into Korea like elsewhere in the early 1980s.

The main idea was to restructure the market and to change the mode of state intervention. With the increasing pressure from the IMF and internal accumulation problem, the mercantile state had to shift its growth strategy from "market-shaping" to "market-conforming" one. Financial control which had remained a critical means to manage the nation's economy became a political agenda to reform. State-controlled

commerical banks have been privatized - ownership of bank capital shifted from the state to big capital.

CHAPTER 4. INTERNAL STRUCTURE OF LARGE CAPITALIST CORPORATIONS

The subsequent changes in the composition of the dominant class in Korea - the 'isolation' of the industrial capitalists from landlords and the assumption of financial capital by the state have led to the hegemonic position of industrial capital. Now let's turn to a specific analysis of the composition and location of the industrial capitalist class with reference to large corporations as "units in a class controlled apparatus of private appropriation" (Zeitlin 1980:10). Theoretical implications of managerialist claims is our reference point. They argue that the dominant position of the owners of capital has been taken away by managers who are now responsible in the large corporations for all major decisions affecting the production process. Legal ownership of corporate enterprises is fragmented among numerous small shareholders who have surrendered control to non-owning managers (Berle and Means 1967; Bell 1961).

Following critics of the managerial thesis who maintain that a few large shareholders are able to exert effective control, and that the top managers themselves are usually substantial shareholders, I claim that an identifiable group of individuals control the production units of large corporations in Korea. How could they control such numerous firms? What control mechanisms do they utilize for this

purpose? These are the empirical questions in the present chapter. I begin by showing how the bulk assets of major industries is distributed along the line of ownership type - foreign, public, and private ownership.

A. The Concentration of Capital

The bulk of the assets, sales and profits in the major industries of Korea are now held by a few large corporations that effectively control commodity, labor, and capital markets. The rate of concentration of industrial capital is faster than that of GNP; for example, 7.5-fold increase for the former and 4.6-fold increase for the latter during the period 1979 to 1989. The weight of industrial capital in GNP (by sales) increased 33% in 1979 to 54% in 1989.⁷⁹

To identify the pattern of ownership as well as the extent of capital concentration, I selected the 200 largest firms by **assets** from the Company Yearbook of 1993 and categorized these firms in terms of ownership form by consulting principal shareholders listed in A Handbook of Listed Companies. Table 4.1 shows the distribution of the number of firms by their ownership form - private, public, and joint-venture.

More than two out of three of Korea's top 200 corporations are in manufacturing industries (70.0%) and these

firms are represented in 12 different industries. Textile (21), Foods & Beverages (18), Basic Metal (17), and Chemical industries (14) are more highly concentrated than others. In the 'service sector', construction (32) and commercial trading (18) industries are predominant.

In terms of the ownership pattern, two points can be made. First, private firms (183) absolutely dominate over public enterprises (or 'state capital'): Pohang Iron and Steel Mill (PISM), Korea Electricity Power (KEP), Korea Fertilizer and Chemicals (KFC) and Korea Mobile Telecommunication (KMT). It was estimated, for example, that public enterprises held 9.09 % of the total share of industry in 1972 (Jones and Sakong 1980: 150). It is hard to directly compare this figure with our analysis because of the different sample size, nonetheless, we can indicate a continuous tendency to privatize public enterprises since the 1960s; Korea Airlines and Inchoen Steel Mill are examples.

The tendency to privatize public enterprises has intensified as part of the liberalization program in the 1980s. We already noted that state-owned commercial banks are becoming privately owned. In addition, since 1987 the state has begun to sell a portion of stocks of the PISM and KEP, ranked 1st and 2nd among state owned companies. It is reported that the plan of privatization would continue.⁸⁰ Although state investment in infrastructure undoubtedly has contributed substantially to the expansion of Korea's economy, it has been

**Table 4.1 Distribution of the Top 200 Firms By Ownership
Type and Industry, 1992**

Industry	Private	Public	Joint-venture	Total
Mining & Fishing	2	-	-	2
Manufacturing	125	2	13	140
Basic Metal	(17)	(1)	-	(18)
Radio, TV, Comm. Equ.	(12)	-	(2)	(14)
Refined Petroleum	(2)	-	(2)	(4)
Motor Vehicles & Equ.	(6)	-	(3)	(9)
Chemicals	(14)	(1)	(1)	(16)
Non-Metal	(11)	-	-	(11)
Machinery	(8)	-	(4)	(12)
Textile	(21)	-	-	(21)
Foods & Beverages	(18)	-	-	(18)
Rubber & Plastics	(4)	-	(1)	(5)
Paper & Pulp	(5)	-	-	(5)
Others	(7)	-	-	(7)
Services	56	2	-	58
Wholesale & Retails	(18)	-	-	(18)
Construction	(32)	-	-	(32)
Transportation	(5)	-	-	(5)
Hotel	(1)	-	-	(1)
Communication	-	(1)	-	(1)
Electricity	-	(1)	-	(1)

Total	183	4	13	200
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Source: compiled from Company Yearbook, 1993

guided by the considerable interests of the private sector as a whole.

Second, foreign capital in the form of direct investment turns out to be less significant both relatively with other developing countries and absolutely as seen in the Table above. Unlike other NICs in Latin America, for example, foreign-owned firms are less prominent and only hold a shared ownership of certain industries (automobile and petrochemical etc) rather than majority ownership. Numerically, the foreign ownership holds 13 firms (6.5%) and all those joint-venture corporations belong to manufacturing industries, particularly to refinery and automobile industries. For example, Hyundai Motors is now partly owned by Mitsubishi (11.6%) and Hyundai Heavy Industry (10.0%) and other Hyundai companies. But it should be noted that the foreign ownership of these industries is largely determined by consideration of transfer of technology and global market. Kia Motors partially owned by Ford Motors (10.0%) well fits with this case; the Ford 'Festiva' is a model of Kia 'Pride' made in Korea. More important is the fact that local capitalists have a management control over those joint-venture industrial firms with the exception of a few refineries.

Thus it can be safely argued that the majority of means of production in manufacturing industries and service industries are under the 'effective' ownership of local Korean capitalists as analyzed in the top 200 nonfinancial corporations. With this in mind, we also have to examine the extent of capital concentration among the privately-held firms (including joint-venture firms). This will be shown by analyzing the proportion of assets.

The calculation of the amount of assets reveals that the 30 largest firms hold about 50% of the total 196 private firms and 138 manufacturing firms (Table 4.2). But the concentration of capital assets becomes more intensive when considering top 5 or 10 firms in each case; for example, the largest 5 corporations hold 18.8% and 20.3% of capital assets for all firms and manufacturing firms.

Table 4.2 Proportion of Assets By Largest Firms, 1992 (bill.
won)

Largest Firms		All Firms (196)		Manufac. Firms (138)	
		Assets	%	Assets	%
Top	5	27,106	18.8	24,286	20.3
	10	39,560	27.5	35,290	29.5
	20	58,697	40.8	48,645	40.7
	30	70,939	49.3	57,925	48.4
Total		143,903	100.0	119,584	100.0

Source: calculated from Company Yearbook, 1993

Who actually owns and how? What kind of 'sociological' implications can we draw from the nature of property ownership? These are the main issues that will be empirically analyzed.

B. Ownership And Control

As reviewed previously, the issue of ownership and control in modern capitalist corporations is important because it not only has to do with identifying 'who owns what' but it also entails a wider sociological significance of the nature of capitalism - a transition to 'post-industrial society' and a historical 'dustbin' for the property owning class. One of the claims made by 'managerial revolution' theorists has been that corporate stocks have been widely dispersed among the people, the importance of capital owning class has tended to diminish, and 'professional managers' have replaced the role of the proprietary class. Critics argue that decision-making remains in the hand of capital-owners (Zeitlin 1974; Scott 1979). I demonstrate empirically to what extent a majority of corporate stocks are dispersed or concentrated in a propertied owning class.

1. The Dispersion of Ownership

Like elsewhere, reliable information about corporate stock ownership is kept secret and hard to obtain in Korea. Thus, I have to rely on published materials in order to analyze patterns of the 'corporate' ownership. A primary source of data is A Handbook of Listed Companies published in

1993. However, this book provides no more than 3 principal shareholders who are assumed to own their corporations. I have used the same sample of the 100 largest private corporations listed in the Korea Stock Exchange.

Table 4.3 shows that many of the principal shareholders in these corporations are institutions such as other corporations, insurance companies, banks, and non-profit organizations. Of the total 238 principal shareholdings in the largest 100, just 121 are held in the names of individuals. On the average, then, 50% of the total shareholdings are held by individuals. These principal individual shareholders held a majority (more than 50%) of the stock in 0 of the top 100; 3 held from 30 to 50% of the stock, 37 held from 10 to 30% of the stock, and 81 held less than 10% of the stock in the top 100.

These findings on the distribution of shareownership in the largest 100 corporations in Korea do not widely differ from the accepted generalizations repeated over the past decades concerning the ownership dispersion of the largest corporations in the United States and England (Berle and Menas 1967; Florence 1961). The question is whether the relative dispersion of ownership in Korea's largest corporations has "affected a radical separation of property and family" - as is supposed to have happened already in these advanced societies.

**Table 4.3 Distribution of the Number of Stockholders By
Ownership, 1992**

Share	Indiv.	Corp.	Insur.	Banks	Non-profit	Other	Total
0.0- 4.9	49	17	8	3	8	-	85
5.0- 9.9	32	26	9	2	9	2	80
10.0-19.9	25	18	-	1	2	-	46
20.0-29.9	12	5	-	-	2	-	29
30.0-39.9	3	2	-	-	2	-	19
40.0-49.9	-	2	-	-	-	-	2
More 50.0	-	1	-	-	-	-	1
Total	121	71	17	6	21	2	238
(%)	(50.8)	(29.8)	(7.1)	(2.5)	(8.8)	(0.8)	
(100.0)							

Source: compiled from A Handbook of Listed Companies, 1993

As the number of stockowners in Korea has rapidly increased in the 1980s, it is not difficult to find references to "people's stock". What does a detailed analysis of the relationship between ownership and control in Korea's largest corporations reveal about such a claim? Taking the position literally, then, can we believe that "the established relations between the systems of property and family" are breaking down now in Korea.

2. Corporate Control

In conventional wisdom, if there is not an identifiable ownership interests (individual, familial, group of associates) having a specified minimum proportion of the stock (10%-20%), then the corporation is said to be under "management control". And five types of control have been frequently used for empirically verifying whether a corporation is under management control or not. Those five basic types of control are: (1) private ownership, (2) majority control, (3) minority control, (4) management control, and (5) "control through a legal device without majority ownership". The latter three types rest not on ownership of a majority of the stock, but rather on the specific constellation of power relationships in the corporation.⁸¹

Under the private ownership category, ownership and control are essentially identical. Majority ownership differs from private ownership in that a number of shareholders are already shorn of control (at least in part) because control is assured to the owner of the majority of the shares.

Historically, it is with the exercise of minority control that the separation of ownership and control becomes significant in capitalist development. Minority control refers to a situation in which an individual or group of associates owns enough stock to ensure control in fact, though not in law. According to managerial assumption, the remaining shares are relatively evenly distributed among many small stockholders so that no rival has enough stock to challenge the controlling stockowners successfully. This control is a corporate form of capital ownership. The boundary between majority and minority control is not fixed, it ranges according to researchers from 5% to 20%.

The fifth type of control is control through a "legal device"; the most important such device is "pyramiding". Pyramiding is based on the fact that corporations can purchase and own shares in each other; "intercorporate shareownership" permits a number of corporations to be interconnected so that those at the apex of the pyramid are able to control those at the base, through a combination of majority and minority interests on each of its levels. The "holding company", for example, made possible the centralized control of capital and

its concentration into larger units.

It is observed that "pyramiding unites a number of legally independent corporations under common factual control or maximum influence, with a minimum investment."

Pyramiding utilizes the capital of the controlled corporations to bring still more corporations under control, and thus drastically reduces the amount of the investment necessary to exert such control. This is a basic point: the web of intercorporate principal shareholdings is a method par excellence by which the same individual or small group of associates can expand the propertied realm under its control well beyond that provided by ordinary minority control (Zeitlin and Ratcliff 1988: 35).

Following the control types, I classified the 100 largest corporations as seen in Table 4.4. But two points should be made first; (1) I use the conservative criterion of 20% to 'divide' majority and minority control; and (2) the classification is based on a small number of shareholders - no more than 3 in each corporation. Despite such a generous condition for 'management control', nonetheless, I find out that the vast majority of 84 corporations are under the control of shareowners; 50% are under pyramiding and 28% are under majority control.

**Table 4.4 Distribution of Percentage of 100 Largest
Corporations By Control Type, 1993**

Type	Number
Private	0
Majority	28
Minority	4
Pyramiding	50
Management	16
Total	100

Source: compiled from A Handbook of Listed Companies, 1993

First, is this finding not consistent with the dispersion of ownership of the sample top 100 corporations analyzed above? - merely 15 (12.4%) out of 121 individual shareowner claim more than 20% of stock. How about the remaining majority of 'small' shareowner? - 49 hold less than 5.0%, 32 hold between 5.0-9.9%, and 25 hold between 10.0-19.9%. Why does the allegedly great proportion of "management control" 'suddenly' decline? Second, pyramiding control occupies the single largest category of control type - half of the top 100 corporations. Even though pyramiding takes the form of 'corporate control', upon closer inspection we will identify

where the actual locus of control resides.

We noted already that other corporations, insurance companies, banks, and non-profit organizations are "institutional investors" (see Table 4.3). How are they connected? The question forces us to understand precisely the connection network established through "intercorporate ownership". Among the institutional investors are corporations (61.1%), insurance companies (14.5%), banks (5.1%), and non-profit organizations (17.9%). Notably the proportion of banks's shareownership is relatively lower in Korea compared with other advanced capitalist societies like the U.S. and England.⁸²

The fact that Korean bankers have been bureaucrats rather than capitalists can account for the relative lack of banks' stake in the largest corporations. Therefore, it seems that no direct interest of 'bankers' in industrial capital means they would not sit on the board of directors of the companies concerned. In fact I found no interlocking directorship between commercial banks and major industrial firms.⁸³ How about the insurance companies? As mentioned earlier, the financial firms have been already monopolized by the LBGs (see chapter 3).

The non-profit organizations (NPOs) such as academic foundations, welfare foundations, and cultural foundations (e.g., arts and music) are also significant institutional shareowners. The nature of their ownership can be better

understood by taking a concrete example. Daewoo Foundation was established in 1977 for the purpose of "returning corporate profits to society" and has been involved in academic symposiums and research. The fund was raised initially by Kim Woo-Joong, chairman of Daewoo Group (20 billion won at that time). The foundation invested in Daewoo Co. of our sample and is the largest shareowner (9.4%) followed by Taehan Education Insurance (1.4%) and Daewoo Academy (1.4%). Here is a form of intercorporate ownership between an industrial corporation and a non-profit organization.

Let's illustrate the intercorporate ownership by taking the case of Samsung Group. The group was initially founded by Lee, Byong-Chul (1910-1987) in 1938 during colonialism. He started his business with rice-milling and later trading. B.C. Lee created a business empire and the largest business group in the early 1960s. Even though he personally suffered from a scandal associated with smuggling of tungsten in 1965, the late Lee has been considered representative in Korea's business history and is referred to as **the** wealthy person ('Don' Byong-Chul is a cynical term circulated among the population where Don means money).

Figure 4.1 shows the minority control of the Samsung Company (SC), Samsung Life Insurance Company (SLIC), and Cheil Foods & Chemical Company (CFCC) by K.H. Lee and his family. They personally hold 9.2% of the shares of SC, which owns 18.9% of Samsung Aerospace Industry (in combination with

Samsung Electric Company, which the Lees own), which owns 51% of Samsung Watch. But SLIC also owns 26.5% of Samsung Electric and 9.0% of Samsung Co., of which CFCC owns 11.5%. This gives the Lees a 'controlling block', when supplemented by these pyramid holdings, of 18.2% of Samsung Co. In this way, corporations at the base of the pyramid, controlled by others at higher levels but not directly owned by the Lees, might obscure not only locus of ownership but also management control. The Samsung Co. is thus a 'controlling firm' at the peak of the pyramid (in fact, 'holding company is legally prohibited in Korea).

From this particular ownership structure, we can draw two facts. First, even small portion of stock ownership held by family members proved enough to control the whole networks of firms. With some variations, most of the Korean large business groups developed intra-organization structure typical to Samsung. Second, the financial institutions as well as core firms play a crucial role in tightening their intra-organizational solidarity. It is in this sense that the ownership of financial institutions are critical in the formation of the LBGs.

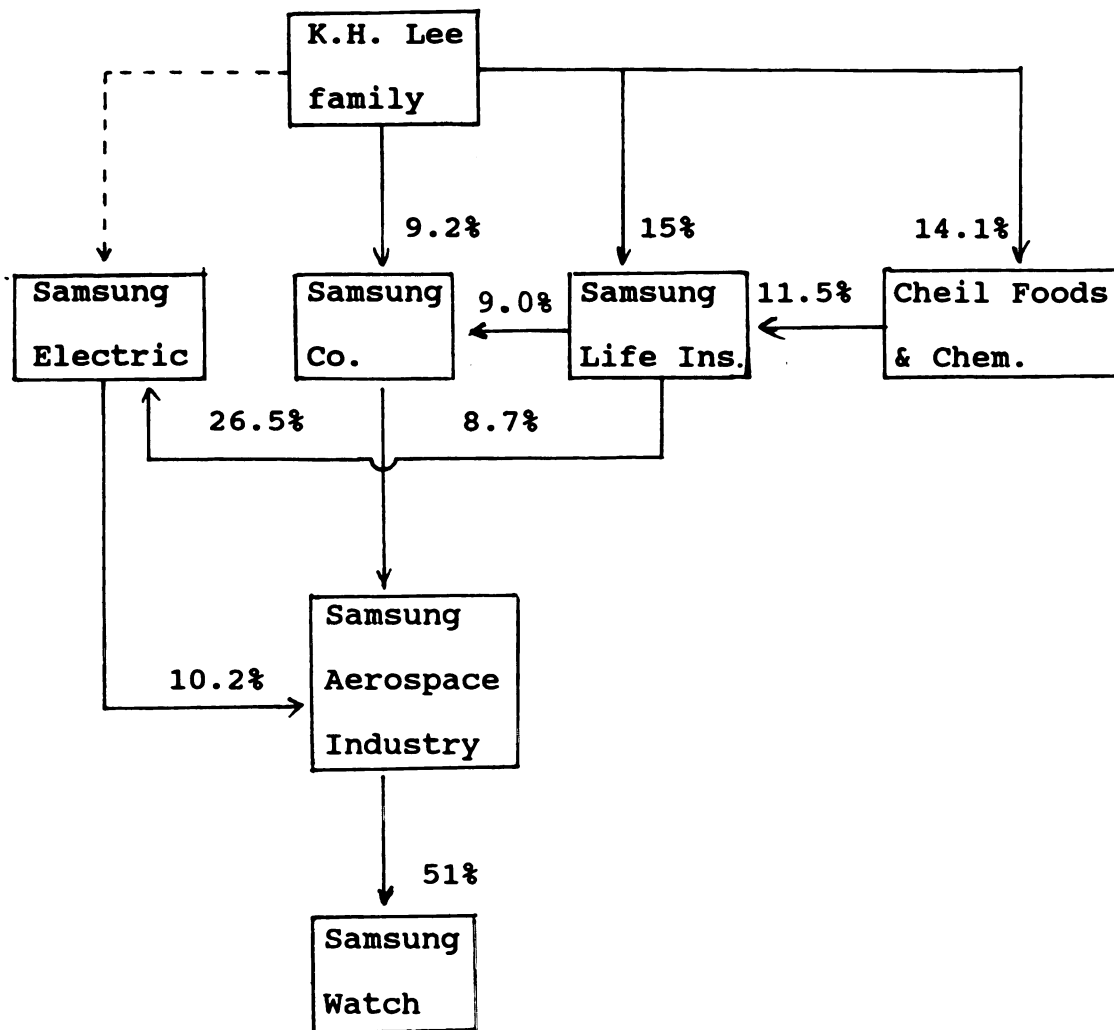


Figure 4.1 Pyramidal Control of Samsung Co. By the Lee Family

Source: formulated from C.K. Kang et al 1991, p. 96

← Principal shareholding in firm, with percentage of stock held

<- - - 2nd principal shareholding

A small number of shareholders are found to be actual owners of the Korea's largest corporations, regardless of the control type. The individual owners, of course, included their family members. This is a 'core' group of the capitalist class in Korea who possess and control a number of firms affiliated through intercorporate networks developed over the course of capitalist development. Thus, the intercorporate connections are consolidated by the interlock of ownership by family members who could maintain effective control over the 'empire' of their network firms. At this point, it is necessary to clarify the notion of control. Corporate control refers not to an attribute of an individual or control group as such, but rather of a social relationship - like a social power. In a long statement; corporate control is defined as;

essentially relative and relational: how much power, with respect to whom. ... When the concrete structure of ownership and of intercorporate relationships makes it possible that an identifiable group of proprietary interests will be able to realize their corporate objectives over time, despite resistance, then we may say that they "control" of the corporation. ... This has two obvious implications concerning the study of corporate control: ... [C]onfining our attention to the single corporation may, in fact, limit our

ability to see the pattern of power relationships of which this corporation is merely one element; and it may restrict our understanding of the potential for control represented by a specific block of shares in a particular corporation. An individual or group's capacity for control increases correspondingly depending upon how many other large corporations in which it has a dominant, if not controlling, position (Zeitlin et al. 1974:1091).

C. Family Control and Corporate Director

According to Baran and Sweezy (1966), owners and managers are different segments of the same class. They argue that "managers are among the biggest owners. And because of the strategic positions they occupy, they function as the protectors and spokesmen for all large-scale property". Similarly, Miliband (1969:35) claims that any identifiable differences between owners and managers "are overshadowed by a basic community of interests".

From an inter-class view, managerial class is virtually a segment of capitalist class in the sense of pursuing the same interest as capitalists (Scott 1986). Yet a crucial

question is what is the relationship between the largest corporations' managers and the principal shareowner? Are the managers also owners? So it has to be demonstrated empirically who are in management.

