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Land, state and capital: The political economy of land policies in South Korea, 1960–1990

Jung, Hee-Nam, Ph.D.
University of Hawaii, 1993
ACKNOWLEDGEMENTS

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ABSTRACT

The Korean state adopted policies designed to regulate idle land in 1974, 1980 and 1990 which compelled the Korean big business groups, known as the chaebol, to sell land being held for speculative investment. The main purpose of this dissertation is to analyze this regulatory policy, from the perspectives of how policy problems come to be constructed, the motivations which influence policy adoption, the policy making and implementation processes, interactions with target groups, and the consequences of policy implementation. The study explores the critical dimensions of the Korean political economy, particularly, the dynamic relationships between the state, large scale capitalists, and the general public surrounding the issue of idle land.

These various policy measures were designed to regulate the chaebol's investment in land, with the aim of 1) stabilizing the land market, 2) improving the financial standings of businesses, and 3) revitalizing the depressed economy and enhancing the firms' international competitiveness.

These policies span three regimes beginning with the Park Chong Hee's period, all of which sought various means to obtain legitimacy for their undemocratic politics and to reshape the relationship of the state with the economically
dominant groups. The timing of these policies also coincided with economic crises and when Korean business groups suffered from burdensome financial expenses.

The consequences of policy implementation were beneficial to large scale capital, significantly furthering the process of capital accumulation. However, because of the state’s immediate relaxation of its policy rigor subsequent to the passage of these measures, land speculation was never effectively curbed.

The initiation of these policy measures shows the existence of the strong, developmental state. However, the implementation process and its consequences suggests that the Korean state’s autonomy and capacity to control the actions of large scale capital were structurally limited. On the other hand, Korean capitalists were not as weak, passive or acquiescent to state policy as much existing literature assumes.

The decline of state autonomy accompanied by an increase in the capabilities of large scale capital have become strong features of Korean economic development. The shift of autonomy and strength between the Korean capitalists and the state is also the result of the globalization of capitalism, including both the transnationalization of world capital and the increase in overseas investment by the Korean capitalists.
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<tr>
<td>AIB</td>
<td>Kamdogwon [Audit and Inspection Board]</td>
</tr>
<tr>
<td>BAB</td>
<td>Unhaeng kamdogwon [Bank Audit Board]</td>
</tr>
<tr>
<td>BOK</td>
<td>Han’guk unhaeng [Bank of Korea]</td>
</tr>
<tr>
<td>CBD</td>
<td>Central Business District</td>
</tr>
<tr>
<td>CCSSI</td>
<td>Chung-so kiop hyoptong chohap chunganghoe [Central Cooperatives of Small-Medium Size Industries]</td>
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<tr>
<td>EPB</td>
<td>Kyongje kihoegwon [Economic Planning Board]</td>
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<tr>
<td>FKI</td>
<td>Chon’guk kyongje-in yonhaphoe [Federation of Korea Industries]</td>
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<tr>
<td>GNP</td>
<td>Gross National Product</td>
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<td>IDOL</td>
<td>International Division of Labor</td>
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<td>KAB</td>
<td>Han’guk kamjongwon [Korea Appraisal Board]</td>
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<td>KAC</td>
<td>Han’guk songop kongsa [Korea Auction Corporation]</td>
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<tr>
<td>KCCI</td>
<td>Taehan sanggong hoeuiso [Korea Chamber of Commerce and Industries]</td>
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<td>KDI</td>
<td>Han’guk kaebalwon [Korea Development Institute]</td>
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<td>T’oji kumgo [Korea Land Bank]</td>
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<td>KLDC</td>
<td>Han’guk t’oji kaebal kongsa [Korea Land Development Corporation]</td>
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<td>KMA</td>
<td>Kyongyong-ja hyophoe [Korea Managers’ Association]</td>
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<td>Kukt’o kaebal yon’guwon [Korea Research Institute for Human Settlements]</td>
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<td>KTA</td>
<td>Muyok hyophoe [Korea Trade Association]</td>
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<tr>
<td>MNCs</td>
<td>Multi-national Corporations</td>
</tr>
<tr>
<td>MOC</td>
<td>Konsolbu [Ministry of Construction]</td>
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<td>MOF</td>
<td>Chaemubu [Ministry of Finance]</td>
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<td>MOHA</td>
<td>Naemubu [Ministry of Home Affairs]</td>
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<td>Acronym</td>
<td>Description</td>
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<tr>
<td>NTO</td>
<td>Kuksech’ong [National Taxation Office]</td>
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<td>NIEs</td>
<td>New Industrial Economies</td>
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<tr>
<td>PMO</td>
<td>Kungmu ch’ongni-sil [Prime Ministry’s Office]</td>
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<tr>
<td>PSO</td>
<td>Chongwadae piso-sil [Presidential Secretary’s Office]</td>
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<td>RNA</td>
<td>Taehan min’guk kukhoe, Kukhoe sokki-rok [Record of the National Assembly]</td>
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<td>R &amp; D</td>
<td>Research and Development</td>
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<td>ROK</td>
<td>Taehan min’guk [Republic of Korea]</td>
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<tr>
<td>SCENSM</td>
<td>Kukpowi [Special Committee for Emergency National Security Measures]</td>
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<td>SKS</td>
<td>Seoul kyongje sinmun [Seoul Economic News]</td>
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<td>WPI</td>
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A. The Issue and Purpose of the Research

In complex socioeconomic situations, the state often faces demands for certain regulations to redress undesirable social phenomena, as well to pursue desirable socio-economic goals. This role of state regulation has expanded. The classical functions, such as guarding individual rights and welfare against various domestic violations and outsider threats, has become rigorous interventions, such as to reshape a new mode of capital accumulation affecting the restructuring of a property relation to society and of a domestic spatial division of labor. These interventions vary in form and degree, but they are bound to be the subject of debates and competitions between different political and social groups, as well as between different theoretical perspectives.

It is clear that the land issue is strongly affected by the extent and form of state intervention. The state’s role in the land market is complex and often unpredictable. Nevertheless, the successful analysis of land policy needs understanding this role of the state, because state intervention is a vital factor in the process of production and distribution of resources in urban society. Indeed, without understanding the logic of state policy, land market
cannot be understood either (Clark & Dear 1981, Gilbert 1984, Hirsch 1981). The debates concerning less state intervention for market efficiency vis-a-vis more state intervention for social justice are not enough to deal with land issues. In fact, the state decides whether the market mechanism should distribute land, or whether the state should intervene in the process of distribution of land. This decision is dependent upon the nature of the state, its ideology and social objectives, and the status of power distribution within society (Gilbert 1984: 226). Hence, it is desirable for a successful analysis about land policy to first understand the mechanism of how the state acts and regulates, why, for whom, and with what instruments. In collateral, land provides a good opportunity in which the nature and actions of the state can be investigated.

The purpose of this thesis is to examine the role of government intervention in the disputes of urban land by examining the issue of idle land held by the Korean business groups, the chaebol.¹ By describing and interpreting the process of this regulatory policy and its impacts, this case study demonstrates how the state has sought to use land to obtain a legitimate and neutral political image from the general public, promote long-term interests of the dominant capitalists, and legitimize its political regime created by an undemocratic process. Although limited to the case study, this analysis also provides an opportunity to examine
the tripartite relationship between the state, the capitalists and the general public, a relationship which is not fixed but has evolved along with the process of economic development in Korea.

Most of the previous research has recognized the Korean state’s contribution toward obtaining its achievement of high and rapid capital accumulation during the last several decades, despite its blatancy of military authoritarian politics (Amsden 1989, Douglass 1992, Haggard 1990, Haggard and Cheng 1987, Haggard and Moon 1983, Jones and Sakong 1980, Johnson 1987, S.K. Kim 1987, Koo 1984 and 1987, Koo and Kim 1992, Woo 1990). In explaining this achievement of economic growth, most research has regarded the Korean state as a strongly interventionist developmental state, thus negating the arguments of the neo-classic economists, who have deemed that the right pricing market with less state intervention drives success of capitalist development (Friedman 1989, Friedman and Friedman 1979).

Most research has focussed on this positive role of the Korean state, an entity which has its autonomy from societal forces and its capacity to successfully transform its social and economic structure, and to create a new system of economic, social and political institutions, thus orchestrating a late development process within a world economic system. In spite of many volumes of research concerning the Korean state’s role in the "process" of
capital accumulation, few studies have been conducted about its role in the dimension of wealth and property. This study by dealing with land, one type of property, helps bridge the gap that the previous research has not provided.

On the other hand, the previous research on Korean land policies has suffered from an apolitical orientation and a lack of awareness of large social forces on its policy issues (M.C. Hwang 1985, Kukt’o kaebal yon’guwon 1979a, 1984 and 1987, C.Y. Son 1990a-1990c, C.J. Yi 1988). In contrast, this study illustrates the importance of political economy in policy analysis, by conducting an empirical assessment of the process and context in which the policy was adopted, implemented and evolved, and by providing theoretical and analytical explanations about the evolution of idle land policy.

This study shows that, in making and implementing the idle land policy, the Korean state was not a biased agent catering primarily to economic dominant groups, nor an entity largely independent from socio-economic forces. Instead it possessed its own survival interests. Even if the Korean state had quite a high level of its autonomy and capacity, however, its strength was structurally limited: state actions were affected by internal and external constraints, such as answering demands from the general public to obtain political support, promoting the long-term confidence of the dominant capitalist groups to secure
B. The background and Scope of the Research

During the 148th session of the National Assembly in 1990, assemblyman, Ch’an-hyong Cho, criticized the government’s land policy. He stated "If Chun Doo-hwan’s regime was the ‘Republic of Chaebol’, then Roh Tae-woo’s government is the ‘Republic of Speculation’." One week before this session, the public heard the story of a family who killed themselves. The root cause of this suicide turned out to be a housing problem. Mr. Sung-uk Om in forty years had lived for four years in a four pyong² (about 13.2 m²) studio with his wife and two children, an eight year old son and a six year old daughter. He had worked for ten years as a driver for an assemblyman. In October 1989, he resigned from this position and since then he had worked at a real estate agency. He paid 90,000 Won (US$ 115) in monthly rent.³ His landlord gave him an eviction notice to leave the house by the end of April 1990. He could not find a house he could afford. On April 10, 1990, he finally killed himself and his family by using coal gas. He left a five page will.

Because of the failure of the government’s economic policy, real estate prices have skyrocketed. Not even having the hope of my own home, I can not afford to pay rent.... The poverty of my father was left to me, and without a miracle, it will be left to my children. The
decess cycle that the poor get poorer and the rich get richer tends not to be broken. Oh God, please give the politicians, especially economic technocrats, ability and wisdom, so that they will stop their foolish policies that have strangled the poor to death, and thus the depression and frustration of the poor will not continue any more (Taehan min’guk kukhoe. Kukhoe sokki-rok [The Record of National Assembly, hereinafter called RNA], April 16, 1990). 4

That was not an isolated incident, showing the seriousness of land problems in Korea. For instance, between February to April 1990, at least fifteen workers and urban poor committed suicide due to skyrocketing increases in housing prices and rents, resulting form the rapid increase in land prices (Han & Han 1990: 21-25).

Around the same time, the public heard reports on land speculation by the Korean business groups. An inspector at the Audit and Inspection Board, Mr. Mun-ok Yi, revealed to the Han’gyore sinmun (Korea People’s Daily) that 43.3 percent of the real estate owned by the twenty-three largest chaebol was not being used, contrary to their claims. (The chaebol officially reported to the Bank Audit Board that 1.2 percent of their land was idle.) The inspector was accused of the "monstrous crime" of disclosing official secrets (Korea Business World, August 1990: 18-19).

Since the mid 1960s, land prices have risen rapidly along with urbanization and industrialization (figure 1.1). During 1963-1990, land prices in major cities rose 734 times, while the GNP and wholesale prices increased by ten times and fifteen times respectively. This rapid increase
Figure 1.1 Trends in Land Price Increase, 1963-90

Table 1.1 Gini-Index for Income, Financial Asset, and Property, 1988

<table>
<thead>
<tr>
<th>Year</th>
<th>Gini Coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td>1988</td>
</tr>
<tr>
<td>Financial Assets</td>
<td>1988</td>
</tr>
<tr>
<td>Real estate</td>
<td>1988</td>
</tr>
<tr>
<td>Land</td>
<td>1988</td>
</tr>
</tbody>
</table>

in land prices caused the prices of related goods to rise; housing prices for families, production costs for firms, and the government's fiscal expenditures for supplying social infrastructure. At the same time, it aggravated the distribution of wealth. The rich landowners, including big business groups, have enjoyed capital gains through land speculation rather than profits through productive investment. Consequently, the distribution of wealth has been skewed more than the distribution of wage income as a result of the increase of real estate values (table 1.1).

All these phenomena have created social conflicts and unrest. During the process of those conflicts, most chaebol have been criticized frequently for their speculation in real estate and manipulation of the real estate market. In fact, real estate for these capitalists has been an important element in their asset portfolio. In other words, investments in real estate have been an important strategy of capital accumulation for the chaebol. Under the conditions of a rapid increase in land prices, land has been the safest investment for corporations as a hedge against inflation and a source of earnings during tough economic times. As such, since the 1960s, the chaebol have participated actively in land speculation under a variety of plausible pretexts.

In general, land has been used as collateral for commercial bank credits (table 1.2). Commercial banks have
Table 1.2 Structure of Commercial Bank Loans, 1961-90

(Unit = %)

<table>
<thead>
<tr>
<th>Year</th>
<th>Sum</th>
<th>Real Estate</th>
<th>Personal Deposits</th>
<th>Others</th>
<th>Loans with Trust</th>
</tr>
</thead>
<tbody>
<tr>
<td>61-70</td>
<td>74.05</td>
<td>61.75</td>
<td>2.20</td>
<td>5.38</td>
<td>4.72</td>
</tr>
<tr>
<td>71-80</td>
<td>64.36</td>
<td>50.67</td>
<td>1.44</td>
<td>7.55</td>
<td>4.70</td>
</tr>
<tr>
<td>81-90</td>
<td>54.52</td>
<td>43.72</td>
<td>2.43</td>
<td>5.43</td>
<td>2.95</td>
</tr>
</tbody>
</table>

61-90 55.74 44.60 2.31 5.67 3.16 44.26


been ready to lend money when the warrant security is land. This practice makes it possible for the landowner-capitalists to refinance loans for buying more land. In addition, during Korea’s developmental periods since the early 1960s, vast amounts of money from domestic and foreign sources has been given to business groups under the name of industrial funds. Much of these funds, however, have been used for land speculation rather than for production investment. For instance, the chaebol received 51.5 percent of all commercial bank credits and 48.5 percent of the secondary financial institutions’ credits in 1989 (RNA, March 7, 1990). In 1988, they invested 1.38 trillion Won ($2.0 million) in land, while they invested 1.22 trillion Won ($1.8 million) in industrial facilities (RNA, May 17, 1989). The chaebol invested more capital in land than in industries. As such, as of 1989, the land held by the forty-eight highest-ranked chaebol amounted to 206 million
pyong (682.1 km$^2$), equivalent to 17.6 trillion Won ($26 billion). However, 35.3 percent of this land was held without actual use (Kyongje kihoegwon 1990b. See table 5.1 in chapter 5).

Therefore, most people believe that the chaebol have been primarily responsible for driving up the nation's land prices through their massive land speculation. The public also has criticized the government for condoning the speculative behavior of the chaebol, instead of regulating land speculation. In the face of popular pressure, on May 7, 1990, President Roh Tae-woo declared war on corporate land speculation. The corporate response was "swift." Three days later, the ten largest chaebol pledged to immediately sell fifteen percent of their vast land holdings and to refrain from further speculative behavior. This hasty agreement between the pro-business government and the chaebol attested to the extent of popular discontent about rising land prices. On May 9, for example, student protesters in the tens of thousands demonstrated with unusual strength in "support" for the government's anti-speculation measures (Far Eastern Economic Review, May 24, 1990: 62).

Pursuant to the President's directives, the government ordered the forty-eight business groups to dispose of their idle land on June 28, 1990. The total target area amounted to 72.9 million pyong (241.0 km$^2$), worth one trillion Won
($1.4 billion). This attempt by the government to enforce the disposal of the chaebol’s idle land was not its first. Even excluding rural land reform implemented in the 1950s, similar measures were taken in 1974 and in 1980.

The first measure was taken by the Yushin government of President Park Chung-hee. On May 29, 1974, the government issued the presidential special directives which aimed to strengthen the business groups’ financial capability by requiring that they open ownership to the public through the stock market. One of the measures used to accomplish these directives’ goals was to instruct the indebted business groups to sell their real estate, the amount of which was 7.15 million pyong (23.6 km²). According to this measure, the Korea Land Bank was set up on April 1, 1975. Its primary object was to buy the idle land owned by business groups, thus channelling capital invested in unutilized land into industrial uses. The government expected this measure not only to activate more productive land use but also to improve the financial structure of business groups.

During the next three years, the Land Bank bought 0.9 million pyong (3.0 km²) of idle land from business groups, worth 11.3 billion Won ($23.3 million). This policy, however, did not achieve its goal to control the chaebol’s speculation. Although the Ministry of Finance implemented "Measures on Bank Credit and Business Concentration" to strengthen the government’s regulation of idle land,
business groups did not stop buying and holding additional land. Eventually, four years later in 1978, the Land Bank was disorganized, the functions of which were incorporated into the Korea Land Development Corporation.

The second measure was enacted during Chun Doo-hwan’s government. On September 27, 1980, the Standing Committee for Emergency National Security Measures (SCENSM) announced “Measures for Strengthening the Business Structure,” which included policy concerning idle land. The twenty-six highest ranked business groups had to report to the government the idle land held by both the firms and their large shareholders’ families. The total reported area amounted to 443 million pyong (1,464.5 km\(^2\)), among which 85 million pyong (281.0 km\(^2\)) was ordered to be sold. From November 1980 to 1982, the Korea Land Development Corporation purchased 23.7 million pyong (78.3 km\(^2\)).

Although the SCENSM’s attempts to prevent business groups from possessing idle land were strong, business groups continued to purchase and hold more land. As of September 1983, three years after the second measures were issued, the twenty-six business groups purchased new land, which was four times greater in value than the land that they sold to the Korea Land Development Corporation. Business groups even purchased back the lands that they sold to the Korea Land Development Corporation.
The third measure was the policy being implemented in recent years by Roh's regime. In June 1990, the government pushed the forty-eight highest-ranked business groups to sell their idle land amounting to 68 million pyong (224.8 km²). The government warned the chaebol that new loans would be cut off unless they sold land being held for speculation and left idle. The chaebol seemed to follow government policy since the government has been the major source of corporate finance. However, contrary to the will of the government and the expectation of the general public, business groups actively purchased new land. According to the Bank of Korea, the chaebol purchased new land which amounted to 29.9 percent of the idle land they disposed of during the same period from May 1990 to March 1991. This defeat of the government's regulation on corporate land speculation was among a series of unsuccessful land policies since the 1960s.

The Korean government has intervened in land conflicts and adopted idle land policy as a means to fight against corporate speculation. At first sight, this policy seems to be an extra-ordinary action for a pro-capitalist state. As many scholars have noted (e.g., Amsden 1989, Deyo 1987, S.K. Kim 1987), the Korean government has kept close relations with the big capitalists or the chaebol during the process of economic development and capital accumulation. For instance, big business groups were always given favorable
treatment in the transfer of former Japanese-owned assets in
the 1940s, in the distribution of foreign aid in the 1950s,
in the financial allocation of foreign and domestic loans
from the 1960s to 1980s, in shaping economic development
policies since 1962, and so on. In some respects, the
speculative holdings of land has been a critical source of
production and a strategy for capital accumulation for
business groups. Then, why did the state intervene in
business groups' such speculative activity?

As O'Connor (1973) contends, the capitalist state,
whether democratic or authoritarian, has at least two basic
functions: capital accumulation and legitimation. While
assisting in capital accumulation and providing favorable
conditions for accumulation, the state needs to achieve its
legitimacy from the mass populace to maintain the social
order and the system as a whole. In a bid to revive the
government's flagging popularity caused by rapidly
increasing land prices and skyrocketing housing rents, the
government might have little choice but to direct the
chaebol to relinquish their idle land. If the purpose of
the policy was to obtain such legitimacy, this program
should have been implemented in 1969, in 1978 or in 1988
when land speculation was at its peak, rather than in 1974,
in 1980 or in 1990 when the land market was depressed or
stable. What accounted for these time lags? Was achieving
legitimacy from the mass populace the entire reason for the policy formation, or were there any other reasons?

Many socio-political analysts and economists contend that Korea has had a "strong" and "hard" state (e.g., Deyo 1987, Haggard & Cheng 1987, Haggard and Moon 1983, Jones and Sakong 1980, Koo 1987). The state backed up by military power and well-organized bureaucratic technocrats could and did mobilize resources in the economy and in politics. As such, business groups seemed to listen to the guidance or to follow the directions of the state. Hence, idle land policy was supposed to meet the policy goal of preventing business groups from purchasing and holding idle land. However, this policy was not effective as expected. Why didn’t the policy achieve its goals despite the strong intentions of the state and the support from the general public?

Based on these basic questions, this study will analyze the following questions:

First, it will probe the causal influences on policy reform. What social and economic pressures led the state to bring these extraordinary policy measures to the agenda setting? Was it popular pressure, the changing conditions of capital accumulation, or the state’s own interests?

Second, it will explore the actual process of policy formation. What were the policy goals, and what were the policy instruments being used to achieve these goals? Which branch prepared the agenda and who were involved in creating
this policy? This study will also examine whether the administrative branches had the ability to coordinate various state bureaucracies and whether they had an ability to secure their independence or autonomy from outside influence.

Third, it will peruse the society’s reactions to the policy during the period between its formation and implementation. What were the reactions to this policy from the concerned interest groups, both the chaebol and the general public? What were their voices? And, how were these voices heard by the state? Both the chaebol and the general public might respond differently to state policy. Their varying responses, in turn, would affect implementation of this policy.

Fourth, this study will examine how this policy was actually implemented. What was the implementation process? What were the responsibilities and the relationships, both vertical and horizontal, among the state’s organizations? In order to implement the policy, what institutions were created? What were the interactions between implementing agencies and target groups? It will also peruse whether this policy was implemented pursuant to its policy goals that was decided at the policy formation stage. If this policy was modified or abolished, how did the state modify it?
Fifth, this study will assess the outcomes of this policy. For instance, how much and what land was sold? The actual policy outcomes in the earlier periods would act as the causes for repetitive adoption of the policy in the later periods. It will also evaluate the impact of these policies. How much did this policy affect business behavior? For instance, was the financial structure of business enterprises improved by disposing of their idle land? If there were positive relations between this policy and companies’ financial structure, how much was the policy effective and how long did its impact last?

Finally, this study will discuss the implication of this policy to the general pattern of regulatory politics in Korea. If this policy was changed and thus was not implemented pursuant to the initial policy goals, what could account for these policy evolutions? Then, what has been the cumulative effects of these three idle land policies on the Korean political economy?

By conducting the process and impact analyses, this current study will illustrate the importance of political economy on policy analysis, depict more clearly the role and action of the Korean state in the process of regulating speculative land holdings, and provide some general theoretical propositions about regulatory policy mechanism, policy process, political dynamics and socio-economic context in a "non-western" and "developing" society.
C. Theoretical Framework

1. Introduction: Explaining Policy Adoption and Evolution

Public policy is the policy formulated and implemented by the state; an entity consisting of institutions having a sole legitimacy to govern over a given territory, state managers who control these institutions, and functions which these institutions perform (Hamilton 1982: 7). This legitimate authority is expressed by a variety of policies, which require state apparatus including the legislative, executive and judiciary branches. The state is also supported and maintained by the repressive state devices of police and military forces to guarantee its internal and external security (Ham and Hill 1984: 23, Therborn 1978: 41).

The functions of, and expectations toward the state and its policy vary according to time, the place and people. Under contemporary capitalism, certain particular characteristics of the state's role are emphasized (Clark & Dear 1981: 49-51). First, because of the existence of external effects (e.g., market failures) and a preference for a certain standard in societal affairs, the state supplies and allocates public goods including "collective consumption" (Castells 1977) and "the built environment" (Harvey 1982). Second, the state also regulates and facilitates the operation of a market economy, through such
means as the Keynesian fiscal, monetary and competitive policies, thus enhancing the preferential environments for "business confidence" (Block 1977). Third, the state is expected to adjust market outcomes pursuant to its own normative policy goals, such as, ensuring distributive justice, redressing socio-economic imbalances and maintaining fairness for disadvantaged groups (Rawls 1971). Finally, the state is compelled to be an arbiter of interclass or inter-group conflicts. This final role is to modulate the second and third functions mentioned, those of "accumulation and legitimacy" (O'Connor 1973).

To conduct these multiple and sometimes contradictory roles between them, the state enacts a variety of public policy. Then, what causes policy making and what accounts for policy change? Several alternative perspectives are responding to questions, such as how policy formation is achieved, within what mechanism this policy is evolved, and what are the relations between the state and the dominant class on the policy. The society-centered perspectives respond that understanding the stimuli of policy decisions needs understanding societal actors and their power relations - whether these are termed as interest groups, corporate pressures, public opinion, social movements, or other interest-based classes. In these perspectives, state actors are generally recognized as being secondarily significant in the policy process, and thus the state is
frequently regarded as if it were an arena for the societal competition, coalition, and alliance of interests and classes. In contrast, state-centered approaches argue that the perception and interactions of state elite, and the general direction and capability of the state, account more for policy formation, policy choice, and subsequent implementation. Hence, policy elite's capabilities and the state's autonomy from society are emphasized in spite of intense societal pressures during the policy process.

2. Society-centered Explanations for Public Policy

Society-centered approaches emphasize the role of social class and interest group formation in policy making. Since these approaches focus on the value, behavior, and historical context of class and interest groups, the perceptions and activities of policy makers are regarded as a dependent factor. There are two major approaches within society-centered schools: the liberal pluralist approach and the Neo-Marxian approach.

**Liberal Pluralism:** For liberal pluralists, the outcome of public policy is the result of conflicts, bargaining, and coalitions among organized interests (Dahl 1961, Truman 1951). For them, policy making is a "balancing act among competing [groups]" and a "process of conflict resolution in which social tranquility and the maintenance of power is a
basic concern" (Killick 1976: 176). The central tenet of liberal pluralism is in an individual's freedom in both the economic market and political arena. The individual is assumed to be rational and acts in his own self-interests. Linked by mutual self-interests, individuals tend to associate themselves with various "factions" (Madison 1961) or groups whose interests are cross-cut and whose memberships overlap (Stepan 1978: 7).

For liberal pluralists, the public interest is best served when policy is shaped by the competition among large numbers of organized interests, as economic efficiency is assumed to be automatically achieved through the hidden hand mechanism, which produces the harmony between the individual interests and collective goods (Friedman & Friedman 1979). Hence, the role of the state has to be minimal in both society and polity, thus limited to providing security, impartial administration of justice, and the physical infrastructure needed for the market to function well (Smith 1976).

Within the pluralist paradigm, as the source of state power resides in individuals, and the length of state managers' incumbency is decided by individual's voting power, the state has to respond to the demands and interests of organized groups in society. To put it simply, the state in a pluralist society is regarded as the neutral mediator or referee between the competing interests of various
societal groups (Chilcote 1981: 350). Thus, the policy initiatives are linked to the mobilization of these interest groups, and policy changes are likely to result from the changes in group coalition or in their relative power to bargain with, negotiate with, and influence policy makers (Grindle & Thomas 1989: 218).

This pluralist position is untenable, however, because the truly pluralist state can only exist in a pluralist society (Gilbert 1984: 226). Pluralists assume that power is widely distributed among different groups, no group is dominant in influencing policy making, and thus policy is formulated by the democratic representation of organized interests (Dahl 1961). These premises, however, largely ignore the significant differences in each individual's wealth, power, and interests (Froman 1984). In practice, because of these differences, there is unequal access to state power, and some groups are often favored over others as long as scarcity of resources exists (Levi & North 1982: 319).

In addition, according to pluralists, the state is only one of many institutions of social control. It does not have a specific prerogative of monopolistic control over society nor a history in its own right. Thus, it has to be limited in its response to societal demands. Its capacity also has to be minimal to find the ordinary means in order to reconcile society's demands and form compromises among
them (King 1986: 14). Since the state is more or less seen as a passive structure and inappropriate as an autonomous force for socio-economic and political change, liberal pluralists offer few explanations for how the state influences group formation and intergroup conflicts within the core countries (Skocpol 1980: 157). They also inadequately explain the rapid transformation of the socio-economic and political systems in the peripheral countries. In fact, the state in the Third World countries, including Korea, has played a significant role in building the nation, society and economy (Alavi 1972, Stepan 1978). Since few in the Korean population have any real access to political and economic power, it is difficult to talk meaningfully about a pluralist system. Few Korean policy analysts adopt this perspective, but most of them accept some variations of Neo-Marxian versions of the capitalist state, or Neo-Weberian versions of the autonomous state.

**Neo-Marxian School:** The Marxian interpretation of public policy can be crudely depicted as one of three approaches; instrumentalism, in which the links between the ruling class and state elite are analyzed; structuralism, which examines the function of state policy with regard to the capitalist system; and the class struggle perspective, which derives the reality of the state from the mutual interaction of politics and economy. Yet these three
approaches are not mutually exclusive, but tend to see
different aspects of the state's roles within an economy
(Clarke & Dear 1981: 53).

Based on classical Marxist's contents, which focus on
the relationships of power and domination among societal
classes as the source of policy choice and policy change,
instrumentalists argue against the pluralist's claim of the
"neutrality" of the state (Miliband 1969: 67, Sweezy 1942:
243). To them, the dominant capitalists effectively control
the major sources, such as the means of production, the
means of state apparatus and coercion, and the means of
communication and consent. Thus, they enjoy decisive and
stable advantages both inside and outside the state
(Miliband 1987: 329). They directly and indirectly
intervene in the process of policy shaping and
implementation by using their powers, in order to guarantee
the stability of the class structure and to preserve and
expand economic accumulation (Skocpol 1980: 160-161). Thus,
the state acts as a tool for the ruling or dominant group.

Corporate liberalism, as a sophisticated version of
this instrumentalist approach, holds that the presumed links
between sovereign voters and state managers, a major
justification of liberal pluralist theory, is flawed because
state managers are not immune from the pressure of the
particular interest groups. Top policy makers, usually
elected public officials, come to a considerable extent from
a particular class and educational background, for whom the
state is an instrument. In addition, policy makers, who are
overwhelmingly concerned with staying in power and being
(re-)elected, are dependent on the resources provided by the
dominant groups, such as financial donations for election,
information, and staffs. The dominant groups, in turn, try
to extract benefits and rents by providing their resources
to these elected top policy elite. (Froman 1984, Gais et al.
Tierney 1986, Thomas & Hrebenar 1990). Non-elected
officials also often respond favorably to organized
interests. They may receive benefits from the dominant
groups by providing preferable access to public goods and
services, or providing favorable treatment in regulatory
policy implementation. Under these conditions, the state is
not neutral, but systematically favors certain narrow
interest groups over the general public interests. Hence,
the state is unlikely to develop and implement policy reform
against the interests of the dominant groups.

Some events, such as occurred during the process of re-
zoning land use or delineating the site boundary to be
developed, may evidence this instrumental role of the state.
So-called the Coalition of Politics and Economy (*Chonɡ-gy-oŋ
yuχ’ak*) are frequently referred to, to explain the black-
box, where any other specific rationality is not able to
interpret why the specific area is rezoned from green-belt
to residential or from residential to commercial area. However, this instrumental version of public policy does not easily answer other questions, such as, why does the state regulate land speculation which is suspected to be caused by the wealthy groups, if the state is in the hand of the economically dominant groups?

Structuralists interpret these unanswered questions by emphasizing the social system as a whole. To them, the state is composed of an organized structure as well as conscious actors, and this structure or system determines more of the adoption and changes of policy than the individuals who control the state apparatus. Thus, the function and role of the state is broadly defined by the structure of society itself, especially the capitalist economic structure, rather than by the interests of either the dominant class who owns and dominates the economic means, or policy elite who occupy the state apparatus (Gold et al. 1975: 36). When the social structure or its system is at stake, the state acts to ensure and reproduce this structure by implementing policy reforms, although this initiation of policy change is largely constrained by the interests of the dominant class (Poulantzas 1969, 1976: 71).

This assertion, however, does not negate the significant impact of the dominant classes' direct participation in the state apparatus and policy making process (Carnoy 1984: 104-6). Rather, it emphasizes the
importance of the social, economic and class structure within a society. Hence, though the state often favors the dominant class, it need not necessarily be their instrument, but state elite, under certain circumstances, exercise relative autonomy in a policy arena from direct class dominance. For instance, when the system as a whole meets a crisis, the state can develop autonomous policy reform against a particular faction of the dominant class, in order to restore the general interest of the dominant class, stabilize the capitalist system, or reproduce the production relations and social structure (Poulantzas 1976: 95). In other words, to structuralists, the state acts in the best interests of the capitalist economy, by using its relative autonomy, without acting at the imperative of the dominant groups (Poulantzas 1973).

This idea of state autonomy or the role of the state in transforming the economic structure has been evolved by Neo-Weberian statists discussed in the following section, and the post-structuralist Regulation school (Aglietta 1979, Boyer 1986, Jessop 1990, Lipietz 1987). The Regulation school argues that sustaining a regime of accumulation requires a complementary mode of regulation, such as Fordist, Post-Fordist or Peripheral Fordist modes of regulation. Here the "regime of accumulation" refers to a systematic organizational relationship between production, distribution, exchange, consumption and the relationship
between the capitalist and non-capitalist mode of production, while the "mode of regulation" refers to the totality of structural forms, institutional arrangements and norms, in which individual and collective behaviors are coordinated pursuant to the principles of the accumulation regime (Dunford 1990: 303-7, Douglass 1992: 2, Noel 1987: 311-2).

In refining the mode of regulation, the Regulation school gives a new role of the state, a leverage to explain the sustaining high rates of accumulation in the Asian New Industrializing Economies (NIEs) (Douglass 1992: 7). It also explains the enhanced role of the state in advanced countries. The state in the core countries often involves in the private economy during the crisis-ridden transition from one stage to another. Thus it attempts to restructure the mode of regulation, before it once again withdraws to intervention consistent to the new regime of accumulation (Jessop 1990: 199).

As Jessop put in his paper (1990), there are at least seven sub-groups which share the common perspectives of the Regulation school, but they soon break down when they locate the state in the overall architecture of a mode of regulation. Hence, it is hard to identify the Regulation school’s unique position in explaining the relationship between the state and society, although they emphasize the new role of the state. Instead of providing a general
theory about the state, these theorists emphasize a framework for understanding the dynamic role of state policy in specific historical moments and locations.

In summary, to (post-)structuralists, the main function of state policy is to keep the capitalist economy functioning properly. For this function, the state sometimes has to enact policy against the interests of the dominant groups. For instance, the state has to regulate the particular landowner-capitalists when other capitalists are not able to get land. Or, it may adopt the policy for the landless workers, if rising land prices command workers to pay higher rents. This prevents capitalists from accumulating capital because labor costs are more expensive.

The third version of the Neo-Marxian approach is the class struggle school. It contends the existence of a division of labor between the dominant class which accumulates capital, and state managers who control the state apparatus. To this viewpoint, although the state tends to serve the interests of the dominant capitalist groups under normal circumstances, the infrequent crises of political legitimacy and economic disorder allow the state to initiate policy reform.

To the class struggle perspective, the state is under dual pressures for capital accumulation and political legitimation. The state has to mediate economic conflicts to secure political legitimacy; it may need to initiate
policy reforms responding to the demands from the subordinate groups, because state elite have to obtain the political support from the general public to be (re-)elected. On the other hand, the state has to intervene in the same economic conflicts to ensure the continued expansion of capital; its political actions are conditioned by the economic imperatives of capital production and accumulation. When society meets crisis in politics and economy, in both domestic and international arena, the state as "crisis manager" (Offe 1974) regulates economic and social behavior with the purpose of reproducing the production condition, and promoting capital accumulation. To Offe, these dual functions of the late capitalist state are inherent in the basic contradiction of the capitalist mode of production; the increasing socialization of production costs but the continuing private appropriation of surplus value are the dual thrusts (Carnoy 1984: 131).

However, state policy cannot endanger the long-term interests or confidence of business groups. It cannot transform the existing system as a whole either, although the state sometimes has to respond to the demands from the general public. Instead, these policy changes have to be functional for the long-term sustenance of capitalism, thus being recognized later by the dominant class who at first opposed them (Block 1977). To Block, the reasons why the state will not act fundamentally against the capitalists'
interests are in the facts that state managers in a
capitalist society depend upon a healthy economy for their
power and security in office. Thus, they have to provide
the favorable environment for capital accumulation, and
create or enhance business confidence, which is the crucial
factor in achieving economic development and capital
accumulation (Skocpol 1980: 182-83).

In summary, to class struggle theorists, state policy
has to provide the preferential conditions for capital
accumulation in order to induce financial supports from the
capitalist class. On the other hand, the state also allows
for welfare programs to laborers to secure political loyalty
from the laborer class. These interventions are the long-
term strategies for crisis management; crises are inevitable
because of the destined incidence of class antagonism in
capitalism (Offe 1976: 415). Nonetheless, this expansion of
the state’s function, as an arbitrator of competition
between capital and labor, may itself be a source of
dysfunction and crisis of the state, such as O’Connor shows
in his research (1973).

In conducting these dual functions, the state may adopt
contradictory policies concerning land issues. For
instance, the state provides urban infrastructure, which
functions to assist smooth capital accumulation, but in
which capitalists usually hesitate to invest their own
funds. Installation of infrastructure tends to increase
land values, and land speculation in urban areas may be incurred by the state’s investment, even if other factors are unchanged. When capitalists realize that investment in land produces more profits than in industries, they will invest their surplus funds in land rather than in industries. Then, the state may adopt anti-speculation policies, thus responding to the demand from the general public, who express their antagonism to these capitalists’ speculation. Nonetheless, this policy functions to channel the surplus capital to industries rather than to land, which is vital to sustain the healthy growth of economy. Capitalists usually have too narrow-sights to do so voluntarily.

3. State-centric Explanations for Public Policy

While the society-centric approach to the state emphasizes explanation of policy choice, the state-centric approach focuses analysis on policy making within the organizational context of the state. Thus, it emphasizes the capability of policy makers acting with a substantial degree of independence from interests and demands generated from the private realm. These theoretical approaches include the rational actor model, bureaucratic politics approach, and neo-statist and institutionalist versions.

In the rational actor model, policy makers are regarded as rational actors. They accumulate information, evaluate
alternative courses of behavior, and choose policy among alternatives on the basis of the potential to pursue the policy maker's preferences (Allison 1971, Killick 1976). This explanation has evolved by modifying the theory of the "perfect rational" actors (Grindle & Thomas 1989: 219-220). Because of the complexity of policy choices, and limitations of time lag and attention devoted to policy problems, policy makers choose policies that meet certain standards of acceptable alternatives, rather than attempting to achieve optimal solutions. In practice, policy makers operate on the basis of "bounded rationality" (ibid). They develop measures to cope with recurrent problems in a way that obviates the need to assess each issues separately. Subsequently, in order to reduce uncertainty, conflicts and complexity, policy makers choose incremental changes, or enact marginally different policies from the existing ones, when they need to change policy (Lindblom 1977, Starling 1988). This rational actor model focuses on the strategies available to policy makers.

In the bureaucratic politics approach, policy outcome is the result of competing activities among bureaucratic agencies and executive actors (Grindle & Thomas 1989: 220). The assumptions here are that policy making is dominated by the relatively permanent bureaucratic institutions. The structure, procedures and culture of these organizations play a major part in explaining policy output (Bramley 1990:
56). Since each organization has its own roles and capacities, different organizations compete over policy solutions to particular problems by utilizing the resources available to them to achieve their goals. In this version, policy makers have substantial potential for autonomously shaping and implementing policy, because autonomy is limited only by the power and bargaining skills of other bureaucratic actors. Yet this approach does not provide an answer to the question of why policy reforms or changes occur.

Finally, Neo-Weberian statists and institutionalists adopt a perspective on the role and influence of policy makers as a way of interpreting instances, in which the state gains certain autonomy in defining the nature of policy problems, developing problem solutions, and implementing policy. In these explanations, the state is analytically separated from society, having the capacity to "formulate and pursue goals that are not simply reflective of the demand or interests of social groups, classes, or society" (Skocpol 1985: 9). Thus, it can act against the fundamental interests of the dominant class, "which would ultimately result in a basic structural change" by replacing the new mode of production and the new dominant class (Hamilton 1982: 10).

This autonomy does not necessarily mean that the state will favor the subordinate class. Instead of being
passively reduced to the arena where the competing interests meet and contend with each other, the state can initiate its own preferences and capacity of autonomy (Block 1977, Hamilton 1981, Skocpol 1980 & 1985, Trimberger 1978). Among the preferences and interests of the state are; the achievement and maintenance of its hegemony over societal actors; the maintenance of social order and peace; the pursuit of national development proposed by policy elite; and the interests of incumbents in retaining political office (Krasner 1978, Nordlinger 1981: 36, Skocpol 1985: 15, Trimberger 1978).

The state and its elite strive for autonomy in pursuing policy choices. State autonomy is enhanced by the following favorable conditions. First, the growth of the state bureaucracy, having the extended control of the coercive means, facilitates state autonomy (Levi & North 1982, Mann 1984: 187, Skocpol 1979: 29-31, Weber 1978: 987). A certain level of cohesion among and within the various governmental institutions is also a necessary condition for autonomy (Hamilton 1982: 7, Suleiman 1987). If the state controls the economic resources, its autonomy increases (Hamilton 1981: 324). In the peripheral states, independence from foreign capital, whether direct investments or loans, is crucial to their autonomy (Starllings 1985).

When the status of the dominant class is weakened due to an internal or external crisis, the state autonomy is
enhanced (Hamilton 1981, Skocpol 1979: 31, Starllings 1985, Trimberger 1978). The dominant class tends to be also weakened by such situations as a loss of cohesion within themselves, existence of conflicts between modes of production (Hamilton 1981: 310-311), contradiction between the particular faction’s interests and the aggregate class’ interests (Miliband 1977: 87, Poulantzas 1976: 75), or inconsistency between the long-term interests and the immediate interests of the dominant class. All these circumstances need some changes to maintain the whole system, and for the state to be more autonomous.

Finally, when the state forms an alliance with the subordinate classes (Hamilton 1982) or state leaders are able to mobilize the general public against the dominant class (Block 1977: 22-23), the state is more autonomous in initiating its policy. Since legitimization of the state is crucial to keep social order and to maintain social formation, the state cannot always ignore the demands of the subordinate classes or always favor the interests of the dominant class. In certain circumstance, thus the state has to give priority to the legitimation function over the accumulation function (O’Connor 1973).

However, state autonomy has its own limitations posed by the internal structure and external constraints. Although it is hard for the state to identify a generalized class interest because of the anarchic nature of capitalist
competition, the state tends to be continuously concerned with protecting capital accumulation. This is not because there is a certain affiliation between state elite and the dominant capitalist class, but the state inevitably depends for its resources, i.e., state budgets, on a healthy accumulation process of the private sector, especially, the economically dominant class (Offe 1984: 120). Thus, though the state is distinct from the accumulation process, it nonetheless has an "institutional" self-interest in accumulation.

In addition, once a given mode of production becomes dominant and the socio-economic position is determined under the world economic system, it is the state’s responsibility to ensure smooth functioning of the system that facilitates the activities of the dominant class (Hamilton 1982). Since state elite are dependent on aggregate economic performance for their re-election, they are granted only relative autonomy from the capitalists’ interests. They can act only against a certain narrow faction of the capitalist class, or against the particular sector of capitalist activities for the wider concerns of aggregate accumulation.

Although the dominant class may be in alliance with the state in acting for the necessary policy changes against specific interests, if the dominant class regards such an action as a fundamental threat to the exiting order, these factions will ally again and intervene in the state’s
policies, i.e., through an "investment revolt," which may cause a recession of economy. Since state managers will try to avoid this situation, they may modify their policy and relax the degree of regulatory rigor.

Finally, the state may implement policies in response to pressures from the general public, since the exigencies of public support and legitimacy provide state elites a further set of concerns beyond those of economic performance and accumulation (Habermas 1976, O’Connor 1973, Offe 1976). The state, however, cannot maintain such policies indefinitely, because on the one hand, the dynamic of capitalism resides in the reproduction and accumulation of capital and maximization of profits, and on the other, elected leaders are concerned with aggregated electoral consequences rather than with a narrow fraction of the electorate (Stritch 1991: 292).

In summary, the new statist perspective contains two basic assumptions: first, the state structure, policies and actions are not simply the derivatives of economic and social structure. Second, the state is capable of utilizing a certain level of autonomy to shape the process of economic development and social changes (Evans et al. 1985, Kohli et al. 1984, Nordlinger 1981, Skocpol 1979, Stepan 1978). These statists emphasize the significance of state intervention into the advancement of its own development goals and the shaping of society.
The roles of the state, in fact, have amplified from the classical state functions, to the welfare statism, state control of banking and finance, state control over foreign capital and technology flows, state ownership of industrial infrastructure, and so on. Nonetheless, the state's striving for autonomy does not necessarily bring success because of the variable social powers and structural constraints. Thus, policy changes and institutional reforms evolve along with the interaction of policy makers and the constraints placed on them by political, economical and social environments, and by the legacy of past policies (Grindle & Thomas 1989: 221).


Both society- and state-centric approaches to state policy deal with a common feature, the role and function of the state in politics and society (mainly the economy). While society-centric perspectives argue that state elite do not assume much initiative in agenda setting and policy choice, state-centered approaches contend that policy leaders often can initiate and shape policy reforms despite systematic constraints levied by social interests, past policies, and historical and cultural legacies.

To some degree, the difference between theorists is the degree of emphasis on certain factors that are likely to
cause the adoption and evolution of public policy. Even if they have different perspectives, most theories of the state accept that the state is often forced to give priority to what may be conflicting goals, such as efficiency versus equity, or capital accumulation versus political legitimacy. In some situations, these goals are rather complementary and thus policy elite are not always squeezed by the contradictory struggles of both capitalist and laboring classes (Przeworski & Wallerstein 1982: 218). Laborers agree with the healthy accumulation under capitalism; capitalists accept institutionalized democracy; and the state provides policy in support of profits. As statist Skocpol (1985) recognizes, "bringing the state back in" does not imply "kicking society out."

It seems unlikely that any single interpretation of the capitalist state is applicable to all times and to all types of policies. In one context, the state acts in an instrumentalist sense, while in other context its action is explained more appropriately by a structuralist's view. Sometimes, it enacts policy to the class struggle school's line, while in some issues it has dimensions of the Neo-Weberian's state. It is also clear that the state often acts inconsistently and unpredictably, and thus the state modifies its policy at times without really realizing it is changing its policy line. Often local particular realities are more responding to the explanation of policy evolution.
Thus, this thesis chooses a synthetic perspective, which provides a set of angles to understand the dynamics of the Korean idle land policy in specific moments, rather than sticking to a specific view of the state.

Most capitalist states are bound more or less to balance their positions between the needs of encouraging capital accumulation and those of legitimating the society in which this accumulation process takes place. By its definition, public policy in the capitalist state is given priority to provide favorable conditions for capital accumulation, because state leaders are dependent for their tenure in office upon a healthy economy. When their legitimacy is doubted by the general public, state managers, who believe in sound economic performance to rationalize their legitimacy, will seek more legitimacy by expanding greater efforts in creating the conditions for business confidence in capital accumulation. The main reason that the state regulates the interests against the economically dominant group is to restore accumulation conditions.

No state can ignore the demands from the general public all of the time. Although the state is successful for certain periods in repressing these demands, it is also bound to initiate certain policy reform, particularly during times when a military coup was conducted or during periods of economic repression, to sufficiently depoliticize the complaints of the populace. The real (not symbolic)
motivation, however, still resides in providing the opportunity for business to modulate their interests. Even if this autonomous action is enhanced by the support of the general public, the state utilizes this intervention for its own power and thus attempts to reshape its relationship with the dominant economic groups.

The success of state intervention in an economy is depends on its institutional capability and arrangements, which affect the capability of the actors, both state managers and business groups. Among policy instruments which enhance the policy effectiveness, coercive implementation and financial (dis-)incentives will play key roles to affect the changes of business groups’ behavior, pursuant to the initial intentions of policy elites. The degree of severity of these instruments either facilitates or limits the successful implementation of state policy.

Finally, state autonomy is not fixed but evolves. The institutional capacity of the state fluctuates according to the constraints of both institutional arrangement and macro economic structures. Effective institutional arrangements for rapid and high capital accumulation in the initial period may become a very source for institutional decay in the later time. Once capital is accumulated in the hand of capitalists, it may help to increase their bargaining power to the state, and thus it may weaken the state’s position along with the increase of business’ bargaining power. The
success of state policy will consequently depend more upon the degree of business' compliance to the policy.

Based on these theoretical thesis, the following study will show how the Korean state formulates the tripartite relationship between the state, the capitalists, and the general public by intervening in the land issue, how it utilizes the environmental situations to enhance its autonomy for initiating policy reform, how it arranges the institutional structure for improving its policy implementing capacity, and how its relations with capital and the general public evolves along with the economic development process. These references will be materialized by analyzing the idle land policy as a concrete case study.

D. Analytic Framework and Methodology

1. Analytic Framework

Policy analysis is a systematic explanation of a policy process and its components, such as, defining the problem, stating goals and generating alternatives to achieve them, assessing the pros and cons of each alternative, implementing the policy, and evaluating its consequences (Starling 1988: 6-7). The uniqueness of policy analysis lies in its description and explanation of the causes and consequences of governmental activity, and its interpretation of the results of policy implementation. It
does not prescribe political issues, offer solutions to problems, or resolve value conflicts (Dye 1987: 5-7).

Public analysis conducts ex post interpretation of government activities (Lynn 1987: 17), and thus it is different from policy recommendation. It also attempts to measure the impact of current and past policy rather than try to predict future activities. This analysis involves assessment of the impact of environmental forces on the content of policy, analysis of the effect of various institutional arrangements and political processes on policy system, consequences of various policy for the political system, and the impact of policy on society as a whole (Dye 1987: 2-18). In sum, policy analysis deals with the outcomes and goal attainment of policy by descriptive and interpretive analysis of the policy process and context.

Policy analysis, ideally, should include both formative analysis (e.g., process analysis) and impact analysis in order to assess an immediate output and ultimate consequences of the policy performance (Nachmias 1979: 5-6). The process model demonstrates that the policy process is, analytically, composed of several distinctive steps: problem recognition and agenda setting; policy formation and adoption; policy implementation and evolution; and policy evaluation and feedbacks (Anderson 1990, Nakamura & Smallwood 1980, Starling 1988). This approach presumes that the output in a preceding stage functions as an input to the
following stage. Since various levels of intermediate outputs are generated from the activities in each policy process, interim policy evaluations should be performed throughout the policy process in addition to the summative impact evaluation in the final stage of a policy cycle.

This approach has several advantages. Policy making often, if not always, follows these stages. The outcomes of a preceding stage influence the performance of the next stage to a considerable degree. In addition, the sequential process is open to change and elaboration. Thus it yields a dynamic and developmental process rather than a static view of the policy process. Moreover, it recognizes the relationship among political phenomena during the policy process rather than simply listing factors (Anderson 1990: 335-37).

In fact, the policy process itself is "nothing but politics" (Anderson 1990: 35), and thus it does not work in a vacuum. As Starling (1988) and Anderson (1990) remark, policy formation and implementation are political in that they involve conflicts and struggles among individuals and groups. Structural and contextual factors affect policy input, output, and the ultimate outcomes through their influences on the decision making process, policy content, implementation performance, and evaluation activities. These structural and contextual factors include the nature of the policy problems; resource availability; the
attitudes, interests, abilities, and commitments of policy implementing agencies; the interest and resources of external interest groups; media attention and public support; and the political system, culture, and socio-economic environments (Anderson 1990, Lynn 1987, Starling 1988). The existence of these factors implies that policy analysis should include the question of how the contextual variables influence policy inputs and outcomes, and whether policy and implementation strategies can influence these factors successfully to bring intended effects.

Therefore, public analysis, ideally, needs to draw on a synthetic concept by incorporating the policy process and its structural-context factors into a comprehensive policy paradigm. On the one hand, analysis on the development of policy stages can help understanding the whole process of the policy system. On the other hand, analysis on the structural-contextual factors can aid in understanding the complex dynamics shaping policy formation and performance in each stage. By doing so, policy analysis attempts to explain how policy makers manage these influences, and how such efforts affect policy outcomes.

2. Research Methodology

First, this study will use the case study approach to focus on the regulatory land policy in Korea. This approach is instrumental in conducting a more in-depth analysis of a
particular phenomenon. Since a single case study is useful in generating assumptions and refining existing observations (Smelser 1976: 199), it tends to be rather heuristic (Dogan & Pelassy 1984: 109). Because of its weakness of generalization, the findings may be limited to the case of land policy in Korea during the period of 1960-1990.

Second, this study will use the historical and empirical methodology. As Kafkalas states (1987), policy analysis should try to avoid both the extensive abstraction and the empiricist fallacy. In the former, empirical reality cannot subsequently be reproduced into a theory, while in the latter, any empirical observation can lead to establishing a generalization or law.

According to Skocpol (1984), three major strategies are prominent in the historical approach (E.M. Kim 1987: 21-22). One is to apply a general theoretical model to explain historical instances, the strategy of which attempts to apply a single theory to all societies at all times. Another approach refutes the usefulness of a generalized theory, thus rejecting a causal regularity being identified in history, but using individual cases to develop a meaningful historical interpretation. These two approaches are extremes of the historical methodology. The third one is to avoid these extremes, and assumes causal regularities in history.

The focus is on developing an adequate explanation for a well-defined outcome or pattern in history. Neither
the logic of a single overarching model nor the meaningful exploration of the complex particularities of each singular time and place takes priority. Instead, the investigator assumes that causal regularities - at least regularities of limited scopes - may be found in history. He or she moves back and forth between aspects of historical cases and alternative hypothesis that may help to account for those regularities (Skocpol 1984: 374).

This study adopts the third version of the strategies of the historical approach. The criteria of validity of this approach will be how successfully it is able to interpret the policy system: the agenda setting, adoption, implementation, evolution and consequences of idle land policy.

Third, this study is guided by a political economic approach. Political economy is not only concerned with the economics of public policy, but also with the essential political questions of who gains/loses and how (Staniland 1985). It refers to a relationship between politics and economics, and a conflict between the state and social stratifications or classes. Thus, it concerns how the political institutions determine the economic aspects, and how economic institutions influence the political process (Oppenheimer 1980: 121). The political economic perspective is helpful in delineating the role of the state in the political process as well as in its policy performance.
3. Data: The Characteristics and Sources

How to collect data depends both on the nature of the scope of the study and on the structure of the research method. The focus of this study lies not in evaluating policy success or failure. Instead, the main concerns of this study are to describe the policy process and analyze the influence of the structural-contextual factors over the policy system. Thus, qualitative data will be emphasized.

To support the qualitative analysis and measure the impact of the policy, this study also use a quasi-experiment, thus observing certain changes before and after the implementation of policy in a social and economic system (Campbell 1963). (For details, see chapter 7.) Some quantitative data will be used, which are obtained by non-reactive or unobtrusive measures, and thus the reaction of political actors are not required (Webb et al. 1981).

The key decisions in the past were made by the central government, especially at the Blue House where Korean presidents have resided. Thus, the decision making process has been closed and secretive. Interviewing the key policy actors is also difficult. Even if it were possible, it is unlikely that they will give a complete or an unbiased account at this time, when Korean politics are undergoing volatile changes. To rely on a statistical approach is also very limited; the events under review are unique and the statistics covering land ownership distribution and
behavior in land markets are very scarce. The best that can be done is to make inferences from observed events, which will be informed by relevant theories and supported by secondary information sources.

Documents of the National Assembly Archives (Kukhoe sokki-rok) are the primary source of this study. The data sets from these records include the content of idle land policy and anti-speculation measures as a whole; the process and context in which the policy was adopted, implemented, and evolved; and histories of political and economic event around policy interventions.

The use of the archives has several weaknesses. First, the documents alone may be inadequate to understand the whole story. They may contain only the formal expression of the policy, or the full description of policy debates may not be included. Second, data producers (e.g., politician, technocrats) may anticipate that the documents will be studied by researchers at some future date. In setting down historical records, they may announce statements which are not identified with their real intentions. Some documents may have been deleted. Finally, the confidentiality of some documents imposes limited access.

Thus, this study uses supplemental sources to governmental documents, including daily newspaper files, monthly journals, and magazines. Though there is the possibility of the intelligence agencies' manipulating the
mass media, newspaper files have provided a useful source for this study that the governmental documents can not supply.

E. Organization of the Thesis

This study consists of eight chapters, organized according to the main analytical questions.

Since delineating the nature of a policy issue is a pre-requisite to developing its policy system, chapter 2 begins with refining the nature of land under capitalism. What is the role of land in capital accumulation? Why do capitalists attempt to hold land and what is their motivation to become landowners? What is the role of the state in this process? Four major issues are discussed: land for urban uses, land as a private property, land as a financial asset, and the integration of capital and space.

After theorizing the role of land under capitalism, chapter 3 interprets the characteristics of land in Korea and assesses its impact on the Korean economy and society. It, then, discusses the status of capitalists’ land holdings and mechanisms of the chaebol’s dominance over land holdings. After examining the impetus of why the chaebol actively invest their capital in land acquisition, it discusses its effects on economy and society. Then, this chapter refines the nature of the idle land policy.
Chapter 4 to chapter 6 analyze the policy system. Chapter 4 examines three plausible factors which put the idle land issue on the policy agenda. When the demands from the general public and advocacy groups were too strong to threaten the existing social and political order, the state might prompt the formation of idle land policy against the interests of the landowner-capitalists. Under the context of economic crisis, the state also might initiate idle land policy to reproduce the production condition and restore the accumulation in the long-term sense or aggregate interests of society, thus regulating idle land holdings. The last plausible explanation shows how the state used land as a political symbolism to legitimate their undemocratic political actions, an explanation that the logic of economic imperatives does not provide.

Chapter 5 analyzes the policy making and legislative process. Major actors and institutions involved in this process and the policy instruments are investigated. This chapter also hears the responses from interest groups concerned about the policy. The degree of support from the general public and the level of compliance of target groups are vital in successful policy implementation.

Implementation politics of idle land policy is analyzed in chapter 6. In many cases, the fact that a policy is enacted does not necessarily mean that it is automatically implemented. This process is really political since the
interaction between implementing agencies and target groups are more complex than the interaction in the agenda setting stage. This chapter begins with how state institutions were managed in order to implement the policy, then investigates how the *chaebol* attempted to influence policy makers during the implementation stage, and how the policy has evolved. Finally, what accounts for the policy evolution, if it did, is analyzed.

Chapter 7 conducts an impact analysis of the policy on the policy consequences. Using a quasi-experimental interrupted time series, this chapter analyzes an empirical assessment of the policy impact on three major subjects: impact on controlling land speculation, impact on improving business' financial standings, and impact of capitalists' investment revolts. This empirical analysis supplements the qualitative arguments discussed in chapter 4 to chapter 6.

Chapter 8, the last part of this thesis, synthesizes the various dimensions of the idle land policy in Korea and ends with a discussion regarding policy implication to the state theory and regulatory politics in a non-western developing society.
Notes to Chapter I

1. The chaebol is a kind of business group in Korea. For more details, see chapter 4.

In romanticizing Korean, I will follow the McCune-Reischauer system. Korean words in plural are not followed by the letter "s." While the post-position (chosa) is separated from the preceding noun, adjectival suffix and compound noun adhere to the preceding noun with a hyphen (e.g., Sin-kyongje wa kyongje-jok chongui [Neo-economy and economic justice]). A hyphen is also put between the two given names, the second of which is not capitalized. The author's name of English publication is written as it appears in the original works, followed by the author's name in McCune-Reischauer romanticization (e.g., Jin-soon Lee [Chin-sun Yi].

Some words, which are already familiar to the western society, are excepted from the McCune-Reischauer system. They are (1) famous Korean politicians; President Syngman Rhee [Sung-man Yi], Chang Myon (Myon Chang), Park Chung-hee [Chong-hi Pak], Chun Doo-hwan [Tu-hwan Chon], Roh Tae-woo [Tae-u No], and other politicians, Kim Dae-jung [Tae-jung Kim] and Kim Jong-p'il [Chong-p'il Kim], (2) two proper nouns; Seoul [Soul] and Yushin [Yusin], and (3) three companies' names; Hyundai [Hyondae], Samsung [Samsong] and Daewoo [Taeu].

2. 1 pyong = 3.3 m² or 3.95 square yards.

3. The exchange rate of Korean Won to American Dollar is the market average rate as of the end of each year. This rate is obtained from Kyongje t’onggye yonbo [The economic statistics yearbook] filed by Han’guk unhaeng [Bank of Korea].

Table 1.3 Exchange Rate of Korean Currency to U.S. Dollar, 1953-91

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<td>18.00</td>
<td>1980</td>
<td>659.90</td>
<td>1987</td>
<td>792.30</td>
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<td>1967-68</td>
<td>271.50</td>
<td>1981</td>
<td>700.50</td>
<td>1988</td>
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<td>1969-70</td>
<td>304.55</td>
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<td>1989</td>
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<td>1971</td>
<td>370.80</td>
<td>1983</td>
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<td>1990</td>
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<tr>
<td>1972</td>
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<td>1984</td>
<td>827.40</td>
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<td>1974-79</td>
<td>484.00</td>
<td>1986</td>
<td>861.40</td>
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4. From a speech by an assemblyman, Ch’an-hyong Cho, at the 7th session of the Construction Standing Committee of the 148th session of National Assembly.

5. Assemblyman Hae-ch’an Yi, at the 3d session of the Economy and Science Standing Committee of the 148th session of the National Assembly.

6. Assemblyman Ki-ha Sin, at the 2d session of the Construction Standing Committee of the 146th session of National Assembly.

7. I conducted field work during May–July 1992, when the elections for the 14th National Assembly had just finished. The results were contrary to the expectations of the Korean politics analysts. Before this election, the ruling Democratic Liberty Party occupied three-fourths of the National Assembly as a result of party consolidation in February 1990 among the Democratic Justice Party chaired by President Roh, the Unification Democratic Party led by Yong-sam Kim and the Democratic Republic Party led by Jong-p’il Kim. But, at this election, the ruling party failed to get even one half of the National Assembly seats. Furthermore, in December 1992, the presidential election was held. Under these political circumstances, it was very hard for me to contact political leaders and policy makers for my interviews.
CHAPTER II
THE NATURE OF THE POLICY ISSUE: LAND UNDER CAPITALISM

A. Introduction: Public Policy and the Land Question

We make a variety of references to policy, private and public, in our daily lives. Policy can be broadly defined as a general statement of aims or goals (Starling 1988: 1-3), or as the goal-oriented behavior of some actors or a set of actors in a given area of activity (Anderson 1990: 4). The term "policy" is commonly applied to many different fields.

When people argue for or against a government, they are generally responding to public policies chosen and implemented by the government. "Public policy" refers to a set of goals and objective statements developed and implemented by the government, including its institutions and officials. Thus, it is "the relationship of a government unit to its environments" (Eyestone 1971: 18).

Public policy may be regarded as whatever a government chooses to do or not to do (Dye 1987: 3). However, divergence may arise between what a government decides to do and what it actually does. Thus, Rose (1969: x) suggests that public policy is a continuum of the government's decisions, activities and their consequences rather than merely discrete, disembodied decisions. Friedrich (1963: 79) adds elements by defining public policy as a course of
"purposive" action to realize an object within given environments, both of constraints and opportunities. In short, combining these ideas, public policy is "purposive course of action followed by an actor or a set of actors in dealing with a problem or matter of concern" (Anderson 1990: 5).

The distinguishing characteristic of public policy is that it is formulated, adopted and implemented by the "authorities" (Easton 1965: 212) in a political system, especially by the executive rather than by the legislative and judicial branches. Based on the power and laws of the state, public policy possesses authoritative, legally coercive and regulatory qualities, not attained by the policies of private institutions.

On the basis of the nature of its impacts on society and the relationships among those affected by policy, public policy in domestic areas can be classified into three types: distributive, regulatory and redistributive (Lowi 1964). A distributive policy conveys services or benefits to individuals, groups and corporations, and to the community as a whole by using public resources. A re-distributive policy manipulates the reallocation of wealth including income, property rights and other values among groups of the population. Here, the issue is not the "use of wealth but property itself, not equal treatment but equal possession, and not behavior but being" (Lowi 1964: 691). The usual
pattern in this policy is the shifting of resources from the haves to the have-nots. The last type, regulatory policy, involves the imposition of restriction on the behavior of individuals and groups. This policy differs from a distributive policy in that the regulatory decision involves a direct choice between who will be benefitted and who will be deprived in the short run (Starling 1988: 6).

Distributive and re-distributive policies are used by contemporary welfare states, though liberals and conservatives differ in their views as to the role of government. Regulatory functions have increased steadily as national socio-economic situations have grown more complex. Government regulations have expanded from the idea of protecting individual rights and welfare against various violations and dangers to responding to various social and economic problems, such as unfair business practices, environmental crises, or lease transaction controls for tenants' rights.

Different societies may share similar policy problems. Although similar policy measures can be designed to solve similar issues, different policy measures are usually adopted. Why? Each society may perceive its policy problems differently, may follow a different policy process, or may be dominated by a different policy system. Therefore, defining the nature of policy issues in a given society is a pre-requisite to developing its policy system.
The idle land policy that was implemented in 1974, 1980 and 1990 in Korea was a type of regulatory policy. The state ordered the chaebol to dispose of their idle land, thereby imposing additional constraints on their "speculative land holdings." Considering these policies leads to the following questions. What is speculative behavior? Why do capitalists attempt to hold land or to become landowners? What is their motivation? By what mechanism, does capital dominate land? What role does state policy play in the capitalists’ strategy for land domination? These questions have to be addressed before analyzing idle land policy in Korea.

B. Land Speculation

1. Speculation: A General Notion

Speculation has not been clearly defined. Few criteria can be used to distinguish between investment, speculation and scalping. In defining speculation, several factors may be employed: 1) time, whether it deals within a relatively short versus a long time frame, 2) productive activity, whether the land is actually used for its most productive purpose, 3) the nature of profits gained, whether they are earned or unearned income, 4) the impacts from land dealing, whether they are socially and economically positive or negative, and 5) the legality of land ownership and
transactions, whether taxes are paid or registration is actually in the owner’s real name. Because these factors are not distinctly defined, they provide a very limited guide in determining whether a specific transaction is speculation or investment. Consequently, when these criteria are applied, the same activity may be defined as a normal transaction or as speculation depending on the observers and their historical context.

Speculative transactions share some common characteristics. They are a type of investment. Investment optimally pursues maximization of output with a minimal input. This rule applies to almost all types of economic activities, whether commercial, industrial, or service activities. As in all investments, the ultimate goal of speculation is to maximize profits from a transaction, but in speculative transactions, the profits usually result from the transaction itself rather than from developing any productive capacity.

