Dictatorship, Democracy and Economic Regime
Reflections on the Experience of South Korea

Werner Kamppeter, January 2008, FES Korea

Rhetoric of Reaction

This calligraphy hangs in a jazz club in Samcheongdong, a quarter of Seoul in the neighbourhood of the old Royal Palace and the Blue House, the modern Presidential Palace. The writer of this calligraphy was Park Chung Hee, whose photo is to the left of the calligraphy. Park Chung-Hee is considered by many as the father of the Miracle of the Han River, that is, of the economic success story of Korea. He also

Calligraphy by Park Chung Hee
„**A Strong Country through Saving**"

was a fierce dictator, the longer he lasted, the more so. Eventually, he was murdered in 1979 by the head of his own KCIA. Although this was not the end of dictatorial government, opposition movements, paying a heavy toll of blood and repression, gained force and eventually democracy prevailed.

Against this historic background, it seems awkward to find that calligraphy by Park Chung Hee and a photo of his in a jazz club at only a few hundred meters from the Blue House, as the memories of the atrocities committed by his regime are quite vivid still, at least in many people's mind. Wouldn't at least some visitors feel offended by this calligraphy? Or would it, perhaps, have been a sort of sanctuary for opposition forces, as for example in Czechoslovakia where an alternative culture flourished in Jazz Clubs during the Cold War?

Well, jazz clubs did not play such a role in Korea and this one in particular, was established only a few years after dictatorship ended in 1987. Thus the mystery remains. Going 10000 kilometres to the west, in Spain, one comes across, not less surprising, portraits of Generalissimo Francisco Franco. In Spain, there are people and conservative newspapers, which harbour considerable goodwill and positive feelings toward the former dictator Francisco Franco. In fact, quite like in Korea, one easily discovers elements of a "rhetoric of reaction", the title of a book written by Albert Hirschman in 1991[1], in public discourses in both countries. One of the basic motives of such rhetoric of reaction is the defence and even glorification of the orderly past and the condemnation of democratic discord and of liberal disorderliness. Interestingly, in both countries the conservative party in recent years had lost elections against all expectations. There could lie one key for understanding the riddle: Leftist governments quite naturally offer a fertile ground for the proliferation of the rhetoric of reaction.

In Korea, the glorification of Park Chung Hee began in the middle of the 1990s. In an opinion survey by one of the large conservative newspapers in Korea in April 1997, 75.9 percent of the respondents selected Park Chung Hee as the president who had fulfilled his duties best. A mere 3.7 percent selected President Kim Young Sam, who held office at that time. An opinion poll by the government produced a comparable outcome: Among the historic personalities of Korea, Park Chung Hee occupied with 23.4 percent the first place in the esteem of the respondents, followed by King Sejong, the famous 4th ruler of Choson Dynasty (1392-1910) with 18.8 percent, and General Yi Sun-Shin, who van-

[1] Albert O. Hirschman, The Rhetoric of Reaction. Perversity, Futility, Jeopardy. Belknap Press, Harvard University Press, 1991.

quished the Japanese troops in 1591, with 14.1 percent. It came as a shock to the victims and enemies of the Korean dictatorships that Park Chung Hee was in such high esteem only 10 years after the resuscitation of democracy.[2]

Amazingly, a *Society for the Veneration of Park Chung Hee* and his wife Yuk Yong Su (*sungmohoe*), who had become victim of another assassination attempt, was founded in 1997, while the conservative print media joined its campaign, while a novel written by Yi In Hwa, the author of the famous bestseller "Everlasting Empire", glorified Park Chung Hee and his deeds.[3] The Park-Chung-Hee syndrome became so ubiquitous and forceful that Kim Dae Jung, who had suffered heftily under Park Chung Hee, visited his birthplace in company of Park Chung Hee's son during his election campaign. Kim Dae-Jung won the election, yet he had to form a coalition with Kim Jong Pil – who had been a confident of Park Chung Hee and the founder of the KCIA!

In the context of the Park-Chung-Hee syndrome another, at least for the foreign observer, amazing phenomenon emerged: The daughter of Park Chung Hee became the president of the main opposition party Hanaradang (Grand National Party). She lost the candidacy of her party for the presidential elections by a very narrow margin against Lee Myung-bak who eventually was elected as the new president of Korea in December 2007. Actually, she had grown up in the Blue House and assumed, after her mother's assassination, the role of the First Lady. In her public appearances she cleverly used the images of "mother's daughter" and "father's daughter" and refers often to both of her parents. She does not allow anything negative to be said about them – and has survived politically amazingly well.