In order to provide an unambiguous measure of the "class situation" of the managers, we need to extend the notion of capitalist to those who are related with capital-owners (shareowner), i.e., family. Family members possess the same class interests to protect and maintain property owned by the principal capitalist.

1. Propertied Manager

For purpose of analysis, I have classified capital-owning family members into the 'intimate' family and 'secondary' family. Intimate members include 'ego''s wife, parents, children, and siblings while secondary include son-in-law, parent-in-law, and cousin. What does family reveal concerning the level of intimate social relations tying together the managers and principal owners of capital? I found that 237 higher directorships (chairman, vice-chairman and president) in Korea's largest 100 corporations are filled by 218 men, which means that there are 19 overlapped offices (or multiple-directorates). Of those high directors, principal shareowner -

"core capitalists" - hold 19.3% of the total 218 directorship. The percentage increases more than twice when including intimate family (38.5%) and both intimate and secondary family members (40.8%). These individuals are propertied capitalist class par excellence in Korea. Nonetheless, a large majority of those higher executive are, in fact, apparently "propertyless" - 119 (49.2%) - those who are not listed among principal shareowners. Much as his counterpart in advanced societies, the managers of the large corporation in Korea are also property-owning class.

Table 4.5 Percentage of Higher Executive of the Top 100
Non-Financial Corporations Who are in a Principal
Capital-Owning Family, 1992

	Core Capitalist	Core capitalist		(N)
		Intimate	Secondary	
Higher				
Executive	19.3	38.5	40.8	(218)

Source: compiled from Company Yearbook, 1993

As of 1992, the situation in many of Korea's top 100 corporations is qualitatively the same. The Koo-Huh "family" is an apt illustration of the capital-family interrelationship. This family group controls 5 of the largest 100 corporations, plus 1 major insurance company, and several other important financial, commercial, and industrial enterprises. The chairman of all 5 of the top 100 firms controlled by the group is Koo Cha-Kyong who is not personally a principal shareowner in the same 5 corporations.

Furthermore, it is proposed that the actual exercise of control of managers must be more clearly revealed. "Strategic position" (Herman 1981) and "strategical control" (Scott 1979) have been introduced to lay stress on the actual power over the corporation rather than "day-to-day management".

So, following those conceptions, I attempt to verify the significance of the propertied class who are in strategic management position, i.e., who occupy the "commanding posts" in the large corporations. The position is generally viewed as highest corporate position. However, this position is not necessarily limited to one. It depends on the size of corporations among others. Thus, some of the large corporations in Korea have several 'chairman' positions. To determine whether principal shareowners are actually in the highest management posts, I divided those positions in terms of ownership by using the sample of the largest 50 business groups. The highest commanding post (HCP) is defined as

positions of both chairman and vice-chairman.

The sample is drawn from the list published by Management Efficiency Institute, The 50 Largest Business Groups in Korea. The information about directors was obtained from the Company Yearbook published by the Seoul Economic Newspaper. This book provided detailed information about the year of establishment and list of directors. To dissect who are family members, I consulted various biographical materials and articles dealing with the subject.⁸⁴

A total of 128 HCPs were observed and on average each business group has about 2.6 positions. The distinction between the propertied and non-propertied class is based on the ownership of corporate shareholdings. As seen in Table 4.6, the members of the propertied class occupy the highest corporate positions 5 times more often than those of the non-propertied class. The difference is more represented in chairman position (85% vs. 15%) than vice-chairman position (60% vs. 40%). Overall propertied class members fill 99 (77.3%) of the commanding posts.

Besides the founders of the LBGs themselves, those in the propertied class are heavily drawn from their family members - brothers, sons and law-in-sons. Here we can observe the significance of the 'capital-owning family'. The participation of owning family members in management occurs because of the family ownership interests observed earlier. That is, the family members of the propertied class attempt to expand and

Table 4.6 Distribution of Top Executive Positions in Large
Business Groups By Ownership, 1992

Class	Chairman		Vice-chairman		Total	
	No.	%	No.	%	No.	%
Propertied	75	85.2	24	60.0	99	77.3
Non-propertied	13	14.8	16	40.0	19	22.7
Total	88	100.0	40	100.0	128	100.0

Sources: compiled from Seoul Economic Newspaper, 1990 and Company Yearbook 1993.

protect their corporate properties (Zeitlin and Ratcliff 1988). As a result, the notion of capitalist class can be clarified when including those who are affiliated with capital-owners by either blood and marriage.

If the propertied family members maintain management control through 'monopoly of corporate capital', then we might safely argue that this group constitutes the 'core' segment of the class. According to Useem (1982; 1984) and Useem and McCormack (1981), in the U.S. and Britain 'inner group' members have possessed a distinct view - "class-wide rationality" beyond 'narrow' class interests. Useem developed the inner-group thesis by locating multi-directorships among

corporate leaders.

Because of the different level of capitalist development and institutional arrangements (e.g., financial sector) between advanced societies and Korea, a direct application of the inner group notion to Korea appears less meaningful. Yet it is not altogether impossible to keep fundamental ideas associated with the inner-group thesis, i.e., a core segment of the capitalist class. To develop a tentative thesis about this class segment in Korea, I demonstrate that propertied family members are more likely to hold multiple-directorship than non-propertied directors.

The frequency distribution of multiple directorship is based on the same 50 largest corporations (by sales in 1992). A total of 203 high executive director positions; chairman, vice-chairman, president and vice-president are found and 164 directors actually hold those positions. There exists a number of multiple directorship holders; 140 for one, 15 for two, 7 for three, and 3 for four directorship. The distribution of multiple directorship is extremely skewed toward propertied class members; 56 (34.2) hold 93 positions while only 2 directors hold two directorship for the non-propertied class.

The number of multi-directorships is dependent on the positions held by executives; the more directorships, the higher the corporate ranks. For example, it was found that those who hold more than two directorship are more likely to be ranked in such high executive positions as chairman and

Table 4.7 Distribution of Frequency of Multiple Directorship
by Ownership, 1992

Directorship	Propertied		Non-propertied	
	Class		Class	
	No.	Freq.	No.	Freq.
One	34	34	106	106
Two	13	26	2	4
Three	7	21	-	-
Four	2	8	-	-
Total	56	93	108	110
(%)	(34.2)	(45.8)	(65.8)	(54.2)

Source: complied from Seoul Economic Newspaper, 1990 and Company Yearbook 1993.

vice-chairman. The chairman of Samsung, Daewoo, Keumho, Ssangyong, Hanjin group hold three to five directorship in other companies. Although no one more than four hold multiple directorship in our sample, as many as ten directorships are in fact held by the chairman of Hyundai Group in the total listed companies of 684 in 1992, followed by 9 (chairman of Samsung), 8 (Oriental Brewery), and 7 (Korea Air Lines).⁸⁵ In addition, there is no interlocking directorship between banks

and corporations in our sample which reflects the historical formation of the financial sector documented earlier.

In short, not only are members of the propertied class more likely to hold high corporate ranks, but the multiple directorship frequency is also disproportionately in favor of the propertied class. Given the fact that there is always a limit to the supply of propertied family members for corporate positions, non-family members inevitably occupy corporate positions, particularly at 'lower' levels.

According to this analysis, therefore, managers who are non-propertied family members in Korea are less likely to go up the higher corporate ladder. This finding partly disputes the "managerial control" thesis. Nonetheless, some discussion of corporate managers needs to be made with reference to their educational credentials and social and regional ties that would affect the pattern of social mobility within the corporate world.

2. Corporate Control

High educational credentials are often considered the most important qualification for promotion to corporate directors. As Bell asserts, "family capitalism gave way to social mobility" and technical skill rather than property and political position rather than wealth have become the basis on

which power is wielded" (Bell 1961: 43, 45). As discussed above, professional managers of large corporations in Korea have limited opportunities due to the lack of property ownership.

To verify the thesis, I show whether amount of educational attainment has any effect on corporate directors in terms of property ownership. The sample of directors (above executive director) has been drawn from the 100 largest corporations and the result of the analysis of educational background is shown in Table 4.8. According to the Table, a total of 712 directors are observed; 54 for the propertied class and 658 for the non-propertied class. In both groups a high level of educational attainment is found; only 10 directors (1.4%) did not get a college (university) degree and 24.1% of propertied directors and 13.5% of non-propertied directors hold graduate school degree.

From this Table, it appears that there is no significant difference between the two groups even without using the statistical method of chi-square. Yet it is of interest that propertied class directors (44.4%) have received much greater foreign education than their counterparts (15.3%). The discrepancy in foreign education might be explained by the greater material resources that they hold, since educational costs abroad are usually more expensive than in Korea besides getting a chance to learn more advanced knowledge - almost all in universities in the United States.

Table 4.8 Distribution of Education Attainment by Ownership
and Educational Institution, 1992

Educational Institution	Propertied Class			Non-Propertied Class			Total
	Korea	Foreign	T.	Korea	Foreign	Total	
Middle Sch.	3	-	3	7	-	7	10 (1.4)
College/U.	23	15	38	520	30	550	588 (82.6)
Graduate	4	9	13	77	24	101	114 (16.0)
Total	30	24	54	604	54	658	712 (100.0)

Source: compiled from Company Yearbook, 1993

Although we can hardly find any significant difference in educational attainment received by both groups of corporate directors, it remains to see whether all educational institutions are equally 'important' for the corporate directors. This can be revealed in terms of the ratio of different corporate positions within the higher educational institution. Like elsewhere, e.g., Ivy League in the U.S., in Korea there are a small number of 'prestigious' universities. One of the ways to determine 'best' universities can be found in the score of the entrance examination performed by prospective college students in Korea.

So, it is of great interest to see differences within the

universities attended by both groups of corporate directors. Out of the same sample corporations, a total of 634 directors are classified by corporate position and university (excluding middle school and foreign school graduates). The results are shown in Table 4.9.

Nearly two out three directors are graduates from only three universities out of a total of 63 as of 1990; Seoul National University (SNU), Yeonsei University, and Korea University. Moreover, SNU graduates alone hold 45.2% of corporate positions above executive director - a highly skewed distribution. Even those who are in higher positions are more likely to graduate from the three universities and SNU of them. For example, the SNU graduates holds 16 (72.7%) positions out of the total 22 chairman and vice-chairman positions.

Despite the possession of high educational credentials, non-property owning corporate directors have a limited control power within corporations in Korea. In this vein, I demonstrate how control is exercised within the large business groups in order to clarify the locus of corporate control power.

Figure 4.2 shows a typical organizational control system of the LBGs. For effective managerial control, a coordinating system has evolved to mediate and transfer high corporate strategies below. The chairman sits on the top of corporate networks. Family members serve as a provider of critical

Table 4.9 Distribution of Corporate Directors by University
and Corporate Position, 1992

Position	SNU*	Yeonsei	Korea	Others	Total
Chairman & vice chmn.	16 (72.7)	1 (4.5)	2 (9.1)	3 (13.6)	22 (100.0)
President & vice pres.	129 (46.6)	34 (12.3)	30 (10.8)	84 (30.3)	277 (100.0)
Executive Director	142 (42.4)	39 (11.6)	29 (8.7)	125 (37.3)	335 (100.0)
Total	287 (45.2)	74 (11.7)	61 (9.6)	212 (33.4)	634 (100.0)

Source: compiled from Company Yearbook, 1993

Note: * Seoul National University

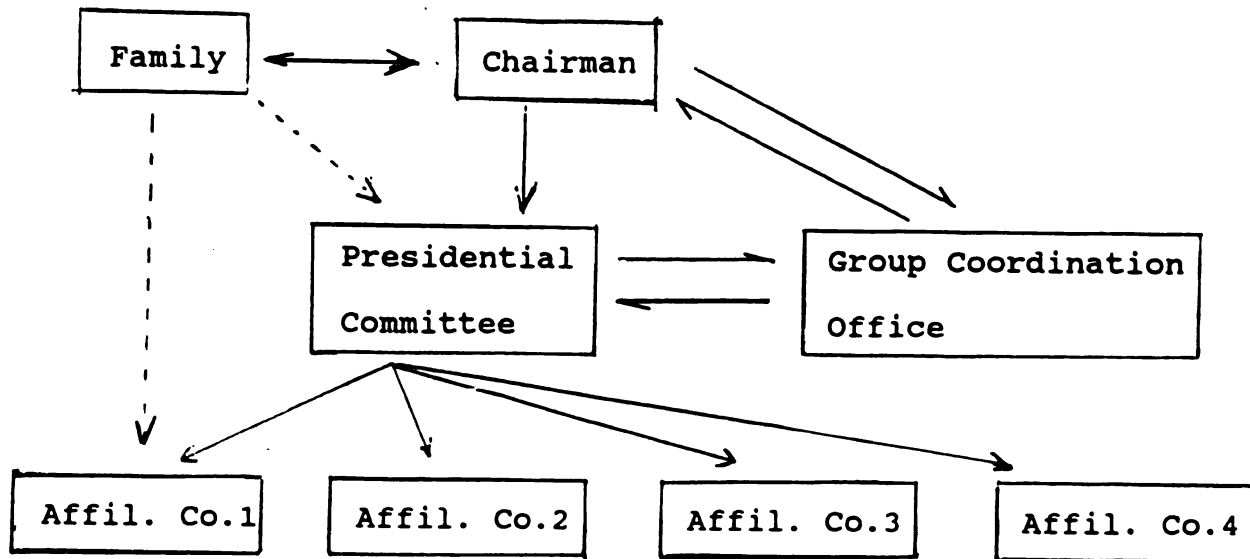


Figure 4.2 The Structure of Management Control of the Large Business Group

personnel resources for corporate management and a protector to corporate properties through shared ownership.

As seen in Figure 4.2, the two corporate organs sitting between chairman and other affiliated firms plays a pivotal role in the management control over the whole business system from a view of organization.

The presidential committee is composed of presidents of affiliated corporations within the LBG. We can infer some plausible accounts from a similar case of Japan. It has been observed that the function of this organizational unit is similar to that of Japanese counterpart although the weight of

the latter is more 'class-wide' than the former through the interrelated interests of finance, industry, and commerce within the keiretsu system (Hamilton and Oru 1989; Gerlach 1992). It was also observed that in Japan a company president wields a tremendous power, but in Korea the president of a group company is relatively weak. The power and authority of the group chairman is so absolute that "the president's presence pales into insignificance" (Matsumoto (1986:22)). Even though this remark seem a bit exaggerated, the substantive point remains valid.

The meeting of group presidents often serves to impress on the presidents that the distance between them and the group chairman is as great as the distance between them and new recruits. Presidents dare not smoke at the meetings convened by the group chairman. And they all, even those who were formerly ranking government officials or comrades of the founding group chairman, must stand at attention when the group chairman enters the meeting room, even though he may only be in his 30s.⁸⁶

This description is to identify where the locus of control power really resides. Furthermore, the locus of control is obviously disclosed by personnel appointment. Since

members of the presidential committee have little autonomy in 'strategic' management, autonomous management has been recently emphasized among the LBGs in order to overcome red-tape bureaucratic management. Here, K.H. Lee, chairman of the Samsung Group spells out his view on personnel management of presidents as follows;

The evaluation of presidents of Samsung Group is as much important as constituting the half of my job. In the past, the evaluation has been done on the basis of outputs or profits. Without any consideration of extra-organizational environments, I think, the evaluation solely based on profits characterizes an American management style, therefore, [any managers] who go into the red figures despite of the efforts of technology investment and development are dismissed. That is the very reason why the U.S. surrenders to Japan within the 20-30 years in the management of corporations. I give 'A' to those who are well in investment of technology and education of subordinates regardless of profits produced while I give 'C' to those who are negligent in his job but active in [social and political] relationship albeit he may make a good profit. I firmly stick to this principle.⁸⁷

The Group Coordination Office is like a 'brain' which deals with problems affecting the entire group from a standpoint transcending individual company interests. Although its membership differs in each business group, the basic function remains the same. Depending on the group, for example, this planning office is called such as the Planning and Coordination Office (Hyundai), Integrated Planning Office (Lucky-Goldstar), and the Office of the Secretary (Samsung) etc. Samsung Group is famous for the activity and size of its Office (Steers et al 1989).

The members of this organ are usually 'scouted' from the 'elite' employees of affiliated firms. And the head of the office is regarded as one of the most 'trusted' (often family members) in and outside the Group - called the 'incarnation' of the chairman. In view of the weight of his role, the position of the office is often filled by a president. In fact, I found that this official position in the hierarchy is held by vice chairman (2) president (3) and vice president (4) and all of them graduated from Korea's most prestigious universities in the largest 10 chaebol groups.⁸⁸

Many members of the planning office staff have the official titles of executive managing director or managing director besides president and vice-president. This group of 'functionaries' is observed to possess a high degree of task capability and skills such as planning and finance. The primary task of the planning office is "to collect and select

information to be passed on to the group chairman. Other duties of the planning office are to conduct regular and unscheduled inspections of all group companies, to plan new business undertakings, lay out group strategy, and conduct public relations activities".⁸⁹

Following the example of the Samsung Group, which established the group planning office about 20 years ago, most corporate groups today have a planning office. The size of the planning office differs from one group to another as well as its name as mentioned above. Hyundai's Planning and Coordination Office is relatively small, probably because it is under the direct command of chairman Chung; it has about 40 staff. In the case of Samsung Group, it is a big section embracing a staff of 200.

Here it should be cautioned that while the planning office is vested with enormous power commensurate with its functions, it is able to exercise this organizational power only because "it is the limbs, eyes, and ears of the group chairman and has the chairman's ultimate power behind it".⁹⁰

Conclusion

In this Chapter, I examined the pattern of ownership and control of the nation's large corporations. As measured in assets, the massive bulk of Korea's industrial capital is owned by Korean bourgeoisie. The lack of interests of foreign

capital was the inevitable outcome of the development strategy of Korean state and no incentives for the TNCs. This composition in Korea differs from other developing countries in Latin America (e.g. Gereffi and Wyman 1990).

The significance of property ownership was explored through the account of the family ownership and control. For this purpose, I extended the notion of capitalist class to include their family members. Ownership pattern revealed that division between property and family is far from obvious and the property owning class remains crucial in the organization of large corporations in Korea. The distinction between owners and managers are blurred by the fact that principal shareholders are also top-ranked managers in large corporations. The highest commanding posts in those corporations were filled by exclusively the propertied and their family members.

The specific control mechanism within the LBGs was illustrated by examining the role played by the organizational units of the 'presidential committee' and 'coordination office'. Often the holders of the coordination office were filled by family members of propertied owner-managers. Even if these interface organizations are integral part for the overall management of the group, the incumbent of these organs have limited control power. The evidences provided in this Chapter allow us to argue that the fundamental factor underlying the effective control was property ownership, contrary to claims advanced by managerialists.

CHAPTER 5. CLASS REPRODUCTION AND IDEOLOGY

In the previous chapter, we have considered Korean industrial bourgeoisie primarily in terms of property ownership and its relations with management control. Now we must understand how they are able to ensure a sufficient degree of monopolization of access to privileged economic positions, such that a relatively stable structure of class relations is reproduced over time and cohesion is generated, maintained and reinforced by an interrelated set of social relationships. Here I demonstrate the mechanisms through which this generational cohort have been augmented through blood succession of property ownership and marriage on the one hand and the extent to which Korean bourgeoisie have been successful in gaining 'consent' from the masses by focusing on ideas and statements recently presented.

A. Class Reproduction

Social networks through marriage ties among the bourgeoisie may be considered as 'social capital'; "there are kinship ties and connections which one can expect to be mobilized on one's behalf to obtain positions and exert influence" (Marceau et al 1978:137). These may not only be

familial ties (with the role of marriage being particularly important) but also the networks of personal contacts formed through common educational class background, particularly ties formed in and through recreational activities.

1. Intergenerational Continuity

One of the main purposes of this section is to address the issue of continuity or discontinuity as well as social origins characteristic of class. A comparative method is employed for highlighting the intergenerational class mobility by setting two periods of 1960s and 1990s. The analysis is based on 41 largest business groups as of 1990. The selected groups were those whose management control has been either 'completed' or is 'likely' to be handed over others in the near future. The distribution is shown in Table 5.1.

According to Table 5.1, the first generation of founders of the Korean LBGs have passed over management control to the next one in one form or another. As expected, a majority of "commanding posts" (chairmen of a group) has been passed on to family members or is likely be in the future. 40 (97.6%) cases out of 41 strongly indicate the nature of class continuity between generations among the propertied class. The one exceptional case to this pattern of management succssion is the Kia Group (7th) of which founder's son remains as a principal shareowner.

Table 5.1 The Pattern of Succession of the Largest Business Group, 1990

Category	Family Members				Non-Fam.	Total
	Eldest	Other	Son-in	Brother	Profess.	
	Son	Son	-Law		Manager	
Completed	19	3	1	1	1	25
Possible	14	2	-	-	-	16
Total	33	5	1	1	1	41
(%)	(80.5)	(12.2)	(2.4)	(2.4)	(2.4)	(100.0)

Sources: compiled from Kang and Kim (1991), Cho (1991), Seoul Economic Newspaper (1990-91).

The completed cases have occurred when either founders have died or retired. The absolute dominance of family members in corporate succession is supported by the ownership structure as analyzed earlier. Among the members, however, we also find out a disproportionate distribution of the succession; 33 eldest sons (82.5% out of 40) have been or are likely to be the recipients.⁹¹ Other family members are relatively less represented as heirs. The majority of cases of secession to the eldest son can be accounted for by cultural tradition in Korea. In Samsung's case, the late B.C. Lee

decided to hand over the group to his third son who is now a chairman of the group. There were many reasons associated with the 'unconventional' practice at the time of succession because K.H. Lee has two older brothers who had been deeply involved in the management of many affiliated firms. One of the reasons reported to the public has been that the oldest son had lacked a sufficient expertise in managing the group and the second son has been said to prefer his own business.⁹² Now the former has entirely retired from the management of Samsung group while the latter is now a principal owner and president of his own business company. The case of succession to son-in-law occurred in a 'special' circumstance where the founder of Tong Yang had no son but a number of daughters.

Given the ownership structure of the large business group, it is not surprising that founding owners could easily transfer ownership and control to the next generation. Even though company succession to eldest son is a common practice, property can be divided among sons and daughters. Under this condition, the property of a family could not be maintained. The property of a family is divided among sons of the following generation- "punga" (separation from a family). Suppose that the original family has father, mother, and three sons and daughter, wife of the eldest son and grandson. When the second son marries, he leaves the original family and makes a new divided family.