The most significant element of speculation is time. Speculation entails evaluating the current market and forecasting its future direction. Forecasting always involves some amount of risk. Thus, the speculator has to be ready to suffer a loss. However, the greater the risk, the greater the potential return. Typical markets that operate under a speculative motivation are the foreign
exchange and the crude oil market. Speculation in these markets is part of their normal operations.

In summary, speculation implies the handling of commercial capital rather than productive activity. The speculator himself is not involved in making things, but deals in things made by others. In general, while a manufacturer expects to receive a return on his investment, a trader (speculator also) hopes to obtain profits from the changes in the prices of his inventory. Most manufacturers, nonetheless, are involved in both producing and trading goods. Thus, in some inventories, it is difficult to distinguish between investment and speculation.

2. Land Speculation

Land speculation refers to a tendency by investors who attempt to create capital gains by transferring real estate without utilizing it for productive activities (M. Ha 1989: 2). The investors seek profits generated by the difference between the purchasing and selling prices over a relatively short period. It is the channelling of the individual's savings or capital into land, with the expectation of profits from an increase in property value rather than from productive use of this property (Oncu 1988: 38). This expectation stems from the intrinsic functions, under capitalism, of real estate property as a commodity having an exchange value (Agnew 1981). In capitalist societies,
property commands exchange value as well as use value. The speculator or investor in real estate gains considerable profits from his land dealings, especially, during inflationary times when equity increases more rapidly.

In fact, land speculation has been found in most societies: from North America (Markusen & Scheffman 1977, Skaburskis 1988) to South America (Ball & Connolly 1987, Lowder 1990), from Europe (Oncu 1988) to Asia (Boonep 1990, Hanayama 1986, Kirwan 1987, J.S. Lee 1990, C.Y. Son 1990a), and from Hawaii (Rose & La Croix 1989) to Australia (Hagman & Misczynski 1978, Neutze 1970). As Harrison indicates (1983), even socialist countries experience property speculation by those who search for differential gains between government service prices and market shadow prices.

The general effects of land speculation have been examined by many researchers. Some economists argue for the usefulness of speculation since it may serve economic purposes, such as encouraging taking risks and mitigating the process of rapid changes in commodity prices (Baumol & Blinder 1985: 466). In addition, speculation is desirable in that it keeps some sites vacant until their most valuable long-term use is clearly established (Neutze 1970). If seen from a long-term aspect, land hoarding itself does not coincide with inefficient use of land. Rather, the present low level of utilization is a kind of payment for future maximization of land productivity. That is, the
potentiality of long-term efficiency does not depend on a speculator’s intention to use and develop land or to hold and transfer it without utilization (C.Y. Son 1990b: 82). Furthermore, speculation helps some capitalists accumulate their capital (Ball & Connolly 1987). Thus, speculation in land and property markets may be a "necessary evil" from the standpoint of capitalism (Harvey 1982: 398).

Other economists criticize land speculation, and regard it as socially undesirable. Speculation leads to a mislocation of resources through manipulating the development rate and raising land prices (Markusen & Scheffman 1977: 4). A speculation boom tends to create a "ratchet effect"; the price of land goes up, but it won’t come down (Neutze 1970). It affects homeowners, landlords and tenants, and borrowers and lenders; but in general, negatively affecting the have-not groups (Grebler 1983). Whether speculation in property brings about real accumulation of wealth in the long-term is doubted (Badcock 1989, King 1990).

Land speculation is criticized as being "unproductive, absorbing capital, manpower, and entrepreneurial skills without commensurate public gains" (Skaburskis 1988: 556). To an individual speculator, speculation may provide profits and capital gains, but to the whole economy, speculation does not produce any added value. It is rather a simple mechanism of value transfer from one set of individuals (usually landless or petty-landowners) to another (usually
landowners who command monopolistic land ownership) (S.D. Kim 1977). In this sense, the speculator is regarded as a parasite who produces nothing beneficial to society but significantly harms the economy. Furthermore, speculation disrupts the further development of an industrial economy by distorting the distribution of incomes (George 1951, Harrison 1983).

Given the many contrary views, land speculation has to be understood within a given social-economic-political context. In order to induce its policy implications, speculative behavior in a specific society has to be empirically interpreted as well as theoretically explained.

3. Beyond Land Speculation

In Korean society, land problems are regarded as a basic source of socio-economic conflict (Kwon et al. 1990). Most discussions about land problems have focussed on land speculation, the rapid rise of land prices, and the privatization of unearned gains (i.e., development gains generated during the process of land and regional development, and capital gains generated by property transaction). Policy alternatives suggested by academic and other experts, and policy measures adopted by the state have emphasized preventing land speculation and recapturing privatized speculative gains (M.C. Hwang 1985, Kukt'ø
Yet, few researchers have investigated what drives those with capital to invest in real estate, what is the mechanism by which capitalists attempt to control land, what is the role of land in capital accumulation, and how state policy affects capitalists' land accumulation. Several circumstances may explain why little attention has been given to understanding the basic mechanisms of land issues in the Korean capitalist economy.

First, little data related to the capitalists' domination over land has been revealed in Korea until recently. Thus, the general public and policy analysts did not pay much attention to this phenomenon. In 1989, for the first time, systematic research on the distribution of land ownership was opened to the public (Kukt'o kaebal yon'guwon 1989b). In the same year, the National Assembly conducted parliamentary audits on the executive branch. This prompted concerned Ministries to provide further information about land investment, transactions and land hoarding, especially by the chaebol. Since then, Korean researchers have studied the role of large capitalists in land speculation (S.H. Chang 1990a & 1990c, P.D. Ch'oe 1991, Han & Han 1990, T.H. Han 1992, Han'guk nodong kyoyuk hyobuihoe 1990, C.G. Kim 1990, T.D. Kim & K.S. Yi 1989, S.H. Kwak 1989, Minjok minju undong yon'guso 1990, and U.I. Paek, 1989).
Second, Korean capitalism has evolved within a relatively recent era. Some scholars have traced its origin to 1876 when the last kingdom, Choson, opened the country to Japan (C.H. Chu 1990, Han’guk sanggong hoeuiso 1990), or to the Japanese colonization experience (Cumings 1981). However, Korean capitalism, in a true sense, developed after independence from Japan in 1945 and through the process of land reform during 1948-1950 and the Korean War in 1950. Urban land problems have emerged only since the early 1960s when the military government implemented a series of five-year economic development programs. Therefore, in Korea, land problems under a capitalist mode of accumulation have had a relatively short history for policy analysts.

Last, but not least, Korean academics are strongly influenced by neo-classic economic perspectives, and not by political economic perspectives.¹ Neo-classic economists emphasize resource allocation through the market in respect to land, housing and transportation (Alonso 1964, Mills 1972, Wingo 1961). Land price and rent are treated as a parameter to indicate the relative scarcity of similar plots or location, and to measure the buyer’s willingness to bid for land and the seller’s willingness to sell.

Individuals are assumed to construct internalized sets of ordered consumption preferences. The spatial pattern of land prices and uses will reflect as the direct outcomes of these tastes and preferences of consumers. Each individual
seeks a residential location that maximizes his total satisfaction, only subject to the constraints of his budget. Companies also seek locations to help maximize their profits.

Despite the heterogeneity of land, the market perfectly harmonizes and coordinates its allocation among competing users. Thus, these economists want to let the market operation work as long as possible. Public intervention has to be minimal, assisting or stimulating the market, if and only if, it fails to function well. Market failures, however, are defined by narrow views of the public interest, such as resource immobility, externality, information imperfection, and other obstacles which prevent the effective operation of the price mechanism.

The neo-classic perspective neglects the historical and institutional aspects of land transactions, the social and property relations of production and exchange, the nature of the state, and the logic of public policy formulation. Land as a factor of production is reduced to a neutral and substitutable technical input in an abstract economic process. When the impact of land on the economy is treated, it is within the paradigm of the modernization process, such as, how agrarian land reforms in the developing countries have affected the developmental process. Thus, the role of land in capital accumulation is generally neglected. If the concentration of land ownership is treated as a socio-
political issue, the problem is considered as a conflict between landlords and tenants, not as a contradiction in the capitalist mode of production and accumulation.

In contrast, political economists challenge the hegemony of conventional analysis. Though they have too many perspectives to simplify, political economists are generally concerned about conflicts as well as cooperation in markets, landed property relations, explicit analysis of the state, and a dynamic analysis of historical events and social change (Haila 1990). Social relations are generally dichotomized into relations between exploiter and exploitee. The main power in land markets comes from a coalition between financial capital and real estate interests. They exercise a class monopoly to extract super-profits at the expenses of those without land or with small land holdings. Yet, the methodology used by political economists is rather theoretical. As compared with the positivism of neo-classic economists, their theories are often economy-based, deterministic, functional-structuralistic, and leave little room for the role of individual agents.

Though neo-classic economists and political economists perceive land issues differently, the dichotomy between them is not so sharp. For instance, neo-classic economists have conceptualized land according to three functions: land for living environments, land for economic activities, and land as a kind of property (Barlowe 1978: 10-11). These
functions of land correspond to social relations within
capitalism, that is, the reproduction of the labor force,
the production activities of capital, and the land holdings
of landlords. Though neo-classic economists generally treat
land as one type of capital, they admit that there are
differences between land and the other types of capital in
the form of economic externality. Thus, their strong faith
in the market mechanism is abandoned and replaced by the
possibility of market disturbances.

On the other hand, though political economists
emphasize the unique characteristic of land, they regard
land as a commodity for exchange as capitalism evolves. For
instance, Harvey (1982 & 1985) promulgates the idea of land
as a form of "fictitious capital." Soja (1985) employs the
notion of commodification of land or space. Logan & Molotch
(1987) and Roweis & Scott (1981) contend that land may not
be an ordinary commodity, but place or locational advantages
and urban floor space that is developed become commodities
to be exchanged.

In addition, we no longer live in a peasant society,
though not in all cases. Landlords do not form a
distinctive and identifiable social class in contemporary
capitalist societies. Along with land-holdings and
development activities, landowners have been generally
assimilated into the momentum of the expansion of the
capitalist class (Roweis & Scott 1981). As the capitalist
mode of accumulation proceeds, land tends to become more a tradable commodity and to be capitalized as a financial asset (Haila 1991: 359). In short, questions about urban land use are contingent on the concrete structure and development of modern capitalist society. Though treated as a core social problem, land speculation is a result of mechanisms that operate within a "capitalistic" pattern of land ownership and use.

Among the various characteristics of capitalism, accumulation of capital, not by theft and conspiracy but the extraction and appropriation of surplus value, is the essential source of the dynamics of capitalism (Edel 1981). The endless desire for capital expansion in the form of surplus value, and the continuous pressure of mutual competition drive capital accumulation just "for accumulation's sake" (Harvey 1982: 156). This accumulation process is conditioned; by the existence of a market where commodities are produced, exchanged and consumed; by legal means; by privately owned means of production; and by free circulation of capital through all sectors of society and territories in the form of flexible investment.

Thus, understanding the logic of capitalism provides further understanding of the causes driving land prices higher and motivating capital investment in land. The next three sections will discuss three aspects of land: private
ownership, the urbanized use of land, and the trading of land as a commodity.

C. Land under Capitalism

1. Private Ownership of Land

The basic tenet of capitalism lies in its recognition of private ownership of production means and property. Property is generally held privately, though not in all cases. Private land ownership is a pre-requisite for the capitalist mode of production. For the purpose of controlling wage workers, it is necessary to limit free access to land (Edel 1981). Workers then become a landless proletariat. Capitalists can manipulate the labor movements more easily when they block workers from land ownership. For instance, in Korea, with its serious housing shortage, the large corporations are able to control the labor movement with some success by providing workers' housing. Because the large conglomerates usually include a construction firm, they have an advantage over small and medium capitalists in labor relations.

In addition, private land ownership is the cornerstone in legitimating private ownership of other production means. Thus, even though the relation between capital and land is rather contradictory in the capital accumulation process, capitalists cannot deny landlords' privileges and rights.
At best, capitalists can ask their landowners to extend their lease, or they try to influence the state to levy heavy taxes on land rent and limit taxes on profits and interest incomes (George 1951, Harrison 1983).

In fact, private property is meaningless if the rights of exclusion are not guaranteed (Bowles & Gintis 1986: 64). Property owners can exercise monopolistic rights and ban others from utilizing their property. This bundle of rights includes the right to monopolize the use of land, to voluntarily dispose of it, and to demand rent, calculated on the basis of present use value as well as capitalized future income. Any profits, such as development gains or capital gains, accrue solely to the landowners.

However, private land ownership does not always function in favor of capitalism. While land owners try to maximize earnings from land, land is a prerequisite to both production and reproduction of capital and labor, the function of which may not work well due to landlords' monopolistic ownership. This relationship brings about conflicts between landowners, capitalists, and laborers. Government intervention may be necessary to mediate these conflicts.

As Plotkin correctly states (1987), in the capitalist mode of production, capitalists under the pressures of competitive accumulation have to "revolutionize" their property, including already established geographic sites and
spatial relations of commerce and industry. Property is more than a set of ownership rights. Property commands an expansionary dimension as well as an exclusionary one. Expansionary rights in land property imply "not merely claims to invested titles, but powers to change the physical nature of land, to alter human spatial and social relationships, and to revolutionize central features of the physical and social environments" (Plotkin 1987: 390-393).

This is a core issue of urbanized land development.

2. Urbanized Land Use

Urban land development is closely connected with capital investment in land. Yet this mechanism is not one-dimensional. Certain circumstances precipitate capital investment in land while others block it. When landlords and capitalists compete with each other in the process of allocating the surplus value created in a given society, capital investment in land will be limited. On the other, when capitalists become landlords and form land capital, urban land development will be encouraged along with the growth of capital.

The relations between land and capital become more intertwined in the urbanization process, which requires investment in both land itself and urban infrastructure. Despite various perspectives in explaining urbanization in the peripheral countries, common features of urbanization
include the concentration and centralization of both capital and the labor force, the production and consumption of a variety of commodities, and high land prices.

Along with this urbanization and industrialization process, much capital is invested in land and the built environment for providing the social and physical infrastructure. Capital investments in the urban infrastructure, such as roads, railways, water supply, sewerage and communication save time and cost in commodity production, circulation, exchange and consumption, and ultimately may increase profitability for capitalists. Investments in housing help to ensure a stable supply of labor as well.

As the capitalist development proceeds, labor and capital become more concentrated in the urban areas. This concentration promotes further investments in urban land and the built environment. Along with this process, investments in land determine the use of urban space and continuously modify the spacial division of urban areas, thus changing the mix of industrial, commercial and residential areas.

Yet, the most significant factor in the urbanization process is the large-scale intervention of government, which often installs the infrastructure and also controls land use through zoning and taxation.

All these factors may lead to capital investment in land becoming more concentrated in urban areas. Competition
for urban land increases. Land prices also increase, often very rapidly. To squeeze more profits from highly priced land, investors attempt to utilize their land more efficiently by increasing building density and height, or switching land uses, for instance, from residential to commercial, to realize greater returns on investment. During this process, some groups have to give up their living or working space. For instance, residents in inner cities may be forced to relocate by either government urban renewal projects or private development. Retailers may have to move, leaving their shops to bankers, legal consultants and others more able to pay the increased rents.

This urban process involves social and economic conflict between classes, and often government intervention is required to resolve these conflicts. The position of the government will vary, however. Sometimes it will stand on the side of the urban residents. At other times, it will assist the interests of landowners, or implement policy favorable to capitalists. Policy formation will be influenced by the ability of each class to pressure the government or to adversely affect government actions. This does not mean, however, that the government will neutrally or passively respond to their demands.

Various forms of capital will be invested in the urban land market. For example, land capital is invested in land in the form of adding infrastructure and improvements
(Harvey 1982). Construction capital is invested in housing production and in building factories and other production facilities (Lamarche 1976). Real estate capital is used in land transactions which increase in value and number in proportion to the increase of expectations for capital gains (Massey & Catalano 1978). Capital will be invested in land as long as some level of profits is secured from its investment. Land becomes treated as a commodity and a form of capital.

3. Commodification of Land

Classic capitalism is organized around the general social relationship involved in "commodity" production, exchange and consumption. In order to keep producing and hiring labor as well as realizing profits, capitalists have to sell their goods in a more or less open market. Labor from workers is also a commodity sold in the market place. Production of any goods or services occurs in specific geographical localities. General economic interchange also takes place in locales largely through the real estate markets.

While the land space used for public transportation, i.e., roads, railways, canals etc., is publicly owned, those spaces used for production, exchange and consumption are generally privately held. Since not all can afford to buy the space they need for their activities, they purchase the
rights to use such space for limited amount of time. The concept of rent emerges. By the way, rent theories have presented the difference of the perspectives about the nature of land and the role of land in a capitalist economy (Haila 1990). Contemporary capitalist systems have different sets of characteristics from those of early capitalism. The nature of land rent and the role of landowners have also evolved over time, reflecting the different nature of capitalism over each era (Haila 1988).

First, demand for land is a prerequisite for the sale or rent of land. As most countries’ economic systems have become more complex, the types of rents have become diversified. Both businessmen and householders have more choices of location: big or small cities, or inner cities, suburbs or more peripheral locations. While this implies that there is increased competition between varying localities with reduced control by the landowners, there has also been a growing tendency for land in inner cities to be subjected to more intensive use, thus increasing the control over urban land use by landowners.

Second, the role of landowner as an economic agent has become diversified. Massey and Catalano (1978) assert that there exist different types of landowners, each with distinct interests and modes of behaviors. Among the different types of landowners, a new group has emerged, the agents for trust, banking, and insurance companies, for
instance. The behavior of this group differs from that of the rank-and-file landowners in that they are far more "calculating" in their efforts to maximize income from rents.

Third, because of the global economy, rents are no longer solely determined by local conditions, but are impacted by regional, national and global concerns. As Palloix put it correctly (1979), in early capitalism, only the circuit of commodity-capital had operated internationally. But, the circuit of money-capital and productive-capital were reliant on a rather limited area, generally within national territories. The Multi-national Corporations (MNCs) have emerged along with the process of globalization of capital, a set of capital which is composed of money-capital, productive-capital, and commodity-capital. The extension of the space becomes a pre-requisite for capital expansion, thus affecting the globalization of geographic sites. In the urban land market, the headquarters of the MNCs and international financial institutions can often outbid local firms.

Finally, the land market has traditionally been treated as a market separate from those for commodities or capital, and thus rent theories have emphasized the monopolistic control over land by landowners. Yet, recent trends have led to integration of different types of land markets (such as housing and office) and integration with other investment
markets (such as land and stocks). As capital is accumulated, land becomes an attractive alternative for investment. The real estate industry grows explosively (Haila 1988: 93-95), and the combined dealings with capital and land are more frequent. This type of integration "results from the fact that land has been converted into commercial value on a par with stocks, bonds, productivity, and the like" (Roweis & Scott 1981: 151). These changing conditions have altered the nature of land so that it is now considered more a type of the pure financial asset and interest-bearing capital. To the landowner, the rent figures in his accounts as the interest on the money laid out on land purchase, and is in principle no different from similar investment in government debt, stocks and shares of enterprises, consumer debt and so on. The money laid out is interest bearing capital in every case. The land becomes a form of fictitious capital, and the land market functions simply as a particular branch - albeit with some special characteristics - of the circulation of interest-bearing capital. Under such conditions the land is treated as a pure financial asset which is bought and sold according to the rent it yields (Harvey 1982: 347).

For the smooth transformation of land into financial capital, the role of a nation’s financial system and its government becomes critical (Harvey 1982). The financial and banking credit system help create fictitious capital, while financial institutions and the state mediate the circulation of this capital. As a banking credit system develops, capitalists with land can gain access to money
capital more easily, therefore, their positions as landowners are reinforced (H.S. Kim 1992: 176).

In summary, the nature of land in a capitalist economy is defined by these peculiarities; land is privately owned, there is usually intense development in urban areas, land is treated as, and thus altered by, the financial and legal systems into a type of commodity. However, land is not transmuted into a commodity or a form of capital without revealing some of the contradictions in the capitalist market system. According to neo-classic economic doctrines, the free market exchange coordinates various interests of individual agents, and leads to an efficient distribution of social surplus by rewarding each production factor according to its marginal productivity. However, in reality, there are continuous socio-political conflicts over the distribution of total surplus value generated within a society.

4. Class Conflicts over Land

The basic cause of class conflict over land comes from the distribution of the total surplus value created in the production process. The total surplus value is distributed as profits and interests to capitalists, wages to laborers, rents to landowners, and taxes to the state. The share due to landowners is determined by the amount of the economy’s
total surplus value and by landowners’ ability to obtain the highest rents possible.

Theoretically, rent is payment to the landowner commensurate to his contribution to the creation of surplus value. To some urban economists (Alonso 1964: 106-110, Mills 1967: 234), rent is a "market coordinator." It is defined as a "bidding rent," which is the amount that reflects the willingness of different agents to pay for land at different locations. In a competitive market, the value of the rent reflects the value of the land’s marginal productivity. Land use determines land value through a competitive market process. Land value, in turn, distributes land use according to the buyers’ or renters’ willingness and ability to pay, so that the amount of land rent and the pattern of land use are mostly determined by demand. According to urban economists, the role of land owners is rather neutral and passive.

However, according to political economists, land owners are not neutral nor passive, but actively participate in the market process, and can influence the market for land by intervening in land use decisions. Land owners not only ask for payment appropriate to the land’s present use value, but set rents according to an expected future capitalized rent value. The pursuit of maximum rents by land owners diverts surplus value, which would otherwise be obtained by capitalists or laborers.
Because of many actors, e.g., land owners, laborers, the state, and various types of capitalists (industrial, financial, development and so on), conflicts and struggles over land are complex. First, land owners obtain a portion of laborers' wages as rent. Laborers pay different portions of their wages on rent relative to their willingness to pay. This differential rent may be accepted by laborers, because it is for various advantages connected with land owners' investment in land. For instance, land owners may provide the renter with a home that has an advantageous location or better living conditions, may redevelop urban property to increase its efficiency and density, or may develop a new suburban area and its various amenities. Yet laborers may continue to complain that rent is unearned income for landlords. In addition, during the process of (re-) development, land owners often attempt to expel their current tenants. This confrontation easily develops into serious social and class conflicts.

The limitation of land available in local markets allows land owners somewhat monopolistic powers. They can set absolute and monopoly rents, which evolve into class rent (Harvey 1974). This (relatively) monopolistic and absolute control over land causes urban rent to be more complicated. Land owners may postpone capital investments in land until the land market matures and land prices meet their expectation. Sometimes land owners attempt to
manipulate land and housing markets by not utilizing their land or by controlling the land and housing lease markets. Postponement of capital investment in land results in worsening housing conditions. Land held vacant leads to shortages of land and housing supply. Land prices rise and the rent increase, too, becoming more burdensome for tenants. Increases in housing costs can lead to protests against rent, decrease consumption in other sectors, and create demand for better wages. Thus, conflicts between renters and land owners can often influence the relations between land owners and capitalists.

A more important conflict arises between land owners and capitalists in a capitalist system. As the supply of urban land is limited and the demands have increased, land prices and rents rise. Both these factors hinder business expansion. This is more particular when land is seen from a spatial perspective. In order to overcome these obstacles, capitalists attempt to invest capital in land, thus intensifying land use. The aggregate effects of improved urban facilities and locational advantage will increase, and lead to further increases in land prices and rent. In this process, capitalists will try to lower rents while land owners will persist in increasing them.

Under these circumstances, capitalists adopt various strategies for overcoming this impasse. First, capitalists will try to extend the lease period as long as possible, in
order to recover the greatest returns for their investments in land. However, land owners try to shorten the lease period, since improvements made on their land would belong to them when the lease contract expires. Land owners often succeed in obtaining shorter lease periods in part because of the continuous competition for the land among capitalists themselves.

A second capitalist strategy is to call for government intervention in land market, such as controls on land rent, higher taxes on rent, support of longer lease periods, or designation of land for business activities. However, because capitalists may already own more land, and because private ownership is one of the fundamental tenets of capitalism, capitalists cannot completely deny the rights of private property or support public ownership of land, because denying private land ownership may also imply a rejection to the private ownership of other production means. What capitalists can do is to blame high and increasing rents for obstructing capital accumulation, and propose the state a program which entirely or partially recaptures land owners’ rents and capital gains. For instance, to David Ricardo, rent is a matter of technical-economic phenomena that arises from differential productivity or differential fertility. To him, rent as a payment to land owners for the use of their land has a negative effect on capital accumulation. To minimize this
negative effect, he proposed that rental income be heavily
taxed. Since this is taxation borne by land owners, it
should not impact capitalist accumulation and land supply as
well (Ricardo 1970: 74-77).

Henry George (1951) reinforced these arguments. To
him, land speculation causes an increase in nominal banking
interest rates, which further obstructs capital investment
in industries and results in economic depression. To
overcome this recession, land speculation has to be
controlled. George proposed that levying a high tax on land
owners’ rental income and capital gains be the best way to
solve land problems, because it neither impacts efficient
land use, nor the capitalist motivation for investment. His
followers assume that one hundred percent tax on rent or
capital gains gives none of the profits to land owners, thus
terminating land speculation and the increase in land
prices.

However, this explanation ignores the reality of the
land market. First, if the tax rate is one hundred percent,
land owners will not receive any profit, eliminating all
unearned income. However, these high taxes will further
limit access to land. Heavy taxation on land rent and
capital gains will encourage land owners to withdraw land
from the market. Capitalists thus face further difficulty
in finding adequate land for business. Second, one hundred
percent of the tax rate is impossible, theoretically and
practically. Thus, even when the tax rate on income generated from land is very high, land owners retain some portion of the profits, and thus capitalists must still pay rent, though the amount is very small.

The last and best strategy that capitalists implement is that they themselves become land owners. By buying land, capitalists can resolve their conflicts with land owners. This will be discussed in the next section.

D. Motives of Capitalists' Investment in Land

Then, why do capitalists invest in land? The first explanation suggests that investment in land is related to the contradictions inherent in capitalism itself. Others contend that capital investment in land occurs simply because it produces more profits. The third explanation is that capitalists' control over land is their fundamental strategy to overcome barriers to capital accumulation. Then, we will move to analyze integration of capital and space.

1. Solving the Accumulation Crisis by Switching the Capital Circuits

The crisis of modern capitalism is that there is a general tendency for rates of profitability to fall in the production sector. This tendency is compounded by over-production or over-accumulation within the production
sector, which is called the "first circuit" of capital. Over-accumulation problems can be temporarily resolved by switching a capital flow into the "secondary circuit," investing in the infrastructure or built environment both for production and for consumption, or into the "tertiary circuit," investment in science and technology (Harvey 1981, 1982 & 1985).

Investment in infrastructure sustains demand in a capitalist system, and helps solve problems of overproduction. Investment in the secondary and tertiary circuits increases fixed capital, and makes capital grow further. Through the process of increasing and improving the built environment, space becomes restructured and rearranged to accommodate and increase production, distribution and consumption. In addition, this process enables capitalists to earn profits from the construction process. Finally, sustenance and the reproduction of labor force is ensured by increasing the capability for collective consumption.

Because investment in the built environment is large scaled and long-term, however, it is often difficult for individual capitalists to finance them. In most cases, the built environment is open to collective use by all. In addition, individual capitalists are unable to organize a balanced flow of capital between the primary and secondary circuits (Harvey 1981: 97). Consequently, the role of
financial institutions and the state become fundamentally important. Financial markets act to ensure a smooth transition of surplus capital into money capital by providing project funds to both capitalists and the state. The state implements the infrastructure projects directly, or promotes private investments through incentives, including financial subsidies and tax advantages.

This circulation of capital is possible because capital can take a variety of forms according to the investment options open to it, that is, "capital always knows what it wants and always gets its own way" (Ball 1986: 451). Thus, capitalists can switch their capital from production related investments to finance, real estate, and other speculative investments. They often switch their circuit of capital spatially, thus integrating capital with space.

2. Integration of Capital and Space

Theoretically, capital has no boundaries to its circulation, thus being trans-nationalized (Palloix 1979). Capitalists switch their capital not only between the production sectors, but also between geographic sites. One space often wins at the expense of other sites, resulting in the restructuring of urban and regional systems and often developing into a spatially polarized manner. The consequences have been robust construction activity for producing urban space, expanded investment in land and
improvements, and increased speculation. The causes and results of this land boom speak to the circuit of capital across space and the concomitant trans-nationalization of capital, a function linked to the world economy.

This development is called the new international (spatial) division of labor. The international division of labor (IDOL) is based on the theory of comparative advantages. Early versions of IDOL were buttressed by the Weberian triangle of natural resources, labor and commodity markets. The heyday of the early IDOL was the "classical imperialism" of the nineteenth and first half of the twentieth centuries. The core countries were involved in the production of industrial commodities and traded them with the peripheral countries, which continued to concentrate on agricultural and natural/mineral products. With the end of World War II, the IDOL entered a new era with the internationalization of capital and production. Two features have emerged: new strategies of the Multi-national Corporations and the emergence of the New Industrial Economies.

The MNCs' concerns have shifted from a desire to exploit less expensive sources of labor to obtaining more flexibility in protecting their operations against nationalist movements and against the growing bargaining power of certain peripheral organizations (e.g., OPEC). In addition, the MNCs need to respond quickly and appropriately
to the challenges of growing international competition (Cohen 1981: 290-293) and to the growing bargaining power of certain developing countries.

A new mode of spatial division of labor has been developed by French economists, called the Regulation School, which labels this transformation as Fordism, Neo-Fordism and Post-Fordism (Dunford 1990, Jessop 1990, Noel 1987, Schoenberger 1988). The Fordist mode of production was based on Henry Ford’s organizational and technical innovations. The basic assumption of Fordism was that

Mass production meant mass consumption, a new system of reproduction of labor power, a new politics of labor control and management, a new aesthetics and psychology, in short, a new kind of rationalized, modernist, and populist democratic society (Harvey 1989: 126).

This Fordist mode of accumulation was nurtured by the Keynesian macro-economic policies of welfare statism and by the post-War II dominance of the United States.

Nonetheless, around the 1970s Fordism faced several interrelated challenges. The Fordist mass production system using assembly-line technology was not easily adoptable to rapid changes in production technology. The growth of productivity slowed and was exacerbated by many unions’ rigid opposition to innovations. Furthermore, the globalization of Fordism led to the inevitable spread of mass production technology to other countries, which meant the increasing international competition and the loss of monopolistic or oligopolistic control of markets. The
global predominance of the U.S. economy, which had expedited the spread of Fordism, was undermined.

Because of threats to capital accumulation under the Fordist system, capitalists began to shift toward a more flexible accumulation strategy. It rests on

flexibility with respect to labor processes, labor markets, products, and patterns of consumption. It is characterized by the emergence of entirely new sectors of production, new ways of providing financial services, new markets, and, above all, greatly intensified rates of commercial, technological, and organizational innovation (Harvey 1989: 147).

The new international division of labor has affected the spatial switching of the circuit of capital along with the globalization of capital. While the spatial circuit of commodity-capital allows the unification of the national market and the trans-nationalization of world trade (Kafkalas 1987: 310), the spatial circuit of productive-capital and money-capital has reorganized land as a site at the local, regional, national, and international levels. Some areas in the advanced countries have become de-industrialized, or re-industrialized, or both. On the other hand, some peripheral countries have emerged and are functionally integrated on a world scale along with the MNCs' strategies for their flexible accumulation. Consequently, the geography of the world economy has produced a spatially dispersed but globally integrated organization of economic activities.
This MNCs' strategy has helped create an urban hierarchy organized on a global scale (Friedman & Wolff 1982, Sassen 1991). The so-called World Cities, such as New York, London and Tokyo where the headquarters for the MNCs locate, now play a role of central control and management over the territorially dispersed world economy. The dynamic posited here is that "the more globalized the economy become, the higher the agglomeration of central functions in a relatively few cities, that is, the global cities" (Sassen 1991: 5). Not only the coordination of the processes of world economy, these cities are also particular sites of production, functioning as a center for high-level technological knowledge and service industries like financial banking, accounting, legal and management counseling, and marketing. All these economic activities have dramatically changed the structure of their inner cities. High-rise office buildings are replacing residential and commercial activities. Unavoidably, land prices within the inner city have been increased because of their changes in land use patterns as well as by the higher bidding capability of the MNCs.

Industrialization and urbanization in the peripheral countries has been strongly affected by this world-wide trend. Some countries have been more deeply involved in this new international and spatial division of labor than others. Several explanations have been provided to explain
this divergence. Some scholars emphasize the theory of comparative advantage taken from the neo-classic free market perspective. The successes of Asian NIEs are attributed to their ability to adequately access the international economies. Other schools of thoughts emphasize the role of state intervention to create optimal locations for development, such as, free trade zones, tax concessions and subsidies, and direct capital investment in infrastructure (Feagin & Smith 1987). Also the state has affected the industrialization process by repressing labor movements and implementing land reform to eradicate landlord classes, especially rural, and to create wage-earning workers (H.G. Kang 1989: 13-26).

Though two major institutions, private enterprise and the national state, are the principle actors who intervene in the integration of space and capital, in the peripheral countries, state policy has been more critical to the design and (re-)development of urban location and space. The state provides a widespread development of industrial facilities along with capital cities, port areas and other industrial centers, specific space which is to attract capital investment of both domestic capitalists and the MNCs and to facilitate exports of manufactured goods to foreign markets. Because of greater opportunities in the urban areas, due in large part to the concentration of resources and agglomeration economies associated with cities, large
numbers of rural migrants have moved to urban areas in consequence.

The urban structure is re-shaped by these mutually linked mechanisms of state policies, rural to urban migration, and greater freedom in the movement of capital both within nations and intra-nations. Furthermore, the functions of major cities in these peripheral countries have begun to resemble those of the World Cities. All these national and global trends have had a considerable effect on urban land markets. For instance, through developing offices and commercial buildings as well as large complexes, and because of increased linkage with financial institutions, capitalists have become more involved in redeveloping inner cities, thus becoming landowner-capitalists.

3. Searching for Maximized Rent-Seeking

According to Harvey, the secondary circuit of capital or investment in real estate and infrastructure is an important outlet for surplus capital, when there are better opportunities for profits than in investing in the production activities. His argument has been subject to criticism by Katz (1986) and Gottdiener (1985). Gottdiener (1985: 98-99 & 185-87) criticizes Harvey, a Marxist, on two points: First, orthodox Marxists have argued that value can be produced only by the primary circuit through the
exploitation of labor forces. How can the investment of the secondary circuit produce value? Second, according to Harvey, individual capitalists find it hard to switch a investment flow from the primary to the secondary circuit, i.e., from investment to produce goods to investment in infrastructure. Then, how and why are investments in the built environment more profitable? Gottdiener argues that Harvey’s explanation to these questions is inadequate.

To Gottdiener, capitalists invest in real estate, not because of the lack of investment opportunities in the production sector, but because investment in land itself is more profitable (ibid: 188). In other words, investment in land occurs independently from over-accumulation in the primary circuit of capital (Feagin 1987: 173).

To capitalists, investment in land is one of several strategies to increase capital. How to circulate idle capital is determined by a precise appraisal of the economy at the macro level, taking into consideration current monetary and financial policies, the stock market, and land market operations. Capitalists rationally review the rate of inflation, interest, share dividends, and the returns from the land market. For instance, high inflation will offset the nominal gains from interest and stock shares, and thus may result in a loss of real gains. Under these circumstances, capitalists will search for an alternative to
preserve the value of their capital. Investment in land is often an attractive alternative.

Capitalists will also seek strategies to maximize the returns from their investment in land. In a society where there is close affiliation between capitalists and those with political power, some capitalists will have greater access to information about specific locational policies and land development programs. They will not ignore that information but will utilize it to decide in what localities to invest. Furthermore, these capitalists will attempt to influence decisions about the specific locations for government programs. Thus, investment in land becomes another strategy to expand their capital.

4. Overcoming Class Conflicts by the Merger of Land and Capital

As stated before, capitalists and land owners compete with each other in obtaining surplus value. As capital accumulation and urbanization proceed, the trends of high rent and high land prices accelerate. Thus, conflicts between land owners and capitalists become more serious. Since capitalists do not want to undermine the rights of private property, they search for ways to gain greater control over land. Often the best way is for capitalists to become land owners. This merger of capital and land reinforces private ownership of land and often increases the
amount of capital invested to improve land. Rent, thus, becomes a subset of the profits which accrue to capitalist-land owners. Investment from the production sector or the first circuit into the secondary circuit of land and infrastructure becomes an important strategy for the accumulation of capital. As capitalists attempt to restructure urban space for more efficient utilization of their land, the resulting increase in land prices and rent helps them accumulate more capital. Private land ownership no longer works against capital accumulation.

E. The State Role in Capitalists' Control over Land

The state's responses to land issues under a capitalist system vary, and are determined by factors, such as, the characteristics of private property ownership, urbanized land uses, commodification of land, integration of space and capital, and class conflicts over land. The state may display different and sometimes contradictory roles in handling land issues. The formation of state policy may be influenced by the value placed on a function of capital accumulation, demands from non-capitalists and non-landowners, and the capacity of the state apparatus to act differently in the economic sphere. Thus, policy may not always support capital accumulation, but sometimes, will impact negatively on accumulation. Policy is not made solely to benefit the general populace, either. For
instance, providing a "my home" program is a response to the
demands of most workers, but also encourages the retention
and growth of the labor force and stimulates the
construction industry which provides another investment
opportunity for capitalists (Agnew 1981, Badcock 1989, King
1990).

In broad terms, the state provides the economic and
social framework for land relations in society. It
establishes the legal rules for commodity production and
exchange. It shapes the ideological legitimation of private
property rights. It stimulates the smooth circulation of
capital by providing infrastructure and the built
environment, institutionalizing financial agents, and
ensuring the rational allocation of land and space. Thus,
it ensures the survival of the existing political-economic
system.

Through varying processes, the capitalist state prompts
to facilitate capital accumulation. When there are
obstacles to further accumulation, the state intervenes in
the land market in the name of public welfare and social
development. However, the often hidden purpose of this
intervention is to solve problems of accumulation. For
instance, the state regulates the use of property. In
general, the intent of regulations is not to limit private
ownership itself. Instead, it is to provide legitimate
arenas within which the state's and capitalists' development
priorities replace non-capitalist landowners' privileges; thus helping to modulate capital accumulation and conflicting social claims within these arenas.

There are several means to solve the conflicts between landowners and capitalists and to facilitate capitalists' dominance over land. The state can directly provide land to capitalists. Capitalists need industrial and business land. Usually, they are unable to construct infrastructure by themselves. While improving land for industrial parks requires much capital for purchasing and developing raw land, the returns on invested capital take a long time to be realized. Thus, capitalists try to avoid such investments. Also, capitalists do not want to be involved in any conflicts with the original landowners, mostly farmers and other private landowners, in the process of purchasing raw land. Such confrontations impact negatively on business-public relations and image. More fundamentally, confrontations with the original landowners delay construction, thus weakening competitive advantages gained by timeliness.

Often the state is ready to intervene and act as a land developer and dealer. The state purchases the targeted land using the right of eminent domain, develops it, installs the basic infrastructure, and then provides the improved land to industrial capitalists, usually, at a low price. The state may either rent or resell it to capitalists. If the state
decides to resell this land, capitalists have a win-win situation; they get land, and they are able to appropriate any gains generated from the increase in land rent and prices.

The state uses other indirect measures to help capitalists. For instance, in setting tax rates, the state can tax on profits, interests, waged incomes, rents, and capital gains at different rates. More importantly, the state may tax land used for industrial production at preferential rates, because industrial competitiveness may be a major factor of national economic policy. Capitalists can thus hold land at relatively low cost.

Land use planning is another way to help capitalists. From the policy elite’s perspective, efficient location of industrial projects is essential to general economic expansion and social control (Plotkin 1987). Sometimes, some areas have an advantage over other regions; regions that specialize in particular industries are often given priority by the state’s various policies. Examples include re-zoning from the conservation to industrial use, or urban renewal projects where residential areas are rezoned to commercial areas.

However, the state may regulate capitalists’ land holdings under some situations. Although the capitalist state has a fundamental interest in assisting capital accumulation, it cannot afford to ignore demands from the
general public. For instance, in contemporary societies, capitalists have largely replaced landlords as a class. Thus conflicts over the urban land use have often been linked with conflicts over capital and labor. Yet urban protesters including tenants tend to target the state for their protest, since it is the most "single and visible" entity, as well as the one which can respond most efficiently to their demands.

In addition, the state acts to ensure its own survival, by intervening in or controlling the provision of housing, education, and social welfare programs. Under the aegis of the welfare state, a system of mass distribution of private and collective goods to the working class is set up, which may ameliorate class conflicts. It may set policies that stimulate home ownership for workers. But, this policy encouraging home ownership by workers has purposes other than survival of the state (Anew 1981). The spread of private property ownership to workers also reinforces the ideological legitimation of private ownership of production means and capital accumulation. In addition, the state can use the construction industry for further stimulating the national economy, especially, during periods of economic depression. This regulation and intervention functions to maintain a high level of popular-support for the state itself, legitimatize the existing order of things, and maintain equilibrium in the internal power balance of
society. Yet, the state is not free from the political pressures exerted by the contending property groups, and thus has to reconcile the expansion of property ownership and capital accumulation to the working class with the preservation of the wealth and power of the entrenched interest groups.

The state also intervenes in conflicts involving capitalists’ land holdings. To solve class conflicts with landowners, some capitalists themselves become landowners, and are able to earn profits from land in addition to avoiding rent payments. While an increase in land prices benefits one faction of capitalists, other capitalists who are not landowners are confronted with increased difficulties due to higher rents and more intense competition for land.

Although capitalists may own land and can collect or save themselves land rent, as business prospers, they need to acquire more land for expansion. Whenever they need additional industrial land, however, they may find further land accumulation blocked by high rents and high land prices. They are confronted by landowners’ interests trying to maximize the value produced by their land. Moreover, high land prices block the entrance to new businesses into the economy. Capital that could have been used for industrial expansion is sunk into land, and the capital formation for other economic purposes such as operating
funds is consequently difficult. Hence, at some point, the state may step in to regulate certain capitalists' development of and investment in land.

Investment in the built environment may provide an alternative opportunity for excessive or idle capital that has been accumulated from the production sector. It will also function to build the facilities needed for the increased production and further accumulation. Yet these investments may also have negative effects. First, if too much land is developed too quickly, there may be a glut on the market and land rent and prices will drop. Also, unless regulated, many new development may not reflect the most rational use of space. Finally, most built environment, once built, is not easily moved but fixed in certain space. It may be difficult to adjust the facilities to the changing capitalists' needs or new mode of accumulation.

Investment in the built environment requires large sums of capital which may only be recouped over a long period of time. Capital invested in land becomes idle for a long time, while financial costs accumulate. Therefore, long-term and massive investment in the built environment may postpone capital accumulation. To avoid this situation, capitalists may choose not to invest in the built environment directly, but to engage in speculation simply to obtain capital gains. Here land is treated as another form of interest-bearing capital. However, this appropriation of
profits from land transactions assumes that there should be real surplus value in the production sector. Without the support of real economic growth, which is mainly possible when there is significant reinvestment in industry, the increase in land prices and capital gains are simply "paper profits." Hence, if economic growth is seriously affected, the state or its financial sectors will intervene to adjust capitalists' excessive investment in land.

In summary, land under contemporary capitalism has peculiar characteristics. Within the structure of modern capitalism, capitalists attempt to purchase and hoard land. There is no simple theory to explain the whole story of their behavior. It is the result of a variety of strategies that capitalists employ to solve problems such as over-accumulation in the production sector and conflicts with landowners, or to further increase their earnings by maximizing rental incomes and capital gains, or to adjust their behavior to the changing mode of accumulation.

Any strategy, however, does not resolve fundamental land problems. Instead, their strategies may result in further conflicts over land use. State intervention is often called for resolving some of these conflicts between landowners, capitalists, and tenants, especially, when these conflicts are developed within the world economic system.

The idle land policy in Korea was one type of state intervention to reconcile these conflicts at the land market.
place. To understand the nature of this policy, the next chapter will discuss the land issues in Korea. The discussion will be made on the bases of the findings in this chapter, i.e., land under capitalism. It will begin with presenting the position of land in the development process of Korean economy, and the impacts of the land system on its society. It will proceed to peruse the situations of capitalists' dominance over land, then interpret their motives for investing in land. Finally, it will diagnose the policy problems surrounding the issue of idle land, which provide the background for chapter 4, the setting of the agenda for the idle land policy.
Notes to Chapter II

1. Sometimes political economy is regarded as a synonym for communism and is considered too sensitive because of the divided situation of North and South Korea.

2. Both neo-classical and political economists agree with this definition. That is, land prices are the sum of capitalized rent. The short form of the formula is

\[ \text{Land Price} = \sum_{n=1}^{\infty} \frac{\text{rent}}{\text{interest rate}}. \]

3. For instance, 1) the classical location theory such as the triangle points of natural resources, labor and commodity market (Weber 1978: chapter 16). 2) The modernization theory in relation to the economic development through industrialization and political democracy. 3) The dependent urbanization theory of uneven growth of primary cities and unequal development of a service sector along with the mechanism of unequal exchange between the core and peripheral countries. 4) Urbanization under the world-economy system in which peripheral areas are structurally incorporated into a global capitalist system (Henderson 1986, Timberlake 1985). Finally, 5) the new international division of labor with the themes of post-Fordism and flexible accumulation where the role of the so-called NIEs and MNCs replace the old or classical international division of labor (Frobel et al. 1980).
CHAPTER III

THE POLICY PROBLEMS: LAND IN KOREA UNDER CAPITALISM

A. Land in Korea

1. Urbanized Land Use

a. Urbanization and Changes in the Land Use Pattern

During the last three decades, Korea has experienced an unprecedented rate of urban growth (table 3.1). Less than five percent of the population lived in urban areas before 1930, but by 1960, about twenty-eight percent of the population resided in urban areas. By 1975, it nearly doubled to fifty percent, and in 1990, about three-fourths of the population reside in urban areas.

There are three turning points in the process of Korean urbanization (M.G. Kang 1989: 95-99). The first came around the 1930s when Japan shifted its colonial policy in Korea from agricultural to industrial exploitation, and planned use of the Korean Peninsula as a stepping stone for invading Manchuria and China. The second turning point came in the early 1950s. After Korea was liberated in 1945, Korean exiles returned from China, Japan and other foreign nations. Then during the Korean War (1950-1953), many war refugees moved from North to South Korea. Most of them settled in urban areas to find jobs.
Table 3.1 Trends in South Korean Urbanization, 1920-90

(Unit = 000, %)

<table>
<thead>
<tr>
<th>Year</th>
<th>Population Total</th>
<th>Urban Share (%)</th>
<th>Labor Force Distribution (%)</th>
</tr>
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<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Agriculture</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Mining,</td>
</tr>
<tr>
<td></td>
<td></td>
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<td>Manufacturing,</td>
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<tr>
<td></td>
<td></td>
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<td>Others</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Construction</td>
</tr>
<tr>
<td>------</td>
<td>------------------</td>
<td>-----------------</td>
<td>------------------------------</td>
</tr>
<tr>
<td>1915</td>
<td>16,278</td>
<td>3.1</td>
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</tr>
<tr>
<td>1920</td>
<td>17,289</td>
<td>3.3</td>
<td>89.3</td>
</tr>
<tr>
<td>1925</td>
<td>19,020</td>
<td>3.5</td>
<td>87.9</td>
</tr>
<tr>
<td>1930</td>
<td>20,438</td>
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</tr>
<tr>
<td>1935</td>
<td>22,208</td>
<td>7.4</td>
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</tr>
<tr>
<td>1940</td>
<td>23,547</td>
<td>11.6</td>
<td>79.4</td>
</tr>
<tr>
<td>1945</td>
<td>19,369</td>
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<tr>
<td>1960</td>
<td>24,954</td>
<td>28.3</td>
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</tr>
<tr>
<td>1965</td>
<td>28,327</td>
<td>33.9</td>
<td>58.6</td>
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<tr>
<td>1970</td>
<td>31,435</td>
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<tr>
<td>1975</td>
<td>34,709</td>
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<td>45.9</td>
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<tr>
<td>1980</td>
<td>37,436</td>
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<td>34.0</td>
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<tr>
<td>1985</td>
<td>40,448</td>
<td>65.4</td>
<td>24.9</td>
</tr>
<tr>
<td>1990</td>
<td>43,520</td>
<td>74.4</td>
<td>18.3</td>
</tr>
</tbody>
</table>

Note: The data from 1915-1940 include North Korea. Urban area is defined as an area with more than 50,000 people.


The most important turning point came after the 1960s. Rapid urbanization was precipitated by a massive rural to urban migration and rapid industrialization, especially of the Seoul and Pusan metropolitan areas. As the state promoted export-oriented developmental strategies, the urban population increased as existing manufacturing firms expanded their capacity to meet the increasing foreign demand for Korean exports. At the same time, new
Table 3.2 Trends in National Land Use Pattern, 1975-89

(Unit = km²)

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td></td>
<td>Area %</td>
<td>Area %</td>
<td>Area %</td>
<td>Area %</td>
</tr>
<tr>
<td>Total</td>
<td>98,807</td>
<td>100</td>
<td>98,992</td>
<td>100</td>
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<tr>
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<td>1,823</td>
<td>1.84</td>
</tr>
<tr>
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<td>1,755</td>
<td>1.78</td>
<td>1,721</td>
<td>1.74</td>
</tr>
<tr>
<td>Industrial</td>
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<td>-</td>
<td>102</td>
<td>0.10</td>
</tr>
<tr>
<td>Public Use</td>
<td>1,824</td>
<td>1.85</td>
<td>1,630</td>
<td>1.65</td>
</tr>
<tr>
<td>Road</td>
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<td>1.72</td>
<td>1,400</td>
<td>1.41</td>
</tr>
<tr>
<td>Railroad</td>
<td>117</td>
<td>0.12</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>School</td>
<td>-</td>
<td>-</td>
<td>126</td>
<td>0.13</td>
</tr>
<tr>
<td>Park</td>
<td>3</td>
<td>0.01</td>
<td>5</td>
<td>0.01</td>
</tr>
<tr>
<td>Agriculture</td>
<td>22,139</td>
<td>22.4</td>
<td>22,440</td>
<td>22.7</td>
</tr>
<tr>
<td>Dry Field</td>
<td>9,558</td>
<td>9.67</td>
<td>9,377</td>
<td>9.47</td>
</tr>
<tr>
<td>Paddy F.</td>
<td>12,581</td>
<td>12.7</td>
<td>12,722</td>
<td>12.9</td>
</tr>
<tr>
<td>Orchard</td>
<td>-</td>
<td>-</td>
<td>264</td>
<td>0.27</td>
</tr>
<tr>
<td>Pasture</td>
<td>-</td>
<td>-</td>
<td>77</td>
<td>0.08</td>
</tr>
<tr>
<td>Forest</td>
<td>65,350</td>
<td>66.1</td>
<td>66,129</td>
<td>66.8</td>
</tr>
<tr>
<td>Others</td>
<td>7,739</td>
<td>7.83</td>
<td>6,970</td>
<td>7.04</td>
</tr>
</tbody>
</table>

Note: "Building lot" is the term for land used for residential and commercial purposes, and for industrial land before 1980.


Manufacturers located in urban areas where labor was easily found. Substantial changes in the structure of the labor force occurred. The proportion of the agricultural labor force declined from sixty-six percent in 1960 to eighteen percent in 1990, whereas that in mining and manufacturing tripled from nine to twenty-seven percent, and the share of the service sector increased from twenty-four to fifty-four percent.
The pattern of land use has been restructured toward urban uses (table 3.2). At the end of 1989, about sixty-six percent and twenty-three percent of the nation's land was used for forests and agricultural purposes. Urban land was about four percent, including that for residential, commercial, industrial and public use. Though the total urban land area is small, the increase rate for urban uses has been relatively high. For instance, during 1980-1989, building lots, industrial land, and public facilities increased by 11 percent, 114 percent, and 28 percent respectively. In the agricultural sector, while the area devoted to traditional paddy and dry field agriculture decreased by 0.2 percent and 5.5 percent, orchard and pasture land, often used for commercial farming, increased by 39 percent and 465 percent respectively.

b. The Structure of Land Prices in Urbanization

The price structure of land has reflected the changing pattern of land use. Until now, there has not been a historical and systematic survey on the change in national land values, but some sporadic studies have been done. By reviewing these survey results, we can interpret the general trend of changes in urban land values.

The price structure is unbalanced in terms of the area to value ratio. Although urban areas are only a small portion of the nation’s land, they represent most of total
Table 3.3 Land Price Structure by Regions, 1975-88

(Unit: %)

<table>
<thead>
<tr>
<th></th>
<th>1975</th>
<th>1982</th>
<th>1988</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Area</td>
<td>Value</td>
<td>Area</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Urban</td>
<td>4.0</td>
<td>45.4</td>
<td></td>
</tr>
<tr>
<td>Semi-urban</td>
<td>7.1</td>
<td>10.0</td>
<td></td>
</tr>
<tr>
<td>Rural</td>
<td>88.9</td>
<td>44.6</td>
<td></td>
</tr>
</tbody>
</table>

Major Cities

<table>
<thead>
<tr>
<th></th>
<th>1975</th>
<th>1982</th>
<th>1988</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seoul</td>
<td>1.7</td>
<td>39.8</td>
<td>2.4</td>
</tr>
<tr>
<td>Pusan</td>
<td>0.6</td>
<td>23.5</td>
<td>0.6</td>
</tr>
<tr>
<td>Taegu</td>
<td>0.4</td>
<td>8.5</td>
<td>0.4</td>
</tr>
<tr>
<td>Inch’on</td>
<td>0.5</td>
<td>5.4</td>
<td>0.5</td>
</tr>
<tr>
<td>Kwangju</td>
<td>0.2</td>
<td>2.4</td>
<td>0.2</td>
</tr>
<tr>
<td>Taejon</td>
<td>4.0</td>
<td>10.0</td>
<td>0.5</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Provinces

<table>
<thead>
<tr>
<th></th>
<th>1975</th>
<th>1982</th>
<th>1988</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kyonggi</td>
<td>10.9</td>
<td>12.1</td>
<td>10.9</td>
</tr>
<tr>
<td>Kangwon</td>
<td>16.8</td>
<td>3.8</td>
<td>16.8</td>
</tr>
<tr>
<td>Ch’ungbuk</td>
<td>7.4</td>
<td>3.2</td>
<td>7.4</td>
</tr>
<tr>
<td>Ch’ungnam</td>
<td>8.9</td>
<td>8.2</td>
<td>8.7</td>
</tr>
<tr>
<td>Chonbuk</td>
<td>8.2</td>
<td>4.4</td>
<td>8.2</td>
</tr>
<tr>
<td>Chonnam</td>
<td>12.5</td>
<td>10.1</td>
<td>12.0</td>
</tr>
<tr>
<td>Kyongbuk</td>
<td>19.7</td>
<td>6.4</td>
<td>19.7</td>
</tr>
<tr>
<td>Kyongnam</td>
<td>11.9</td>
<td>7.9</td>
<td>11.9</td>
</tr>
<tr>
<td>Cheju</td>
<td>2.0</td>
<td>4.1</td>
<td>2.0</td>
</tr>
</tbody>
</table>


land value. In 1975, four percent of the nation’s land was urban, but it accounted for forty-five percent of total land value. By 1988, distribution of land value by locations has become more unequal. The six large cities, with 2.4 percent of the nation’s land, accounted for fifty-two percent of total land value. Seoul’s portion of national land value increased by fifty percent from 1982 to 1988, and thus its
Table 3.4 Land Price Structure by Land Uses, 1975-88

(Unit: %)

<table>
<thead>
<tr>
<th></th>
<th>1975</th>
<th>1982</th>
<th>1988</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Area</td>
<td>Value</td>
<td>Area</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Residential</td>
<td>1.9</td>
<td>44.3</td>
<td>1.7</td>
</tr>
<tr>
<td>Commercial</td>
<td>0.2</td>
<td>16.7</td>
<td>0.2</td>
</tr>
<tr>
<td>Industrial</td>
<td>0.1</td>
<td>1.6</td>
<td>0.5</td>
</tr>
<tr>
<td>Agricultural</td>
<td>24.9</td>
<td>49.5</td>
<td>22.7</td>
</tr>
<tr>
<td>Forest</td>
<td>73.2</td>
<td>6.2</td>
<td>66.8</td>
</tr>
<tr>
<td>Others</td>
<td>8.7</td>
<td>27.0</td>
<td>8.9</td>
</tr>
<tr>
<td>Non-urban</td>
<td></td>
<td></td>
<td>88.8</td>
</tr>
</tbody>
</table>

Note: "Agricultural" includes paddy field, dry field, orchard, and pasture. "Others" includes educational, road, rail road, resort and others.


Land values accounted for thirty-two percent of total values in 1988, though it only totalled 0.6 percent of the nation's land.

The price structure in terms of the land use and value ratio is also unbalanced. In 1975, the 1.9 percent of land zoned for residential (but including commercial and industrial land) accounted for forty-four percent of the total land value, while the ninety-eight percent of land area in agricultural and forests accounted for fifty-six percent of total value of land. This disparity in land use to value ratio increased as the economy developed and urbanization intensified. Thus, in 1988, the 2.3 percent zoned for urban uses accounted for sixty-three percent of the total value.
In contrast, the eighty-eight percent of non-urban land was only worth twenty-three percent of the total land value in 1988 (table 3.4).

As urbanization proceeded, land prices in the larger cities increased faster than prices in rural and smaller cities. During the past sixteen years, land prices for all the nation's land increased by 16.9 times, in rural areas by 9.7 times and in smaller cities by 18.7 times, while land prices in the six largest cities increased by 28.4 times, and in Seoul by 33.5 times (figure 3.1).
Table 3.5  Capital Gains by Land Use Types, 1985-88.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Building Lot</td>
<td>1.9</td>
<td>58.9</td>
<td>56.4</td>
<td>47.5</td>
<td>50.7</td>
</tr>
<tr>
<td>Industrial</td>
<td>0.2</td>
<td>4.9</td>
<td>5.8</td>
<td>6.3</td>
<td>4.6</td>
</tr>
<tr>
<td>Agrarian</td>
<td>21.7</td>
<td>27.8</td>
<td>28.7</td>
<td>39.6</td>
<td>37.9</td>
</tr>
<tr>
<td>Dry Field</td>
<td>8.9</td>
<td>8.2</td>
<td>8.5</td>
<td>9.9</td>
<td>10.0</td>
</tr>
<tr>
<td>Paddy Field</td>
<td>12.8</td>
<td>19.6</td>
<td>20.2</td>
<td>29.7</td>
<td>27.9</td>
</tr>
<tr>
<td>Forest</td>
<td>66.1</td>
<td>5.9</td>
<td>6.0</td>
<td>5.1</td>
<td>5.0</td>
</tr>
<tr>
<td>Others</td>
<td>10.1</td>
<td>2.5</td>
<td>3.1</td>
<td>1.5</td>
<td>1.8</td>
</tr>
</tbody>
</table>


Along with the unequal distribution of the area to value ratio, urban land has yielded much more in capital gains than non-urban land. During 1985-1988, residential and commercial land yielded fifty-one percent of the total capital gains, though they only totalled 1.9 percent of the nation's land. Thus, urban land accounted for most of the rapid increase in land prices. This increase indicates how serious the competition for urban land use and holdings was (table 3.5).

2. Private Ownership of Land Property

a. Privatization of Land

Since 1948, when the first modern constitution was introduced, until 1993, it has been revised nine times. Yet the tenet of private property has never been changed.
Table 3.6 Composition of Landownership, 1975-89.

<table>
<thead>
<tr>
<th></th>
<th>1975</th>
<th>1980</th>
<th>1985</th>
<th>1989</th>
<th>Area (km²)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>99,263</td>
</tr>
<tr>
<td>Private</td>
<td>81.39</td>
<td>81.58</td>
<td>81.04</td>
<td>80.53</td>
<td>79,942</td>
</tr>
<tr>
<td>Public</td>
<td>18.61</td>
<td>18.42</td>
<td>18.96</td>
<td>19.47</td>
<td>19,321</td>
</tr>
</tbody>
</table>


Private ownership of urban land was reinforced through the "my home program" (Y.T. Ohn 1988). As table 3.6 shows, most of Korean land is privately owned. The state or public land is less than twenty percent, quite a low percentage when compared with other countries, and even lower than that of Japan, which is also famous for the rapid increase of land prices and problems with land speculation. This public land is used for roads, waterways and public facilities, and thus is not marketable. This leaves the public sector with not enough marketable land to influence the land market except by legal measures such as zoning or taxation.

The Korean state could increase the amount of public land if it really wanted. First, most land has been developed by the public sector. The Urban Planning Law allows private owners to develop only areas less than ten thousand square meters. In addition, state approval is necessary for all private development programs. Finally, the state decides the disposal of developed land. These facts suggest that the state could expand public lands, and
in this manner, increase its influence on the land market. However, it has sold rather than leased the land it developed. The reasons for this are basically related to the role of the government in a capitalist state. On the one hand, land development projects require much capital for acquiring raw land, preparing the site and installing infrastructure. Long-term leasing will return the input funds, but at a slower rate which could lead to the state’s fiscal crisis as O’Connor stated (1973). On the other hand, selling the developed land benefits capitalists’ interests as discussed in chapter 2.

b. Concentration of Landownership

Landownership under capitalism tends to be concentrated as other production means do. One of the most critical aspects in the Korean land situation is that landownership is extremely concentrated. As seen in table 3.7, the top five percent of landowners held 65 percent of all privately-owned lands, the top ten percent possessed 77 percent, and the top twenty percent owned 88 percent in 1988 (Kukt’o kaebal yon’guwon 1989b).³

This figure is higher in larger cities. For instance, the Gini Coefficient of landownership per household in 1988 was .911 in Seoul, .946 in Pusan, .944 in Taegu, .937 in Inch’on, and .838 in Kwangju (ibid: 34). The degree of concentration of landownership was also higher for
Table 3.7 Distribution of Landownership, 1988

(Unit = %)

<table>
<thead>
<tr>
<th>Owner Group</th>
<th>Total</th>
<th>Urban Uses</th>
<th>Non-urban Uses</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Resid.</td>
<td>Indus.</td>
<td>Dry F.</td>
</tr>
<tr>
<td>Top 0.1%</td>
<td>23.4</td>
<td>12.6</td>
<td>11.5</td>
</tr>
<tr>
<td>0–5%</td>
<td>65.2</td>
<td>59.7</td>
<td>35.1</td>
</tr>
<tr>
<td>5–10%</td>
<td>11.7</td>
<td>5.4</td>
<td>18.0</td>
</tr>
<tr>
<td>10–20%</td>
<td>10.8</td>
<td>7.4</td>
<td>na</td>
</tr>
<tr>
<td>20–30%</td>
<td>5.4</td>
<td>4.3</td>
<td>na</td>
</tr>
<tr>
<td>30–40%</td>
<td>3.2</td>
<td>3.2</td>
<td>na</td>
</tr>
<tr>
<td>40–50%</td>
<td>1.9</td>
<td>3.5</td>
<td>na</td>
</tr>
<tr>
<td>50–60%</td>
<td>1.0</td>
<td>4.8</td>
<td>na</td>
</tr>
<tr>
<td>60–70%</td>
<td>0.5</td>
<td>4.9</td>
<td>na</td>
</tr>
<tr>
<td>70–80%</td>
<td>0.3</td>
<td>3.8</td>
<td>na</td>
</tr>
<tr>
<td>80–90%</td>
<td>0.2</td>
<td>2.3</td>
<td>na</td>
</tr>
<tr>
<td>90–100%</td>
<td>-</td>
<td>0.5</td>
<td>na</td>
</tr>
</tbody>
</table>


Table 3.8 Comparison of Land Value in Major Countries

<table>
<thead>
<tr>
<th></th>
<th>Japan</th>
<th>USA</th>
<th>France</th>
<th>Canada</th>
<th>Korea</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1975</td>
<td>1982</td>
<td>1988</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Area</td>
<td>378</td>
<td>9,363</td>
<td>549</td>
<td>9,976</td>
<td>99</td>
</tr>
<tr>
<td>Pop. Density</td>
<td>325</td>
<td>25</td>
<td>100</td>
<td>3</td>
<td>280</td>
</tr>
<tr>
<td>Land Value</td>
<td>4,540</td>
<td>2,950</td>
<td>172</td>
<td>256</td>
<td>35</td>
</tr>
<tr>
<td>Land Value/GNP</td>
<td>317</td>
<td>75</td>
<td>29</td>
<td>70</td>
<td>169</td>
</tr>
<tr>
<td>Land Value/Wealth</td>
<td>55</td>
<td>21</td>
<td>8</td>
<td>20</td>
<td>-</td>
</tr>
</tbody>
</table>

Note: Area = 000 km². Population Density = person/km². Land Value = $1 billion. Land Value/GNP = %. Land Value/National Wealth = %.

residential and commercial land, and forest land that is on the urban fringes and is expected to be zoned for urban use in the near future.

When compared with other economic indicators, this mal-distribution of landownership can be seen clearly. As seen in table 1.1 in chapter 1, the Gini coefficient of landownership per household was .849, while that of financial assets and income is .561 and .336 in 1988 respectively. In other words, landownership is much more concentrated than are financial assets and incomes. This phenomenon has aggravated the distribution of wealth as we can see in the next section.

c. Privatization of Gains from Land

Owners of private property realize all gains from their property. Two conditions which significantly increase the level of capital gains are: high property prices and a rapid rate of increase in property values. First, Korean land prices are quite high. The value of land was eight times that of the GNP in 1988, and is really high when compared with other major countries as in table 3.8. Even the ratio of land value to the GNP in Japan is only about one-third of the Korean ratio. In addition, the land value to the GNP ratio in Korea has widened, implying that land prices have increased more rapidly than the growth rate of the general
economy. Thus, capital gains from land have also increased rapidly, much to the benefit of landowners.

Second, the rate of increase of land prices in Korea is amazingly high (table 3.9). During 1963-1990, while the GNP and wholesale prices have increased ten times and fifteen times respectively, land prices in major cities have increased 735 times. Korea probably leads most other countries in this respect. For instance, during 1974-1986, the average rate of increase in land prices in Japan was 153 percent and that in Tokyo was 712 percent. The rate of increase in Korea was 727 percent and that in Seoul was 1,404 percent for the same period (T.I. Yi 1988: 9).

Because of the rapid increase and high level of land prices, landowners have realized huge capital gains. In fact, this is the core of Korean land issues (P.G. Kang 1989, T.D. Kim 1990a, Kukt’o kaebal yon’gwon 1989b, C.Y. Son 1990b & 1990c, C.S. Yi 1991, C.U. Yi 1991). What has been the amount of capital gains from land? Who has realized these gains? And how much have they impacted on income distribution?