One can only conclude that references to Park Chung Hee are not politically damaging, but, to the contrary, can be helpful. Park-Chung-Hee evokes positive associations in the mind of a more or less wide segment of Korean society. This is the basis of the Park-Chung-Hee syndrome. It is not easy to challenge it, be in public and academic discourse or by institutions, like the Korea Democracy Foundation and the Truth Commission, which are supposed to clear the murky waters of Korean political history. Former opposition groups and present-day "progressive" forces have to take it into account too.

In other words, if you do not like Park Chung Hee's calligraphy in the jazz club, either you do not go ("exit" in Hirschman's terminology), or you go and do not say anything (no "voice").[4] The latter might be seen as an expression of tolerance needed in democratic society. But, there is also the possibility that this issue is so divisive that it has become a taboo in society and public discourse.

Whatever the case be, one wonders if the Park-Chung-Hee syndrome has a more solid ideological basis than just the rhetoric of reaction of certain political quarters. Certainly, Park is remembered as the one who really started the whole process of economic take-off and he even seems to evoke the image of strict but 'benign' father figure who fell victim of his own right-hand man. In the collective memory he is bound to fare better than Rhee Syng-Man and the two generals who followed him. So conservatives in Korea seem to have no one but Park to pay respect to and to take pride. Yet, the cornerstone of these perceptions is the economic success story associated with his name. That brings us back to his calligraphy – to his reference to savings.[5]

Accumulation regime

His assertion that savings lead to national strength has a strange ring, even to economists nowadays. Savings are of course the flip side of investment. Park Chung Hee's modernisation strategy required huge investments in industry and infrastructure and that meant the savings of his own people – even school children had to have their own savings account – from abroad. Savings were a necessary condition of his accumulation regime. Furthermore, in his view, only a country with a strong economy could be a strong country/nation, economically and militarily. Hence, the importance of savings.

Park Chung Hee usurped power by a *coup d'état* in 1961 and promptly started to implement am-

[2] Cf. Lee Eun-Jeung, Korea im demokratischen Aufschwung. Politische Diskurse und Kulturdiskurse, Leipziger Universitätsverlag, 2005, S. 95.

[3] Yin In-Hwa, Everlasting Empire, transl. by Yu Youngnan, New York: EastBridge, 2002. Yi In-Hwa's book that takes Park Chung Hee as a model is "Ingan ui gil" (A Man's Way).

[4] Albert O. Hirschman, Exit, Voice and Loyalty. Harvard University Press, 1970.

[5] My heartfelt thanks to Professor Cho Hyo-Je for comments to this and other sections of this paper.

bitious plans to modernise the Korean economy. He had been able to observe methods of comprehensive economic planning when he was a Japanese officer in Manchuria. Possibly he drew inspiration too from North Korea, which at that time applied Soviet planning methods quite successfully.[6] Such planning by its very nature is the very opposite of the incrementalism, which economists then and now propagate so diligently. The point of economic planning is not to adapt passively to the market forces, but to change your competitive situation through systemic, roundabout modernisation in a middle and long-term perspective.

With its limited resources and its low wages, Korea at that time at best could hope to develop some light industry, yet one could hardly expect that it would ever be able to catch up with North Korea, while it would continue to remain economically and politically dependent on the United States. To avoid this, Korea had to change its resource endowment and that meant to invest heavily in industry, technology and infrastructure.

Such a modernising accumulation regime required plenty of capital. Where should the capital come from? Internal savings were weak. Yet, there were plenty of dollars coming into the country. In fact, American economic and military aid accounted for 75 percent of the military and 50 percent of the civil budget.[7] Much of that ended up in the black market and was used to buy foreign-produced goods, in detriment of local industry. Hence, it was not easy to redirect these funds to import foreign technology and know-how. Therefore, Park Chung Hee had to look for other sources of foreign capital too.
First, he sent young Korean men into German mines and nurses into German hospitals. He made it quite clear that their sacrifices were for the good of the nation and its development. Second, as a result of normalisation with Japan in 1965, several hundred million dollars flowed into the country in the form of grants and investments. The works on the huge steel mill in Pohang started. Third, the Vietnam War became a true bonanza for the economy and much of the Korea-produced steel ended up there.