The original family supports the economic base of this

new family. Such is the division of property, and the same would apply to the third son. When the daughter leaves the original family after marriage, she becomes a member of her husband's family. In this manner, one stem family is divided into three families in the next generation. This pattern of succession of family property remains to be seen, though. Thus far, only one business group can be considered as third-generation. Most groups are now transferring to the next generation. But as seen above, the transition of management to non-family members is not normal. In this context, it is worth to quote J.H. Choi (chairman of Sunkyong) who is known for 'rational' management among the public.

I think that a capable person should manage the Sunkyong Group in the future. I'm willing to hand over management to that person whether he is a family member or professional manager.⁹³

But this remark seems contradictory to the emphasis put on the importance of his family: "The success or failure of the Sunkyong depends on cooperation of family members". Furthermore, five sons of J.H. Choi and his older brother did not consider any possibility that non-family members would manage the Group:

Whoever will be a chairman among us, the rest of us must help him in a concert.⁹⁴

Put together, the idea of rational management is that the principle of eldest son succession will be reconsidered against the transfer of management to outside managers. For this, harmony and cooperation among family members must be encouraged to maintain corporate ownership and control.

It was also found that the position at the time of entry by the heirs was above director (55%) while only 3 cases began their career from below. It is often estimated that it takes about 20 years for a new white-collar employee to reach the director position. A family member is known to get the position of executive director with only 6 years even starting from the same corporate rank with others.⁹⁵

2. Education

The educational level of the founder-owners of the Korean business groups was relatively high compared with the general public at that time. Considering the socio-political turmoil around the post-1945 period (liberation, Korean war, April Student Revolution, May 16th coup'), we could imagine the relative lack of chance for high educational achievement, although they received more formal education than the general public at that time. Yet it seems safe to assume that class

reproduction through the transmission of 'cultural capital' is 'natural' when considering the Korean cultural emphasis on education.

In the West, capital becomes more concentrated and centralized into larger and more impersonally organized units of valorization, and family control of capital relatively declines in importance. So, particular types of educational credentials which have been obtained from 'elite' business schools becomes of great importance for access to positions holding strategic control (in contrast to operational control). Holders and heirs of existing forms of cultural, social and economic assets will try to convert these into the new currency, by securing for themselves access to credential assets. With the growth of non-family and impersonal forms of ownership of capital, therefore, the development of management education becomes a crucial provider of new forms of cultural assets.

This is important for it means on the one hand that the fathers of the persons concerned (virtually all men) can no longer place all their offspring with their economic capital alone (especially as there tend to be several sons to place). In order, therefore, to maintain or improve the socio-economic position held by their families of origin some at least of the sons are thrown on to the

'public' labour market and therefore have to rely more on their cultural capital, principally, that on the educational diplomas they hold (Marceau et al 1978: 140).

In this sense, it seems necessary to compare the educational level which the first generation and second have received. The referent group is heirs of the same sample which was analyzed earlier to increase validity - 30 founding fathers of the LBGs.

As Table 5.2 shows, there is a definite change in educational attainments between generations in terms of the qualification and duration of education. Although founders were more educated than the general people at that time (see chapter 2), all but one heir have received university education. Interestingly enough, the higher education received by heirs came in the main from abroad, especially from the United States. Out of 21, 18 heirs had attended the prestigious universities (including graduate school) in the U.S. - Boston, Brandeis, Chicago, and New York U., for example, 4 people graduated from Washington University and 1 from Michigan State University. 2 graduates hold Ph.D degree in Economics from Yale University and Mechanical Engineering from Purdue University. The different distribution of schooling between the U.S. and Japan (3) partly reflects close economic relations with the former.

**Table 5.2 Schooling of Founders and Heirs of the Large
Business Groups**

Educational level	Founder		Heir	
	N	%	N	%
University (Foreign)	-	-	28 (21)	96.6
College	6	20.7	-	-
Middle School	12	30.8	1	3.4
Elementary School	9	31.0	-	-
None	2	6.9	-	-
Total*	29	(100.0)	29	(100.0)

Source: compiled from Seoul Economic Newspaper, 1990

Note:* once case (W.J. Kim, chairman of Daewoo Group) is dismissed

At any rate, the high proportion of higher education among successors of Korean largest capitalists may effect the overall view of management in circumstances of increasing global competition and joint-ventures. In addition, the 'monopolization' of high educational credentials by the bourgeoisie, albeit a small sample, demonstrates that;

[T]he propertied class has interests throughout the corporate system and is able to ensure its continuity over time through the monopolization of social and cultural assets as well as the monopolization of wealth. Those who head the major corporations and the constellations of interests which control them are increasingly characterized by the possession of some kind of educational diploma, and so the educational system becomes a crucial mechanism in ensuring class domination of the economy (Scott 1979: 175-6).

Who are successful in reaching high corporate leadership positions among non-property owning directors? As seen in the previous discussion, they are less represented in multiple directorships as well as higher corporate positions. Nonetheless, it seems helpful to consider the pattern of recruitment of personnel to better understand the internal organization of the corporations. Useem and Karabel (1986)

addressed the role of education in social reproduction and demonstrated that upward career mobility among top executive managers is enhanced by the possession of prestigious educational credentials. Increasingly, possession of a business school credential is the cultural asset which the sons of the elite can convert into other types of asset. However, it must be remembered that credentials may be necessary, but not sufficient criteria for career achievement in Korea where ownership of economic assets takes priority over education. The thesis can be refuted that while property was "the creation of membership in the dominant classes, the new dominant class is defined by knowledge and a certain level of education".⁹⁶

I present two tabulations in order to support the priority of ownership over education. I selected non-family corporate directors (above managing director) of the total 1,351 from the 100 largest corporations and classified them according to specialization and educational institutions as shown in Table 5.3. The category of 'business' and 'engineering' has been made on the basis of the conventional academic disciplines (specialization) and four categories of university: Seoul National University, Yonsei University, Korea University, and other universities.

**Table 5.3 Educational Credentials of Executive Directors by
Specialization and Educational Institutions, 1992**

Educa'l Inst'n	Specialization			Total
	Business*	Engineering**	Others	
SNU	214	239	49	502 (37.2)
Yeonsei	101	36	15	152 (11.3)
Korea	103	12	15	130 (9.6)
Others	185	248	70	503 (37.2)
Foreign	16	14	20***	50 (3.7)
High Sch.				14 (1.0)
Total	619 (45.8)	549 (40.6)	169 (12.5)	1,351 (100.0)

Source: compiled from Company Yearbook, 1993

Note: * refers to business, economics, law, and administration

** refers to chemical, mechanics, construction,
electric, metal engineering etc.

*** includes non-specified cases

The proportion of directors in 'business' major (45.8%) is found to be slightly higher than that in 'engineering' (40.6%). From this ratio it seems hard to distinguish any difference between majors. Yet, as seen earlier, there exists a profound difference between educational institutions of which graduates of the only three 'top' universities hold nearly 60% of the total directors. Probably, the lack of difference may be attributed to the nature of firms selected in our analysis. i.e., many manufacturing firms. So, it seems reasonable to say that directors at the lower level (managing director and executive director) might be recruited for their special skills and knowledge in a specific area of management - for example, a director in managing chemical production. If top managers are those who possess 'general' rather than 'special' skills, we can hypothesize that the absence of differentiation of corporate directors in terms of major would disappear when narrowing down the corporate positions only to the highest management position.

The following Table 5.4 is made to 'test' the hypothesis. From the 100 largest firms of the same data source, I have selected 118 out of the highest executive directors in each corporation; vice-chairman and president. The sample size is a little bit larger than that of the corporations because some of them have several such positions. The same procedure of tabulation is made as before except for breaking down the category of 'business'.

**Table 5.4 Educational Credentials of Higher Corporate
Directors by Specialization and Educational
Institutions, 1992**

Educa'l Inst'n	Specialization							Total
	Busi.	Econ.	Law	Admin.	Subtotal	Engin.	Others	
SNU	14	11	13	3	(41)	25	4	70
Yeonsei	7	1	2	1	(11)	2	1	14
Korea	7	3	-	-	(10)	-	2	12
Others	4	2	3	1	(10)	8	4	22
Foreign								(7)
Total	32	17	18	5	(72)	35	11	118
(%)	(27.1)	(14.4)	(15.3)	(4.2)	(61.0)	(29.7)	(9.3)	(100.0)

Source: complied from Company Yearbook, 1993

First, we have the unequal distribution of top executive directors again, but in a much more concentrated form. Except for those who have graduated from outside Korea, 96 directors (81.4%) are graduates of the three universities and 70 (59.3%) are from SNU.

Second, those directors who specialized in business, economics, law, and administration increases to 61% from 45%. So, 'general managers' are more preferred in the higher positions than are 'special managers'.

From a wider class perspective, the function of education is to produce and reproduce the class system by legitimating certain types of knowledge.⁹⁷

[t]he dominant class under modern capitalism can be thought of as comprising those who possess or control productive capital and those who possess a legal monopoly of professional services. These groups represent the core body of the dominant or exploiting class by virtue of their exclusionary power which necessarily have the effect of creating a reciprocal class of social inferiors and subordinates (Parkin 1979:58).

Although the educational credentials produce class barriers and dominant class membership, it has to be seen whether those high corporate directors (including the highest

positions) would be considered a part of the innermost group of the propertied bourgeoisie in Korea. Yet there is a possibility that some higher corporate directors will transform their status from 'managers' to capitalists. Ascension occurs when prospective entrants acquire the financial resources which place them among the propertied and/or through marriage ties with the propertied capitalist class.

The educational credential can be regarded as 'cultural capital' that individual members of society can achieve. There is also 'ascribed' capital by birthplace. We already examined blood ties as an ascriptive attribute. As an 'inclusionary' mechanism, the location of birthplace has played no less significant a role in making social construction in Korea. Whether this cultural attribute is modern or traditional is not my concern (e.g. Parsons). What is at stake is whether this attribute is an 'exclusionary' mechanism in the formation of the dominant class. Thus, I'd like to demonstrate that regional location of firms and their founders has been related with the location of corporate directors. During this research, I could not find recent systematic information about the birthplace of corporate directors by firm size. I could find only 30 cases of LGBs in the various materials and an article dealing with the problem in 1978 (Kim and Kim 1989).

**Table 5.5 Geographic Distribution of Corporate Directors
by Local Tie, 1978**

Birth Region	Directors	Directors	Total		Grouping
	with local tie (A)	without local tie (B)	(C) N	%	ratio (A/C)
Seoul	185	460	645	28.7	0.29
Kyong-gi	75	128	203	9.0	0.37
Kyong-sang	383	290	673	29.9	0.57
Cholla	105	68	173	7.8	0.61
Choongchung	67	162	229	10.3	0.29
Kang-won	17	46	63	2.9	0.27
North Korea	99	158	257	11.4	0.39
Total	931	1,312	2,243	100.0	0.42

Source: reformulated from Kim and Kim, 1989

Two points can be made from Table 5.5. First, the two regions of Seoul and Kyong-sang are overrepresented among the corporate directors. This is not unrelated to the development of Korean firms. In the cases of the 30 LBGs as of 1990, for example, the two regions are also those that 19 founders had as their birthplace; Kyong-sang (12), Seoul (7), N. Korea (4), Cholla (3), Choongchung (2), and Kang-won (2).⁹⁸ So, in general we know that there is a close relationship between founder's birthplace and that of corporate directors.

Second, as the grouping ratio shows, Cholla and Kyong-sang region marked above average which means that there exists also a strong 'affinity' between regional location of founders and corporate directors. In fact, those two regions have been developed unequally in the course of capitalism, particularly since the 1960s. One of the reasons is said to stem from a political factor. Kim Dae-Joong happened to be born in Cholla region, and had long been a political opponent to ex-President Park Chung-Hee who was born in Kyong-sang province. This single 'regional-political' factor has been considered as an explanation for the relative growth of Kyong-sang region where many founding Korean capitalists built their first firms.

3. Social Activities

According to the thesis advanced by 'power structure research', members of the power elite (Mills 1957), governing class (Domhoff 1967), or inner circle (Useem 1984) possess class unity through social ties and social activities. One of the main empirical findings is that members of the inner circle are more likely to participate in social activities than other groups of capitalist class.

Although the specific composition of inner circle members may differ from society to society, the core capitalists studied here play a similar role in diverse social organizations. As shown in their wealth, their control in the corporate world, and their marriage ties, they constitute a part of the upper class in Korean society.

In order to verify this tentative argument, I drew a list of the sample of core capitalists from Who's Who of Korea Annual (1990) and found out that a total 402 were listed in the category of 'Businessman'. I classified them into family-related and non-family members by consulting other sources of information. The social activities are defined as participation in non-economic and non-political organizations such as the Red Cross. The non-family businessmen are top executive directors (usually vice-chairman and president) of the large firms. Thus, the comparison may be understood as a case of internal differentiation within the capitalist class.

Table 5.6 Participation in Social Organization by Family and Non-Family Businessmen, 1990

Category	Socio-Cultural Organization		
	No. (A)	No. freq. (B)	Ratio (A/B)
Founder & Heir	73	65	0.89
Other family member	42	22	0.52
Subtotal (A)	115	87	0.76
Non-family member	287	28	0.01
Total (B)	402	115	0.40
Ratio (A/B)	0.29	0.76	

Source: compiled from Korea Annual, 1990.

As can be seen above, the frequency of participation in social organizations reveals the disproportionate distribution along the lines of the 'variable' of family. The ratio of number of businessmen to participation frequency is overwhelmingly high among the group of 'founder and heir' and 'other family member' while that of 'non-family member' is merely one hundredth. Considering the different ratio among the categories, we can find out that the ratio of the sum of founder-related group is three-times larger than that of non-family members (0.29 in number and 0.76 in frequency). Since

the total businessmen listed have been assumed to represent Korean businessmen, the profound discrepancy of the ratio of the participation clearly shows visible lines drawn between propertied and non-propertied class members. At once the chairman of Hyundai (J.Y. Chung) has held as many as 10 titles in diverse social organizations.⁹⁹ The unequal rate of participation generally supports the initial hypothesis.

Because of the short history of Korean capitalism, there have been few significant social networks evolving around school ties among the propertied class themselves. But, the pattern of recruitment of high executive directors and promotion is shown to be facilitated by either blood ties or school ties.

In terms of individual hobby, it is found that high executive directors (presidents) of the 100 largest corporations spend their 'extra' time on such activities as golf (36%), climbing (16%), and Go (Korean chess, 10%) as of 1991.¹⁰⁰ Golf is highly regarded as an 'aristocratic' hobby among the Korean public mainly because of the expense and time. In comparison, golf in Korea is not as popular as in the U.S. and is believed to be a socio-political 'business' of the 'leisure class' rather than a sport.

4. Classwide Network of Intermarriage

Marriage practices among the 'upper class' have certain attributes, for example, the Dupont family in America is famous and notorious in this respect. Even marriage between family members was allowed to maintain the family fortune (Baltzell 1964; Zeitlin et al 1974).

A theoretical assumption underlying the analysis of the network of marriage is that extensive intermarriage among propertied families not only results from close mutual interaction, but also serves (whether intentionally or not) to establish reciprocal obligations and loyalties and to buttress and reinforce the economic basis of class unity. And the class reproduces itself and seems to be self-perpetuating.

When there is a consistent pattern existed among the families, we can safely conclude that intra-class unity is created by such family ties. Due to a lack of information, a comparative analysis could not be done with other classes or groups. The information has been gathered from a series of articles (every Monday) from the Seoul Economic Newspaper from April 1990 to February 1991. Those articles are the most reliable and comprehensive source of information published thus far in Korea. Beginning from Samsung, the Newspaper covered almost all LBGs and contained diverse information about the family of chaebol groups such as list of family members, marriages, ages, occupational positions etc. The

**Table 5.7 Largest Chaebol's Marriage Tie to Government
Officials and Other Chaebol, 1990**

Category	Marriage Tie		Total
	Children	Siblings & their children	
Large Chaebol	20	8	28 (17.2)
Large Landowner	9	1	10 (3.1)
Medium/small Busi.	69	17	86 (25.4)
Banker	7	3	10 (3.0)
Subtotal	105	29	134 (39.6)
Presi. Prime Mnst	3	4	7 (2.1)
Top gov't official	23	10	33 (9.8)
Middle	9	7	16 (4.7)
Politician	9	5	14 (4.1)
Military elites	2	1	3 (1.0)
Subtotal	46	27	73 (21.6)
Others	72	59	131 (38.8)
Total	188	115	338 (100.0)

Source: compiled from Seoul Economic Newspaper, 1991-92.

Note: 1. Other chaebol refers to 50 largest chaebols

2. Top gov't officials include minister and vice
minister level governmental officials.

selected groups are the 30 largest.¹⁰¹ The total number of marriages as of 1990 is 338 which means 12.2 cases of marriage on average. The largest number of marriages within the group turns out to be 48 cases for Lucky-Goldstar's Koo family while Samsung's Lee family shows only 7 cases, below the average. The Table 5.7 reveals the frequencies of intermarriage of the 30 LBGs.

As seen in Table 5.7, 134 and 73 cases of propertied family members' marriage had occurred with other family members of the 'economic' and 'political' group. About two out of three sons and daughters of a group's founder have been connected with the society's ruling class, regardless of intentions of the contracting parties in the marriage. It further shows a form of 'strategic marriage' as demonstrated in the high portion of intermarriage between large chaebol groups and 'political elites', although the effect of such a marriage cannot be measured in quantitative terms. Yet it can be assumed that marriage with families of President, powerful bureaucrats or politicians is more likely to produce 'indirect' influence on the business activities of the group than with other less influential families.

In our analysis, there are 7 cases in which President families have been connected with chaebol groups during their terms of office. We can only conjecture that something good or bad (usually good) has happened a posteriori. One recent case happened between the oldest son of J.H. Choi (chairman of

Sunkyong Group) and a daughter of then President T.W. Roh. In this case, a 'bad' thing occurred allegedly because of the marriage. At the end of Roh's Presidential tenure, the government placed an order for a project of Mobile Telecommunication which was believed to be one of the largest government-orders in terms of profits and technological advancement derived from monopoly. Several LBGs (in a consortium with foreign firms) bid for the order, including Sunkyong. As it happened, that Group was selected. But severe opposition to the selection and criticism mounted and the bid was withdrawn. As far as I know, this case is one where the intermarriage did not ultimately work so well.

The "others" group of families is no less significant than the first two, at least in terms of social prestige and economic wealth. Such occupations as professor, lawyer, and medical doctor among others have long been regarded as the most prestigious and honorable in Korea. In our analysis, these three positions constitute the majority of marriage cases in the category. Since all marriages are not necessarily 'strategic', some sons and daughters might choose their own partner. Yet the chosen ones have accidentally (?) been sons and daughters of socially reputale families. The following statement made by the chairman of Sunkyong Group prior to the 'tragic' event would illustrate what he had in mind about that marriage.

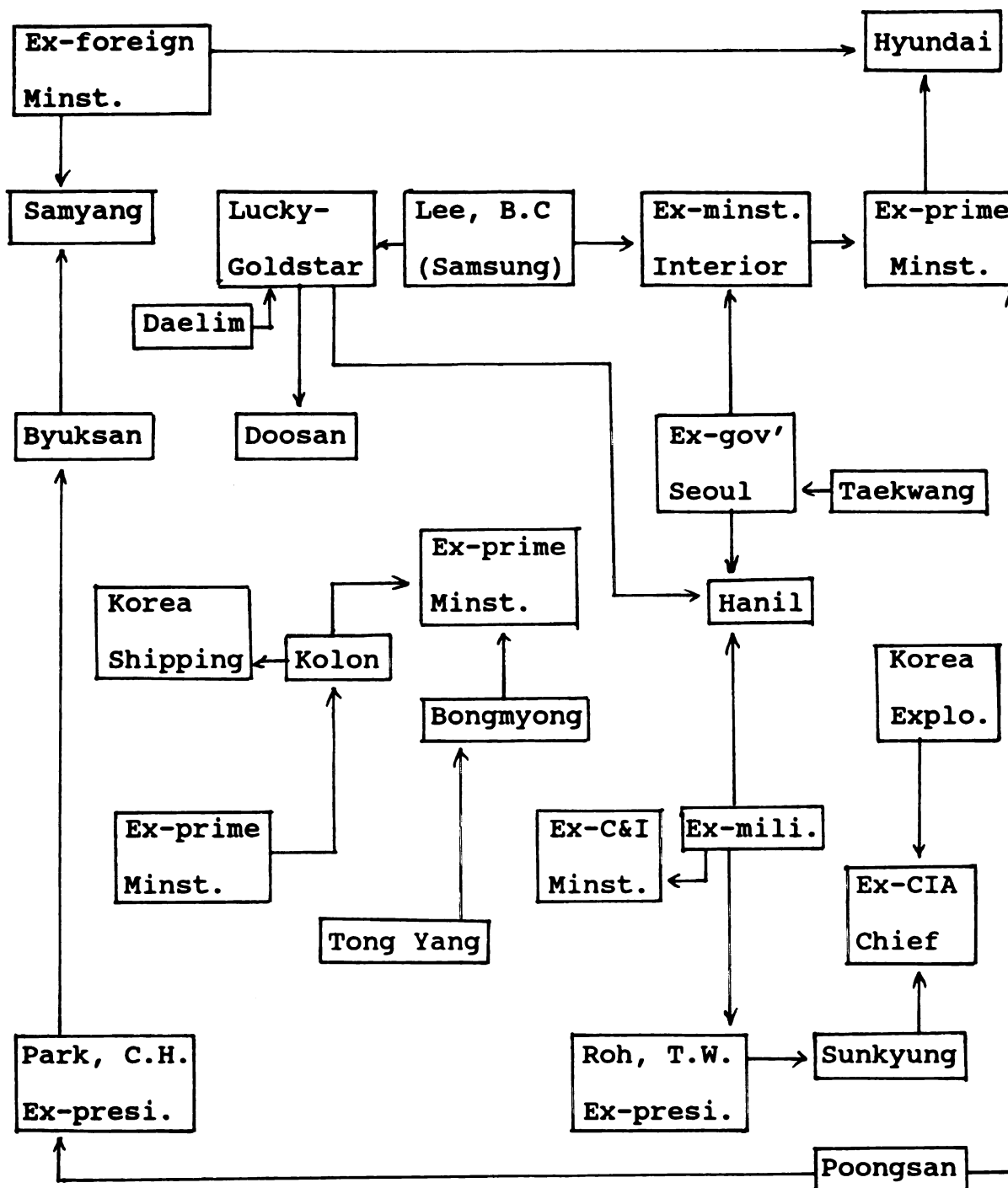
In a training section for incoming employees, one office

employee asked: Didn't you marry your son 'strategically' - forced by political expediency - (with the President's daughter)? To the question, the chairman replied that:

The marriage was made regardless of whether the partner family was a President or not. I think that the selection of one's spouse should depend on the will of a contracting partner and it is not desirable to make children victims of a strategic marriage. To become a President's relative by marriage is not in itself a 'cohesion between economy and politics'. Only if relatives by marriage who have wealth and power would design to do something improperly, then comes the 'cohesion between economy and politics'. Whatever I tell, you aren't listening to me. ... Keep a watch on what we [Sunkyong] do from now on.¹⁰²

If we take the statement at face value, the event could account for the 'slanted' perception of the public toward the marriage. Besides the direct marriage ties between parties concerned, there are indirect ties as significant. In Granovetter's (1974) terms, the "strength of weak ties" may apply to our analysis. That is, the pattern of 'intraclass' marriage may facilitate two kinds of bonds which parallel "friends" and "friends of friends". If one family is tied with

another which has marriage ties with third one, the first family is assumed to have 'weak' ties with the third party. There are numerous cases of indirect marriage ties in our sample. Figure 5.1 is a concise illustration of the map of intermarriage. At the center of the Samsung Group family, there are 2 direct marriage and more than 20 indirect marriage ties. A son of capitalist family is linked to another family which is again connected with a family of capitalist and/or political 'elites'. This certainly creates a sense of 'weness' consciously or unconsciously - a strong cohesion of class interests.