In 1991, Professor Chong-u Yi estimated the annual capital gains from land for the first time. Using various data sources, he computed the annually realized capital gains from land as shown in table 3.10. Despite some differences between estimations, due to the nature of the data sources, general trends are found. First, capital
<table>
<thead>
<tr>
<th>Year</th>
<th>Major Cities Land Price</th>
<th>Seoul Land Price</th>
<th>GNP Growth</th>
<th>Wholesale Price</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rate</td>
<td>Accu.</td>
<td>Rate</td>
<td>Accu.</td>
</tr>
<tr>
<td>1963</td>
<td>-</td>
<td>100</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td>1964</td>
<td>50.30</td>
<td>150</td>
<td>68.00</td>
<td>168</td>
</tr>
<tr>
<td>1965</td>
<td>35.30</td>
<td>203</td>
<td>33.90</td>
<td>225</td>
</tr>
<tr>
<td>1966</td>
<td>41.40</td>
<td>288</td>
<td>48.20</td>
<td>333</td>
</tr>
<tr>
<td>1967</td>
<td>43.60</td>
<td>413</td>
<td>48.60</td>
<td>495</td>
</tr>
<tr>
<td>1968</td>
<td>48.50</td>
<td>613</td>
<td>52.50</td>
<td>756</td>
</tr>
<tr>
<td>1969</td>
<td>80.70</td>
<td>1,108</td>
<td>84.10</td>
<td>1,390</td>
</tr>
<tr>
<td>1970</td>
<td>29.70</td>
<td>1,437</td>
<td>4.00</td>
<td>1,445</td>
</tr>
<tr>
<td>1971</td>
<td>33.40</td>
<td>1,917</td>
<td>28.60</td>
<td>1,860</td>
</tr>
<tr>
<td>1972</td>
<td>7.50</td>
<td>2,061</td>
<td>5.70</td>
<td>1,966</td>
</tr>
<tr>
<td>1973</td>
<td>5.80</td>
<td>2,180</td>
<td>1.60</td>
<td>1,997</td>
</tr>
<tr>
<td>1974</td>
<td>18.70</td>
<td>2,588</td>
<td>30.70</td>
<td>2,610</td>
</tr>
<tr>
<td>1975</td>
<td>21.87</td>
<td>3,154</td>
<td>31.63</td>
<td>3,437</td>
</tr>
<tr>
<td>1977</td>
<td>46.67</td>
<td>5,600</td>
<td>31.70</td>
<td>5,253</td>
</tr>
<tr>
<td>1978</td>
<td>79.08</td>
<td>10,028</td>
<td>135.68</td>
<td>12,381</td>
</tr>
<tr>
<td>1979</td>
<td>21.96</td>
<td>12,230</td>
<td>6.40</td>
<td>13,173</td>
</tr>
<tr>
<td>1980</td>
<td>17.02</td>
<td>14,311</td>
<td>13.42</td>
<td>14,941</td>
</tr>
<tr>
<td>1981</td>
<td>7.11</td>
<td>15,329</td>
<td>3.56</td>
<td>15,473</td>
</tr>
<tr>
<td>1982</td>
<td>5.60</td>
<td>16,187</td>
<td>8.70</td>
<td>16,819</td>
</tr>
<tr>
<td>1983</td>
<td>31.70</td>
<td>21,319</td>
<td>57.70</td>
<td>26,523</td>
</tr>
<tr>
<td>1984</td>
<td>21.60</td>
<td>25,923</td>
<td>23.30</td>
<td>32,703</td>
</tr>
<tr>
<td>1985</td>
<td>7.80</td>
<td>27,945</td>
<td>8.10</td>
<td>35,352</td>
</tr>
<tr>
<td>1986</td>
<td>6.40</td>
<td>29,734</td>
<td>3.70</td>
<td>36,600</td>
</tr>
<tr>
<td>1987</td>
<td>13.91</td>
<td>33,870</td>
<td>6.29</td>
<td>38,966</td>
</tr>
<tr>
<td>1988</td>
<td>29.47</td>
<td>43,851</td>
<td>28.06</td>
<td>49,900</td>
</tr>
<tr>
<td>1989</td>
<td>31.95</td>
<td>57,862</td>
<td>33.54</td>
<td>66,637</td>
</tr>
<tr>
<td>1990</td>
<td>26.97</td>
<td>73,467</td>
<td>31.18</td>
<td>87,414</td>
</tr>
</tbody>
</table>

Note: Major Cities refer to Seoul, Pusan, Taegu, Inch'on, Kwangju, and Taejon.
Table 3.10 Annual Capital Gains from Land, 1980-90.  

(Unit = trillion Won)

<table>
<thead>
<tr>
<th>Year</th>
<th>GNP</th>
<th>Annual Capital Gains</th>
<th>Share to GNP (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(A)</td>
<td>B</td>
<td>C</td>
</tr>
<tr>
<td>1980</td>
<td>36.7</td>
<td>15.9</td>
<td>7.0</td>
</tr>
<tr>
<td>1981</td>
<td>45.5</td>
<td>8.8</td>
<td>2.5</td>
</tr>
<tr>
<td>1982</td>
<td>52.2</td>
<td>5.5</td>
<td>-0.2</td>
</tr>
<tr>
<td>1983</td>
<td>61.7</td>
<td>13.1</td>
<td>2.5</td>
</tr>
<tr>
<td>1984</td>
<td>70.1</td>
<td>18.4</td>
<td>6.0</td>
</tr>
<tr>
<td>1985</td>
<td>78.1</td>
<td>13.7</td>
<td>8.3</td>
</tr>
<tr>
<td>1986</td>
<td>90.6</td>
<td>11.2</td>
<td>6.3</td>
</tr>
<tr>
<td>1987</td>
<td>106.0</td>
<td>16.5</td>
<td>11.3</td>
</tr>
<tr>
<td>1988</td>
<td>126.2</td>
<td>40.3</td>
<td>25.7</td>
</tr>
<tr>
<td>1989</td>
<td>141.8</td>
<td>53.5</td>
<td>37.9</td>
</tr>
<tr>
<td>1990</td>
<td>171.5</td>
<td>-</td>
<td>43.4</td>
</tr>
</tbody>
</table>

Note: Data sources for B, C, and D are different: B) Transaction data of the land titles collected by the court. C) Konsolbu, T’oji kora t’onggye, 1991b. D) Capital gains tax data collected by Kuksech’ong. Amount D is after taxation.


Gains declined around 1981-1982, which was accounted for by the stable land prices during this period. It then wavered in the mid-1980s, and increased steadily from 1987-1990. Second, the amount of capital gains increased significantly, as did its ratio to the GNP; by the end of 1980s, total capital gains from land were estimated to be 20-40 trillion Won ($29-58 billion), or about one-quarter of the GNP.
If these capital gains had been more equally distributed, the class conflicts over land might have been less serious. If these gains had been taxed proportionately, social complaints would have become milder.
Table 3.11 Capital Gains and Taxation, 1980-89

(Unit = bill Won)

<table>
<thead>
<tr>
<th>Year</th>
<th>Capital Gains (A)</th>
<th>Taxation (B)</th>
<th>Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Levying(C)</td>
<td>Collecting(D)</td>
</tr>
<tr>
<td>80</td>
<td>788.0</td>
<td>52.7</td>
<td>38.9</td>
</tr>
<tr>
<td>81</td>
<td>2,238.0</td>
<td>129.8</td>
<td>59.0</td>
</tr>
<tr>
<td>82</td>
<td>4,758.4</td>
<td>254.9</td>
<td>79.4</td>
</tr>
<tr>
<td>83</td>
<td>4,906.0</td>
<td>246.8</td>
<td>113.3</td>
</tr>
<tr>
<td>84</td>
<td>5,324.6</td>
<td>233.0</td>
<td>99.4</td>
</tr>
<tr>
<td>85</td>
<td>8,663.4</td>
<td>319.1</td>
<td>93.0</td>
</tr>
<tr>
<td>86</td>
<td>8,040.7</td>
<td>201.5</td>
<td>106.7</td>
</tr>
<tr>
<td>87</td>
<td>8,244.0</td>
<td>227.2</td>
<td>136.8</td>
</tr>
<tr>
<td>88</td>
<td>12,976.0</td>
<td>439.2</td>
<td>307.0</td>
</tr>
<tr>
<td>89</td>
<td>19,033.8</td>
<td>778.7</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Average 3.8</td>
<td></td>
</tr>
</tbody>
</table>

Note: Data A is for land, while data for C & D include capital gains taxes for land, housing and other property, but exclude capital gains taxes of corporation.


For several reasons such as the low level of the tax base to the property value, taxation on capital gains has been very low. The ratio of taxation to realized gains in 1989 was less than four percent (on the basis of tax levies) or less than two percent (on the basis of real collection) (table 3.11). We have to consider at least two more facts. One is, the amount of capital gains shown as (A) in table 3.11 is the lowest (D) of the three estimations used in table 3.10. Second, the tax amounts of (C) and (D) in table 3.11 included capital gains from other property including housing. Of the total amount taxed, about seventy percent was for land (M.S. Kim 1989: 7). Thus, the real tax
Table 3.12 Recipients of Capital Gains from Land, 1985-88

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Business</td>
<td>9.9</td>
<td>10.7</td>
<td>10.0</td>
<td>8.5</td>
</tr>
<tr>
<td>Private</td>
<td>90.1</td>
<td>89.3</td>
<td>90.0</td>
<td>91.5</td>
</tr>
<tr>
<td>High 5%</td>
<td>58.7</td>
<td>58.2</td>
<td>58.7</td>
<td>59.7</td>
</tr>
<tr>
<td>High 10%</td>
<td>69.3</td>
<td>68.7</td>
<td>69.2</td>
<td>70.4</td>
</tr>
<tr>
<td>High 25%</td>
<td>81.8</td>
<td>81.1</td>
<td>81.7</td>
<td>83.1</td>
</tr>
</tbody>
</table>


collected on capital gains from land would be less than one percent of total capital gains.

Who receives these capital gains and how this affects society may be more important issues than their amount. According to table 3.12, business corporations appropriated about ten percent of total capital gains from land, while other private owners received the remaining ninety percent. Among private landowners, the top five percent received about 60 percent, and the top twenty-five percent about 80 percent of the capital gains. This implies that the top 1.3 percent and 3.9 percent of population appropriated sixty percent and eighty percent of all capital gains from land.

This pattern of concentration of landownership and receipt of capital gains has seriously affected the distribution of national income. Many scholars have argued that income distribution in Korea has been relatively equal.
Table 3.13 Empirical Studies on Korean Income Distribution

<table>
<thead>
<tr>
<th>Year</th>
<th>Chu EPB(I)</th>
<th>BOK EPB(II)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1963</td>
<td>0.341</td>
<td></td>
</tr>
<tr>
<td>1965</td>
<td>0.3439</td>
<td>0.444</td>
</tr>
<tr>
<td>1967</td>
<td>0.3908</td>
<td></td>
</tr>
<tr>
<td>1969</td>
<td>0.3322</td>
<td>0.395</td>
</tr>
<tr>
<td>1970</td>
<td>0.329</td>
<td></td>
</tr>
<tr>
<td>1971</td>
<td>0.3981</td>
<td>0.316</td>
</tr>
<tr>
<td>1976</td>
<td>0.3574</td>
<td></td>
</tr>
<tr>
<td>1980</td>
<td>0.3567</td>
<td></td>
</tr>
<tr>
<td>1984</td>
<td>0.3631</td>
<td></td>
</tr>
<tr>
<td>1985</td>
<td>0.3631</td>
<td></td>
</tr>
<tr>
<td>1988</td>
<td>0.336</td>
<td>0.289</td>
</tr>
<tr>
<td>1989</td>
<td>0.302</td>
<td></td>
</tr>
<tr>
<td>1990</td>
<td>0.297</td>
<td>0.304</td>
</tr>
</tbody>
</table>


Table 3.14 Empirical Studies of Korean Wealth Distribution

<table>
<thead>
<tr>
<th>Year</th>
<th>Income</th>
<th>Real Estate</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kwon</td>
<td>1988</td>
<td>0.40</td>
<td>0.60</td>
</tr>
<tr>
<td>Yi</td>
<td>1988</td>
<td>0.336</td>
<td>0.660</td>
</tr>
<tr>
<td>Kim</td>
<td>1990</td>
<td>0.42</td>
<td>0.66</td>
</tr>
</tbody>
</table>

and has actually improved quite significantly. Empirical survey results, such as in table 3.13, have supported their arguments. Despite some disarray among researchers and some zigzag movements over the years, general features can be observed. Income distribution in Korea has continuously become more equitable; when compared with income distribution in the 1960s and 1970s, the distribution in the 1980s has significantly improved. However, what is more important in interpreting economic inequality is not just the flow of income, but the amount of stock, i.e. fixed wealth such as land, housing, and other properties.

Table 3.14 shows the impact of unequal distribution of property on the economy. Income distribution was relatively equal, 0.336-0.420 in 1988-1990. However, because of the concentration of landownership, and of significant capital gains from land, income distribution has become more unequal. Thus, when we include the lowest estimation of capital gains from land in computing income distribution, the Gini Coefficient rises from .336-.420 to .386-.436. If the higher estimation of capital gains were used, the income distribution would become more unequal than shown in table 3.14. For instance, Professor Chong-u Yi has estimated the real amount of capital gains from land to be at least 20-40 trillion Won. In his research models, he used the conservative amount of twenty trillion Won, which shifted the Gini Coefficient from 0.336 to 0.386; but, if he used
forty trillion Won, the Gini Coefficient would shift up to over 0.400. This data shows how landownership becomes an important source of expanding wealth for capitalists as well the general public, and thus affects the distribution of incomes.

3. Commercialization of Land

a. Frequent Transaction of Land

With increases in urban use, concentrated distribution of landownership, and exclusive expropriation of capital gains from land, land in Korea has been treated as a transferable commodity. According to court documents, ten to twenty percent of urban land and four to eight percent of rural land has been transferred annually during the 1980s (Kukt’o kaebal yon’guwon 1989a). This means each parcel of land is traded every 5-10 years in urban areas and every 13-25 years in rural areas. This is a high frequency of transactions. For instance, in Japan in 1987, the transaction frequency of land was 0.6 percent for national land, and 2.2 percent for residential land (Noguchi 1990). However, in Korea in 1987, 4.1 percent of total private land and 6.3 percent of the total housing units were traded (table 6.15). Land and housing in five big cities (Seoul, Pusan, Taegu, Inch’on and Kwangju) were more frequently traded.
Table 3.15 Frequency of Land Transaction, 1987

(Unit = 000 parcels, %)

<table>
<thead>
<tr>
<th>Area</th>
<th>Land</th>
<th>Housing</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total (A)</td>
<td>Traded (B)</td>
</tr>
<tr>
<td>5 Cities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Seoul</td>
<td>2,825.3</td>
<td>273.5</td>
</tr>
<tr>
<td>Pusan</td>
<td>548.4</td>
<td>79.8</td>
</tr>
<tr>
<td>Taegu</td>
<td>410.8</td>
<td>53.0</td>
</tr>
<tr>
<td>Inch'on</td>
<td>263.8</td>
<td>24.7</td>
</tr>
<tr>
<td>Kwangju</td>
<td>152.3</td>
<td>11.9</td>
</tr>
<tr>
<td>Provinces</td>
<td>20,631.4</td>
<td>676.2</td>
</tr>
<tr>
<td>Kyonggi</td>
<td>2,626.3</td>
<td>138.2</td>
</tr>
<tr>
<td>Kangwon</td>
<td>1,227.1</td>
<td>37.5</td>
</tr>
<tr>
<td>Ch'ungch'ong</td>
<td>3,880.8</td>
<td>112.6</td>
</tr>
<tr>
<td>Cholla</td>
<td>5,801.9</td>
<td>142.6</td>
</tr>
<tr>
<td>Kyongsang</td>
<td>6,711.0</td>
<td>218.2</td>
</tr>
<tr>
<td>Cheju</td>
<td>384.3</td>
<td>27.1</td>
</tr>
</tbody>
</table>


Table 3.16 Land Transaction by Land Uses, Jan.–Oct. 1988

(Unit: cases)

<table>
<thead>
<tr>
<th></th>
<th>Report Zone</th>
<th>Permit Zone</th>
<th>Total Cases</th>
<th>Ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>202,235</td>
<td>4,899</td>
<td>207,134</td>
<td>100.00</td>
</tr>
<tr>
<td>Urban Area</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Residential</td>
<td>135,628</td>
<td>2,836</td>
<td>138,464</td>
<td>66.85 (100.00)</td>
</tr>
<tr>
<td>Commercial</td>
<td>45,381</td>
<td>76</td>
<td>46,233</td>
<td>33.39</td>
</tr>
<tr>
<td>Industrial</td>
<td>2,904</td>
<td>83</td>
<td>2,987</td>
<td>2.16</td>
</tr>
<tr>
<td>Green Area</td>
<td>81,442</td>
<td>1,825</td>
<td>83,267</td>
<td>60.14</td>
</tr>
<tr>
<td>Non-designated</td>
<td>1,446</td>
<td></td>
<td>1,446</td>
<td>1.04</td>
</tr>
<tr>
<td>Rural Area</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agricultural</td>
<td>17,207</td>
<td>1,536</td>
<td>18,743</td>
<td>27.29</td>
</tr>
<tr>
<td>Forest</td>
<td>43,277</td>
<td>342</td>
<td>43,619</td>
<td>63.52</td>
</tr>
<tr>
<td>Pasture</td>
<td>151</td>
<td>151</td>
<td>151</td>
<td>0.22</td>
</tr>
<tr>
<td>Others</td>
<td>5,972</td>
<td>185</td>
<td>6,157</td>
<td>8.97</td>
</tr>
</tbody>
</table>

Source: Kukt'o kaebal yon'guwon, Kongchok t'oji pich'uk hwaktae mit kwalli kaeson pangan yon'gu, 1989a:116 & 120.
In recent years, a new trend has been observed (table 3.16). The transactions have been concentrated on land in the "green zone," land still used for forests or agriculture. As one of its anti-speculation policies, the government designated Transaction Report Zones and Permit Zones. Within these zones, the land must be reported to or permitted by the local government before transferring its title. At the end of October 1988, over sixty percent of the land transferred within these zones was forest or green areas, land not zoned for industrial, commercial or residential use. What does this imply? Land is not only considered as living or production space, but a commodity that yields gains through trading. The intent of these transactions, whether they are to pursue speculative gains or to keep equity value under high inflation, is derived from this nature of land as a commodity.

Frequent transactions of land and housing affect the living conditions of the general populace, especially urban labor forces. For instance, out of a total population, 23.9 percent or ten million people moved in 1988 (Kyongje kihoegwon 1989a). For 48.5 percent of them, housing was the issue, while for 19.4 percent their jobs dictated this move. Koreans move at a significantly higher rate than other East Asians. While one-quarter of the population moves annually in Korea, only 5.4 percent does so in Japan, and 8.1 percent in Taiwan (Minjok minju undong yon'guso 1990: 49-50). Thus,
Table 3.17 Composition of Inherited Property, 1967-87

(Unit = %)

<table>
<thead>
<tr>
<th>Year</th>
<th>Real Estate</th>
<th>Stocks</th>
<th>Savings</th>
<th>Bonds</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Land</td>
<td>Building</td>
<td>Sub-Total</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1967</td>
<td>50.74</td>
<td>17.48</td>
<td>68.21</td>
<td>20.91</td>
<td>2.03</td>
</tr>
<tr>
<td>1972</td>
<td>61.72</td>
<td>15.06</td>
<td>76.78</td>
<td>6.22</td>
<td>5.81</td>
</tr>
<tr>
<td>1979</td>
<td>49.16</td>
<td>16.96</td>
<td>66.12</td>
<td>20.32</td>
<td>2.56</td>
</tr>
<tr>
<td>1982</td>
<td>59.16</td>
<td>24.21</td>
<td>83.37</td>
<td>8.54</td>
<td>1.87</td>
</tr>
<tr>
<td>1983</td>
<td>57.04</td>
<td>26.56</td>
<td>83.60</td>
<td>9.73</td>
<td>1.51</td>
</tr>
<tr>
<td>1984</td>
<td>65.57</td>
<td>20.58</td>
<td>86.15</td>
<td>8.97</td>
<td>1.51</td>
</tr>
<tr>
<td>1985</td>
<td>59.57</td>
<td>27.71</td>
<td>87.28</td>
<td>4.38</td>
<td>1.57</td>
</tr>
<tr>
<td>1986</td>
<td>59.47</td>
<td>26.36</td>
<td>85.83</td>
<td>4.37</td>
<td>2.55</td>
</tr>
<tr>
<td>1987</td>
<td>59.90</td>
<td>25.52</td>
<td>85.42</td>
<td>6.85</td>
<td>2.83</td>
</tr>
</tbody>
</table>

Note: Exclude lump summed inherited property.

Table 3.18 Structure of Investment and Savings, 1954-96

(Units = %)

<table>
<thead>
<tr>
<th>Period</th>
<th>Total Investment (A)</th>
<th>Domestic Savings (B)</th>
<th>Foreign Saving</th>
<th>Autonomy of Finance (B/A)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1954-61</td>
<td>12.2</td>
<td>3.2</td>
<td>8.4</td>
<td>26.3</td>
</tr>
<tr>
<td>1962-66</td>
<td>15.1</td>
<td>6.1</td>
<td>8.8</td>
<td>40.4</td>
</tr>
<tr>
<td>1967-71</td>
<td>26.4</td>
<td>13.1</td>
<td>12.9</td>
<td>49.6</td>
</tr>
<tr>
<td>1972-76</td>
<td>27.8</td>
<td>18.2</td>
<td>9.8</td>
<td>65.5</td>
</tr>
<tr>
<td>1977-81</td>
<td>35.5</td>
<td>23.9</td>
<td>11.2</td>
<td>67.3</td>
</tr>
<tr>
<td>1982-86</td>
<td>31.6</td>
<td>27.4</td>
<td>4.2</td>
<td>86.7</td>
</tr>
<tr>
<td>1987-91</td>
<td>33.8</td>
<td>36.0</td>
<td>-2.6</td>
<td>106.5</td>
</tr>
<tr>
<td>1992-96</td>
<td>36.4</td>
<td>35.5</td>
<td>0.6</td>
<td>97.5</td>
</tr>
</tbody>
</table>

those Koreans without land are often involved in an almost constant search for affordable housing.

Land transactions take place not only between traders, but also between the generations in families, too. Real estate is the most frequent type of inherited property. According to the National Taxation Office’s statistics, real estate accounts for about eighty-five percent of inherited property, of which land is about sixty percent and housing is twenty-five percent (table 3.17). This preponderance increased, especially, after the 1980s when the market economy in Korea matured and thus the characteristics of land as a commodity was reinforced.

b. Land as Collateral for Financial Credit

One specific aspect of landownership in Korea is how it enables preferential access to financial markets. Land has been used as the basic criterion in obtaining credit. When land is collateral, borrowing money from the bank has been relatively easy.

Since the early 1960s, the state has actively intervened in the process of economic development. One of the measures that the military government took in 1961 was to nationalize commercial banks. Since then, financial institutions have played a significant role in economic development (Cole & Park 1983, J.W. Kim 1986, Y.C. Park 1991). Commercial banks functioned as financial
intermediaries. They mobilized private savings and relayed them to investment. But, domestic savings have always been insufficient as shown in table 3.18, especially in the early stage of economic development. In this situation, banks provided funds for investment through the creation of credit, thus paralleling the government’s monetary policy.

Since the early 1980s, the Fifth Republic under President Chun implemented reform measures to promote the autonomous management of financial institutions. From 1981, commercial banks became privatized. Yet, the state has still influenced bank operations through intervening in the selection of banks’ top managers. Financial institutions, however, have been retarded by several other factors. Commercial banks which have been owned and operated by the state, have not been encouraged to make operational innovations. A significant amount of loan funds have flowed outside institutionalized channels. In addition, price mechanisms have not worked to allocate financial resources efficiently. The state has intervened in allocating domestic as well foreign funds to be used as "policy funds," funds set aside for specific industrial policies such as shipbuilding or the electronics industry, designated by the state. A great number of these investments were not run efficiently, and even failed to produce enough profits to pay banks.
As a consequence, commercial banks have not been able to carry out their normal functions of evaluating borrowers and reviewing investment projects (J.W. Kim 1986: 9). Prior to lending money, banks must evaluate companies and projects, including the firms’ financial structure, their capability to repay the loans, the efficiency and profitability of the projects, and the ability of the firm’s managers. Banks did not or could not do such jobs well. As a result of these inadequate credit evaluations, banks have requested firms to provide collateral for their loans.

The structure of bank loans reveals this (table 3.19). In the 1960s, while about one-fourth of all loans were made on trust, three-fourths required collateral. Over eighty-three percent of the collateral used was real estate, mostly land. This ratio has declined gradually, especially, after the early 1980s, when commercial banks were privatized and the Chaebol began to control commercial banks. Yet, land used as collateral, is still important when accessing bank funds.

In summary, along with rapid industrialization and urbanization, land use has become more urban-centric. Land prices have increased rapidly. This rapid increase has provided landowners with their safest source of capital gains, although it has meant a great loss to the landless. Because of the legal protection given private property
Table 3.19 Structure of Commercial Bank Loans, 1961-90
(Unit = %)

<table>
<thead>
<tr>
<th>Year&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Sum&lt;sup&gt;b&lt;/sup&gt;</th>
<th>Real Estate</th>
<th>Personal Deposits</th>
<th>Other&lt;sup&gt;c&lt;/sup&gt;</th>
<th>Loan with Trust</th>
</tr>
</thead>
<tbody>
<tr>
<td>61</td>
<td>84.75</td>
<td>67.80</td>
<td>8.47</td>
<td>0.00</td>
<td>10.00</td>
</tr>
<tr>
<td>62</td>
<td>90.00</td>
<td>60.91</td>
<td>11.82</td>
<td>6.36</td>
<td>12.12</td>
</tr>
<tr>
<td>63</td>
<td>84.82</td>
<td>75.89</td>
<td>4.02</td>
<td>2.23</td>
<td>3.16</td>
</tr>
<tr>
<td>64</td>
<td>87.70</td>
<td>78.17</td>
<td>3.57</td>
<td>1.19</td>
<td>5.43</td>
</tr>
<tr>
<td>65</td>
<td>81.99</td>
<td>72.79</td>
<td>1.84</td>
<td>1.47</td>
<td>7.17</td>
</tr>
<tr>
<td>66</td>
<td>80.84</td>
<td>70.66</td>
<td>2.00</td>
<td>2.40</td>
<td>7.16</td>
</tr>
<tr>
<td>67</td>
<td>78.02</td>
<td>63.71</td>
<td>4.88</td>
<td>2.55</td>
<td>8.82</td>
</tr>
<tr>
<td>68</td>
<td>73.08</td>
<td>61.76</td>
<td>1.64</td>
<td>3.84</td>
<td>8.00</td>
</tr>
<tr>
<td>69</td>
<td>69.98</td>
<td>56.01</td>
<td>1.07</td>
<td>8.43</td>
<td>6.38</td>
</tr>
<tr>
<td>70</td>
<td>72.49</td>
<td>61.75</td>
<td>1.80</td>
<td>5.55</td>
<td>4.68</td>
</tr>
<tr>
<td>71</td>
<td>71.07</td>
<td>57.19</td>
<td>1.51</td>
<td>5.90</td>
<td>9.11</td>
</tr>
<tr>
<td>72</td>
<td>67.89</td>
<td>54.31</td>
<td>0.44</td>
<td>8.35</td>
<td>7.06</td>
</tr>
<tr>
<td>73</td>
<td>66.59</td>
<td>52.60</td>
<td>1.14</td>
<td>8.78</td>
<td>6.11</td>
</tr>
<tr>
<td>74</td>
<td>58.65</td>
<td>44.42</td>
<td>1.11</td>
<td>9.89</td>
<td>5.52</td>
</tr>
<tr>
<td>75</td>
<td>65.14</td>
<td>48.70</td>
<td>1.35</td>
<td>8.59</td>
<td>9.99</td>
</tr>
<tr>
<td>76</td>
<td>60.89</td>
<td>46.61</td>
<td>0.73</td>
<td>8.04</td>
<td>9.04</td>
</tr>
<tr>
<td>77</td>
<td>62.49</td>
<td>50.81</td>
<td>0.82</td>
<td>7.20</td>
<td>5.88</td>
</tr>
<tr>
<td>78</td>
<td>59.92</td>
<td>47.97</td>
<td>0.83</td>
<td>6.80</td>
<td>7.23</td>
</tr>
<tr>
<td>79</td>
<td>63.81</td>
<td>50.04</td>
<td>1.45</td>
<td>7.77</td>
<td>7.14</td>
</tr>
<tr>
<td>80</td>
<td>69.17</td>
<td>54.65</td>
<td>2.53</td>
<td>7.02</td>
<td>7.18</td>
</tr>
<tr>
<td>81</td>
<td>60.06</td>
<td>49.60</td>
<td>1.60</td>
<td>5.01</td>
<td>6.41</td>
</tr>
<tr>
<td>82</td>
<td>59.82</td>
<td>50.11</td>
<td>1.97</td>
<td>4.80</td>
<td>4.92</td>
</tr>
<tr>
<td>83</td>
<td>58.12</td>
<td>46.77</td>
<td>2.43</td>
<td>5.77</td>
<td>5.43</td>
</tr>
<tr>
<td>84</td>
<td>59.61</td>
<td>48.53</td>
<td>2.04</td>
<td>6.32</td>
<td>4.56</td>
</tr>
<tr>
<td>85</td>
<td>58.51</td>
<td>42.40</td>
<td>2.68</td>
<td>5.35</td>
<td>13.80</td>
</tr>
<tr>
<td>86</td>
<td>52.44</td>
<td>40.73</td>
<td>3.52</td>
<td>6.18</td>
<td>3.82</td>
</tr>
<tr>
<td>87</td>
<td>50.80</td>
<td>40.61</td>
<td>2.52</td>
<td>5.65</td>
<td>3.96</td>
</tr>
<tr>
<td>88</td>
<td>53.32</td>
<td>42.66</td>
<td>3.05</td>
<td>5.60</td>
<td>3.78</td>
</tr>
<tr>
<td>89&lt;sup&gt;0&lt;/sup&gt;</td>
<td>53.34</td>
<td>42.71</td>
<td>2.96</td>
<td>5.45</td>
<td>4.15</td>
</tr>
<tr>
<td>90&lt;sup&gt;0&lt;/sup&gt;</td>
<td>51.76</td>
<td>43.14</td>
<td>1.40</td>
<td>4.72</td>
<td>4.83</td>
</tr>
</tbody>
</table>

Note: a) As of September for 1961-1976, and as of December for 1977-1990. b) Exclude trust accounts and foreign banks in Korea. c) Include government bonds, stocks, debentures, etc. d) Exclude Tong-hwa Bank, Tong-nam Bank, Tae-dong Bank.

ownership, capital gains and other income from land have been exclusively appropriated by landowners, yet their costs for these gains, i.e., taxes, have been significantly low. Furthermore, they have been able to gain easy access to financial credit. All these things have encouraged capitalists to become landowners.

B. Capitalists' Dominance over Land in Korea

1. The Status of Capitalists' Land holdings

Partly because of lack of statistics and partly because of difficulties in classification, it is hard to verify how much land capitalists hold. We can make some general inferences about their land holdings. First, corporations own 4,495 km², or 4.1 percent of the nation's land (table 3.20). They own seventy-nine percent of all industrial land, despite the fact that most industrial parks were constructed by the state. Corporations also own nineteen percent of all pasture land. Interestingly enough, sixty-four percent of the land owned by corporations is forest land, which has been the major target of speculative transactions (Kukt’o kaebal yon’guwon 1989b: 245).

Second, private landowners (excluding corporations) hold 73,139 km² of land, of which 17,079 km² or 23.4 percent is owned by 42,880 persons or 0.1 percent of the total population (Ibid: 38). This small group owns thirteen
Table 3.20 Land Composition by Owners, 1988

(Unit = %)

<table>
<thead>
<tr>
<th>Uses</th>
<th>Private</th>
<th>Public</th>
<th>Corporation</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building Lot</td>
<td>82.6</td>
<td>3.5</td>
<td>7.5 (6.4)</td>
<td>4.9</td>
</tr>
<tr>
<td>Industrial</td>
<td>11.2</td>
<td>5.0</td>
<td>78.9 (4.1)</td>
<td>4.9</td>
</tr>
<tr>
<td>Agricultural</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dry Field</td>
<td>90.5</td>
<td>3.8</td>
<td>1.4 (3.0)</td>
<td>4.4</td>
</tr>
<tr>
<td>Paddy Field</td>
<td>93.8</td>
<td>2.8</td>
<td>1.3 (4.6)</td>
<td>2.1</td>
</tr>
<tr>
<td>Pasture</td>
<td>55.6</td>
<td>21.2</td>
<td>19.0 (1.8)</td>
<td>4.2</td>
</tr>
<tr>
<td>Forest</td>
<td>62.5</td>
<td>26.4</td>
<td>4.2 (63.7)</td>
<td>6.9</td>
</tr>
<tr>
<td>Non-classified</td>
<td>34.2</td>
<td>45.2</td>
<td>14.0 (1.9)</td>
<td>6.5</td>
</tr>
<tr>
<td>Public Uses</td>
<td>10.8</td>
<td>82.1</td>
<td>4.4 (2.2)</td>
<td>2.7</td>
</tr>
<tr>
<td>Others</td>
<td>22.9</td>
<td>68.0</td>
<td>6.8 (12.3)</td>
<td>2.3</td>
</tr>
<tr>
<td>Total</td>
<td>66.1</td>
<td>24.3</td>
<td>4.1 (100.0)</td>
<td>5.5</td>
</tr>
</tbody>
</table>

Note: a) Corporations include commercial and other non-profit corporations. b) ‘Others’ is not clear in meaning according to this secondary data source.


percent of land for building lot (residential and commercial), twelve percent of industrial land, forty-four percent of pasture land, and thirty-six percent of forests (see table 3.7). When we consider the general conditions of the land market in Korea with its high prices, it’s most likely these landowners are not rank and file citizens, but richer capitalists who can afford to pay.

A third inference can be drawn from the increased proportion of corporate assets that are land holdings. From 1972 to 1990, land as a share of total business assets increased (table 3.21). The portion of all manufacturers’ assets that was accounted as land holdings increased from
### Table 3.21 Capitalists' Investment in Land, 1972-90

(Units = %)

<table>
<thead>
<tr>
<th></th>
<th>Land Share of Total Assets</th>
<th>Land Share of Total Investments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>72-80 81-90 72-90</td>
<td>76-80 81-90 76-90</td>
</tr>
<tr>
<td>All Manufacturing</td>
<td>4.4  6.5  6.3</td>
<td>4.6  4.9  4.8</td>
</tr>
<tr>
<td>Large Enterprise</td>
<td>4.4  6.5  6.3</td>
<td>4.2  4.7  4.7</td>
</tr>
<tr>
<td>Medium Enterprise</td>
<td>5.0  6.7  6.6</td>
<td>6.9  5.5  5.6</td>
</tr>
<tr>
<td>Export Industry</td>
<td>4.3  6.0  5.8</td>
<td>4.8  5.4  5.3</td>
</tr>
<tr>
<td>Domestic Industry</td>
<td>4.5  6.8  6.6</td>
<td>4.4  4.7  4.6</td>
</tr>
<tr>
<td>Heavy-Chemical</td>
<td>3.8  5.7  5.5</td>
<td>3.8  4.1  4.0</td>
</tr>
<tr>
<td>Light Industry</td>
<td>5.2  8.1  7.7</td>
<td>5.6  6.7  6.7</td>
</tr>
</tbody>
</table>


### Table 3.22 Increment of Assets and Investments, 1978-90

(Base: 1978 = 1.00)

<table>
<thead>
<tr>
<th></th>
<th>Assets</th>
<th>Investments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Land</td>
</tr>
<tr>
<td>All Manufacturing</td>
<td>16.1</td>
<td>30.0</td>
</tr>
<tr>
<td>Large Enterprise</td>
<td>14.1</td>
<td>26.0</td>
</tr>
<tr>
<td>Medium Enterprise</td>
<td>36.1</td>
<td>65.6</td>
</tr>
<tr>
<td>Export Industry</td>
<td>11.2</td>
<td>20.3</td>
</tr>
<tr>
<td>Domestic Industry</td>
<td>18.8</td>
<td>35.1</td>
</tr>
<tr>
<td>Heavy-Chemical</td>
<td>20.8</td>
<td>38.2</td>
</tr>
<tr>
<td>Light Industry</td>
<td>11.1</td>
<td>22.8</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>Land</td>
</tr>
<tr>
<td>1978</td>
<td>13.4</td>
<td>21.5</td>
</tr>
<tr>
<td>1979</td>
<td>11.6</td>
<td>16.0</td>
</tr>
<tr>
<td>1980</td>
<td>34.5</td>
<td>104.9</td>
</tr>
<tr>
<td>1981</td>
<td>10.8</td>
<td>13.0</td>
</tr>
<tr>
<td>1982</td>
<td>14.5</td>
<td>25.4</td>
</tr>
<tr>
<td>1983</td>
<td>15.3</td>
<td>24.1</td>
</tr>
<tr>
<td>1984</td>
<td>10.3</td>
<td>19.0</td>
</tr>
</tbody>
</table>

4.4 percent in the 1970s to 6.5 percent in the 1980s. This trend occurred in all manufacturing and industrial sectors from the chaebol’s subsidiaries to small enterprises, in both export-oriented and domestic industries, and heavy and light industries. Investment in land has been consistent, with an average 4.8 percent of annual operating funds spent on land purchases during the past fourteen years. It has increased from 4.6 percent in the 1970s to 4.9 percent in the 1980s. Even if this increase is due in part to higher land prices during the period of 1978-1990, capitalists have increased their investment in land more than other production means. Thus, while businesses’ total assets increased by sixteen times and their annual operating funds by thirteen times, the portion of their assets and investments in land increased by thirty times and twenty-two times respectively (table 3.22).

In addition to the general trends noted, as businesses increase in size, their preference for investing in land become more pronounced, and thus the chaebol seem to prefer land investment more than the small and medium capitalists. The chaebol have also been better able to invest in land because of their greater ability to raise funds and access financial institutions. From 1978 to 1990, investment in land by large enterprises was 4.2 times greater than investment by small and medium firms, investment in land by heavy and chemical industries was 1.2 times greater than by
light industries, and land investment by domestic industries was 1.7 times greater than by export-oriented industries.

The strong tendency for land investment by domestic industries, however, does not mean that local market oriented industries (i.e., small size enterprises) prefer land investment more than international market oriented ones (i.e., the chaebol) do, or that export-oriented firms invest capital in more industrial facilities than land. In fact, because of their involvement in domestic-oriented industries, this tendency only confirms the chaebol’s high preference for investing in land. The chaebol have to achieve high rates of export in order to get state assistance. State policy during the past three decades has emphasized exports with business assistance and penalties, which were determined by the amount of exports recorded. Therefore, the chaebol sometimes have had to expedite exports with prices lower than production costs, necessitating a search for alternative forms of income that could make up their losses. Manipulation of the commodity prices between international and domestic markets has been one frequent alternative (Amsden 1989). Investments in land have also been a good alternative for the chaebol to compensate for their losses in the export trade.

A final piece of evidences clearly illustrates the chaebol’s preference for land investments. Table 3.20 shows that 4.1 percent of the nation’s land is owned by the
Table 3.23 Distribution of Corporate Land, 1988

(Units = km², %)

<table>
<thead>
<tr>
<th>Uses</th>
<th>Sum (B)</th>
<th>Owned more than 500,000 pyong&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Owned more than 50,000 pyong&lt;sup&gt;b&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(A)</td>
<td>B/A</td>
<td>Area (C)</td>
</tr>
<tr>
<td>Total</td>
<td>4,495.8</td>
<td>3,030.4 67.4%</td>
<td>3,958.3</td>
</tr>
<tr>
<td>Urban Uses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Building</td>
<td>258.5</td>
<td>161.6 56.6</td>
<td>194.7</td>
</tr>
<tr>
<td>Industrial</td>
<td>184.1</td>
<td>50.7 27.5</td>
<td>103.6</td>
</tr>
<tr>
<td>Agricultural</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dry Field</td>
<td>135.3</td>
<td>63.8 47.1</td>
<td>96.7</td>
</tr>
<tr>
<td>Paddy Field</td>
<td>207.7</td>
<td>139.7 67.3</td>
<td>176.0</td>
</tr>
<tr>
<td>Pasture</td>
<td>82.3</td>
<td>51.1 62.0</td>
<td>69.6</td>
</tr>
<tr>
<td>Forest</td>
<td>2,864.2</td>
<td>2,091.8 73.0</td>
<td>2,673.4</td>
</tr>
<tr>
<td>Others</td>
<td>736.7</td>
<td>471.7 64.0</td>
<td>644.3</td>
</tr>
</tbody>
</table>

Note: a) Owned by 403 persons. b) Owned by 2,174 persons.


corporations. Yet, further research reveals that 403 persons own sixty-seven percent and 2,174 persons own eighty-eight percent of corporate land (table 3.23). In other words, most of corporate land is owned by big capitalists, while the small and medium capitalists have suffered from a shortage of land for their business activities (Han’guk ilbo, March 2, 1991).⁵

As detailed in this section, capitalists, especially, those controlling the chaebol, have made significant and consistent investments in land, by utilizing a variety of strategies, which will be described in the next section.
2. Mechanism of the Chaebol’s Dominance over Land

Capitalists’ strategies can be categorized into two related types. One is to influence state policy, and the other is to broaden their business activities.

Through various policies, including industrial, locational and taxational policies, and a preferential legal system, the state has helped capitalists to acquire land easily and at low costs. Since the 1960s, the state has developed industrial sites, then turned them over to capitalists, mostly industrial capitalists. In order to catch up to the developed countries where effective urban infrastructures have evolved from a long-term process of urban evolution, the Korean state accelerated urbanization by providing urban infrastructure and facilities within a relatively short period. Capitalists have reaped the benefits of the state’s investment in infrastructure, such as improved transportation and communication facilities, especially, because this has saved them from spending their own capital.

Since the 1960s, decisions about industrial locations have been shifted from being made by businessmen to being made by the state (Kukt’o kaebal yon’guwon 1986: 34). This change in locational policy reflected the change in the state’s industrial policy. In the 1960s, the state emphasized the development of light industry. It rezoned land use according to the Urban Planning Law of 1962, and
channeled its limited investment funds into the existing urban and industrial infrastructure. Small-scale industrial sites were constructed within Seoul, Pusan, Inch’on and Taegu.

Since the early 1970s, the state adopted a new industrial policy emphasizing heavy and chemical industrialization. As existing laws and planning policies were not adequate, nor appropriate for the large-scale development required by these industries, new industrial land policy was initiated. The state enacted the Industrial Base Development Promotion Act (Sanop kiji kaebal ch’okchin pop) in December 1973. Large-scale coastal industrial regions along the southeast seashore were formed. A machinery manufacturing complex was built in P’ohang at the locale of the P’ohang Steel Corporation. Oil refining, fertilizer and petro-chemical complexes were installed in Ulsan. Ceramics, textile, and comprehensive machinery industries were built in the Masan free export zones, and a chemical industrial complex was constructed in the Yosu-Sunch’on-Kwangyang areas (T.H. Han 1992: 91-92).

These new developments had several features in common. First, these industrial-based projects were large-scale when compared to industrial-site projects in the 1960s. These industrial parks compromise about seventy percent of Korea’s total industrial areas (Konsolbu 1987: 575). Second, they were mandated and built according to "state" policy. These
planned industrial locations help explain the local differentiation between the South East (Yongnam area) and the South West regions (Honam area). This unequal distribution of industrial sites has become an issue in regional conflicts in Korea (M.R. Cho 1991). Third, these areas are controlled solely by the big capitalists, the chaebol and their subsidiaries. Using the right of eminent domain, the state purchased land from farmers and small-landowners, then developed and resold it to the large-scale capitalists. During this process, capitalists could purchase this land easily at low cost, also without facing serious class conflicts with the original landowners. Last, capitalists acquired all the development and capital gains that were generated from the increases in land prices and the increases in rents due to this improved infrastructure.

The state provided adequate legal measures to legitimate these new industrial developments. The Land Expropriation Law (T’oji suyong pop) was enacted in January 1962, just prior to the construction of the Ulsan Industrial Center, beginning in February 1962. In the name of promoting the public welfare and the rational use of national land and industrial development, this law allowed public development agencies to purchase needed land, using the rights of eminent domain to compel sales if landowners didn’t voluntarily sell their land. This law was used both for public projects to upgrade the infrastructure and
Table 3.24  Enactment and Revision of Industrial Land Laws

(Unit = number of bills)

<table>
<thead>
<tr>
<th>Periods</th>
<th>1950s</th>
<th>1960s</th>
<th>1970s</th>
<th>1980s</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Law Enactment</td>
<td>1</td>
<td>5</td>
<td>10</td>
<td>3</td>
<td>19</td>
</tr>
<tr>
<td>Ordinance Enactment</td>
<td>3</td>
<td>12</td>
<td>14</td>
<td>1</td>
<td>29</td>
</tr>
<tr>
<td>Law Revision</td>
<td>6</td>
<td>9</td>
<td>4</td>
<td>1</td>
<td>19</td>
</tr>
<tr>
<td>Ordinance Revision</td>
<td>1</td>
<td>14</td>
<td>13</td>
<td>5</td>
<td>34</td>
</tr>
<tr>
<td>Total</td>
<td>1</td>
<td>15</td>
<td>45</td>
<td>34</td>
<td>95</td>
</tr>
</tbody>
</table>

Source: Kukt’o kaebal yon’guwon, Kukt’o iyong kwallyon bop charyo-jip, 1985b: 25.

improve living conditions, and the development of the major industrial complexes for targeted industries such as steel, fertilizer, oil refining and pipelines, machinery, cement, synthetic textiles, and others. Throughout the 1970s and 1980s, additional laws, ordinances and revisions were enacted (table 3.24), which have basically regulated the rights of the non-capitalist landowners and promoted the ownership and control of land by capitalists.

In addition to providing land and legalizing the appropriation of gains thereby, the state also subsidized the large-scale capitalists by installing the necessary infrastructure and providing tax holidays. Most of the industrial land laws prescribed state’s financing or subsidies of industrial infrastructure including roads, water and sewerage, electricity, ports, and other communication facilities. Since these facilities were provided in newly constructed industrial parks, land prices
increased rapidly, with most of the gains appropriated by capitalists. Most construction costs were financed by the state with much of the money coming from taxation of the general public, while the gains and benefits were appropriated exclusively by capitalists. This imbalance in the distribution of costs and benefits contributed to the development of social conflicts, especially between the capitalists, who obtained this developed land, and the original landowners, who had to give it up to them.

Furthermore, the capitalists who purchased this land received tax preferences, such as the exemption or reduction of the acquisition tax, registration tax, transaction tax and property tax. Sometimes, relocation costs were deducted from the corporate tax bases, too. While state assistance was necessary for enhancing economic development and stimulating industrialization, it also promoted and increased capitalists' ownership and control of land.

Capitalists have been quick to take advantage of these programs. First, they were able to buy land at low prices and at preferential terms, such as using installment payment options. They realized significant savings because this land was priced far below the value of existing sites with equivalent infrastructure. However, when prices for this land increased, they quickly realized high development gains. They were also able to use this land and its equity as collateral to obtain large amounts of bank credit. The
value of their loans far surpassed the original purchase prices, thus giving capitalists easier access to large amounts of capital. Furthermore, when this land was sold at its inflated prices, they obtained huge capital gains. After selling their land, they could purchase more industrial land provided by the state at low prices, and also claim relocation deductions from their tax base. They have been allowed to continue this cycle and continuously increase their capital gains from land. Even if they choose not to sell their land, they have received significant benefits from the continuous increases in land prices as their equity surpasses their debt load.

Given all the advantages described, the chaebol now hold more land than they need. In 1979, the government provided the standard rates for land use for each industry, which was to regulate excessive holdings beyond that standard. But most companies, especially the chaebol, have held on to their excessive land. Some chaebol hold more than twenty times the designated amount of land, and thus, by government standards, are overinvested in real estate. On February 1, 1984, the Ministry of Commerce and Industry reported on the land holdings for seventy-eight manufacturing industries including the machinery, chemical, automobile, iron, electric, electronic, shipbuilding, and metal industries. The total area of land held by them was 6,190,000 pyong (20.5 km²), out of which only 1,090,000
Table 3.25  The Chaebol’s Industrial Land Holdings and Uses

(Unit = 000 pyong)

<table>
<thead>
<tr>
<th>Holding (A)</th>
<th>Used (B)</th>
<th>Rate (B/A)</th>
<th>Government Standard Industry</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Korea Explosive</td>
<td>732</td>
<td>13.3</td>
<td>1.8</td>
<td>explosive</td>
</tr>
<tr>
<td>Hyundai Heavy Ind.</td>
<td>1,805</td>
<td>256</td>
<td>14.2</td>
<td>shipbuilding</td>
</tr>
<tr>
<td>Daewoo Shipbuilding</td>
<td>960</td>
<td>72</td>
<td>7.5</td>
<td>&quot;</td>
</tr>
<tr>
<td>Samsung Precision</td>
<td>150</td>
<td>13</td>
<td>8.8</td>
<td>camera</td>
</tr>
<tr>
<td>Tongyang Machinery</td>
<td>131</td>
<td>36</td>
<td>27.5</td>
<td>car part</td>
</tr>
<tr>
<td>P’ungsan Metal</td>
<td>1,623</td>
<td>91</td>
<td>5.6</td>
<td>nonferrous metal</td>
</tr>
<tr>
<td>Kukche Machinery</td>
<td>57</td>
<td>13</td>
<td>22.8</td>
<td>transportation</td>
</tr>
<tr>
<td>Han’guk Plastic</td>
<td>22</td>
<td>3</td>
<td>13.6</td>
<td>plastic</td>
</tr>
<tr>
<td>Sammi Special Steel</td>
<td>30</td>
<td>5.3</td>
<td>17.7</td>
<td>special steel</td>
</tr>
<tr>
<td>Samhwa Chemical Ind.</td>
<td>56</td>
<td>4.6</td>
<td>8.2</td>
<td>chemical</td>
</tr>
</tbody>
</table>

Source: Han’guk ilbo, February 2, 1984.

pyong or 17.6 percent was used for factory buildings, lower than the average amount for all manufacturing enterprises which was twenty percent. For instance, the Inch’on branch of the Korea Explosive Company held 732,000 pyong, out of which only two percent was used for its factory. According to government guidelines at least forty percent of this land should have been used. The Hyundai Heavy Industry Co. used fourteen percent, the Daewoo Shipbuilding Co. used eight percent, and the Samsung Precision Industry Co. used nine percent of their land for industrial uses. These four chaebol utilized only 9.4 percent of their land (table 3.25).

Besides preferential treatment by the state, the chaebol have used other means to increase their control over
land. They set up new businesses that require significant amounts of land, such as subsidiaries for forestry, the pasture industry and pig farming. They also entered the leisure industry, building golfing, skiing, and sports complexes and hotels. They utilized their land for semi-legitimate uses, such as employee training centers or athletic facilities like tennis courts and exercise fields for the local defense forces. These facilities did not need much capital to install, but provided legal excuses for owning land. As land for these facilities is regarded as a business operation by the tax offices, it’s been taxed at preferential rates.

Construction companies are active participants in land hoarding. Most chaebol have their own construction firms, which purchase land not only in the residential or urbanized areas, but also in the green belt and agricultural areas. If these areas are rezoned, then construction companies reap significant profits. In fact, the profits from construction itself are sometimes minor compared to those gained from rezoning.

An additional strategy used by the chaebol to increase their landownership is to set up financial institutions. The chaebol have their own stock trading firms, insurance companies, short-term credit firms, investment trust firms, and mutual credit fund companies. Since 1982, when the state privatized commercial banks, the chaebol have
purchased large shares of commercial bank stocks. By using their own financial institutions, they have been able to easily mobilize more funds to invest in land.

The chaebol have even obtained more land by using their financial establishments to purchase it. In contrast to manufacturing industries, financial institutions are legally allowed to hold land to secure or increase equity. As of 1989, commercial banks were allowed to invest in land within one hundred percent of their equity; stock companies within fifty percent; life and loss insurance firms within fifteen percent; investment finance companies within fifty percent; and mutual credit fund companies within one hundred percent of their equity (Kukt’o kaebal yon’guwon 1989b: 416-20).

All these mechanisms promote the chaebol’s land ownership and control of increasing amounts of land.

C. Reasons for the Chaebol’s Land Investment

Why have the chaebol invested so heavily in land? No one factor can explain their land buying and hoarding. Instead, some of many issues that are derived from the characteristics of land in a capitalist economy must be considered. Capital investment in land is a strategy to resolve the problems of over-production and over-accumulation in the production sector. By using their capital to invest in land, the chaebol have largely overcome their conflicts with landowners by supplanting them and
becoming landowners themselves. In the chaebol’s continuous search for ways to increase their flexible accumulation, land has been the commodity that offers the most secure capital value in times of high inflation and provides the most profitable returns from their investment. While these three reasons account for the chaebol’s behavior preferring land, land as a spatial element provides a further implication for why the chaebol’s capital tends to concentrate in particular areas. Thus, in explaining the chaebol’s investment in land, it is more helpful to look at the socio-economic structure as a whole rather than only emphasize the speculative behavior of the chaebol.

1. **Solving Accumulation Contradictions.**

In the land economic theory of David Harvey, the absolute necessity of smooth capital circulation and the role of the built environment in promoting productivity and subsequent capital accumulation well accounts for the development of the core countries’ economy. Beginning in the sixteenth and seventeenth centuries, the core countries were able to accumulate and mobilize large amounts of capital. In the eighteenth and early nineteenth centuries, these societies experienced problems of over-production and over-accumulation within their domestic markets, and these problems led to periods of economic depression. To overcome their economic difficulties, the core countries began
colonizing the peripheral countries, which expanded their market and supply system. They also invested capital into the built environment of their domestic markets, which increased their production capacity and efficiency, as well as more effectively utilizing hitherto idle capital.

These theories must be applied to Korean society with great care since the evolution of Korean capitalism and Korean society have been quite different from that of the core countries. Instead of suffering from over-accumulation of capital, the Korean economy as a whole has suffered from the shortage of capital since the early stages of its development in the 1960s (see table 3.18). Even if domestic savings have increased and become a more reliable source of investment funds in the late 1980s, these funds have always been in short supply. Therefore, one of the state’s primary concerns has been how to attract foreign capital for domestic investment and mobilize foreign loans to efficiently supplement the shortfall in domestic savings.

Yet, this general shortage of available capital and the shortage of capital for the individual capitalists have not always been insurmountable barriers. Some capitalists have been able to accumulate sufficient capital from their businesses, while others have had better access to financial credits. Whether doing business with either abundant or limited capital, Korean capitalists have devised strategies for accumulating sufficient capital for investment in land.
In reviewing the developmental process of the Korean economy, we can observe the close linkages between the increase in capital accumulation and the development of real estate and the built environment. In fact, Korean capitalism has depended much on its development of the land and housing sector in solving the capitalist crisis.

After liberation from the Japanese in 1945, the most critical land issues involved agrarian land reform (Han’guk nongop kyongje yon’guso 1989, J.K. Kang 1988). Serious social unrest occurred because of the partial implementation of land reform contrary to the tenants’ expectations. Conflicts existed between the ruling groups, the Korea Democratic Party, which represented the landlords’ interests, and the U.S. Military Government, which worked to introduce the capitalist system to Korea (Cumings 1981). This conflict delayed the land reform program. Even if it was only partially implemented, land reform resolved the semi-feudalistic relations of a tenant system by eliminating much of the landlord class and producing a new class of wage workers, former tenants who migrated from the rural areas, thus providing an important basis for the development of Korean capitalism.

At the core of the initial stages of Korean capitalist development was the accumulation of government capital, obtained by disposing of Japanese owned properties and distributing foreign aid funds and materials (S.K. Kim 1987:
53-73, C.U. Kong 1992, T.G. Yi 1987). However, this accumulation soon faltered because of the Korean War, which destroyed much urban infrastructure and many industrial facilities. According to the Statistics Bureau of the Ministry of Public Relations (Kongbo-ch’o t’onggye-guk) in July 1953, losses totalled 412.3 billion Ḥwan ($22.9 billion) (U.W. Kim 1984: 261), equivalent to 1.7 times the 1953 GNP of 245 billion Ḥwan in 1953 (T.G. Yi 1987). In 1945, there were 2,642 km of railroads, out of which 329 km of railroad track, 9.4 km of railroad bridges, 4.9 km of tunnels, and 61 km of electric line were destroyed. Out of the 16,241 km of roads in 1945, about 120 km were destroyed. Moreover, about fifty percent of all water facilities and other urban facilities, including the electric power supply, were destroyed (U.W. Kim 1984: 259-262). Out of total 3,284,000 housing units before the War (T.G. Yi 1987: 109), 661,002 units or twenty percent were lost.

While the built environment and infrastructure was not well developed before the War, the War worsened this situation. Accumulation of capital both public and private was delayed, and made more difficult by the curtailment of foreign aid by the end of 1950s.

One of the main concerns of the military government that resulted from the coup in 1961 was economic development. The state focussed its efforts on providing the basic industrial and social infrastructure. It
reorganized the nation's space to facilitate economic development and the accumulation of capital to fund further economic growth.

To this end, the military government, the Supreme Committee of State Reconstruction, organized the National Construction Office under the Economic Planning Board in July 1961. In June 1962 this Office became the Ministry of Construction. In the following years, many land laws, such as the National Land Construction Comprehensive Law in October 1962, were enacted. After the Third Republic was inaugurated in 1963, the first draft for the National Land Construction Plan was proposed in October 1967, and the basic design for National Land Use Plan for the next twenty years was formulated in December 1968. Using this basic design, the First (1972-1981), the Second (1982-1991), and the Third National Land Comprehensive Development Plans (1992-2201) were prepared (C.Y. Ho 1986, Konsolbu 1987 & 1988).

In accordance with these plans, the state has invested vast amounts of capital in social infrastructure, constructing industrial parks, roads, multiple-purposed dams, harbors, and other facilities. For instance, a total of 1,415 km of express ways and 26,485 km of general roads have been constructed during the past twenty-five years, out of which forty-six percent of the express ways and forty-eight percent of the general roads were constructed during
the 1960s (Konsolbu 1988: chapter 8). Six dams, forty percent of the existing fifteen multiple-purpose dams, were built during this period, as well as major harbors such as Pusan, Inch’on and P’ohang.

During the period of the First (1962-1966) and Second (1967-1971) Five Years’ Economic Plans, labor-intensive light industries were emphasized. As table 3.1 shows, from the point of the employment structure, while the agricultural sector decreased by forty-seven percent during 1960-1990, the manufacturing and mining sectors increased by 265 percent. However, from the point of the value added, manufacturing and mining increased by 25.1 times (H.H. Sok 1990: 66). Land for expanded industrial production was urgently needed. To satisfy this demand, many industrial parks were built during the 1960s; these include the Ulsan Industrial Center in February 1962, the Seoul Export Industrial Site in September 1964, the Yoch’on Chemical Industrial Site in February 1967, and the P’ohang Steel Site in July 1967 (Konsolbu 1987: 568-586).

Because of these developments of land and infrastructure, capitalists now had appropriate industrial space. In addition, because of excessive demand on one hand, and significant capital investment in land on the other, land prices increased rapidly. The chaebol was able to accumulate capital because of the advantageous allocation of domestic and foreign financial funds, and because they
were the main beneficiaries of the government’s development of urban and industrial facilities. Furthermore, the chaebol increased their capital by participating in land speculation.

Around the end of the 1960s and in the early 1970s, Korean capitalists faced several crises, including the reduced returns on investment in light industries and the first oil crisis. The state restructured the political apparatus through the office-in-coup in October 1972 and its economic intervention through enacting special financial measures in August 1972 (S.H. Yi 1985). The state also rechanneled government efforts from developing light industry to focussing on heavy and chemical industries from 1973.

The state invested in the construction of new industrial parks and infrastructure such as harbors, express ways and multiple-purpose dams, and implemented large-scale land developments such as the South Seoul development projects and apartment towns. Since 1937 when the land readjustment method was introduced in Korea, most urban land was provided through Land Readjustment Projects (T’oji kuhoek chongni saop). These projects provided 270 km² of urban land from 1937 to 1982, out of which 155 km² or fifty-seven percent were developed during the 1970s (Seoul tukpyol-si 1984). Because of these investments in the built environment, the urgent capitalist crisis was overcome; enough investment and development capital was acquired, both
through growth in production capital and increased land value. The Korean economy achieved a rapid rate of growth since then.

At the end of the 1970s through the early 1980s, the second oil crisis hit the world economy. For the first time since 1960, the Korean economy experienced negative growth. It slumped into depression. The repayment of foreign debt became a problem. The economic crisis was amplified by a series of political crises: the assassination of President Park in October 1979, the collapse of the Yushin system, a military coup in December 1979, the Kwangju Incident in May 1980, and inauguration of a new military regime in September 1980.

The Fifth Republic implemented a series of economic reforms, including economic stabilization programs, channelling government programs toward high-technology and high-value-added industries and open market policies. Capital investment in the built environment of urban areas was re-emphasized. The state created the Korea Land Development Corporation in 1979. In 1981, it announced the Public Housing and Land Development Plan (1981-1995), in which five million housing units were to be built and 959 km$^2$ of land to be developed by 1995. To achieve these goals, the National Housing Fund was founded in 1981, and the Residential Land Development Promotion Law (T’aekchi
kaebal ch’okchin pop), similar to the Industrial Base Development Promotion Law of 1973, was enacted in 1980.

Besides new residential land development projects, mostly financed by the state, there were also urban renewal projects developed by the chaebol, which were affiliated with financial establishments including security companies and stock trading firms. The Central Business District (CBD) was filled with grand office buildings, while the sub-CBDs were replaced with mass distribution centers like department stores and shopping centers. Construction capital idled by the political changes in the Middle East flowed into the domestic market. It was used for urban rehabilitation projects and for expanding the leisure-tourists’ industries, thus forming new venue for increasing profits and capital gains. After a period of adjustment and recovery in the mid 1980s, the Korean economy experienced prosperity and had trade surpluses for three consecutive years for the first time since 1960.

While the historical evolution of Korean capitalism indicates that investment in the built environment may have helped solve economic crises, this investment was not the result of an over-accumulation of surplus capital as David Harvey contended. Instead, investments in land and housing sectors were utilized by the Korean state, which strived to revitalize its depressed economy. This investment has had significantly positive effects, as shown by a study.
Table 3.26 Impact of Housing Investments on Economy

<table>
<thead>
<tr>
<th>Year</th>
<th>75</th>
<th>78</th>
<th>80</th>
<th>83</th>
<th>85</th>
<th>87</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Production</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Induced</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>2.066</td>
<td>1.9203</td>
<td>2.1147</td>
<td>2.3640</td>
<td>2.1263</td>
<td>2.0995</td>
</tr>
<tr>
<td>Indirect</td>
<td>1.066</td>
<td>0.9203</td>
<td>1.1147</td>
<td>1.3640</td>
<td>1.1263</td>
<td>1.0995</td>
</tr>
<tr>
<td>Direct</td>
<td>1.000</td>
<td>1.0000</td>
<td>1.0000</td>
<td>1.0000</td>
<td>1.0000</td>
<td>1.0000</td>
</tr>
<tr>
<td>2. Value-added</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Induced</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>0.765</td>
<td>0.7656</td>
<td>0.7484</td>
<td>0.8661</td>
<td>0.8049</td>
<td>0.8062</td>
</tr>
<tr>
<td>Indirect</td>
<td>0.419</td>
<td>0.3753</td>
<td>0.3644</td>
<td>0.4718</td>
<td>0.4056</td>
<td>0.4054</td>
</tr>
<tr>
<td>Direct</td>
<td>0.345</td>
<td>0.3903</td>
<td>0.3840</td>
<td>0.3943</td>
<td>0.3993</td>
<td>0.4008</td>
</tr>
<tr>
<td>3. Employment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Induced</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>0.474</td>
<td>0.2511</td>
<td>0.1401</td>
<td>0.1094</td>
<td>0.0916</td>
<td>0.0862</td>
</tr>
<tr>
<td>Indirect</td>
<td>0.211</td>
<td>0.1017</td>
<td>0.0616</td>
<td>0.0564</td>
<td>0.0422</td>
<td>0.0368</td>
</tr>
<tr>
<td>Direct</td>
<td>0.263</td>
<td>0.1494</td>
<td>0.0785</td>
<td>0.0530</td>
<td>0.0494</td>
<td>0.0494</td>
</tr>
<tr>
<td>4. Hiring</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Induced</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>0.629</td>
<td>0.3033</td>
<td>0.1694</td>
<td>0.1368</td>
<td>0.1068</td>
<td>0.0997</td>
</tr>
<tr>
<td>Indirect</td>
<td>0.357</td>
<td>0.1537</td>
<td>0.0907</td>
<td>0.0837</td>
<td>0.0551</td>
<td>0.0481</td>
</tr>
<tr>
<td>Direct</td>
<td>0.272</td>
<td>0.1496</td>
<td>0.0787</td>
<td>0.0531</td>
<td>0.0517</td>
<td>0.0516</td>
</tr>
</tbody>
</table>

Source: Han'guk chut'aek unhaeng, Chut'aek t'uja ui p'agup hyokwa punsok, December 1987 & September 1990.

Conducted by the Korea Housing Bank. The Housing Bank assessed the impact of housing investment on the national economy by using input-output analysis models. According to their findings (table 3.26), one unit of housing investment yielded 2.1-2.4 units of production outputs. In addition, this investment in housing also had positive impacts on value added, employment and hiring.

2. Resolving Class Conflicts

Besides acquiring more capital from land, capitalists also attempted to resolve conflicts with landlords over
their respective shares of the surplus values. This activity was prominent in the inner area of major cities. For instance, during the period from the mid 1970s to the early 1980s, the landscape of the inner zone of Seoul changed dramatically. Both the central and Seoul City governments regulated population concentration within the inner city by adopting new policies, such as plans for moving the administrative capital to Taejon City, moving the Seoul City Hall to the South Seoul area (Kangnam) or to Yoido, and moving schools and other institutions within the inner city to other areas, as well as establishing new conditions for building permits.

All these regulations were relaxed as part of the preparations for the 86 Asian Olympic Game and the 88 Seoul Olympiad. A lot of renewal projects were implemented. The chaebol participated in many urban renewal programs, as bureaucratic elite realized that many of these projects could not be successfully completed without additional funding from the chaebol. From the viewpoint of the chaebol, participation in these urban renewal projects provided an opportunity to make money as well as to justify their real estate holdings. Therefore, most chaebol participated in urban renewal projects even if they were weak financially.

For example, the Seoul City government implemented a program to remove schools in the inner city area to the
Table 3.27 Removed Schools and Chaebol’s Purchasing

<table>
<thead>
<tr>
<th>Schools</th>
<th>Chaebol</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Unsok Elementary School,</td>
<td>Kuktong Construction</td>
</tr>
<tr>
<td>Tongguk Middle &amp; High School</td>
<td></td>
</tr>
<tr>
<td>Ilsin Elementary School</td>
<td></td>
</tr>
<tr>
<td>2. Seoul High School</td>
<td>Hyundai</td>
</tr>
<tr>
<td>Hwimun High School</td>
<td></td>
</tr>
<tr>
<td>3. Sungmyong Girl’s Middle &amp; High School</td>
<td>Taehan Fire Security &amp;</td>
</tr>
<tr>
<td>Coal Foundation</td>
<td></td>
</tr>
<tr>
<td>4. Songsin Girl’s Middle &amp;</td>
<td>Taehan Security &amp;</td>
</tr>
<tr>
<td>High School</td>
<td>Taeho Hungsan</td>
</tr>
<tr>
<td>5. Toksu Commercial School</td>
<td>Toksu Development</td>
</tr>
<tr>
<td>6. Paeje Middle &amp; High School</td>
<td>Korong</td>
</tr>
<tr>
<td>7. Tongbuk Middle &amp; High School</td>
<td>T’aegwang Industry</td>
</tr>
<tr>
<td>8. Poin Middle &amp; High School</td>
<td>Taeil Hungsan</td>
</tr>
<tr>
<td>9. Chongno Elementary School</td>
<td>Samyang Food &amp;</td>
</tr>
<tr>
<td></td>
<td>Ilsin Steel</td>
</tr>
<tr>
<td>10. Chungdong Middle &amp; High School</td>
<td>Daewoo</td>
</tr>
</tbody>
</table>


South Seoul area (*Kangnam*), and proposed to use this area as parks for its citizens. It regulated the land use density within the inner city. However, its original aims were changed, and construction regulations were also relaxed in May 1981. The *chaebol* were designated as renewal project developers. All educational sites were sold to them, and high-rise office buildings and hotels replaced the schools, contrary to the original planning of the state (table 3.27).