The government maintained effective controls on much of the foreign exchange and channelled it into the acquisition of technology, know-how and intermediary goods. It also controlled the enterprises through the banks, which were all government owned, and the KCIA, which used the soft spots of the *Chaebol* owners to pressure them. The terms of these so-called policy loans were quite favourable to enterprises. The *chaebol*, which were their main recipients, were "for all practical purposes … private agencies of public purpose"[8] Economic planning gave them relatively long, stable planning horizons. When things did not turn out as expected, firms could be sure to be bailed out, at least as long as they accepted the leadership of the State.

In the logic of the planners, labour costs had to be kept low in order to secure the profitability of enterprises, which in turn had to invest whatever they earned. Social, and, for heavens sake, political unrest had to be suppressed at the roots. That was the task of the KCIA, which became ever larger and more powerful. Thus the political equivalent of the accumulation regime was dictatorship.

The breathtaking results of this regime are well known. A country with a per capita income of less than 100 Dollars[9] at the beginning of the 1960s became an industrial nation with high levels of sophistication, able to compete in some areas successfully with the best Japanese and German firms on world markets.

Financial Market Regime

Let us first have a look at the some merits of the accumulation regime.

In Diagram 1 one can observe the yearly increases in gross investment (at constant prices). It is astounding. Please note that investment growth is much lower nowadays than in the 1960s, 70s and 80s. Private Consumption increased in a much more stable fashion than investment, just below 10 percent every year. Again, nowadays growth rates are at much lower levels.

6 Bruce Cumings, Korea's Place in the Sun. A Modern History. W.W. Norton, N.Y., et al., 1997, p. 311.
7 ibid., p. 310.

8 ibid., p. 317, quoting Woo Jung-en, Race to the Swift: State and Finance in the Industrialization of Korea, Columbia University Press, 1991, p. 159.
9 GNP per capita amounted to 82 US Dollar in 1961 pro Kopf (Bank of Korea, Economic Statistics System). However, just the official US transfers to Korea between 1945 and 1976 were in the order of 600 US Dollar per capita of the Korean population (Cumings, 1997, p. 307).

A successful accumulation regime tends to produce its own resources for expansion.[10] It increases the revenues of firms and government as well as, in spite of the repressive income policies of the government, the incomes of private households. In fact, private households, also attracted by high interest rates, increased their saving rate gradually to almost 20 percent toward the end of the 1980s. The accumulation regime gradually became independent of foreign savings. After the Asian financial crisis 1997/98, called "IMF crisis" in Korea, the country even became a huge exporter of capital, i.e. of internal savings, largely to finance the US double deficits (public households and balance of payment). The Korean economy recovered surprisingly fast from this crisis, yet the growth rate of investment and consumption stayed way below earlier levels.

The South Korean economy had known other crises too. The first one had set in in the early 1970s. The economy had overheated. Short-term interest rates in the curb market went up to 40 percent. The IMF almost ruined the economy, yet the government declared a debt moratorium for enterprises. Enterprises were more important than banks. In Park Chung Hee's accumulation regime, banks clearly played a subservient role to industry. The first oil shock in 1973 almost passed unnoticed in the expansion that followed.

The crisis of 1980-82 had different causes. The economy had already become highly export dependent, in particular from the US markets. When Paul Volcker, the Chairman of the Federal Reserve, allowed interests to float in October 1979, the US economy entered a severe recession – and the Korean economy with it. An IMF stabilisation program made things only worse – until the Korean government took the reins in its own hands and implemented expansionary fiscal and monetary policies. Fortunately, Ronald Reagan did the same a bit later in the US ("Reaganomics"). As a result, Korean exports and its economy flourished again.

In spite of Reaganomics, which clearly was a Keynesian recipe for economic expansion, the discourses on the economy in Korea (just like in the US and Europe) became more and more neo-liberal. The deregulation of financial markets began, and Wall Street (the financial firms) became politically more influential than High Street (the enterprises producing real goodies). As a result the credit card business and other nice financial innovations swept the US and later the globe. One side effect of this was the reduction of the saving rate of US private households and their increasing indebtedness. This in turn made it impossible to finance the fiscal deficits of Reaganomics on the US capital market. Luckily or not, the financial markets were deregulated elsewhere too. Thus they became more international, and it became possible to finance the US budget and the rising trade deficits internationally, in other words using the savings of other countries to cover the shortage of savings in the US.