**Figure 5.1 A Genealogy of Family Ties Among Largest
Capitalist Families and Political Elites**

Source: reformulated from C.K. Kang et al, 1991

Note: man <--- woman

B. Ideology and Control

Ideology also serves as a critical instrument of system maintenance and hegemonic class. Even though the dominant class possesses plenty of resources to disseminate their ideas to the public, it is a quite different matter to acquire a 'consent' from the public. The Korean bourgeoisie continues to be surrounded by an aura of public disapproval and illegitimacy. Within the larger society there is little genuine respect or affection toward the chaebol and its owners and managers and public criticism of the conglomerate is becoming increasingly vocal and severe. This lack of public acquiescence can be explained by the very illicit accumulation, and a lack of time to consolidate capitalist relations and ideas (priority of material pursuit).

In this vein, it is useful to refer to Gramsci's notion of hegemony. According to Gramsci (1971), hegemony is not only a matter of material concessions. It is also a question of moral-philosophical outlook on the entire society by the dominant class. Such leadership is of course ideological in the sense that it supports the economic and political interests of the dominant class, but the ideology that gives rise to such leadership is not necessarily "false consciousness" imposed on subordinated classes and groups through control or manipulation (Larrain 1984).

Ideological hegemony in the Gramscian sense is attained

only when the dominant class succeeds in uniting the people around itself so that its development or expansion comes to be seen as "the motor force of a universal expansion, of a development of all the 'national' energies". The world view of the dominant class thus becomes the "common sense" of the society as a whole, "implicitly manifested in art, in law, in economic activity, and in all manifestations of individual and collective life" (Gramsci 1971: 53, 181-2, 260, 328). To gain hegemony, in Gramsci's view, is to establish moral, political and intellectual leadership in social life by diffusing one's own world-view throughout the fabric of society as a whole, thus equating one's own interests with the interests of society at large.

The process by which such hegemony is achieved is complicated and uncertain, contingent upon a fortuitous historical convergence between the interests of the dominant class and the interests of the rest of the society. Capitalist ideological hegemony in the West, for example, has rested on the historical role of the bourgeoisie not only in generating national wealth but also in championing revolutionary values of economic and political freedom that have had great popular appeal. To be sure, such values were not promoted simply for their own sake: they also served fundamental bourgeois interests at the time. In the end, however, this largely accidental conjunction of class interest with popular values and aspirations provided the historical basis for what has so

far proven to be an enduring capitalist ideological hegemony.

In Korea, the ruling ideology of 'anti-communism', priority of economic growth, and anti-unionism has been dominant throughout the period of capitalist development.¹⁰³ Yet demystification of this ideology has come from in and outside Korea with the blur of cold war confrontation and rising demand for fair distribution and quality of life (e.g., environmental problems and the increasing 'class consciousness' of the middle and working classes). Under this new social reality, the Korean bourgeoisie could no longer rely on the 'older' ideologies to maintain class reproduction. They realized the need of societal consensus and harmony to maintain the status quo and consolidate class rule. They realize a need for new ideas to convey persuasively to the 'public' and their employees, especially after the massive workers' struggle in 1987-88.

Like the rest of us, the ruling class formulates and reformulates representations and moral claims that are consistent with their material advantages. Yet the moral claims per se would not be enough; they must be 'effectively' communicated through the resources they command. In the following, I explore the nature and connotation of the 'new' ideological claims addressed by leading propertied class members and their material means of disseminating their ideas through the mass media.

1. Dominant Ideology in Public.

The economic dominance wielded by the Korean bourgeoisie has to be further consolidated by achieving 'cultural' hegemony. The need to do so can be recognized from the perception of the public towards the LBGs. Due to their development history - corruption, illicit accumulation of wealth, concentration of capital, political connection etc, cultural hegemony is far from complete in Korea.

Survey polls conducted in 1990, for example, show that while 60.3 % believed that chaebol contributed to economic growth, they are main actors in land speculation (95.6%), income inequality (65.6%), illegal wealth accumulation (96.9%), and neglect of technology development (82.0%).¹⁰⁴ Although this survey was conducted at a time when land speculation was rampant, the public's general feeling has been consistently 'negative'. In a study of society's reflection on chaebol groups, it has been found that three subjects most frequently appeared in the editorial columns in the two leading daily newspapers; problems associated with 'largeness' (43.2%), accumulation process connected with politics (28.4%), and ownership and control (28.4%).¹⁰⁵ So, the legitimacy of the Korean large capitalists in general has been weaker than that enjoyed by those in many other (advanced) societies. As one author correctly indicates, they are now searching for hegemony rather than consolidating it (Eckert 1991).

The information for the analysis of the ideas expressed by propertied class was drawn from published books written by four Korean large capitalists; Kim Woo-Joong (chairman of Daewoo Group), Chung Ju-Young (honorable chairman of Hyundai Group), Koo Cha-Kyong (chairman of Lucky-Goldstar Group), and Lee Kun-Hee (chairman of Samsung Group).¹⁰⁶ The LBGs they own and control are the 'Big Four' by any economic standard in Korea and they themselves are representative figures in and outside Korea. The quotations cited below are all from those books and not specified except the author's name otherwise mentioned.

The first three are founding fathers of the Group and the last is a successor to his father, B.C. Lee. In terms of age, J.Y. Chung (75 years old as of 1993) can be considered as 1st generation and K.H. Lee (51) as 2nd one. The remaining two (67 for J.K. Koo and 57 for W.J. Kim) lie in the middle, say '1.5th' generation. They hold at least one honorary Ph.D degree conferred in and outside Korea, regardless of a regular educational attainment. For example, J.Y. Chung received as many as 6 honorary Ph.D degrees; in Economics from Yeonsei U. in 1985 and Management Business from George Washington U. in 1982.

Despite the commonality of the social class and position they hold now, however, the main topics and issues addressed are those they would consider important from their own experiences and 'management philosophy'. J.Y. Chung emphasizes

'hard work' on the basis of his humble social background and 'an indomitable spirit'. W.J. Kim, a 'global entrepreneur', insists on the significance of frontier entrepreneurship as reflected on the title of his book The World is Wide and Many Things Remain To Do and addressed especially "To the Beloved Youth" (subtitle). Finally, C.K. Koo and K.H. Lee lay great stress on the need for 'new management' to compete in the severe competitive era of global economy.

Beginning with W.J. Kim's book in 1989, the books have been published within the last four years. More than a million copies of Kim's book have been sold and the 131st edition appeared in June 1993. Given the relatively narrow publication market in Korea, such a massive number of copies issued during the short time period aroused a 'sensation' among the population and the book is exemplary in conveying ideas and thoughts of the Korean bourgeoisie to the general public.

The biographical stories of a self-made man seems to be an ideological message for the wider population. These stories appear to justify and legitimate the illicit and immoral capital (and wealth) accumulation in the past. In this sense, the quite recent publications are a part of the 'cultural' business of enhancing their image. This is a serious ideological attack on the public. For there have been no such publications previously except in the autobiographic form, e.g., by the late B.C. Lee. This also reflects their 'self-conviction' to the extent that they disclosed those negative

images of themselves and their corporations in a public manner to gain a moral support from the public, which had been thus far unthinkable. Let's begin with an analysis of how they perceive themselves and their role in society.

On Capitalists

Despite the different emphases, one of the characteristics commonly perceived of themselves lies in their insistence that they are not 'capitalists' but 'entrepreneurs'. The reason to perceive the two terms distinctively is not merely a matter of selection of a word. It involves a meaning that has been socially structured specifically in the context of Korea in which 'commerce' - literally 'making money' - has been ranked lowest in the social hierarchy of Confucian values. That is, to make a fortune itself has not been highly valued and they are well aware of the meaning of capitalists. For them the capitalist is equal to a 'wealthy' person who has not obtained a good social reputation. Yet they may know that the system of capitalism forces them to "Accumulate, Accumulate!" Since they have to 'make money' in the social reality and wish to gain social prestige from the Korean people, some contradiction inevitably comes into play, regardless of their ideas and hopes not to be the capitalist.

Therefore, it is required to alleviate and subdue the image of capitalists on the one hand and to accelerate that of entrepreneurs who are frontier people with the spirit of development and creation on the other. Here comes a first self-perception that wealth (money) should not be a standard to evaluate person: "I've never thought myself a capitalist, though [people] like to evaluate me as a global-level entrepreneur. I'm merely a quite wealthy worker and a person who produces goods and services through labor". "I wish not to evaluate me with money" "I hate the word 'chaebol'.¹⁰⁷ [I know that] it is yet a regrettable fact that chaebol becomes a synonym for evil" (J.Y. Chung). Not only to reduce the meaning of the capitalist to a wealthy man, he also wishes even to be a wealthy worker. Yes, anybody who labors can be a worker, whatever position and role he/she holds and plays in social relations of production, even President of any country! He wishes this perception to be legitimate among the Korean public who know well that J.Y. Chung began from nearly 'nothing' and worked hard more than any others.

The social background of W.J. Kim is not different from J.Y. Chung. But he had a regular education from Yeonsei University through self-effort. He began to make money at the age of 14 by selling newspapers in the marketplace for his mother and younger brothers since his father had been kidnapped in North Korea and his older brother had been conscripted in the Korean army.

Well aware of the lack of historical legitimacy of the Korean bourgeoisie, he also expressed (confessed?) his self-image as follows; "[t]o be remembered me, Kim Woo Joong, as a respected entrepreneur is my best hope. I don't like to hear such a respect as a wealthy man." "My last dream is to make a [Korean] society in which entrepreneurs too should be respected." It is declared that the specific role of the entrepreneur is not, of course, to make money:

Though I'm an entrepreneur, I'm one who firmly believes in the superiority of spirit over material. What an entrepreneur achieves through one's business is never to become a 'wealthy pig'. What one wishes to do so is to make 'poor Socrates' 'wealthy', not to make the Socrates wealthy and a pig (W.J. Kim)

The self-image of the entrepreneur is further elaborated in relation with their specific role in society. Analogous with 'functionalism' and 'role model', they hold a view that each individual has a proper role in society and that society can be prosper and develop only if the role should be properly occupied and played by him/her. But individuals have diverse capacities and qualities, they argue, and there must be a 'leader' who possesses a quality of creativity, capability, and entire commitment to the well-being of society -

'competition for leadership'. Even the leaders are ready to sacrifice their personal happiness. The entrepreneurs are and should be among the leaders because they believe and make the public to believe that not the economic wealth but social reputation and honor are the supreme value to evaluate person. Thus, it is not at all surprising that they strongly insist on the role of 'the creative few'. From their reasoning and arguments, whether made explicitly or implicitly, we could abstract ideas underlying their consciousness in the form of 'elitism'.

There are two points to emphasize. First, it is clear that the ownership and control of the corporations - economic hegemony - has not necessarily guaranteed social prestige and honor for the Korean bourgeoisie. Among others, this is due to the ways in which they have accumulated wealth in the course of the capitalist development during the past four decades. Considering social criticism against 'illicitly-cumulated' wealth prevalent among the public, they might realize a strong need to justify themselves and enhance their 'entrepreneurial' role in society. Here, Schumpeter (1942) reminds us of the decline of capitalism brought about by social criticism in the context of the U.S. a half century ago. Second, the moral standing of the Korean bourgeois is not unrelated to their support of authoritarian rule from the last decades of the Rhee regime (1948-1960) until recently. For the "developmental alliance" between the state and capital meant simultaneous

pains and grief for many exploited classes and groups.

Family Ownership and Control

Family ownership and control in large corporations have been a long-standing subject among academics as well as the public. Ordinary people in Korea well know that Hyundai belongs to J.Y. Chung and his family and Lucky-Goldstar to C.K. Koo and his family etc., regardless of the fact that some corporations are more open to public ownership. This perception is extremely solid and intractable at least to the present.

When asked about family-centered ownership, the chairman of Lucky-Goldstar (which is most typical of family ownership and management among the LGBs) sought to convey the idea as follows:

Interviewer: In the case of the Japanese zaibatsu companies, they became firms of the people by widely dispersing their stock ownership. Naturally, citizens think of them as "my companies" and has affection for them. In our case, however, the companies are still virtually owned and managed by a single owner-manager of the family, and it is rather difficult to expect affection for them or a

sense of participation in them.

Chairman: Japan's Mitsubishi, Mitsui, and other companies were already opened to public ownership 70 or 80 years ago, and I have heard that their founders and principal stockholders hold no more than 2 or 3 percent of their stock. Moreover, their management is in the hands of professional managers. In the case of our firms, however, it has been only about twenty years at most since they became listed on the stock exchange.¹⁰⁸ It appears that our firms too will become Japanese-style in the future. I'm not sure about my son's generation, but I think it will probably be difficult to have a successor within the family by the time of my grandson's generation.¹⁰⁹

Later in the same interview, the chairman justified his family's monopoly on managerial positions as follows: "Among the Koo relatives, all of the managers who hold presidential-level or higher appointments have participated and worked since its creation. This statement is not literally true. According to my own research, many family managers within the group had joined in the company later, including the chairman himself. Even if they weren't family members, he said, those people would be the highest managers by now and moreover they

were selected on account of their ability.¹¹⁰

W.J. Kim has openly emphasized the character of non-family ownership in the Daewoo Group. We are told that he gave all his personal assets to the Daewoo Foundation. Yet we have already demonstrated that the Foundation holds a majority of shares of affiliated firms. The point he likes to make is that his own personal wealth is not so great and he contributed to making a progress of society through the academic activities of the Foundation.

In this sense, it seems ironic for capitalists to confuse personal wealth with social ownership of corporate property. In capitalism, there can be no appeal to private ownership (personal wealth as well as means of production). Yet Korean bourgeoisie have always emphasized the social character of their corporation. The late B.C. Lee (1910-1987) claimed that:

It is true that I founded and developed Samsung.
But I never think that Samsung belongs to me.
Whoever stockholders, chairmen, or presidents might
be, Samsung is a social [society's] property.¹¹¹

Followed by the strong emphasis on social responsibility of private property, he continued to say that "the success or failure of Samsung [Group] is closely related with that of [Korean] society. [Thus] I think it proper that K.H. Lee should be the heir of Samsung for the hope of this succession

being a firm basis for new development of Samsung [Group]".¹¹²

This statement was addressed in reference to the succession issue of the Group in the late 1970s. If we take the 'blood succession' for granted, there could be no further questions on this matter. Yet it seems awkward to jump to the issue of succession while emphasizing the 'social' nature of private property. Isn't that merely to justify the reproduction of private property?

Inequality

Korea has been regarded as one of the most egalitarian in income and wealth among the developing countries. However, the 'relative deprivation' men and women in-the-street feel in everyday life can be quite different from the 'miracle' of economic statistics. It is commonly believed that Korean workers have played a key role in export-oriented growth but have not been the beneficiaries of its fruits (Deyo 1989; Koo 1987). Due to the recent labor struggles of 1987-88, wages of the workers have increased and their labor rights have to some extent been gained. Against this backdrop, J.Y. Chung strongly declared that workers have tended to lose their work spirit. It is not a time to work less but more. He says:

Recently, it has been pointed out that workers

demand too much wage increase and do not work hard as used to do. Although the rapid wage increase really places a burden on corporations, I think that they have a right to demand [the wage increase] to some extent as seen from their contribution and efforts to economic growth of our nation. Yet as I can see it, the problem is that they work less hard than before. That is the problem and is not correct (J.Y. Chung).

Then he refers to working hours of Korean workers in comparison to that of Japanese, 46 hours per week in Japan (GNP \$ 20,000) and 44 hours in Korea (\$ 5,000). Even if taking the working hours at face value, the logic is quite appealing that even the Japanese workers worked longer than the Korean workers!

Reliable information on wealth is rare and confidential in Korea like elsewhere. Yet recently, I could find two sources of information about wealth - dividend and individual tax. Stockholders' dividend of the chairman of the LBGs has been disclosed (see Table 5.8). Although the dividend incurred from the ownership constitutes a part of wealth they possess, nonetheless, it shows us a picture of income inequality. The chairman of Hanjin group received 5,249 million won (about \$ 6.6 million). The figure may be not a big concern compared with American counterpart. The annual income of top executive

Table 5.8 Stock Dividend of Owners of the Large Business Group, 1992 (million won)

Group	Chairman	Dividend
Hanjin	Cho Choong-Hoon	5,249
Samsung	Lee Kon-Hee	2,698
Ssangyong	Kim Suk-Won	2,379
Dong-Ah Const.	Choi Won Suk	1,438
Hyosung	Cho Suk-Rae	1,160
Hand	Chung Se-Yong	1,066
Sunkyung	Choi Jong-Hyon	1,024
Hanhwa*	Kim Seung-Yon	913
Dongbu	Kim Joon-Ki	835
Dongkuk Steel	Chang Sang-Tae	744
Dong Yang	Hyon Jin-Hyon	511

Source: Maeil Economic Newspaper, May 18, 1993

Note * former Korea Explosives

directors of the LBGs ranges from 36 to 60 million won (\$45,000 -75,000) and workers from 12 to 18 million won (\$15,000-25,000) as of 1992.¹¹³

According to the amount of individual incomes tax, the chairman of Hyundai Group earned 33,539 million won (\$42 million) and ranked 1st as of 1992. Out of the listed 100 wealthiest persons in Korea (as measured in amounts of individual income tax), principal capitalists of large business groups are included such as Hyundai and Samsung. The income tax of the Chung family combined - less than 100 people at most - holds 1% of the total income tax of Korea's 45 million population!¹¹⁴ Mr. Chung is really the wealthy worker. Even internationally wealthy; in 1993, Fortune listed J.Y. Chung among the richest persons in the world (\$3.3 billion).¹¹⁵

How do they conceive of economic inequality and what do they have in mind to solve the problem? The significance of economic inequality is also well recognized by the propertied class. Yet the ways in which it should be solved differs widely. In a 'free' competitive capitalism, it is assumed that a certain degree of inequality cannot be avoided without turning to 'communism'. In order to reduce inequality, more wealth should be produced so as to make 'a big pie' distributed greater than before. "It is my opinion and argument that the unequal distribution of wealth is

undesirable but corporations are expanding without limit" "As far as I know, it is only Korea that concerns itself about the bigness of corporations among capitalist countries in the world" (J.Y. Chung). A rationale underlying this insistence is that in order to compete in the global market, the Hyundai Group as a whole unit is still 'small' - a global perspective deserving "a global-level entrepreneur".

So, any regulation to limit corporate capacity is regarded as a 'wrong' prescription. It is in this context that the state should intervene minimally in the private sector; the economy should be operated not by 'visible' hands but by the mechanism of market price. Too much state intervention in the market becomes now a 'burden' to their business. Against the criticism of political connections with the state, the chairman of the Group argues that "we [Hyundai] have had no benefits from the state but rather handed over our company to the state" - referring to Hankuk Heavy Industry Co. 'taken away' by force under the program of readjustment in the early 1980s. Whether this statement is true or not remains to be seen, yet it is at least clear that such a political connection constitutes a part of the 'developmental alliance'.

"It cannot be denied that a major purpose of enterprises is to seek profits. But it is not right to think only that [profits-seeking] as the existential reason of the enterprises" (W.J. Kim). So, Korean bourgeoisie have also attempted to return some of their profits to society by using

portions of their corporate shareholdings to set up tax-free private social welfare foundations, which, in turn, have used the funds to build hospitals and support needy students and scholars.¹¹⁶

The image of business is enhanced by educational and cultural business.¹¹⁷ Education is regarded as a high priority among the public in general and education funds to prospective college students can promote a 'non-secular' image of business. I was among those beneficiaries of a scholarship fund from one of the largest chaebol groups during my college life. This was based on regional ties. Accidentally my father was born in the same region as the founder of the group. Recipients were limited to those who attended 'major' universities in Seoul and obtained a good GPA. The priority of such 'business' may be 'good will' like that of MVP scholarship provided in college football by Budweiser in the U.S.- though in the latter case by way of advertisement.

The exhibition of arts and sponsorship of musical performance are frequently exploited for the similar goal. Samsung, for instance, established Samsung Art and Culture Foundation in 1965.

One of the functions of those foundations is to enhance control over companies through stock ownership. That is, those foundations function like a 'holding company' which is legally prohibited in Korea. Besides there is a tax benefit. There are 72 foundations run by those companies under the FKI. Most

large groups holds one or more foundations of this sort.