The *chaebol* used these urban renewal projects as a means to purchase land and build office buildings. As a result, most of the CBD of Seoul is owned and occupied by the *chaebol*. The headquarters of the Lucky-Gold Star, Daewoo, Son’gyong and Korea Electric groups are located in
the Namdaemun district. The Samsung Town is located in the T’aep’yongno and Sosomun districts. The Hyosong, Tonga, Korea Explosive, and Hanil Synthetic groups are located in the Sosomun district, while the Hyundai, Taerim, Tusun, Life Security Co. are in the Sejongno district. The Hanjin, Lotte, and Tusun groups occupy the Sogongno district. The Korong and Kyongbang groups own the Mugyodong district. The Ssangyong Group’s headquarters are in the Chodong district and the Myongdong area is home to many financial institutions.

The Youido zone contains not only the headquarters of the Federation of Korea Industries, stock companies and financial institutions, but also the Lucky Twin Building, Taehan Life Security Building, Korea Glasses, Hanyang, Samdo Trade, and Miwon Buildings. In the Kangnam area, the Yongp’ung, Taedong, Kumgang, Korea Chemical, Korea Heavy Industry, Samho, Usong and Samik groups are located (P.H. Pae 1983, C.N. Yi 1985). As a result of these alleged urban renewal projects, the inner city has been occupied by the chaebol.

In this situation, landowner and capitalist classes are not separate but have merged, and landownership has enhanced instead of deterring capital accumulation. In fact, it has precipitated further accumulation, since landowner-capitalists no longer need pay rents but collect rent from their buildings and land.
3. Maximization of Rent Seeking

The last, but not the least, impetus for the chaebol’s heavy investments in land results from the most basic aim of capitalism, which is to pursue maximum profits at minimum costs. In the Korean economy, land has been the hen that lays a golden egg every morning, and an irresistible acquisition for capitalists. The conflicts over land are like zero-sum games, where one group has gained, the others must lose. Capitalists focus all their concerns on winning at the market place, while ignoring other’s losses and suffering because of their actions.

One simulation has been developed to show the impact of land investment on capital accumulation (Kukt’o kaebal yon’guwon 1989b: 378-380). The underlying assumptions for this simulation are: 1) One firm invests one unit in 1974. Of this amount, "a" is invested in land, and "(1-a)" is invested in the production sector. 2) The land value increases at the actual rate of increase of land prices, while the value of the production sector increases by the rate of increase for the wholesale prices plus the actual growth rate of the manufacturing sector. 3) The firm gets loans every year to the equivalent of seventy percent of its assets (land plus production assets), and reinvests these loans in land and the production sector at a ratio of "a" and "(1-a)." 4) Since commercial banks welcome the use of land as collateral, the loan amounts are proportional to
the ratio of assets invested in land to the companies' total assets. The firms also get loans from the underground economy or curb markets relative to the ratio of production assets to total assets. This implies that as the firm increases its investments in land, financial costs are saved. 5) All loans are repaid after one year, with interest.

\[ V_{t+1} = \left[ aV_t(1+LP) + (1-a)V_t(1+WSP) \right] \times 1.7 \]
\[ - \left[ aV_t(1+BLI) + (1-a)V_t(1+CLI) \right] \times 0.7 \]
\[ + (1-a)V_t(1+MGR) \]

Where:

- \( V_t \) = Asset Value of the firms in the year of \( t \)
- LP = Rate of Land Price Increase
- WSP = Rate of Wholesale Price Increase
- BLI = Interests Rate of Bank Loan
- CLI = Interests Rate of Curb Market Loan
- MGR = Growth Rate of Manufacturing

The simulation results are shown in table 3.28. If the firm invested its capital in the production sector only, thirteen years later its asset value would increase by 3.3 times. If the firm invested its capital in land only, its asset value would increase by ten to twenty-one times. Though this simulation is based on strong theoretical
### Table 3.28 Accumulation through Land Investment

<table>
<thead>
<tr>
<th></th>
<th>&quot;a&quot; Value</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1.00</td>
<td>0.75</td>
<td>0.50</td>
<td>0.25</td>
<td>0.00</td>
</tr>
<tr>
<td><strong>Case I</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1974</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>1977</td>
<td>261</td>
<td>240</td>
<td>219</td>
<td>199</td>
<td>179</td>
</tr>
<tr>
<td>1980</td>
<td>540</td>
<td>480</td>
<td>419</td>
<td>359</td>
<td>301</td>
</tr>
<tr>
<td>1983</td>
<td>693</td>
<td>606</td>
<td>518</td>
<td>431</td>
<td>349</td>
</tr>
<tr>
<td>1987</td>
<td>1,004</td>
<td>794</td>
<td>612</td>
<td>457</td>
<td>331</td>
</tr>
<tr>
<td><strong>Case II</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1974</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>1977</td>
<td>234</td>
<td>221</td>
<td>207</td>
<td>193</td>
<td>179</td>
</tr>
<tr>
<td>1980</td>
<td>788</td>
<td>683</td>
<td>564</td>
<td>436</td>
<td>301</td>
</tr>
<tr>
<td>1983</td>
<td>1,529</td>
<td>1,218</td>
<td>903</td>
<td>606</td>
<td>349</td>
</tr>
<tr>
<td>1987</td>
<td>2,114</td>
<td>1,564</td>
<td>1,056</td>
<td>641</td>
<td>331</td>
</tr>
</tbody>
</table>

Note: Case I refers to its application to the nation’s land prices, while Case II to Seoul.


assumptions, results show that investment in land produced more capital than investment in the production sector.

In summary, as Korea has developed into a capitalist society, it has assumed the capitalist concepts and means of marketing land. With rapid urbanization encouraging the fast increase of land prices, investment in land yielded increasing capital gains. Moreover, as the economy became more market-oriented, land was increasingly treated as merely another type of commodity. As the frequency of land transactions increased, prices escalated. Because the rights of private property were a basic tenet of the Korean social system, capital gains from land were appropriated by
a few landowners, while the costs incurred by taxes on land holdings and capital gains were quite low.

When investing in land, capitalists have had various advantages over other groups, such as being given easy access to credit. They have also had surplus funds from their production activities which could be invested where they could yield the most profit. The capitalists' motivations for heavy investments in land have been shaped by the demands of capitalism, such as the need to increase accumulation, resolving conflicts with landowners, and obtaining the maximum return for their investments.

Some general tendencies related to capitalist investment in land were noted. First, when the rate of profits in the production sector fell, they turned to the construction of the built environment. This new provision of infrastructure provided once again the preferential conditions for further accumulation in the production sector as well to provide another opportunity to earn profits from the construction projects. Second, the motivation for resolving class conflicts with landlords prompted capitalists to become landowners. Once holding their own office buildings and factories on their own land, they now relied more on the escalating value of land to increase their capital. Finally, the efforts to maximize future income led to large purchase of land in the urban fringes where it would be soon converted to urban use, and also led
to the hoarding of land with no attempt to effectively use it.

All these motivations together have attracted the chaebol to invest their capital in land. Then, why have the chaebol concentrated their land investment on a particular space, i.e., the Seoul Metropolitan region? To answer this question, the following section turns to the nature of land as a space.

D. Integration of Capital and Space

Seoul has been dominant over the whole nation for several centuries. From the early 1960s, the Korean state had implemented the decentralization policy of Seoul. It adopted the "Regulation Policy against Population Concentration in the (Seoul) Metropolitan Region" (Tae-dosi in'gu chipchung pangji-ch’aek) in 1964. In 1982, the Ministry of Construction went farther and enacted the "Rearrangement Planning Law of the Seoul Metropolitan Region" (Sudo-gwon chongbi kyehoek pop), by which building the facilities for manufacturing, education, business and service had been regulated in order to control the increase in population in the Seoul region. However, population in this region increased from 8.9 million in 1970 to 18.6 million in 1990, resulting in the growth of ten million during the last two decades. Thus, in 1990, the 42.7 percent of total population resides in the Seoul
metropolitan region, which totalled only eleven percent of the nation's land.

We can observe that this uneven regional development has been prominent especially after the 1980s. The economic growth of Korea has produced a new domestic spatial division of labor as its economy became more dependent on a global network of economic activities. This linkage to world economy promoted the monocentric expansion of Seoul as a national economic center. Among many factors precipitating the restructuring of a spatial division of labor in Korea, the new formation of social and political institutions is most decisive, i.e., government's strong intervention, the rapid nationalization of Korean market, and the (incipient) trans-nationalization of Korean capital.

The spatial dimension of industrial and economic growth of Korea has been a product of implicit and explicit state intervention in the transformation process from an agrarian society to a manufacturing miracle. State policies to this transformation are summarized as two mutually connected ones: maximizing the agglomerate effect of state investment and promoting the rise of large-scale enterprises, the chaebol. A principle feature of these policies has been the polarization of urban and industrial growth in the Seoul metropolitan region.

During implementing its rigorous five years' economic and social development plans after 1962, and the ten years'
national land comprehensive development plans after 1972, the Korean state has concentrated its investment on providing urban and industrial infrastructure. This is contrary to the initial content of its development proposals of pursuing a balanced development between urban and agrarian regions, and between manufacturing and agricultural industries. Although the policy priority was put differently to each plan period, the Seoul metropolitan region has been emphasized, in practice, "despite its awkward location near the border with North Korea and on the wrong side of the country for international trade" (Douglass 1992: 18).

Along with the growth of general economy, the state shaped a new mode of regulation in terms of space in the 1970s and early 1980s. To solve problems of regional economic imbalance, this policy oriented the decentralization of manufacturing, particularly to the southeastern coastal regions, and decentralization of government functions, particularly to the middle regions centered at Taejon City. This new mode of spatial regulation included the adoption of a greenbelt policy in 1971, the construction plan of a new administrative capital in 1977, the construction of industrial growth poles throughout the nation after 1982, and the limit of the expansion of educational institutions in Seoul in the early 1980s.
The result transformed corporate organizations to fortify their centralized structure, on the basis of information flows between operation plants and the central planning offices. The decision making authority has been almost negligible at plant level, but the central planning offices decided the allocation of their firms’ total revenue, changes of production lines, the initiation of new projects, and personnel management. Since the chaebol located their headquarters at Seoul, the control of the Korean space-economy from the capital has expanded.

As the end of 1990, the 95.9 percent of the chaebol was headquartered in Seoul (Taehan min’guk 1992: 27). Under this situation, the role of Seoul in terms of spatial-economic relations has been enhanced as the economic activities were concentrated in the hand of the chaebol; under the aegis of the state, the growth rate of the chaebol has far outstripped the growth rate of the national average for the past few decades. For examples, for the 1962-1983, the average annual growth rate of the four largest chaebol, in terms of value added, were thirty percent as against ten percent for the national average (S.K. Kim 1987: 38). The share of aggregate net sales of the ten largest chaebol in the GNP rose from seventeen percent in 1975 to eighty percent in 1985. The share of the forty largest chaebol rose from thirty-four percent in 1975 to 105 percent in 1985 (ibid: 2).
Table 3.29 Share of Population and Employment in the Seoul Metropolitan Region, 1970-90

(Unit = 000 person)

<table>
<thead>
<tr>
<th>Period</th>
<th>Population Growth</th>
<th>Employment Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>70-80</td>
<td>80-90</td>
</tr>
<tr>
<td>Growth (A)</td>
<td>6,555</td>
<td>6,093</td>
</tr>
<tr>
<td>S.M. Region (B)</td>
<td>4,566</td>
<td>5,307</td>
</tr>
<tr>
<td>Share (B/A)</td>
<td>69.7</td>
<td>87.1</td>
</tr>
</tbody>
</table>


Other factors precipitated the increasing role of Seoul. When the chaebol were able to control the financial capital by purchasing the stocks of commercial banks in 1981-1982, the institutional autonomy of local plants and peripheral areas were more doubted. The high technology industries also favored Seoul since, in this area, most Research and Development (R & D) took place and most scientists and technicians resided. More recent processes of structural changes toward services, particularly information, advertisement, and international finance and business, have accentuated this trend.

The continuing trends of spatial-economic control from Seoul is shown in table 3.29, figure 3.2 and figure 3.3. Even in the context of falling national population growth, population in the Seoul metropolitan region has increased; the seventy percent of total net growth of the population
accrued to this region in the 1970s and eighty-seven percent in the 1980s. The forty-five percent of total growth of employment in manufacturing accrued to this region in the 1970s and fifty-four percent in the 1980s. The fifty-nine percent of total growth of employment in service industry accrued to the Seoul Metropolitan region in the 1970s and fifty-six percent in the 1980s.

This concentration of population and employment on Seoul is mirrored by its shares of the nation's GNP and gross employment (figure 3.2). This particular site, only 11.7 percent of the nation's land, produced and employed about half of the GNP and total wage workers. This share in the GNP and employment temporarily dropped in the 1970s because of state decentralization policy, then it soon rebounded in the 1980s. This tendency is expected to continue when Korea succeeds in restructuring its industrial structure toward more technology intensive industries. It is because most R & D has taken place in this region, and 64.2 percent of professional and scientists stay here in 1988 (Taehan min'guk 1992: 46).

This polarization of Korean economic space is also seen in the service sector as illustrated in figure 3.3. Over half of all universities and medical hospitals are located in the Seoul metropolitan region. This control from Seoul is particularly high in the financing sector. About seventy percent of all commercial bank loans were provided to this
Figure 3.2 Share of the GNP and Employment in the Seoul Metropolitan Region, 1963–89


Figure 3.3 Share of Major Service Industries in the Seoul Metropolitan Region, 1970–90
region during the last three decades. The concentration of all bank loans in Seoul had increased after the privatization program of commercial banks in 1981-1982. The share in total financial credit allocation has been decreased since 1987, but it was over sixty-five percent in 1989, thus still being high.

The last factor is the gradual increase of overseas investment by the chaebol. Even if it is very incipient, the chaebol began to expand its overseas investment in the late 1980s, as seen in figure 3.4. It followed three paths (figure 3.5). One went toward the core countries, especially the U.S., to ensure access to consumers under the new protectionism and to the technical advances and ever-changing product designs. The other went toward the low wage economies of Southeast Asia and China to reflect the strategies of shifting production to the more labor intensive sites (Douglass 1992: 28). The last went toward the resource-abundant countries to secure raw materials such as oil, pulp and wood. During 1973-1990, the average forty-four percent of overseas investments moved to North America, while thirty-six percent to the Southeast Asia and China. This trans-nationalization process of Korean capital has produced a new domestic spatial division of labor and affected the restructuring of the domestic urban and regional systems. As the chaebol’s central planning offices, with headquarters in Seoul, coordinated the flow of
Figure 3.4 Trends in Overseas Investments by Korean Capital, 1973-90

Figure 3.5 Overseas Investments by World Region, 1973-90

Source: Han’guk unhaeng, Kyongje t’onggye yonbo, 1992: 236.
their capital and management information about overseas investment, the role of Seoul as a national economic center was enhanced.

Both of the state and capital rediscovered Seoul in seeking new bases for their own growth. On the one hand, the changes of Korean position within the world economy, i.e., the new semi-peripheral or semi-core country, set fundamental conditions for urban development and re-development. Seoul had to provide specific physical infrastructure and institutional conditions to attract domestic and foreign capital and information, and to facilitate their activity. On the other hand, the fiscal crisis of the Korean state in the mid-1970s led to the refinement of a private-public partnership in restructuring this urban space, thus producing complex compromise and coordination between the state and private capital. To introduce private capital into the sphere of public development, many incentives to investment, such as low tax, large subsidy, and deregulation, were regarded as indispensable by the state. To the private capital, the high profitability from urban development and redevelopment was undoubtedly a major reason. Examples include the relaxation of regulation over urban renewal projects as discussed before, and the introduction of the Joint Land Development Schemes (T'oji haptong kaebal) applied since the mid-1980s; the private capital involved in the urban land
development project, while the state allocated the developed land to them as a payment for their construction.

Outcomes of this transformation in terms of economic and institutional re-arrangements inevitably led to restructuring urban areas in Seoul. Land use patterns were forcefully transformed in reflecting the new control functions of Seoul in terms of national and global levels. These functions included the location of the chaebol’s headquarters and various commercial and service activities, such as banking, legal and management consulting, advertising and marketing, and information services. The function as a national center was more strengthened when the MNCs headquartered its subsidiaries in Seoul.

Along with the trends of overseas investment by the Korean capitalists, space production sharply increased from 1986 by expanding horizontal and vertical space and renewing old business space as seen in Figure 3.6. Among others, the space for office building was continuously and dramatically produced. For instance, during 1980-1990, the construction projects for office buildings in Seoul increased by 4.6 times and the floor space increased by 5.4 times. Thus, in 1990, office building in Seoul totalled fifty-five percent of all buildings being over four stories, and thirty-five percent of all floor spaces (Y.T. Han 1993: 5).

This restructuring process of urban space exacerbated conflicts over collective consumption and the general
quality of urban life and its environment, i.e., urban congestion and pollution. Social tensions over access to land and housing were also significant. While private capital pursued exchange values of space, ordinary urban residents pursued its use value as living space (Machimura 1992: 126). The direct type of conflicts was caused by the expansion of business space into traditional urban residences, which was illustrated by the protest against a renewal project in Yang-dong, Seoul, in the mid 1980s. The rapid increase in land prices was another source of conflicts. For instance, as seen in table 3.3, the Seoul metropolitan region, the 11.7 percent of the nation's land,
accounted for 47.2 percent of total land value in 1988. For those who could pursue the exchange value of space, it meant a considerable increase in the value of their assets. Others who could not, were forced to keep moving for a new living space accommodated by less favorable conditions.

E. Conclusion: The Nature of Idle Land Policy

Rapid urbanization and industrialization in Korea restructured the pattern of land use toward urban uses. Vast amount of capital was invested in land by both the public and private sectors to accommodate the need for urban land. Land prices rose rapidly. As landownership was concentrated in a few landowners, the rapid increase in land prices aggravated the distribution of income and wealth, since most gains from land accrued solely to landowners with very low taxation. To those who searched for these profits, land became to be seen as a pure commodity having exchange values.

When the Korean economy was developed, land problems became aggravated. The provision of an expressway in the early 1970s and the communication network in the late 1970s and early 1980s yielded the unification of the national market; any part of the nation could be reached within a one day drive. This provision, however, precipitated the nationalization of capital, the consequence of which was the
spatially polarized development in the Seoul metropolitan region.

This trend of the spatial circuit of capital was reinforced when the Korean economy was functionally integrated into the world economic system. Seoul was rediscovered as a center not only for coordinating the process of economic activities, but also for providing a space of particular production for the high technology and service industries. This change in urban functions fortified the spatial-economic dominance from Seoul, though its control function has been historically dominant over the whole nation. Along with this process, land prices increased more, which reflected the changes in land use patterns, and also the bidding capability of the MNCs over local firms, as well as of the Chaebol over small-medium sized enterprises.

All these problems yielded negative effects on the Korean society and economy. Social conflicts and unrest arose between those who pursued exchange value of land and others who pursued use value of land. To the former, the increase in land prices meant the increase in their equity, while to the latter it implied the deprivation of their living space. Because land prices increased much faster than worker’s income grew, those who depended upon more typical sources of income such as salaries or hourly wages were hurt by the elevated housing prices, resulting from the
increase of land prices. Even the middle class was not excepted from this hardship unless they owned their own housing. Also the appropriation by a few of large capital gains generated by the real estate markets increased the inequity of income distribution between the landowners and the landless, between the wealthy capitalists and those who only earned salaries, and between the land investors and the bank users whose savings were used to fund capitalists.

The rapid increase of land prices also affected negatively capital accumulation. As laborers saw their dream for their own home disappeared due to this rapid increase in land prices, the famous Korean work ethic eroded, causing labor productivity to decrease. In addition, higher land prices caused higher living costs for the labor forces. Facing with the working classes' wage struggles, capitalists had to raise wages, increasing their production costs. Because of this increase in prices of produced goods, the current and potential consumption in the domestic market decreased, while the competitiveness in international markets eroded.

Moreover, capitalists' obtaining land for expansion of industrial activities was hindered by high land prices and land hoarding. Capitalists themselves preferred to investment in land but neglected investment in industrial equipment and the R & D, aggravating the international competitiveness. Their excessive investments in land
depleted resources needed for production activities, while the large amount of capital sunk in land aggravated capitalists' financial problems. These factors have made long-term capital and resource accumulation difficult for capitalists.

Finally, this rapid increase in land prices has also caused the government's fiscal hardship, thus worsening the difficulties in financing its built environment for industrial infrastructure and collective consumption.

Under these situations, the government defined land speculation as a "social evil," and adopted various policy measures against land speculation. The public often criticized the chaebol for their speculation and manipulation of the land market.

The chaebol, however, had their own reasons for land investment. They continuously strived to solve the intrinsic contradiction of capitalism. When the rate of profit in the production sector fell, they switched their circuit of capital into the built environment. It provided once again the preferential conditions for further capital accumulation in the production sector, as well to provide another opportunity to earn profits from the construction process. Another motivation was that the chaebol endeavored to overcome class conflicts with landowners, thus increasing their shares in distributing the aggregate surplus value to other economic agencies. Once holding their own office
buildings and factories with their own land, they needed not
to pay rents to landowners but were often able to collect
rents from other users.

The chaebol’s land investment was the very logic of
capitalism itself; investment in land has been often more
profitable than investment in other production sectors.
Under the situation that land prices inflated faster than
other economic sections, including financial interests and
share dividends, investment in land was an attractive
alternative for increasing their capital. The past practice
that commercial banks required loan collateral, also
prompted the chaebol to buy and hold land for more easy
access to credit allocation.

While all these factors have encouraged the chaebol to
increasingly invest their capital in land, they had various
advantages over other groups in accessing land. They had
some idle capital generated from their production
activities, which awaited reinvestment in things that would
yield more profits. They were allowed to easily access
financial credits, the interest rate of which was even lower
than the interest rate applied to the general public. State
preferential treatment in allocating land to the industrial
capitalists was also important.

In fact, the chaebol have increased their investment in
land. For instance, in 1988, they invested 1.38 trillion
won ($16.4 billion) in land, while they invested 1.22
trillion won ($14.5 billion) in industrial facilities and equipment. Although they invested more capital in land than in industries, the 35.3 percent of their land was held without any actual use. So, most people believe that the chaebol have been primarily responsible for causing land speculation, thus driving up the nation’s land prices.

Facing popular complains and pressure, the Korean government adopted the idle land policy in 1974, 1980 and 1990 as a means to fight against the chaebol’s speculation and prevent them from holding land excessively, thus stabilizing land prices.

Then, what factors intrigued the Korean state to adopt this policy in these specific years? Responding the demands from the people was all? Or were there any other reasons? This regulatory policy seems to be the state’s autonomous actions against the economically dominant group in Korean society, in a sense that the state compelled the chaebol to sell their property. In what situation was the state able to exercise this autonomy? The next chapter will discuss the plausible factors to explain these research questions.
1. The six largest cities are Seoul, Pusan, Taegu, Inch'on, Kwangju and Taejon.

2. For comparison, Japan is 29.3 percent, Sweden is 40.4 percent, Taiwan is 69.4 percent, Singapore is 80.8 percent and Israel is 85.6 percent (T.D. Kim & K.S. Yi 1990: 125).

3. In the United States, it is more skewed. The Lewis survey showed that, in 1978, the top five percent held seventy-five percent of land and the bottom seventy-eight percent owned three percent of land. As for agricultural land, the top five percent controlled fifty-one percent of agricultural land. David and Geisler found that in 1983, the top five percent held at least ninety percent of land in Hawaii, Florida, Wyoming, Oregon, New Mexico, and at least eighty percent of land in Washington, Utah, New York, Nevada, Maine, Louisiana, Idaho, California, and Colorado. For global comparison, World Bank reported that, in 1975, the top three percent of the people among eighty-three countries controlled over eighty percent of agricultural land (Geisler 1984).

4. The top 5-25 percent is the percent among landowners. If landless groups are included, the numbers will be reduced into 1.3-3.9 percent.


6. Article 1, the Land Appropriation Law

7. Article 2, the Land Appropriation Law

8. As of 1987, the share of the high technology industry was 8.3 percent in total manufacturing. It is expected to increase to 32.7 percent in 2001 (Taehan min'guk 1992: 31).
A. Introduction: Agenda Setting and State Autonomy

Regulatory policy attempts to change the behavior of one or more target populations who are linked to the problems that the policy is to redress. Thus, their behavioral change is crucial to achieving the policy goals. In many cases, policy makers are able to select from among several different target groups. If they choose inappropriate targets, then policy goals are not achieved or are achieved inefficiently. They may choose too many target groups, including some who are not linked to policy goals, or they may select too few target groups, excluding some who would contribute to the achievement of policy objectives. Both of these situations may hinder policy success (Ingram & Schneider 1991: 334-35). Policy success is most likely when the target groups directly connected to the problems are identified, and these groups modify their behavior according to the policy’s aims.

The process of selecting the target groups is political, especially when policy is initiated against the interests of the dominant class. These groups will then proclaim their status and priority vis-a-vis others, create coalitions among themselves that may not otherwise have formed, and attempt to influence policy makers. State
autonomy is more important in the process of selecting target groups than in any other policy process. Land problems in Korea have evolved from an economic concern into becoming a social and political issue. The negative consequences of the land boom have forced the state to take action against both speculation and excessive investment in land. One of the measures to redress these problems was the idle land policy, the target of which was the chaebol who have been closely affiliated with the ruling class in Korea. Then, which problems became policy issues? Why did state policy target the chaebol? In what situations did the state exercise its autonomy? In what circumstances was the state able to increase its autonomy? All these questions have to be discussed when interpreting agenda setting in the process of policy formation (Cobb & Elder 1983).

B. The Policy Target: Operational Definitions

1. The Chaebol

Korean chaebol are similar to zaibatsu in Japan, conglomerates, industrial houses, or enterprise groups in America, and konzern in Western Europe. Yet the term, chaebol, is not clearly defined but used to refer to various types of entities with concentrated economic power. They have been defined as family based industrial conglomerates

Despite the fact that many scholars have used the term with various nuances, the chaebol share some common structural, behavioral, and environmental characteristics. First, they are generally large multi-company associations with centralized financial and management administrations. Second, the majority of shares issued by them is held by family members and relatives, family ties thus reinforcing long-lasting trust, loyalty, and cooperation among group members. Third, since their companies are run by families, their ability to mobilize funds doesn't grow with the conglomerate. Thus, they have depended mostly on loans from commercial banks and the state for their operating funds. In other words, they have grown under the aegis of the state, especially, in the area of credit distribution.

Table 4.1 shows the fifty current chaebol with similar characteristics. They are ranked on the basis of the amount of their total sales. All chaebol are managed by their owners, except for one, the Kia group. As for long-term
Table 4.1  The Fifty Chaebol in 1990

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Structure</th>
<th>Behavior</th>
<th>Environment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nature</td>
<td>Big Business Groups</td>
<td>Family Control</td>
<td>Growth under the State’ Auspice</td>
</tr>
<tr>
<td>Nature</td>
<td>Big Business Groups</td>
<td>Family Control</td>
<td>Growth under the State’ Auspice</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Operational Definition</th>
<th>Sales Amount (billion Won)</th>
<th>Business Owner</th>
<th>Top Manager</th>
<th>Debt Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hyundai</td>
<td>21,939</td>
<td>Chong, Chuyong</td>
<td>same</td>
<td>18.96</td>
</tr>
<tr>
<td>Samsung</td>
<td>19,825</td>
<td>Yi, Konhi</td>
<td>&quot;</td>
<td>25.75</td>
</tr>
<tr>
<td>Lucky Kumsong</td>
<td>15,533</td>
<td>Ku, Chagyong</td>
<td>&quot;</td>
<td>20.53</td>
</tr>
<tr>
<td>Daewoo</td>
<td>10,936</td>
<td>Kim, Ujung</td>
<td>&quot;</td>
<td>25.64</td>
</tr>
<tr>
<td>Son’gyong</td>
<td>7,521</td>
<td>Ch’oe, Chonghyon</td>
<td>&quot;</td>
<td>30.57</td>
</tr>
<tr>
<td>Ssangyong</td>
<td>4,289</td>
<td>Kim, Sogwon</td>
<td>&quot;</td>
<td>22.45</td>
</tr>
<tr>
<td>Kla</td>
<td>4,289</td>
<td>U, Rinaju</td>
<td>Kim, Sonhong</td>
<td>22.20</td>
</tr>
<tr>
<td>Lotte</td>
<td>3,129</td>
<td>Sin, Kyokho</td>
<td>same</td>
<td>5.15</td>
</tr>
<tr>
<td>Hyosong</td>
<td>2,673</td>
<td>Cho, Songnae</td>
<td>&quot;</td>
<td>28.22</td>
</tr>
<tr>
<td>Han’guk Hwayak</td>
<td>2,530</td>
<td>Kim, Sungyon</td>
<td>&quot;</td>
<td>23.99</td>
</tr>
<tr>
<td>Hanjin</td>
<td>2,358</td>
<td>Cho, Chungun</td>
<td>&quot;</td>
<td>26.70</td>
</tr>
<tr>
<td>Tusan</td>
<td>2,114</td>
<td>Pak, Yonggon</td>
<td>&quot;</td>
<td>25.99</td>
</tr>
<tr>
<td>Korong</td>
<td>1,806</td>
<td>Yi, Tongch’an</td>
<td>&quot;</td>
<td>24.89</td>
</tr>
<tr>
<td>Taerim</td>
<td>1,678</td>
<td>Yi, Chaejun</td>
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<td>34.81</td>
</tr>
<tr>
<td>Tongguk Chegang</td>
<td>1,610</td>
<td>Chang, Sang’tae</td>
<td>&quot;</td>
<td>19.41</td>
</tr>
<tr>
<td>Tongbu</td>
<td>1,594</td>
<td>Kim, Chun’gi</td>
<td>&quot;</td>
<td>23.13</td>
</tr>
<tr>
<td>Kumho</td>
<td>1,354</td>
<td>Pak, Songyong</td>
<td>&quot;</td>
<td>27.33</td>
</tr>
<tr>
<td>Tonga Konsol</td>
<td>1,328</td>
<td>Ch’oe, Wonsok</td>
<td>&quot;</td>
<td>21.68</td>
</tr>
<tr>
<td>Sammi</td>
<td>1,153</td>
<td>Kim, Hyonch’ol</td>
<td>&quot;</td>
<td>35.80</td>
</tr>
<tr>
<td>Haetae</td>
<td>937</td>
<td>Pak, Konbae</td>
<td>&quot;</td>
<td>21.59</td>
</tr>
<tr>
<td>Miwon</td>
<td>894</td>
<td>Yim, Taehong</td>
<td>&quot;</td>
<td>17.77</td>
</tr>
<tr>
<td>Kuktong Chongyu</td>
<td>858</td>
<td>Chang, Hongson</td>
<td>&quot;</td>
<td>28.26</td>
</tr>
<tr>
<td>Kangwon Sanop</td>
<td>811</td>
<td>Chong, Inok</td>
<td>&quot;</td>
<td>25.28</td>
</tr>
<tr>
<td>Halla</td>
<td>804</td>
<td>Chong, Inyong</td>
<td>&quot;</td>
<td>26.57</td>
</tr>
<tr>
<td>P’ungsan Kumsok</td>
<td>784</td>
<td>Yu, Ch’anu</td>
<td>&quot;</td>
<td>21.90</td>
</tr>
<tr>
<td>Koryo Hapsom</td>
<td>743</td>
<td>Chang, Ch’ihyok</td>
<td>&quot;</td>
<td>36.33</td>
</tr>
<tr>
<td>Samyangsa</td>
<td>723</td>
<td>Kim, Sanghong</td>
<td>&quot;</td>
<td>29.42</td>
</tr>
<tr>
<td>Hansin Kongyong</td>
<td>650</td>
<td>Kim, T’aehyong</td>
<td>&quot;</td>
<td>31.29</td>
</tr>
<tr>
<td>Taegwang sanop</td>
<td>638</td>
<td>Yi, Imyong</td>
<td>&quot;</td>
<td>0.36</td>
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<tr>
<td>Pomyang Sangson</td>
<td>631</td>
<td>Kim, Kwangt’ae</td>
<td>&quot;</td>
<td>83.68</td>
</tr>
<tr>
<td>Tongguk Muyok</td>
<td>626</td>
<td>Paek, Ukki</td>
<td>&quot;</td>
<td>16.69</td>
</tr>
<tr>
<td>Usong Konsol</td>
<td>618</td>
<td>Ch’oe, Chuhob</td>
<td>&quot;</td>
<td>25.95</td>
</tr>
<tr>
<td>Hanil</td>
<td>602</td>
<td>Kim, Chungwon</td>
<td>&quot;</td>
<td>36.07</td>
</tr>
<tr>
<td>T’ongil</td>
<td>558</td>
<td>Hyon, Chaehyon</td>
<td>&quot;</td>
<td>32.24</td>
</tr>
<tr>
<td>Pyoksan</td>
<td>556</td>
<td>Kim, Induk</td>
<td>&quot;</td>
<td>13.57</td>
</tr>
<tr>
<td>Yongp’ung</td>
<td>525</td>
<td>Chang, Pyonghi</td>
<td>&quot;</td>
<td>15.56</td>
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<tr>
<td>Taep’yongyang Hwayak</td>
<td>514</td>
<td>So, Songhwan</td>
<td>&quot;</td>
<td>14.33</td>
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<tr>
<td>Hanyang</td>
<td>466</td>
<td>Pae, Chongyol</td>
<td>&quot;</td>
<td>37.60</td>
</tr>
<tr>
<td>Tongyang Hwayak</td>
<td>421</td>
<td>Yi, Hoelim</td>
<td>&quot;</td>
<td>28.77</td>
</tr>
</tbody>
</table>
Table 4.1 (Continued) The Fifty Chaebol in 1990

<table>
<thead>
<tr>
<th>Criteria Definition</th>
<th>Structure</th>
<th>Behavior</th>
<th>Environment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operational</td>
<td>Sales Amount (billion Won)</td>
<td>Business Owner</td>
<td>Top Manager</td>
</tr>
<tr>
<td>Taenong</td>
<td>396</td>
<td>Pak, Yonghak</td>
<td>&quot;</td>
</tr>
<tr>
<td>Samhwan Kiop</td>
<td>391</td>
<td>Ch’oe, Chonghwan</td>
<td>&quot;</td>
</tr>
<tr>
<td>Anam Sanop</td>
<td>384</td>
<td>Kim, Hyangsu</td>
<td>&quot;</td>
</tr>
<tr>
<td>Chillo</td>
<td>381</td>
<td>Chang, Chinho</td>
<td>&quot;</td>
</tr>
<tr>
<td>Hanbo</td>
<td>353</td>
<td>Chong, T’aesu</td>
<td>&quot;</td>
</tr>
<tr>
<td>Han’guk Yuri</td>
<td>348</td>
<td>Ch’oe, Taesop</td>
<td>&quot;</td>
</tr>
<tr>
<td>Pongmyong</td>
<td>307</td>
<td>Yi, Tongyong</td>
<td>&quot;</td>
</tr>
<tr>
<td>Tongwon</td>
<td>301</td>
<td>Kim, Chaech’ol</td>
<td>&quot;</td>
</tr>
<tr>
<td>Kuktong Konsol</td>
<td>272</td>
<td>Kim, Yongsan</td>
<td>&quot;</td>
</tr>
<tr>
<td>Taesin</td>
<td>269</td>
<td>Yang, Chaebong</td>
<td>&quot;</td>
</tr>
</tbody>
</table>

Note: Debt ratio = long-term loan/gross assets.

borrowing, twenty-eight groups surpass the average debt ratio of 22.2 percent (T.S. Cho 1991: 37).

In selecting the *chaebol* as the target of the idle land policy, the state considered their structural, behavioral and environmental aspects. For the first idle land policy of 1974, target groups were selected pursuant to the "Measures on Bank Credit and Business Concentration," which was prepared by the Ministry of Finance on May 30, 1974. Business groups with outstanding credit of more than five billion Won ($10.3 million; including bank payment guarantees but excluding export credits) were selected. They were categorized into two groups on the basis of whether their financial structure was relatively weak (Group
A) or strong (Group B) (Seoul kyongje sinmun (herein after SKS), May 31, 1974).

During the following month, the Bank Audit Board evaluated the financial structure of the chaebol groups. Their evaluation criteria included the debt/equity ratio, the long-term liabilities ratio, the liquidity ratio, and the normal profit to net worth ratio. On 29 June 1974, the Bank Audit Board finally designated the thirty companies in Group A, and the sixty companies in Group B. This designation was not fixed, but re-adjusted twice annually (June and December). The names of firms in Group A and B were not made public in order to maintain their business credibility (SKS, June 30, 1974).

In the second measure of 1980, the target groups were 1,216 firms whose credit was managed by commercial banks. Most or 1,102 firms were the chaebol’s subsidiaries with outstanding credit of more than twenty billion Won ($30.3 million). The other 114 firms were non-chaebol companies with outstanding credit of more than ten billion Won ($15.2 million) or with loans of more than five billion Won ($7.6 million). This target group included firm owners, their families and relatives, and business executives as well as business firms (SKS, September 28, 1980).

Finally, in the third measure of 1990, the target group was expanded from the forty-nine chaebol and their subsidiaries to include financial institutions such as
Table 4.2 The Policy Target concerning Idle Land

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Structure</th>
<th>Behavior</th>
<th>Environment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nature of Chaebol</td>
<td>Big Business Groups</td>
<td>Family Control</td>
<td>Growth under the State's Auspice</td>
</tr>
<tr>
<td>Operational Definition</td>
<td>Chaebol Other Finance Firm Firm Owner &amp; Family</td>
<td>Bank’s Debt</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>First Measure</th>
<th>V</th>
<th>V</th>
<th>V</th>
</tr>
</thead>
<tbody>
<tr>
<td>Second Measure</td>
<td>V</td>
<td>V</td>
<td>V</td>
</tr>
<tr>
<td>Third Measure</td>
<td>V</td>
<td>V</td>
<td>V</td>
</tr>
</tbody>
</table>

Note: "V" implies the inclusion of policy targets.

Furthermore, all idle land holdings of all business groups were examined (Tonga ilbo, May 8, 1990). The land owned by these companies as well as by their owners and their relatives, and company executives was targeted.

Table 4.2 summarizes the composition of the target groups. The most important factor was the financial structure, a criterion applied for all three policies. As we can see in this table, the target groups have been expanded from the chaebol to other capitalist groups, and finally to financial institutions. Since the commercial banks’ privatization program in 1981, most financial institutions have come under the control of the chaebol, and thus were targeted by the third measure. Land holdings commercial banks, security firms and stock companies.
targeted by these policies have been expanded from those held by firms to those held by company owners, their relatives, and company executives.

2. Idle Land

Idle land is defined by several laws including the Bank Credit Management Regulation (Kumyung-dan yosin kwalli kyujong), the Local Tax Act, the Corporation Tax Act, the Capital Gains Tax, and the Industry Location Law. The criteria for defining idle land are somewhat inconsistent because of the different purposes for each law. The common criteria among these laws are as follows: The first is whether the land is being used or is simply being held without use. Although the grace period is different for the various land and tax laws and for different projects, business firms generally have to use their land within six months to two years after buying it; otherwise, the land is treated as idle land. For most sectors of society the question of effective land use has become crucial, given the shortage of urban land in Korea. Since only four percent of the nation’s land is used for urban purposes, the highest and most efficient use of land has been a critical goal for policy makers. However, to avoid a designation of idle land, the chaebol have used their land for fictitious or quasi-purposes, such as for parking lots or tennis courts.
Whether the land is used for the main activities of business enterprises is the second criterion. Each firm describes its main business activities in its articles of association. If land is not used for these activities, it's regarded as idle land. To evade this regulation, the chaebol have created other subsidiaries which define their main activities as land-related such as construction, rental management, the leisure industry and hog raising.

The third criterion refers to the amount of land held by the target groups. The Industry Location Law provides a standardized area of land for each industry, and if the land is greater than this, it is regarded as idle land. Because of this regulation, the chaebol have not used their land as intensively as possible.

Then, what were the situations that placed the idle land issue on the state's policy agenda? Three models, which can explain these conditions, are the legitimacy model which links policy formation to demands from the general public, the capital accumulation model which treats the state as an accumulation crisis manager, and the irregularity of the Korean politics model which regards idle land policy as a symbolic act used by disparate regimes.
C. Outside Initiative Explanation: Demand from the Populace and the Legitimacy of the State

1. Land Boom Cycles

The initiation of idle land policy has been closely related to the cyclical land booms of 1962-1969, 1970-1978, and 1979-1990. Since land prices increased much faster than other economic indicators including the saving’s interest rates, land was generally perceived as the most profitable investment alternative whenever surplus funds were available. Although an in-depth investigation of the causes for the rapid rise in land prices is beyond the purpose of this dissertation, several causes will be briefly discussed here.

**First Phase, 1962-1969.** During this period, the rate of increase of land prices was 49.3% per annum, while those of the GNP and wholesale prices were 9.9% and 11.2%. Land prices increased at five times the rate of the GNP and 4.4 times that of general commodity prices (table 4.3). Land prices in the 1960s increased fastest during the last three decades.

Since he led a military coup in 1961, President Park Chung-hee had adopted the Five Year Economic Development Programs, which have precipitated urbanization and industrialization in Korea and increased the demand for urban land. To match this demand for urban land, the state
Table 4.3 Increase Rate of Land Prices and Other Indices, 1963-90

<table>
<thead>
<tr>
<th>Period</th>
<th>GNP</th>
<th>Wholesale Prices</th>
<th>Land Prices Major Cities</th>
<th>Seoul</th>
</tr>
</thead>
<tbody>
<tr>
<td>1963-1969</td>
<td>9.9%</td>
<td>11.2%</td>
<td>49.3%</td>
<td>55.1%</td>
</tr>
<tr>
<td>1970-1978</td>
<td>9.1</td>
<td>15.1</td>
<td>27.7</td>
<td>27.5</td>
</tr>
<tr>
<td>1979-1990</td>
<td>8.2</td>
<td>7.0</td>
<td>18.1</td>
<td>17.7</td>
</tr>
</tbody>
</table>

1963-1990  8.9  10.6  27.7  28.5

Source: Table 3.9.


Figure 4.1 Road Construction by Periods, 1962-86
implemented various projects for installing urban infrastructures. For instance, during 1962-1986, 26,485 km of roads were built (Figure 4.1), with sixty-two percent of the total amount of roadways and seventy-two percent of the express ways constructed during 1962-1973 (Konsolbu 1988: 547). Because of state investment in land and urban infrastructure, land values increased.

The five-year economic development programs pushed the state to adopt a fairly expansionary financial policy. To counter the shortage of industrial funds, banks created financial credits, expanding the money supply greatly. For instance, during 1965-1969, the holdings of currency plus bank deposits, i.e., the gross money supply ($M_2$), increased by 61.8 percent per annum. Inflation followed, and land prices did, too. In addition, just after the coup, the military government carried out monetary reforms in June 1962. The currency, *Hwan*, was devaluated into *Won* with an exchange rate of 10:1. All commercial banks deposits were frozen. These reforms triggered a shift from holding financial assets to holding land (J.S. Lee 1990: 18).

Land speculation started mainly within the big cities. Speculation first appeared in 1962, when the Ulsan Industrial Center Project began (C.N. Pak 1967: 182-84). Land speculation peaked in 1969, caused by the announcement of the Seoul-Pusan Expressway Construction Program on December 1, 1967 and the announcement of the Southern Seoul
Development Project (Kangnam) on January 23, 1970 (Haengjong chosa yon’gyuso 1989: 12-13). The rate of increase of land prices in the country in 1969 was 80.7 percent and that in Seoul was 84.1 percent. To control land speculation, the state introduced the Anti-Speculation Tax in Real Estate in September 1967. This law, however, was not as effective as originally expected.

Second Phase, 1970-1978. The land boom continued until July 1971 when a Greenbelt area was designated around the Seoul metropolitan area (C.S. Kim & H.C. Kim 1985: 21-22). Then the land market stabilized and land values fell during 1971-73. There was an economic recession. To vitalize the economy, the state relaxed its speculation control measures. For instance, the Anti-Speculation Tax in Real Estate was abolished in 1974 as the effects of the first oil crisis were felt. Around 1974-1975, the land boom began to revive partially due to these relaxations. In addition, it was strongly rumored in 1975 that the state planned to devaluate the Korean currency. Moreover, the Seoul City government announced another Southern Seoul Development Project (Yongdong) in March 1975 and its plan to move City Hall to this new area in August 1975. Land prices in Seoul increased more than thirty percent per annum in 1974-1975.

During the 1970s, the government’s industrial policy switched to promote heavy industries. This change in
Table 4.4  Comparison of Land Price's Changes, 1975-77

<table>
<thead>
<tr>
<th>Year</th>
<th>Seoul</th>
<th>Rate</th>
<th>Accu.</th>
<th>Ulsan</th>
<th>Rate</th>
<th>Accu.</th>
<th>P'ohang</th>
<th>Rate</th>
<th>Accu.</th>
<th>Yoch'on</th>
<th>Rate</th>
<th>Accu.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975</td>
<td>31.63</td>
<td>131.6</td>
<td>31.23</td>
<td>131.2</td>
<td>31.23</td>
<td>131.2</td>
<td>27.98</td>
<td>128.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1976</td>
<td>16.06</td>
<td>152.7</td>
<td>32.27</td>
<td>173.6</td>
<td>32.27</td>
<td>173.6</td>
<td>43.84</td>
<td>184.1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1977</td>
<td>31.70</td>
<td>201.2</td>
<td>25.62</td>
<td>218.0</td>
<td>32.36</td>
<td>229.7</td>
<td>21.55</td>
<td>223.8</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: a) Because of missing data, the rate of Ulsan was applied, since Ulsan and P'ohang are near by.

industrial policy brought about several inter-connected phenomena, which triggered the land boom. First, the southern coastal area emerged as the major growth region during the 1970s. The rate of increase in land prices in Seoul was surpassed by that of several cities in this region including Ulsan and P'ohang, where the state invested significant amounts of capital for installing ports and infrastructure (table 4.4). Second, this new industrial policy led to increases in bank credit and money supply, which financed these new industrial developments, but also led to inflation. Finally, this new industrial policy aided the growth of construction companies, which participated in developing industrial parks and building infrastructure. The state also needed to help the formulation of construction capital. After initiating the establishment of new industrial policy in 1973, state finances were soon squeezed by the government's dual policy goals: financing
heavy and chemical industries, and providing public housing. Given its limited resources, the state could not implement both policies simultaneously. It retreated from providing housing but encouraged the private sector to do so.

To encourage capitalists to provide housing, the state adopted several measures. First, on May 29, 1974 (the same date when the first idle land policy was announced), the Ministry of Construction revised the People's Housing Program (PH). The new PH Program expanded its target to include housing for middle income households. Until then, the PH Program provided funds only for housing of 8-18 pyong (26-60 m²). Neither construction nor purchase loans were provided for larger homes. Now, according to this new PH Program, construction loans were provided for building houses of up to twenty-five pyong (83 m²). Second, the state exempted houses from property and capital gains taxes, the houses which were constructed in the Yongdong (1974) and Chamsil (1975) new towns in Seoul. Third, by announcing the Ten Year Housing Construction Plan (1972-1981) in February 1971, and enacting the Housing Construction Promotion Law in 1972 and the Urban Renewal Law in 1976, the government allowed private companies to develop land. Finally, the Korea Land Bank, established in 1975 for purchasing the chaebol's idle land, released loans for land development (Y.T. Ohn 1988: 79-82).
In fact, construction companies and their capital had grown along with the state’s involvement in construction projects in Vietnam during the 1960s, and the decision to build expressways and apartments in the 1970s. Participating in the Middle East building boom also led to rapid growth for Korean construction companies. The state’s preferential treatments, mentioned in encouraging private housing and land development, resulted in further expansion of the construction companies. This construction capital played a significant role in land speculation later.

Because of the change of provider in the housing industry, housing became more market-oriented, high-rise, and larger. Speculation in the late 1970s occurred in the new towns’ areas with these high-rise apartments. In addition, as shown in table 4.5, foreign exchange from the Middle East construction boom flowed in, causing the domestic money supply to expand. All these factors triggered the second land boom of 1977-1978. In 1978, land

Table 4.5  Construction Service in Overseas, 1973-78

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports (Commodity A)</td>
<td>3,270</td>
<td>4,515</td>
<td>5,003</td>
<td>7,715</td>
<td>10,046</td>
<td>12,711</td>
</tr>
<tr>
<td>Construction Service (B)</td>
<td>174</td>
<td>261</td>
<td>833</td>
<td>2,502</td>
<td>3,500</td>
<td>8,145</td>
</tr>
<tr>
<td>B/A (%)</td>
<td>5.3</td>
<td>5.8</td>
<td>16.6</td>
<td>32.4</td>
<td>34.8</td>
<td>64.1</td>
</tr>
</tbody>
</table>

prices in the nation increased by forty-nine percent; in the major six cities, by seventy-nine percent; and in Seoul, by 136 percent. This increase in land prices prompted the state to announce a new set of comprehensive anti-speculation measures on August 8, 1978 (Haengjong chosa yon’guso 1989)


In the early 1980s, the Korean economy experienced negative growth for the first time since 1960. To revive the overall economy, the state employed various measures for stimulating the housing industry during 1981-1982, such as relaxing various tax measures. In addition, in 1981 the state initiated large scale land developments by enacting the Housing Land Development Promotion Law. The first and second World Bank Loans of US $63.5 million flowed in during 1981-1982. It was the first time Korea used World Bank loans for financing land development projects. The third World Bank loan in 1986 introduced another US $150 million for land development (Han’guk t’oji kaebal kongsu 1989: 505-506).
Around this period, there were curb-market scandals in 1982-1983. The state announced the program for the Real Name System in Financial Transactions (Kumyung korae silmyong-je) in July 1982. Money deposited in the curb market and in commercial banks under pseudonyms began to move into real estate. Land prices increased again in 1983-1984. The government announced a new series of speculation control measures.

During 1984-1986, land prices in urban areas remained stable, yet rents rose rapidly, thus preparing the way for further price increases in 1988-1989. Several factors precipitated the land boom in the late 1980s. Construction companies, after pulling out of the Middle East in 1981, needed work for their idle manpower and equipment. The state began preparing for the 1986 Asian Games and the 1988 Seoul Olympiad. Also the state implemented various projects on the western coast to foster trade with mainland China. All these factors encouraged capitalists in the construction companies to invest in land development, resulting in a rapid rise of land values. In addition, there were advantageous conditions in the international market, i.e., the so-called "Three-Lowness" (Samjo hohwang), where interest rates, oil and natural resource prices were low. For the first time since 1960, Korea had trade surpluses for three consecutive years, 1986-1988. Excessive capital from these trade surpluses, or over-accumulation from the
production sectors, poured into land transactions as well as consumption for luxurious goods.

The land boom spread throughout the country, not only in urban areas but also in forest, island and greenbelt areas. To control this land boom, the state adopted the August 10 Measures in 1988. The Land and Public Welfare Programs (T’oji kong-gaenyom) were introduced, an idea announced in 1972 but enacted in 1989.8

2. Demand from the General Public and State Autonomy

The cyclic occurrence and negative consequences of these speculative land booms attracted the attentions of contending and advocacy groups. The contending groups are those who are immediately affected by the issue and conflict (e.g., tenants), while the advocacy groups are to those who have a persistent sympathy with its generic interests in this conflicts (e.g., real estate experts and media reporters) (Cobb & Elder 1983: 102-8).

Though spontaneous rather than organized, residents’ movements occurred during the process of urban renewal and large-scale land development. A prominent example was the urban riots at the Kwangju Site in Kyonggi Province (now renamed Songnam City) on August 10, 1971, in which fifty thousand residents participated (S.U. Kim 1986, K.J. Pak 1971). Other incidents included the residents’ movements at Mok-tong in Seoul in October 1984 (K.S. Ch’ae 1984, Han’guk
These residents' movements caught the attention of some intellectual groups. The first activities for the urban poor were started by the religiously-affiliated organizations, which were backed by the Institute of Urban Studies and Development (Tosi munje yon’guso) at Yonsei University in 1968 (M. Kim 1992: 192). According to the philosophy of this institute, only voluntary activities initiated by the residents themselves could solve their problems. Major activists from this institute were arrested for anti-government activities against President Park, and finally it was closed in 1979. Yet in the late 1980s, two organizations, based on this institute, were created: the Catholic Association for the Urban Poor (Ch’onju-gyo tosi pinminhoe), and the Protestant Missionary Association for the Urban Poor (Kidok-kyo tosi pinmin son’gyo hyobuihoe).

Another intellectual group was the Citizen’s Association for Practicing Economic Justice (Kyongje chongui silch’on simin yonhap), organized in 1989 when the third land boom came and when the state announced its Land and Public Welfare Program. Composed of scholars, religious leaders and lawyers, this Citizen’s Association was to mobilize citizens’ power to increase social and economic
justice, particularly in the area of land and housing issues.

The last advocacy groups were real estate experts and media reporters, who publicized the negative impacts of land booms in newspapers, journals and magazines. The influence of these groups was not minor, although they were not social activists. They continuously warned about the seriousness of land problems, and raised the issues of unfair distribution of costs and benefits from land and social injustice thereof. Unlike other advocacy groups, these real estate experts and mass media groups have continued their activities from the 1960s to the 1990s.

These contending (i.e., tenants) and advocacy groups (i.e., citizens’ movement) expressed their antagonism against speculative investors and complained about state land policy. To put it simply, who led land speculation? While speculators had to be rich with available surplus funds, the chaebol were the key leaders of land booms. These groups demanded that the government take action to redress land problems and the chaebol’s speculation. A survey of experts’ papers (see Note 9) shows that their demands for government intervention were concentrated during the peak periods of land booms, i.e., 1976-1978, 1983-1985, and 1988-1990.

These demands also appealed to a general public, referring to a part of the population that is less active,
has less interests, and is less informed about the issue (Cobb & Elder 1983: 104-8). It was because many families including the middle class could not buy homes due to high housing prices, which were linked to high land prices. Survey results show the strength of the demands from this general public. In 1979, ninety-four percent of the population called for the state to intervene in the chaebol’s land situation, while only two percent of the population opposed state intervention (Kukt’o kaebal yon’guwon 1979b: 67-70). In 1985, 91.3 percent responded "yes" to state intervention, while 8.3 percent said "no" (idem 1985b: 88-93). Even 75.6 percent of the landowners


Figure 4.2 Public Opinion about the Chaebol’s Idle Land
who held idle land responded "yes" to state regulation, while only 15.9 percent opposed it (idem 1985b: 93).

The survey results show that the general public’s demands for state action against the chaebol’s idle land were stronger, when land booms peaked than when the land markets were depressed. Although there was not much difference in "yes" response rates, analysis of this response shows the following difference. While people preferred direct measures such as the forced disposal and use of land in 1979 at the peak of a land boom, they preferred indirect measures such as heavy taxation in 1985 at a stable phase of a land boom.

These public demands fostered the conditions for the state to act against the chaebol. As O’Connor (1973) and Hamilton (1982) argued, the state can not ignore the demands from the general populace, though the fundamental interest of the capitalist state is to encourage capital accumulation. Presidents Park, Chun and Roh realized that the political image and credibility of the government would be severely damaged if they did not take some action responding to people’s demands. Consequently, the state implemented the idle land policies of 1974, 1980 and 1990. These were strongly supported by the general public.

Though the government’s policy worked against short-term capital accumulation, it was consistent with both short- and long-term political concerns. If land problems
became so severe that people’s complaints increased, political security would be jeopardized and the antagonism toward the ruling class would increase. This situation could endanger existing capitalists and the political system itself. To prevent this, the state initiated policy reforms.

The senior economic assistant to President Roh, Mr. Higap Mun, identified the main point of the purpose of this policy reform. At an interview, he stated:

As we concentrated our energy on economic growth, various contradictions have grown, for instance, economic concentration within a few hands and growing disparity between regional and income groups.... If we do not redress these problems, we cannot keep our system.... We should not postpone the economic reform. The high income groups should not fall into a trap. If they do not yield small things right now, they will lose everything in the future.

Unearned income [generated from land] should not be permitted anymore.... If we fail to implement economic reform right now, I believe, the existing system will be destroyed by radical forces. If the democratic system collapses, who will lose the most? They will be the have-groups who oppose yielding in small matters now.... We need cooperation from policy target groups, i.e. the privileged groups. This reform is not revolution, but is necessary to prevent revolution (Han’guk ilbo, July 30, 1989).

The history of idle land policy dated back to the early 1970s. On April 5, 1970, the National Taxation Office recommended that the chaebol dispose of their "speculative" land (Haengjong chosa yon’guso 1989: 13). Nothing happened. In the fall of 1970, the Ministry of Finance announced that the government would collect debts from business groups who delayed their repayment of bank loans and whose loans
surpassed one billion Won ($3.3 million). The business
groups pledged to repay their loans by December 20, 1970, by
off-setting their deposits with bank loans or by selling
their idle land.

Minister of Finance, Tog-u Nam, witnessed the purpose
of this policy at the National Assembly.

By November 30, 1970, 8.3 billions Won were collected,
among which 2.1 billions Won ($6.9 million) were
redeemed by selling their land.... We all are anti-
communists. We oppose communism. The shield which
will prevent communism is to achieve distributional
justice. The idea of the anti-speculation law is to
achieve this purpose.... Therefore, we have to prevent
speculation.... The anti-speculation law does not
propose to increase taxation at all, but it is to
prevent further speculation. 10

If land problems were not redressed, feelings of relative
alienation would increase among the general populace,
endangering the survival of the system itself. Even if the
state had concerned with the accumulation issue, it also had
to pay attention to preserve the existing political and
economic system. The state initiated the idle land policy
to maintain and prevent threats to its political viability.
These concerns have recurred whenever land conflicts reached
their peak.

There is one more issue. If the state adopted this
policy in answer to demands from the general populace, the
timing of the policy formulation should have been in the
years 1969, 1978, and 1989 when speculation peaked, rather
than the years 1974, 1980 and 1990 when the land markets
were somewhat stable (figure 4.3). What accounts for these
D. Inside Initiative Explanation: Economic Crisis and Further Accumulation

While the outside-initiative explanation basically linked policy output with political legitimacy, the inside-initiative model explains policy motivation from the accumulation perspective; the fundamental concerns of state
managers was to further accumulation of capital, and thus land problems were recognized within this accumulation paradigm.

1. Gross Interests of Economy

Though state managers have had consistent concerns about land problems, they paid more attention to the development of the whole economy, especially its rapid growth, which has been the fundamental goal of the governments under Presidents Park, Chun and Roh. Land problems were therefore handled within this context of growth-oriented policy goals.

Policy managers calculated the losses and gains from land booms within the balance statements for the whole economy. The landowner-capitalists received significant amounts of profits from their land holdings because of the rapid increase of land prices. However, this continuous increase in land prices also negatively affected the needed accumulation of capital for the production sectors.

High land prices caused higher living costs for the labor force. The share of housing costs as a portion of laborers' total living costs increased from 15.2 percent in 1978 to 29.2 percent in 1988 (Minjok minju undong yon'gyuso 1990: 51). Workers requested higher wages to compensate for the continuously increasing rent. Rapid increase in land prices also lowered productivity. In order to purchase a
twenty pyong house (66 m²), a laborer who graduated from a four-year university would have to spend 26-36 years saving twenty percent of his total income (C.H. Kim 1991: 5-8). As laborers have seen their dream for their own home disappear, due to the increase in land prices, the work ethic, e.g., the famous Korean spirit of hard-work, has eroded.

Faced with the working classes' wage struggles, capitalists had to raise wages, thus increasing their production costs and prices for consumer and other goods. These factors, in turn, caused a decrease in current and potential consumption in the domestic market and loss of the competitiveness in international markets. Consequently, capitalists' profits from the production sector decreased, preventing capital accumulation from the production sector even when they obtained increased profits from land speculation.

As land prices increased, the state also found it difficult to fund the infrastructure necessary to the capitalists' accumulation. For instance, in 1977, the state paid 4,800 Won ($10) per pyong in compensation for land used for infrastructure. Compensation increased to 9,800 Won ($15) in 1980, 27,400 Won ($31) in 1985, and 96,500 Won ($135) in 1990 (Konsolbu 1991: 72).

The state strived to prevent these situations but to produce the optimum conditions for economic development and rapid capital formation. Since rapid growth for the general
economy depended on rapid accumulation in the private sector on which their power and security were dependent, the state has monitored the trends of capitalists' profits and accumulation. When the private sector was not able to maintain some level of profits, the state regulated economic and social behavior.

Figure 4.4 shows the composition of the value-added amounts for all manufacturing and the growth rate of the GNP during 1963-1990. The growth rate of the GNP has always declined after the land booms. After the first land boom peaked in 1969, the growth rate of the GNP declined from
13.8 percent in 1969 to 7.6 percent in 1970, 8.6 percent in 1971 and 5.1 percent in 1972. After the second land boom peak in 1978, the growth rate of the GNP sharply declined from 9.8 percent in 1978 to 7.2 percent in 1979 and -3.7 percent in 1980. After the third land boom in 1988, the growth rate declined from 12.4 percent in 1988 to 6.8 percent in 1989 and 9.3 percent in 1990.

Along with the decline in the GNP growth rate, the percentage share of profits out of total value added has declined after land booms. After the first land booms, profits, as a percentage of value added, declined from 15.6 percent in 1969 to 11.9 percent in 1970 and 4.6 percent in 1971. This percentage in 1978 as the second land booms peaked was 15.7 percent, then fell to 11.3 percent in 1979 and -0.8 percent in 1980. This profits share in 1988 was 13.6 percent, then declined to 10.4 percent in 1989 and 9.3 percent in 1990.

This negative relationship between the profits in manufacturing and the land boom may be explained either by the theory of Henry George, that land speculation causes economic recession (J.S. Lee 1990), or by the argument of David Harvey, that the economic recession or over-accumulation in the production sector precipitates land speculation (S.H. Chang 1990c). Although it is not clear which comes first, or what causes the other, there seems to
be clear correlations between economic recession and land booms.

Therefore, the state’s initiation of policies to control idle land has to be understood within this context, i.e., state managers’ fundamental concerns about the aggregated interests of the economy as a whole. When the economy was depressed, the state initiated idle land policies in 1974, 1980 and 1990 in order to revitalize the economy by encouraging the chaebol to expand their investments in the industrial sector and by discouraging excessive investment in land. Given fixed surplus values, investment in land, and investment in industrial facilities are zero-sum relations; the increase in one sector must lead to the decrease of the other sector. By compelling the chaebol to dispose of their idle land, the state tried to transfer idle capital invested in land into industrial capital.

However, this does not mean that the state violated the fundamental interests of the landowner-capitalists. Rather the state’s actions were designed to reinforce the capitalists’ long-term confidence in the production sector, as will be discussed below.

2. Long-term Interests of Capitalists.

As discussed in chapter 2, capital gains from land are not the created values, but simply the transformation of
surplus values from one to another recipient; there should be some surplus values created in the production sector. Investment in land without significant investment in the production sector will result in a collapse of the economy. By forcing the chaebol to increase their investment in industrial equipment by disposal of their idle land, the state set as its priority the long-term stability of the nation's economic structure, to which individual capitalists usually paid little attention.

Using this interpretation, the purpose of the idle land policy was to secure the long-term interests of capitalists, contrary to the general perception that the policy was initiated against their interests. The timing of the government’s introducing this policy supports this interpretation, as it always coincided with situations where capitalists were suffering from burdensome financial expenses. Their difficulties arose from their heavy dependence on financial credit. During times of economic prosperity, capitalists could manage their debt; however, during times of economic depression, they struggled under heavy debt loads.

When the idle land policies were adopted in 1974, 1980 and 1990, the domestic economy was depressed, largely because of international difficulties, such as the collapse of the Bretton Wood system in August 1971, the oil crises in 1973 and 1979, and emerging neo-protectionism in the late
1980s. The Korean state, as a peripheral country, has had few alternatives for improving capitalists’ financial structure, but has modified monetary and financial policies according to the changing situations.

The so-called August 3 Measures in 1972, the “Presidential Emergency Decree for Economic Stability and Growth,” proposed to improve capitalists’ financial position by freeing them from the heavy burdens of their borrowing from the curb market. At that time the interest rate in this market was about forty-two percent per annum on average versus eight percent per annum in commercial banks for long-term loans.

These measures consisted of five items. The first was the nullification of all loan agreements between businesses and curb market lenders, as of August 2, 1972. Loans were rescheduled for repayment over a five-year period after a three-year grace period at 16.2 percent annual interest. Otherwise, the lenders had the option of converting their loans into equity shares of the debtor enterprises. Rescheduled payments totaled 244.5 billion Won ($326 million). The second was the conversion of short-term commercial bank loans at 15.5 percent interest into long-term loans at eight percent annual interest payable over a five-year period after a three-year grace period. These loans amounted to 193.4 billion Won ($258 million). In
Note: Financial expenses rate = financial expense/total value added. Short-term borrowing ratio = short-term loan/total operating funds.
Source: Han’guk unhaeng, Kiop kyongyong punsok, 1973-91.

Figure 4.5 Financial Expenses and Short-term Borrowing in All Manufacturing, 1969-90

addition, the commercial banks’ annual lending rate was reduced from 19 to 15.5 percent.

Because of the August 3 Measures, capitalists, mostly the chaebol, were able to save a total of 102.8 billion Won ($137 million) in financial expenses (S.H. Yi 1985: 272). Figures 4.5-4.7 show the impacts of these measures on all manufacturing. Financial costs were suddenly reduced and business profits then suddenly increased. For instance, the financial expense ratio declined from 30.7 percent in 1971 to 13.2 percent in 1973, while the debt ratio decreased from
Notes: Financial expenses ratio = financial expenses/total value added. Net worth ratio = net worth/the gross assets.

Figure 4.6 Net Worth and Financial Cost Shares in All Manufacturing, 1969-90

394 percent in 1971 to 272 percent in 1973. Along with these decreases, the net worth ratio increased from 20.2 percent in 1971 to 26.8 percent in 1973, and the net profit ratio increased from 4.5 percent in 1971 to 30 percent in 1973. The Chaebol’s financial statements showed even greater improvements.

The idle land policy was adopted under similar conditions. Around the time when businesses' financial structures weakened, i.e., their debt and financial expense ratio increased, or their net profit and net worth ratio
Note: Net profit ratio (%) = net profit/net worth.  
Debt ratio (10 %) = (current + fixed liability)/net worth.  