As a result of these policies the US not only became more and more indebted (a process that still continues), but also registered ever larger current account deficits. The reason simply is that you can only consume more than you produce (that is implied in a current account deficit), if you get other countries to give you the money to buy these extra goods and services from them.

Hence, the US trade deficits are the outcome of insufficient saving of US private households, corporations and government. Their savings are insufficient to finance real investment and the rising debt of public and private households. Politically, however, it became convenient to blame the exporting countries for the US trade deficits. Hence, their exports to the US were limited by "voluntary agreements" and pressure was put on them to open their markets to US companies. All that did not help of course, because the causes of the US deficits lie elsewhere, i.e. in its saving-investment gap.

All this is part of the background for fundamental changes in the Korean policy regime, which began in the 1980s. On the one hand, there were the ubiquitous neo-liberal discourses, which identified market freedom with political freedom. Government regulation became a dirty word and was widely seen as an obstacle to progress and economic wellbeing. On the other hand, as Korea had become one of the biggest exporters to US markets, it was reproached for the protection of its own markets. Already in the 1980s the country agreed with the IMF to liberalize current account transactions. As a result, the government could not allocate foreign exchange earnings under the primacy of the ac-

[10] Franz Janossy, Wie die Akkumulationslawine ins Rollen kam. Zur Entstehungsgeschichte des Kapitalismus, 1979.

cumulation regime any more. In 1993 the policy loans, which had been the essential stratagem to steer the *chaebol*, were abolished. At that time the World Bank was kind enough to offer a credit line of 100 million US dollars, which was *to give legitimacy to the programme of liberalisation and political support to the Ministry of Finance, in case the economy got out of control because of these measures.* (!!)

Apparently, Korean and World Bank officials were quite aware of the dangers of liberalising the Korean financial markets. A few years later, the economy was to get out of control indeed, yet billions, not millions, were required to stabilise it.

The IMF crisis 1997/98 was the biggest economic downturn in the history of South Korea. Again the IMF first aggravated the crisis. The government used all the resources to make the best of a terrible situation and the IMF, after several months, reversed its policy. Yet, by then the economy had long left behind the state directed accumulation regime and the deregulation measures could not be reversed any more. To the contrary, the government of President Kim Dae Jung decided that it needed much larger coffers to fend off other potential future crises and liberalised the financial markets almost completely. Foreign investors (real and financial) bought Korean companies at bargain prices, and the Bank of Korea soon had reserves approaching 100 billion dollars.

Thus, from the 1980s and through the IMF crisis the accumulation regime was drastically transformed – into a regime that responds to the predilections of financial markets. The role of government in the economy became similar to the one in other OECD countries. The OECD-regime restricts the government's role to help enterprises on the supply side to adapt to market conditions. In practice, in the OECD countries this has led to little more than wage repression and unemployment – and thus to reduced demand by consumers. This again has been limiting the appetite of firms for investments in fixed capital and increasing their involvements in expanding financial markets, where profits could be made with much less effort. Unfortunately, low levels of investment in fixed capital also meant that jobs for the ever better-trained young people became ever scarcer, while unemployment increased and the social security systems got under increasing stress.

Because the emphasis in the OECD regime is on the adaptation to market conditions and leaves the markets and enterprises largely to look after themselves, the roundabout accumulation of productive capital and the development of human resources in a longer perspective is not something where the states assumes much responsibility. Instead, nowadays in Korea too, the financial markets reign supreme and are no longer in a subservient position with respect to the real economy and the accumulation of capital. The financial markets have become largely solipsistic. Their gains have little to do with the real economy, but are generated within these markets themselves, often through speculation and the losses of badly informed small "investors". Even manufacturing firms have found it easier to earn money in the financial markets than in their own metiers.

These are harsh words. But look at the facts of the Korean case.

Net real investment as a percentage of GDP is, with the exception of the crises periods mentioned above, is at historically low levels. Because of the low levels of net real investment, unemployment, in particular of young people, is high, while irregular employment is increasing. The polarisation of the economy and labour markets has been one of the most striking features after the IMF crisis 1997/98. One of its causes is that the chaebol, the dominating large conglomerates, have reduced their employment by approximately one third, while outsourcing and subcontracting have increased. Productivity growth in turn has been high for these large firms, while wages in the formal sector grow more slowly than productivity. All this means of course, that the growth of incomes, internal demand and consumption is restrained and below potential.