Those cultural foundations are said to contribute to society in one way or another: "I should do something small for society on the basis of capital of Hyundai Construction Co. which I have created for my whole life time" (J.Y. Chung), "As a long-time hope, I establish Samsung Art & Culture Foundation for the purpose of education and cultural welfare on the basis of the majority of my own wealth" (B.C. Lee), "I have long considered to do something good (for society) when I makes some fortunes" (W.J. Kim), "These (properties) should not be possessed by anyone for his/her individual prosperity or descendants' well-being" (J.K. Koo).¹¹⁸

In the 1960s and 1970s, the major role of the foundations was to provide scholarship to prospective students but in fact tax evasion was said to be more a concern. Now these foundations are involved in diverse socio-cultural activities on a much greater scale and scope. Despite the stress on socio-cultural activities as a means of returning corporate wealth to society, however, Korean large capitalists believe that the best way to reduce the nation's inequality is to produce more wealth not to distribute it.

2. Managerial Ideology

The lack of a hegemonic position with the public might be reversed in the sphere of organization which is under direct bourgeois' control. This is so especially when the economic organizations have been effectively managed by owners and their family members in Korean business groups.

Bendix (1970: 529) defines managerial ideologies as "all ideas which are espoused by or for those who exercise authority in economic enterprises and which seek to explain and justify that authority". Despite the ambiguity of the concept of "authority", this definition well represents the function of ideology which serves the interest of the particular class. The function of such ideologies, according to Bendix, is to interpret the facts of authority and obedience so as to neutralize or eliminate the conflict between the few and the many, and so to promote the interest of a more effective exercise of authority.

It is of use to see how such a practice is symbolized in managerial ideals. Sagoon is literally translated "company instruction" but symbolizes ideas and values of corporate 'culture'. Sagoon generally consists of a few words or short phrases that best express the company's most important values. In Korean companies, the saagoon is often framed and hung on the walls of the executive offices, conference rooms, training centers, and major work areas. The saagoon also appears on the

Table 5.9 Sahoons in Large Companies

Sahoon	Percentage
Harmony and unity	46.4
Sincerity and diligence	44.2
Creation and development	41.6
Business credibility	20.8
Productivity and quality	16.9
Work responsibility	16.9
Progressiveness	14.3
Social responsibility	14.3
Scientific management	10.4
Sacrifice and service	6.9

Source: H.C. Lee. 1987. p.140.

first pages of company brochures, operating manuals, and training texts, Thus the sahoon is the official expression of managerial values and ideas that the Korean founders consider most important.

Ranellis (1993) finds that 'harmony' is the sahoon of the Lucky-Goldstar at the level of group and this is not irrelevant to the managerial strategy evolved in the group (one of the most 'conservative' groups in terms of ownership and control in Korea). Managerial idealism is symbolized within the individual business group, e.g. 'harmony' in Lucky-Goldstar. The family has been used as an explicit metaphor for a company or chaebol such as 'Daewoo Gajok (family)' to designate physically all members of the group - managers and workers (white and blue-collar). This common discursive practice derived in part from the cultural tradition of 'patriarchy' or 'familism' but it also contribute to obscuring inherent class conflicts as well.

According to a study based on 87 large Korean firms, the most common values emphasized in sahoons are harmony (In-wha) and unity (Tan-kyul) among employees, sincerity (Shin-ui) and diligence (Keun-myen), and creation (Changjo, referring to entrepreneurial spirits) and development (Pal-jeon). Most Korean companies stress one or two of these values in their sahoon (see Table 5.9).

Not surprisingly, the most common corporate values expressed in sahoon among large Korean companies partly

reflect strong ideological claims on the employees by stressing harmony and unity among others. This general picture can be further deepened by focusing on each corporation.

In terms of recruitment, Useem (1981) shows that relations between business and higher education are structured less around capital as a whole and more around a distinct segment of capital. The findings also support the power of large capitalists in the area of personnel recruitment within their firms. Not only high executives but also majority of white-collar middle classes are preferentially recruited into the monopoly segment of capital. This is a particularly striking phenomenon when we take into account of tight 'job market' in recent years in Korea. It was estimated that graduates of both universities and college in 1992 had to pass entrance examination test with the competition rate of 14.7 for entering 50 LBGs.¹¹⁹ The increase of higher education did not catch up with the increase of job opportunities in that there has been a chronic lack of sufficient chances to be hired among college graduates. This imbalance between education and job may function positively for capitalists, especially for the largest.

There is no such thing as one-way ideological control of managers. There are counter mechanisms to directly challenge or indirectly evade the top-down ideological claims among subordinated members of the organization. Yet this requires an intensive and qualitative observation which goes beyond this

study.

3. Control of Mass Media

It is needless to say that the role of mass media in modern society has great effects on 'Lebenswelt' - everyday life. Due to the economic power that the capitalist class wields, concentration of mass media has been increasing. According to Table 5.10, the Korean LBGs owned various daily newspapers and T.V. stations. Through the direct ownership of mass media, LBGs attempt to disseminate ideas and informations favorable to their business. In addition, they also obscure problems unfavorable to their business. The latter can be illustrated with an example of the environmental problem that occurred at the lesiure park of Yong-In located in near Seoul in 1980. The issue was that harmful materials were flowed into the near farm land. Since the Park was run by Samsung, the social issue was treated at minimum by the Choongang Daily Newspaper. Between March 15 to 22 in 1980, not surprisingly, the number of articles, editorials, and cartoons etc dealing with the issue were smallest in the newspaper (3), compared to others (5-17).¹²⁰

Table 5.10 The Ownership of Mass Media by Chaebol Groups,

Group	Mass Media	Ownership (%)
Hyundai	Hyundai Culture Daily	100.0
	Korea Economic Daily	33.6
Daewoo	Hangdo Daily	90.0
	Korea Economic Daily	8.0
	Yongnam Daily	?
Samsung	Choongang Daily	58.4
	Choongang Economic Daily	?
Lucky-Goldstar	Pusan Munhwa Broad.	27.7
	Jinjoo Munhwa Broad.	15.0
Ssangyong	Daegoo Munhwa Broad.	49.0
Korea Explosives	Kyunghang Daily	100.0
Lotte	Kukje Daily	100.0
Dong-A Const.	Daejon Munhwa Broad.	49.0
Miwon	Jonjoo Munhwa Broad.	15.3
Dongbu	Kangwon Daily	25.8
Dongkuk Steel Mill	Kyunghang Daily	10.3
Daenong	Korea Herald (English)	17.2
	Naeyoe Economic Daily	?

Source: Monthly Chosun, October 1990.

Note: ? means there is no evidence available even though the group is a principal owner.

Table 5.11 Advertisement Agency and Amount of Ad Fees in
Mass Media, 1990 (million won)

Agency	Chaebol	Mass Media				Total
		TV	Radio	Papers	Journal	
Cheil	Samsung	77,077	9,832	44,710	8,932	140,551
LG Ad.	Lucky-Go.	61,156	6,887	29,791	11,340	109,174
DaeHeung	Lotte	64,441	11,313	24,545	7,171	107,470
Oricom	Doosan	41,970	5,662	22,085	9,016	78,733
Korad	Haetai	48,432	4,124	13,163	4,007	69,726
Samhee	Hanhwa	31,795	4,327	20,157	3,274	59,553
Keumkang	Hyundai	22,922	6,192	25,749	3,888	58,751
Dongbang	Pacific	32,805	5,293	14,378	2,069	54,545
Total (A)		380,598	53,630	194,578	49,697	678,503
Total (B)		598,191	95,318	852,663	116,879	1,663,051
A/B (%)		63.6	56.3	22.8	42.5	40.8

Source: Mal, June 1991

The reality of monopoly by the largest business groups is again clearly disclosed in the advertisement sector. Most chaebol groups not only owned ad agency but also monopolize ad fees; in TV these ad agencies monopolize the amount of 63.6% of total ad fees and 56.3% in radio as seen in Table 5.11.

It is true that the control over ideological apparatuses though shareholding has a definite effect on the production and dissemination of ideology in favor of capitalist system as well as capitalists - reification and commodification. But it is also true that the structural analysis has to be complemented by a qualitative analysis by investigating how and why these control mechanism can be sustained.

Conclusion

The mechanisms to reproduce class dominance of the Korean bourgeoisie were examined. First, management control of almost all LBGs is and will be handed over to family members of their founders. Not surprisingly, the legitimate successors were eldest sons who have maintained the exclusive priority over other family members in the Confucian tradition. This intragenerational continuity among the large capitalist families illustrates an exclusionary mechanism in the realm of succession. I argue that this was possible because they are principal shareowner as analyzed in the previous Chapter.

The economic asset they possess was well converted to 'cultural capital' for effective management of corporate property as demonstrated in the high degree of educational credentials the heirs of the LBGs received. The level of credentials was as much high as those received by non-propertyied directors who were believed to possess superior knowledge and skills according to managerialists.

Marriages among Korea's ruling class families were another incidence of class reproduction mechanism. The extensive inter-marriage among Korean ruling class helped to create common value and practices to share. Class unity has been consolidated through family ties which protect property ownership and class interests. Through property ownership, the Korean bourgeoisie has succeeded in reproducing its management control. The significance of property ownership was also identified in participation in the socio-cultural organizations.

However, the propertyied class failed to gain moral consensus from the Korean people. The absence of moral legitimacy was largely due to their illicit accumulation of wealth, the support of military rule, and the collaborative relationship with state elites. Compared with western counterparts, the Korean bourgeoisie are now attempting to search for ideology hegemony.

According to the analysis of the ideas expressed by the large capitalists, they were eager to convey ideas for

legitimizing their previous illicit accumulation of capital and personal wealth. The emphasis on the importance of entrepreneur, superiority of spirit over material, and the role of leaders were identified. These claims were made on the common belief that they are not capitalists and 'chaebol' - the wealthy. To pacify popular resentments, they also emphasized social nature of their property as seen in the statements about the social and cultural welfare foundations. Yet they hold the view that the ultimate solution for reducing economic inequality is not to distribute property but to make 'a pie' bigger.

CHAPTER 6. POLITICAL POWER OF THE DOMINANT SEGMENT OF THE CAPITALIST CLASS

In contrast to western bourgeoisie who became a hegemonic force, the Korean counterpart has been subject to cyclical attacks from the public and occasionally from the state. Throughout the history of business, there has been no dominant hegemony of Korean bourgeoisie in parallel with that of advanced capitalism. The Korean 'economic miracle' has been possible due to a close capital-state nexus which has operated in such a way to consolidate authoritarian rule.

The idea of ruling class can be traced back to Marx who is said to have proposed two kinds of themes which later Marxists have advanced with debates and clarification. Miliband (1969) attempts to show the ways in which the capitalist class actually exercises political power through direct participation in the state apparatus and concludes that in Britain the capitalist class is the ruling class. In contrast, Poulantzas (1973) argues that the ways in which capitalism works determine and circumscribe the nature and role of the capitalist state and that it is not necessary for capitalists to directly participate in the state apparatus.

These two theories about the 'capitalist state' have produced numerous debates and criticisms and become known as 'instrumentalism' and 'structuralism'. As demonstrated in the

example, the idea of ruling class entails the nature and role of the state. In addition, it has been suggested that the two ideas of the ruling class could be reconcilable. Marx's first theme is a 'general' and 'abstract' model about class and state while the second is more concerned with real and empirical reality which are not necessarily fitted with the model.

In terms of empirical inquiry, the first claim can be understood such that the capitalist class has a disproportionate representation in the exercise of political power. In a structural sense, the second can be understood such that the state operates in favor of the class interests of capitalists to sustain capitalism and support their economic dominance. These seemingly different claims has led J. Scott to reconcile the idea of ruling class as follows; "a capitalist class may be regarded as forming a ruling class when its economic dominance is sustained by the operations of the state and when alone, or through a wider power bloc, it is disproportionately represented in the power elite which rules the state apparatus" (Scott, 1991:38).

However merit the structural approach of the ruling class may have, it has been criticized for exclusive emphasis on the friction within the dominant capitalist class. The state in capitalism has assumed a role to reconcile conflicting interests within fractions of capital in that the state maintains autonomy from a particular capital to reproduce

capital in general. Besides pointing out the weakness of the abstract model and functional logic of structuralism, critics have demonstrated that members of the dominant class have developed mechanisms to unite their class interests.

One of the lines of arguments has been advanced by Useem and his colleague who have pursued the inner group concept in research on the American and British capitalist class. According to them, there exists a dominant inner group whose members are far more likely to be found in state organs and they represent a 'class-wide' interest in contrast to a 'narrow' class interest (Useem 1974; 1979; 1984; Useem and McCormack 1981). Domhoff (1975; 1979) also has argued for a "class-hegemony paradigm" in which capitalist class domination is maintained and reproduced through the extensive interconnections among class-based social clubs and policy formation organizations.

In this chapter, I attempt to show that first, although the Korean capitalist class has been 'excluded' from directly participating in the state apparatus, nonetheless, they have continuously influenced the policy-making process through the 'class-wide' business organization of the Federation of Korean Industries (FKI) which represents their class interests and induces state 'elites' into the corporate world; second, class differentiation within the core segment of the capitalist class is found between 'owning capitalists' and 'managerial capitalists' along the lines of property ownership; and

finally, the economic power of the dominant capital has undermined the 'autonomy' of Korean state.

A. The Capitalist Class and State Elites

In chapter 3, I demonstrated that the Korean state (since the 1960s) has been crucial in reproducing capitalism in general and helping to create the dominant segment of industrial capital by assuming the role of banker. This role of the state was 'developmental' and its nature was 'capitalist'. The level of analysis was 'societal' and now we need to approach the relationship between capitalist class and state elites from an 'organizational' level of analysis.¹²¹

1. State Elites: Military and Bureaucrat

Within the state in Korea, the locus of power has resided in the executive branch. This is because the role of parliament was undermined by the breakdown of democracy. In its place, authoritarian political rule was dominant with a 'formal' institutional democracy. As aptly termed, the state has been ruled by 'executive dominance' (Haggard 1990). A division between ruling party and government executive within the power bloc seems something like that of 'ruling' and

'reigning' (Johnson 1982). Three decades of military rule had a profound impact on the constellation of the power bloc as well.

The Korean War and continuous confrontation with North Korea provided the ground on which military elites increased their power. The institution was also believed to possess a high degree of bureaucracy and professional skills in addition to the monopoly of force. The social impact of the War-related social arrangements directly contributed to the rise of the military as an important institution of the ruling class.¹²² Taking state power in 1961, the military has been a critical institution not only in political rule but also in surveillance over the everyday life of people.

Economic technocrats also backed up state power in planning and implementing economic policies. The bureaucrats in Korea are professional middle class and possess a high degree of educational credentials. This is so because of the highly competitive entrance exam to state bureaus. A majority of these technocrats have come from the most prestigious universities as mentioned earlier, particularly Seoul National University.

The composition of 'power bloc' within the state apparatus clearly shows the dominance of military and technocrats as seen in Table 6.1.

Table 6.1 Occupations of State Elites By Regime

Regime (Period)	Rhee (1948-60)	Chang (1960-61)	Park I (1961-71)	Park II (1972-79)	Chun (1980-87)
Bureaucrat	69 (43.1)	28 (44.4)	88 (36.2)	67 (62.0)	55 (56.7)
Politician	3 (1.9)	6 (9.5)	5 (2.1)	-	1 (1.0)
Military	8 (5.0)	2 (3.2)	80 (32.9)	17 (15.7)	21 (21.6)
Academic	29 (18.1)	13 (20.6)	46 (18.9)	11 (10.2)	12 (12.4)
Lawyer	24 (15.0)	7 (11.1)	12 (4.9)	10 (9.3)	5 (5.2)
Businessman	8 (5.0)	5 (7.9)	7 (2.9)	-	-
The Press	3 (1.9)	1 (1.6)	5 (2.1)	2 (1.9)	2 (2.1)
Others	16 (10.0)	1 (1.6)	-	1 (0.9)	1 (1.0)
Total	160 (100.0)	63 (100.0)	243(100.0)	108(100.0)	97 (100.0)

Source: reformulated from S.J. Kim, 1992, p. 636.

Overall, there is a clear separation of membership of state elites between 'democratic' regimes of Rhee and Chang and military regimes of Park and Chun. During the former regimes, bureaucrats were the main body of state elites while military members increased during the latter.

Notably, there were few politicians and businessman throughout the whole period. In its place military members (generals and high level of majors) increased from 3.2% to 32.9%. These two changes in the composition of state elites can be easily explained by the fact that the military government excluded the 'old' politicians who had been 'tainted' by close connection with landlords and businessmen who, they believed, contributed to the political corruption and social crisis.

As we can see from the figures, 'businessmen' were not dominant in the composition of state elites. Like 'corrupt' politicians, they were considered not a good for political legitimacy. Although it seems difficult to insist on ruling class thesis advanced by instrumental theories from the available evidence, there is a sharp division of labor among the ruling coalition. The capitalists have been largely confined within the realm of the economy. Yet, the social networks discussed above might indicate a powerful informal linkage between the state and capital.

Through 'informal' ways and social networks (e.g., intermarriage), the Korean capitalist class has continued to

influence policy-making process. Since there is no systematic involvement of the capitalist class in political rule, I have to rely on various episodic events to demonstrate the extent to which the power of the capitalist class has been represented in the policy-making processes.

Although it is all but impossible to quantify the importance of these various means of influence, I found that political parties and politicians played a less important role in transmitting capitalist interests into policy formation and implementation than direct interaction between capitalists and state bureaucrats.¹²³ The relationship between the state and capital was maintained through channels such as "deliberation councils" and "discussion groups: and it facilitated a more direct exchange of information than was possible through markets.

2. Political Representation of the Capitalist Class

One of the most valuable means to identify the direct and formal connection between the state and large capitalists can be found in the role of the Federation of Korean Industry (FKI). Since its birth in 1961, the association has represented the class interest of the large capitalists as can be seen from composition of the presidential committee of the FKI - i.e., chairman of the Hyundai Group, Lucky-Goldstar, and Sunkyong.

**Table 6.2 Distribution of Policy Recommendation by the
FKI, 1961-85 (%)**

Item	Period				Total (N)
	'61-63	'64-72	'73-79	'80-85	
Economic planning	17	11	4	6	8 (62)
Foreign relations	-	16	15	2	12 (91)
Finance	11	21	19	25	21 (162)
Tax	11	21	20	23	21 (162)
Trade & tariff	11	9	12	13	11 (86)
Politics	11	2	-	-	1 (9)
Labor	-	4	2	2	3 (22)
Price & market	6	3	3	5	4 (30)
Foreign loan	17	1	1	2	2 (16)
Resource & energy	-	2	4	-	2 (16)
Technology	6	1	5	3	3 (26)
Management	-	1	6	5	4 (29)
Others	9	8	8	11	9 (69)
Total	100	100	100	100	100
(N)	(35)	(290)	(253)	(202)	(780)

Source: reformulated from Federation of Korean Industries, 1985, pp 592-609.

Table 6.2 shows policy areas recommended by the FKI during the Park and Chun regime - a total of 780 cases.

Economic issues such as finance and corporate taxes have been the policy areas that the FKI was most concerned about. Throughout the whole period, these two issues show a consistently high percentage of policy recommendation, 21% each. Policy recommendations for foreign loans were concentrated in 1962-1963 when the state began to mobilize foreign capital and implement the Five-Year Economic Plans. Labor issues were exclusively handled by the Korea Employers' Association established in 1970 which focused on labor negotiation.

At least we can draw a significant implication from the preceding analysis of the state's role in accumulation, despite the difficulty in knowing how many of these recommendations have been adopted and actually implemented.¹²⁴ One example may help to understand this point. As discussed in chapter 3, the Emergency Measure of August 3 in 1971 - economic coup d'etat was implemented after a chairman of the FKI (Y.W. Kim) had a private (secret) meeting with the President Park Chung-Hee for more than 3 hours to discuss the seriousness of the economic problem and what measures would be needed to solve it. Later it was reported that the chairman himself did not expect such a drastic and resolute prescription and its effect - a complete freezing of corporate debt.¹²⁵

Other major policy recommendations include the construction and establishment of the various industrial parks: Ulsan Industrial Complex (1961), Kuro Export Industrial Complex (1963), Yeosoo-Kwangyang Petrochemical Complex (1970), and Masan Export Trading Zone (1969). The FKI had been also influential in foreign relations, including the Korea-Japan Normalization (1965) and Vietnam War, economic planning in export-led economic strategy, and finance in establishing provincial commercial banks (1973).¹²⁶

The organization of the FKI has been regarded as "Senator" (in Rome) and the chairman as "Prime Minister" or even "President" in the private sector of economy. As the economy grows, the members, staff, and organs of the FKI have rapidly expanded (Table 6.3). In addition, the FKI founded the Korea Economic Institute (a 'think tank') of which 111 members (largely composed of university professors) are to research and develop various policies for initiating a 'private-led' economy.

Table 6.3 Organizational Resources of the FKI, 1961-1985

Year	Personnel		Exec.*	Committee		Adjacent	Eco.**
	Member	Staff		Standing	Special		
1961	13	12	7	5	1	-	2
1968	125	51	11	5	1	-	2
1976	341	62	17	12	6	13	2
1979	414	139	28	12	5	19	18
1985	427	132	31	15	17	19	17

Source: reformulated from the FKI, 1985.

Note:* refers to the number of Office, Department, and Section.

** refers to Foreign Cooperation Assn.

As noted in Table 6.3, direct participation in the state apparatus by Korean capitalists has been less prominent. Instead, they 'recruit' state elites to protect and maintain their class interests. As of 1986, high corporate directors of 70 large corporations - (vice-) chairman, (vice-) president and executive director - have previous careers as seen in Table 6.4. Among the total 1,907, 632 (33.1%) of those high directors were scouted from outside the corporations.

**Table 6.4 Distribution of Top Executive Directors of
Corporations by Institution, 1986**

Institution	Chairman & vice-chair.	President & vice-pres.	Exe. Dir.	Total (%)
Government	46	84	47	177 (28.0)
Military	3	44	15	62 (9.8)
Finance	28	102	60	190 (30.1)
Business Assn.	55	55	5	115 (18.2)
Education	27	41	20	88 (13.9)
Total	159	326	147	632
(%)	(25.2)	(51.6)	(23.2)	(100.0)

Source: reformulated from C.J. Kong, 1989. p. 209

Note: (%) means percentage of the total number

Out of the 'outsiders', members from government and finance hold more than half of the total. Added to that, high corporate positions of chairman and vice-chairman was filled by ex-government officials. Those officials were in large part prime minister, deputy prime minister, and ministers related with economic affairs such as finance, communication and transportation, commerce and industry and so forth. There are mutual benefits involved; material benefits for the former and smooth government connections for capital.