Figure 4.7 Net Profit and Debt Ratio in All Manufacturing, 1969-90

decreased significantly, the state adopted the idle land policy. This policy helped business enterprises to significantly improve their financial structures.

In addition, the general economy prospered after the implementation of idle land policy. The growth rate of the GNP in 1974 was 8.5 percent, after the event it averaged 10.4 percent in 1975-78. This period is now called the "rapid growth period (Kaebal yondae)" (Kyongje kihoegwon 1982). The growth rate of the GNP in 1980 declined to -4.8 percent, after the policy change it averaged 8.7 percent in
1981-84. This period provided the basis for the trade surplus achieved for the first time since the early 1960s. The generalization about these policy impacts may be too arbitrary, since many other factors helped achieve economic growth and improvement. Nonetheless, these policies encouraged capitalists to improve their financial standing, a necessary condition which helped them increase their accumulation of capital. While the idle land policy might be detrimental to their short-term interests, it seems that it was very beneficial for capitalists in the long-term.

3. Short-term Interests of Capitalists

The state did not ignore the short-term interests of the chaebol in formulating idle land policy. Following the state’s orders to sell idle land, the chaebol put their land up for sale. However, when the idle land policy was implemented, the land market as well as the general Korean economy was depressed. Therefore, land was not easy to sell, then only at reduced prices.

The state was not indifferent to this situation. It created the Korea Land Bank in 1975 to purchase unsold land, while the marketable land designated as idle was sold by the chaebol themselves. Later the Korea Land Development Corporation took over the functions of the Land Bank. Although the idle land policy was generally welcomed by the
public, as will be discussed in chapter 5, it was also
criticized because of this feature.

Because of the depressed land market, land
transactions are not taking place. Thus, the public is
suspicious that the main purpose of the Land Bank is to
buy land that business firms cannot sell in the real
estate market. This law is solely for business
interests (assemblyman Sang-yong Kim, November 18,
1974).\(^{13}\)

This is the worst law.... Now, because that land
is not sold in markets, the government attempts to
intervene in land market and purchase that land. This
is just for the chaebol’s sake (assemblyman Ch’ang-sop
Hong, December 1, 1974).\(^{14}\)

As President Chun Doo-hwan expressed to the representatives
of the business community on September 30, 1980 (one day
after the policy announcement),\(^{15}\) the purpose of the policy
was not to punish business enterprises as the general
populace thought, but to support the chaebol.

Some people have a misunderstanding about your
business enterprises. But I believe that you have made
our country escape from underdevelopment. I have
recognized your contribution, and I will help business.
This [idle land] policy is not to punish business
enterprises, but to help them by reinforcing their
international competitiveness.... This policy will
contribute to the improvement of your financial
structure, as well as make people understand that you
businessmen are trying to improve your debt, not depend
only on the government (SKS, October 1, 1980).

In summary, in addition to the strong demands from the
populace, the Korean state adopted idle land policy measures
when its economy was depressed. In dealing with idle land,
the state acted to promote long-term economic development
and accumulation, rather than to protect the short-term
interests of the chaebol. Because state managers depend on a healthy economy for their security in office, the state was careful not to jeopardize the businessmen's fundamental confidence in government or transform the market system as a whole. The state first allowed the chaebol to sell their idle land, and only if they were unable to do this, did the state step in with its institutions to buy these lands.

E. Political Incidence Explanation: Discontinuity of the Constitutional Order and Political Symbolism

1. Discontinuity of Constitutional Order

In addition to the legitimacy and accumulation explanations discussed, the idle land policy can be analyzed within the context of Korean politics. During the relatively short period since 1945, many political upheavals have occurred. As Henderson correctly stated (1968), Korean politics has been the "Politics of Vortex." The Constitution, which was created containing many democratic ideals, has been besieged by many amendments to continue, solidify, or centralize the autocratic and authoritarian power of the Korean presidents.

Moreover, although there have been six republics since 1948, political power has not been transferred by democratic elections, except for the Sixth Republic in 1988. Each regime succumbed either to military coups or citizens'
revolutions. These "abnormal" transitions of political power have occurred in a more-or-less "regular" cycle.

**The First (1948-1960) and Second Republic (1960-1961):**

After thirty-five years of Japanese colonial rule (1910-1945) and a subsequent three years of American military occupation (1945-1948), the Republic of Korea was born on August 15, 1948. Its political system was based on the republican form of government. However, during his twelve years rule, the first president, Syngman Rhee, did not practice democratic politics. Instead, this period was tainted by the political manipulations President Rhee and his followers used to remain in power. Rhee's arbitrary and authoritarian rule was manifested by his attempts to amend the constitution in 1952, 1954, and 1958 for his own benefit (Henderson 1988: 26-28).

However, as the autocratic character of his regime increased, President Rhee was strongly challenged by the opposition parties, press and students. At the fourth National Assembly election in May 1958, the ruling party won only by a narrow margin. This election portended a threat to Rhee's presidential election in March 1960, when the regime manipulated the ballot counting. This provoked massive student demonstrations in April 1960, which, stimulated by police fusillades, turned into urban violence. President Rhee resigned his presidency on April 26, 1960,
and sought refuge in Hawaii. The First Republic finally ended.

An interim government immediately formed under the Minister of Foreign Affairs, Ho Chong. It revised the constitution, and adopted the parliamentary form instead, as the country’s experiences under Rhee led most Korean to regard the presidential system negatively. The Democratic Party, which was the leading opposition party under the First Republic, was predominant in the subsequent parliamentary elections in July 1960.

Chang Myon’s Second Republic was inaugurated. Chang’s regime threw off autocratic rule. A more free and open society was permitted. However, the government under Premier Chang suffered from factional strife, lack of cohesion within the ruling party, lack of decisive leadership and self-assurance, and little support from either the rightist or leftist, as well as those who either supported or opposed the revolution (S. Han 1974). The regime did not survive long enough to develop a democratic government in Korea. On May 16, 1961, the nine-month old Second Republic was overthrown by a military coup led by Major General Park Chung-hee.

The Third (1961-1972) and Fourth (1972-1979) Republic: General Park and his military junta repeatedly proclaimed that their coup was to save Korea from chaos and communism,
to establish a Koreanized democracy, to free the nation from economic despair and starvation, and to build a self reliant economy (C.H. Park 1962). These goals were again repeated when Park effected an in-house-coup in 1972, overthrowing the Third Republic (C.H. Park 1979: 16). Whatever the reasons for this coup, the people reluctantly accepted military rule as a political reality (E.S. Chung 1990: 119-20).

Since President Park seized political power both times, disregarding legitimate democratic methods, economic growth was the primary factor used to legitimate his regime. He proclaimed that "in human life, [the] economy precedes politics or culture.... Democracy is meaningless to people suffering from starvation and despair" (C.H. Park 1962). In Park's hierarchy of value, the economy took priority over politics, while higher goals such as reunification with North Korea were seen as being furthered by, rather than in conflict with, economic growth. Trained at the Japanese Military Academy, he was a pragmatic man. He was empirically oriented and disinclined toward theory (Scalpino 1962: 12). The authoritarian and highly centralized state he established became a viable instrument for economic development as well as for social and political domination.

Despite his achievements in the rapid economic development and modernization of Korea, a growing dictatorial tendency undermined his initial claims to
legitimacy. The opposition was strengthened by a series of demonstrations, such as those against the normalization of diplomatic relations between Korea and Japan in 1964, the rigged National Assembly elections in 1967,\(^\text{16}\) and the constitutional amendment which removed the three-term limit from the presidency in 1969.

Despite his decade in power and all his efforts to consolidate his hold on the presidency, President Park received a tremendous shock, when Kim Dae-jung nearly won the presidential election held in April 1971. Kim Dae-jung, who was widely popular, won the urban areas which voted 51.4 percent for him, though Park took 51.1 percent of the national votes. In the subsequent National Assembly elections, the ruling party took only 47.8 percent of the total votes while the leading opposition party received 43.5 percent of votes. President Park’s dream of a life-long term in office was seriously threatened.

During the early 1970s, the economic situation was not favorable to the Park regime, either. The so-called Four Principles, which Premier Cho En-lai of China proposed as the conditions for normalizing diplomatic relations with Japan, discouraged foreign capitalists’ participation in the Korean economy. In addition, the sudden collapse of the Bretton Wood System in 1971 threatened Korea’s financial status, which was heavily dependent on foreign capital for its continual growth. Growth in exports slowed, leading to
a deterioration of the balance of payments and an increase in foreign debts. Labor disputes increased sharply; for example, in November 1970, a textile worker, T'ae-il Chon, demanding improved labor conditions, committed suicide.

In addition to these economic and political crises, there were rapid changes in international politics, such as the normalization of diplomatic relations between the U.S. and China, between China and Japan, and the Nixon Doctrine which called for reduction in the number of U.S. army troops in Korea. President Park took advantage of these occurrences to declare an unjustified state of emergency on December 6, 1971, and martial law on October 17, 1972. He had the constitution rewritten in November 1972.

In the manner of P'yonyang's leader, he named himself the "Leader of the Nation." No term limits were set for his presidency and he was "given" control of the legislative and judiciary as well as the executive branch. In December 1972, Park was re-elected president for an expanded six year term by a new institution, the National Council for Reunification, which also approved the one-third of the national assemblymen who were appointed by Park. To supplement his blatant monopolization of power, Decree Number One to Nine, the draconian "Emergency Measures," suppressed any criticism or demonstrations against his rule.

President Park tried to legitimate the overthrow of his former government and its constitution by claiming that he
needed to revitalize the economy, restore Korean-style democracy, and prepare South Korea for reunification with North Korea (C.H. Park 1979). However, the Yushin (in English, Restoration) system merely established him as president for life, and enhanced and centralized his power. Although the economy boomed as there was exceptionally high growth based on export-oriented industrialization after the Yushin Revolution in 1972, Korean politics quavered at the edge of a totalitarian precipice.

Opposition movements became stronger, challenging the Yushin system and demanding both democracy and constitutional revision. At the tenth National Assembly elections in December 1978, the opposition New Democratic Party (NDP) won 32.8 percent of the popular vote, surpassing the ruling Democratic Republic Party 31.7 percent. However, the ruling party was allowed 44.2 percent of the National Assembly seats while the opposition party was permitted 39.6 percent. In 1979, the opposition NDP strengthened its alliance with the dissident forces arrayed against the authoritarian Yushin system, and incorporated other opposition party.

President Park ousted Kim Yong-sam, the president of the opposition NDP, from the National Assembly on October 4, 1979. In protest, the NDP and Unification Democracy Party assemblymen resigned. In Pusan and Masan, the political hometown of Kim Yong-sam, there were mass demonstrations
against the Yushin regime during October 16-19. Deciding how to cope with this political crisis, the ruling coalition divided into hard-liners and moderates. On October 26, 1979 at a private dinner, Major General Kim Chae-kyu, Park’s CIA chief and a supporter of moderate reform of the Yushin system, assassinated President Park and his chief bodyguard Ch’ā Chi-ch’ol.

The Fifth Republic (1979-1987): An Interim Government was formed under Park’s Prime Minister, Ch’oe Kyu-ha. While moderating the harsh measures of the Yushin regime, Ch’oe was elected president on December 6, 1979 by the electoral college. The nation was stunned but calm since Park’s assassination. Most Koreans assumed a wait-and-see stance and anticipated the restoration of democracy.

Contrary to their expectation, the vacuum of power caused by President Park’s death was quickly filled by the military. Major General Chun Doo-hwan, the Commander of the Defense Security Command, staged a coup against his commanding officers on December 12, 1979. Students, intellectuals and politicians feared there would be a continuation of martial law and a slower pace of constitutional reform. As people feared, the state of emergency continued, and, on March 17, 1980, was even extended to include Cheju Island. On April 14, 1980, General Chun declared himself the Director of the National
Security Planning Agency (former KCIA) while retaining the Defense Security Command.

Student demonstrations escalated. Chun responded with the Martial Law Decree Number Ten on May 17, 1980. It prohibited all political activities, closed universities, and arrested major political leaders, including Kim Dae-jung. The uprisings during May 18-26 in Kwangju and South Cholla, the political hometown of Kim Dae-jung, were put down by the special forces at a cost of hundreds of lives (Clark 1988). The "Seoul Spring" was short-lived, and the "Republic of Winter" was inaugurated.

On May 31, 1980, the twenty-five member Special Committee for Emergency National Security Measures was created with a junta-like thirty-one member Military-Civilian Standing Committee, headed by General Chun, as the real power behind it. On August 16, President Ch'oe Kyu-ha resigned. On August 27, 1980, General Chun was elected to the presidency in accordance with the Yushin constitution, and was inaugurated on September 1, 1980. A revised constitution was proclaimed on September 29, and approved in a national referendum on October 22, 1980, but without public debate and under martial law. On February 25, 1981, President Chun was reelected by the electoral college in accordance with the Fifth Republic Constitution, and inaugurated as the twelfth President on March 3, 1981.
Although resistance in Kwangju was broken and Chun accomplished a successful military coup by use of martial law, he never achieved legitimacy; incessant political turmoil followed. In late 1983, partly because of confidence in his political strength, and partly because of the people’s continuous demands, Chun relaxed the ban on opposition politicians. Some of those released created the New Korea Democratic Party (NKDP) on January 18, 1985, just a few weeks before the twelfth National Assembly elections in March 1985. In this election, the ruling Democracy Justice Party only received 35.3 percent of the votes, while the newly created opposition NKDP received 29.3 percent. As the NKDP combined with the Democracy Korea Party, the opposition was given a 49 percent of the vote versus the ruling DJP’s 35.3 percent (S.H. Yi 1991: 111).

In addition to these formal political parties, in 1985 several organizations, such as the United People’s Movement for Democracy and Unification (Min-t’ong-nyon), were created and demanded democracy and constitutional reform. In 1986, President Chun agreed to revise the constitution. However, he made a serious miscalculation on April 13, 1987, by calling for an end to the debate on constitutional reform until after the Seoul Summer Olympics in October 1988.

This announcement precipitated a coalition of opposition political leaders and dissident groups under the National Coalition for Democratic Constitution Reform (Minju
Violent protests were further incited by the disclosure of the death by torture of Chong-ch'ol Pak, a student, and by the death of a student, Han-yol Yi, from injuries from a tear gas bomb. On June 2, President Chun nominated Roh T'ae-woo, a retired general, as the DJP's next presidential candidate. The nomination was approved at the party convention on June 10.

On June 10 and June 26, mass demonstrations for democracy erupted throughout the country (J.S. Kim 1992). Seeing no hope for political tranquility, the ruling party's presidential candidate, Roh, responding to people's demands, announced the "Declaration for Democratization" on June 29. Two days later, President Chun accepted this declaration. A new constitution was written, which took effect on October 29. The presidential election was held on December 16, 1987. The Fifth Regime disappeared.

The Sixth Republic (1988-): Before the presidential election, the opposition NKDP was split into the Reunification Democracy Party (RDP) on May 1, 1987 led by Kim Yong-sam, and into the Peace and Democracy Party (PDP) on November 12 presided by Kim Dae-jung. Despite the people's strong demands, the RDP and PDP failed to unite. Because of their division (M. Lee 1990), General Roh was elected president by 36.6 percent of votes on December 17,
1987. On February 25, political power was transferred peacefully for the first time since the Korean Constitution was enacted in 1948. The Sixth Republic began.

Just after this transition, National Assembly elections were held on April 26, 1988. The ruling DJP failed to win a majority in the National Assembly. Roh's DJP received 34.0 percent of the vote, while Kim Dae-jung's PDP took 19.3 percent, Kim Yong-sam's RDP took 23.8 percent, and Kim Jong-p'il's NDRP received 15.6 percent of the vote. The Yoso Yadae structure of the National Assembly (a small ruling party and big opposition parties) was welcomed as a "golden division" of political power. Given the popular support for the opposition, Roh's regime had to respond to the opposition parties' demands for democratization. Dramatic measures promoting democracy were taken. Political prisoners were released, undemocratic laws were revised, and irregular practices left from the Fifth Republic were eliminated.

However, the Yoso Yadae structure lessened President Roh's control of political power. In addition, Kim Yong-sam and Kim Jong-p'il, leaders of the second and third opposition parties, feared for their political future because of the strength of the PDP, the main opposition party led by Kim Dae-jung. To overcome their weak political positions, President Roh, Kim Yong-sam and Kim Jong-p'il announced the merger of their political parties on January
22, 1990. On February 15, 1990, following the model of Japan’s Democracy Liberty Party, the Liberty Democracy Party (LDP) was established.

The Yoso Yadae arrangement resulted from the people’s opposition to the undemocratic practices of the ruling party and their demands for a viable opposition, able to check the executive use of power by the government. The merger of the ruling and two opposition parties betrayed these expectations, changing the political power structure into the Yodae Yaso (a big ruling party and small opposition parties). Koreans pointedly expressed their disapproval at the ballot box. In the fourteenth National Assembly elections in March 1992, the ruling JDP, which shared two-thirds of National Assembly seats before the election, failed to take even half of the assembly seats.

This change in the political structure was arbitrarily initiated by the three parties’ political leaders. In order to share political power, Roh and the two Kims agreed to change from a presidential to a parliamentary system; however, their plan did not come to pass because of the objection of the general public. This merger undermined again the normal party dynamics of the National Assembly, however. For instance, in the July session of 1990, the ruling DJP passed twenty-six bills within thirty seconds allowing no debate (S.H. Yi 1992: 146). Because of this, the opposition assemblymen resigned. Policy reforms, such
as the enforcement of local autonomy and the mandatory prohibition of fictitious names in financial transactions that were initiated before the party-merger, were postponed. The priority shifted from policies emphasizing distributional justice to policies emphasizing economic growth. The government also used more physical coercion to control social unrest. There were more political prisoners than in the Fifth Republic under President Chun (Han'gyore sinmun, September 14, 1989, December 5, 1990, April 21, 1991).

2. Idle Land Policy and Political Symbolism

As briefly stated, constitutional rule in Korea has often been interrupted. This discontinuity was caused by various political leaders' desire for continuing, solidifying, or extending their power. When they thought their political position was threatened, they manipulated existing political structures and revised the constitution. Throughout Korea's constitutional history, revision of the constitution could occur only with the approval of more than two-thirds of the National Assembly. Thus, Korean political analysts have called this two-thirds majority the Security Line (Anjong son) for the ruling party, and the one-third minority the Constitution-Protection Line (Hohon son) for the opposition party (P.M. An 1989: 160). Whatever the ruling party, it has always attempted to control two-thirds
of the National Assembly, while the opposition parties have tried to retain at least one-third of the National Assembly seats. If opposition parties won more than the one-third seats needed to protect the constitution, then ruling political leaders suspended the constitution, and used physical force to maintain their control and rule the country.

Figure 4.8 shows the differences in the vote to the ruling and the main opposition party, and figure 4.9 shows
the differences in the number of National Assembly seats. In the assembly elections of 1958, 1971, 1978, 1985 and 1988, these differences were much lower than in other elections. While the 1958 and 1985 elections led to a more democratic political system, the 1971, 1978 and 1988 elections resulted in more authoritarian governments.

Changes in the less democratic government had always led to the enactment of new policy for idle land. When President Park was challenged in the 1971 election, he carried out the *Yushin Revolution* in 1972. Two years later he implemented the first idle land policy. While the *Yushin*
system collapsed after the 1978 election, General Chun replaced President Park in 1980. The second set of idle land policy measures was announced four weeks after his inauguration. As a reaction to the 1988 election, the ruling party merged with the two Kim’s opposition parties in 1990. Two months after this merger, the third set of idle land policy measures was pronounced.

These changes in the political system, especially towards more authoritarian rule, were not welcomed by the people, and raised issue of the government’s legitimacy. Korea’s rulers needed some symbolic issue to legitimize their political dominance. President Park’s slogan was "Total Solidarity (Ch’onghwa tan’gyol)." The bureaucracy, the military and a tightly fettered media were mobilized to propagandize this ideology to the whole society.

Regulations with the chaebol were part of this symbolism. Park announced the purpose of the idle land policy on May 29.

We have requested that the chaebol improve their managerial efficiency and carry out their social responsibility of being people’s enterprises. Furthermore, in constructing an advanced industrial society via developing heavy and chemical industries, businesses have to become large-scale firms to be able to compete at an international level. In order to achieve these aims, it is important to create a new economic climate in which all people can participate positively in business activities, the process of capital accumulation can achieve social harmony, and capital and labor can cooperate with each other (SKS, May 30, 1974).
President Chun’s slogan was "Democracy and the Welfare Society (Minju pokchi sahoe)," though his regime was never democratic. The objectives of idle land policy measures, as indicated by Chun on September 27, were to solve the then current economic crisis and to reinforce the chaebol’s competitiveness, thus bringing about a democratic welfare society. Chun announced:

Speculative inefficiency and irrationality has to be eliminated in order to allow the rationality of capitalism to take root in our country. The chaebol have to cope with their difficulties with strong beliefs, and dedicate themselves to participate in productive activities [but not speculative activities] and to improve business health. Since these are the way to show their love of the country, the chaebol have to bear these things in mind, and participate actively in constructing the welfare society (SKS, September 29, 1980).

In addition, President Chun told the representatives of the chaebol that the purpose of these measures was to "show the people" that the chaebol themselves were trying to improve their financial structures (SKS, October 1, 1980).

President Roh used the slogan of "The Era of Normal People (Pot‘ong saram-dul ui sidae)." He declared the creation of the era of normal people, not of authoritarian and privileged groups. However, the process and the purpose of merging the ruling with the two main opposition parties were not consistent with this slogan. Idle land policy measures were introduced to legitimize the integration of the three parties. President Roh recognized this in a statement on May 7, 1990.
By integrating three parties, a base for political stability was achieved. However, the process has disappointed the people. The government has failed to meet the people’s belief about its policy consistency. The people do not believe the government’s desire for stability. Because of rocketed land prices, many people are frustrated by losing the dream of their home.

I feel blame as president.... The business enterprises which have received the most benefits from economic development have to dispose of their idle land voluntarily in order to solve land problems and conflicts (Tonga ilbo, May 7, 1990).

In summary, introducing idle land policy measures in 1974, 1980 and 1990 was closely related to changes to a less democratic political power structure. Political leaders needed to legitimize their suspension of the constitution. Faced with problems of legitimacy, they utilized the economic leaders’ irregular activities, i.e., the chaebol’s land speculation as a vehicle.

The state’s activities against the interests of the economic ruling groups were to demonstrate that its restructuring of the political power structure was more for the people’s welfare than for the promotion of the chaebol’s privileges; suspension of normal democratic constitutional rule was needed to achieve these purposes. In addition, by implementing an idle land policy, the state attempted to reshape its relations with the economically dominant class, the chaebol, which kept good relations with the preceding regimes. The state used idle land policy to manifest its dominance over the business community, and implemented
measures that the business community had to respond (Jones & Sakong 1980: 285).

F. Conclusion

Despite close affiliation with the chaebol throughout the past four decades, the state adopted idle land policy measures, which worked against the short-term interests of the economically dominant class. This chapter has analyzed the conditions, which led the state to initiate this policy reform. Even if limited in scopes, some causal regularities in policy adoption were found.

First, strong demands from the populace prompted the initiation of idle land policy. Land booms triggered conflicts in the process of distributing the gains generated from land. During the peak of land booms, the general populace as well as contending and advocacy groups called for government intervention in land markets. Since the fundamental role of the capitalist state includes its continuance, the government had to respond to the people's demands, when they were deemed strong enough to threaten the existing political system.

Second, when the economy faced accumulation crises, and Korean business groups suffered from burdensome financial expenses, the state initiated an idle land policy. To policy elite, investment in land and investment in industry were zero-sum relations, given fixed available funds. The
increase of investment in one sector must lead to the
decrease of the share in the other sector. By compelling
the chaebol to dispose of their idle land and repay
financial loans by using the proceeds of their land sales,
the state attempted to transfer idle capital invested in
land into industrial capital, thus solving accumulation
crises. This necessity of strengthening the chaebol’s
financial standings was rediscovered in the transitory stage
for restructuring the industrial structure from light to
heavy and chemical industries in 1973-1974, the articulation
of heavy industries and the introduction of the high
technology industries in 1979-1980, and the re-emphasis of
technology intensive industries in the late 1980s.

These policies did not ignore the fundamental interests
of capitalists, however. Regulative policy was strictly
applied only to idle land. Although the state regulated
idle land used by capitalists to search for their capital
gains, it promoted capitalists’ ownership of industrial
land. This increased their productive capacity and profits
while avoiding class conflicts with landowners.

Finally, the initiation of idle land policy was closely
related to the discontinuance of constitutional order. The
state used idle land issues, when political leaders had to
legitimize their undemocratic takeovers of political power.
This policy was also used by state leaders to reshape their
relations with the country’s economic leaders, who had good relationship with the preceding regimes.

All these factors put the idle land issue on the policy agenda. Then, how were these policies formulated? The next chapter will discuss the policy making process, including policy output and policy instruments, and the responses from interest groups to this policy.
1. According to the Criteria for Designating Business Groups prepared by the Bureau of Justice Transaction (Kongjong korae-sil), the Economic Planning Board, the chaebol is a business group which has more than 400 billion Won ($585 million) in total assets. This criterion has been used since 1987. As the number of the chaebol increased, the state had difficulties in managing chaebol issues. Thus, the Economic Planning Board redefined, in 1992, the chaebol as the top thirty ranked groups as their total assets. The numbers of the chaebol and their subsidiaries are as follows:

Table 4.6 The Number of Chaebol and Their Subsidiaries

<table>
<thead>
<tr>
<th>Year</th>
<th>Chaebol</th>
<th>Subsidiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>1987</td>
<td>32</td>
<td>505</td>
</tr>
<tr>
<td>1988</td>
<td>40</td>
<td>605</td>
</tr>
<tr>
<td>1989</td>
<td>43</td>
<td>671</td>
</tr>
<tr>
<td>1990</td>
<td>53</td>
<td>797</td>
</tr>
<tr>
<td>1991</td>
<td>61</td>
<td>915</td>
</tr>
<tr>
<td>1992</td>
<td>78</td>
<td>1,056</td>
</tr>
<tr>
<td>1993</td>
<td>30</td>
<td>604</td>
</tr>
</tbody>
</table>


2. Some research about the cycled land booms are as follows:

Table 4.7 Empirical Studies on the Land Boom cycle

<table>
<thead>
<tr>
<th>Variables</th>
<th>Years</th>
<th>Cycle</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lee, land price increase rate</td>
<td>1964-1989</td>
<td>7-10 years</td>
</tr>
<tr>
<td>Sok</td>
<td>&quot;</td>
<td>1967-1990</td>
</tr>
<tr>
<td>KRIHS</td>
<td>&quot;</td>
<td>1974-1989</td>
</tr>
<tr>
<td>Kim, construction floors</td>
<td>1972-1991</td>
<td>4-7 years</td>
</tr>
</tbody>
</table>

3. Sixty-seven greenbelt areas throughout the nation were designated during July 1971-April 1977, which covered 5.5 percent of the nation's land (Konsolbu 1988: 346-348). Within this area, land use and transaction have been strictly restricted.

4. For instance, the May 26 Measures in 1981, the January 14 Measures, the May 18 Measures, and the June 28 Measures in 1982.

5. Before 1962, all the financial transactions were to be made in the name of the transactor. The military government enacted the Security for Savings and Deposition Law in 1962. To mobilize domestic savings, the Law allowed financial transaction to be made under a pseudonym. Faced with the so-called Chang Yong-ja scandal in 1982, the state announced that all financial transactions from July 1983 had to be made under the real name of the transactor. Most people believe that savings and deposits under a pseudonym are black or floating moneys used for land speculation or political corruption. However, the program has not be implemented until now, in March 1993.

6. For instance, the anti-speculation measures of February 16, March 17, and April 18, 1983.

7. The land boom of the late 1980s had different characteristics from those of the 1960s and 1970s. With the privatization of commercial banks in 1981, industrial capital could now combine with financial capital, spurring capitalists' investments in real estate and active involvement in urban renewal projects.

8. The state enacted the National Land Use and Management Law in 1972, which was revised in 1978. The basic ideas of the Land and Public Welfare Programs were proposed at that time. Yet these ideas were not enacted due to several political reasons. Finally, In December 1989, three laws were enacted: the Residential Landownership Limit Law, the Excessive Land Profit Tax Law, the Land Development Gains Recapture Law.


   In the 1990s: S.H. Chang 1990a, 1990b & 1990c, P.D.
10. At the 21st session of the Finance and Economy Standing Committee in the 75th session of the National Assembly, on December 17, 1970.

11. The August 3 Measures were regarded as one of two foundations for the Fourth Republic (1972-1979). While these Measures were the economic basis, the Yushin system was the political basis for this authoritarian regime. For details of the August 3 Measures, see S.H. Yi 1985, and W.S. Kim 1991.

12. For the details of the Land Bank and the Korea Land Development Corporation, see chapter 6.

13. At the 18th session of the Finance Standing Committee of the 90th session of the National Assembly.

14. At the 15th main session of the 90th National Assembly.

15. There were twenty-six representatives. Eight came from the Korea Chamber of Commerce and Industry, and another eight came from the Federation of Korea Industries. Six represented the Korea Trade Association, and three were from the Central Cooperatives of Small and Medium Size Industries. One member was from the Association of Business Managers.

16. The opposition New Democracy Party rejected the results of the seventh National Assembly election. After the ruling party recognized that the election was illegal and expelled several numbers of its assemblymen, the National Assembly opened (P.M. An 1989: 142).
A. Introduction: Decision Making Politics

The policy formulation stage is the arena in which policy makers produce a set of policy outputs, composed of policy goals and means to redress their policy problem, which is deemed crucial enough to be placed on the government's policy agenda. However, the fact that a policy problem reaches this stage does not necessarily mean that government action will be taken. Policy makers may decide to leave the problem alone, or decide on "non-decision making" (Bachrach & Baratz 1970: 44).

Several factors can be considered about non-decision making. First, policy makers may use physical force to keep problems covert and prevent access to the relevant decision making arena (Anderson 1990: 88), or policy problems on the agenda may be resolved before policy measures are made. Second, prevailing values and beliefs may operate to prevent particular problems being placed on the agenda. For example, policy makers' beliefs about private property and the market mechanism may prevent the idle land issue from becoming a real agenda item, except when they decide that regulating idle land may be beneficial for capitalists' accumulation as well as for the general economy. Finally, as public policy involves decision about what the state does
not do as well as what it does do, some problems can be dealt with while others are neglected. All political organizations are more or less biased in favor of exploiting some kinds of conflicts and suppressing others. Thus, "some issues are organized into politics while others are organized out" (Schattschneider 1960: 71).

After political agendas are set, the next stage is the clarification of policy goals and the choice of policy instruments to achieve these goals. Since regulatory policy, like the idle land policy, proposes to influence human behavior and to induce people to act in accordance with publicly prescribed rules or goals (Anderson 1990: 207), understanding why target groups do or do not act in accordance with policy has to be attempted. If the compliance of the target group is not achieved, that policy becomes ineffective or is nullified.

There are several reasons to explain why people act in accordance with public policy and how compliance of target groups can be gained. First, these groups recognize the policy legitimacy and authority of the state. Second, people may comply with a policy because they fear the possibility of sanction and punishment (Anderson 1990: 208-13). The degree of compliance will be enhanced by limiting the acceptable choices available to the target group, while penalizing undesired alternatives and rewarding desired alternatives (Anderson 1990: 196-97). Third, compliance is
often better achieved right after a policy is adopted, but may diminish as time passes (Sabatier & Mazmanian 1980). The degree of compliance may be moderated over time as target groups are given a chance to interact with policy makers (M. Ha 1989: 38). Fourth, the clarity of the orders and rules themselves, the strong commitment of state managers and implementing agencies, and the support and oversight provided by the public and mass media influence the degree of compliance from the target group (Anderson 1990, Nakamura & Smallwood 1980, Starling 1988).

Based on their understanding of such factors, policy makers mobilize their policy resources (e.g., money, regulations, or authority) and policy instruments to shape formulated policy goals into concrete actions to create intended policy effects (McDonnell and Elmore 1987). The state has a number of policy resources and instruments, effectiveness of which varies according to policy problems and contexts to which they are applied. For example, Kirschen (1964) lists sixty-four types of tools available for economic policy. Coates (1978) and Nieman & Novell (1981) discuss the categories of approximately sixty specific policy tools.

Some policy experts classify these policy tools into several types. Mosher (1980) suggests a broadly defined dichotomous type of expenditure and non-expenditure instruments. Hood (1984) describes four categories of
government activities: nodality (the information at its disposal), authority (its legal power), treasury (its financial capacity), and organization (its formal organizational capacity). McDonnell and Elmore (1987) introduce four generic types of instruments: mandate (rules), inducement (incentives or dis-incentives), capacity building (the transfer of benefits to specific individuals or agencies for investing in future capacity), and system changing (change in the institutional structure or the distribution of authority). Nieman & Novell (1981) classify five categories based on the functions and effects of policy instruments: the information mechanism (e.g., public hearings, evaluation), financial incentives and dis-incentives (e.g., taxes, rewards), regulatory and control measures (e.g., a set of standards, codes), the mechanism of operations (e.g., operating facilities for vehicular traffic control), and symbolic priority-setting mechanisms (e.g., defining priorities, delaying decisions). After reviewing previous research on policy instruments, Linder and Peters (1989) suggest the seven categories: direct provision, subsidies, taxation, contracts, authority, regulation, and exhortation.

In practice, the state chooses one or more instruments for specific policies, or it designs a combination of tools based on the characteristics of the policy issues, its policy resources, political constraints, and implementation
feasibilities. The state may select a dominant policy instrument, but others may be used to supplement or follow it (McDonnell & Elmore 1987).

Policy outputs, both policy goals and instruments, take form as either by the enactment of legislation or the issuance of an executive order. Policy decisions made by the legislature are usually regarded as legitimate. Those made by the executive are accepted as legitimate if policy makers have the legal authority to act and meet accepted standards in taking action (Anderson 1990: 110). In fact, apart from the legislative process, the president and his executives make many policy decisions based on the president’s constitutional authority or on delegation of power by the legislature. This presidential decision making is usually an institutional process, for although the president has final responsibility for his decisions, a variety of agencies and advisors assist him in the decision making process.

Issues about idle land were placed in the arena of policy agenda setting by a mixture of factors, including public demands, the accumulation crises of the chaebol, and questions about the government’s political legitimacy due to its undemocratic takeovers of political power. These factors also affected the stage of policy formation, at which the issue of idle land was treated. These policies took the form of presidential orders, with most policy
content defined by the executive branch. The role of the National Assembly was rather passive. The National Assembly did not initiate or formulate this policy. Its role was limited to that of ratifying presidential decisions by passing related laws or auditing the implementation process of the policy.

Then, what did this policy output consist of? Who were involved in creating this policy? What bureaucratic and political factors were reflected in the design and adoption of this policy? How did the concerned interests groups, both the chaebol and the public, react to this policy during the period after its announcement and before actual implementation? These issues need to be addressed at the policy formation stage.

B. Policy Making Process of Idle Land Policy

1. Major Actors

All three policy measures for idle land were initiated, formulated and enacted by the central government, especially at the Blue House where the presidents resided. Three presidents, Park, Chun and Roh, had their cabinet members formulate idle land policy. The bureaucrats of the Ministry of Finance (MOF) played the major roles and the MOF was the major agency responsible for developing these policy measures. Four government institutions supported the MOF.
Both the Banks Audit Board (BAB) and the National Taxation Office (NTO) prepared the criteria for defining and designating idle land. They, the BAB and the NTO, also monitored the implementation process of these policies. The Korea Land Bank (1975-1979) and the Korea Auction Corporation were public enterprises; while the Land Bank was to purchase the chaebol’s idle land, the Auction Corporation was to auction off it on behalf of the chaebol.

Several ministries also participated in making these policies. The Ministry of Construction was responsible for housing and land policy, which supervised the Korea Land Development Corporation (1979-present) in its purchasing idle land. The Ministry of Home Affairs dealt with real estate transactions, while the Court Administration Office was in charge of property registration. The Ministry of Agricultural and Fisheries, and the Forestry Office were responsible for the policies for agricultural land and forests. Finally, the Economic Planning Board was responsible for coordinating relevant policy measures among the various ministries.

The bureaucrats in these agencies attempted to accomplish the president’s will. Since administrative powers were highly controlled by the president as a chief executive, bureaucrats had to acquiesce in the president’s directive to solve the land problem, even if their own tendency was to protect the interests of the chaebol. The
Korean presidents' vigorous use of decision making authority strongly shaped policy processes and policy outputs, a common feature of the presidential system in many countries (Anderson 1990: 134-37). Communication between the president and economic bureaucrats was aided by presidential secretarial groups in the President's Office.

Most members of these bureaucracies participated in the decision making process, though all three measures were initiated and devised by the task force teams (see the next section). Different opinions between the ministries were mediated by the coordinating organizations such as the Council of the Economic Ministers (*Kyongje changgwan hoeui*), composed of ministries such as the Economic Planning Board, the Ministries Of Finance, Construction, National Taxation Office, Home Affairs, Agricultural and Fisheries, and Forest Office.

Coordination between the executive agencies was enhanced when the state organized the Working-level Committee for Anti-Speculation Measures to deal with land issues. Established September 5, 1983, this committee originally consisted of bureaucrats from the economic ministries and public agencies, and then it expanded its members to include other ministries after 1987. In addition to this working-level committee, in 1988 the Policy Committee for Real Estate was created; its members were the
ministers from economic ministries and other designated
civilian experts in land and real estate issues.³

To provide legitimacy and credibility to its regulatory
land polices, the state has also utilized special committees
or "think-tanks." For example, the Prime Minister appointed
the Professors' Evaluation Group to analyze land problems
and design the effective counter-measures. On June 15,
1978, this evaluation group proposed various speculation
control measures, including innovations in property
appraisal methods, land zoning, development charges, the
real estate transfer gains tax (a kind of capital gains
tax), and improvements in the property registration system
(Kungmu chongni-sil 1978).

To institutionalize this type of research, the state
created the Korea Research Institute for Human Settlements
(KRIHS) in October 1978. Since then, the KRIHS has been a
unique think-tank, dealing with national and regional
development planning, urban planning, and policies for
housing, land, transportation, the construction industry,
and environmental issues. Among its various research
reports, anti-speculation measures were included in

In 1988, the Committee for Land and Public Welfare
Program (T'oji kong-gaenyom yon'gu wiwonhoe) was created.
Its members were government officials, professors and real
estate experts, designated by President Roh. Under the
supervision of the Prime Minister’s Office, this special committee proposed reform programs for landownership and transactions, development gains recapture schemes, regulation of excessive land holdings by business groups, and refinement of land laws and institutions (Kukt’o Kaebal yon’guwon 1989b).

In sum, Presidents Park, Chun, and Roh made decisions about policy dealing with idle land in 1974, 1980 and 1990, with extensive aid and support from their cabinet members, officers, presidential secretaries, and think-tanks. The next three sections will discuss the details of the policy making process and its policy outputs.

2. The First Measure in 1974

Policy Making: In 1972, President Park secretly created the Economic Policy Council, the members of which were the director of the Presidential Secretary’s Office, Chong-yol Kim, the Minister of Finance, Tog-u Nam, the president of the Bank of Korea, Song-hwan Kim, and the presidential secretary in foreign-fund issues, Yong-hwan Kim, who was soon upgraded to the Deputy Minister of Commerce and Industry (S.H. Yi 1985: 264). The aims of this Policy Council were to devise measures to save the business community which suffered from financial difficulties, which had worsened since the peak of the first land boom in 1969. The August 3 Measures were promulgated in 1972 to freeze
loan agreements made at the curb market (i.e., the private loan market, Sach’ae sijang), and thus helped business groups overcome their most urgent problems of heavy financial costs (see section D in chapter 4).

The state attempted to institutionalize its efforts to strengthen businesses’ capability to mobilize funds. It enacted a law to promote public investment in businesses in December 1972, which took effect from January 5, 1973 (Han’guk chunggwon koraeso 1991: 118-121). This law encouraged business enterprises to open their firms to the public by selling shares in the stock market. Since most business firms were run by families and suffered from a lack of capital, this measure was expected to enable the chaebol to mobilize new funds from the stock market.

The chaebol did not make any serious efforts to improve their weak financial structure, however. During 1973-1974, business enterprises were faced with problems from high financial charges, caused by the changes in the world market situation, such as the oil crisis. Instead of selling their stock, the chaebol requested that the government increase their bank credit to solve their financial difficulties.

The state reviewed its policy of greater public ownership of the chaebol’s stock. It found that the chaebol had so well disguised their financial structure by manipulating their balance sheets, that the government could not designate them for public ownership. During this time,
seven to eight owners died. When the state audited the chaebol to levy inheritance taxes, it found that the owners had already arranged their property so that the chaebol could evade the inheritance taxes (SKS, May 31, 1974).

Based on these findings about the chaebol's heritage habits and the disguise of their financial structure, the Economic Policy Council, which devised the August 3 Measures of 1972, proposed that President Park adopt the idle land policy (Choson ilbo, May 31, 1974). In accordance with this recommendation, President Park issued the "Presidential Special Directives for Improving Business Financial Structure and Mobilizing Domestic Funds" on May 29, 1980 (SKS, May 30, 1974, Jones & Sakong 1980: 282-285).

Contents of the Special Directives: The main policy objectives of this special measure was to "force privately-held enterprises to open themselves to public participation by selling their shares on the stock market." President Park emphasized the following guidelines: First, management of the family-owned chaebol should be modernized. Second, business enterprises should be enlarged to enable them to compete internationally. Third, since the managerial and financial capability of their family-held firms were limited, they should go open to the public. Last, accumulation of business assets by a few individuals or family members should be prevented.
To achieve these objectives, President Park gave the following special directives to his cabinet. First, give government supports to the well managed publicly-held corporations. Induce them to go public by using appropriate applications of finance, foreign exchange and tax policies. Second, establish a system to control credit allocation and oversee the tax records of the chaebol, which already received state assistance in allocating bank credit and foreign exchange. Third, reinforce the sound credit management of the Chaebol by redressing their excessive dependency on bank loans. Fourth, instruct businessmen with large bank loans to sell part of their subsidiaries or equity, and use the proceeds from this sale to finance new projects. Last, strengthen tax surveillance and reinforce outside auditing for corporations, thus increasing their business credibility and forcing them to utilize their own business assets substantially.

In accordance with these presidential directives, on May 30, 1974, the Ministry of Finance prepared "Measures on Bank Credit and Business Concentration." Business groups were categorized into two groups; Group A firms with weak financial structures were told to improve financial standings, while Group B firms with relatively good financial standings were ordered to sell shares to the public (SKS, May 31, 1974).
Minister of Finance, Tog-u Nam, announced that the Group A firms would be prohibited from 1) receiving new credits and new foreign loan guarantees, 2) establishing or acquiring additional businesses, or investing in stock, and 3) purchasing non-essential real estate. In addition, the mother companies of the Group A chaebol were required to prepare a three-year schedule for improving their financial structure to be approved by the Bank Audit Board. (If needed, this schedule might be extended for five years.) The Minister of Finance enumerated means for reducing the business debt/equity ratio, such as 1) going public (i.e., disposing of stock in the stock market), 2) increasing paid-in capital, 3) selling off subsidiaries, the proceeds from which must be used for equity increase or debt retirement, 4) issuing company bonds in the stock market, and 5) merging subsidiaries to rationalize management.

If the Group A firms improved their financial structure within three years, they would be excluded from the above-mentioned regulations. However, if they did not proceed as they were supposed to, or were slow in implementing the annual plan of their three-year schedule, the Financial Normalization Committee under the control of the Prime Minister would examine their case, and the Ministry of Finance or the Bank Audit Board would notify the financial institutions not to provide to these firms the "policy funds," low-interest loans.
In the meantime, the Group B firms would be 1) prohibited from purchasing non-essential real estate, and 2) would go public in a sequence that would be determined by the corporation’s qualification and the stock market situation. The Group B firms that did not issue stock for public purchase would face tax and finance sanctions according to the Articles Sixteen to Eighteen of the Business Open Promotion Law.

During the next month, the Bank Audit Board evaluated the financial structure of the Chaebol groups. On 29 June, this Board finally designated thirty firms in Group A, and sixty firms in Group B (SKS, June 30, 1974).

3. The Second Measure in 1980

Policy Making: After the coup on December 12, 1979, and the successful suppression of the Kwangju Democratization Movement during May 18-27, 1980, General Chun created the Special Committee for Emergency National Security Measures (SCENSM) on May 31, 1980. The Standing Committee for Finance of the SCENSM collected data about the thirty largest chaebol’s and their owners’ land holdings. For the next two months, the Standing Committee for Finance (SCF) secretly reviewed several alternatives for idle land policy.

At first, in order to demonstrate the military junta’s concern for social reforms, the SCF planned to disclose data
for the ten largest chaebol’s and their owners’ land holdings, and to regulate their land holding. (Right now, however, it is not clear what "to regulate land holdings" meant. It might be to order the chaebol to voluntarily dispose of their land as the idle land policy in 1974 did, or to expropriate their land as the Park’s military junta did in nationalizing illicit wealth in 1961.) After reviewing the possible impact of this measure, the SCF realized that uncovering this data and regulating the chaebol would shock both the public and the chaebol, a consequence which the military junta did not want. The chairman of the SCF, P’an-je Pak, unveiled this point at a briefing to the press on September 26, 1980, "We would like to avoid that situation" (Choson ilbo, September 28, 1980).

The SCF finally decided the way that the military junta should order the chaebol to report their land holdings, then recommended that they voluntarily dispose of their idle land. Since protecting business confidence was very important to the military junta, which needed to achieve rapid economic growth to legitimate its obtaining political power, President Chun hesitated to adopt this policy at first, and waited for several weeks before announcing the Directives. According to the chairman of the SCF, "We spent twenty-five days persuading the President" (Choson ilbo, September 28, 1980). However, to demonstrate their concern for social reform was more urgent, eventually President Chun
issued the "Presidential Special Measures for Reinforcing Business Competitiveness" on September 27, 1980.

Contents of the Special Measures: At his inauguration ceremony on September 1, 1980, President Chun proclaimed the construction of the democratic welfare state as a national goal in the 1980s. For this purpose, he indicated four implementation goals; 1) the settlement of democracy, 2) the realization of a welfare society, 3) the promotion of social justice, and 4) educational reform and the promotion of culture (SKS, September 2, 1980).

Four weeks later, when he issued the Special Measures, President Chun diagnosed the country's economic situation as follows:

The recent economic situation is in crisis. Exports do not increase due to the second oil shock and an international economic depression. The profitability of industries deteriorates, and our enterprises lose competitiveness because of the wage increases beyond labor productivity and the increase in business operating costs. When considering the increase in labor-firms conflicts and the increase in stockholders due to business openness, demands for social responsibility of enterprises and businessmen have increased (SKS, September 28, 1980).

To President Chun, the basic cause of the economic crisis was the weakness of the businesses' financial structure as well as international difficulties. He indicated the reasons why the financial structure of business groups was aggravated and the healthy growth of enterprise had not been achieved as follows:
First, during periods of economic prosperity, certain businesses over-invested in real estate for speculative purposes. Certain enterprises over-expanded their business activities by going deeply into bank debts. These factors have resulted in intensifying financial problems during a depression like the current time. In addition, from a national economic viewpoint, business speculation deepened the mal-distribution of landownership and mal-concentration of national economic power.

Second, business expenditures for non-business purposes, such as political donations, encroached on business profits. Business firms that issued dishonored bills turned on banks' or court's management, then demanded relief funds from the government. This lack of responsibility increased social condemnation (SKS, September 28, 1980).

President Chun stated the three objectives of the Special Measures; 1) to solve the present economic crisis, 2) to reinforce business competitiveness, and 3) to realize the 1980s democratic welfare society. Then, he directed his cabinet members to emphasize the following measures: First, promote disposal of non essential real estate owned by enterprises and businessmen, and prohibit business enterprises from holding excessive real estate. Second, consolidate the chaebol's subsidiaries. Third, supplement the existing system for business consolidation and keep the relief fund under government surveillance. Fourth, introduce an independent business audit system. Last, rationalize the corporate tax system to support business efforts for cutting their operational expenses and for improving their financial structure.

In order to promote disposal of idle real estate and regulate enterprises and businessmen from holding it, this
policy provided the following guidelines: First, determine the amount of real estate held by enterprises and businessmen with substantial outstanding credit, and direct them to dispose of excessive real estate to improve their financial structure. Second, since determining the chaebol’s land holdings may take time and hinder business activities, let the businesses voluntarily report the present status of their real estate holdings within a set grace period.

Third, classify the reported real estate into necessary and non-essential real estate, and encourage businessmen to voluntary dispose of idle real estate. If needed, let public agencies including the Korea Land Development Corporation, the Korea Housing Corporation and local governments, buy that real estate at its appraised price. In this case, the public agencies will pay the corporations with either cash or land bonds. This land will be utilized for the national economy, such as for low-income housing or industrial sites. Fourth, the proceeds from the sales of land held by corporations must be used to repay bank debts. The proceeds from the sales of land held by businessmen must be transferred to paid-in corporate capital, thus improving the financial structure of their firms.

Fifth, provide financial and tax support for corporations which report their real estate, by not investigating the sources of funds for real estate.
purchases, recognizing vested property rights, and allowing payment of the capital gains tax on the installment plan. Place sanctions on firm owners who do not voluntarily report about their land holdings. For these purposes, detailed surveys are to be taken by teams, composed of officials of the National Taxation Office, the Financial Institutions Association, and local governments. If these agencies find un-reported idle real estate, then place sanctions on firm owners, such as inspecting the source of acquisition funds, levying heavy taxes on gifts, inheritance and capital gains, blocking further financial credit, and expropriating idle land by using the Expropriation Law. Sixth, prohibit financial institutions from holding idle real estate, and recommend them to provide credit-based loans rather than loans secured by real estate.

Last, in order to regulate further holdings of idle real estate, revise the criteria of the industrial sites, and not allow forest land and vacant land as loan collateral. When business enterprises with outstanding debts plan to purchase real estate, enforce them to report it to their main transaction bank, the bank with which they deal with their financial transactions mostly. If they plan to sell their real estate during the report period, they must report to their main transaction bank prior to transferring land titles; otherwise, that real estate will
be dealt with as non-report real estate subject to sanctions.

According to these guidelines, the report period was set for September 29 to October 15, 1980. The total of 1,216 firms were ordered to report their land holdings. Out of these 1,216 firms, 1,102 firms were subsidiaries of the ninety-six chaebol, each of which had a total outstanding credit of more than twenty billion Won ($30.3 million). The remaining 114 firms were the non-chaebol enterprises with a total outstanding credit of more than ten billion Won ($15.2 million) or total loans of more than five billion Won ($7.6 million). In addition to these business firms, the firm owners, business executives, and owners’ families and special relatives had to report their land and other real estate.

4. The Third Measure in 1990

Policy Making: In order to cope with the speculative problems that occurred in the late 1980s, the state established the Committee for Land and Public Welfare Program in May 1988. According to its policy recommendations, a series of laws were enacted, such as the Residential Landownership Limit Law, the Excessive Land Profits Tax Law, and the Land Developmental Gains Recapture Law. These laws were supposed to slow the rapid increase of
land prices, however, land prices continued to increase even after their enactment.

As a result, the state proposed further speculation control measures in April 13, 1990. These measures were composed of seventeen items, of which the fourteenth item dealt with policy for businesses' idle land by strengthening the criteria for classifying idle land (Tonga ilbo, April 13, 1990). However, many real estate experts criticized this policy. They argued that if the government wanted to control land speculation, the quickest way was to control the chaebol's speculation. On April 30, President Roh sent special directives to his cabinet to reduce the chaebol's real estate speculation.

The Policy Committee of Real Estate and the Working-level Committee for Anti-Speculation Measures devised idle land policy measures to control further speculation. The Ministry of Finance played a leading role in policy formulation. While the MOF, the Economic Planning Board, and the Ministry of Commerce and Industry prepared criteria for determining idle land, the National Taxation Office and the Banks Audit Board classified specific land holdings as idle land. Pursuant to these Committees' recommendation, President Roh announced the special measures on May 7, 1990, among which idle land policy was the key content.
Contents of the Special Measures: President Roh apologized to the people for the social instability and economic crises, which occurred during the process of merging the ruling with the two opposition parties. Then he promised to rectify the "Aggregate Crises" (Ch’ongch’e-jok nan’guk), which spread to the country’s political, societal and economic system. For this purpose, he emphasized the following future administrative directions (Tonga ilbo, May 7, 1990):

First, decisively implement existing laws and restore social order. Second, order the chaebol and financial institutions to dispose of their idle and excessive land holdings, thus redressing the tendency to pursue profits from land speculation rather than from industrial activities. Third, guarantee legal labor movements, but prohibit illegal labor strikes or politicized labor movements. Last, stimulate business motivation for industrial investment and achieve long-term stable economic growth.

The next day, the "Special Measures for Controlling Real Estate Speculation and Stabilizing Prices" were announced by the economic ministers, including the Minister of Economic Planning Board, Sung-yun Yi, the Minister of Finance, Yong-ui Chong, the Minister of Commerce and Industry, P’il-su Pak, the Minister of Construction, Yong-
gak Kwon, and the Minister of the National Taxation Office, Yong-t’aek So (Tonga ilbo, May 8, 1990).

The state designated the forty-nine largest chaebol, which were under supervision of their bank credit, pursuant to the Bank Credit Managements Regulations. The chaebol had to dispose of their non-functional real estate (land and buildings) within six months. In addition, financial institutions, including commercial banks, stock and security companies, had to dispose of their idle and excessive real estate within three months.

The chaebol were given options for disposal methods. They could voluntarily sell their land, entrust the Korea Auction Corporation to auction off their real estate, or request the Korea Land Development Corporation to buy it. This real estate was not to be purchased by a seller’s other subsidiaries or their families; this regulation was to prevent this from re-occurring. In the early 1980s when the second idle land policy was implemented, this idle land was purchased back by the chaebol’s families and subsidiaries (for details, see section D in chapter 6).

In the meantime, financial institutions also were requested to dispose of their idle real estate. For real estate purchased after January 1, 1989, the state advised them to dispose of excessively held real estate. For real estate purchased before January 1, 1989, the state ordered them to dispose of idle real estate. If it was not sold
within three months, the financial institutions had to allow the Korea Auction Corporation to sell it.

In addition to the disposal of idle land, new purchases, except for industrial purposes, were prohibited for the next year. Financial institutions would not be allowed to open new local branches for the next six months, i.e., by the end of 1990. Moreover, some land could not be used as collateral for bank credits, such as idle land held by all enterprises (not only the chaebol), luxurious real estate like villas or golf fields, excessive real estate held by individuals, and real estate not registered under the actual owners' names.

To encourage disposal of idle land, the state requested that the chaebol and financial institutions submit disposal plans to the Bank Audit Board by the end of June, 1990. By the end of May 1990, the state planned to investigate the status of idle land held by the five top-ranked chaebol (Samsung, Hyundai, Daewoo, Lucky Gold Star, and Hanjin), and by the end of June 1990 in case of land held by the other forty-four chaebol.

If these firms did not dispose of idle real estate within six months, sanctions would be enforced according to the Bank Credit Managements Regulations; new purchase of real estate would not be permitted, or new bank credits would be blocked. If the chaebol were to purchase real estate without prior approval by their main transaction
banks, these banks would impose the delayed interest rates, on existing credits equivalent to the value of the new real estate. (The loan interest rate was ten percent at annum, while the delayed interest rate was nineteen percent at annum in 1990.) To prevent further investment in idle land, the state expanded its criteria of idle land, applicable from January 1991, and prohibited the forty-nine chaebol from entering resort and leisure industries, which require a lot of land.

Then, how much idle land had there been?

5. Status of Idle Land

The First Measure in 1974: Though the state expressed its concern by ordering the chaebol to dispose of their idle land, the target size was not clearly mentioned in the first measure. Several sources of information will be used to figure out the areas targeted by this policy. First, on June 3, 1974, the National Taxation Office announced its plan to survey the amount of real estate held by 470 firms, subsidiaries of the chaebol. Though this survey ended in mid-July, 1974 (SKS, June 4, 1974), its results were not open to the public under the pretext of protecting the confidentiality of target groups.

Second, following the state’s order, the Group A firms proposed their schedules for improving their financial structures on April 1975, in which they would dispose of
twenty-seven subsidiaries, consolidate seventeen subsidiaries, and dispose of idle land amounting to 5,380,000 pyong (17.8 km$^2$). When these schedules were finished by the end of 1977, the chaebol would be able to amass 318.1 billion Won ($657 million) for industrial funds, of which 50.5 billion Won ($104 million) would be from the proceeds for idle land (SKS, April 26, 1975). However, later information did not support these data; the Group A and B chaebol together held 18,290,000 pyong (60 km$^2$) of idle land, amounting to 42 billion won ($88 million) (SKS, December 28, 1975).

Third, during the period of November 1975 to August 1976, the Minister of Finance directed the chaebol to dispose of 4,903,000 pyong (16.2 km$^2$) idle land, equivalent in value to 48.1 billion Won ($99 million) (SKS, November 3, 1976, T’oji kumgo 1979: 74).

Fourth, the Korea Land Bank was created on April 1, 1975. Just after its inauguration, the Land Bank surveyed the idle land holdings held by all business groups during April 1975 to November 1976. It found that the amount of idle land was 54,409,000 pyong (179.9 km$^2$) (T’oji kumgo 1979: 69).

Finally, joint survey teams were organized by the Bank Audit Board, the main transaction banks, and the Land Bank. When these teams conducted five time surveys on the chaebol’s idle land during March 1976 to October 1976, they
found the total amount of land was 30,263,000 *pyong* (100.0 km²), valued at 32.37 billion *Won* ($67 million) (T’oji kumgo 1979: 70).

In summary, this information indicated that the total amount of idle land held by all business enterprises was about 54.4 million *pyong*, of which 30.3 million *pyong* was held by the *chaebol*, and 18.3 million *pyong* was held by the Group A and B *chaebol*. The Group A *chaebol* said that they would dispose of 5.4 million *pyong*. When the scheduled disposal slowed, the Ministry of Finance directed the *chaebol* to sell 4.9 million *pyong*. Though the state did not announce the total amount of targeted land, one cue could be found in an assemblyman’s statement in the National Assembly, in which the target area of the first measure was 7,150,000 *pyong* (23.6 km²).4

This inconsistency in statistics implies that the state under President Park lacked the capability to effectively administer its idle land policy. As the state did not prepare well for implementing this policy, and did not figure out the entirety of idle land holdings, it had to depend on the *chaebol*’s voluntary reports about their land holdings. However, they did not report all of their idle land holdings.

These problems in administrative capability were gradually corrected. The state under President Chun surveyed the status of the *chaebol*’s land holdings before
announcing the second measures in 1980. The state under President Roh already utilized a computerized system in dealing with land information, and thus the managerial capability of the state was enhanced. This enhanced capability allowed it to order the chaebol to dispose of idle land, even if it was registered under the firm owners’ families, relatives, and other persons’ names.

The Second Measure in 1980: The second measure ordered 1,216 firms to report their land holdings, out of which 1,198 corporations reported. The remaining eighteen firms were the dishonored companies which failed to pay their bills, and others that were not chaebol subsidiaries or did not hold any real estate (SKS and Han’guk ilbo, October 17, 1980).

The amount of real estate reported was 453,124,000 pyong (1,498 km²), of which ninety-eight percent or 442,912,000 pyong (1,464 km²) were land, and two percent or 10,912,000 pyong (36 km²) were buildings. Each firm, thus, owned an average 378,200 pyong (1.3 km²) of real estate. Of all real estate reported, three-fourths or 340,866,000 pyong (1,127 km²) was registered by the firms’ name, and one-fourth or 112,258,000 pyong (371 km²) was registered under the firm owners’ name; they were 1,209, owned 111,639,000 pyong (369 km²) of land and 619,000 pyong (2 km²) of buildings. These businessmen proposed to the state that
they would dispose of 29,495,000 pyong (97 km²), equivalent to twenty-seven percent of the real estate registered under their name.

The chaebol reported to the state that 3.4 percent of their land (15,059,000 pyong) and 0.6 percent of their buildings (61,272 pyong) were idle real estate (SKS, October 24, 1980). From November 1 to December 20, 1980, the state inspected the chaebol’s land holdings. After this survey, it determined the amount of idle land as 85,335,000 pyong (282.1 km²) (RNA, October 28, 1982).6

The Third Measure in 1990: Three days after the state issued the Special Measure, the top ten chaebol announced their plans to dispose of 15,700,000 pyong (51.9 km²) of their idle land (Tonga ilbo, May 11, 1990). Later, the other thirty-five chaebol also announced their plans for disposing 15,650,000 pyong (51.7 km²) of idle land. On May 8, the National Taxation Office announced its plan to investigate the status of the forty-nine chaebol’s land holdings by the end of June 1990. This survey found that the forty-eight chaebol held 206,349,000 pyong (682.1 km²) in 1989, equivalent to 17,602 million Won ($25 million).7 Thirty five percent of their land or 72,856,000 pyong (240.8 km²) was idle land (table 5.1). The NTO decided on 62,550,000 pyong (206.8 km²) as a policy target, this land had to be disposed of within six months.
Table 5.1 Status of Idle land Holdings, 1989

(Units: 000 pyong, billion Won)

<table>
<thead>
<tr>
<th>Chaebol</th>
<th>Total Land (A)</th>
<th>Idle Land (B)</th>
<th>Ratio (B/A)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Area</td>
<td>Amount</td>
<td>Area</td>
</tr>
<tr>
<td>Total</td>
<td>206,349</td>
<td>17,602.1</td>
<td>72,856</td>
</tr>
<tr>
<td>(35,214)</td>
<td>(986.8)</td>
<td>(17.1) (5.6)</td>
<td></td>
</tr>
<tr>
<td>Samsung</td>
<td>30,016</td>
<td>2,516.6</td>
<td>1,517</td>
</tr>
<tr>
<td>Hyundai</td>
<td>10,572</td>
<td>1,676.5</td>
<td>1,982</td>
</tr>
<tr>
<td>Lucky Kumsung</td>
<td>7,274</td>
<td>1,596.8</td>
<td>1,586</td>
</tr>
<tr>
<td>Daewoo</td>
<td>4,859</td>
<td>1,460.2</td>
<td>434</td>
</tr>
<tr>
<td>Hanjin</td>
<td>7,469</td>
<td>442.8</td>
<td>5,462</td>
</tr>
<tr>
<td>Ssangyong</td>
<td>10,474</td>
<td>406.7</td>
<td>2,468</td>
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<tr>
<td>Son’gyong</td>
<td>16,952</td>
<td>887.7</td>
<td>604</td>
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<tr>
<td>Han’guk Hwayak</td>
<td>17,337</td>
<td>787.5</td>
<td>11,103</td>
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<tr>
<td>(1,736) (99.2) (12.6)</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Tonga</td>
<td>1,183</td>
<td>321.8</td>
<td>371</td>
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<tr>
<td>Lotte</td>
<td>1,927</td>
<td>1,019.2</td>
<td>444</td>
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<tr>
<td>Kia</td>
<td>1,858</td>
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<tr>
<td>Taerim</td>
<td>2,460</td>
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<td>Hyosong</td>
<td>1,408</td>
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<td>6,493</td>
<td>423.3</td>
<td>648</td>
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<tr>
<td>Tongguk Chegang</td>
<td>5,671</td>
<td>285.0</td>
<td>4,749</td>
</tr>
<tr>
<td>(133) (6.2) (2.3) (2.2)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hanil Hapsom</td>
<td>2,501</td>
<td>345.9</td>
<td>452</td>
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<tr>
<td>Kumho</td>
<td>5,477</td>
<td>439.2</td>
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<td>Korong</td>
<td>3,670</td>
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<td>Sammi</td>
<td>811</td>
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<tr>
<td>Kuktong Konsol</td>
<td>1,840</td>
<td>153.1</td>
<td>1,709</td>
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<tr>
<td>Mivon</td>
<td>1,395</td>
<td>121.7</td>
<td>612</td>
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<tr>
<td>Tongbu</td>
<td>1,900</td>
<td>257.4</td>
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<td>Tongyang Cement</td>
<td>3,988</td>
<td>113.7</td>
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<tr>
<td>Hanbo</td>
<td>380</td>
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<tr>
<td>Koryo Hapsom</td>
<td>149</td>
<td>44.9</td>
<td>23</td>
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<tr>
<td>Kuktong Chongyu</td>
<td>783</td>
<td>631.9</td>
<td>119</td>
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<tr>
<td>Haetae</td>
<td>699</td>
<td>118.6</td>
<td>401</td>
</tr>
<tr>
<td>T’ongil</td>
<td>959</td>
<td>147.7</td>
<td>129</td>
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<tr>
<td>Halla</td>
<td>3,557</td>
<td>168.4</td>
<td>1,728</td>
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<tr>
<td>P’ungsan</td>
<td>1,838</td>
<td>131.4</td>
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<tr>
<td>Sanyangsa</td>
<td>748</td>
<td>106.4</td>
<td>201</td>
</tr>
<tr>
<td>Pyoksan</td>
<td>743</td>
<td>150.7</td>
<td>240</td>
</tr>
<tr>
<td>Anam Sanop</td>
<td>206</td>
<td>98.5</td>
<td>40</td>
</tr>
<tr>
<td>Taehan Choson</td>
<td>265</td>
<td>37.8</td>
<td>57</td>
</tr>
<tr>
<td>Pomyang Sangson</td>
<td>110</td>
<td>33.1</td>
<td>1</td>
</tr>
<tr>
<td>Chinhung Kiop</td>
<td>63</td>
<td>25.7</td>
<td>0</td>
</tr>
<tr>
<td>Hanyang</td>
<td>633</td>
<td>147.2</td>
<td>8</td>
</tr>
<tr>
<td>Tongguk Muyok</td>
<td>409</td>
<td>75.2</td>
<td>6</td>
</tr>
</tbody>
</table>
Table 5.1 (Continued) Status of Idle land Holdings, 1989

(Unit: 000 pyong, billion Won)

<table>
<thead>
<tr>
<th>Chaebol</th>
<th>Total Land (A)</th>
<th>Idle Land (B)</th>
<th>Ratio (B/A)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Area</td>
<td>Amount</td>
<td>Area</td>
</tr>
<tr>
<td>Samik Chut’aek</td>
<td>114</td>
<td>33.3</td>
<td>3</td>
</tr>
<tr>
<td>Toyang Hwahak</td>
<td>5,296</td>
<td>131.2</td>
<td>389</td>
</tr>
<tr>
<td>Chillo</td>
<td>2,030</td>
<td>178.1</td>
<td>492</td>
</tr>
<tr>
<td>Kangwon Sanop</td>
<td>1,445</td>
<td>53.8</td>
<td>54</td>
</tr>
<tr>
<td>Laip</td>
<td>919</td>
<td>1,427.0</td>
<td>93</td>
</tr>
<tr>
<td>Kyesong Cheji</td>
<td>250</td>
<td>37.5</td>
<td>43</td>
</tr>
<tr>
<td>Usong Konsol</td>
<td>1,335</td>
<td>335.7</td>
<td>35</td>
</tr>
<tr>
<td>Yuwon Konsol</td>
<td>2,505</td>
<td>59.4</td>
<td>97</td>
</tr>
<tr>
<td>Hansin Kongyong</td>
<td>178</td>
<td>132.1</td>
<td>29</td>
</tr>
<tr>
<td>Taesong Sanop</td>
<td>33,200</td>
<td>57.0</td>
<td>25,543</td>
</tr>
</tbody>
</table>

Note: a) Exclude land held by the Han’guk Kukt’o Kaebal Ltd., which were under the court management. b) Exclude the forest held by the Tongguk Sanop Ltd. c) Excluded the forest land held by the Taesong T’anjwa Kaebal Ltd.
Source: Kuksech’ong, Kukhoe chech’ul charyo, 1990.