Why is real investment low? Enterprises say, just like in other OECD countries, that demand is too low and future prospects are unclear. Obviously, demand is low because of low levels of net real investment, because of high unemployment, itself largely a result of too little real investment, because of growing informalisation and polarization of labour markets – all of which reduce income growth. Clearly, we have a vicious circle here. Prospects are uncertain, because the government neither helps to stabilize investment horizons, nor does it give its unconditional support when things do not turn out as expected.

That, of course would be against the neo-liberal rules of the game.

Furthermore, the *chaebol* are not any more "private agencies of public purpose". About 40 percent of the stocks of Korean firms are now in the hands of foreign "investors", largely pension funds. They certainly would not share the visions of policy makers (if they had any); neither could they be expected to allow their firms under their sway to engage in long-term risky investment. Their primary interest, quite naturally, of these "investors" is a steady quarterly flow of earnings – and to make some handy capital gains in the ups and downs of the stock market. How should one expect under these circumstances a Schumpeterian strong and long-term commitment to the future of the firms in their portfolio?

As firms in Korea actually earn quite well and invest relatively little, they need not recur to the banks to finance their investments, be they real or just financial. Even though the private households save less than before, their savings are actually not needed in order to finance real investments of enterprises. As the government over all is in surplus too, there is plenty of liquidity in the system, which cannot be used productively.

Where then happens with all that liquidity?

1. A considerable part goes to into the international financial circuits and serves at the bottom line to finance the US current-account and government deficits.
2. Some part of it, is invested abroad, in "real" factories and in financial markets;
3. Another part, quite naturally, goes into the local financial markets, which nowadays offer all sorts of nicely designed "products".

That means that much more liquidity than before circulates and is held within the financial sphere and is involved in all sorts of purely or largely speculative transaction. Apart from speculation, prices in stock, real asset and other markets rise because of the sheer amounts of money flowing into these markets.

Diagrams 3 and 4 show one result of these processes, taking the blown-up and unwarranted valuation of Korean incorporated firms by the stock market as an example. One line in Diagram 3 depicts the evolution of the cumulative value of net fixed capital. This is a proxy for the value of real capital in the economy. The other line stands for the valuation of listed firms by the stock market (share price multiplied by number of stocks of all listed firms). Hence we have measures the real value of enterprises in terms of their accumulated capital – and their valuation by the stock market.

While the fluctuations are much more marked in the stock market, both indicators evolve more or less in parallel until the middle of the 1990s. After the IMF crisis something strange happens however: The stock market value increases much more rapidly than the real value of Korean stock companies. The diagram clearly demonstrates how the stock market has been inflating the value of Korean listed companies far beyond their real value.

The inflation of stock market prices impedes the capital allocation function of these markets even further (in any case they play only a very limited role in the financing of new investment through the emission of new stock; most investment is nowadays paid out of internal savings of firms and, to a lesser extent, by banks). It has other detrimental effects too: Corporations pay dividends to the owner of their stock and they have to adjust these payouts to X percent of the market value of their stock. As these values are being inflated, they have to pay out correspondingly higher dividends, even though their physical capital does not increase. One logical consequence of this is that either prices rise or that wages do not increase as fast as productivity.

The latter is borne out quite clearly by reality. First, wages of full-time regular employees do not increase to the same extent as productivity. Second, large firms with more than 500 employees have reduced employment significantly (38 percent between 1993 and 2005), intensifying strategies like outsourcing to small firms. Thus, third, the share of non-standard employment in total employment has increased from 26.9 in 2001 to 36.7 percent.[11] Here is one of the underlying factors that lead to the aforementioned vicious circle and the exceedingly moderate increases in consumption in recent years (see Diagram 1).

Because the banks sit on a lot of cash, they have started to give credits to private households too, something that was unheard of under the accumulation regime. First, there was the credit

[11] Lee Byoung-hoon, Labor polarization damages social cohesion, Korea Herald, Nov. 27, 2007, p. 4.

card boom, which for some credit card firms and for very many families ended in disaster. Then there was mortgage financing, which in turn drove up prices in the real estate markets (see Diagram 4). The Bank of Korea and the government were (and are) seriously concerned about this bubble. Therefore the government in 2007 imposed a special tax on the sale of apartments above a certain value (approx. 500000 Dollars).