Focusing on the LBGs, nearly two out of three corporate leaders were promoted from within the corporations. Politicians were rarely recruited, which reflects the locus of power within the ruling bloc in Korea. For example, out of ten largest business groups only Lucky-Goldstar had scouted two politicians as of 1985.¹²⁷ This pattern is also observed in the Japanese counterpart, "Amakura" -literally 'descent from heaven'. It seems not difficult to image that some sort of 'defence' mechanism is involved in hiring or scouting those influential in government. Both bureaucrats and bankers could possess special knowledge for the corporation while ex-military officials may be protecting the company through their political ties.

The high positions both in the business and the state bureaucracy have been occupied by those who had same educational background indicating possible 'informal' social networks which could facilitate exchange of information and

social affinity among them. For example, an ex-minister of Justice and Interior had been scouted for the position of Advisor to the Samsung Group's chairman, B.C. Lee. In the Daewoo Group, an ex-prime minister has held a chairman position after his office tenure. Since occupants of the highest position in a corporation usually oversee the overall business, it seems not unreasonable to expect such political ties as mentioned above.

The 'positive' effects of this sort of connection might be more visible in the middle-level officials who usually contact with corporate directors more frequently. The capitalists in Korea had a profound social bond with state bureaus such as the Economic Planning Board, Ministry of Finance, and Ministry of Commerce and Industry which especially had a direct impact on corporate strategies. As seen earlier, directors of the large corporations in Korea are highly educated. The same is true of government officials.

Although no specific information is available for social networks between state elites and corporate directors (e.g., school alumni associations), the affiliation with a few educational institutions by both types of 'elite' members reveals the possibility that such informal ties could exist and operate. Particularly, if the specific tasks they have handled within their bureau were concerned with corporate business, the chances of recruitment of those officials to the corporations concerned may increase. Of those government

Table 6.5 Government Officials in Corporation, 1985

Gov't Position	Chairman	Vice- Pres.	Exec. Dir.	Mang. Dir.	Total
Minister	11	-	-	-	11
Vice Minister	15	-	-	-	15
Deputy V. Minister	10	-	-	-	10
Middle gov't official**	45	21	22	14	102
Total	81	21	22	14	138
(%)	(58.7)	(15.3)	(15.9)	(10.1)	(100.0)

Source: Chongkyong Munhwa, March 1985.

Note: * also includes chairman, vice-president and adviser

** state bureaus directly responsible for economic affairs such as Economic Planning Board, Ministry of Commerce and Industry, Ministry of Finance, and Ministry of Construction.

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**Table 6.6 Educational Background of Gov't Officials in
Economic Bureaus**

Gov't Official	SNU	Yeonsei	Korea	Others	Total
M of Finance	75	6	16	22	119
EPB*	49	10	14	31	104
M of Comm & Ind.	45	5	12	29	91
Subtotal	169	21	42	82	314
(%)	(53.8)	(6.7)	(13.4)	(26.1)	(100.0)

Source: Shindonga, February 1990.

Note: * Economic Planning Board

officials above section head, it has been found that the majority (73.9 %) in charge of economic affairs came from the same prestigious universities like Seoul National, Yeonsei, and Korea.

B. Class Segment of the Capitalist Class

The structural Marxist idea is that the capitalist class is internally divided by conflicts of interest. These divisions are presumably serious enough to render the class incapable of achieving the degree of class consciousness and political unity required to rule the society in the interests of the capitalist class. Given this lack of class coherence, it is the state which must protect capitalist interests as a whole by insuring that private accumulation process operates effectively and that the essential legitimacy of the system is preserved. In order to accomplish these tasks, they argue, the state must have some degree of autonomy from the competing segments of the capitalist class. According to the structuralist view then, the state is not entirely free from the requirements of preserving the capitalist system, but it is free from the narrow, conflicting influences within the class that would undermine its broad and systemic mission (Poulantzas 1973).

1. Capitalist Class Segment I

It has been demonstrated that Korean capitalist class has continuously presented its economic interests to the state through the formal organization of the FKI and informal

channels of social networks, although its members have not directly participated in the government organ. Given this concern, nonetheless, I try to show that the property-owning class (owners/chairmen of the LBGs) in Korea constitutes a segment of the capitalist class, although whether this segment has succeeded in 'representing' the class interest as a whole remains to be seen.

Business organizations in Korea, like other societies, are organized to defend and promote the interests of a particular type of industry, e.g., Korea Automobile Manufacturing Association and Korea Textile Industrial Ass. These organizations are different from peak organizations which represent more general class interests and provide a forum for the discussion and articulation of policies that affect most major companies, regardless of sector or region.

As discussed earlier, the Federation of Korean Industry (FKI) is an example of a peak organization par excellence. With a level of access to the government decision-making process which few interest organizations can equal, since its founding in 1961 the FKI has assumed an undisputed role as a chief voice of the Korean capitalist class. The FKI has continuously negotiated with government ministries on practically all matters of any significance to business from finance to tax. The policies it puts forward have been developed by its adjacent research institute. Twelve standing and two ad hoc committees are responsible for the formulation

of positions on 'everything' from general economic policies to productivity research strategies and environmental legislation.¹²⁸

Since the association serves as a significant interface between business and government, direct participation in their affairs can have an important impact on the nature of policies collectively promoted or opposed by business. From the roles and scale of the organization, we can safely draw an implication that the FKI would represent class-wide interests and play an important role in translating its economic interests into the political arena, apart from special interest groups and associations. Government officials, bankers and ex-military generals have filled a high proportion of the executive positions of the FKI.

Of course, there are other 'general' organizations in Korea; the Korean Chamber of Commerce and Industry (KCCI) and the Korean Employers' Association (KEA) among others. Yet these organizations have been far less important than the FKI. For example, the KCCI has been a semi-state umbrella organization as seen in the appointment of the top directors while the KEA has been solely involved in labor relations such as wage negotiation.

To ascertain the thesis of 'class cohesion' of the dominant class, first of all, it is necessary to explore the membership of the FKI. Given the description of the FKI, we may assume that members of large corporations will be

disproportionately represented and are more likely to participate in government advisory bodies. A complete roster of council and committee memberships has been obtained for 1992 from the membership list and the high executive directors from the Company Yearbook published in 1993.

Even though the selected 200 firms may well represent the Korean industry as a whole and constitute a core of major firms, not all top directors may be in a position to represent the class-wide interests as analyzed in the preceding chapters. All 111 positions of the FKI are identified. Of these positions, it has been found out that 74 (66.7%) of the chairman and president of the 100 largest firms hold one of the positions in the FKI. The composition of occupancy of the positions turns out to be in favor of larger firms. Of the government officials, two ex-Prime Ministers and other ministries and bankers are found in the position of chairman and advisor.

One of the interesting points in the distribution of the FKI's membership is that almost all occupants (except government officials) have not only corporate directorship but are also themselves principal owners. As a result, the actual profile of the membership of the FKI turns out to be an organization of the 'propertied capitalist class'. Out of the 101 members of the businessmen, furthermore, 85 (83.3%) are the propertied class members who own and control large corporations in Korea.

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**Table 6.7 Membership of the FKI by Position
and Firm Size, 1992**

Position	Firm Size				Total
	1-100	101-200	201-	Gov't Off'l	
Chairman*	3	1	-	1	5
Adviser	8	-	-	2	10
V-chairman	15	1	-	-	16
Director	48	13	12	7	80
Total	74	15	12	10	111
(%)	(66.7)	(13.5)	(10.8)	(0.90)	(100.0)

Sources: compiled from the FKI (1992), Company Yearbook (1993), and A Handbook of Listed Companies (1993)

Note: includes honorable chairman (4).

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Table 6.8 **Membership Distribution of the FKI by Corporate Ownership, 1992**

Position	Propertied class	Non-propertied class	Total
Chairman*	4	-	4
Advisor	7	1	8
V-chairman	15	1	16
Director	59	15	74
Total	85	17	102
(%)	(83.3)	(16.7)	(100.0)

Sources: compiled from the FKI (1992), Company Yearbook (1993), and A Handbook of Listed Companies (1993)

Note: includes honorable chairman (3)

Among the propertied class, the members of the LBGs have taken more part in such positions than others. As of 1992, owners and their family members of the 50 largest business groups held the position of chairman (1), honorable chairman (2), advisor (6), vice-chairman (13), and director (48). These are the core group of the capitalist segment in contemporary Korea.

2. Capitalist Class Segment II

Advanced by the previous discussion of the segment of the capitalist class in representing class-wide interests in the peak organization of the FKI, we now examine the proposition that ascent to the top ranks of the FKI also enhances prospects for government appointment and other economic associations.

Class hegemony can be reproduced by the high incidence of representation of the corporate owners in governmental advisory organizations of all kinds such as the Advisory Council on Peaceful Unification Policy and business foreign relations organizations such as the Association of Economic Relations between Korea and U.S.. The disproportionate involvement of the 'inner group' members in institutional governance is expected, in part, because of their greater capacity to mobilize corporate resources and because of the likelihood that they would be more involved in a national and transcorporate social network of corporate directors. It is thus anticipated that these factors would result in inner group members more often being promoted for institutional governance positions by other members of the corporate directors.

The information of 'Who's Who' in Korea Annual (1990) provides the single most reliable and consistent directory of the Korean business 'elites' published in English and includes

the birth date, education, previous career, and present position. Total number of 402 businessmen are identified.

Government advisory body includes Advisory Council on Democratic and Peaceful Unification, National Unification Board, Honorable General Counsel of Malaysia in Korea, for example, and various economic relationship associations between countries; Korean-U.S. Economic Cooperation Committee and Korean-Japan Economic Cooperation Committee, etc.

For clarity of analysis, the sample group of businessmen are initially divided into two - those who hold a principal corporate share of stock versus those who do not. Since the source of information does not contain such information, a cross-checking procedure has been made by consulting A Handbook of Listed Companies. In each group of the sample, an additional division has been made in terms of the directorship of the FKI. We then examine the rates of government advisory service for four groups: propertied directors with a high position in the FKI; non-propertied directors with a high position; propertied directors without a high position; and non-propertied directors without. The high positions is defined as those positions analyzed above; chairman, advisor, vice-chairman, and director.

The rates of appointment to public boards and other advisory positions are shown in Table 6.9, where it can be seen that both ownership and the directorship of the FKI do serve as formal 'gate-keepers' for business access to

government.

The total number of the observed cases is 360 businessmen and 136 positions in the governmental advisory bodies. The number of propertied and non-propertied class members are observed to be almost evenly distributed, 174 and 186. Yet the distribution based on the FKI's directorship is skewed in number, 72 and 288, although the frequency is not so much skewed, 64 and 72. For a precise analysis, the statistical method of chi-square would be demanded. But, without such a technique, a simple comparison would demonstrate the density of the participation rate of each cell.

First of all, it is observed that both 'variables' of the ownership and directorship have great effect on the differentiation of the compared cases; the ratio of the number of person of the frequency shows 0.59 and 0.18 (3.3 fold) for the ownership and 0.88 and 0.25 (3.5 fold) for the directorship, which mean that those who are either the propertied class or hold membership in the FKI are more than three times likely to be appointed to governmental advisory positions.

Second, propertied class members with the FKI directorship are more likely to be appointed than members of the non-propertied class (0.94 vs. 0.43), although the number of cases of the latter is small. Likewise, propertied class members without the directorship shows more likelihood of appointment than their counterpart (0.59 vs. 0.18).

Table 6.9 **Distribution of the Membership of Governmental
Advisory Body by Ownership and Directorship, 1990**

Category	Propertied class		Non-propertied class		Total	
	No.	Freq.	No.	Freq.	No.	Freq.
Directorship	65	61	7	3	72	64
(ratio)	(0.94)		(0.43)		(0.88)	
Non-direct.	109	42	179	30	288	72
(ratio)	(0.39)		(0.17)		(0.25)	
Total	174	103	186	33	360	136
(ratio:freq./no.)	(0.59)		(0.18)		(0.38)	

Sources: complied from the FKI (1992), Company Yearbook (1993), and A Handbook of Listed Companies (1993)

Surely, the purpose of the analysis is not to show the difference of the numbers and ratio per se. Even though the size of the sample seems small - albeit reliable, the sample includes most members of the owning class of the large corporations in Korea such as the largest 50 business groups.

A theoretical implication we can draw from this analysis is that the functional differentiation between 'owning' and 'managing' classes has been observed in Korea as seen in the greater participation of the propertied class (with directorship of the FKI) in the governmental advisory organ. Of course, the participation cannot be in itself measured against the political dominance of the class. What seems clear is that there exists an internal difference within the capitalist class; propertied vs. managerial class. An assessment of the differentiation would require further elaboration which is beyond this study, however. One thing pointed out is that the propertied class constitutes the "innermost inner group" of the capitalist class in Korea.

The core segment of capitalist class not only maintains an exclusive claim over property ownership but also plays a critical role in representing their interests through the participation of the FKI and the appointment in public boards. This finding strongly supports the theory of the class segment advanced by Useem, and Zeitlin to name a few. The single most critical factor underscoring the segment thesis in Korea is, however, property ownership.

The ways in which this ownership is maintained and reproduced in Korea is the network established through familial kinship as analyzed in chapter 4. Zeitlin's study on Chile has explored structural differences in organizational forms and kinship ties within the segment. While the class segment in Chile has wide and diffuse networks, the counterpart in Korea evolves more limited networks. This is partly due to the historical development of capitalism in Korea, the lack of 'independent' financial capital.

To reiterate, power cannot necessarily be equated with participation, although there is a strong relationship between these analytically separate dimensions. Thus, it should be emphasized that the overrepresentation of inner group members in governance does not automatically imply that they are decisively shaping the policies of the subject institutions.

In the following section, I address the issue of 'state autonomy' by exploring the changes taking place since the 1980s in Korea - it can be understood as an extension to the presentation in chapter 3 (an analysis of the historical development of the state's intervention and capital's concentration). This issue will be approached from a macro-level with concrete examples. Against the theories and arguments of the 'strong state', this analysis argues that the material basis of the capitalist class has tended to undermine the relative 'strength' of the state power. I present two important cases to pinpoint the tendency; state regulation of

credit, and landholding which are regarded as the crucial factors in the reproduction and expansion of capital.

C. The Changes in Autonomy of the State

The political legitimacy of military government is fragile. The Park regime attempted to restore legitimacy through economic development with the creation of the 'development alliance' with large domestic capitalists. Since Chun's regime, however, conflicts within the power bloc have become acute because of changes in the mode of intervention and the state's will to maintain control over market. Politically, the newly established military regime designed to gain popular support by allying with technocrats within the state elite who possessed liberal orientations towards market and social reform. The top military rulers tried to formulate an alliance with newly rising business groups while keeping some distance from the existing LGBs in order to avoid negative images associated with authoritarian political rule and collaborative capital accumulation during the Park regime.

By the late 1970s, growing concentration and the collaborative relations between big capital and the state had become a political liability. As seen earlier, it was not uncommon that large firms during the Park regime paid 'political taxes' that financed the ruling party in return for

favorable treatment from discretionary policies of credit allocation.

The regime needed a new political rationale for gaining legitimacy. Unlike the previous "growth-first" ideology, the Chun regime presented a 'reformist' orientation in the political slogan of "justice, welfare, and democracy". This was the antithesis of Park's developmental state. In an inaugural speech in 1980, D.W. Chun declared that;

The Park regime achieved a remarkable economic growth during the 1960s and 1970s. But during this rapid industrialization, there were malpractice which had penetrated into our society such as illegal wealth accumulation, wealth disparity, materialism, degraded morality etc... Therefore, we must demolish those 'evils' and establish genuine democratic, welfare, and just society.¹²⁹

Reminiscent of Park's illegal Wealth Accumulation some twenty years ago, the state attempted to devise an irrevocable law to punish large capitalists associated with ill accumulation immediately after taking power in 1979. Yet this time it was not so easy to punish them because of their dominance over the Korean economy. Compared to Park's era, the scale of the capitalist corporations had grown at unprecedented speed. These corporations were not merely

national but also global in scope. Foreign capital has become more concerned about the local political situation. At this juncture, it was reported that the harsh stance toward the Korean capitalists stimulated foreign investors and companies to consider withdrawal of their investment capital from Korea. Amidst the widespread shrinking of investment, the Prime Minister finally came to announce a repeal of the Law.

In response to the initial state action, large capitalists did not remain silent; they organized themselves and exerted influence through various channels. Well aware of the LBG's hegemonic position in economy, they addressed two points; the large business groups have been in fact a backbone of production, employment, and exports and "without economic stability, no political stability".¹³⁰ The very economic dominance of the LBGs is one of the major themes throughout the following discussion.

1. Credit Control

As discussed previously, credit control has been a powerful state means of achieving the developmental goal of economic growth. It has been demonstrated that credit has been allocated in favor of the LBGs. Why then did the state suddenly regulate the flow of credit? Since the regulation of credit meant a limit of volume of credit to the private

economy, the state used it as a powerful policy instrument against inflation. Statistical figures show the decline of credit volume; it was brought down from 41% in 1980 to 30% in 1982, most spectacularly 16% in 1983 and 13% in 1984.¹³¹

The onset of the 1980s in Korea like elsewhere saw an economic slowdown driven by the second oil shock and protectionism externally and production loss caused by overinvestment in the HID. Foreign financial institutions which offered massive loans to Korea had proposed a "stabilization" program which was supposed to reduce the level of inflation.¹³² Top level economic technocrats in the state organ -the Ministry of Finance and Economic Planning Board - well recognized the significance of the problem. Credit regulation came at this juncture, especially preferential credit such as the National Investment Fund and export-subsidized credit.

In reducing credit to the private sector, the state revised a preferential financial scheme that had previously been extended to particular industries. The preferential credit subsidy which sustained a close state-capital alliance during the Park era was reformed. For instance, such preferential finance accounted for 51% of total domestic credit in 1978. The ratio was cut to 40% in 1982-1984. In addition, the export loan interest rate was raised to 15% in 1980, which predominantly had gone to the LBGs (the nine GTCs which are connected to those groups, accounted for around half

the country's exports), and extended on roughly the same terms as other loans.¹³³

As mentioned earlier, the National Investment Fund (NIF) - fundamental in financing the heavy and chemical industrial sector - was gradually reduced. Yet the ratio of preferential loans to total bank loans presented a different trend. In 1982, it was 62%, a 6% increase from 1980; it increased to 68% in 1983 and to 70% in 1984. These figures suggest that, while the growth of overall domestic credit to the private sector was being reduced as a stabilization purpose, the relative share of preferential financing to total bank credit actually increased.¹³⁴

The state imposed a tight-credit regime on the country's 30 largest business groups, which were instructed to hold their net borrowing down to 1983 levels. Companies were urged to sell property holdings and business outside of their "mainstream" business.¹³⁵ In a word of vice-prime minister and the head of Economic Planning Board;

Big business in Korea has grown out of bank credit. Now is the time for big business to stand on its own feet. Big business should depart from its dependence on the government and inefficient investments. Big business' argument that bank control of credit will not allow investment in high-tech fields is nonsense. Before it demands any

additional bank credit, it should get rid of redundant subsidiaries and improve corporate financial structures.¹³⁶

Added to the tight-credit policy, the state took advantage of the financial system, ordering that 35% of all new bank loans be allocated to small and medium-size companies. As a result, there was increasingly open conflict between the state and big capital, with large firms seeking to hold business confidence and economic performance.

Against the credit control, the Federation of Korean Industries (FKI) launched a political counterattack. The FKI claimed that the economic concentration was necessary to achieve economies of scale, that controls on credit to the LBGs would depress investment, that a weak corporate financial structure was the result of state policies, and that they have followed the state's priorities in making investment decisions (e.g., heavy and chemical industries).¹³⁷ The critique that the state failed to implement state policy consistently would have been unexpected under previous regimes. Again in 1985 when national debt reached its peak (US \$43 billion), the FKI president (then chairman of Hyundai Group) Chung Ju-Yong became an increasingly vocal opponent of state policies which had aimed at cutting down the growth of debt outstanding to the LBGs.¹³⁸

Whether the FKI's assertion was effective or not, the

actual flow of credit proved to be in favor of the LBGs, despite the original state's intention to reduce the financial support to the private sector and the LBGs. In 1983, for example, the thirty largest business groups accounted for 48% of total bank credit; five largest groups alone - Hyundai, Samsung, Daewoo, Lucky-Goldstar, and Ssangyong - accounted for 24%.¹³⁹ That is, the pattern of credit allocation remained unchanged, implying a limited choice of state leverage over big capital. It was an irony since the powerful instrument of state intervention, control over credit, ultimately generated obligations that turned out to be difficult to abandon.

Due to the economic dominance of the LBGs and consideration of political stability, the state could no longer uphold the tight- credit regime - "without economic stability, no political stability". Big capital had a wonderful leverage against state regulation; an expansion of credit was needed to boost investment and avoid 'national default'. The reason underlying the limited regulation over capital is concisely put by the World Bank (1987:123).

Ironically, policies which curtail chaebol expansionism in hopes of reducing the extent of nationally-borne risk may serve concomitantly to raise the risk of derailment.

The efforts to regulate big capital were structurally constrained by the latter's very position in overall economic activity, i.e., production and employment; the combined revenues of the top four business groups-Samsung, Hyundai, Lucky-Gold Star, and Daewoo - topped \$80 billion, or an astonishing 60% of Korea's total GNP of \$135 billion. Out of a total of 35,971 firms registered in the manufacturing sector, firms belonging to the top 30 conglomerates numbered only 271, or less than one percent. Yet these 271 firms accounted for 40.7% of sales, 33.2% of the value added in production, 37.2% of fixed assets and nearly 20% of employment. The average share of the top three producers in all manufacturing industries was 62% in Korea, compared to 56% in Japan. In terms of sales, the ten LBGs accounted for a staggering 72% of total sales in 1987.¹⁴⁰

2. Land Regulation

For the first time since the Fifth Five-Year Economic Plan, a social dimension of development has been introduced in Korea which signals the importance of equity and social harmony. The inclusion of social welfare in the state expenditure program demonstrates that equity has been sacrificed at the expense of growth. However adequate the thesis of economic 'miracle' with growth and equity was (e.g.,

Rao 1978), economic deprivation of the majority of working class and groups has been enormous, let alone political repression (Long 1977; Launius 1984; Lansberg 1987, 1988; Lie 1991).