Table 5.2 Amount of the Forty-eight Chaebol’s Idle land, 1989

(Unit: 000 pyong, billion Won)

<table>
<thead>
<tr>
<th></th>
<th>Area</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Land Holdings</td>
<td>206,349</td>
<td>17,602.1</td>
</tr>
<tr>
<td>NTO’s First Decision</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Idle Land</td>
<td>72,856</td>
<td>1,015.9</td>
</tr>
<tr>
<td>Forced Disposal</td>
<td>62,550</td>
<td>n/a</td>
</tr>
<tr>
<td>Chaebol’s Appeal</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To NTO</td>
<td>49,651</td>
<td>651.4</td>
</tr>
<tr>
<td>To BAB</td>
<td>33,910</td>
<td>178.6</td>
</tr>
<tr>
<td>Excluded From Idle Land</td>
<td></td>
<td></td>
</tr>
<tr>
<td>By NTO</td>
<td>2,300</td>
<td>n/a</td>
</tr>
<tr>
<td>By BAB</td>
<td>2,750</td>
<td>n/a</td>
</tr>
<tr>
<td>Final Decision</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Idle Land</td>
<td>67,797</td>
<td>n/a</td>
</tr>
<tr>
<td>Forced Disposal</td>
<td>57,500</td>
<td>n/a</td>
</tr>
</tbody>
</table>

Table 5.3 The Target Amount under the Idle Land Policy

<table>
<thead>
<tr>
<th></th>
<th>1974</th>
<th>1980</th>
<th>1990</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Chaebol's Land</td>
<td>N/A</td>
<td>442,912</td>
<td>206,349</td>
</tr>
<tr>
<td>Total Idle Land</td>
<td>30,263</td>
<td>85,335</td>
<td>67,797</td>
</tr>
<tr>
<td>Chaebol's Proposal to Sell</td>
<td>5,380</td>
<td>29,495</td>
<td>31,350</td>
</tr>
<tr>
<td>State's Decision to Sell</td>
<td>7,150</td>
<td>85,335</td>
<td>57,500</td>
</tr>
</tbody>
</table>

Unlike the 1974 and 1980 measures, the chaebol requested that the NTO and the Bank Audit Board re-consider their decisions; 5,059,000 pyong (16.7 km²) was consequently excluded. As seen in table 5.2, the NTO and the BAB finally decided that 67,797,000 pyong (224.1 km²) was idle land, and 57,500,000 pyong (190.1 km²) was to be sold.

In summary, a total amount of land held by the chaebol was 443 million pyong in 1980 and 206 million pyong in 1990. A total amount of idle land was thirty million pyong in 1974, eighty-five million pyong or 19.3 percent of their land holdings in 1980, and sixty-eight million pyong or 32.9 percent of their land holdings in 1990. Before the state decided the amount of land targeted for disposal, they offered to voluntarily sell their land. This amounted to five million pyong or 17.8 percent of total area of idle land in 1974, twenty-nine million pyong or 34.6 percent in 1980, and thirty-one million pyong or 23.2 percent in 1990.

In contrast, the state had targeted seven million pyong to be sold in 1974, eighty-five million pyong in 1980 and
fifty-eight million pyong in 1990. This area was 23.6 percent of total area of idle land in 1974, 100 percent in 1980, and 84.8 percent in 1990. Table 5.3 summarized the amount of land targeted by the state.

C. Legislative Process of Idle Land Policy

During the policy making process, the role of the National Assembly was very limited. The idle land policy had been initiated by the executive branch. It was authorized using the special presidential ordinances, the legitimacy of which was based on the president’s constitutional authority, rather than on the delegation by the National Assembly. Most policy contents were defined by administrative statutes rather than by existing laws.

Since the role of the National Assembly was to legislate, it ratified presidential decisions by enacting the related laws later, such as the Korea Land Bank Law in 1974, the Korea Land Development Corporation Law in 1978, and the laws related to the Land and Public Welfare Program in 1989. To supplement the presidential statutes, it also revised existing laws including income tax, property tax, capital gains tax, and corporation tax laws.

These laws did not meet serious opposition in the National Assembly. First, both ruling and opposition parties supported this policy, at least publicly. Second, the ruling party commanded more than a half of the Assembly
Table 5.4 Economic Bills Proposed by the Executive Branches during Park’s Regime, 1961-79

<table>
<thead>
<tr>
<th></th>
<th>3rd Republic</th>
<th></th>
<th>4th Republic</th>
<th></th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cases Rate</td>
<td>Rate</td>
<td>Cases Rate</td>
<td>Rate</td>
<td>Cases Rate</td>
</tr>
<tr>
<td>Proposed</td>
<td>165</td>
<td>100.0%</td>
<td>141</td>
<td>100.0%</td>
<td>306</td>
</tr>
<tr>
<td>Passed</td>
<td>119</td>
<td>72.1</td>
<td>134</td>
<td>95.0</td>
<td>253</td>
</tr>
<tr>
<td>Repealed</td>
<td>24</td>
<td>14.5</td>
<td>4</td>
<td>2.8</td>
<td>28</td>
</tr>
<tr>
<td>Withdrawn</td>
<td>7</td>
<td>4.2</td>
<td>1</td>
<td>0.7</td>
<td>8</td>
</tr>
<tr>
<td>Abolished Due to</td>
<td>15</td>
<td>9.1</td>
<td>2</td>
<td>1.4</td>
<td>17</td>
</tr>
<tr>
<td>Session End</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


seats. Thus, even if opposition parties did not agree with these bills, they would pass the laws. Finally, members of the ruling party were loyal to the president. In such a political climate and situation, most bills proposed by the executive branch were passed regardless of their content.

Table 5.4 supports this. During Park regime (1961-1979), 306 economic bills were proposed by the executive branch, of which eighty-three percent was passed by the National Assembly, while only nine percent was repealed.

In the case of idle land policy measures, the major role of the National Assembly was to monitor policy implementation rather than initiate policy formulation. The legislature exercised policy control by inquiries to the ministries responsible, and a parliamentary audit of the executive branches. Through such monitoring activities, the National Assembly partially participated in policy
implementation, even if it was excluded at the policy formulation stage.

Then, what was the response to this policy from the concerned interest groups, including the chaebol and the general populace? The degree of compliance by policy target groups and the extent of support by the general public would influence the degree of their implementation. The next section will review these responses between the period of just after policy announcement and before real implementation.

D. Responses from Concerned Interest Groups

1. The First Measure in 1974

From Business Groups: At the beginning stage, the business community accepted this policy as a necessary one. Three major business associations, the Korea Chamber of Commerce and Industry, the Korea Trade Association, and the Federation of Korea Industries, saw the Directives as relevant and appropriate. The Korea Trade Association even "welcomed" the Directives (SKS, May 30, 1974).

However, business groups had trouble choosing between the two options which the state proposed: paying their debts with capital from selling their shares at the stock market, or disposing of their subsidiaries and real estate. The chaebol did not want to sell their property nor have the
state intervene in their management. In fact, they doubted the rationale of the government’s policy. They worried that when they provided their financial statements, the government would use this information to oversee their property and control their management. Business groups hated the increasing government control over their activities (Choson ilbo, May 31, 1974).

Therefore, though the chaebol accepted these measures as necessary, they warned the government that this policy might discourage entrepreneurship. The Korea Chamber of Commerce and Industry asked that the state prevent the "side-effects" of these measures. The Korea Trade Association also requested that the government establish "pre-requisites" for a healthy stock market and encourage petty-capitalists to invest in the stock market.

The Federation of Korea Industries (FKI), a society representing the interests of the chaebol groups, responded more positively (SKS, May 30, 1974). The FKI demanded that the government fulfill seven "pre-requisite" conditions before implementing this policy as follows: 1) establish a market price system, 2) expand and normalize the stock and financial markets, 3) soundly manage the state’s budget, 4) improve the functional effectiveness of all financial institutions, including banking and the insurance industry, 5) guarantee the confidentiality of firms’ managerial information, including financial statements, 6) prepare the
preferential conditions for corporations to open their firms to the public, and 7) allow the shares in public enterprises owned by the state to be openly traded in the stock market.

The FKI complained, "The reason why we purchased real estate was that commercial banks required it as collateral. Banks should treat our stock as loan collateral" (SKS, June 1, 1974). Three days later on May 31, 1974 after the state announced this policy, the FKI organized the Countermeasure Council for Building Healthy Business (Kiop konjon ch’eje taech’aek wiwonhoe), composed of business groups, financial institutions and academicians (Chon’guk kyongje-in yonhaphoe 1991b: 57).

This council met more than ten times, then, with the FKI, requested that the government relax its new regulations by taking a series of steps. First, increase the allowable debt load (i.e., outstanding credit) for the chaebol from five billion ($10 million) to ten billion Won ($21 million). Second, postpone implementation from July 1, 1974 to the next year. Third, minimize state intervention and let the private sector manage the reduction of its debt ratio and offering of shares on the stock market to the public. Fourth, keep confidential the information including the chaebol’s financial structure (SKS, June 4, 1974).

The government’s response to these demands was favorable. At an informal meeting organized by the FKI on May 31, the Minister of Finance, Tog-u Nam, accepted the
chaebol's requests and promised not to hastily implement this new policy. Moreover, he promised to include representatives of the business community in the Financial Normalization Committee, in order to reflect the interests of the business sector (SKS, June 2, 1974). A deputy director of the Financial Institution Bureau of the Ministry of Finance, Tong-son Ha, explained the fundamental purposes of the policy, and requested the chaebol's "cooperation" (not obedience) to this policy.

No one denies the contributions by business groups to the growth of the national economy. The history of our economic growth is the history of business groups' growth. Our economy started under the difficult situations such as a lack of resources and capital. Private enterprise also started business with little capital. Thus, business enterprises had to depend on bank credits and foreign capital from the beginning. In addition, as the state gave the priority to fostering industries, the government had to help the formation of the chaebol.

Basically, these measures are to foster healthy business activities, promote real growth of the economy, rectify business' excessive dependency on bank loans, and redress the excessive concentration of economic powers in a few hand.

We have heard some complaints about this policy. These arguments include 1) this measure may reduce business entrepreneurship. 2) The government should allow business more time to prepare its schedule for voluntary implementation. 3) The financial market should be strengthened. 4) As the land market is depressed now, disposal of idle real estate may be quite limited. And, 5) the government should secure the confidentiality of business activities.

We already reviewed these issues during the process of policy formation. However, at the implementation stage, we will adjust the measures if needed.

We request voluntary help of business enterprises to this policy. Since these measures are designed to revitalize business activities, business firms have to work to help themselves (SKS, June 7, 1974).
After receiving promises of preferential treatment by the state, the FKI adopted five items in its pledge on June 12, 1974, the "Proposal for Achieving Healthy Business Environments" (Chon’guk kyongje-in yonhaphoe 1991b: 570). It stated, "we businessmen will voluntarily do these things."

First, dispose of idle real estate to improve our financial structure. Second, sell subsidiaries that cannot be managed by the owners' self financial capability, and concentrate our efforts on the corporation's leading industry. Third, restrain from heavy dependance on bank loans, and from entering to new projects beyond our financial capability. Fourth, pursue the specialization of business activities and promote public investment in business, thus improving relations with the public.

Fifth, we also propose that the government do the followings: 1) Implement these measures flexibly, and thus avoid reducing entrepreneurship. 2) Normalize the operation of financial institutions and reform the financial system, thus encouraging banks' autonomy. 3) Protect business credibility by implementing these measures without publicity. 4) Implement the measures based on dialogues with business firms (SKS, June 13, 1974).

From Public Opinion: Public response was two-fold; while the general public strongly supported these measures,
they doubted whether the state would really effectively implement them.

The idle land policy measures were regarded as an attempt to mitigate the conditions of the extreme concentration of wealth and property ownership by privileged chaebol owners and their family members, as the very source of both wealth and property was the general public’s labor and sweat. The chaebol had utilized most resources and policy privileges, including financial and monetary support, tax favors, and foreign fund allocations. Moreover, since 1973 all new industrial projects sponsored by the state were allocated to the chaebol, which monopolized profits thereof. However, even if business enterprises collapsed and went bankrupt, businessmen remained still rich (Kiob un manghaedo, kiob-in un hunghanda). As this situation needed to be corrected, these idle land policy measures were welcomed by the general public (An Editorial Article of Han’guk ilbo, May 30, 1974).

Academicians also supported these measures. Professor Hyon-jae Yi, who later became the Prime Minister under President Chun, argued that, if the chaebol themselves did not make efforts to improve their financial status, they had to be forced. Though the chaebol offered various excuses against this policy, the fundamental cause was the egotism of their owners, who behaved with the arrogance of the early capitalists (SKS, June 8, 1974).
As mentioned in chapter 4, 94.1 percent of the people welcomed this policy, while 2.1 percent opposed it. The more highly educated supported it more strongly; the university post-graduates supported it by 95.2 percent. Law-school students and real estate brokers unanimously supported it. Attorneys consented by 91.5 percent while the remaining 8.5 percent opposed it because of constitution concerns about the protection of private ownership. Interesting enough, while 94.1 percent of the assemblymen supported this policy, the remaining 5.9 percent were indifferent. This was the highest percentage among the various respondent groups (Kukt'o kaebal yon'guwon 1979b: 67-70).

Even if the public supported this policy, they also doubted the government's motivation. According to President Park, it was designed to make the chaebol open up to investment by the public. That is, the wealth accumulated and created by the government's growth-oriented policies had to be shared by the chaebol with the entire nation. However, the Minister of Finance transformed this purpose into that of improving the chaebol's financial structure.

The Korean economy has developed under a situation of a lack of capital. Thus, enterprises have had to depend heavily on bank loans and foreign debt, which have weakened the financial structure of firms. The so-called August 3 Measures in 1972 helped business groups solve the urgent crisis in their financial situations. Nonetheless, some permanent measures have been necessary. The Business Open Promotion Law in 1973 was made to solve these problems, but the chaebol disguised their financial structure by manipulating
their balance sheets so that the government could not designate them for the public’s investment.

This situation drove President Park to announce the new policy directives. But, the measures by the Ministry of Finance transmuted political decision into economic inevitability. The MOF has emphasized the unavoidability of family-oriented chaebol formation during the process of rapid capital accumulation. The fundamental concern of the MOF was in improving the financial structure itself rather than in opening enterprises to investment by the public. In other words, if firms could reduce their debt/equity ratio and not depend on the government or banks for their funds, the degree of concentration of the ownership of wealth and property by family-oriented chaebol would not matter to the MOF (An Editorial Article of SKS, May 31, 1974).

The public also doubted the effectiveness of these measures. The government used the chaebol’s financial statements in defining the Group A and B chaebol. That is, the criteria were applied to the whole chaebol rather than individual companies, even if there were significant differences in the financial statements between subsidiaries, which belonged to the same chaebol. There was a high possibility that the government applied these criteria arbitrarily.

In addition, since the government had to use the financial statements which were made by the chaebol themselves, the truthfulness of the data was doubted. The general public already watched how the chaebol had manipulated their financial statements in order to evade being forced to sell shares in the stock market. The public did not believe in the objectivity of the data prepared by them.
Moreover, the government did not disclose either the data presented by the chaebol, or the data evaluated by the government. According to the government, it was responsible for protecting the confidentiality of the targeted chaebol; because most chaebol used foreign funds, publishing the data might be harmful to their credibility in international markets (SKS, June 1, 1974). Thus, the public did not have any means to monitor policy implementation, and was reluctant to believe in the honesty of this policy.

In summary, during the period between policy announcement and policy implementation, both the chaebol and the public opinion supported the government’s measures in general, and accepted them as necessary or inevitable. However, the chaebol endeavored to influence the government’s implementation, while the public doubted the government’s intents and policy effectiveness.

2. The Second Measure in 1980

*From Business Groups:* When the "new military groups" (Sin-gunbu) led by General Chun obtained political power in May 1980 and the society was frozen by this coup, the business community took some positive action about land problems prior to state intervention, probably because they did not want to see a repeat of the experience of 1961, when General Park and his military junta arrested most of the nation’s leading businessmen and confiscated their illicit

Before the state adopted its second idle land policy, the business community announced a series of resolutions. On June 13, 1980, the Federation of Korea Industries proposed the "Vision for Preparing a New Society," in which they stated that an illicit accumulation of wealth through land speculation caused social instability, among other things (Chon'guk kyongje-in yonhaphoe 1980: 82-87). On July 16, 1974, five business organizations held urgent meetings, including the FKI, the Korea Chamber of Commerce and Industry, the Korea Trade Association, the Central Cooperatives of Small-Medium Size Industries, and the Korea Managers' Association. At this meeting, the business community adopted the "General Principles of Business Ethics," in which they decided not to involve in further speculation (Idem 1983: 476-78).

When this second measure was announced in September 1980, the business community rapidly, but cautiously, welcomed it. The president of the Hyundai Group, Chu-yong Chong who was the president of the FKI in 1980 and later became the presidential candidate of the Unification National Party in 1992, commented that "this measure is to stimulate the chaebol to examine their financial situation, and to find solutions to strengthen their financial structure. Thus the measure is very timely" (Choson ilbo,
September 28, 1980). The president of the Samsung Shipbuilding Co., U-dong Cho, who became the chairman of the countermeasure council established within the FKI, commented that "the current economy is in a depression phase. Thus, this measure will not lessen business entrepreneurship. A depression is an opportunity to improve a company's financial structure" (SKS, September 28, 1980).

The business community summoned all businessmen of the FKI, the KCCI, the KTA, the CCSSI and the KMA, and adopted the following four items on September 30 (SKS, October 1, 1980).

First, the September 27 Measure is necessary and inevitable for helping our economy newly take off and achieve further economic growth. Second, this measure is the only way to establish business self-reliance. Business enterprises that do not follow these demands will not be protected or supported any more. Third, we will do our best to improve our financial structure by disposing of idle real estate or consolidating our subsidiaries. Fourth, we will take the initiative to respond to this timely demand and improve the financial structure of business enterprises.

However, the business community was "shocked" by this measure (Chon'guk kyongje-in yonhaphoe 1991b: 162-63). Although they understood the intent of the policy, they regarded it as a violation of private entrepreneurship. They soon allied with each other as their interests were at
Table 5.5 The Countermeasure Committee for Idle Land Policy, 1980

<table>
<thead>
<tr>
<th>Members</th>
<th>Position</th>
<th>Institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cho, U-dong</td>
<td>president</td>
<td>Samsung Shipbuilding Co.</td>
</tr>
<tr>
<td>Kim, Ip-sam</td>
<td>vice-president</td>
<td>FKI</td>
</tr>
<tr>
<td>Pak, Yong-hak</td>
<td>president</td>
<td>Taenong Ltd.</td>
</tr>
<tr>
<td>Chong, Ch'un-t'aeck</td>
<td>&quot;</td>
<td>Korea Exchange Bank</td>
</tr>
<tr>
<td>Cho, Nae-byok</td>
<td>&quot;</td>
<td>Laip Housing Development</td>
</tr>
<tr>
<td>Cho, Song-nae</td>
<td>&quot;</td>
<td>Tongyang Nylon Ltd.</td>
</tr>
<tr>
<td>Kim, Tong-hwan</td>
<td>lawyer</td>
<td>Kim's Lawyer Service</td>
</tr>
<tr>
<td>Ch'a, Pyong-gwon</td>
<td>professor</td>
<td>Seoul National Univ.</td>
</tr>
<tr>
<td>Hyon, Yong-jin</td>
<td>editorial</td>
<td>Chungang Daily</td>
</tr>
<tr>
<td>Chong, Yong-mo</td>
<td>president</td>
<td>Korea Housing Bank</td>
</tr>
<tr>
<td>Ch'oe, Ki-dok</td>
<td>&quot;</td>
<td>Korea Tax Law Institute</td>
</tr>
<tr>
<td>Pak, Chae-gwon</td>
<td>vice-president</td>
<td>KCCI</td>
</tr>
<tr>
<td>Sin, T'ae-sik</td>
<td>&quot;</td>
<td>FKI</td>
</tr>
<tr>
<td>Yim, Tong-sung</td>
<td>&quot;</td>
<td>KTA</td>
</tr>
<tr>
<td>Hwang, Ki-gon</td>
<td>&quot;</td>
<td>CCSSI</td>
</tr>
</tbody>
</table>


Two days later, on September 29, the presidents and vice-presidents of the five business organizations, the FKI, the KCCI, the KTA, the CCSSI and the KMA, met together. The next day, on September 30, the business community formed the "Countermeasure Council for Reinforcing Business Competitiveness Measures." This council, presided over by Chu-yong Chong, had thirty-six members who represented the five business organizations.

On October 7, this countermeasure council organized three sub-committees, the Countermeasure Committee for Idle Land Policy, the Countermeasure Committee for Consolidating Subsidiaries, and the Countermeasure Committee for Improving
the Financial Structure. Each sub-committee had fifteen to twenty members, including businessmen (34 members), academicians (3 professors), lawyers (4 attorneys), mass media professionals (3 editorial writers), financial institutions (3 presidents of commercial banks), and representatives of the five business organizations (8 vice-presidents). Table 5.5 shows committee members of the Countermeasure Committee for Idle Land Policy.

The business community reacted quickly to these measures. From early October, the sub-committees frequently met to devise their strategies. Finally, they proposed their opinions to the state on October 27, 1980.

We believe that these Special Directives propose to strengthen international competitiveness by improving businesses’ financial structure, thus reinforcing the structural development of Korean economy.

Therefore, we believe this policy has to be implemented so as not to weaken private entrepreneurship, nor to violate long-term business planning, nor to intrude upon the spirits of free market.

Thus, we are requesting that the government revise its existing criteria so that business’ real estate not be decided as industrial or idle by the current criteria (Chon’guk kyongje-in yonhaphoe 1980: 289-94). Their demands were as follows:

First, fifteen days is not enough to report the status of a company’s real estate holdings. In addition, the criteria for reporting real estate is not clear. The government has to provide clear criteria first, and then extend the report period (at least ten days more) to correct any reports in error. Second, the current criteria for
deciding whether real estate is industrial or idle are not adequate; new criteria are needed. Contrary to advanced countries, our economy is still developing. We need to anticipate the future growth of both our businesses and the nation’s economy. Some real estate, not being used now, is being held for future industrial sites. The government has to reconsider this aspect. In addition, in deciding which real estate is idle, the government has to consider the uniqueness of each industry.

Third, some real estate, classified as idle under current criteria, has been already recognized as operating real estate by the main-transaction banks. This real estate has to be regarded as industrial real estate. Fourth, since land conversion (a type of rezoning) has been strictly restricted until now, it was inevitable for us to register the land title by using other people’s name. Therefore, although some real estate is registered under other names, if it is actually used for business purposes, then it must be regarded as business property.

These demands focussed on relaxing the criteria for defining idle land. The business community moved beyond these demands. On December 22, 1980, they proposed the second requests to the government. This time, their demands focussed on asking favors when implementing idle land policy.

We believe that these Special Directives propose not to punish business enterprises, but to construct
the basis for long-term growth and reinforce international competitiveness through improving business financial structure.

Therefore, we believe this policy has to be implemented for stimulating normal enterprise activities, lightening business burdens that make business harder during this depression phase, and helping business grow.

Thus, we request that the government reconsider the problems in disposing of real estate (Chon'gu kyangje-in yonhaphe 1980: 294-96).

They demanded as follows:

First, when the proceeds from the sale of idle real estate are used for paid-in capital, the firm owners' stock share to the total firms' stocks will be changed. Even if the acquisition tax is levied on the increase in share holdings, this tax should not be levied in this case.

Second, the Korea Land Development Corporation will purchase some of the idle land. In this case, the KLDC uses the appraisal prices assessed by the Korea Appraisal Board. However, this appraisal price is usually lower than the market price. The KLDC purchasing prices should be decided on the basis of market prices rather than appraisal prices.

Third, when we sell idle land to the KLDC, the real estate transaction income tax should not be levied.

**From Public Opinion:** As discussed in chapter 4, 83.8 percent of the people consented to this policy, while 8.3 percent opposed it and 7.9 percent were indifferent.

Residents in Seoul and large cities favored the policy more than those in smaller cities and rural areas. The landless
consented to the policy by 85.6 percent, while 6.3 percent of them opposed it. Even landowners said "yes" to this policy by 80.5 percent. Moreover, owners of idle land supported this policy measure by 75.6 percent, while 15.9 percent of them opposed state intervention in idle land issues (Kukt’o kaebal yon’guwon 1985: 88-93).

While the absolute majority of the people supported this policy, they criticized the past government policy. According to their opinion, "The government has known about irregular business activities including speculation. But, because of their materialistic achievement of economic growth, the government has closed its eyes to business deviation" (An Editorial Articles of Choson ilbo, October 4, 1980). Now, when the economy was depressed, the government acted to force the chaebol to sell their idle real estate. "Although this policy came quite late, we expect this measure can eliminate the bad habits that had been made during the last twenty years’ economic growth, while minimizing the side effects of these measures" (An Editorial Articles of SKS, September 30, 1980).

Most mass media professionals supported the policy to force the chaebol’s disposing of their idle real estate.

Because of the international depression and weaknesses in domestic industrial structure, Korean economy and business are suffering from triple difficulties; low economic growth and high unemployment, a high rate of inflation, and an increase in trade deficit. Government intervention would be unnecessary if the business bankrupt affected only businessmen. In fact, the fate of business is linked to that of banks that
provided them loans. In addition, the people also will suffer, because they have to repay the foreign loans that the bankrupted businesses borrowed (An Editorial Article of Choson ilbo, September 28, 1980).

According to this view point, this policy was regarded as inevitable. One issue involved the timing of policy implementation. The year of 1980 was the first year that Korea experienced negative economic growth since 1960. The public was most concerned about economic recovery among other issues. While public opinion supported these measures, the public also asked the state to provide relevant complementary measures, which would not reduce business activity. Voluntary disposal of land rather than coerced disposal was recommend (An Editorial Article of the Han’guk ilbo, September 28, 1980).

3. The Third Measure in 1990

From Business Groups: While the chaebol responded swiftly to the state’s policy measures and swore to stop further speculation, they waited and devised several alternative policy recommendations in an attempt to influence the implementation stage.

On the same day that President Roh announced his special statements, the business community responded positively. The Korea Chamber of Commerce and Industry commented that business should make every effort for industrial peace with laborers and for investment in the industrial sector and technology, instead of land
speculation. The Federation of Korea Industries regarded the measures as inevitable due to the limited amount of the nation's land, which should be utilized efficiently. However, the FKI put more stress on the confidence of the business community. Although they soon announced voluntary disposal of their idle land before the state ordered, they demanded that the business community be given land for industrial purposes "anytime" (Tonga ilbo, May 7 & 8, 1990).

The chaebol and financial institutions were busy figuring out the amount of their land holdings and making plans for disposal of their idle land. On May 10, three days after the announcement of this policy, the presidents of the ten highest ranked chaebol were summoned to the FKI. They swore that they would cooperate with government policy and announced they would sell their excessive land, which amounted to 15.7 million pyong (51.9 km²) or 18.4 percent of their total land holdings of 85.4 million pyong (282.3 km²).

On May 16, the business community, including the Korea Chamber of Commerce and Industry, the FKI, and the Central Cooperatives of Small-Medium Size Industries, formed the "Special Countermeasure Council for Real Estate Policy." This Special Council decided to recommend that the remaining thirty-nine chaebol dispose of their excessive land holdings. Following this decision, the FKI organized a subcommittee to discuss the criteria for the sale of land. The KCCI notified its membership on May 11 to submit their
disposal plans by May 26. The CCSSI expanded the mission of its Committee for Business Ethics to deal with real estate disposal plans. Finally, the Korea Trade Association summoned a special meeting on May 14 to discuss state policy and decide methods of cooperation with the policy (Tonga ilbo, May 15, 1990).

On May 17, the ten largest chaebol met again and announced their schedules for the disposal of their land. The schedule included the following: First, excessive land will not be sold to other chaebol. Second, the proceeds of land sales will be used to repay debt or to invest for industrial purposes. Third, forest lands will be sold within one month. If they are not sold within one month, we will request that the Forest Office buy them at the appraisal prices. Fourth, all other land will be sold within six months. If it is not sold within this period, we will request that the Korea Land Development Corporation purchase it with land bonds. Five, if the land can be used for housing, then the priority of purchase will be given to laborers' housing cooperatives.

Along with the ten largest chaebol, the other thirty-nine chaebol also summoned their membership firms on May 17 to discuss their disposal plans. The thirty-five chaebol announced they would dispose of their excessive land, amounting to 15,650,000 pyong (51.7 km$^2$).
However, the chaebol soon complained that the government imputed the cause of the "Aggregate Crisis" to the chaebol's excessive land holdings (Tonga ilbo, May 8, 1990). Some chaebol grumbled that "whenever the regimes face political crisis, the chaebol are victimized" (H.M. Sin 1990: 32). Mr. Kyu-ha Cho, the vice-president of the FKI, argued that,

The total amount of land held by the thirty chaebol is only 0.4 percent of the nation's land. Suppose all of this is idle land. Still, it is impossible for such a small portion to cause national speculation. The policy must target the private individuals, who own seventy-four percent of the nation's land [rather than the chaebol].

I do not deny the fact that the chaebol have obtained profits from the rapid increase in land prices. What I mean is that the chaebol's share of all speculative activities is not large. I think, strong anti-speculation measures towards middle and higher income groups has to be introduced.

I worry that the land which the ten largest chaebol proposed to sell may cause further speculation. After we announced the sale of our land, we have received continuous calls from those who want to buy that land. This implies that there is still much potential for speculation. But, they who are interested in our land are asking only about the residential and commercial land located in the major six cities (Tonga ilbo, May 21, 1990).

The business community soon organized the "Special Countermeasure Council for Real Estate Policy," like the Countermeasure Council for Reinforcing Business Competitiveness Measure in 1980, and the Countermeasure Council for Building Healthy Business Measure in 1974. They then proposed a series of recommendations for idle land policy implementation, which were made in June, August, and

**From Public Opinion:** Once again, this policy was supported by a majority of the people. Eighty-seven percent of those polled said "yes" to an idle land policy, while only 2.8 percent said "no" and 10.2 percent said "no opinion." Seventy-eight percent responded that forced regulation, including the use of financial measures, were necessary, if the chaebol did not follow the policy. Seven point five percent opposed the forced regulation. The highly educated, i.e., university post-graduates, supported forced regulation by 83.7 percent, while the young generation of those in their 30s by 83.2 percent (*Han’guk ilbo*, March 19, 1991).

However, the public doubted the real intent of the state. Just after the three parties merged in February 1990, the government and the newborn Democratic Liberty Party relaxed the major regulations against the chaebol (see section E in chapter 6). President Roh changed his cabinet members on March 17, 1990. The reform-oriented bureaucrats were kicked out, and more conservative members were replaced (M.S. Pang 1990a, P.M. Yi 1990). The regulations of the three land reform bills enacted in December 1989 were relaxed. The Comprehensive Land Tax Law was revised even before actual implementation. The Real Name System for
Financial Transaction was postponed. Other regulatory policies to prevent the *chaebol* from concentrating economic power were repealed. All these measures were made after the three parties merged in February and before the announcement of the new idle land policy in May 1990.

Therefore, the people doubted whether the purpose of this policy was really to control the *chaebol*'s speculation (S.H. Chang 1990c, T.D. Kim 1990a & 1990b, Y.D. Kim 1990, H.M. Sin 1990).

We are wondering, among the consumers, who will agree with the president’s statements that ‘the crisis does not exist in the economic sphere.’ The president seems not to realize the difficulties of the consumers who have been suffering from the rocketing prices and housing costs (Mrs. Chong-ja Yi, the General Affair Director of the Coalition of the Consumer Protection Organization, *Tonga ilbo*, May 7, 1990).

The general public’s opinion was critical of the policy. The fundamental source of speculation funds would be the floating or surplus capital from the underground economy, the size of which was 23.5 trillion Won ($32.8 billion) or nineteen percent of the GNP in 1988 (M.S. Pang 1990b: 44).9 Checking the flow of this capital would be a pre-requisite condition for controlling the *chaebol*’s speculation. But, after repealing the Real Name System of Financial Transaction, the government adopted the idle land policy. Thus, the Citizen's Coalition anticipated on May 7, 1990 that this policy would fail (Kyong-sil-lyon 1990a).

Another criticism voiced was that the policy measure had to be "institutionalized," and thus taxational and other
financial tools had to be redesigned. A "special measure" forcing the chaebol to sell their idle real estate might be effective in the "short-term," but, its effectiveness would not be long-lasting (Mrs. Hyo-jae Yi, the president of the Coalition of Korean Women’s Organizations, Tonga ilbo, May 7, 1990).

Despite being tardy, it is quite relevant that the government recognized the chaebol as leading actors in speculation. But its measure is based on administrative regulation, not on system reform. Such an approach cannot be a permanent measure. In addition, regulation through physical forces would have a demonstration of the government’s arbitrariness. Such administrative measures can be stopped whenever the situation changes. Therefore, this policy is not sufficient to fulfil the people’s expectation. Further speculation should be eradicated.... In addition to the idle land policy, the government has to fundamentally reform land taxes (A comment by Kyongsil-lyon, May 8, 1990).

People’s doubts were suddenly deepened by hearing of the status of the chaebol’s idle land (Han’gyore sinmun, May 11 & 13, 1990). As mentioned in chapter 1, three days after this policy’s announcement, Mr. Mun-ok Yi, an inspector at the Audit and Inspection Board, revealed that the Board’s inspection of the twenty-three chaebol’s idle land was stopped by their lobbying. Contrary to the official reports of the Bank Audit Board that only 1.2 percent of the chaebol’s land was idle, 43.3 percent of all real estate held by the twenty-three chaebol was idle. Soon Mr. Yi was arrested. People’s demonstrations demanding Mr. Yi’s release followed, at Seoul on May 19, June 2 and 19, at Taegu on June 20, at Pusan, Kwangju, and Inch’on on June 23.
Eventually Mr. Yi was released on July 18, 1990 (Kyong-sil­lyon 1990b: 53, 1991: 18). During this period, the public requested that the government make public all real information about the chaebol’s land holdings.

Moreover, the people mistrusted the purpose of this policy. The top ten chaebol announced the voluntary disposal of their land, and requested that the government purchase that land at the appraisal prices, if it could not be sold in the market place. However, the public soon realized that most of the land that the chaebol offered to sell was useless or non-marketable. Thus, they raised questions about whether the government’s purchasing these non-marketable lands was to prevent the chaebol’s speculation, or to help them by buying their non-marketable land (Tonga ilbo, May 11 & 15, 1990).

Other issues led to further doubts about the true intent of the policy. One week after announcing this policy, the government changed its conditions for issuing land bonds on May 16. For the land actually being used, the bond would be repaid in three years with an interest rate of nine percent per annum. For idle land, it would be repaid in five years with an interest rate of seven percent per annum. However, until then, the interest rate of the land bond had been five percent per annum; these new conditions increased the interest rate by two to four percent per
annum. These changes in rates were seen as more favors being given to the chaebol (Tonga ilbo, May 16, 1990).

While the people doubted the intent and effectiveness of this policy, nonetheless, they "hoped" for the success of this policy.

The core of the Aggregate Crisis (Ch’ongch’e-jok nan’guk) is the spread of unearned gains. The pursuit of unearned gains has its roots in land and stock speculation. Such speculation intensified the tendency toward shameless over-consumption in the society.

However, the government should not shirk from taking political and administrative responsibility by accusing businessmen. It is also true that the economy is influenced by politics. The sources of undesirable economic behavior are in politics and the society as a whole as well as the economic system. Politicians and administrative officials should re-consider why speculation is preferred to industrial exports.

We need not to recall Aesop’s tale of ‘The Boy who Cried Wolf’... This is the last chance to eradicate land speculation.... We all should cooperate to make this anti-speculation policy succeed (An Editorial Article of Tonga ilbo, May 8 & 11, 1990).

E. Conclusion

All three policies were issued as executive orders. Supported by their bureaucratic institutions and think-tanks, Presidents Park, Chun and Roh issued these idle land policy measures. The related laws were enacted to provide the legal foundation for implementing them.

The purpose of these three measures was to improve the chaebol’s financial structure by forcing disposal of their idle land, and to control their land speculation and excessive investment in land. As the primary concern of the Korean state since the early 1960s has been to achieve rapid
economic growth. Since the constant obstacle to these aims has been the lack of capital, the state adopted this policy in an attempt to transform idle capital sunk in land to industrial capital, as well as to solve land problems.

Though the three regimes all used idle land policy measures, the priority of policy goals in each regime was a little bit different. For the first measure of 1974, the primary goal was to force the chaebol to allow investment by the public. For the second measure of 1980, improving the chaebol’s financial structure by selling their idle land was the primary goal. The primary goal of the third measure in 1990 was to prevent the chaebol’s land speculation.

In pursuing the chaebol’s compliance to these policies, the state used various policy instruments both for inducement and constraint. The constraint instruments provided the means of coercive enforcement to punish their non-compliance, such as suspending new loans, withdrawing old loans, and tax investigation. The inducement instruments offered financial incentives to reward their compliance, such as recognizing the past vested interest in idle land and offering tax breaks.

As the chaebol’s operational funds were heavily dependant on state allocation of financial credit and services, financial incentives and dis-incentives were effective in inducing changes in the chaebol’s behaviors, at least in the initial stages. This implies that, if the
chaebol were less dependent on the state’s financial resources in mobilizing their funds, the policy instruments of financial incentives and disincentives would have been less effective. This happened when the third set of policy measures was implemented in 1990 as we will see in the next chapter.

Each of these policy measures received support from both the public and the target group. The chaebol accepted this policy as "relevant," "inevitable," and "timely" measures under the then current situations. For instance, when the Federation of Korea Industries surveyed its member companies about the 1974 policy, while 41.5 percent regarded it as irrelevant, 58.5 percent regarded it as relevant. The 34.5 percent answered that they needed even stronger measures. The negative responses, however, did not oppose the policy itself, but "the timing of its implementation was irrelevant. Though this policy was not relevant right now, the policy issue should be resolved some time in the future" (SKS, September 22, 1974).

The chaebol have had different interests and competed with each other. However, when their fundamental interests were threatened by state policy, they soon allied with each other. They organized the countermeasure committees with the purpose of influencing policy implementation, although their interests were not reflected in the policy formation arena.
Since the public and mass media groups were highly antagonistic to the chaebol’s land speculation, they supported these policies. Public sentiment and the attitude of mass media forced the responsible agencies to implement the measures rigorously, at least in the initial stage. In addition, since all three presidents, Park, Chun and Roh, wanted to erase negative political images resulting from land speculation, the implementing agencies could react positively to the public’s demands. Under such situations, the chaebol could not easily attack this policy immediately, but waited until the policy was being implemented. They focussed their efforts to influence policy makers during the implementation stage.

Public support for these policies was accompanied by wide-spread doubt. The major concern of the general public was whether the state could continue to enforce these policies. People expected that the successful "implementation," not the announcement, of this policy would solve land problem.

At the agenda setting and policy formulation stages, the key issue is state autonomy, i.e., whether the state can effectively initiate policy reforms that go against the interests of the economically dominant groups in its society. The next issue is the state’s capability to effectively implement its policies. How does the state implement the policy? Does the state keep its policy
reforms autonomous and independent of outside influence? What is the relationship between the state’s autonomy to initiate policy reform and its capability to implement it? Finally, in any policy issues, there is a divergence between what a state decides to do and what it actually does. What can explain this difference? Using these research questions, the next chapter will discuss implementation of idle land policy and its evolution.
Notes to Chapter V

1. Because of this fact, information about the policy making process is quite limited. Therefore, other data sources will be utilized here, including congressional archives, newspapers and monthly magazines.

2. The original membership included the assistant deputy ministers of the Economic Planning Board, the Ministry of Finance and the Ministry of Construction, a director of the Planning Board of Seoul City, a deputy minister of the National Taxation Office, a presidential economic secretary from the Blue House, an administration coordinator from the Prime Minister’s Office, and vice presidents of the Korea Land Development Corporation, the Korea Housing Corporation, and the Korea Housing Bank.

Since July 1987, membership was expanded to include a vice president of the Korea Appraisal Board, and since August 1988 to also include assistant deputy ministers of the Ministry of Agriculture and Fisheries, the Forest Office, the Ministry of Law and Justice, and a president of the Korea Research Institute for Human Settlements (RNA, at the 18th session of the Budget Standing Committee in the 144th session of the National Assembly, on November 28, 1988).

3. The Policy Committee consisted of the economic ministries, including the Minister of Finance, Construction, Home Affairs, Law and Justice, Agriculture and Fisheries, and the National Taxation Office, and the senior presidential economic secretary and administration secretary from the Blue House, a director of Administration Bureau of the Prime Minister’s Office, and the Mayor of Seoul City.

4. Assemblyman T’aek-ton Yi, at the 15th session of the Law and Judiciary Standing Committee in the 100th session of the National Assembly, on October 27, 1978.


Five companies did not hold any real estate, out of which two were chaebol’s subsidiaries, the Hyundai
Corporation and the Hyundai America Co, and three were not chaebol’s subsidiaries, the Namsong Electronic Co., Halla Construction, and T’aep’yong Stock Co.

6. Kun-ch’ang Yu, the president of the Korea Land Development Corporation, at the 10th session of the Construction Standing Committee at the 114th session of the National Assembly.

7. Among the forty-nine chaebol, one chaebol, the Yongdong Kaebal Chinhung Group, had dissolved in 1983.

8. Assemblyman Yong-do Kim, at the 5th session of the Construction Standing Committee in the 150th session of the National Assembly, on July 9, 1990.

9. The Ministry of Finance established the Preparation Team for Implementing the Real Name System for Financial Transactions. This Team estimated the size of the underground economy as nineteen percent of the GNP. According to this team, the size of underground economy in the U.S was 5.8 percent and in Japan, twelve percent.
A. Introduction: Implementation Politics

After policy objectives and instruments are made by decision makers, policy implementation commences. Implementation does not only imply one-time effort but a process, in which policy is converted into concrete actions to achieve its objectives. Since implementation is a process, the concerns of implementation studies focus on "why did it happen this way?" rather than "what happened?" In this sense, analysis of implementation is different from the analysis of policy performance (Van Meter & Van Horn 1975: 448).

Generally it is assumed that once policy has been made, funded and a program is organized, it will be implemented automatically and its consequences will be near those expected by its makers. As Dye puts (1987: 350),

We assume that when congress adopts a policy and appropriates money for it, and the executive branch organizes a program, hires people, spends money, and carries out activities designed to implement the policy, the effects of the policy will be felt by society and the effects will be those intended by the policy.

Because of this preconception, classical implementation theories have focused their attention on finding objective operational principles such as Taylorist "scientific management," or developing organizational theories such as
Weberian "scientific rationality." To them, implementation is a black-box separated from politics, and carried out neutrally, technically, professionally, and non-politically by the "ideal bureaucracy" (Nakamura & Smallwood 1980: 7-9).

However, implementation is neither non-political nor automatic. In many cases, the careful specification of policy goals and plans does not suffice to guarantee effective implementation. As noted by Van Meter and Van Horn (1975: 449),

When faced with an unsuccessful program, many observers will attribute its failure to insufficient planning or the inadequacy of the program itself. This attribution of blame is often unjust.

First, even if the state is committed to vigorously setting policy, it may lack the technical capacity to implement it. The lack of qualified personnel, insufficient budget and inadequate information for effective implementation will render meaningless the most rational, elaborate, and modern methods applied during the policy making process.

Second, the nature of innovation in a policy may also impact on its implementation. Policy that deviates little from the past policies or encompasses incremental changes from current policies may be easier to implement than policy that breaks sharply with past policies or is ambitiously innovative (Smith 1973: 198-99, Starling 1988: 296-311). As Durant (1984: 308) noted, "the greater the amount of behavioral change required, the more likely implementation difficulty [will be]."
Policy implementation is also influenced by the attitude of the implementing agencies (Van Meter & Van Horn 1975: 453-54). Policy that requires the restructure of the existing organizations is less likely to be implemented because organizations tend to keep doing the things they have been doing in the recent past, and doing the things in just the way they have been doing them.... Most organizations are imprisoned in the present and often cannot change, even when the future threatens them unless they do (Kaufman 1971: 39-40).

Other factors, including limited resources and psychic costs, may impede organizational innovation and action. The values and objectives of the stakeholders may also influence policy implementation. Bureaucrats tend to use their discretional authority to maintain existing organizational routines, thus undermining the intent of a new policy. As noted by Levin and Ferman (1985: 35),

The core of politics is the conflict of interests. Individuals and organizations, therefore, resist the implementation of a policy or program [when] they do not see it as being in their interests.

Third, in addition to the agency’s attitude, policy implementation is also influenced by organizational structure, both intra-agency (or horizontal) and internal (or vertical) (Hjern & Porter 1981). The internal structure is basically a centralized, hierarchical pyramid, as Weber (1947) conceptualized it. Within this structure, the policies made by a few top decision makers are dutifully implemented by subordinate administrators, whose obedience
to commands should be prompt, automatic, and unquestioning. Thus, the relationship between top managers and mid- and low-level officials is vertical, a command-and-obedience relationship, although concrete administrative actions are often initiated by mid-level officials.

In contrast, the relationship among different implementation agencies is more horizontal. Each agency tries to protect the interests they represent or their own organizational interests. Despite having different interests, however, they usually have to compromise in order to establish specific guidelines for efficient implementation.

This process of compromise shapes their relationship. On the one hand, compromises are obtained by give-and-take. When each agency perceives mutual benefits from the interaction, the degree of cooperation is enhanced (Hasenfeld & Brock 1991: 468). On the other hand, the degree of compromises is largely shaped by "power dependency" relationships (Hjern & Porter 1981: 220), in which "the motivated party is powerful [enough] to force or induce the other to interact." This type of relationship happens when conflicts are generated between implementing agencies. However, in practice, both exchange and power dependency relationships work to induce multiple organizational participation in policy implementation.

Moreover, the determination and power of top policy makers
(e.g., the president) may influence and force the various agencies to cooperate each other to achieve a common policy goal.

Fourth, a policy is not implemented in a vacuum. Even if target groups are alienated from the policy formulation stage and thus their interests may have received little attention in this stage, they will endeavor to influence policy elite during the implementing phase. They will attempt to influence both implementing agencies as well as top policy makers, by utilizing various means such as influence over personnel appointments, interference in the political positions of top executives, and various "investment revolts." Their efforts may cause changes in major implementing actors and the structure of implementing agencies. This creates some "shadow areas" of policy enforcement and reduces its real impact. For instance, if effectively lobbied, implementing agencies and officials may provide favorable treatment by excluding target groups from the scope of actual enforcement, reducing sanctions, or helping the groups avoid regulatory actions (M. Ha 1989: 101).

Finally, implementation creates a feedback loop, which, in turn, influences the implementation process. As time goes on and the situation changes, the intent of the policy may evolve, be modified or abandoned. This adjustment of policy enforcement is caused by both exogenous and internal
elements. The exogenous factors include target groups’ continuous attempts to weaken the regulations. The state may need to answer their demands during its implementation, although it may have initiated the policy without consulting with interested individuals and groups.

Sometimes, policy content is adjusted because of internal motivations. The outcomes of monitoring and short-term evaluation conducted during the implementation stage may stimulate policy makers and implementing agencies to adjust the policy to fit newly changing environments (Hasenfeld & Brock 1991: 473-474). Even without demands from target groups, the state may adjust the policy, justifying changes as "rational" or "autonomous" actions. Old institutional patterns may be abolished or modified, and new patterns of action and institution be created. Thus, the questions about motives for policy evolution, i.e., whether the policy is modified because of external influence or internal rationality adjustable to new policy environments, should be open to empirical assessments.

In short, the fact that once a policy is made by the state does not mean that this policy will be automatically implemented. The implementation process is significantly influenced by bureaucratic capability, the disposition and structure of implementing organizations, influences from target groups, and changes in the policy environments.
Then, what were the responsibilities and actions of various agencies implementing the idle land policy? What were the interactions between these agencies and external actors (i.e., the chaebol)? What institutions were created or modified during the implementation process? Was this policy implemented according to the policy directives decided at the policy formation stage? If the policy was modified or abolished, how did the state accomplish this?

B. Implementing Institutions

1. The Roles and Structural Relations of Institutions

The Ministry of Finance has played the key role in implementing idle land policy. It provided general guidelines and formulated concrete regulations. It also decided rewards for the chaebol's compliance and the level of sanctions against their noncompliance. The MOF controlled two government agencies, the Bank Audit Board and the National Taxational Office, and two public agencies, the Korea Land Bank and the Korea Auction Corporation.

The Bank Audit Board evaluated the financial structure of target groups, and received reports from them about their land holdings. It also monitored the activities of commercial banks. Commercial banks enacted the Bank Credit Management Regulations, by which they have regulated land purchases by the chaebol. When the chaebol did not obey
state orders to sell their idle real estate, the Band Audit Board directed banks to stop financial credits to them.

The National Taxation Office and its field offices have surveyed the chaebol’s land holdings, and investigated the documentation of their real estate transactions. Since its inauguration in 1966, the NTO has accumulated data concerning the status and changes in the chaebol’s property. This enhanced state capability to implement and monitor its policies. The state also manipulated the degree of the chaebol’s compliance to idle land policy by using tax sanctions and rewards.

The Ministry of Home Affairs and its field officials in local governments have checked the registration of the land titles. Their activities were improved by the use of the "Land Card System" in the 1970s, then by computerization of land records in the late 1980s.

Other ministries have also participated in implementing idle land policy. The Ministry of Construction was responsible for developing land and housing policies. When the chaebol requested that the government purchase their land, the Ministry of Finance notified the MOC about this. Then the MOC has requested the Korea Land Development Corporation to buy it. The Ministry of Commerce and Industry managed industrial estates, and also established the criteria for the standard amount of land each industry can hold. The Ministry of Agricultural and Fisheries, and
the Forest Office have monitored land policies concerning agricultural and forest lands. The Forest Office itself purchased forests when the chaebol requested to buy them.

Each ministry represented different interests, and thus some conflicts occurred in the implementation stage. For instance, the Ministry of Finance’s main concern was to improve the chaebol’s financial structure. The Ministry of Construction tended to protect the interests of the construction industry in order to encourage more housing construction. The Forest Office needed to foster the chaebol to participate in the forestry industry. The Economic Planning Board was mainly concerned with general economic affairs, i.e., the achievement of rapid economic growth as well as price stabilization.

These different interests needed to be coordinated. Compromise was obtained in several ways. First, mutual benefits promoted compromise. For example, the Ministry of Construction depended on the Ministry of Finance’s approval for issuing land bonds, and on the Economic Planning Board’s budget allotment for constructing infrastructure and public housing. To evaluate land values in particular areas and to levy taxes, the Ministry of Finance and the National Taxation Office needed information about developmental plans prepared by the Ministry of Construction. The Ministry of Commerce and Industry also depended on the Ministry of Construction’s commitments to develop industrial estates.
To access information about the chaebol’s land holdings, the Ministry of Finance had to ask the Ministry of Home affairs for land data. Coordinating organizations were created, such as the Policy Committee of Real Estate whose membership included the minister of each ministries and the Working-level Committee of Anti-Speculation Measures whose membership were the vice-ministers of each ministries. These helped them coordinate their efforts and work out compromises when their interests conflicted.

When conflicts between implementing agencies were not solved, the Economic Planning Board tended to prevail over other ministries, both because of its position in the government vertical organizational structure,¹ and its mandate and power to coordinate and allocate agency budgets. The president’s determination plus his power, delivered via the Presidential Secretary Office (PSO), also forced the implementing agencies to cooperate to achieve policy goals. Figure 6.1 shows the general work frame of implementation concerning idle land policy.

2. The Creation of Implementing Agencies

The role of the state was not limited to providing policy guidelines. The state itself participated in idle land transactions by creating new public agencies and expanding the role of the Korea Auction Corporation.
Policy Making

Economic Policy Council in 1974
Standing Finance Committee of SCENSM in 1980
Policy Committee of Real Estate in 1990

Implementation

President

Connection
PSO

Major Agency
MOF

Survey + Criteria
BAB NTO

Report to Implementing Agency

Sanction
BAB NTO

Disposal
KLB KAC
KLDC

Request to Purchase

Chaebol
Target Group

Figure 6.1 Framework of Idle Land Policy Implementation
a. The Korea Land Bank

The Birth of the Land Bank: In early August, 1974, the state realized that some problems were occurring with implementation. Because of the depressed market for land, the chaebol could not sell their land. Since this policy also proposed to improve the chaebol’s financial structure, the state was called upon to buy the land which the chaebol wanted to sell.

That this was necessary became apparent by September 1974. At first, the state designed to create the new institution 1) to promote the sale of the chaebol’s idle land, 2) to develop industrial parks, and 3) to buy farm land owned by absentee landowners (SKS, August 9, 1974). These ideas were developed as a means to fundamentally control land speculation and to utilize land more efficiently. Along with improving the capital gains tax system, the state decided to create the Land Bank to buy businesses’s idle land, thus controlling land speculation (SKS, September 14, 1974).

The Legislative Process: On November 8, 1974, the Ministry of Finance sent the draft of the Korea Land Bank Law to the National Assembly, then sent to the Finance Standing Committee on November 11. On November 12, the Minister of Finance, Yong-hwan Kim, explained the proposal’s
backgrounds and the rationale for establishing the Land Bank to the National Assembly.

We need an institution that has funds to buy that idle land. In order to promote voluntary disposal, we have employed regulatory tools in financial and tax areas. For instance, following the January 4 Measures, we raised the acquisition tax rate of idle land to fifteen percent and five percent for the property tax. However, because of the depression in land market, that land has not been sold. Since the parcel's size of idle land is large, the private sector has not been able to purchase it. We need to establish a public agency to buy that land.

In addition, idle land must be efficiently utilized as business, industrial, or housing land. The Land Bank will resell idle land for these public purposes.

We need to change our approach in asking for business compliance... By selling idle land to the Land Bank, businessmen can mobilize industrial funds through their own efforts.²

Four days later, on November 16, legislative experts reported their opinion:

Holding a lot of land per se should not be condemned. But, some facts should be corrected. Business enterprises have received financial credit for the purpose of industrial investment. However, they invested these funds in idle land, and delayed repaying their loan to the banks. This behavior has hindered the smooth circulation of financial credit and blocked access to financial credit for small-medium sized industries.

Therefore, government intervention is necessary in order to 1) force the business sector to improve their financial structure, 2) induce idle capital frozen in land into industrial capital, 3) regulate monopolistic retention of development gains, and 4) utilize the nation's land efficiently.

Legislative experts agreed on the necessity of establishing the Land Bank but with some reservations. One was that the draft of the bill lacked concrete criteria in defining idle land. Another was that, instead of compulsorily purchasing
idle land, the government could use other means, if the purpose was to control the chaebol’s land speculation. 

From November 18, assemblymen discussed the bill. They mainly criticized the purpose of the bill. They suspected its true purpose; whether this law was to prevent the chaebol’s land speculation or to provide another favor. The opposition party doubted that the Land Bank was designed to buy the land, which was not sold at the market place (Assemblymen Sang-yong Kim). The independent assemblymen also criticized the bill.

I believe the Land Bank Law is the worst law among the evil laws.... The government says that this law is to transfer idle capital invested in idle land into industrial capital. But, where did the money come from? Most of it was loans from both the commercial banks and foreign funds.

Using such money, the chaebol bought land. Now, the chaebol are trying to sell it, but they cannot. So the government attempts to enact this Bank Law to buy this unsold land, just to save these chaebol.... How can this happen? In the whole world, what country is doing such a thing?... I heard that even assemblymen in the ruling party, my colleagues, oppose this law at private meetings (Assemblyman Ch’ang-sop Hong).

The Minister of Finance replied that "the Land Bank is not set up only to help certain chaebol groups, but to buy idle land owned by business firms in general." Assemblymen from the ruling party also refuted the arguments raised by the opposition party.

This is not for the chaebol.... Pursuant to the May 29 Measures, the chaebol tried to sell their idle land in the market place. Who can buy that land? Men who have money. Who has money? Businessmen. However, businessmen cannot buy it, because it is designated as idle land. Then, who should buy that land? The Land Bank is necessary.
In addition, the proceeds of idle land disposal will be used directly to repay the chaebol’s debts of banks. The chaebol cannot use that money for other purposes. Therefore, this law is not for the chaebol’s sake (Assemblyman Chang-ch’ an Chi).  

Another criticism was whether the Land Bank should even be created. "The commercial banks have subsidiaries to deal with real estate. Instead of establishing a new agency, it may be more efficient to reinforce the function of these subsidiaries" (Assemblyman Sang-yong Kim).  

The Minister of Finance replied that, 

Among the commercial banks, only four banks have subsidiaries to deal with real estate. But their financial capability is very low. For instance, paid-in capital of the Chohung Bank’s subsidiary is ten million Won ($21,000), and that of the Cheil Bank’s subsidiary is five million Won ($10,500). They lack the capability to buy idle real estate. In addition, banks can dispose of only land that is secured for bank loans and when the loans are not repaid within the due date. They are not allowed to trade in other land. 

When the National Assembly was summoned on December 1, 1974 to pass the Land Bank Law, it was boycotted by the opposition parties. So, on December 21, 1974, only the ruling party and the independent assemblymen who were summoned passed the Korea Land Bank Law by a vote of 113 to 6, with minimal revisions of the government’s original draft.  

On January 1, 1975, the Ministry of Finance organized the Land Bank Establishing Committee. Presided by the Vice Minister of Finance, Sang-jin Nam, the Committee was composed of fifteen members, who came from the Ministry of Finance, the Korea Development Bank, the Korea Appraisal
Board, and the Korea Auction Corporation (T’oji kumgo 1979: 12-17). Finally, on April 1, 1975, the Korea Land Bank opened.

**Major Role of the Land Bank:** According to Article One of the Land Bank Law, its purpose was to improve the financial structure of business firms by channelling capital invested in unutilized land into industrial capital, and to improve the efficient utilization of land by facilitating land transactions and utilization. For these purposes, the proceeds from selling idle land had to be used only for funding key industries or for repaying bank debt. The Land Bank could develop idle land it bought into housing sites or industrial estates.

The nature of land acquisition by the Land Bank had two aspects. When business groups wanted to sell their land to the Land Bank, it might buy it; business groups could reap the benefits of their speculation legally, because the land sold to the Land Bank was what could not be sold at the market place. On the other hand, when business enterprises didn’t sell their idle land, the Land Bank could expropriate it; business groups lost the benefits of speculation, because the Land Bank would pay with land bonds and liquidate bank loans with these bonds. The Land Bank never used its power of expropriation to buy the chaebol’s land, however.
**Disorganization of the Land Bank:** The Land Bank had little success in purchasing idle land. In addition, contrary to initial expectations, it did not work effectively during the second land boom which peaked in 1978. Thus, the Land Bank was dissolved in 1978, just four years after its inception.

b. **The Korea Land Development Corporation**

**The Birth of the KLDC:** Faced with a second land boom in 1978, on August 8, 1978 the state announced "Comprehensive Measures for Controlling Real Estate Speculation and Stabilizing Land Prices." Item Four of these measures was "to dissolve the Land Bank and create the Korea Land Development Corporation in order to develop idle land and expand the supply of land for housing." The evolution from the Land Bank to the KLDC as a implementing agency was accompanied with a changes from the Ministry of Finance to the Ministry of Construction as a responsible government ministry. In controlling land problems, policy emphasis was shifted from regulating land demands to expanding land supply.

**The Legislative Process:** The draft of the KLDC Law was prepared by the Economic Ministries Council on October 2, 1978. It was sent to the National Assembly on October 23, then delivered to the Construction Standing Committee on
October 25. On October 26, the Minister of Construction, Kyong-sik Sin, testified to assemblymen the background and purpose for establishing the KLDC.

The spread of real estate speculation and the rapid rise of land prices are impeding the healthy growth of the national economy. We need to establish a system that can expand land supply on a large scale. The KLDC will help purchase, develop, and supply land.... The fundamental purpose of this bill is to stimulate land development and provide a steady supply of land.10

Legislative experts discussed the weakness of the existing Land Bank, then agreed to the necessity of establishing the KLDC. Beginning October 28, assemblymen met with officials from the Ministry of Construction. Because of the seriousness of the second land boom and the ineffectiveness of the Land Bank, the bill was not seriously criticized. One criticism was related to the government’s determination in running the KLDC.

We are doubtful whether the government can expropriate the land held by the chaebol. This is very important. The Bank Credit Management Regulation agreed on between commercial banks was to control the chaebol’s idle land holdings, but it has not worked at all. The existing Land Bank has also been ineffective, though it was given expropriation rights. Do you believe the KLDC will be able to expropriate the chaebol’s land that the Land Bank could not? The people have complained that the government’s expropriation rights are applied only to the powerless landowners, but not to the chaebol who have wealth and power, and are thus treated as a privileged class (Assemblyman Pu-sik Mun).11

The Minister of Construction replied that

Pursuant to the revised National Land Use and Management Law, the KLDC will be given expropriation powers. In expropriating land, we will not discriminate among landowners (the Minister of Construction, Kyong-sik Sin).12
Via the Construction Standing Committee and the Law and Judiciary Standing Committee, the KLDC Law was passed by the National Assembly on November 14, 1978. On December 11, 1978, the Ministry of Construction organized the KLDC Establishing Committee. Presided over by the Vice Minister of Construction, Chu-nam Kim, the Committee was composed of eight members, who came from the Ministry of Construction, the Economic Planning Board, the Ministry of Finance, and the Land Bank. On March 27, 1979, the Korea Land Development Corporation began its activities (Han'guk t'oiji kaebal kongsa 1989: 17-21).

**Major Role of the KLDC:** According to Article One of the KLDC Law, its major tasks were 1) to enhance the utility of land use, 2) to encourage the efficient use of land, and thus 3) to contribute to the country's healthy economic development. Since 1978, the KLDC has been the sole agency that purchases, develops and supplies land on a large scale. The KLDC can also purchase idle land when requested by the Ministry of Finance. Figure 6.2 explains the sequence of steps involved in the KLDC's purchasing idle land.

c. **The Korea Auction Corporation**

The Auction Corporation was created on April 6, 1962 for the purpose of solving the problems of delinquent repayment of loans provided by the Korea Development Bank.
Its function has expanded to dealing with the delinquent loans from all commercial banks since 1966, from non-bank financial institutions since 1977, and from foreign banks since 1988. It has also auctioned off property seized because of delinquent tax payments, since 1984. Pursuant to the Special Law for Delinquent Loans of Financial Institutions enacted in 1970, the KAC can auction off idle real estate held by commercial banks. This function was
rediscovered in implementing the third idle land program in 1990. The general work flow of the Auction Corporation is as shown in Figure 6.3.

In summary, the state created public agencies to implement its policy. The Korea Land Bank was responsible for purchasing idle land for the first program. For the second and third measures, the Korea Land Development Corporation replaced the Korea Land Bank. In the meantime, the Korea Auction Corporation evolved to implement the third measures.
C. The First Measure in 1974

1. Implementation and Evolution of the Policy

The first measure was announced on May 29, 1974. The next day, the Ministry of Finance proposed general guidelines and schedules for the policy. On June 3, the National Taxation Office announced its plan to survey land holdings of the chaebol, and the MOF proposed the Real Estate Evaluation Tax in order to prohibit speculation in idle land by business enterprises. This new tax was designed to supplement the existing Asset Reappraisal Tax and the Tax on Vacant Land. This new law was not enacted, however. On June 29, the Bank Audit Board designated the Group A and B firms as target groups of this policy (SKS, June 4, June 30 & July 9, 1974).

On July 16, the Ministry of Finance ordered the chaebol to dispose of their idle land by September 30, 1974 (SKS, July 16, 1974). The business community complained that it would be difficult to comply with this demand because the parcel of target land was too large-sized to be immediately sold at the depressed land market. To encourage land transactions, the government relaxed its requiring inspection on the sources of land acquisition funds, if the buyers were to use idle land for housing sites, forests or pastures.
Despite these relaxations, the chaebol hesitated to dispose of their idle land. Their excuses were that the Asset Reappraisal Tax was too heavily levied, and that the real estate market was too depressed for them to sell their land, especially without loss (SKS, August 13, 1974). To prod the chaebol, the government took several additional measures. It proposed the Korea Land Bank to buy idle land. It also implemented tax reforms. The Ministry of Finance repealed the Anti-Speculation Tax in Real Estate, legislated in 1967, and enacted the Real Estate Transfer Income Tax. Though both laws were types of capital gains taxes, the new law now applied to land as well as housing. In addition, the property tax on idle land held by business firms, and the vacant land tax on idle land held by individuals, were stiffened with higher tax rates.

The tax bills drafted by the Ministry of Finance were significantly amended at the National Assembly, however. Originally, the tax rate on capital gains from land sales was fifty percent, but the National Assembly adopted a graduated tax rate according to the amount of capital gains generated. As a result, the tax rate on some transferred income was lower than it was in the repealed anti-speculation tax.

For the purpose of establishing a tax base, the draft set January 1, 1968 as the acquisition date for land purchased before 1968. The National Assembly softened this
Table 6.1 The Revision of the Transfer Income Tax Law, 1975

<table>
<thead>
<tr>
<th>Tax Rate</th>
<th>Draft</th>
<th>Revised Bill</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>50%</td>
<td>Less than 0.5 million won</td>
</tr>
<tr>
<td>Housing</td>
<td>30%</td>
<td>0.5-1 million won</td>
</tr>
<tr>
<td></td>
<td></td>
<td>over 1 million won</td>
</tr>
</tbody>
</table>

Tax Base: Acquisition Date

| Land       | 1968.1.1   | Within designated area   | 1968.1.1 |
|           |           | Outside the designated   | 1975.1.1 |
| Housing   | 1975.1.1   |                          | 1975.1.1 |

Note: The designated area is the area for anti-speculations.

requirement by setting the acquisition date as January 1, 1968 if land was within the anti-speculation area. For land outside the anti-speculation area, the acquisition date was calculated from January 1, 1975. It meant that there would be no additional capital gains tax assessed if the land was purchased before 1975. Because of rigorous criticism against the amended bill, the tax base was restored to the original bill.

The National Assembly softened the inheritance tax, too. As revised by the Ministry of Finance, the basic deduction before taxation was ten million Won ($21,000). The National Assembly increased this deduction to 15.3 million Won ($32,000), fifty-three percent more than in the draft. Since about seventy percent of inherited property was land (see section A in chapter 3), this increase in the
amount deducted was seen as a favor to landowners, including the chaebol (SKS, November 26 & 29, 1974).

In August and September 1974, the government announced its plans to establish the Korea Land Bank to purchase businesses' idle land. In order to avoid forced disposal, business enterprises and large shareholders transferred and distributed their land titles to their close relatives and other families. To prevent this and to collect the basic information for the Land Bank, from October 28 to December 1974, the government examined idle land owned by the chaebol and large corporate shareholders (SKS, October 29, 1974).