In Diagram 2 one can see how dramatically household debt to banking institutions has increased. Household debt by now is larger than the debts of non-financial enterprises. Last year close to 3 million people were unable to comply with their repayment obligations to banks, that is no less than 8,4 percent of the economically active population!

In sum, the differences between the accumulation regime and the OECD-type financial market regime are quite remarkable and even disheartening.

First, the liberalised financial markets were and are a necessary condition for the huge and fearsome world macroeconomic problems of saving-investment and trade disequilibria, largely caused by short-sighted US economic policies.

Second, in Korea the liberalisation of financial markets has, among other things, inflated stock and real estate markets. This certainly has much to do with the lacklustre performance of its economy in recent years, in particular when compared to the one of the accumulation regime of Park Chung Hee. Equally, there is much more uncertainty and anxiety now about the future, while economic and social inequality have increased. Is it really surprising that many people in Korea feel such a high esteem for Park Chung Hee?

Democracy, State and future challenges

One basic difference between the two regimes is how they deal with savings. Park Chung Hee had a point there. In the accumulation regime, savings are directed purposefully to real accumulation and modernisation. In the financial market regime, savings are the raw material with which profits are made in differentiated markets, often within the financial markets themselves, often in speculative and even illegal activities, and often on the back of uniformed people who are lured into these markets. That savings are directed into real investment is of almost nobody's concern. That savings are directed into the comprehensive modernisation of a country and its economy, in practice, is of no interest whatsoever.

The results of the accumulation regime in Korea are far superior to the ones of the financial market regime. That does not mean necessarily that the accumulation regime would also work at the present level of development of the Korean economy. Certainly, economic planning in the Soviet Union and Eastern Europe did not work well after they had mastered standardised mass production. Yet, Korean economic planning was different and much more flexible, as it operated through the control of credit. As there is so much liquidity in the financial markets nowadays, and as Korean firms, in particular the large chaebol, enjoy high profits and possess vast amount of liquid assets, the old system of credit rationing through the state could not work anymore.

The question remains however what could be done to reduce the dysfunctionality of the financial markets. What is their use and common purpose, if they do not lead to increases in real investment and in the efficiency of real capital, and hence depress employment and labour incomes? What is their use and purpose, if their valuation of the value of enterprises is out of touch with their real value in terms of tangible and intangible assets? What is their use and purpose, when their role in financing new investment is only negligible? What is their use and purpose, when stock markets play only a marginal role in the allocation of new capital and are basically secondary markets[12], where "old" stocks are traded on seas of speculative expectations, exacerbating inequalities of income and wealth? Against this background of misallocation, speculation and solipsism, how could it happen that movements in the financial markets are often interpreted as divine judgements on government policies, unions etc., welfare states etc.?

Not that there are easy answers, but it is quite clear that the financial markets and, to a lesser degree, the concentration of capital, do not operate in accordance with the common good and therefore, if we want to face it or not, present a

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[12] Scitovsky, Tibor. 1994 "Towards a Theory of Second-hand Markets," Kyklos 47: 33-51.

challenge to democratic societies and states. Citizens are free as long as they do not interfere with the freedom and the rightful interests of other citizens. Why should enterprises and investors in the name of freedom be allowed to negatively affect citizens and the common good? We seem to suffer from a blind identification of political freedom of citizens and democracy with the freedom of economic actors, while it ought to be quite clear that, at least in democratic society, the people, government and state stand above the economy and economic interests. For the common good to be achieved, the private actors need to be restrained and their activities subject to rules and regulations set by legitimate, democratic governments.

The accumulation regime in Korea was a regime where a dictator forced the private enterprises onto a path of modernisation and accumulation. It brought a fair measure of rapidly expanding prosperity to its "subjects", which later, as citizens of a democratic society, would feel nostalgic about the economic success of dictatorship. In contrast, the financial market regime gave unheard freedoms to economic actors, while its economic performance fell behind the dictatorial period. Therefore and because decision taking under democracy is more complex, disorderly and better scrutinised by the public, the financial market regime cum democracy has produced significant levels of dissatisfaction, uncertainty and even disenchantment with politics.