It has been often pointed out that compared to other third world countries Korea has shown a less uneven pattern of income distribution during the period of the rapid economic growth. For instance, while the top 10% of the population in Korea receives 28% of household income, in Brazil this same group receives over 50%.¹⁴¹ For the academic or policymakers, this comparative figure may be more comfortable but the deprived classes are more likely inclined to compare neighboring classes. In fact, the distribution of income was worsening in Korea. Between 1970 and 1980, the income share of the bottom 40% fell from 19.6% to 16.1%, and the income share of the top 20% climbed from 41.6 to 45.4%.¹⁴²

Not only incomes but also wealth should be accounted for an adequate measure for economic equity. Due to scarce information on wealth, housing cost may be used as an index of economic inequality in Korea. Table 6.10 shows the increase of land price far exceeded housing, GNP, and inflation. Although there is no comprehensive and clear-cut evidence for who possesses the socio-economic assets of land, the speculative business on land has been mainly responsible for the rising prices of land and housing costs.

**Table 6.10 The Increase Rate of Land and Housing Price,
GNP Growth and Inflation (%)**

Category	1975 (A)	1980	1985	1988 (B)	B/A
Land	100	328	534	839	8.4
Housing	100	355	397	467	4.7
GNP	100	174	211	288	2.9
Inflation	100	224	289	364	3.6

Source: Economic Planning Board, 1990.

The socio-economic problems associated with the hike of land (and housing) prices in the late 1970s (inflation went up as high as 30%) was so serious that the state came to regulate credit in the early 1980s. Then the state forced the LBGs to sell off land unrelated with business operation although improving corporate financial weakness was a primary purpose. This measure included; (1) disposal of non-business land and prevention of further landholding; (2) regulation of excessive company merger and specialization of firms; (3) prevention of bail-out finance for 'troubled firms' in principle; (4) strengthening of credit control for efficient promotion of bank loans.¹⁴³

Specifically it was ordered that 26 top LBGs dispose of

166 firms out of 631 affiliated firms and sell 4,129,000 pyong (a pyong equals about 1.8 square meter) of non-business land. This measure seemed at first effective when the LBGs reorganized through mergers and selling. Yet the LBGs immediately expanded their size by establishing or purchasing 120 small and medium-sized firms. When the Korean economy recovered from recession, partly due to domestic stabilization program, export marked surplus first in history and inflationary pressure came into fore. This economic circumstances led to a fertile ground for profit-making through land monopolization by capital. As a result, land speculation was wide and volatile during the economic boom.¹⁴⁴ Higher land prices means windfall gains for some, but they have also triggered cost-push inflation, with workers demanding higher wages to pay for higher housing costs. The massive workers' strikes shows the economic cost of the demand for social justice and the rocketing real-estate prices.

The annual increase in land values in 1988 came to an estimated 68 trillion won, amounting to 55% of GNP, 135% of the total wage income for all of the country's workers, 171% of manufacturing output, and 303% of government expenditure. In addition, it was estimated that capital gains from land increased from 10.9 trillion won (\$10.9 billion) in 1985, 12.3 trillion (\$ 12.3 billion) in 1986, and 34.3 trillion (\$34.3 billion) in 1987.¹⁴⁵

In 1988 alone the leading thirty LBGs had expanded their

real estate holdings to 429 million square meters of land valued at some \$15 billion, plus 45,000 square meters of buildings.¹⁴⁶ Of the total holdings, land set aside for plant construction for production purposes was below 10%, the rest apparently being reserved for speculation. For example, Samsung Group purchased 1 trillion won (\$1 billion) worth of land during 1985-1989 (74% of total land holdings), four times its investment in production. Other Groups like Lotte, Kia, Keumho, and Doosan intensively purchased land during the same period, far exceeding investment capital. As of 1988 those five largest business groups like Samsung, Hyundai, Daewoo, Lucky-Goldstar, and Hanjin possessed real property worth half of the total 10 trillion won owned by 30 LBGs.¹⁴⁷

One result of the speculation is that the gap between those who have (land) property and who do not has been widening. An estimate is that about 1.3% of the population (54,000 people) own the lion share (65%) of all private land. Among those land owners, 403 companies own at least 500,000 pyong monopolizing 67% of total land. Of the 900 million pyong held by these large landowners, only 1.5% is used for business purposes.¹⁴⁸

Land monopolization caused rising land prices and further difficulty in meeting housing expenditure for the majority of the urban working class. Thus, the issue of land monopoly has brought about a new political agenda for the state much like capital concentration in the early 1980s.

Table 6.11 Land Holdings by Large Business Groups, 1988
 (100 million won)

Group	Bank loan	Equity ratio	Real estate	Total sales
Samsung	20,428	16.6	13,386	212,484
Hyundai	14,886	18.9	13,737	190,304
Daewoo	11,655	17.0	9,466	104,014
L. G.	13,783	19.7	11,631	156,022
Hanjin	1,488	16.9	3,066	28,119
Ssangyong	3,878	30.7	3,343	43,163
Sunkyong	7,111	22.0	3,695	63,888
Korea Explo.	2,800	34.6	4,982	23,626
Dong-a Const.	3,017	3.3	1,039	20,296
Lotte	2,241	45.3	3,422	20,003
Total (top 10)	81,287		67,767	861,919
Total (top 30)	120,449		100,532	1,071,944

Source: J.W. Chun, 1989. p. 332

Regardless of capital gains from speculation and hedging against inflation, capital's interest in land holding in Korea can be best explained by customary lending policy; large firms are more easily to receive bank loans than small and medium-sized firms because the former holds large amounts of real property. As shown in Table 6.11, Korean leading LBGs massively invested in real estate despite their low equity ratio.

Socioeconomic consequences of the land monopolization and speculation were apparent. As against "welfare, justice, democracy", the living conditions for the urban working class was worsened as manifested in the massive workers' strike in 1987 and 1988, and the demand for higher wages. It was in this context that the state undertook a land reform policy to mollify the rising popular resentment. The increasing popular sectors' awareness of deteriorating living standards and the housing question had led state managers to undertake a quasi-popular reform, curtailing the problems associated with land monopolization.

Indeed, the political crisis driven by the 'land question' became to shatter the very base of political power. It was conceived by state managers as a challenge to the capitalist system itself, unless distributive issue would be further set aside at the cost of growth. The 'perceived threat' can be best seen as follows; "in order to prevent the capitalist system from collapsing because of the rising

inequality in asset ownership we should have changes". Referring to the situation of the French Revolution when 1% of population monopolized 90% of land, the President's Economic Adviser insisted on the necessity of radical land reform in Korea.¹⁴⁹

The land reform undertaken during the late 1980s was therefore a direct response to the crisis situation. It demanded for haves (capitalists) "costs for maintaining [the capitalist] system", in addition to secure political legitimacy. The state eventually formulated regulatory policies which were intended to undercut land speculation and thereby to channel financial sources into productive sectors of economy through taxation.¹⁵⁰

Since such a land reform policy would alter distribution of property and power, it inevitably faced severe confrontations from various sectors of the state apparatus and chaebol groups. The deep interest of the LBGs in land property frustrated the state's efforts in dealing with a more equitable distribution of land. In the process of law-making in the legislature, the core of the policy was dropped out.

The issue of the state's land regulation reform was no other than another instance of the limited state autonomy from the dominant economic class in Korea. The failure of the policy is not attributed to the absence of the state capacity, but rather to the market dominance of big capital. The market structure dominated by big capital was an effective leverage

against state regulation to redistribute societal assets of land and financial resources.

Overall, the state's various attempts to regulate the growth and market dominance of the chaebol in the 1980s including land reform have not been particularly successful, despite the state's efforts. This is so because there is an inherent contradiction in the state policy of economic growth which concentrates private economic power while at the same time tries to control this process. The autonomy of the state from capital's interests was increasingly circumscribed in tandem with the diminishing role of market intervention.

The state's autonomous power has been further circumscribed by 'politicization' of economic issues in the wake of the political democratization taking place since 1988. Executive dominance has been gradually undermined along with market-conforming ideology and less state interventionist practices. The state could no longer monopolize important decision making without consultation and even the support of the business community. The rise of the LBGs' power has altered state-capital relations. The following observation explicitly reveals the apparent process taking place in Korea since the 1980s.

The Korean example clearly testifies that the developmental state creates the seeds of its own destruction. The Korean state has been instrumental

in the creation of private business groups, chaebols, as a basis for securing cooperation for its industrial policy and enhancing its autonomy in implementing its strategic goals. The recent evidence suggests, however, that the Korean state has been increasingly unable to control or monitor the activities of the chaebols. In fact, the relative power and autonomy of the chaebols have increased dramatically in the course of the liberalization drive during the 1980s, which in turn has progressively limited the capacity of the state to control the actions of these groups and to direct them towards strategic goals.¹⁵¹

Conclusion

Two themes were explored in this Chapter. One is about the modes of political representation of the Korean bourgeois. The other is the internal differentiation between propertied and non-propertied segment of the capitalist class. The segment of the capitalist class in Korea - big capitalists, unlike its counterpart in the West did not directly participate in state apparatus mainly due to the military rule over the past three decades.

The recruit of influential state elites into the business community served to protect and promote capital's interests, whether the mode of connection is collaborative or corporatist. Prime ministers and ministers charged with economic affairs were 'scouted' to the LBGs. The members of the LBGs were connected with state elites through marriage as explored in the preceding Chapter. Nonetheless, it was found that critical division occurred within capitalists in terms of the degree of their ability of translating economic interests into political arena. Owners and their family members of large corporations are more successful in transmitting their economic interests into the arena of politics as demonstrated in disproportionate occupancy in directorships of the FKI and participation in the government advisory organs.

CHAPTER 7. SUMMARY AND CONCLUSION

This research attempted to explore the formation and structure of the dominant wing of the capitalist class in Korea. Based on the conceptual premise that class is defined in terms of objective structure of production, this study demonstrates that owners and their family members of the large business groups in Korea constitute the core segment of the capitalist class. They own enormous means of production and property in the form of family and corporate ownership and claim absolute management control over the large corporations. They are, by any standard, capitalists par excellence.

Chapter 2 provided an analysis of the social origins and ascendance of the incipient industrial bourgeoisie. The contemporary large industrial capitalists mainly comes from middle and low level of social strata. Land reform and foreign aid were critical to the formation and expansion of industrial capital. The first intra-class friction between landlords and industrial capitalists ended with the close of the formative period of capital accumulation.

The process of capital accumulation and monopolization of big capital became accelerated since the 1960s. At the heart of this process lay the state as banker. The state has remained a 'faithful partner' with industrial capital by selecting and allocating financial funds and controlling interest rates. The speed and scope of capital accumulation

was indeed unprecedented even compared with other developing countries.

In Chapter 3 I examined the 'developmental alliance' that established by big capital and state since the 1960s. The chosen businessmen were big capitalists and their relationship with state elites were collaborative. State elites acquired funds to maintain political rule viz-a-viz allocation of foreign loans. While the collaborative relationship was in part a central pillar to sustain the 'Korea Inc.', it also eroded moral legitimacy for the Korean bourgeois. The specific mode of connections between capitalists and state elites have been identified - 'kickback' practices of donation of political funds and favorable treatment for big capitalists. This research showed that those reciprocal practices were rampant because of their favorable access to the scarce financial funds.

Due to external pressure and internal contradiction of accumulation, regulatory power of the state over monopolistic industrial capital has tended to diminish in the course of liberalization and the weight that largest business groups hold in the economy has increased. While the Park regime exerted greater control over domestic capital through various financial means, the 1980s witnessed that the state became increasingly constrained by structural conditions embedded in market-conforming imperatives. Big capitalists even came to claim that they no longer wished the state to interfere on

their behalf.

The balance of power between the state and capital has tended to tilt in favor of capital, not because capital succeeded in colonizing the state apparatus through direct participation, but because the state has begun to change its mode of intervention from finance to market liberalization. It is not yet clear whether the capitalist class will directly translate its economic power into political rule given the consistent concern and criticism over the economic monopoly.

In Chapter 4, I examined in detail the contemporary internal structure of large corporations with reference to ownership and control. The vast majority of means of production are on the domestic bourgeois' ownership which reflects the economic strategy of exclusion of foreign capital in the form of direct investment. The exclusive ownership of the nation's large corporations by domestic bourgeoisie was responsible for the state's role as banker, mediator and guarantor of foreign loans. Under the domestic ownership, small number of corporations monopolized the nation's economic assets.

In Korea the dominant segment of Korean capitalists own and control the nation's large corporations. The findings of this study support the critics of "managerial revolution" which assert that capital-owning class maintained effective control over large corporations under the impersonal ownership form of financial institutions in advanced capitalist

societies (Zeitlin 1974; Scott 1979). In Korea, similar pattern of ownership is disclosed in the form of pyramiding and legal device (intercorporate ownership). Through property ownership, the Korean bourgeoisie has succeeded in reproducing its management control. Family ties protect property ownership and class interests.

Chapter 5 examined the mechanisms of class reproduction of the dominant segment of the capitalist class in terms of succession, marriage, education, and ideology. First, transfer of economic capital to family members was successful. Kin ties as the effective means of social capital are foremost and crucial for maintaining common class interest among dominant class. The propertied class are extensively interwoven with other members of the class, political elites, and other prominent and reputable social groups. Second, educational credentials for founders and their heirs (most eldest son) shows the significance of conversion of economic capital to cultural capital. Almost all second generation of the large business groups received fine college education abroad, especially in the U.S. There is no significant difference between propertied and non-propertied directors in terms of educational credentials which is a necessary qualification for acquiring higher management positions, though. Added to this, finally, social affinity associated with regional origin has made certain effects on the discriminate practices of recruitment and unequal development. There exists in Korea

great educational barrier to the corporate community. Directors of the large corporations graduated from only small number of educational institutions. Directors specialized in more overall management of business such as law, management of business, economics, and administration held higher corporate positions.

Despite the economic dominance, however, the Korean bourgeoisie lacked moral legitimacy in contrast to Western counterparts. The absence of moral legitimacy was due to their illicit accumulation of wealth and support of military rule. The ideas expressed recently demonstrates clearly that they are well aware of this problem and thus attempt to gain consensus from the public.

In Chapter 6, I examined the degree and mode of political representation of the capitalist class and internal differentiation within the class. Direct participation of the businessmen in the government bureaus in Korea was not significant compared with advanced societies and Chile (Domhoff 1973; 1980; Scott 1991; Zeitlin and Ratcliff 1988). This accounts for the different formation and structure of the ruling class in Korea where state elites - the military and economic technocrats - wielded much political power. Yet the dominant segment of the class has been successful in transmitting economic interests into the policy-making process through the peak organization of the Federation of Korean Industries.

In terms of the internal division, members of the large corporations in effect overrepresent their class interests than non-propertied and small capitalist class. The political organization of the FKI has formally represented the views and economic interests of the dominant capitalist class. It seems that "class-wide rationality" of the propertied capitalist class will become apparent in a foreseeable future, especially in a situation where private-sector-initiative on economic affairs tends to gain weight.

The general conclusions drawn from this research are as follows. First, internal composition of the Korean bourgeoisie has much to do with its course of capitalist development. The internal divisions within the class were closely related with historical contingency - land reform and state's role of banker. The important difference between Korea and advanced societies is therefore the exclusive dominance of industrial capital. Due to the lack of the independent development of financial capital, the Korean industrial bourgeoisie maintain the sole hegemonic power in the realm of economy. Without finance capital, industrial capital in Korea became the dominant segment. Furthermore, a relative lack of foreign direct investment carried by transnational corporations (TNCs) provided a fertile ground for the hegemonic position for the Korean industrial bourgeoisie. Along with state's program of financial liberalization, Korean big capital increased ownership holdings of the bank capital in the present

circumstance where insurance companies and other important financial intermediaries were already under the effective control of the large industrial corporations. The fusion of industrial and bank capital will increase capital's power of mobilizing financial resources.

Second, this study supports class hegemony theory against managerialist claims. Korea's modern large production facilities are under ownership of local bourgeoisie and property owning class did hold effective control over the corporations. Against claims advanced by managerialists, I argue that there exists no division between ownership and control in Korea's large corporations. At the core of the connection between ownership and control lies property owning class families. The members of the class are interconnected with other members of Korea's ruling class. The internal class reproduction mechanism is not entirely different from findings by power structure researchers in U.S. Most critical factor underlying the class hegemony in Korea is the ownership of property and social networks established to consolidate class unity.

Third, even if the segment of the dominant capitalist class maintains monopolistic economic power, their exclusive claim over corporate control and their overrepresentation of class interests through political organizations outside the economic field, however, their hegemonic rule over 'civil society' is not complete Ideological hegemony remains a thorn

and knot for the Korean bourgeoisie who lacked moral legitimacy. The historical development of Korean capitalism with great influence by the state has been carried out without popular legitimation.

APPENDICES

APPENDIX A BASIC DATA

NAME	DBH	PBH	LE	IB	FJ
BAE, JONG-RYUL	1938	5	2	4	-
BAEK, WOOK-KI	1919	5	0	1	-
CHANG, KYONG-HO	1927	5	2	1	-
CHO, HONG-JAE	1906	5	3	5	-
CHO, JOONG-HOON	1920	4	1	2	4
CHOI, JONG-KUN	1925	4	2	7	-
CHOI, JONG-WHAN	1925	4	2	4	5
CHOI, JOON-MOON	1920	2	2	4	3
CHUNG, IN-WOOK	1912	6	3	7	1
CHUNG, JU-YONG	1915	3	1	5	3
KIM, DOO-SHIK	1925	4	2	6	-
KIM, HAN-SOO	1922	5	1	1	2
KIM, IN-DEUK	1915	5	2	3	3
KIM, JONG-HEE	1922	2	2	7	-
KIM, JOON-KI	1944	3	3	4	1
LEE, BYONG-CHUL	1910	5	3	5	1
KIM, SONG-KON	1913	5	3	1	?
KIM, WOO-JOONG	1936	5	3	3	5
KIM, YUN-SOO	1896	1	3	7	1
KOO, IN-HOE	1909	5	1	1	1
LEE, IM-YONG	1921	5	2	6	3
LEE, JAE-JOON	1917	4	1	4	3
LEE, WON-MAN	1903	5	2	3	2

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LEE, YANG-KOO	1916	6	1	1	2
LIM, DAE-HONG	1920	1	2	3	3
PARK, BYONG-KYU	1923	1	1	7	3
PARK, DOO-BYONG	1910	4	2	1	3
PARK, IN-CHUN	1901	1	1	2	3
SHIN, KYURK-HO	1922	5	2	6	2
SUH, SUNG-WHAN	1923	6	1	1	3

VARIABLE

DBH: Year of birth

PBH: Place of birth

- | | | |
|--------------|-----------------|-----------------|
| 1. Chollado | 2. Chungchongdo | 3. Kangwondo |
| 4. Kyonggido | 5. Kyongsangdo | 6. Ibuk (north) |

LE: Level of education

- | | |
|-----------------|----------------------|
| 0. No Education | 1. Elementary School |
| 2. High School | 3. College |

IB: Types of initial business

- | | | |
|----------------------|---|-------------------------|
| 0. Others | 1. Haberdashery | 2. Transportation |
| 3. Trading Company | 4. Construction Company or Material Sales | 5. Rice Shop or Milling |
| 6. Small Manufacture | 7. Large Manufacture | |

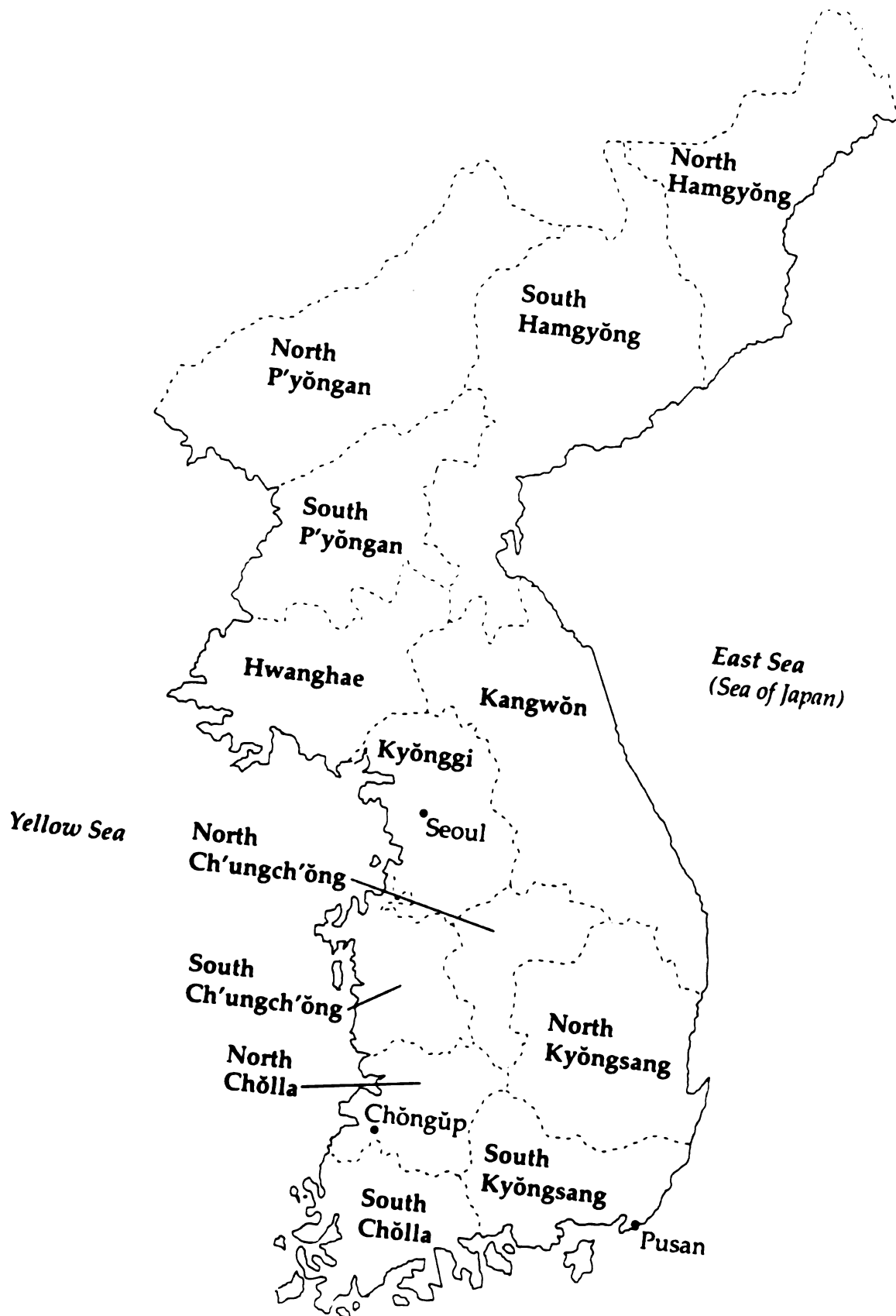
FJ: Father's Job

- | | | |
|-------------------|------------------|-----------------|
| 1. Landlord | 2. Medium Farmer | 3. Small Farmer |
| 4. Small Merchant | 5. Others | 6. Unknown |