On April 4, 1975, the Land Bank opened. Its purpose was to purchase land from businessmen with outstanding bank debts of more than 0.1 billion Won ($0.2 million) and corporations with outstanding bank debts of more than one billion Won ($2 million), if they held more than five hundred pyong (1,650 m²) of idle land within seven designated cities: Seoul, Pusan, Inch'on, Taegu, Taejon, Kwangju, and Chonju. It was also to purchase business and industrial land used and held by the liquidated or merged firms. If the chaebol would not follow the government's guidelines, then the Ministry of Finance would stop further bank loans or purchase their idle land by using the right of eminent domain. These measures were never applied during the first program's implementation, however.
The Ministry of Finance set the operational guidelines for the Land Bank on May 15, 1975 (SKS, May 16, 1975). First, the proceeds of the sales of idle land should be used basically for 1) repaying bank debts, 2) using industrial funds, or 3) paying taxes. However, no more than twenty percent of the proceeds could be used for the tax purpose. If the amount of tax exceeded this rate, the remainder had to be paid by the firms and owners. Second, the proceeds from land sales should not be used 1) for repaying private debts in the curb market, or 2) for business operational funds. Third, if the proceeds exceeded 200 million Won ($0.4 million), then the Land Bank might pay in cash installments for one to five years. Last, if someone wanted to buy that land, the Land Bank might provide loans for the purchase to the amount to thirty percent of the price.

The chaebol proposed to sell the 5,380,000 pyong (17.8 km²) of their idle land for a price amounting to 50.5 billion Won ($104 million). Among them, fourteen firms in the Group A and ten firms in the Group B requested that the government buy their land for the amount of eighteen billion Won ($37 million) (SKS, August 5, 1975). The Land Bank planned to buy this land in August, and to buy more idle land worth twenty billion Won ($41 million) by the end of 1975. Thus the first program was supposed to end by 1975.

However, when the Land Bank began to buy land, the chaebol resisted selling it. This time, they demanded that
the transfer income tax be relaxed. On August 22, 1975, the
Ministry of Finance responded by revising the tax law. When
a landowner sold his land to public agencies including the
Land Bank, he would be exempted from paying the capital
gains tax (SKS, August, 23, 1975).

Despite this tax break, the Land Bank’s record of
acquisition was lower than expected. As of 28 October,
1975, it bought only five parcels worth 2,265 million Won
($4.7 million) (SKS, October 29, 1975). The chaebol
requested other concessions by the government. First, they
requested higher sales prices than the appraised prices.
The Land Bank set the total amount of compensation as 42,124
million Won ($87 million), while the chaebol demanded more
than fifty percent above that amount, i.e., 69,087 million
Won ($143 million). Second, they demanded fewer limitations
over the use of the sale proceeds. Third, they demanded
that the capital gains tax not be applied on the sale of
idle land (SKS, October 29, 1975).

The Ministry of Finance acceded again to their demands
on December 4, 1975. First, it changed the evaluation
method. In determining the purchase price, the Land Bank
had used the lowest of the two appraisal prices set by the
different evaluation agencies. After that, the Land Bank
selected the average of the two appraisal prices, or re­
evaluated the land. Second, the MOF relaxed its restriction
on the use of the proceeds from land sales. The chaebol had
been allowed free use of twenty percent of the proceeds. This was increased to forty percent. Third, the MOF also allowed the chaebol to use the sale proceeds for their operational funds. Originally, the proceeds were to be used for redeeming their banks loans and debts, and not for using operational expenses. Fourth, the MOF expanded its target from the chaebol’s to all business firms’ idle land. Along with relaxing some of its restrictions, once again the MOF threatened the chaebol by warning that it would stop credit if they did not sell their idle land.

After these changes were made, the requests from business to the Land Bank to purchase their idle land increased (SKS, November 13, 1975). However, the Land Bank bought only seven parcels out of the total 648 parcels of idle land by the end of 1975, when the program was supposed to end.

The Ministry of Finance considered significant changes in the Land Bank’s functions. It suggested the Land Bank to study alternatives for reinforcing its functions (SKS, December 26, 1975). On January 17, 1976, the Land Bank submitted its proposals. These ideas were to allow the Land Bank to combine both general and land banking services.

As for its general banking services, the Land Bank proposed, 1) to provide general savings and loan services, 2) to issue payment guarantees, which could be replaced by the collateral that firms had to provide to commercial banks
from which they borrowed, and 3) to place all land used as collateral under the central management of the Land Bank. Because of these second and third functions, several years later, the Land Bank was criticized for stimulating the chaebol’s land holdings rather than controlling it. As for land banking services, the Land Bank proposed to deal in real estate transactions and buy land in general as well as idle land (SKS, December 26, 1975 & January 18, 1976).

A land scandal in April 1976 prompted the Ministry of Finance to revise the Land Bank Law. First, Ch’ungnam National University relocated to another campus. The MOF, which was in charge of managing land owned by the state, directed the Land Bank to purchase this land, composed of 110,000 pyong (0.4 km²) of forest land and 90,000 pyong (0.3 km²) of building lot. Second, the MOF also ordered the Land Bank to buy 620,000 pyong (2.0 km²) located in Kyongnam T’ongyong, designated previously as a shipyard site in May 1974. Because of international economic depression, this shipyard site had not been developed. These purchases, however, were not covered by the Land Bank Law (SKS, April 24, 1976). The MOF needed to revise the law to legalize the Land Bank’s purchase of those lands.

In August, 1976, the Ministry of Finance sent the bill for revision to the National Assembly. The major contents of the bill included 1) permitting general savings and loans services, 2) permitting the issue of payment guarantees to
firms, up to the amount of the appraisal value of their land
(These guarantees were to be used as collateral for
commercial banks loans.), 3) permitting the real estate
appraisal services, and 4) reinforcing the functions of the
Land Bank as a central institution dealing with land. The
Land Bank’s paid-in capital increased from fifty billion
($103 million) to one hundred billion Won ($207 million). A
capital gains tax was also exempted for those who sold land
to the Land Bank (SKS, August 15, 1976).

In the meantime, the chaebol still hesitated to sell
their land. The Ministry of Finance warned them to move
quickly. As seen in Table 6.2, the five requests for
disposal were made from November 1975 to August 1976 (SKS,
November 3, 1976, T‘oji kumgo 1979: 75). If they did not
dispose of their land within six months after this last
notification, the Land Bank was to consult with them about
the disposal conditions. If they did not sell this land to
the Land Bank within a grace period of another two months,
the Land Bank was to purchase it compulsorily according to
the Land Bank Law (SKS, February 17, May 19, & November 3,
1976).

To enforce these regulations, on September 4, 1976, the
Financial Institutions Association revised the Bank Credit
Management Regulations. This revision required that the
chaebol with outstanding credit of more than 5 billion Won
($10.3 million) not be allowed to purchase new real estate
Table 6.2 Notification for Idle Land Disposal, 1976-77

(Units = 000 pyong, million Won)

<table>
<thead>
<tr>
<th>Notification</th>
<th>1st</th>
<th>2nd</th>
<th>3rd</th>
<th>4th</th>
<th>5th</th>
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<tbody>
<tr>
<td>Cases</td>
<td>57</td>
<td>31</td>
<td>20</td>
<td>14</td>
<td>21</td>
</tr>
<tr>
<td>Size</td>
<td>1,994</td>
<td>928</td>
<td>1,299</td>
<td>470</td>
<td>212</td>
</tr>
<tr>
<td>Amount</td>
<td>29,451</td>
<td>6,191</td>
<td>2,498</td>
<td>1,002</td>
<td>8,963</td>
</tr>
</tbody>
</table>

Notice Period
- Notice: 75.11.30 76. 3.20 76. 4.20 76. 5.20 76.8.10
- Deadline: 76. 5.30 76. 9.20 76.10.20 76.11.20 77.2.10
- Grace Period: 76. 7.31 76.11.20 76.12.20 76.12.20 77.3.10
- Compulsory Purchase: 76. 8.1 76.11.21 76.12.21 76.12.21 77.3.11


for business operations as well as other land without prior consultation with their main transaction bank (SKS, September 5, 1976).

These regulation instruments, however, were not well implemented. The Ministry of Finance and the Land Bank continually warned the chaebol that if they did not obey the disposal notification, the Land Bank would purchase their land compulsorily. Moreover, pursuant to Article 50 of the Land Bank Law, the Ministry of Finance could order commercial banks to stop loans to them. No actual actions were ever taken, however.

The Achievements of the Policy: When the policy was announced on May 29, 1974, the program was supposed to end by September 1974, later extending to the end of 1975. In fact, it all ended in 1977. The total areas of land
affected 7,150,000 pyong (23.6 km$^2$). The chaebol had disposed of 3,820,000 pyong (12.6 km$^2$), or 53.4 percent of the targeted property. Thus, as of the mid 1978, the sixty-three chaebol with 563 subsidiaries still held 3,330,000 pyong (11.0 km$^2$) of idle land throughout forty-eight cities and counties (Choson ilbo, July 4, 1978).

The Ministry of Finance and the Land Bank notified the chaebol to sell 143 parcels of land worth 4,903,000 pyong (16.2 km$^2$, table 6.2). Among them, they sold seventeen parcels worth 894,000 pyong (3.0 km$^2$) to the Land Bank and seventy-three parcels worth 947,000 pyong (3.1 km$^2$) on the land market. But, they did not sell the remaining fifty-three parcels worth 3,062,000 pyong (10.1 km$^2$) (T'oji kumgo 1979: 74).

In summary, this policy achieved fifty-three percent of its goal, and the remaining forty-seven percent of idle land was not disposed of (table 6.3). Among the parcels sold, three-fourths were disposed of on the open market, while one-fourth was sold to the Land Bank. By selling their idle land, the chaebol gained 36.3 billion Won ($75 million). Some of this was used to fund their operations and new enterprises; some was used to redeem bank debts. The chaebol's financial costs were reduced. The amount of the proceeds from land sales was equivalent to 2.5 percent of all banks loans to anybody in 1975 (Han'guk unhaeng, Kyongje t'onggye yonbo 1976: 48), and equivalent to 2.7 percent of
Table 6.3 Achievements of the First Measure, 1974-78

(Unit = 000 pyong, billion Won)

<table>
<thead>
<tr>
<th>Goals</th>
<th>Disposed</th>
<th>Not Disposed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Voluntarily</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(100%)</td>
</tr>
<tr>
<td>Area</td>
<td></td>
<td>(100%)</td>
</tr>
<tr>
<td>7,150 3a) (100%)</td>
<td>3,820 3a)</td>
<td>2,886</td>
</tr>
<tr>
<td></td>
<td>(53.4)</td>
<td>(75.5)</td>
</tr>
<tr>
<td>Amount</td>
<td></td>
<td>(100%)</td>
</tr>
<tr>
<td>36.3 3c) (100%)</td>
<td>25.0</td>
<td>11.3 3b)</td>
</tr>
<tr>
<td></td>
<td>(68.9)</td>
<td>(31.1)</td>
</tr>
</tbody>
</table>

Note: Voluntary disposition = total disposal - share of KLB.


the total value added in the manufacturing sector in 1975 (Kyongje kihoegwon 1976: 33).

There were some arguments that the Land Bank bought useless land at more expensive prices. Since the data are not open to the public, it is very hard, at this time, to prove or disprove these assertions. We can only examine some implications from several data sources.

First, according to table 6.3, three-fourths of land were sold through the market place. The Land Bank purchased less than one-quarter. Though the chaebol had claimed that a depressed market situation made them delay selling their idle land, the inference is that they preferred selling in the open market rather than the Land Bank. This fact that
they were able to sell most of their land in the market place casts doubt on their excuses. Also it implies that the sales to the Land Bank might have conferred advantages, which could not be realized in the market place.

Second, from table 6.3, we can calculate the aggregate unit price of idle land. The unit price of land sold on the market was 8,700 Won per pyong. For land sold to the Land Bank was 12,100 Won per pyong. The unit price paid by the Land Bank was forty percent higher. What does this imply? The Minister of Finance, Yong-hwan Kim, asserted that "assemblymen are claiming that the Land Bank paid too expensive a price. But, I am "sure" that the Land Bank paid cheaply." However, the data support the arguments that "the Land Bank paid too much" (Assemblyman Chae-ch’ong Ko).¹⁵

Third, there were continual assertions that the Land Bank bought useless or unmarketable land. The president of the Korea Land Development Corporation, Kun-ch’ang Yu, had emphasized repeatedly in 1979 to assemblymen that the KLDC would not buy the land that could not be resold on the markets. His repeated protestations may imply the fact that the Land Bank did buy useless land.

During 1975-1978, the Land Bank bought 1,377,000 pyong (4.6 km²), including idle land (934,000 pyong) and other land (443,000 pyong) (T’oji kumgo 1979: 71). However, 1.25 million pyong or ninety-one percent of the total amount was still not resold by November 1981. Moreover, eleven percent
or 0.1 million pyong of this land not sold was bought six years ago in 1975-1976 (RNA, November 2, 1981). This data strongly supports that the Land Bank bought unmarketable land as a favor to the chaebol.

Finally, we can combine the second and third data source mentioned. Ninety-one percent of the land that the Land Bank bought was unmarketable (most of it was forest), but the prices that the Land Bank paid were forty percent higher than market prices. What does this imply? Under the name of improving the chaebol's financial structure, the state simply helped the chaebol profitably dispose of their idle land. This "consequence" is quite contrary to the "announced" purpose of the policy, i.e., to regulate the chaebol's land speculation.

Rejuvenation of the Policy: The government realized that these policy measures had become ineffective. Despite its repeated demands and setting up the Land Bank, the chaebol still held significant amounts of idle land. In addition, they pretended to dispose of their land by transferring the land titles to other names (e.g., other family members or relatives). The state surveyed the land holdings held by the chaebol groups during June-July 1978 (Choson ilbo, July 4, 1978).

In the meantime, the second land boom occurred in 1977-1978. On August 8, 1978, the government announced the
Comprehensive Speculation Control Measures. This regulatory package included; 1) the requirement of land transaction reports and prior approval of all transactions, 2) state approval for opening a brokerage business, 3) the requirement of real estate enrollment and documents, 4) introduction of a standardized land price system, and 5) an increase in the transfer income tax from 30-50 percent to 50-100 percent. The Land Bank was taken over by the Korea Land Development Corporation.

Surveying the chaebol’s idle land, the Bank Audit Board found that, as of August 30, 1978, 412 firms with outstanding bank debts of more than five billion Won ($10 million) held 5,198,000 pyong (17.2 km²) of idle land. As of 1977, the amount of idle land was 3,330,000 pyong (11.0 km²), but in one year, it increased by two million pyong! This indicated that, during this second land boom, the chaebol significantly invested in land. Facing strong criticism against state policy, and with reports of the chaebol’s speculation appearing in the mass media, in the academic fields, and in the National Assembly, once again idle land policy instruments were enforced.

In September 1978, the Ministry of Finance ordered 412 firms to dispose of their land by 1980. It also ordered the chaebol to consult first with their main transaction banks before buying land. It urged commercial banks to regulate the chaebol’s land purchases. Because of these new
directives, the chaebol disposed of 3,618,000 pyong (12.0 km²) from September 1978 to October 1979. This was seventy percent of the new target amount of 5.2 million pyong (RNA, November 21, 1979).\textsuperscript{8} In this program, however, the public agency did not buy any land, because that period was the transitory stage, in which the Land Bank was dissolved and the Korea Land Development Corporation was created. Though the reinforcing measures were scheduled to end by 1980, further implementation was stopped because of President Park's assassination in 1979.\textsuperscript{19}

In summary, the first measures were implemented from May 1974 to October 1979. During the process, the total amount targeted for sales increased from 7,150,000 pyong (23.6 km²) to 12,348,000 pyong (40.8 km²). Of this amount, 7,438,000 pyong (sixty percent) was sold out. The remaining forty percent stayed in the hands of the chaebol. Of the disposed land, 6,504,000 pyong (eighty-seven percent) was sold on the open market, 934,000 pyong (thirteen percent) was sold to the Land Bank.

D. The Second Measure in 1980

1. Implementation and Evolution of the Policy

On September 27, 1980, the new government announced its second policy. The Ministry of Finance announced a general schedule of policy implementation. From September 29 to
October 15, the chaebol would report their land holdings. The National Taxation Office would conduct field surveys from October 16 to November 15 (SKS, October 9, 1980). New criteria for determining idle real estate would be made by November 30, and the classification/designation of idle land would be made during December. Real estate that was not reported by the chaebol would be examined by January 31, 1981, then dis-incentives would be levied from February 1981 (SKS, October 17, 1980).

The government established the Real Estate Deliberation Committee, which would 1) prepare the criteria for classifying idle land, 2) categorize real estate into operating and idle land, 3) study alternative uses for idle land the chaebol disposed of, and 4) choose methods for marketing idle land (SKS, October 18, 1980). This Committee met on November 21 and November 26, 1980, and determined guidelines for implementation, such as, 1) to purchase all land that the chaebol asked the government to buy through the Korea Land Development Corporation, 2) to issue land bonds at two percent interest per annum and with a five-year redemption term, and 3) to base purchase prices on the appraisal values set by the Korea Appraisal Board (Han’guk T’oji kaebal kongsa 1989: 301-4).

According to these plans, idle land owned by business firms had to be sold by October 20, 1981. Land held by individual businessmen had to be sold by the end of 1981.
Land that was not reported, but found by the government’s investigations, had to be disposed by September 30, 1981. After these dates, the government would expropriate that land. No land was ever expropriated, however.

One week later, the Ministry of Finance delayed its field survey two weeks and thus would start October 27 to November 30 (SKS, October 24, 1980). In fact, the survey was conducted from November 1 to December 20, 1980. The MOF gave various reasons. First, the land market was depressed. Second, since the Korea Land Development Corporation was created only recently, it had not prepared for implementation of idle land policy. Third, the forcible sale of idle land all at one time would discourage both current and potential entrepreneurship, thus impacting negatively on the general economy. According to this reasoning, the government would allow business enterprises enough time – as much as possible, even up to several years – to dispose of their excessive land (SKS, October 24, 1980).

During 1979-1980, there was an economic depression caused by the internal political instability, including the assassination of President Park and the Kwangju Affairs. The international economic situation including the second oil crisis also contributed. This economic depression affected the real estate market. Land and housing prices decreased, and the housing industry faced difficulties.
Thus, the newly inaugurated government’s first priority was to revitalize the general economy. The government announced long-term construction plans to build five million housing units over the next ten years. Sixty percent of this plan or three million housing units would be provided by the private sector.

To achieve these goals, the state needed to encourage private construction companies. Encouraging business confidence was more important than any other things.

According to the Ministry of Finance,

> We are suffering from difficulties in economic growth, employment, the international trade balance, and price inflation. This is the time to emphasize revitalizing our economic activities and encouraging entrepreneurship rather than stabilizing inflation and the balance of trade (SKS, November 8, 1980).

First, the state relaxed its tax regulations. The Economic Planning Board announced, on September 16, 1980,

> We need to adopt pump-priming measures. To supply land and housing, the capital gains tax rate will be reduced from 50-80 percent to 30-75 percent. In addition, an amount equivalent to ten percent of property value at annum will be deducted from the base of capital gains tax (Choson ilbo, September 17, 1980).

The capital gains tax rate was lowered by 5-20 percent. In addition, by allowing special deductions amounting to more than the rate of general inflation, landowners, including the chaebol, could legitimately earn the capital gains from their land.

Second, other monetary and financial favors to business enterprises followed (SKS, November 8, 1980). The interest
rates on loans were lowered by 2 to 2.5 percent, reducing business financial costs by three hundred billion Won ($455 million). One hundred billion Won ($152 million) for industrial loans was provided, and payment on existing loans was postponed. Business’ mandatory savings were used to offset financial debts. Additional loans of fifty billion Won ($76 million) were provided for promoting inventory sales. Such preferential measures continued until 1983 when the land boom re-occurred. The chaebol’s requests for the government to purchase idle land increased, partially because from 1981 interest rates for land bonds would be also reduced along with the banks’ reduced interest rates (SKS, December 2, 1980).

On June 26, 1981, the government lowered the capital gains tax again from 30-75 percent to 15-75 percent. The special deduction for the capital gains tax increased from ten percent of property value per annum to fifteen percent. Moreover, on January 14, 1982, a total exemption of the capital gains tax was given for land within the apartment zone, and fifty percent exemption for land outside this apartment zone. Several months later, on May 18, and June 28, 1982, additional measures were taken. For the first housing owner, the capital gains tax rate became five percent. Newly constructed housing was totally exempted from the capital gains tax. The annual tax rate for corporations was also cut from 33-38 percent to 20 percent.
Along with providing favorable conditions for the business community, the government gradually weakened its rigor for forcing the disposal of idle land. On November 4, 1980, the government directed the Korea Land Development Corporation to purchase businesses' idle land. This measure was in response to the chaebol's complaint that, though they wanted to sell their idle land, no one wanted to buy it. On November 8, 1980, the government allowed the Korea Land Development Corporation to issue land bonds to purchase their idle land.

On November 20, 1980, the government prohibited idle land from being used to secure loans. However, it soon relaxed its criteria for classifying idle land. Even if that land was beyond what was needed for their normal activities, the government allowed it as necessary real estate, if the firms provided a "paper plan" for future use, or if their main transaction banks categorized it as land needed for business operation (SKS, November 26, 1980). Though this relaxation was made under the pretext of preparing for the future expansion of business activities, it resulted in the enterprises' continuing to hold excessive amounts of land.

2. The Achievements of the Policy

Formally, the second measures were completed by the end of 1982. By 1979 when the first measures ended, the
chaebol sold 7.4 million pyong (24.5 km²) and held 6.5 million pyong (21.5 km²). In 1980 when the state adopted the second measures, the amount of idle land held by the chaebol rocketed to 85,335,000 pyong (282 km²). One implication to account for this rapid increase in idle land is that the chaebol bought a lot of land for speculation during the second land booms from 1977 to 1978. The second implication is that the state under President Park did not calculate the total amount of land the chaebol held. Much land was registered under other individuals’ names.

The amount of the land targeted for disposal by the second measure was 85,335,000 pyong (282.1 km²). Of this amount, 40,387,000 pyong (133.5 km²) or 47.3 percent of the target was sold on the real estate market. The Korea Land Development Corporation was asked to buy the remaining 44,948,000 pyong (148.6 km²) or 52.7 percent of the policy target. Of this amount, the KLDC bought 23,810,000 pyong (78.7 km²), and rejected the remaining 21,138,000 pyong (69.9 km²) because of its unmarketability. In sum, 64,197,000 pyong (212.2 km²) or three-fourths of the amount of target land was disposed of, a better rate of achievement than the first policy enacted in 1974, which affected sixty percent of target land.

This second program was criticized as was the first measure. One criticism was that the KLDC purchased land as a favor to the chaebol, thus buying useless land for
expensive prices. In fact, sixty-three percent of target land was sold on the market place. The role of the KLDC was not significant as it only purchased thirty-seven percent of this land. Thus, according to criticism, when the chaebol sold land to the KLDC, they gained advantages not possible in the real estate market. These assertions, however, should be compared with the empirical evidence.

Unlike the Land Bank, the KLDC seemed to try not to buy useless or unmarketable land. The president of the KLDC, Kun-ch’ang Yu, was a retired military general. He was pragmatic and competent. He repeatedly emphasized that "the KLDC will not purchase useless land, thus not wasting its assets." "The KLDC will only buy the chaebol’s idle land which can be resold within at least five years after being bought." "The KLDC has its own criteria for buying idle land. First, it must be profitable for the KLDC. Second, it must help business enterprises. Third, it must contribute to the national economy."

In fact, the chaebol requested that the KLDC buy their unmarketable land. By the end of November 1982, the amount of land offered to the KLDC was 44.7 million pyong. Of this amount, forty-four percent was useless or unmarketable land. This was located in greenbelt, park and military facility protection areas, or used for roads and farm land, or encumbered by law suits. As the KLDC president emphasized, the KLDC did not purchase this land (table 6.4).
Table 6.4 The Land Offered to the KLDC, 1982

(Unit = 000 pyong, %)

<table>
<thead>
<tr>
<th>Requested Land</th>
<th>Rejected For Purchase (As the end of Nov., 1982)</th>
<th>Purchased (As the end of 1982)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rejected</td>
<td>44,670 (100.0)</td>
<td>23,810 (56.5)</td>
</tr>
<tr>
<td>Greenbelt</td>
<td>7,730</td>
<td></td>
</tr>
<tr>
<td>Park &amp; Road</td>
<td>2,300</td>
<td>783 (3.3)</td>
</tr>
<tr>
<td>Farm Land</td>
<td>3,650</td>
<td>97 (0.4)</td>
</tr>
<tr>
<td>Military Use</td>
<td>2,030</td>
<td>963 (4.0)</td>
</tr>
<tr>
<td>Others (On Sue)</td>
<td>3,740</td>
<td>21,967 (92.3)</td>
</tr>
</tbody>
</table>

Source: Taehan min'guk kukhoe, Kukhoe sokki-rok, April 26, 1983.

addition, the KLDC was able to resell fifty-two percent of the land it bought by the end of 1982 (Han’guk t’oji kaebal kongsa 1989: 30). This data supports the KLDC’s contention that it did not buy useless land.

However, most of the land that the KLDC bought was forest land. Considering the depression of the land market during that period, forest land was unmarketable. The second president of the KLDC, Su-hak Kim, recognized this fact. "Businesses themselves sold marketable land on the market place. Land not sold on the market was offered to us, and most of it was ‘cheap and forest land’.

The fundamental purpose of this policy was to control the chaebol’s land speculation as well as to improve their financial structure. The chaebol were supposed to sell urban land rather than rural land. On the one hand, since urban land prices were higher, proceeds from selling it
would be greater, thus better improving the companies’ financial structure. On the other, disposing of urban idle land meant an increase in the supply of urban land, thus helping solve the shortage of urban land. In addition, any idle industrial site would be more efficiently utilized by other industrial capitalists.

However, the chaebol mostly disposed of their rural land. Over ninety-five percent of the total amount of land offered to the KLDC was forest or useless land. Thus, out of the land bought by the KLDC during 1980 to 1982, 690,000 pyong (2.3 km²) amounting to ten billion Won ($14 million) was not resold until 1990. In order to avoid selling their urban land, the chaebol fabricated uses for it, thus claiming it as land for their business. For example, they used land located in the inner city as tennis courts or parking lots (the president of the Chohung Bank, Che-su Yim, Han’guk ilbo, October 4, 1980). In addition, they used their land extensively. For instance, during this period, forty firms held about fifty percent of all industrial parks, and the remaining 2,390 firms owned the remainder. However, as seen in table 6.5, Korean capitalists used their land less efficiently than Japanese capitalists by ten to fifty seven percent.

Did the KLDC pay too much? According to the KLDC’s own statistics, it paid 206.4 billion Won for 23.8 million pyong (Han’guk t’oji kaebal kongsa 1989: 30). The unit price paid
Table 6.5 Average Land Size by Industry in Japan and Korea

<table>
<thead>
<tr>
<th></th>
<th>Textile</th>
<th>Rubber</th>
<th>Chemical</th>
<th>Nonmetal</th>
<th>Mining</th>
<th>Paving</th>
<th>Machine</th>
<th>Printing</th>
<th>Publisher</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan (A)</td>
<td>390</td>
<td>532</td>
<td>656</td>
<td>263</td>
<td>248</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Korea (B)</td>
<td>590</td>
<td>835</td>
<td>714</td>
<td>381</td>
<td>333</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rate (B/A)</td>
<td>151%</td>
<td>157</td>
<td>110</td>
<td>145</td>
<td>134</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Taehan min'guk kukhoe, Kukhoe sokki-rok, November 21, 1979.27

by the KLDC was 8,600 won per pyong. As of February 1982, the chaebol sold 37 million pyong on the market, the value of which was 125.5 billion Won.28 The unit price on the market was 3,400 won per pyong. This means that the KLDC paid considerably more than 2.5 times the market price. In addition, considering that the KLDC primarily bought forest land, it paid significantly higher than market prices.

If the chaebol themselves sold idle land prior to requesting the KLDC to buy it, and if the chaebol asked the KLDC to buy unmarketable land such as forest land, the fact that the KLDC paid such a high price is strange. Two possibilities may explain this. One is that the KLDC really paid high prices as a favor to the chaebol, indicating corruption. The other is that the statistics might be inconsistent. The prices that the KLDC paid were appraisal prices evaluated by the Korea Appraisal Board or other evaluators. These prices were open to the public. The market prices were determined by bargaining between buyers.
and sellers. Real prices were kept confidential by both parties to evade taxes. By reporting false sale prices, sellers (i.e., the *chaebol*) could reduce the capital gains tax, while buyers could reduce the acquisition and registration taxes. In addition, by not reporting true sales price, sellers could use some of the sale proceeds for purposes other than redeeming their bank loans.

3. **Rejuvenation of the Policy**

The second program was formally completed by the end of 1982. Partially because of this expiration of the idle land policy, partly because of the government’s relaxation in its anti-speculation measures, and partially because of an economic recovery, another land boom reoccurred in late 1982. The *chaebol* were active participants in the land boom (see figures 7.5 and 7.6 in chapter 7). For instance, during the four years since the second measures were implemented, the twenty-six *chaebol* invested 813.9 billion *Won* ($1.02 billion) in land (*Han’guk ilbo*, September 27, 1984). This was more than twice the amount the *chaebol* earned from selling their idle land.

In early 1983, the *chaebol* even bought back the land they sold to the KLDC. The idle land policy regulated such purchases. The examiners of the Audit and Inspection Board and three policemen investigated the vice president of Hanil Hapsom Co., Kun-jo Kim, and the vice president of Hyosong
Mulsan Co., Chin-ui Chang, at a hotel (not at the police office). During the investigation, Mr. Kun-jo Kim died from being tortured. Because of this scandal, the president of the KLDC, Kun-ch'ang Yu, was replaced by Su-hak Kim on April 15, 1984.

The Ministry of Construction announced "Supplementary Guides for Business Idle Land Disposal" on April 12, 1984. During April 12 to May 13, the KLDC received the reports from the involved firms. Twenty one firms voluntarily reported that they bought back thirty-one parcels amounting to 3,837,800 pyong (12.7 km$^2$). During May 25 to May 31, survey teams, composed members of the Bank Audit Board, the main transaction banks and the KLDC, conducted an examination of these reports. During this inspection period, four more firms reported that they bought back nine parcels amounting to 73,800 pyong (0.2 km$^2$). Thus, the total amount of land bought back by twenty-five firms was forty parcels totalling 3,911,700 pyong (12.9 km$^2$).

Some chaebol bought back land by even using the name of an employee's wife. Most of this was forest or agricultural land. On June 29, the KLDC announced the results of its examination and its future course of action. Of forty parcels, eleven parcels amounting 59,600 pyong (0.2 km$^2$) were allowed, since this land was classified as operating land by the main transaction banks. Twenty-nine parcels of 3,852,000 pyong (12.7 km$^2$) were bought back by the KLDC.
Table 6.6 The Idle Land Bought Back by the Chaebol, 1982

(Unit = m², million won)

<table>
<thead>
<tr>
<th>Re-bought</th>
<th>Relations</th>
<th>Location</th>
<th>Land Use</th>
<th>Area</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pusan Metal</td>
<td>brother-in-law</td>
<td>KB</td>
<td>FO.</td>
<td>7,205,157</td>
<td>32.1</td>
</tr>
<tr>
<td>Kangwon Indus.</td>
<td>firm</td>
<td>SE</td>
<td>RE.</td>
<td>104</td>
<td>17.0</td>
</tr>
<tr>
<td>&quot;</td>
<td>&quot;</td>
<td>KW</td>
<td>FO.</td>
<td>10,291</td>
<td>2.9</td>
</tr>
<tr>
<td>Chinhung</td>
<td>executive</td>
<td>KG</td>
<td>&quot;</td>
<td>9,769</td>
<td>24.6</td>
</tr>
<tr>
<td>Hanbo</td>
<td>director</td>
<td>KW</td>
<td>&quot;</td>
<td>174,050</td>
<td>3.3</td>
</tr>
<tr>
<td>Usong</td>
<td>subsidiary</td>
<td>S</td>
<td>RE.</td>
<td>6,228</td>
<td>1,559.0</td>
</tr>
<tr>
<td>Kyesong Paper</td>
<td>firm</td>
<td>CB</td>
<td>FO.</td>
<td>63,570</td>
<td>15.8</td>
</tr>
<tr>
<td>Haedok</td>
<td>brother-in-law</td>
<td>KW</td>
<td>&quot;</td>
<td>41,950</td>
<td>0.6</td>
</tr>
<tr>
<td>Korea Explosive</td>
<td>president</td>
<td>CN</td>
<td>AG.</td>
<td>95,831</td>
<td>213.1</td>
</tr>
<tr>
<td>&quot;</td>
<td>brother</td>
<td>&quot;</td>
<td>FO.</td>
<td>150,347</td>
<td>109.2</td>
</tr>
<tr>
<td>&quot;</td>
<td>&quot;</td>
<td>&quot;</td>
<td>&quot;</td>
<td>23,504</td>
<td></td>
</tr>
<tr>
<td>Hanjin</td>
<td>subsidiary</td>
<td>IC</td>
<td>RE.</td>
<td>77,373</td>
<td>2,503.0</td>
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<tr>
<td>Tongso Shipping</td>
<td>son</td>
<td>KN</td>
<td>FO.</td>
<td>18,446</td>
<td>0.6</td>
</tr>
<tr>
<td>Ryosong</td>
<td>employees</td>
<td>SE</td>
<td>RE.</td>
<td>3,093</td>
<td>915.0</td>
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<tr>
<td>&quot;</td>
<td>&quot;</td>
<td>IC</td>
<td>&quot;</td>
<td>3,832</td>
<td>140.5</td>
</tr>
<tr>
<td>&quot;</td>
<td>&quot;</td>
<td>KG</td>
<td>FO.</td>
<td>57,322</td>
<td>95.0</td>
</tr>
<tr>
<td>&quot;</td>
<td>&quot;</td>
<td>CJ</td>
<td>&quot;</td>
<td>1,469,051</td>
<td>244.3</td>
</tr>
<tr>
<td>&quot;</td>
<td>father</td>
<td>KG</td>
<td>&quot;</td>
<td>64,165</td>
<td>43.2</td>
</tr>
<tr>
<td>&quot;</td>
<td>president</td>
<td>&quot;</td>
<td>&quot;</td>
<td>162,744</td>
<td>161.0</td>
</tr>
<tr>
<td>Taerim</td>
<td>executive</td>
<td>&quot;</td>
<td>&quot;</td>
<td>171,074</td>
<td>113.8</td>
</tr>
<tr>
<td>Tongyang Chemical employee</td>
<td>&quot;</td>
<td>KW</td>
<td>&quot;</td>
<td>17,950</td>
<td>0.2</td>
</tr>
<tr>
<td>Songch’ang</td>
<td>firm</td>
<td>KN</td>
<td>&quot;</td>
<td>124,364</td>
<td>50.0</td>
</tr>
<tr>
<td>&quot;</td>
<td>&quot;</td>
<td>CN</td>
<td>RE.</td>
<td>22,932</td>
<td>25.1</td>
</tr>
<tr>
<td>Choson Beer</td>
<td>employee</td>
<td>KG</td>
<td>FO.</td>
<td>51,768</td>
<td>11.6</td>
</tr>
<tr>
<td>Samhwa</td>
<td>president</td>
<td>KB</td>
<td>&quot;</td>
<td>41,653</td>
<td>0.9</td>
</tr>
<tr>
<td>Tonga</td>
<td>employee</td>
<td>SE</td>
<td>RE.</td>
<td>370</td>
<td>46.5</td>
</tr>
<tr>
<td>Samgyong Develop. relative</td>
<td>&quot;</td>
<td>KB</td>
<td>FO.</td>
<td>946,314</td>
<td>3.5</td>
</tr>
<tr>
<td>Kumha Texture</td>
<td>employee’s wife</td>
<td>CN</td>
<td>RE.</td>
<td>991</td>
<td>53.1</td>
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<tr>
<td>&quot;</td>
<td>executive</td>
<td>&quot;</td>
<td>&quot;</td>
<td>936</td>
<td>47.0</td>
</tr>
<tr>
<td>&quot;</td>
<td>vice president</td>
<td>&quot;</td>
<td>&quot;</td>
<td>1,394</td>
<td>70.1</td>
</tr>
<tr>
<td>Pomyang</td>
<td>employee</td>
<td>KB</td>
<td>FO.</td>
<td>1,670,578</td>
<td>20.0</td>
</tr>
</tbody>
</table>

Total 31 cases 12,687,151 6,522.0 (3,837,863 pyong)

Note: a) wife, brother, relative, father = relations to firm president. b) SE = Seoul. IC = Inch’on. KG = Kyonggi. KW = Kangwon. CN = Ch’ungnam. CB = Chonbuk. KN = Kyongnam. KB = Kyongbuk. CJ = Cheju. c) RE. = residential land. AG. = agricultural land. FO.= forest land.

Source: C.N. Yi, Chaebol, 1985: 144-45.
Since then, the government attempted to institutionalize its idle land policy. On February 28, 1983, the Bank Audit Board established "Guides for Business Enterprises' and Businessmen' Real Estate Disposal." The Guides were to discourage the chaebol excessively land holdings. According to these Guides, the Financial Institutions Association decided on May 3, 1983, that the main transaction banks would arrange to dispose of idle real estate owned by business firms and businessmen, thus supporting their efforts to improve their financial structures. If business firms and businessmen planned to sell their real estate (either idle or operating land) to redeem their bank debts, banks would ask the KLDC to buy this property. When requested by banks, the KLDC might pay for this with land bonds with a five percent annual interest rate and a five year term of repayment. The businesses could repay bank loans by using these land bonds. In these cases, the capital gains tax would be exempted. Therefore, the KLDC continued to buy idle land whenever business firms requested, though it had no forced obligations to the chaebol.

In summary, from 1980 to 1988, the KLDC bought 27,313,000 pyong (90.3 km²) amounting to 329 billion Won ($481 million). Out of this land, ninety-nine percent was the land owned by enterprises, while one percent was owned by businessmen. Eighty seven percent of it was used for
forest, three percent for agricultural, and five percent for residential use.

E. The Third Measure in 1990

1. The Interim between Second and Third Measures


In July 1988, the government revised its Sixth Five Years’ Plan for Economic and Social Development, in which it planned to introduce the Comprehensive Land Tax System from 1990 and the Land Development Impact Fee System from 1989. These two systems were designed to control land speculation (SKS, July 30, 1988). Land prices escalated by 30-50 percent during just one month in July-August, 1988. On August 8, President Roh directed his cabinet to control land speculation. On August 10, the Minister of the Economic Planning Board, Ung-bae Na, recommended Roh to implement the Land and Public Welfare Program soon. (Originally, this
Program was planned to be adopted five years later.) The so-called August 10 Measures were announced (SKS, August 9, 11, 12, 21 and 26, 1988).

According to these measures, various policy institutions were organized, including the Committee of Real Estate Policy on August 11 (presided by the Vice Prime Minister, Ung-bae Na), the Working-level Committee of Real Estate Policy on August 25 (presided by the senior economic secretary of the President's Office, Hi-gap Mun), and the Committee of Land and Public Welfare Program on September 5 (presided by the president of the Korea Research Institute for Human Settlements, Chae-yong Ho).

The Committee of Land and Public Welfare Program submitted its final report in May 1989. This report proposed a set of policy recommendations, including the introduction of the Comprehensive Land Tax System from 1990, the Residential Land Ceiling System and the Land Development Impact Fee System; the enactment and revision of the current land laws concerning business' excessive land holdings; and the establishment of the Land Committee in the central and local governments (Kukt'o kaebal yon'guwon 1989b). Based on these suggestions, the Ministry of Construction announced its advance notice for enacting the Residential Land Ceiling Law and the Development Gains Recapture Law on July 11, and the Excessive Land Gains Tax Law on August 25, 1989.

Finally, these bills were passed at the National Assembly on December 18, 1989. The Excessive Land Gains Tax Law would be effective from January 1990, and the other laws from March 1990. These laws reflected much of the chaebol’s demands, thus being markedly changed from the contents of the original bills. During this period, there were rumors that the chaebol lobbied against the enactment of these laws, kicking off the bureaucrats who initiated and supported these reform programs, and, moreover, changing the political power structure.

The so-called "Grand Coalition of Conservative Forces" (Posu tae-yonhap) was created by merging the three parties
of the ruling with the two opposition parties on January 22, 1990. At the National Assembly elections in 1988, the ruling party received 38.8 percent of the numbers of assembly seats, and opposition parties shared 61.2 percent of them. This power structure was suddenly changed because of the party merger; the newly created Democracy Liberty Party (DLP) now commanded 71.4 percent of the National Assembly (S.H. Yi 1991: 112). The model of the DLP was the Liberty Democracy Party in Japan, in which business groups have influenced the Japanese policies. The DLP attempted to change from a presidential to a parliamentary system like Japan.

In addition, reform-oriented bureaucrats were soon kicked out from the executive branch, including Dr. Sun Cho (the Vice Prime Minister) and Mr. Hi-gap Mun (the senior economic secretary of the Presidential Secretary’s Office). These two high-ranking bureaucrats were leaders of reform force in the Roh regime.

Dr. Cho, since his entrance to the cabinet on December 5, 1988, had emphasized institutional reforms and put the priority on distributional justice over growth oriented policy. He initiated a set of policy reforms, which met opposition from the chaebol and conservative politicians in the ruling party (P.M. Yi 1990). Mr. Mun was another leader of policy reform groups. He warned that the government’s hesitation to make policy reforms would invite social
revolution. He appreciated the Land and Public Welfare Program as the Third Revolution in Korea, following the First Revolution in the 1960s (solving absolute poverty) and the Second Revolution in the 1980s (stabilizing commodity prices) (Han’guk ilbo, July 30 and September 1, 1989, Chungang ilbo, August 1, 1989, Choson ilbo, September 30, 1989). He went with Dr. Cho’s line. However, these reformers were removed from their post in the cabinet in March 1990.

Eventually, major reform programs were repealed after the merger of three parties. The Comprehensive Land Tax Law was loosened before its actual implementation. As of 1988, only 190,000 persons or 2.3 percent of total land tax payers would be under the high tax rate according to the original law. But, this tax rate was lowered, thus protecting the interests of these small groups (Kungmin ilbo, January 15, 1990). The Real Name System in Financial Transaction was also repealed on April 4, 1990, which was scheduled to be implemented from 1991. The assets deposited and transferred under pseudonyms have been regarded as the very source of the underground economy. These moneys have been used for curb market funds, political funds, escaping funds to the overseas, and speculative funds (K. Ch’oe 1987: 115-16). Thus, real estate experts have argued that the chase of these funds’ flow would be the shortest way to control land speculation. According to the Ministry of Finance, 98.3
Table 6.7 Status of Deposits by Using Pseudonyms, 1988
(as of June 1989)

<table>
<thead>
<tr>
<th></th>
<th>Account #</th>
<th>Amounts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Banks</td>
<td>1.8 %</td>
<td>1.8 %</td>
</tr>
<tr>
<td>Trust Banks</td>
<td>2.0</td>
<td>0.3</td>
</tr>
<tr>
<td>Mutual Credit Banks</td>
<td>0.2</td>
<td>0.5</td>
</tr>
<tr>
<td>Investment Trust Finances</td>
<td>1.2</td>
<td>0.2</td>
</tr>
<tr>
<td>Comprehensive Finances</td>
<td>8.3</td>
<td>0.1</td>
</tr>
<tr>
<td>Stocks</td>
<td>1.1</td>
<td>4.3</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td>1.7</td>
<td>1.8</td>
</tr>
</tbody>
</table>

Source: Han’guk kyongje yon’guwon, Kumyung silmyong-je toip silsi e ttarun kyongje-jok p’agup hyokwa mit kiopch’e solmun chosa kyolgwa punsok, June 1990: 10.

percent of all deposit accounts and 98.2 of all deposit amounts in financial markets were already opened by real names. Only 1.7-1.8 percent was opened by pseudonyms (table 6.7). To protect the interests of these small groups, the Real Name System was postponed to an un-designated time, thus, in fact, being repealed. Other reform programs also disappeared, including the increase in the land tax base and regulation over economic power concentration in the chaebol. People criticized this merger of three parties, saying it was designed simply to protect the privileges of the chaebol.

Under these situations, the government adopted the third policy measure concerning idle land on May 8, 1990. However, this measure was suspected of being made with the chaebol’s prior consent. On the same day, President Roh met the presidents of the largest ten chaebol groups. At this
meeting, the chaebol proposed to President Roh that they would sell their idle land, amounting to 15.7 million pyong (52 km$^2$). On the other hand, they demanded from President Roh that the state increase the supply of industrial land, assist factory construction, and relax the regulation in landfill projects and urban building heights. President Roh accepted all their demands and directed the Ministry of Construction to adopt these requests to its policy (Y.D. Kim 1992: 114).

2. Implementation and Evolution of the Policy

The chaebol continuously invested capital in land after the expiration of the second program. They, especially, increased their investment in land during the third land boom (table 6.8). For example, in 1987, the high ranked thirty chaebol invested 1,238 billion Won ($640 million) in real estate, thus buying 6.2 million pyong (20.55 km$^2$) of land and 0.7 million pyong (2.3 km$^2$) of building (Chaemubu, October 1988). In 1989, the Land and Public Welfare Program was introduced to regulate land speculation. On June 11, the chaebol swore not to involve in further speculation. However, in this year, they invested 3,773 billion Won ($5.6 billion) in real estate, buying 10.6 million pyong (35.0 km$^2$) (Idem, June 1990). This amount can be compared with other economic indices. As of March 1988, total paid-in capital of the thirty chaebol was 3,594 billion Won (Idem, September
Table 6.8 The Thirty Chaebol’s Reports Concerning Their Land Investments, 1985-89

(Unit: 000 pyong, billion Won)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Real Estate</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land (A)</td>
<td>- 110,568</td>
<td>- 113,619</td>
<td>- 120,445</td>
<td>- 122,966</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Building</td>
<td>- 6,881</td>
<td>- 7,733</td>
<td>- 8,514</td>
<td>- 9,622</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Sum</td>
<td>- 117,449</td>
<td>- 121,352</td>
<td>- 128,959</td>
<td>- 132,589</td>
<td>- 155,900</td>
<td>-</td>
</tr>
<tr>
<td>(Amount)</td>
<td>(6,348)</td>
<td>(7,744)</td>
<td>(9,952)</td>
<td>(13,139)</td>
<td>(14,482)</td>
<td></td>
</tr>
<tr>
<td>Net Increase</td>
<td>-</td>
<td>3,051</td>
<td>6,826</td>
<td>2,521</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>In Land</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Idle Property</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land (B)</td>
<td>1,402</td>
<td>1,721</td>
<td>1,889</td>
<td>1,496</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Building</td>
<td>17</td>
<td>19</td>
<td>17</td>
<td>11</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Sum</td>
<td>1,419</td>
<td>1,740</td>
<td>1,906</td>
<td>1,507</td>
<td>- 45,525</td>
<td>-</td>
</tr>
<tr>
<td>(Amount)</td>
<td>(31)</td>
<td>(87)</td>
<td>(63)</td>
<td>(50)</td>
<td>- (916)</td>
<td>-</td>
</tr>
<tr>
<td>Share (B/A)</td>
<td>1.56</td>
<td>1.66</td>
<td>1.24</td>
<td>- 29.2</td>
<td>-</td>
<td></td>
</tr>
</tbody>
</table>


1988). As of July 1988, total amount of bank loans of these thirty chaebol were 18,189 billion Won (Idem, October 1988). Then, the amount of capital invested in land during 1986-1989 was equivalent to 1.9 times their paid-in capital and 37.3 percent of their total bank debts.

Even if the amount of their investment in land was significant, the thirty chaebol reported to the Bank Audit Board that their idle land was only 1.56 percent in 1986, 1.66 percent in 1987, and 1.24 percent in 1988 (Table 6.8). As discussed before in chapter 1 and 4, the Audit and
Inspection Board inspected the chaebol’s land holdings. This inspection was suddenly stopped because of their lobbying. In May 1988, an inspector, Mr. Yi, revealed this lobbying and the fact that 43.3 percent of their land was idle, contrary to their reports as 1.24 percent.

As they did in the second measure, the chaebol reported their land holdings and the government surveyed their land holdings. On August 17, the National Taxation Office reported its finding that 35.3 percent of the forty-eight chaebol’s real estate, or 72,856,000 pyong (240.8 km²), was idle real estate. The government ordered them to dispose of this land by the end of 1990.

The chaebol’s responses were different from those in the first and second measures. They requested the National Taxation Office to reconsider this decision. Among the forty-eight chaebol, forty-three chaebol appealed from the NTO’s decision, the amount of which was 49,651,000 pyong (164.1 km², 651.4 billion Won) or sixty-eight percent of the initial amount of target land (Chaemubu, September 1991).

On September 3, the government answered their demands, thus relaxing its criteria for deciding idle land. It also revised the Corporation Tax Law on May 30 and the Bank Credit Managements Regulations on October 22. Based on these relaxed regulations, on November 10, the NTO recognized 2,305,000 pyong (178.6 billion Won) as operating real estate (Chaemubu, September 1991). This land was used
for resort facilities, cultural conservation and mining. Then, the NTO ordered them to dispose of other idle land by March 4, 1991. Thus, the deadline was extended from the end of 1990 to March 1991.

The chaebol were still dissatisfied with the NTO’s re-decision, and they appealed again to the Bank Audit Board. At this time, the appealed amount was 33,910,000 pyong or forty-eight percent of all target land. The Prime Minister was changed to Chae-bong Roh on December 27, who was conservative in policy reform programs. The next day, on December 28, the BAB applied the revised regulation, and recognized another 2,750,000 pyong as operating real estate. Thus, total 5 million pyong (16.7 km$^2$) was excluded from idle land to be sold.

The third program was planned to end on March 4, 1991. Only sixty percent of target land or 34,560,000 pyong (114.2 km$^2$) was disposed of by this time. On this day, the Federation of Korea Industries proposed to the government that it extend the deadline. With this proposal, some target chaebol including the Lotte, Hanjin and Hyundai groups once again appealed to the Bank Audit Board for reconsidering its decisions (Han’guk ilbo, March 19, 1991). This appeal was raised to prepare to the suit.

The Kumho Group raised the civil suit on March 4, 1991 against the BAB’s decision on its golf course as idle land, which amounted to 888,000 pyong (2.9 km$^2$). Even if many
concerned chaebol watched the Kumho Group’s suit, several days later it withdrew its suit (Han’guk ilbo, March 4-11, 1991). The Hyundai Group also raised the suit. But, the Lotte Group agreed to entrust its idle land to the Korea Auction Corporation. The Hanjin Group also yielded to the government’s decision, thus disposing of its idle land located on Cheju Island on June 3, 1991 (Han’guk ilbo, June 4, 1991). Formally, the third program was terminated on this date, June 3, 1991.

The chaebol’s resistance to the policy did not stop there. The Korea Land Development Corporation was supposed to expropriate idle land when the chaebol did not voluntarily dispose of it. At first, the nineteen chaebol requested the KLDC to buy 4,656,000 pyong (15.4 km²), but they soon withdrew 846,000 pyong (2.8 km²) from their initial request. They said that they would sell it on the market. In July 1991, the KLDC decided to buy 675,000 pyong (2.2 km²) among remaining land (Chaemubu, September 1991). However, as of 1992, the KLDC was not able to buy 211,000 pyong or 31.3 percent of planned land because the chaebol did not transfer their land titles (Iryo sinmun, November 22, 1992).

The last example for the chaebol’s resistance was that, instead of asking state favors, they themselves attempted to be state leaders. Mr. Chu-yong Chong, the president of the Hyundai Group, organized the Unification National Party in
January 1992. This party received 17.4 percent of votes in the National Assembly elections in March 1992. He also ran a presidential candidate for this party in December 1992. The immediate cause to stimulate Mr. Chong to do so was known as this third idle land policy (*Iryo sinmun*, December 27, 1992). The president of the Daewoo Group, U-jung Kim, also attempted to run the presidential candidate for the New Korea Party, though he soon gave up his ambition to be the president of the state.

This overt resistance by the chaebol was quite different from those in the first and second programs in 1974 and 1980. In the 1974 and 1980 programs, they employed the covert strategies such as "investment revolts." Faced with the economic depression due to the decrease of the chaebol's investment in the industrial sector, state leaders relaxed its rigor of policy instruments. In the 1990 program, the chaebol utilized more open criticism to the policy.

Facing the chaebol's challenge, on the one hand, the government enacted strong regulation against business groups participating in the politics (*Han'guk ilbo*, January 1, 1993). On the other, the government conceded to the chaebol, thus relaxing its tight implementation. For instance, as mentioned before, the Minister of Commerce and Industry recognized idle land as operating land, including land held by the Hyundai Group (one million pyong (3.3 km²))
or 30.5 billion Won) and by the Ssangyong Group (183,000 pyong: 0.6 km²) (Han’guk ilbo, January 3, 1993). Idle land held by the Lotte Group was given preferential treatment in auctioning off it (Han’guk ilbo, December 31, 1992).

What makes chaebol’s voice loudly heard by the state? One of several possible explanations is due to their relative independence from the state’s resource allocation. Since 1962, the chaebol had owed much to the state for their capital formulation. During 1962-1985, bank credits totalled 2,408 trillion Won ($2.7 trillion), of which two-third or 1,591 trillion Won was allocated as a "policy
finance,“ having favorable conditions such as low loan interests (figure 6.4). Most policy finances were distributed to the chaebol for their industrial funds.

Given this heavy dependence on the state’s resource, the chaebol had to listen to government orders. The government also utilized this sore spot as a key policy instrument. When target groups did not follow its directives concerning idle land, the government warned them to cut further bank credits or to withdraw their bank loans soon. This instrument had its own limitation. When the chaebol were more independent from the state’s resources, there would be a high possibility that their noncompliance to the policy would be higher.

When the state privatized commercial banks in 1981, the chaebol became large shareholders of commercial banks (table 6.9). This allowed them to control credit allocations of commercial banks more easily. For instance, in 1983, the thirty chaebol received bank credits amounting to 4.2 trillion Won ($5.3 billion), which was 16.8 percent of total credits. Four years later, in 1987, they received more credits; credit amount that they received increased by three times those in 1983, and their credit shares to total credit amount also increased from 16.8 percent to 24.2 percent (table 6.10). As they controlled commercial banks, they could take more positive actions against the state.
Table 6.9 Major Chaebol’s Control over Commercial Banks
(as of the end of 1988)
(Unit = percentage of total stock shares)

<table>
<thead>
<tr>
<th>Banks</th>
<th>Chohung</th>
<th>Sangop</th>
<th>Cheil</th>
<th>Hanil</th>
<th>Seoul</th>
<th>Hanmi</th>
<th>Sint’ak</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hyundai</td>
<td>2.22</td>
<td>1.85</td>
<td>4.53</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Samsung</td>
<td>7.38</td>
<td>10.96</td>
<td>5.32</td>
<td>6.32</td>
<td>2.76</td>
<td>6.65</td>
<td></td>
</tr>
<tr>
<td>Daewoo</td>
<td>2.59</td>
<td>2.39</td>
<td>2.78</td>
<td>2.65</td>
<td>3.23</td>
<td>8.55</td>
<td></td>
</tr>
<tr>
<td>Lucky K.</td>
<td>1.02</td>
<td>3.14</td>
<td>3.89</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ssangyong</td>
<td>1.24</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hanjin</td>
<td></td>
<td>4.61</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Han’guk Hwayak</td>
<td></td>
<td>4.30</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tonga</td>
<td></td>
<td>4.17</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taerim</td>
<td></td>
<td>3.70</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kia</td>
<td></td>
<td>1.05</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tongguk C.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1.51</td>
</tr>
<tr>
<td>Sindonga</td>
<td>6.54</td>
<td>1.49</td>
<td>6.40</td>
<td>1.11</td>
<td>6.27</td>
<td></td>
<td></td>
</tr>
<tr>
<td>T’aegwang S.</td>
<td>8.70</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1.10</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>26.45</strong></td>
<td><strong>15.86</strong></td>
<td><strong>20.91</strong></td>
<td><strong>28.43</strong></td>
<td><strong>23.57</strong></td>
<td><strong>15.20</strong></td>
<td></td>
</tr>
</tbody>
</table>


Table 6.10 Trends in Credit Allocation to the Thirty Chaebol, 1983-87
(Unit = trillion Won)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Credit (A)</td>
<td>24.7</td>
<td>45.5</td>
<td>34.7</td>
<td>45.7</td>
<td>53.1</td>
</tr>
<tr>
<td>To Chaebol (B)</td>
<td>4.2</td>
<td>5.4</td>
<td>5.9</td>
<td>13.4</td>
<td>12.8</td>
</tr>
<tr>
<td>Share (B/A)</td>
<td>16.8</td>
<td>11.9</td>
<td>17.1</td>
<td>29.4</td>
<td>24.2</td>
</tr>
<tr>
<td>Increase rate</td>
<td>100.0</td>
<td>129.7</td>
<td>142.4</td>
<td>322.1</td>
<td>308.5</td>
</tr>
</tbody>
</table>

The *chaebol* also utilized the non-bank institutions in mobilizing their capital. They controlled most secondary financial institutions, such as the stock company, security company, and short-term financing company. As of 1990, each of the thirty *chaebol* had an average of two secondary financial firms (I.H. Yu 1991: 141-50). The role of these institutions in mobilizing financial resources had increased as seen in figure 6.5 and table 6.11. From 1983, their role surpassed the role of commercial banks. For instance, in 1987 just before the introduction of the third policy measures, these institutions shared fifty-four percent of...
Table 6.11 Saving Shares in Commercial Banks and Non-bank Institutions, 1973-87

<table>
<thead>
<tr>
<th></th>
<th>Banks</th>
<th>Non-Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Stock</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total Stock</td>
<td>Short-term investment</td>
</tr>
<tr>
<td>1973</td>
<td>82.7</td>
<td>17.3</td>
</tr>
<tr>
<td>1977</td>
<td>69.2</td>
<td>30.8</td>
</tr>
<tr>
<td>1980</td>
<td>61.5</td>
<td>38.5</td>
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<tr>
<td>1983</td>
<td>49.5</td>
<td>50.5</td>
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<tr>
<td>1985</td>
<td>47.8</td>
<td>52.2</td>
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<tr>
<td>1987</td>
<td>45.6</td>
<td>54.4</td>
</tr>
<tr>
<td>Flows</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1974-76</td>
<td>63.7</td>
<td>36.3</td>
</tr>
<tr>
<td>1977-78</td>
<td>62.9</td>
<td>37.1</td>
</tr>
<tr>
<td>1979-80</td>
<td>55.1</td>
<td>44.9</td>
</tr>
<tr>
<td>1981</td>
<td>51.3</td>
<td>48.7</td>
</tr>
<tr>
<td>1982</td>
<td>34.6</td>
<td>65.4</td>
</tr>
<tr>
<td>1983</td>
<td>33.6</td>
<td>66.4</td>
</tr>
<tr>
<td>1984</td>
<td>36.1</td>
<td>63.9</td>
</tr>
<tr>
<td>1985</td>
<td>51.3</td>
<td>48.7</td>
</tr>
<tr>
<td>1986</td>
<td>36.5</td>
<td>63.5</td>
</tr>
<tr>
<td>1987</td>
<td>47.0</td>
<td>53.0</td>
</tr>
</tbody>
</table>


all savings, while commercial banks shared less than forty-four percent.

In addition to increased role in capital mobilization, these financial institutions had not been directly controlled by the state. Through their own financial firms and without state intervention, the chaebol could mobilize funds, becoming more independent from the state in financial issues. Thus, policy instruments using financial sanctions did not work well enough to threaten the chaebol's
noncompliance to the third policy, even though it was workable in the first and second programs.

The development of global capitalism was the other factor that caused state regulation not to work as it did in the past. As discussed in section D in chapter 3, Korean economy in the 1980s became more dependent on a global network of economic activities. As global capital proceeded toward lower wage localities, and thus restructured the world space, the bargaining power of domestic labor and state tended to decline.

Coping with this change in competition at the international level, the Korean state needed to reinforce the coalition with its domestic capitalists, thus resulting in the shift of its policy priority from the legitimacy issue to accumulation activities. In addition, along with the structural change in industries and expanding commands of the chaebol, Korean capital was being trans-nationalized in the late 1980s even if it was incipient. To the chaebol, thus, the domestic relation to the state and labor became of less important to their accumulation. The past mode of regulation in the 1974 and 1980 policies might not fit into this new regime of accumulation.

3. Achievement of the Policy

The total target amount was reduced from sixty-three million pyong to fifty-seven million pyong. This amount
Table 6.12 Idle Land Held by Financial Institutions
(as of July 1991)

(Unit = 000 pyong, %)

<table>
<thead>
<tr>
<th></th>
<th>Target Area (A)</th>
<th>Self-Disposition (B)</th>
<th>Entrust Rate To KAC (B/A)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks (b)</td>
<td>82</td>
<td>12</td>
<td>70</td>
</tr>
<tr>
<td>Stock Companies (b)</td>
<td>37</td>
<td>32</td>
<td>5</td>
</tr>
<tr>
<td>Security Companies (b)</td>
<td>963</td>
<td>889</td>
<td>74</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,082</strong></td>
<td><strong>833</strong></td>
<td><strong>149</strong></td>
</tr>
</tbody>
</table>


As they did in the first and second measures, the chaebol disposed of most of their land on the market. They sold only fourteen percent of idle land to public agencies, i.e., the Korea Land Development Corporation and the Forest Office. Compared with its role in the second program, the role of the KLDC was minor in the third measure, but the Korea Auction Corporation’s role was emphasized. This role shift between public agencies was due to the change in policy instruments, emphasizing self-disposal rather than compulsory purchase. When the chaebol could not sell their land on the market place, they could entrust the Korea Auction Corporation to auction off their land publicly, or request the Korea Land Development Corporation to purchase...
it with land bonds. If this auction did not find buyers, then the KAC could request the KLDC to buy it with land bonds.

Because of such disposal processes, some people criticized this policy, saying it was designed just for legalizing the chaebol's idle land holdings rather than for regulating their excessive land holdings (T.H. Han 1992: 129). When the chaebol could not sell it on the market, the government bought it at appraisal prices. Thus, the chaebol were able to minimize their loss in disposing of their land, and to privatize the capital gains generated during land holding periods.

As May 1992, two years after policy announcement, sixty-seven percent of target land was sold. Of the remaining 18.6 million pyong (61.3 km$^2$), 3.4 million pyong (11.2 km$^2$) was manipulated by transferring ownership titles, and 15.2 million pyong (50.1 km$^2$) by being auctioned by the Auction Corporation (table 6.13).

This policy achieved the higher performance among the three programs, at least in appearance. However, the state could not prevent the chaebol from purchasing further land as it had promised. For example, the policy regulated the chaebol from purchasing new land for one year from May 1990 to May 1991. Nevertheless, during the period of May 1990 to June 1991, they bought 11.1 million pyong (36.7 km$^2$, Han'guk
Table 6.13 Achievements of the Third Measure  
(as of May 15, 1992)  
(Units: 000 pyong)

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Self-Disposal</th>
<th>State Purchase</th>
<th>Total</th>
<th>KAC</th>
<th>FO</th>
<th>KLDC</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Target (A)</td>
<td>57,410</td>
<td>24,300</td>
<td>33,110</td>
<td>24,780</td>
<td>7,880</td>
<td>450</td>
<td></td>
</tr>
<tr>
<td>Disposal (B)</td>
<td>38,850</td>
<td>20,920</td>
<td>17,930</td>
<td>9,600</td>
<td>7,880</td>
<td>450</td>
<td></td>
</tr>
<tr>
<td>Non-Disposal</td>
<td>18,560</td>
<td>3,380</td>
<td>15,180</td>
<td>15,180</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>B/A (%)</td>
<td>67.2</td>
<td>86.1</td>
<td>54.1</td>
<td>38.7</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Note: FO = Forest Office. Self-disposal amount includes 3,820,000 pyong which was donated to public agency.  

unhaeng, July 1991), equivalent to twenty-eight percent of the land they sold during the same period!

F. Conclusion

After presidential directives were issued, the government provided the general guidelines for its implementation. At the second and third measures, the government requested that the chaebol report their all land holdings. Before the government’s decision, the chaebol proposed to sell their idle land. After investigating their land holdings, the government identified idle land to be sold.

Even if the government announced idle land policy rigorously, the deadlines for land disposal extended from three-six months to two-three years. The first measure was implemented for three years from 1974 to 1977 (SKS, April
26, 1975), the second measure from 1980 to 1983 (Han'guk ilbo, May 4, 1983), and the third measure for two years from 1990 to 1992.

The chaebol sold most land in the market place. Even if they were not able to sell land because of the depression in the market, the government created public enterprises to buy this land, including the Korea Land Bank in 1974 and the Korea Land Development Corporation in 1978, and extended the function of the Korea Auction Corporation.

Though it did not initiate policy reforms, the National Assembly participated in the implementing stage. On the one hand, it enacted or revised the laws concerning the activities of the Land Bank, the Korea Land Development Corporation, and the Auction Corporation. On the other, it conducted a congress audit on the executive branches’ implementation.

This policy followed the "gradual erosion" and "rejuvenation" models for the policy life cycle, which are two of four scenarios proposed by Mazmanian and Sabatier (1983: 276-82). The strong initial enforcement was led by broad interests, public pressure and supports, and macro-politics. However, the policy gradually eroded to narrow interests and micro-politics. Facing the changes in external environments (e.g., the fluctuation on international market) and the demands from the chaebol, the policy became modified to be reductive enforcement. As time
proceeded, people’s and contending groups’s concerns about the idle land issue also weakened until the time came when the land boom reoccurred. Then, strong enforcement came again due to these resumed problems and macro-politics. The fate of new policy began to cycle again.

These processes of policy implementation provide some implications. The government’s capability was enhanced by creating its new institutions. The creation of the coordinating organization, such as the Policy Committee of Real Estate, made the different interests of each ministries easier to coordinate, thus helping it keep some cohesion among implementing agencies. Even if serious conflicts arose between them, the higher institutions, such as the Economic Planning Board or the President’s Office, induced a relatively successful compromise. The creation of the Land Bank and the Korea Land Development Corporation helped the state implement its policy. Because the KLB and the KLDC were given legal power of eminent domain, the government could influence the behavior of target groups, at least psychologically.

The relationship between the Korean state and target groups (i.e., the chaebol) was not fixed, but had evolved continuously. At the early stage of Korean economic development, the state led its society. The chaebol also complied to state policy at a relatively high level. As economic development proceeded, the relative status of the
chaebol to the state was enhanced, while the guiding position of the state was undermined. Particularly, the more the target groups could get their independence from the state's resources, the less policy instruments worked. Thus, the third program of 1990 was challenged seriously from the chaebol.

State autonomy became questionable at the implementation stage. Even if the state was able to initiate idle land policy against the interests of the chaebol, its rigor soon eroded at the implementation stage. The "autonomous" formulation of policy did not convey the success of its implementation. The nature of the capitalist state, thus, might be explained more clearly not by observing the autonomous initiation of policy, but by observing the process of policy implementation.