Nevertheless, even though there is certain nostalgia for the accumulation regime, few people would want dictatorship to return. Hence, the formula "accumulation regime cum dictatorship" is entirely out of question, just like in all the other OECD countries. What people would prefer, in spite of the media hype around financial markets and their deceitful promises is a "an accumulation regime cum democracy". Indeed, even it runs against most open and hidden messages of media democracy in Korea and elsewhere, the central question is: Why should democracy and freedom not be compatible with a strong hand of state and government in the economy?

This question turns out to be even more important, when one considers the scarcity of natural resources and the destruction of natural environments. Then the "real" problem is not one of insufficient, but instead of excessive accumulation of real capital – and one of the distribution of the rights of usage and of the destruction of natural resources at the global as well as at the intra-national level. Consumerism, the craze for ever higher levels of consumption of something like 10 percent of world population, and the desire to catch up with the consumerism of others, are the central causes of the depletion of natural resources and the destruction of the environment. Depletion and destruction of nature will continue as long as capital accumulation is driven by consumerism. On the other hand, there are billions of people whose basic needs of food, living, health and education are not covered.

Hence, in terms of scarce global resources and climate change on the one side, and global justice on the other, mankind will have to find an entirely new model of accumulation. Surely, it will have to be a regime of accumulation that satisfies the basic needs of human being worldwide, while it limits the overall level of consumption to what is compatible with natural resources, including climate, available to present and future generations. Could anybody expect that such an accumulation regime, which

1. respects the limits of nature (including climate),
2. reduces, globally and within each of our nations, consumption to sustainable levels while it enables others to consume, and
3. rebuilds destroyed environments,

could come to exist without a strong hand of the state, democratic states for that? Surely, a regime that is redistributional in terms of basic human needs and rights, reductionist in terms of accumulation and consumption, and reconstructive in terms of the environment, requires far-reaching interference in economic and financial markets. Who could, in view of these challenges, legitimately complain about lack of freedom in financial and other markets?

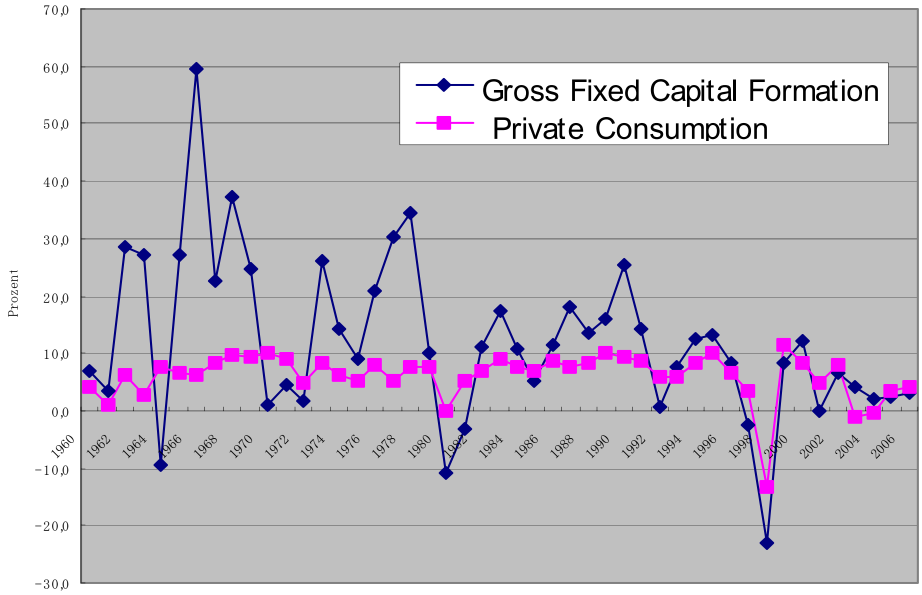
The challenges are enormous. The Korean economy too would have to change its economic regime radically, in particular, because it is so heavily internationalised. Should we despair? George Monbiot[13] believes that we should not:

> "We must confront a challenge that is as great and as pressing as the rise of the Axis