APPENDIX B LIST OF LARGE BUSINESS GROUPS

- | | |
|-------------------|-----------------------|
| 1. Hyundai | 16. Donga Costruction |
| 2. Samsung | 17. Dongkuk Steel |
| 3. Lucky-Goldstar | 18. Sammi |
| 4. Daewoo | 19. Haitae |
| 5. Sunkyong | 20. Miweon |
| 6. Ssangyong | 21. Kangwon Industry |
| 7. Hanjin | 22. Hanil |
| 8. Lotte | 23. Samyang |
| 9. Hanhwa | 24. Hanyang |
| 10. Hyosung | 25. Byuksan |
| 11. Doosan | 26. Tongyang |
| 12. Daelim | 27. Taekwang Industry |
| 13. Kolon | 28. Dongkuk Trade |
| 14. Dongboo | 29. Pacific Chemical |
| 15. Keumho | 30. Samhwan |

APPENDIX C THE REGIONAL MAP OF KOREA



ENDNOTE

ENDNOTE

1. Fortune, "The World's Biggest Industrial Corporations" July 29, 1991. Among the 11, only one firm - Pohang Iron and Steel corporation - is public enterprise.
2. An exception is J.J. Suh (1988) The Formation of Capitalist Class Ph.D diss., Dept. Sociology University Hawaii Honolulu.
3. The different conception of class is inevitably related with 'socialist' strategy. E. Thompson's later critique against Althusser is about the 'agency' in contrast to 'structure'. The long essay article in the Poverty of Theory, 1968.
4. Y.I. Chung, 1985, "Chaebol Entrepreneurs in the Early Stage of Korean Economic Development" p. 23.
5. Military 'juntas' who took power in 1961 came mainly from Kyongsang provinces (e.g., General Park Chung-Hee) were hostile toward northerners when they treated 'illicit wealth accumulation'. J.H. Kim, 1964, "A Report on the Treatment of Illicit Accumulation" and B.Y. Park, 1982, Chaebol and Politics.
6. H.S. Hwang, 1985. "Agriculture and Land Reform Policy under the United States Military Government".
7. The major contents of this ordinance are as follows: (1) Tenancy stemmed from appropriation or utilization of land and other assets should not exceed one third of the total products acquired, regardless of current contract conditions; (2) The tenant contract fitted with the conditions remains valid and it is not permitted that landlords arbitrarily terminate tenant right during the valid period; (3) In the case of new tenant contract, extension, and renewal, it is illegal to make a tenant contract beyond the limit of one third. The Ministry of Agriculture, 1970, A History of Land Reform, p. 337.
8. S. McCune, 1948, "Land Redistribution in Korea". It was found that out of the total 98 members, 'left' members were no more than 10 (10.2%), H.S. Hwang, 1985, p. 276.
9. B.T. Kim. 1981. "An Evaluation and Reflection of Land Reform".
10. Donga Ilbo, April 24, 1974 "A Secret Story: Land Reform". Quoted from I.H. Yoo, 1981, "The Unfolding Process and Nature of Land Reform After Independence" p. 395.

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11. I.H. Yoo, 1980, pp. 394-95.
12. J.H. Lee, 1981. "A Particularity of the Formation of Korean Capitalism" p. 109.
13. For the Occupation Government in Japan, the prevention of revival of 'militarism' was a major concern so that the reform could be accomplished to the full. J.H. Lee, 1981, p. 112.
14. Congress Records, March 12, 1949. Quoted from I.H. Yoo, 1981, p. 441.
15. Ibid. p. 442.
16. Ban et al. Rural Development 1980, p. 290
17. M.H. Choi, 1960. "A Review of Korea's Land Reform" p. 67.
18. Y.H. Chung, 1981, "Economic Growth and Monopoly Capital" p. 134-35.
19. D.K. Lee, 1983. "An Evaluation of the Treatment of Reverted Property under the United States Military Government" pp. 415-16.
20. Those properties were declared to belong to the USMG in December 1945. The total number of reported enterprises was 3,551; 2,354 in manufacturing, 316 in mining, 337 in agriculture and forest, 318 in commerce and service etc. In March 1947, the number of reverted properties under the USMG was 2,258 cases. J.H. Lee, 1980, "The Historical Nature of Economy under the United States Military Government" p. 472.
21. Chosun Bank, Economic Yearbook 1949, pp. I-376-78. cited from S.H. Chang, 1985. p. 105.
22. J.H. Kim (Korea Explosives) and D.H. Lim (Haetai) were former employees in the firms they took over while I.W. Chung (Kangwon Industry) was a government official in the USMG.
23. S.D. Kim, 1965, Chaebol and Poverty p. 23.
24. Y.I. Chung, 1987, "Capital Accumulation of Chaebol in Korea During the Early Stages of Economic Development".
25. B.Y. Park, 1982, Chaebol and Politics.
26. Cheil Food & Chemical Co., The History of Ten Years 1964, p. 107 cited from Y.H. Chung, 1981. p. 151.
27. B.Y. Park, 1975. "Chaebol in Korea" Shindonga, P. 92.

28. K.T. Lee, 1991, "Policy Measures to Reduce Industrial Concentration and Concentration of Economic Power" p. 480.

29. D.K. Lee 1984. "The Unfolding of Foreign Capital-Based Economy".

30. G. Henderson, 1968, Korea: The Politics of Vortex, pp. 177-78.

31. S.D. Kim, 1967, "Monopoly Enterprises in Korea". The following is major items of the Law;

1. Illicitly earned profits totaling more than 100 million hwan by either purchasing or renting publicly owned properties
2. Obtained loans or purchases of more than \$100,000 worth of government or bank owned foreign exchange
3. Provided political funds of more than 50 million hwan in return for bank loans.
4. Earned profits of more than 200 million hwan in the process of contracting or bidding for public works or commodity trade in an illegal way
5. Earned profits of more than 200 million hwan by monopolizing the purchase or allocation of foreign exchange
6. Avoided taxes of more than 200 million hwan.
7. Illegally transferred their wealth abroad.

32. K.D. Kim, 1976, "Political Factors in the Formation of the Entrepreneurial Elite in South Korea" p. 470.

33. H.J. Oh, 1986, "Kim Jong-Pil: The Person O Hyojin Met", p. 339.

34. Those businessmen charged were as follows: Lee Bypng-Chul (Samsung Co.), Lee Jung-Lim (Taehan Cemnet), Chung Jae-Ho (Samho Co.), Sul Kyong-Dong (Taehan Ind.), Bak Nam-IL (Taechang Textile), Nam Kung-Ryon (Kukdong Shipping), Lee Yong-Bum (Taedong Const.), Cho, Sung-Chul (Joongang Ind.), Lee, Yang-Koo (Tngyang Cement), Ham Chang-Hee (Dokryip Ind.), Choi Tae-Sub (Incheon Glass), Park Heug-Sik (Hwashin). M.M. Lim, 1968, "Business Restructuring After May 16" p. 217.

35. J.A. Kim, 1975, Divided Korea: The Politics of Development, 1945-1972 p. 257.

36. In October 1961, the regime repossessed the shares of the commercial banks that were held by the large stockholders (large businessmen) on the grounds that these were illegally hoarded properties. Y.H. Chung, 1981, pp. 146-47.

37. Y.C. Park, 1991, "The Development of Financial Institutions and the Role of Government in Credit Allocation"

38. D. Cole and P. Lyman, 1971. Korean Development: The Interplay of Politics and Economics, p. 182.
39. J.E. Woo, 1991, Race to the Shift.
40. B.Y. Park, 1968, "Foreign Debt", p. 228. Korea Explosives was believed to benefit because of marriage relationship between Lee Jong-Hee (founder) and Lee Hou-Rak who remained a chief director of the Korean Central Intelligence Agency and considered as second to Park Chung-Hee.
41. B.Y. Park, 1975, "Chaebol in Korea", p. 92.
42. J. A. Kim, 1975, pp. 263-264.
43. C.B. Kim and Park C. R., 1968 "Foreign Debt".
44. K.D. Kim, 1976, p. 469.
45. Y.I. Chung, 1985.
46. J.Y. Park, 1981, "The Political and Economic Implications of South Korea's Vietnam Involvement, 1964-1973".
47. L. Jones and I. Sakong, 1980, Government, Business, and Entrepreneurship in Economic Development: The Korean Case, p.366, 368.
48. H.B. Im, 1987 " The Rise of Bureaucratic Authoritarianism in Korea" and S.J. Han, 1987 " Bureaucratic Authoritarianism and Economic Development in Korea during the Yushin Period: A Reexamination of O'Donnell's Theory".
49. D. Cole and Y.C. Park, 1983, Financial Development in Korea, p. 126.
50. I.C. Kim, 1983, "Economics of External Indebtedness and Korea's Foreign Debt Management".
51. J.E. Woo, 1991, p. 109.
52. W.S. Kim, 1991, "The President's Emergency Decree for Economic Stability and Growth".
53. Cole and Park 1983 p. 160.
54. Y.D. Jung, 1985, "Regulatory Policy in Korea: An Evaluation of the Presidential Emergency Decree for Economic Stability and Growth of August 3, 1972".
55. S.H. Lee, 1987, "The State, Class and Capital Accumulation: The President's Decree of August 3, 1972".

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56. S.C. Lee, 1991, "The Heavy and Chemical Industries Promotion Plan (1973-79)". p. 433.

Sector	Project Name	Const. Period
Iron & Steel	Pohang steel extension (1.03 million MT to 7 million MT)	1979
Nonferrous metal	Copper refinery (100,000 MT)	1974-76
	Zinc refinery (80,000 MT)	1975-77
	Lead refinery (50,000 MT)	1979-80
	Aluminum refinery (100,000 MT)	1976-78
Machinery	Changwon machinery complex	1973-76
Shipbuilding	Construction of 9 shipyards	1981
Electronics	Kumi electronics complex	1971-81
Chemical	Oil refinery enlargement	1973-81
	Ulsan complex enlargement	1974-79

57. R. Wade, 1985, "East Asian Financial System as a Challenge to Economics: Lessons from Taiwan".

58. J.E. Woo, 1991, pp. 159-67.

59. Kim and Park, 1984, Korean Economy and Finance.

60. Cole and Park, 1983.

61. Kim and Park, 1984.

62. S.C. Lee, 1991, p. 452.

63. P. Kuznets, 1985, "Government and Economic Strategy in Contemporary South Korea".

64. B.Y. Park, 1977, "Enterprise War".

65. J.H. Do, 1984, "Foreign Construction".

66. As of 1980, 25 large business groups owned at least one construction firm and most of them participated in Middle East construction business. J.D. Do, 1984.

Business Group	Export (%)
Hyundai	28.2
Lucky-Goldstar	0.9
Samsung	1.5
Sunkyong	0.2
Daewoo	5.7
Ssangyong	0.9

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KCC-ICC	1.5
Hanjin	2.6
Daelim	10.5
Korea Explosives	1.0
Donga Construction	8.7
Lotte	0.5
Kolon	0.6
Keumho	0.6
Doosan	1.0
Dongkuk Steel	0.4
Hanyang	4.6
Daenong	0.2
Samhwan	3.7
Dongboo	2.6
Taehwa	0.5
Byuksan	0.9

67. B.Y. Park, 1977, "Enterprise War" and Far Eastern Economic Review, November 1976, pp. 41-46.

68. K.H. Chung, 1988, "Business-Government Relations in the Growth of Korean Business Groups".

69. Ibid.

70. Bank of Korea, Yearbook of Economic Statistics.

71. New York Times December 22, 1980.

72. P. Kuznets, 1982, "The Dramatic Reversal of 1979-80: Contemporary Economic Development in Korea".

73. Many top-ranking economists had been educated at U.S. universities where the influence of Milton Friedman was significant, the so-called "Chicago Boys" of monetarists. Y.K. Kim, 1990, "Economic-Bureaucratic Elites in the 5th Republic".

74. Monthly Review of Korean Affairs, 1984 June.

75. Korea Exchange Bank, 1986, "Recent Financial Liberalization in Korea" and 1987, "The Liberalization of the Korean Financial Sector".

76. Haggard and Moon, 1990, "Institutions and Economic Policy: Theory and a Korean Case Study" p. 219.

77. N.S. Choi, 1991. "Private Appropriation of Chaebols' Financial Institutions".

78. Ibid.

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79. Donga Ilbo, December 16, 1989.
80. Korea Exchange Bank, 1990, "The Privatization of Public Enterprises in Korea".
81. Based on the same typology advanced by Berle and Means 1967, The Modern Corporations and Private Property.
82. In the U.S. for example, it was found that between 40 and 50 percent of the total funds used by nonfinancial businesses came from external sources in the 1965-1975 period.
83. This finding also suggests that the ownership structure of Korean firms has nothing to do with the theory of 'bank hegemony' advanced by Mintz and Schwartz (1985).
84. S.K. Park, 1983, "Son-in-law and Relatives-in-law of Chaebol"; K.H. Oh, 1986, "Marriage Web of Chaebol"; B.Y. Park, 1975, "Chaebol in Korea"; Y.J. Park, 1980, "Second Generation of Chaebol and Personal Ties".
85. Choongang Economic Newspaper, September 3, 1991.
86. Donga Ilbo, May 2, 1984.
87. K.H. Lee, Lecture made in the Korea Management Society, May 15, 1993. cited from S.K. Kang, 1993 A Story of Lee Kun-Hee p.198.
88. Choongang Economic Newspaper, December 6, 1991.

Group	Position	Education	Career Yr.
Samsung	v. chairman	Seoul Nat'l U. Economics	1965-
Hyundai	v. president	Korea U. Economics	1970-
Daewoo	v. chairman	Seoul Nat'l U. Law	1977-
L.G.	president	Seoul Nat'l U. Law	1963-
Sunkyong	president	Seoul Nat'l U. Business	1965-
Ssangyong	president	Seoul Nat'l U. Business	1976-
Hanjin	v. president	Seoul Nat'l U. Law	1963-
Kia	v. president	Korea U. Business	1962-
Lotte	v. president	-	-
Hanhwa	v. president	-	1975-

89. K. Matsumoto, 1986, p. 22.
90. Ibid. p. 23.
91. The 33 business groups are Lucky-Goldstar, Ssangyong, Hanjin, Hyosung, Daelim, Korea Explosives, Doosan, Dongkuk Steel, Kolon, Dong-Ah Construction, Dongboo, Hanil Synthetics,

Sammi, Keumho, Hanbo, Halla, Hwaseung, Haitae, Miweon, Kangweon Ind., Poongsan, Byuksan, Bongmyong, Dongkuk, Tongyang Chemical, Hankuk Glass, Yongpoong, Songshin Cement, Taesong Ind. Keumkang, Taihan Electric Wire, Dainong, Shindonga.

92. B.C. Lee, Autobiography of Hoam, M.H. Lee, A Story to Have Been Kept, 1992.

93. Seoul Economic Newspaper, July 16, 1990.

94. Ibid.

95. For example, S.J. Kim, a younger brother of chairman of Ssangyong (Kim Sok-Won). D.S. Cho, 1991, A Study of Chaebol in Korea, p 409.

96. T. Bottomore, 1989, "The Capitalist Class" p. 2.

97. J. Meyer, 1977, "The Effects of Education as an Institution".

98. see Table 2.4.

99. Kyonghyang Daily, October 3, 1983.

100. Choongang Economic Newspaper, September 3, 1991.

101. The sample is displayed in Appendix B.

102. Seoul Economic Newspaper, July 9, 1990.

103. Y.I. Im, 1991, "Ruling Ideology in Korea". He identified as ruling ideology; "anti-communism", "developmentalism", "stability", and liberal democracy".

104. C.K. Kang et al., 1991, Chaebol: A Picture of Growth or Avarice p. 299-309.

105. D.S. Cho, 1991, A Study of Korean Chaebol. This study is based on the analysis of editorials issued in a leading newspaper of Donga Ilbo between 1980 and 1988 period.

106. Three books were written by J.Y. Chung (1991), J.K. Koo (1992), and W.J. Kim (1989) and that of K.H. Lee (1993) was edited which also included personal statements of the chairman addressed in official meetings.

107. The term of chaebol, usually referring to a financial or business clique, is also used to designate a wealthy person in ordinary language and frequently entails a pejorative connotation. So owners and family members of LBGs have attempted to avoid the usage of the term in public and their

organization. Instead they prefer to be called as managers of "group" or "big company".

108. According to an estimate, 100 largest companies (including financial firms) of Korea and Japan are 33 years and 59 year old, New Management, April 1993, pp. 20-22.

109. Chosun Ilbo, Feburary 28, 1987.

110. Ibid.

111. B.C. Lee, Autobiography of Hoam, quoted from S.K. Kang 1993, p. 21.

112. Ibid, pp. 21-22.

113. Choongang Economic Newspaper, June 10, 1991.

114. Hankuk Ilbo, October 23, 1993.

115. Fortune, March 1991.

116. This claim is based on the information gathered from Maeil Economic Newspaper beginning on June 2, 1989, which issued a series of articles on some of the major foundations. And M.S. Kim, 1980, "Chaebol's Cultural Business: What Are Foundations Doing?"

117. Academic and Socio-Cultural Foundations Owned by Business Groups, 1990 (mill. won)

Group	Foundation	Est. Year	Capital
Samsung	Samsung Art & Culture Samsung Welfare Found.	1965	1,000
Daewoo	Daewoo Academy	1977	11,000
	Daewoo Culture and Welfare	1978	20,000
Hyundai	Asan Social Welfare	1977	50,000
Lucky- Goldstar	Yonam Culture	1969	1,600
	Dongmeyong Culture Fond.		
Ssangyong	Songgok Press Culture	1965	
Lotte	Samnam Scholarship Fond.		
Dong Ah			
Const.	Kongsan Sch. Foun.		
Doosan	Yonkang Academic Fond.		
Sam Yang	Soodang Sch. Foun.		
	Kyungbang Scholarship Soc.		
	Inchon Commemorative Soc.		

Source: Mal, March 1991 and M.S. Kim 1980.

118. M.S. Kim, 1980.
119. Hankuk Ilbo, September 23, 1993.
120. D.R. Hong, 1985, "A Study on Mechanisms of Social Control by Large Corporations in Korea".
121. Alford, R. and R. Friedland, 1985. Powers of Theory: Capitalism, the State, and Democracy.
122. K.D. Kim, 1981 "Toward a Sociology of War: The Social Impact of the Korean War".
123. Jones and Sakong, 1980.
124. It was reported that in contrast to the 1960s and 1970s the state now accepts 90% of the FKI's policy recommendations.
125. M.M. Lim, 1983, "Chaebol and Political Power".
126. N.J. Cho, 1986, "The Plutocractic Organization".
127. I.J. Bae, 1986, "Bureaucrats and the Military in Business Community"

Previous Occupations of Outside Hires for Top Managers

Group	Family Member	Promoted Within	Outside Scout				Total
			Pol.	Bureau.	Mili.	Bankers	O.
Hyundai	7	42		2	3	2	1 57
Samsung	2	28		1	2	1	7 41
L. G.	7	26	2	4	2	2	1 44
Daewoo	2	25		5	6	12	2 52
Sunkyong	3	21		1		1	26
Ssangyong	2	11		4	2	1	1 21
Korea Explo.	1	9		7	3	1	21
Total	24	162	2	24	18	20	12 262
	(9.2)	(61.8)	(0.7)	(9.2)	(6.9)	(7.6)	(4.6)(100.0)

128. The Federation of Korean Industries, 1982, The Twenty-Year History of the FKI.
129. Donga Ilbo, September 1, 1990. It was not accidental that Chun Doo-Hwan chose Democratic Justice Party (DJP) as a symbol of actualizing the new direction of society.
130. C.L. Choi, 1986, "Is Korea Chaebol Republic?" p. 220.
131. Bank of Korea, Yearbook of Economic Statistics.

132. C.I. Moon, 1991, "The Politics of Structural Adjustment in South Korea".
133. Ibid.
134. Ibid.
135. Far Eastern Economic Review, May 16, 1985.
136. B.H. Shin, 1985, "Roundtable: Economic Difficulties Cannot be Solved by Force Alone" p. 434.
137. Donga Ilbo, May 8, 1982.
138. Haggard and Moon, 1990, "Institutions and Economic Policy".
139. Donga Ilbo, August 22, 1984.
140. The tremendous economic power held by chaebol and its changing relations with the state are the main reason to designate Korean capitalism pejoratively as the "chaebol Republic" Bello, W. and S. Rosenfeld (1990). Statistics are drawn from the same source, p.63.
141. K. Hagen, 1984, "The Political Economy of Income Distribution in South Korea: The Impact of the State's Industrialization Policies"; H.K. Song, 1991, "Who Benefits from Industrial Restructuring?"
142. Ibid.
143. Korea Times, September 28, 1980.
144. Evidence from survey conducted in 1987 indicate that chaebol groups were main actors in distorting land prices and accumulated capital gains from speculation. T.D. Kim and K.S. Lee, 1989, Land: Speculation or Living Space?
145. Ibid.
146. The total value of real estate held by the country's top 30 business group stands at 12.1 billion won (US 18.7 million) in 1988 and in 1989 the groups bought 2.4 trillion won worth real property, bringing their holdings to 0.4% of the country's total land area.
147. J.W. Chun, 1989, "People Who Are Opposing to Land Reform".
148. Ibid.

- 149. Far Eastern Economic Review, September 14, 1989, p. 72.
- 150. J.W. Chun, 1989.
- 151. Z. Onis, 1991, "The Logic of the Developmental State" p. 121.

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