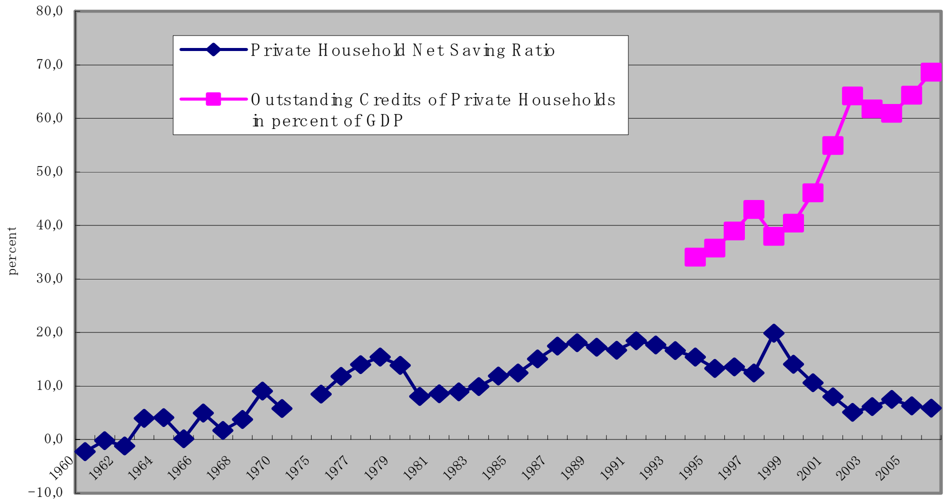
[13] George Monbiot, Only full decarbonisation can save the earth, The Guardian Weekly, 14.12.07.

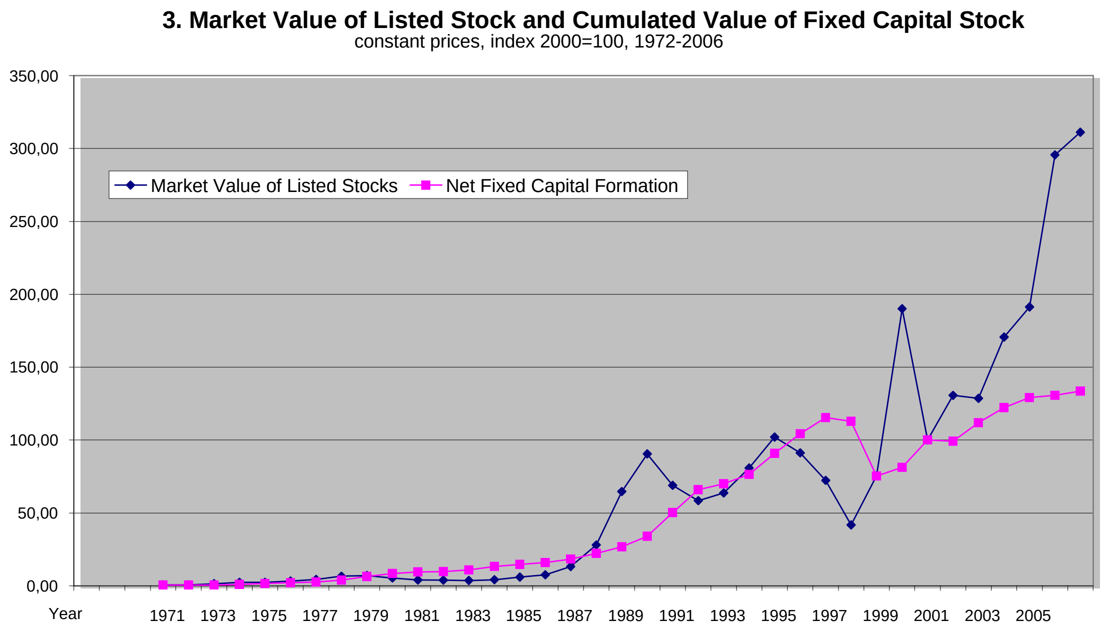
powers. Had we thrown up our hands then, as many people are tempted to do today, you would be reading this paper (the British daily "Guardian", W.K.) in German. Although the war often seemed impossible to win, when the political will was mobilised strange and implausible things began to happen. The US economy was spun around a dime in 1942 as civilian manufacturing was switched to military production. The state took on greater powers than it had exercised before. Impossible policies became achievable."

1. Yearly growth rate of fixed capital investment and of private consumption 1960-2006 (in percent)



2. Household Saving Rate and Household Debt 1960-2006





Source for Diagrams 1-3: Bank of Korea, Economic Statistics System