This autonomy issue will be discussed more in chapter 8. Before entering this discussion, it will be necessary to evaluate the actual impact of idle land policy on its goals. How much was it effective in controlling land speculation? How much impact did it have on the chaebol's financial structures? How long did policy effects last, if it had effects? How did the chaebol utilize their resources to influence policy makers and how did their strategies work? This impact evaluation will complement the arguments discussed in the proceeding chapters.
Notes to Chapter VI

1. The Minister of the Economic Planning Board has been the Vice Prime Minister.

2. At the 14th session of the Finance Standing Committee of the 90th session of the National Assembly, on November 12, 1974.

3. At the 17th session of the Finance Standing Committee of the 90th session of the National Assembly, on November 16, 1974.

4. At the 18th session of Finance Standing Committee in the 90th session of the National Assembly, on November 18, 1974.

5. At the 15th main session of the 90th National Assembly, on December 1, 1974.

6. At the 15th main session of the 90th National Assembly, on December 1, 1974.

7. At the 18th session of Finance Standing Committee in the 90th session of the National Assembly, on November 18, 1974.

8. Idle land was defined in Article 27 of the Implementation Ordinance of the Land Bank. It was "land that business firms do not use directly for their main business activities designated in their Articles of Association, or land that business firms have bought for their business purpose, but have not used for over two years."

9. For instance, iron, nonferrous metals, ship building, machinery, chemical, electronic industries, electric industries, mining, food industries, agricultural, and seafood refining industries.

10. At the 13th session of the Construction Standing Committee of the 100th session of the National Assembly.

11. At the 15th session of the Construction Standing Committee of the 100th session of the National Assembly, on October 28, 1978.

12. Same as Note 11.
13. The legal expert of the National Assembly, Won-myong Ch’oe, evaluated the Land Bank as follows: "under the name of channelling idle capital invested in land into industrial capital, thus improving the financial structure of business enterprises, the Land Bank emphasized land transactions as loan security. Now, this policy resulted in encouraging the Chaebol to hold idle land. The policy for efficient land use has been neglected" (at the 13th session of the Construction Standing Committee of the 100th session of the National Assembly, on October 26, 1978).

14. Assemblyman Sang-u Sin, at the 4th session of the Finance Standing Committee of the 101st session of the National Assembly.

15. At the 12th session of the Finance Standing Committee of the 94th session of the National Assembly, on November 11, 1975.

16. Legislative expert, Chang-gun Ch’oe, at the 12th session of the Construction Standing Committee of the 108th session of the National Assembly.

17. The Minister of Finance, Won-gi Kim, at the 4th session of the Finance Standing Committee of the 103d session of the National Assembly, on November 21, 1979.

18. Same as Note 17.

19. The Minister of Finance, Won-gi Kim, at the 4th session of the Finance Standing Committee of the 103d session of the National Assembly, on November 21, 1979.

20. The KLDC president, at the 5th session of the Construction Standing Committee of the 108th session of the National Assembly, in October 1981.

21. The KLDC president, at the 10th session of the Construction Standing Committee of the 114th session of the National Assembly, on October 28, 1982.

22. The KLDC President, at the 1st session of the Construction Standing Committee of the 115th session of the National Assembly, on February 28, 1983.

23. The Deputy Minister of Construction, Kwan-yong Yi, at the 1st session of the Construction Standing Committee of the 115th session of the National Assembly, on February 28, 1983.

There is a discontinuity in statistics. On February 28, 1983, the MOC reported to the Assembly that businesses disposed of 40,387,000 pyong on the market, and requested
the KLDC to buy idle land amounting to 44,948,000 pyong. The KLDC purchased 23,810,000 pyong and rejected purchase of the remaining 21,338,000 pyong because of its unmarketability.

Two months later, the KLDC reported to the Assembly, at the 4th session of the Construction Standing Committee of the 116th session of the National Assembly on April 26, 1983. According to the KLDC, businesses disposed of 42,358,000 pyong on the market as of March 31, 1983. (The difference between 40,387,000 pyong (from the MOC’s data) and 42,358,000 pyong (from the KLDC’s data) seems to be the amount that was sold during the end of 1982 to March, 1983.) Business requested the KLDC to buy 44,209,000 pyong. The KLDC purchased 23,810,000 pyong, and rejected buying 20,399 pyong. Later, the KLDC indicated that among 45,926,000 pyong requested, it purchased 23,773,000 pyong (Han’guk t’oji kaebal kongsa 1989: 30 & 393).

Right now, we have no idea what data is correct. In this thesis, I am adopting the report of the MOC.

24. At the 21st session of the Finance Standing Committee of the 114th session of the National Assembly, December 13, 1982, and at the 4th session of the Construction Standing Committee of the 116th session of the National Assembly, on April 26, 1983.

25. Assemblyman Yong-do Kim, at the 5th session of the Construction Standing Committee of the 150th session of the National Assembly, on July 6, 1990.


27. Assemblyman Chun-sop Kim, at the 4th session of the Finance Standing Committee of the 103d session of the National Assembly.

28. The Minister of Finance, Ung-bae Na, at the 4th session of the Finance Standing Committee of the 110th session of the National Assembly.

29. At the 5th session of the Law and Justice Standing Committee of the 116th session of the National Assembly, on April 27, 1984.

30. At the 5th session of the Construction Standing Committee of the 119th session of the National Assembly, on November 10, 1983.
31. Such as reinforcing the Land and Public Welfare Program from 1990, implementing the Real Name system in Financial Transactions from 1991, implementing the Comprehensive Land Tax System from 1990, increasing the land tax base from 20-30 percent to 60 percent of land values by 1992, and controlling concentration of economic power in the Chaebol.

32. The four high ranking groups appealed from the decision of the National Taxation Office on August 24, and other thirty-nine chaebols also did on September 20.

33. Two years later, the Hyundai won its lawsuit. Its idle land amounting to 3,986 pyong located in the Seoul Kangnam was regarded as operating land by the court on December 24, 1992 (Iryo sinmun, December 27, 1992).

34. The total amount of land registered under other persons' names was 11,899,000 pyong, among which 7,377,000 pyong was regarded as firms' operating land and 4,522,000 pyong was as idle land. According to the tax laws, the Gift Tax was supposed to be levied on this land. However, just before implementing the third policy measure, the Supreme Court decided that if the purpose of registration under other person's names was not for evading taxes but because of inevitable situations, the Gift Tax should not be levied. The inevitable situations included that seller did not want to contract with business groups (Kuksech'ong, September 1991). Because of this decision, the chaebol did not pay the Gift Tax.
A. Introduction: Policy Evaluation

The final stage of the policy process is policy evaluation, assessing what the government actually does with what material effects (Anderson 1990: 227). It pursues an objective, systematic and empirical examination of the effects of an ongoing policy, which the government proposes to solve its policy problems and achieve its policy goals.

The ideal type of evaluation research has to be comprehensive, including both process evaluation and impact assessment. A process evaluation is concerned with whether the policy is implemented according to its stated guidelines. It focuses on how a policy is modified, elaborated, or even negated during its implementation process. On the other hand, an impact assessment focuses on whether the policy causes a change in the intended direction, and thus whether the policy is effective to control its policy problems (Nachmias 1979: 4-6). A comprehensive evaluation should include both analysis, assessing whether policy intervention is carried out as planned, and whether it results in a modification of the target’s behavior consistent with the intent of the policy (Freeman 1975: 146).
While the previous three chapters analyzed policy processes from agenda setting and policy formation to policy adoption and implementation, this chapter focuses on an impact evaluation of the idle land policy. By definition, impact analysis is designed to find some causal relationship between the policy output and policy consequences; that is, a policy is assumed to produce a change in policy targets’ behavior in the direction intended by policy makers (Nachmias 1979: 6-12). This causality, however, does not necessarily mean that the policy dictates the policy consequence, because a cause-and-effect relationship is in the theoretical domain. This relationship is not easily observed in the real world. Thus, if $X$ is a cause of $Y$, it means that a change of $X$ produces a change in $Y$, not that a change in $X$ is complied with by a change of $Y$ (Nachmias 1979: 7). In other words, impact analysis is designed to probe the causality between variables, rather than to prove the causality between them. This relationship can be abstracted by a model, which translates the theoretical background of policy adoption into a set of variables and their relationship.

In evaluating the effectiveness of the idle land policy, there have been two groups: reformers and skeptics. Reformers, usually government officials, believe that this policy has been effective in controlling land speculation and improving the chaebol’s financial standings. On the
other hand, the skeptics, usually real estate experts and mass media reporters, contend that this policy at best has only nominal effects on both issues. To them, even if land problems and the chaebol’s financial standings may be improved by the introduction of the idle land policy, these effects are short-term. Because of the government’s immediate concessions to the chaebol, i.e., relaxing its rigor of regulations, this policy has not been able to bring about substantial changes in the chaebol’s behavior to restrain themselves from investing excessively in land and to improve their weak financial standings.

Until now, however, there has not been any effort to measure the impact of idle land policy empirically and systematically. For this reason, this chapter turns to a quasi-experimental time series analysis, the findings of which will support the arguments in chapter 4 which discussed the causes of government intervention in land-driven conflicts, and chapter 6 which discussed the process of implementation evolution.

This evaluation model consists of a set of factors; policy implementation as an independent variable, major consequences of the policy as dependent variables, and hypotheses suggesting the causal links between the policy and its consequences.
B. An Empirical Framework for Impact Evaluation

1. Independent Variables

Policy Intervention: The specific intervention to be tested is idle land policies of 1974, 1980 and 1990. This policy was issued in the form of a presidential special directive, which was supported by the land and tax laws enacted by the National Assembly and the Bank Credit Management Regulations agreed on by the Financial Institutions Association. The policy proposed to induce a behavioral change in the chaebol, thus controlling land problems and improving their financial standings as well.

The practical interpretation of this policy is that the disposal of idle land was compulsory to the chaebol. Those who ignored this order would risk a penalty, such as paying heavy taxes and being prevented from further bank credit allotment. Though policy enforcement was relaxed later, the degree of the chaebol's initial compliance with this policy was high, as evidenced by a decrease in land prices and improvements of their financial standings.

Non-Policy Variables: Since the outcome indicators might be caused by other political, social or economic factors than idle land policy, impact evaluation needs to control the influences by these plausible variables. For instance, real estate prices might be affected by changes in
the gross national product (GNP), population, urbanization rate, money supply, and other price levels, i.e., the consumer and wholesale prices. Regardless of the crackdown of the idle land policy, the growth of the GNP and population might increase the effective demand for real estate, thus increasing its price if the supply did not follow its demands. The increase in money supply and other commodities’ prices might increase the demand for real estate since the consumers would try to protect their equity from inflation.

In addition, important historical events, such as the August 3 Measures in 1972 and the assassination of the president in 1979, might influence the outcome variables apart from the pure impact of the idle land policy. Other unknown political and economic factors might also affect the outcome variables beyond the net policy impact. Thus, a careful examination will be necessary in interpreting the trends of dependent variables. To rule out the possible effects by these known and unknown political-economic factors, one may control general economic indicators, which are likely to reflect largely the impact of these plausible factors.

2. Dependent Variables

There are several types of criteria for evaluating policy performance, such as effectiveness and efficiency,
adequacy and appropriateness, responsiveness and security, and equity (Dunn 1981: 343, Nagel 1984: 35-122, Stone 1988: 30-86, Suchman 1967: 61-68). Since this chapter focuses on impact analysis of policy intervention and examines the degree of goal attainment, the main criterion will be the effectiveness of policy treatments.

The indicators for policy performance are chosen as the declared policy goals: land speculation control and the improvement of businesses' financial structures. For the criterion of speculation control, the land price index is adopted because it is the most direct measure to identify the policy impact on land speculation.

The indicators for the improvement of business' financial standing consist of three sub-categories: businesses' debt, equity and profit standings. The criteria for examining the impact on their debt standings will include the changes of the debt ratio, which refers to the current and fixed liability to the net worth; the financial costs ratio, which refers to the financial expense to total sales; and the financial costs share, which refers to the financial expenses to total value added. In examining the policy impact on business equity standings, the criteria will be the changes in the net worth ratio, which reflects net worth to gross assets, and the self funding ratio, which reflects self mobilizing funds to total annual operating funds. Business profit standings will be examined through
observing the changes in the profit ratio, which refers to the net profit to the total sales, and the profit share, which refers to the net profit to total value added.

This thesis will also assess the degree of the capitalists' "investment revolts." When capitalists regard state policy as a serious invasion of their fundamental interests, they will show their complaints to the government by retreating from industrial investment, just as laborers exercise their power through sabotage and strikes when they want to show their displeasure. To measure these capitalists' complaints, the impact model will include three indices; the investment ratio of the changes in private investment spent for industrial facilities and equipment, and the building and housing investment ratios, which refer to total square meters of building and housing construction permitted by the government.

3. Hypothesis: Expected Causal Relationship

The hypotheses on the causal connection between policy intervention and policy consequences are derived from the theory behind the adoption of idle land policy.

The Impact on Land Prices: Land prices were likely to decrease after implementation of idle land policy. Since the chaebol disposed of their idle land, the supply of land will increase while the demand for land would decrease due
to the decrease of speculative demand for land; the prices would decrease to equilibrate the amount of demand and supply. This effect was likely to be reinforced by the state's imposing higher taxes on idle land and cutting further bank credit to the chaebol, when they hesitate to dispose of their land.

The Impact on Financial Standings: By redeeming their bank debt by using the proceeds from the sales of idle land, the ratios for the chaebol's debt and financial costs were likely to decline after policy introduction, while the ratios for their net worth and profits were likely to increase due to the increase of paid-in capital and the reduction of their financial expenses.

The Impact of Private Investment Revolts: Since idle land policy attempted to control the capital gains from real estate, the landowner-capitalists were likely to reduce their investment in office buildings and in the housing industry. Also, they were likely to reduce their investment in industries to pressure state leaders to relax policy regulations, thus restoring their interests in obtaining gains from land. The rapid growth of the economy was crucial for state managers to hold political power. This economic growth was dependent largely on capitalists' investment in industrial sectors. Thus, the high degree of
the chaebol's investment revolts might encourage state managers to modify the degree of policy commitments.

A diagram in figure 7.1 shows an evaluation framework to indicate the relationship between policy treatment and its consequent variables.

C. Methodology: Research Design and Data

1. An Interrupted Time-Series Analysis

The most desirable way to evaluate policy impact is a true experiment that randomly assigns individuals to the treatment and control groups. This randomization is able to
minimize the systematic errors between groups better than any other sampling methods, although it does not completely insure that the treatment and control groups are, in fact, equivalent.

Quasi-experimental designs are an alternative to the situations, in which true experiment with obtrusive observation is not feasible, randomization is not possible, control groups do not exist, or there is no opportunity for a researcher to manipulate the independent variables (Cook & Campbell 1979, Poister 1978: 290-317). In evaluating idle land policy, a control group does not exist because this policy has been applied to all Chaebol and the relevant data for plausible control groups, i.e., the small and middle size enterprises, do not exist equivalently. Thus, this thesis will use a quasi-experimental design, an interrupted time-series analysis with non-policy control variables. To supplement the findings of an interrupted time-series analysis, a pre- and post-test design will be also utilized, thus making direct comparison of observations before and after the policy treatment.

Contrary to the time-series analysis on economics, in which the causal exogenous variable is a continuously present variable occurring in different degrees, an interrupted time-series analysis examines the causal variable as an event occurring at a single time (Campbell & Ross 1970: 115-116). The basic design of this analysis
consists of a number of observations at periodic intervals proceeding and after the policy stimulus. This design is illustrated as:

```
   O O O O O X O O O O O
   A A A A A A A A A A
   B B B B B B B B B B
   . . . . . . . . . . .
   N N N N N N N N N N
```

where X denotes policy intervention, 0 represents observations taken on each outcome indicator at equally spaced time intervals, and A to N denote time series observations for multiple non-policy control variables. These are entered simultaneously to the evaluation equation, with assumption of low multicollinearity.

As for the advantages of an interrupted time-series analysis, it allow researchers to use relevant archival data to study social reform as near experiments (Musheno 1981: 77). This design, having a relatively high degree of internal validity of findings, allows policy analysts to judge whether the observed effects are indeed attributable to policy intervention, rather than alternative explanations such as a projection of general and cyclic trends (Cook & Campbell 1979: 209-10). Also, it allows us to examine not merely "an effect" but "an effect pattern" of short-
long-term changes across time, due to policy intervention. This is not easily obtained by a pure-experimental design if it does not hold multiple time-series observations. Finally, because of the development of statistical procedures and software packages such as the Time Series Processor (TSP) and the Statistical Package for Social Science (SPSS), testing a policy effect is possible beyond visual scanning of interrupted time-series observations to reach conclusions of the hypothesized impact (Musheno 1981: 77-78). A SAS program is used for this study.

As other quasi-experiments suffer from jeopardizing "internal and external validity" (Cook & Campbell 1979: 207-32, Campbell & Ross 1970: 113-15, Poister 1978: 263-67), an interrupted time-series design also has some threats to the findings' validity, such as the problem of instrumentation, the effect of history and the difficulty in selecting intervention points. Observations may not be measured in a consistent fashion and the responding government agency may change the rules and procedures in recording public data (Campbell & Ross 1970: 114, Cook & Campbell 1979: 212, Legge 1985: 45).

The effect of history, referring to specific events other than experimental intervention, may be interpreted as a rival interpretation of a change. Although more than fifty observations are recommended for conducting a statistical analysis (Cook & Campbell 1979: 225), the longer
the time series, the more difficult it becomes to rule out a historical event's interpretations (Campbell & Ross 1970: 113, Cook & Campbell 1979: 211, Legge 1985: 46). To strengthen the credibility of the impact of policy intervention, the use of control variables and comparative data series is recommended (Nachmias 1979: 59).

Finally, an interrupted time-series analysis requires knowing the specific point in the series or an interruption at an expected point in time (Cook & Campbell 1979: 207). A researcher has to search for the "onset" of the intervention rather than its "widespread availability" in choosing the treatment point (ibid: 227). In most cases, there are time lags between the policy debates and policy adoption, between policy adoption mandated by the law and implementation by street officers, and between policy introduction and policy effects. Thus, a researcher faces the problem of choosing the exact intervention point, not earlier nor later points (Musheno 1981: 78-84). To assure high validity in defining the intervention point, supplementary designs are recommended, such as using coarse time intervals (i.e., years) over fine ones (i.e., months or weeks) (ibid: 86), using a switching replication design (Cook & Campbell 1979: 224-25), or using qualitative research methods (Jick 1979, Pettigrew 1979: 571-74).

While noting these disadvantages of an interrupted time series analysis, this study will use official data recorded
by qualified survey agencies in Korea to mitigate the instrumentation troubles (for details, see section C.4). To examine the possible influence by the event histories around the policy treatments, this thesis will use qualitative information. It also controls the non-policy exogenous variables, which are assumed to reflect the political and economic event histories. To minimize the danger of mislocating the intervention points, all data will be used on a year-basis, which will be supplemented by qualitative information. For controlling time trends, policy interventions and non-policy variables, this study will adopt a multiple time-series regression analysis.

2. Multiple Time-Series Regression: OLS Models

In the OLS regression trend model, time is assumed as a proxy variable, randomly assigned to multiple time points. According to Newcomer and Hardy (1981), at least three linear trend models are prominent for evaluating policy impact. Each model has (dis-)advantages in terms of assessing short- and long-term effects, estimating the regression coefficients of outcome differences, and discerning the degree of autocorrelation and multicollinearity.

Model 1: The first model adopts two separate regression equations to compare effects before and after the
policy treatment. Feig (1978) employed this model in assessing the impact of legislative reapportionment on state governments' expenditures for all fifty states in the U.S. The model is specified as:

\[ Y_{tt} = a_1 + b_1X_{tt} + U_{tt} \quad \text{(1)} \]
\[ Y_{12} = a_2 + b_2X_{12} + U_{12} \quad \text{(2)} \]

where:

- \( Y_{tt} \) = outcome observed before intervention
- \( Y_{12} \) = outcome observed after intervention
- \( X_{tt} \) = a time trend before intervention
- \( X_{12} \) = a time trend after intervention
- \( U_{tt} \) = error terms before intervention
- \( U_{12} \) = error terms after intervention

In this model, \( a_1 \) and \( b_1 \) estimate the interception and the slope of the outcome variables before intervention respectively, while \( a_2 \) and \( b_2 \) represent those after intervention. Even if this model is advantageous in term of its simplicity, a researcher has to compute a separate t-test to determine the long-term policy impact, and must also have a fair number of observations in the "after" period.

**Model 2:** The second model contains estimates of outcome level and slopes both before and after intervention in a single equation. McCrone & Hardy (1978) employed this model in determining whether civil rights policies in 1964...
systematically decreased the income gaps between black and white peoples in the U.S. This model is specified as:

$$Y_t = a_1 + b_1X_{1t} + b_2X_{2t} + b_3X_{3t} + u_t \hspace{1cm} (3)$$

where:

- $Y_t$ = outcome values observed
- $X_{1t}$ = a time trend before intervention
  - $(t=1..n, \ 0..0)$
- $X_{2t}$ = a time trend after intervention
  - $(t=0..0, \ 1..n)$
- $X_{3t}$ = intervention point $(0..0, \ 1..1)$
- $u_t$ = error terms

In this model, $a_1$ estimates the interception of the initial year; $b_1$ and $b_2$ represent the slope of the outcome variables before and after intervention respectively. A dummy variable is employed in this model to examine the change between pre- and post-policy period; $b_3$ estimates the change caused by policy intervention, and it refers to the short-term impact of the policy treatment. By comparing the direction and magnitude of $b_1$ and $b_2$, a researcher can discern the long-term impact of policy intervention, where the null hypothesis is that $b_2$ is not different from $b_1$ (i.e., $H_0: b_2 - b_1 = 0$). Thus, in order to find a significant long-term impact, it is necessary to calculate a separate t-test for differences in slope $b_2 - b_1$.

Model 3: The third time-trend model contains the dummy variable and trend variables in the single equation being
similar to Model 2, but examines the trend for the entire period, instead of the pre-policy series, to obtain an estimate for the non-policy trend. This model was suggested by Cook & Campbell (1976), and adopted by Lewis-Beck (1979) and Legge (1985). By using this model, Lewis-Beck evaluated the impact of the U.S. antitrust laws during 1890-1974, and Legge evaluated comparatively the impact of the abortion policy between Eastern Europe, England and the U.S. The model is specified as:

$$Y_t = a_1 + b_1X_{t1} + b_2X_{t2} + b_3X_{t3} + U_t \quad \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldot...
X_2 is likely to correlate with X_1 and X_3, and thus the estimates of the regression may not be reliable.

Newcomer and Hardy (1981) evaluated these three models by using the reapportionment case decided by the U.S. Supreme Court in 1964. In this research, Model 2 and Model 3 have a high level of multicollinearity among the trend variables; the estimates are less reliable since their statistical significance is decreased. On the other hand, Model 1 is problematic in terms of autocorrelation; the statistical significance of the t-test is exaggerated. The null hypothesis is likely to be unjustifiably rejected. Since the high degree of multicollinearity and autocorrelation reduce the reliability of coefficient estimates and t-tests, selecting a model that is least subject to both problems is recommended by them.


According to Newcomer and Hardy, Model 2 is more conservative in the problems of multicollinearity and autocorrelation, thus obtaining more reliable estimates among three linear trend models (1981: 146). However, a careful review of his findings shows that the differences between Model 2 and Model 3, in terms of the problems of multicollinearity and autocorrelation, are not significant. Despite few differences in these statistical problems, Model
3 has an advantage that Model 2 does not; both short- and long-term impact patterns are detected easily with one equation by examining the coefficients of an entire \((b_1)\) and post-policy period \((b_2)\), and the policy intervention \((b_3)\). Thus, this thesis will adopt Model 3 by using general OLS regression methods. The specified model is as follows:

\[
\text{Outcome} = f (\text{Policy, Time Trend, Non-policy Variables})
\]

where:

- **Policy Variable** = policy intervention
- **Time Variables** = pre- and post-policy time series
- **Non-policy Variables** = GNP, Wholesale price, Money supply, Population growth, Urbanization

\[
Y_t \text{ or } \log(Y_t) = a_t + b_1X_{1t} + b_2X_{2t} + b_3X_{3t} + c_iX_{it} + U_t \quad (5)
\]

where:

- \(Y_t\) = observation of the outcome variables
- \(X_{1t}\) = time trend for the whole periods, \((1.2...n)\)
- \(X_{2t}\) = time trend after intervention, \((0..0, 1..n)\)
- \(X_{3t}\) = policy intervention, \((0..0, 1..1)\)
- \(X_i(c_1 \ldots c_n)\) = non-policy variables
- \(a_t\) = intercept for the initial year
- \(b_1\) = slope for the whole period
- \(b_2\) = slope after intervention
- \(b_3\) = pre-post difference
- \(c_i \ldots c_n\) = slopes of non-policy variables
- \(U_t\) = error term

This model for impact analysis is concerned with the magnitude, direction and significance of \(b_1, b_2,\) and \(b_3\). The null hypothesis is \(b_3 = 0\) and \(b_1 = b_2\). If \(b_3\) is meaningfully larger or smaller than zero (i.e., \(b_3 > 0\) or \(b_3 < 0\)), then
the change of the outcome variable's level is maybe argued to be caused by policy intervention. If $b_2$ is meaningfully larger or smaller than $b_1$ (i.e., $b_2 > b_1$ or $b_2 < b_1$), then the policy has a long-term effect on the dependent variables.

As discussed in the previous chapters, the intervention points were May 29, 1974, September 27, 1980, and May 28, 1990. Right now, however, there are no post-policy data for the third measure of 1990. Thus, this study defines the time series data from 1963-1989, in which the intervention points are the years of 1974 and 1980. Nonetheless, some independent variables lack a time series to cover these twenty-seven years. In this case, the model will use time series for 1974-1989, in which the intervention point is the year 1980. One exception for choosing 1980 as an intervention point is the model for assessing the impact on land speculation. Just before adoption of the 1980 policy, the state was implementing the comprehensive speculation control measures issued on August 3, 1978, which rejuvenated the 1974 policy regulation (see, section C in chapter 6). This exception is to minimize the threat of history.

The model includes non-policy variables, which control the influences from other plausible factors, other than idle land policy. However, if the coefficient of $c_1...c_n$ is not statistically significant, then these variables will be excluded from the model. If the estimate for the policy variables is statistically significant even after holding
the influences from these non-policy variables constant, then one may be more confident that the policy intervention creates a significant impact on the outcome variables.

The hypothesis tests for the regression models will be conducted by examining t-statistics for each regression coefficient, and F-statistics for the overall fitness of the regression models.

The multicollinearity between independent variables may reduce the credibility of the estimation. However, if the models are used only for predictive purposes, multicollinearity is not a problem. In using quasi-experimental time-series designs to assess policy impact, the relative explanatory effects of individual independent variables are not of interest anyway (Newcomer & Hardy 1981: 141).

Even if a high degree of multicollinearity is found, a researcher can transform the variables into first-order differences or go to an ARIMA model. Moreover, if the simple correlation between the independent variables does not exceed the total multiple R for the equations, then the distortion of estimates will not be too statistically damaging to the equations (ibid). Since all models used in this thesis satisfy this conservative requirement, one may not be too worried about the problem of multicollinearity.

The high degree of autocorrelation between disturbance terms may cause bias in estimating standard deviations and variances of regression coefficients, thus causing an inflation of the t-ratios and invalid hypothesis tests. To test the autocorrelation, a Durbin-Watson d-statistics is
examined; if the alternative hypothesis for the absence of autocorrelation is a two-sided one, the decision rules for the DW d-tests are: to accept the hypothesis if $d_L < d < 4 - d_U$, where $d_L$ refers to the lower limit and $d_U$ refers to the upper limit in the Durbin-Watson statistics (Kmenta 1986: 329-330). All models in this thesis satisfy the acceptance zone at a 1 percent point of significance.

Generally, in an interrupted time-series design, differences between trends and the policy impact before and after policy intervention are of central concern, but the over- or under-exaggeration of statistical significance is less of concern than other regression analysis. Moreover, since all models in this thesis are more or less safe from the problems of multicollinearity and autocorrelation, the coefficient estimates and their statistical significance are not likely to reduce or exaggerate the statistical significance.

4. Data

There are two record series of the land prices index in Korea. The *Index for the Change in Land Prices* (*Chiga pyondong-yul*: 1975-1990) reported by the Ministry of Construction covers the whole nation through stratified sampling. On the other hand, the *Land Price Index for Major Cities* (*Chon'guk chuyo tosi ui chiga chisu-p'yo*) is compiled by the Korea Appraisal Board (KAB), covering the twelve
major cities between 1963-1974 and later expanding to coverage to all cities. The combined use of data, i.e., using the KAB’s data for 1963-1974 and the MOC’s data for 1975-1990, will violate seriously the validity of instrumentation, because these two data series have been made by different agencies and collected with different criteria and purposes. There has not been any report that assures the consistency between them. Therefore, this study will use the time series data from 1974-1989 recorded by the MOC, using the index for the six major cities, because land speculation has been more seriously regarded in these cities.

The data for business’ financial standings are obtained from Financial Statements Analyses (Kiot kyongyong punsok: 1963-1989) compiled by the Bank of Korea. As the idle land policy targeted the chaebol, the use of the chaebol’s data is desirable. However, as some data were missing for the chaebol’s information in this yearbook, the data for all manufacturing is used instead.

For evaluating the degree of capitalists’ investment revolts, this study uses the change in private investment in industrial equipment and facilities. They are obtained from The Economic Statistics Yearbook (Kyongje t’onggye yonbo: 1963-1990) recorded by the Bank of Korea. This yearbook also provides the observations for constructed floor areas for office building and housing.
Data for other non-policy variables include the growth of the GNP, the increase in money supply ($M_2$), the increase in wholesale prices, the urbanization rate, and population growth. These data are obtained from the Bank of Korea’s *The Economic Statistics Yearbook* (*Kyongje tonggye yonbo*), and *The Korean Statistics Yearbook* (*Han’guk tonggye yonbo*) compiled by the Korean Statistics Association.

D. Impact Analysis on Land Prices Stability

In assessing the empirical impact on land price stabilization, the hypothesis is that land prices are likely to decrease after the intervention of idle land policy, or at least to stop increasing. Since the Chaebol have to dispose of their idle land, the land supply may increase while speculative demand and transaction frequencies may decrease. Consequently, land prices or the rate of increase in land prices may decrease. Two major categories of land prices are examined: the annual price index and the rate of change in land prices.

1. The Impact Analysis by Using Pre- and Post-policy Comparison

Figure 7.2 show an initial assessment of the impact caused by the idle land policy of 1974, 1978 and 1990. Land prices in general have increased continuously, while the slope of the change shows some fluctuation. During the
Policy relaxation

Source: Table 3.9.

Figure 7.2 Trends in Land Price Indices, 1963-90

Source: Table 3.9.

Figure 7.3 Trend in Land Price Changes, 1963-90

The analysis by using the changes in the increase of land prices reveals a clearer picture for the pattern of changes before and after the intervention (figure 7.3). After 1969 when the first land boom peaked, land prices went down until 1973. In 1973, the rate of increase in land prices was 5.8 percent, which jumped up to 18.7 percent in 1974 (for details, see table 3.9 in chapter 3). After the 1974 intervention, the ratio of increase was slower, remaining 21.9 percent in 1975 and 21.0 percent in 1976.

From 1977, land prices increased again until the rejuvenation of the regulation in August 1978. The rate of increase was 79.1 percent in 1978, which decreased sharply to 22.0 percent in 1979. After the crackdown of 1978, the drop was almost double the magnitude of the 1976 and 1977 gains. It was the largest drop of the twenty-seven year series. This impact was reinforced by introducing the 1980 idle land policy. The explosively increasing tendency before the intervention was reversed right after the 1978 intervention; the increasing pattern before the intervention was positively exponential, while that after the intervention was negatively exponential until 1982. On the one hand, it is noteworthy that there were no year-to-year
gains after the 1978 crackdown until 1982 when the regulation was relaxed. On the other hand, the rate of increase in land prices after the 1978 crackdown (i.e., 1979-1989) averaged 17.68 percent, considerably lower than the rate proceeding this crackdown (i.e., 1974-1978) which was 41.58 percent. Since other control indicators such as the GNP, wholesale prices and money supply (M₂) displayed rather stable fluctuations around the intervention point of 1978 (figure 7.4), this sharp drop in the rate of land price is likely due to this policy control.

This tendency continued until 1982 when the regulatory implementation was relaxed. Land prices went up at an
exponential rate during 1982-1983, but the rate of increase declined when a series of anti-speculation regulations was adopted in 1983. After 1986, land prices increased again, due to high liquidity from the trade surplus and the presidential and congressional elections. This tendency fell again after the 1990 intervention.

2. The Impact Analysis by Using Interrupted Time Series Analysis

These differences of land prices and the rate of changes in land prices proceeding and after the policy intervention can be observed by graphically and by qualitative discussion. In addition, it can be evaluated by tests of statistical significance. As noted in the proceeding section, the impact model covers only the period between 1974-1989, in which the intervention point is regarded as the year of 1978. A variety of multiple regression models were attempted by using linear or curvilinear (e.g., logged) forms, and by including or excluding policy variables, trends variables and other control variables. Two best fit models are presented in table 7.1 and 7.2.

Contrary to the initial expectations, non-policy control variables, such as the GNP, wholesale prices, money supply, population growth, and urbanization, were not statistically significant in interpreting the changes of
Table 7.1  A Log Model for Impact on Land Prices, 1974-89

| Variable  | Coefficient | T-ratio | Prob > |T| |
|-----------|-------------|---------|--------|--------|
| Constant  | 4.163       | 37.852  | 0.0001 |
| Pre-policy| 0.328       | 9.899   | 0.0001 |
| Post-policy| -0.182     | -5.247  | 0.0002 |
| Intervention| 0.160      | 1.510   | 0.1568 |

R-square  0.990  F-statistics  403.726
Adj R-sq   0.988  Durbin-Watson D  1.446

land prices. This lack of effect can be explained by several issues; the control variables may affect land prices with a time lag; or they may not affect land prices but land prices may affect them (C.Y. Son 1991). The insignificance of these non-policy variables is also found in most models for assessing the impact on improving capitalists' financial standings and investment revolts.

A log regression model and its statistical estimates are in table 7.1. This model indicates that, while land prices increased at a curvilinear rate of 0.33 before the crackdown, it decreased at a curvilinear rate of 0.18 afterward, in which a curvilinear rate is a logged value: $\log 10 = 1.0$. Both of these estimates are statistically significant at the level 0.001. Since the impact of this crackdown is statistically significant even after controlling non-policy variables (R-square = .99; adjusted
Table 7.2  A Linear Model for Impact on Land Price Changes, 1974-89  
(Unit = percentage)

| Variable        | Coefficient | T-ratio | Prob > |T| |
|-----------------|-------------|---------|---------|
| Constant        | -19.228     | -0.601  | 0.5610  |
| Pre-policy      | 11.390      | 2.641   | 0.0247  |
| Post-policy     | -18.318     | -3.850  | 0.0032  |
| Intervention    | -42.062     | -3.041  | 0.0124  |
| GNP             | 0.144       | 0.402   | 0.6958  |
| Money Supply    | 0.027       | 0.669   | 0.5186  |

R-square = .99), one can be more confident of the hypothesized policy impact. However, the coefficient of the level of land prices after this intervention was not statistically significant, which is suspected to be due to the later relaxation of the regulation.

Table 2.2 shows a linear regression model and its statistical estimates, which uses the rate of increase in land prices. In this equation, while the rate of land prices increased at 11.39 percent a year before the 1978 crackdown, it decreased at 18.32 percent a year after it. In addition, the level of the increase rate of land prices dropped by 42.01 percent. Both trend and policy estimates are statistically significant at the level 0.05-0.01. Since the impact coefficients are statistically significant and
its model is fitted even after controlling the GNP and money supply variables (R-square = .77; adjusted R-square = .66), one can be confident of the expected policy impact.

This impact analysis supports the hypothesis that the idle land policy negatively affected land prices. The annual rate of change in land prices was converted from positive 11.49 percent to negative 18.3 percent. The policy crackdown also lowered the rate of change by 42.1 percent. In the land price index, it increased at a curvilinear rate of 0.33 before the 1978 intervention, but it decreased at a curvilinear rate of 0.18 after it. Since the impact coefficients are statistically significant, these changes are likely to be due to the existence of the 1978 policy. Even if this policy was effective in stabilizing land price, the later relaxation of the policy rigor mitigated its impact on land prices. The next section will assess the impact of this relaxation on land prices.

3. The Policy Evolution Impact on Land Prices

As discussed in chapter 6, the 1980 policy officially ended by 1982. Moreover, the state relaxed the rigor of its regulation during 1981-1983, resulting in the revival of the land boom during 1982-1984. The impacts of this policy expiration and relaxations are modeled in linear regression models using the rate of increase in land prices.
Table 7.3 A Linear Model for Impact of Policy Evolution

(Unit = percentage)

<table>
<thead>
<tr>
<th></th>
<th>Before Relaxation</th>
<th>After Relaxation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Coefficient</td>
<td>T-ratio</td>
</tr>
<tr>
<td>Constant</td>
<td>-6.196</td>
<td>-0.551</td>
</tr>
<tr>
<td>Pre-policy</td>
<td>14.556</td>
<td>4.293***</td>
</tr>
<tr>
<td>Intervention</td>
<td>-38.914</td>
<td>-2.505*</td>
</tr>
<tr>
<td>R-square</td>
<td>0.863</td>
<td></td>
</tr>
<tr>
<td>Adj. R-square</td>
<td>0.781</td>
<td></td>
</tr>
<tr>
<td>F-statistics</td>
<td>10.532</td>
<td></td>
</tr>
<tr>
<td>Durbin-Watson D</td>
<td>1.732</td>
<td></td>
</tr>
</tbody>
</table>

Note: The level of significance; * = 0.1 level, ** = 0.05 level, *** = 0.01 level, **** = 0.001 level

Before the 1982 relaxation, the rate of changes in land prices decreased by 20.5 percent annually, lower than 13.7 percent after the relaxation. In other words, if the state did not relax its initial degree of the crackdown to regulate capitalists’ holdings of idle land, then the Chaebol would invest less in land, thus helping the land market to be more stable.

Figure 7.5 and 7.6 reinforce this interpretation. Figure 7.5 shows the pattern of capitalists’ investment in land, in which the index refers to the shares of land investment among total annual investment funds. After the 1980 idle land policy, the predisposition to land investment
of small and medium sized enterprises continuously decreased until 1989, when the third land boom peaked. In contrast, this predisposition of the chaebol dropped only during 1981-1982. It went up again during 1982-1984 just after the expiration of the 1980 policy, and dropped again during 1984-1985 when the state re-regulated speculation. The chaebol increased investment in land from 1986, precipitating the third land boom.

Figure 7.6 and table 7.3 show the chaebol's behavior after the policy relaxation, in which the index refers to idle land held by business groups and vacant land held by
individual landowners. After the policy expiration in 1982, capitalists's investment in land increased, even buying back the land which they sold to the Korea Land Development Corporation. Idle land held by business companies increased by 215 percent from 17.8 million pyong (58.9 km²) in 1982 to 38.1 million pyong (126.1 km²) in 1983. It is noteworthy to observe the composition of their idle land. In 1983, among total idle land, sixty-nine percent was forest land and twenty percent was agricultural land. When eighty-nine percent of their idle land was either agricultural or forest land, it is hard to believe that their investment in land was for their business activities. Rather, it would be for speculative activities searching for capital gains from land. Although idle land policy proposed to control this speculation, the state soon relaxed its rigorous regulation.

As discussed extensively in chapter 4, this policy was initiated by the state's responding to the demands from the general public, who complained about the chaebol's land speculation, and by state leaders' efforts to legitimate the undemocratic process of their obtaining political powers. Nonetheless, to state leaders, this legitimacy and their will for staying in office would be obtained more relevantly when they could achieve the rapid growth of the general economy. The Korean state had to pay much more attention to precipitating capital accumulation, for which state leaders had to restore the capitalists' confidence that was damaged
Figure 7.6 Composition of Idle Land, 1979-87

Table 7.4 Composition of Idle Land, 1979-87

<table>
<thead>
<tr>
<th>Year</th>
<th>Area (000 py.)</th>
<th>Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>All Resid. Agri. Forest Indus. Others</td>
<td></td>
</tr>
<tr>
<td>------</td>
<td>---------------</td>
<td>----------</td>
</tr>
<tr>
<td>1979</td>
<td>28,987 100 11.02 17.20 66.49 0.00 5.29</td>
<td></td>
</tr>
<tr>
<td>1980</td>
<td>17,676 100 7.35 8.12 73.52 0.00 11.01</td>
<td></td>
</tr>
<tr>
<td>1981</td>
<td>21,029 100 10.58 7.07 73.02 0.00 9.33</td>
<td></td>
</tr>
<tr>
<td>1982</td>
<td>17,831 100 12.69 7.21 68.29 0.00 11.82</td>
<td></td>
</tr>
<tr>
<td>1983</td>
<td>38,136 100 7.08 19.50 68.83 0.08 4.51</td>
<td></td>
</tr>
<tr>
<td>1984</td>
<td>26,883 100 19.78 6.66 57.11 0.62 15.82</td>
<td></td>
</tr>
<tr>
<td>1985</td>
<td>16,172 100 11.73 10.91 64.78 1.77 10.81</td>
<td></td>
</tr>
<tr>
<td>1986</td>
<td>16,347 100 8.65 18.28 56.53 5.11 11.43</td>
<td></td>
</tr>
<tr>
<td>1987</td>
<td>15,424 100 9.71 10.05 50.01 23.33 6.90</td>
<td></td>
</tr>
</tbody>
</table>

by the idle land policy. This relaxation was regarded as a rational tactic by state leaders to successfully restructure industries from light to heavy and chemical ones in the mid-1970s, and to revitalize the depressed economy in the early 1980s. These necessities for relaxing the regulation were reinforced by capitalists’ investment revolts, which will be discussed in the following section.

E. Impact Analysis of Investment Revolts

The analysis hypothesizes that, although the level of capitalists’ investments increased, due to the general growth of Korean economy, capitalists were likely to reduce the level of their investment just after the introduction of the idle land policy. The lower price level of real estate and capital gains due to the policy might reduce incentives for private construction companies’ investment. Capitalists might also withhold their capital from other industrial facilities to demonstrate to the state that they did not appreciate the policy.

Capitalists’ strategies will affect the real estate market. When housing supply declines, its prices will increase unless the demand for housing also falls. The state will try to avoid this situation, because higher prices for housing increase the costs of labor reproduction, and of production costs for manufactured goods. In addition, since the achievement of a rapid economic growth
is dependent on capitalists' investment in industry, state managers may need to relax its tight regulation. Three major categories of investment revolts are examined; the investment in construction industry, housing industry, and industrial equipment and facilities.

1. Impact on Private's Industrial Investment

The observations in the private investment series in industries (figure 7.7) exhibit that, while the amount of private investment has increased continuously during 1963-1990, there are some fluctuations around the points of policy introduction. While the amount of private investment increased at exponential rates during 1964-1974, the 1974 crackdown was expected to make this investment almost stable during 1974-1976. Capitalists increased their investment volume by 33.3 percent every year during the pre-policy period (i.e., 1963-1974); it declined to 28.3 percent during the post-policy period (i.e., 1974-1989).

After the expiration of the 1974 policy, the amount of private investment increased again at exponential rates until 1980. The crackdown of the 1980 policy made private investment in industries retarded until 1983, when this policy was relaxed again. The rate of increase in investment amount before the second crackdown (1974-1980) was 39.8 percent, which fell to 20.2 percent during the second post-policy period (1980-1989).

Figure 7.7 Trends in Private Industrial Investment, 1963-90

Figure 7.8 Change in Private Industrial Investment, 1963-90
Figure 7.8 shows the changes in private investment. It shows a clearer pattern of investment changes during the short-term periods after policy intervention (1974-1976 and 1980-1982), even if the long-term impact looks less clear. After the 1974 policy, the rate of increase in industrial investment fell from 85.0 percent in 1974 to 13.5 percent in 1975 and 0.9 percent in 1976. After the 1980 policy, the rate of increase in industrial investment fell again from 58.6 percent in 1979 to -1.2 percent in 1980 and 10.1 percent in 1981. After the expiration and relaxation of the policy, the rate of increase in industrial investment increased during 1976-1979 and 1982-1984.

One can confirm these differences proceeding and after the policy intervention by testing the statistical significance of the estimates. The impact model covers the periods of 1963-1989 with two intervention points, the years of 1974 and 1980. Because of the lack of the post-policy data, the impact analysis for the 1990 policy was excluded.

As the estimates of the model suggests, capitalists increased their investment in industries by 90.1 billion Won ($186 million) every year before the 1974 intervention. Since then, they increased by 2,967.7 billion Won ($6.1 billion) a year. Although idle land policy retarded capitalists' investments for short-term periods, this significant difference in trends is reminiscent of the historical events of 1973, when the state turned its
Table 7.5  A Linear Model for Impact on Private Investment, 1963-89

(Unit = billion Won)

| Variable     | Coefficient | T-ratio | Prob > |T| |
|--------------|-------------|---------|---------|
| Constant     | -148.145    | -0.079  | 0.9375  |
| Pre-policy   | 90.145      | 0.327   | 0.7465  |
| Post-policy  | 2967.718    | 7.183   | 0.0001  |
| 1974 Policy  | -8145.052   | -3.517  | 0.0019  |
| 1980 Policy  | -7487.433   | -2.617  | 0.0158  |

R-square 0.947  F-statistics 97.418
Adj R-sq 0.937  Durbin-Watson D 0.826

industrial policy from light to heavy and chemical industries. Since heavy and chemical industries need more capital than light industries, the amount of investment consequently increased. For instance, the amount of investment was 654 billion Won ($1.6 billion) in 1972, which jumped to 1,071 billion Won ($2.7 billion) in 1973 and 1,982 billion Won ($4.1 billion) in 1974 after the state’s adoption of this new industrialization policy.

Does the series suggest any policy impact after adoption of idle land policy? As shown in table 7.5, the differences in private investment level between the pre- and post-policy periods are 8,145 billion Won in the 1974 policy and 7,487 billion Won in the 1980 policy. These estimates suggest that the amount of private investment after the policy intervention was, on an average, 8,145 billion Won.
($16.8 billion) less than the amount before the 1974 policy, and 7,487 billion Won ($15.5 billion) less than the amount before the 1980 crackdown. In other words, this amount was withdrawn from investments annually, due to the existence of the policy. It otherwise would have been invested every year. These estimates are statistically significant at the 0.01 level.

2. Impact on Construction Investment

Through an initial assessment of the building construction series (figure 7.9), one may observe that the amount of building construction, i.e., the floor areas to be constructed, increased continuously during 1963-1990 with some fluctuations. It increased continuously until 1970, stagnated during 1970-1972, increased in 1973, and then stagnated again during 1974-1976. After the relaxation of the 1974 policy, it increased again until the peak of the second land boom, then decreased by the introduction of the 1980 policy. From 1986, it increased exponentially until 1990 when the third policy was introduced. The housing industry also has moved along with the trends of the general construction industry.

Since there are some cyclical fluctuations in the changes of investment in the general construction and housing industries (figure 7.10), it is more or less obscure to compare the changes proceeding and after the 1974 and
Figure 7.9 Trends in Construction Investment, 1963–90

Figure 7.10 Changes in Construction Investment, 1963–90

1980 interventions. Nonetheless, the graphic presentation of the crackdown years provides evidence of the degree of capitalists' revolt in construction industries.

Before the 1974 intervention, the constructed floor areas for building and housing increased continuously. The constructed building floors were 16.6 million square meters in 1973, increasing by 90.5 percent over those in 1972. The constructed housing floors were 7.9 million square meters in 1973, increasing by 75.2 percent in 1972. After the 1974 intervention, construction industries kept stable during 1974-1976; the constructed building floors were 16.9 million square meters in 1974, 18.4 million square meters in 1975, and 18.0 million square meters in 1976. The constructed housing floors were 10.3 million square meters in 1974, 11.6 million square meters in 1975, and 9.5 million square meters in 1976.

After the official expiration of the 1974 policy in 1977 and the second land boom peaked in 1978, did the construction industries prosper. The constructed floor areas of all buildings were 30.8 million square meters in 1978, and those for housing were 17.5 million square meters. Both of them decreased again because of the anti-speculation measures in August 1978 and the second idle land policy in September 1980. The building floors dropped to 25.7 million square meters in 1980 and 20.8 million square meters in 1981, while housing floors fell to 14.7 million square
meters in 1980 and 10.3 million square meters in 1981. Both industries began to increase the floor areas from 1982, when the 1980 policy expired and the regulation of the 1978 anti-speculation policy was relaxed. During the pre-policy period, the constructed floor areas for building increased by average 22.5 percent a year, declining to 13.8 percent during the post-policy period. This increase rate for housing was 27.5 percent during the pre-policy period, also declining to 17.0 percent during the post-policy period.

With regard to linear tests of changes in slope and intercept between pre- and post-treatment, these general differences in the amount and the rate of changes can be made. The impact model covers the periods of 1963-1989, having two intervention points, the years of 1974 and 1980.

Table 7.6 shows that, while capitalists produced building floors by 1.1 million square meters annually before the 1974 intervention, they produced building floors by 3.9 million square meters annually after 1974. As the general economy prospered, the floor areas for housing and offices were increasingly provided for by capitalists. These estimates are statistically significant at the 0.1 to 0.001 level.

Table 7.6 also evidences the fact that the level of produced floor areas dropped after the policy intervention, by 10.5 million square meters every year after the 1974 intervention and by 17.6 million square meters after the
1980 policy. These estimates suggest that the amount of 10.5 million and 17.6 million square meters of building were not constructed each year due to the existence of the 1974 and 1980 policies. They otherwise would have been built. These estimates are significant at the 0.1 to 0.05 level.

As the demand for urban housing has increased along with rapid urbanization, the construction companies have increasingly built the housing. This trend was encouraged by state policy. When the economy was seriously depressed, as in 1973-1974 and 1980-1981, the state utilized the housing industry to boost its depressed economy. Thus, capitalists increased the housing supply by 0.6 million square meters every year before 1974, and since then they increased it by 1.8 million square meters a year. While this trend's estimate before the 1974 crackdown does not meet the 0.1 level of significance, the trend's estimate after the 1974 policy is statistically significant at the 0.01 level.

Nevertheless, the level of housing construction dropped by 9.4 million square meters annually after the 1980 policy intervention, which is significant at the 0.05 level. In other words, the amount of 9.4 million square meters of housing was not built each year due to the existence of the 1980 policy. Otherwise they would have been constructed. The 1974 crackdown, however, did not reach the 0.1 level of
### Table 7.6 A Linear Model for Impact on Construction, 1963-89

(Unit = 000 m²)

| Variable   | Coefficient | T-ratio | Prob > |T| |
|------------|-------------|---------|---------|
| Constant   | 775.127     | 0.173   | 0.6435  |
| Pre-policy | 1132.691    | 1.714   | 0.1005  |
| Post-policy| 3893.014    | 3.928   | 0.0007  |
| 1974 Policy| -10526.000  | -1.895  | 0.0714  |
| 1980 Policy| -17556.000  | -2.558  | 0.0180  |
| R-square   | 0.900       |         |         |
| Adj R-sq   | 0.882       |         |         |

F-statistics 49.395
Durbin-Watson D 0.953

### Table 7.7 A Linear Model for Impact on Housing Construction, 1963-89

(Unit = 000 m²)

| Variable   | Coefficient | T-ratio | Prob > |T| |
|------------|-------------|---------|---------|
| Constant   | -407.600    | -0.152  | 0.8802  |
| Pre-policy | 643.396     | 1.634   | 0.1165  |
| Post-policy| 1841.741    | 3.115   | 0.0050  |
| 1974 Policy| -3577.390   | -1.079  | 0.2921  |
| 1980 Policy| -9410.060   | -2.298  | 0.0314  |
| R-square   | 0.873       |         |         |
| Adj R-sq   | 0.850       |         |         |

F-statistics 37.786
Durbin-Watson D 1.071
significance, although the graphic figure demonstrated the drop of housing construction after adoption of the 1974 policy.

This insignificance of housing construction coefficient for the 1974 policy is suspected to be due to the state’s housing policy in 1974 as discussed in section C.1 in chapter 4. Since state finances were squeezed by its new industrial policy encouraging heavy and chemical industries, the state could not implement both housing and industrial policies simultaneously. It retreated from its providing housing but encouraged the private sector to do so. To encourage capitalists to provide more housing, the state adopted several favorable measures on the same day, May 29, 1974, when the first idle land policy was announced. These measures, regulating capitalists from holding idle land on the one hand and encouraging them to produce more housing on the other, may explain the insignificance of the estimate of the 1974 post-policy.

3. The Impact of Policy Evolution on Investment Revolts

The capitalists’ strategies to withhold further investment in industries and housing supply had squeezed state managers, who had to conduct both policies for furthering capital accumulation and responding to the demands from the general public. Although the idle land policy caused real estate speculation to decline, private
investment in industries, including housing construction, was reduced considerably, too. Along with this capitalists’ retreat from industrial investment, the international environment including the oil crises of 1974 and 1979 caused the Korean economy to become depressed. It might threaten the political status of state leaders.

The negative effects of the policy, such as reducing office and housing supply, were clearer around 1980-1981. Although housing prices fell, the demands for housing did not increase due to the depression of the general economy. Even new office buildings and housings were unsold. Construction companies, construction material companies, and the Korea Housing Corporation, the public enterprise, suffered from this decreased demand, an increase in unsold new housings, and a delay of financial returns to investment. These companies argued that the severe anti-speculation measures discouraged construction investment, thus aggravating housing problems for poor families instead of solving the problems by lowering housing prices.

These companies mobilized the mass media to press the government to mitigate the implementation and to obtain public support. Since the mass media focused on the housing supply aspect (i.e., the side effect of the policy) than the decreased land and housing prices (i.e., the policy success), capitalists’ claim for the state’s relaxing the regulation appealed to the public. The public and mass
media’s perception of the negative impacts helped the state reduce the severity of the regulatory instruments.

The state responded to the capitalists’ demands by putting priority on economic recovery. The relaxation of the idle land policy restored the capitalists’ confidence for their obtaining profits, including the capital gains from land. The rate and amount of investment in industries and housing construction consequently increased. As the 1974 policy ended officially in 1977, the amount of constructed building floors was 18.0 million square meters in 1976 and 22.3 million square meters in 1977, which jumped to 30.8 million square meters in 1978. The constructed housing floors were 9.5 million square meters in 1976 and 12.9 million square meters in 1977, which also increased to 17.5 million square meters in 1978. The amount of private investment in industrial equipment was 2.3 trillion won ($4.8 billion) in 1976 and 3.6 trillion won ($7.4 billion) in 1977, which dramatically increased to 5.9 trillion won ($12.2 billion) in 1978.

As the 1980 policy ended officially in 1982, capitalists increased their investment in industries and housing construction, too. The amount of the constructed building floors was 29.8 million square meters in 1982, which jumped to 39.7 million square meters in 1983. The constructed housing floors were 16.7 million square meters in 1982, which increased to 21.7 million square meters in
The amount of private investments in industrial equipment was 10.9 trillion won ($14.6 billion) in 1982, which also increased to 13.2 trillion won ($16.6 billion) in 1983 and 18.0 trillion won ($21.8 billion) in 1984.

This impact analysis supports the hypothesis that idle land policy had negative effects on the level of and the trends in private investment in industrial equipment, building construction, and housing. Faced with these capitalists' investment revolts, state leaders had to moderate the rigor of idle land policy to restore the capitalists' confidence in their policy at the cost of the general public's disappointment.

The next section will discuss the policy impact on business' financial standings, the improvement of which was another important objective of idle land policy.

F. Impact Analysis on Business' Financial Standings

The impact analysis hypothesizes that business' financial standings were likely to be improved after the introduction of idle land policy. Since the chaebol sold their idle land and redeemed their bank loans by using the proceeds of idle land sales, their debt ratio and financial costs were likely to be reduced, while their profit and operating fund ratios were likely to be improved.

Three major categories of business' financial standings are examined: the business' debt, equity and profit index.
Since the impact of the August 3 measures in 1972, which were adopted before the first idle land policy in 1974, was not minor on business' financial standings, the impact model will include this intervention in the curb market as an independent variable.

1. Impact on the Debt Standing

The observations in the debt ratio series in all manufacturing (figure 7.11) exhibit that the level of business' debt has increased exponentially until the early 1970s. Business' participation in land speculation during the first land boom of 1969 aggravated this debt status. While the debt ratio was 151 percent in 1967, it increased to 201 percent in 1968 and 270 percent in 1969. Businesses used their bank loans to buy land, but faced with difficulties in repaying their loans due to the land market depression after 1970. Since they were not able to dispose of their land due to this depression in land market, but had to repay their bank debts, they turned to the curb market to borrow money. However, the interest rate of the curb market was quite high, about forty-two percent per year (K. Ch’oe 1987: 114). The debt ratio increased to 328 percent in 1970 and 394 percent in 1971.

State managers regarded this as a hindrance to implement its industrial policy. On August 3, 1972, the state froze capitalists' repayment to the private lenders
at the curb market, and turned these loans to bank’s long-term loans with eight percent of the interest rate per year (see section D.2 in chapter 4). Because of this policy, the business debt standings were ameliorated. The debt ratio declined to 313 percent in 1972 and 272 percent in 1973. Because of this improvement of debt standings, businesses could cut expenses for financial borrowing. The ratio of financial costs to total sales was 9.9 percent in 1971, which dropped to 7.1 percent in 1972 and 4.6 percent in 1973. The share of financial costs to total value added was 39.4 percent in 1971, which dropped also to 31.3 percent in 1972 and 27.3 percent in 1973.


Figure 7.11 Trends of Business’ Debt Standings, 1963-90
When the first oil crisis came in 1973-1974, business’ debt standing became aggravated again in 1974. Moreover, the Yushin Regime implemented an ambitious policy; turning to heavy and chemical industrialization. When businesses were dependent on bank credit to finance these new industries, their debt ratio consequently increased; it was 316 percent in 1974, higher than 272 percent in 1973. Under this situation, the state adopted the first idle land policy, which made the slower increase in business’ debt ratio.

When the second land boom ended but the second oil crisis came in 1979-1980, the debt ratio peaked at 489 percent in 1980. The state adopted the second idle land policy, which again improved business’ debt standings. The debt ratio declined to 451 percent in 1981 and 386 percent in 1982. The ratio of financial costs to total sales was also improved; from 7.4 percent in 1980 and 8.0 percent in 1981 to 6.6 percent in 1982. The share of financial costs to total value added fell from 28.7 percent in 1980 and 32.4 percent in 1981 to 25.8 percent in 1982.

These differences in the debt standings between the periods proceeding and after the policy intervention can be observed in graphic figures, and in addition, evaluated by tests of statistical significance. The disrupted time-series impact model covers the periods of 1963-1989 with two intervention points, the years of 1974 and 1980. The
### Table 7.8 A Linear Model for Impact on the Debt Ratio, 1963-89

(Unit = percentage)

| Variable     | Coefficient | T-ratio | Prob > |T| |
|--------------|-------------|---------|---------|
| Constant     | 15.343      | 0.448   | 0.6590  |
| Pre-policy   | 34.710      | 6.279   | 0.0001  |
| Post-policy  | -40.361     | -5.246  | 0.0001  |
| 1972 Policy  | -124.467    | -2.047  | 0.0534  |
| 1974 Policy  | 124.062     | 2.147   | 0.0436  |
| 1980 Policy  | 18.830      | 0.379   | 0.7088  |

R-square 0.825, Adj R-sq 0.784, F-statistics 19.824, Durbin-Watson D 0.985

The financial market intervention of 1972, a dummy variable, is included in this model.

In this impact model, the debt ratio increased annually by 34.7 percent every year before 1974, but decreased annually by 40.4 percent after the 1974 crackdown. Since these estimates are statistically significant at the 0.001 level, the difference is likely due to this policy intervention. Otherwise the debt ratio would increase continuously.

The level of the debt standing was lowered significantly due to the 1972 financial market intervention by 124.5 percent. Contrary to this positive impact, the level of the debt standing increased again by 124.1 percent after 1974. This implies that capitalists depended mostly
Table 7.9 A Linear Model for Impact on Financial Costs, to Total Sales, 1963-89  
(Unit = percentage)

| Variable     | Coefficient | T-ratio | Prob > |T| |
|--------------|-------------|---------|--------|---|
| Constant     | 2.755       | 3.621   | 0.0016 |
| Pre-policy   | 0.635       | 5.175   | 0.0001 |
| Post-policy  | -0.727      | -4.257  | 0.0004 |
| 1972 Policy  | -5.127      | -3.800  | 0.0010 |
| 1974 Policy  | 1.098       | 0.856   | 0.4014 |
| 1980 Policy  | 0.864       | 0.783   | 0.4422 |

R-square | 0.603  | F-statistics | 6.372  |
Adj R-sq  | 0.508  | Durbin-Watson D | 1.310  |

on bank credits for their new industrial projects such as shipbuilding and automobile industries. The impact of the 1980 policy, however, was not statistically significant, thus not impacting to lower the level of the debt standings.

As seen in table 7.9, the ratio of financial costs to total sales had been increased by 0.64 percent annually before the 1974 crackdown. Business enterprises could not achieve smooth accumulation because of these financial burdens. However, after the 1974 policy intervention, it fell by 0.73 percent every year. Both estimates are statistically significant at 0.001 level.

The level of financial costs to total sales was significantly lowered due to state intervention in the curb market in 1972, which estimate is statistically significant.
Table 7.10  A Linear Model for Impact on the Financial Costs to Total Value Added, 1974-89

(Unit = percentage)

| Variable     | Coefficient | T-ratio | Prob > |T| |
|--------------|-------------|---------|--------|---|
| Constant     | -5.600      | -1.181  | 0.2501 |
| Pre-policy   | 2.100       | 2.153   | 0.0424 |
| Post-policy  | -3.853      | -3.467  | 0.0022 |
| 1980 Policy  | 19.294      | 4.334   | 0.0003 |

R-square 0.722    F-statistics 19.071
Adj R-sq 0.684    Durbin-Watson D 1.056

at 0.001 level. However, the idle land policies of 1974 and 1980 did not result in lowering the level of the financial cost ratio. These estimates do not quite meet the 0.1 level of the statistical significance.

As seen in table 7.10, the share of financial costs to total value added increased by 2.1 percent every year before the 1980 crackdown. Capitalists were not able to expand their profit shares to total value added because of these financial costs. The 1980 policy intervention reversed this situation; the share of financial costs to value added was reduced by 3.9 percent every year. Both estimates are statistically significant at 0.05-0.01 levels. Nonetheless, the level of financial costs to total value added went up by 19.3 percent after this intervention with 0.001 level of significance. This would be explained by the fact that the policy impact came later with time lag; from one year after
the crackdown, the financial cost shares to total value
added began to fall continuously until 1990 when the third
idle land policy was adopted.

2. Impact on Business’ Net Wealth Standings

The ratio of net worth to total assets in all
manufacturing (figure 7.12) had decreased exponentially
until the early 1970s. This implies that businesses
operated with heavier loans. At the beginning of the
economic development in 1963, its ratio was 52.0 percent.
It was reduced to 20.2 percent in 1971, and then increased
to 26.8 percent after the 1972 intervention in the curb
market. This ratio declined continuously until 1980, when
the second idle land policy was adopted. Since then it has
improved gradually until 1990, when the third idle land
policy was issued.

After the interventions of the 1972, 1974 and 1980
policies, the self fund ratio, referring to capitalists’
mobilizing funds to total annual operating funds, was also
improved. Thus, although it was 17.2 percent in 1971, the
ratio increased to 51.8 percent in 1972 after the 1972
intervention. It was 28.8 percent in 1974 and 27.1 percent
in 1975, which also increased to 36.2 percent in 1976 due to
the existence of the 1974 policy. Before the 1980 policy,
the ratio was 16.8 percent, improving to 37.1 percent after
the 1980 crackdown.
The interrupted time series equation for the policy impact on business' net worth to total assets is shown at table 7.11. These observations cover the year of 1963-1989. Before implementing the idle land policy in 1974, the business' worth ratio worsened by 4.3 percent per year. The trends turned to be improved by 2.7 percent every year after the crackdown. Both estimates are statistically significant at 0.001-0.0001 level. The 1972 policy significantly enhanced the level of business' net worth by 11.7 percent, while the 1974 and 1980 policies did not reach statistical significance.
Table 7.11 A Linear Model for Impact on the Net Worth to Equity Ratio, 1963-89

(Unit = percentage)

| Variable        | Coefficient | T-ratio | Prob > |T| |
|-----------------|-------------|---------|---------|
| Constant        | 57.482      | 16.445  | 0.0001  |
| Pre-policy      | -4.300      | -8.106  | 0.0001  |
| Post-policy     | 2.727       | 3.932   | 0.0009  |
| 1972 Policy     | 11.739      | 3.677   | 0.0016  |
| 1974 Policy     | -2.154      | -0.626  | 0.5390  |
| 1980 Policy     | 2.064       | 0.578   | 0.5700  |
| GNP             | 0.018       | 0.488   | 0.6314  |
| Money Supply    | 0.001       | 0.683   | 0.5032  |

R-square 0.955  F-statistics 57.033
Adj R-sq  0.938  Durbin-Watson D 1.344

Table 7.12 A Linear Model for Impact on the Self Fund Ratio, 1974-89

(Unit = percentage)

| Variable        | Coefficient | T-ratio | Prob > |T| |
|-----------------|-------------|---------|---------|
| Constant        | -3.278      | -0.384  | 0.7044  |
| Pre-policy      | 1.229       | 0.701   | 0.4909  |
| Post-policy     | 0.190       | 0.095   | 0.9252  |
| 1980 Policy     | 27.538      | 3.438   | 0.0023  |

R-square 0.772  F-statistics 24.854
Adj R-sq  0.741  Durbin-Watson D 1.208
On the contrary, the 1980 policy intervention was effective to enhance the level of the self fund ratio, thus enhancing it by 27.5 percent at 0.01 level of statistical significance (table 7.12). As discussed in chapter 4, the idle land policy was one of the policy packages, in which reinforcing the stock market was another policy objective. Thus, while state leaders proposed that the chaebol sell their excessive idle land to repay bank debts, they recommended that the chaebol open their companies to the stock market for mobilizing their operating funds rather than depending solely on bank credits. Business' enhanced ability to mobilize funds from the stock market was likely due to this policy intervention. The Korean stock market had prospered since then (Han’guk chunggwon koraeso 1991). Nonetheless, the trend estimates before and after the 1980 policy did not meet the statistical significance. It implies that, although the government encouraged capitalists to open their companies to the stock market, business' long-term tendency to use this market for mobilizing their funds was not systematically related to the crackdown of the 1974 policy.

3. Impact on Business' Profit Standings

The profit ratio is the indicator to show how capitalists accumulated their capital from their business activities. Since the early 1960s, the Korean state has
attempted to achieve a high economic growth for reducing unemployment and getting free from absolute poverty. The success of these efforts allowed Korea to obtain the status of a semi-peripheral country in the 1980s. Using their accumulated capital, capitalists have been able to expand their business activities from the shoes and textile industries to the automobile and electronic industries. Thus, state leaders have monitored the changes of the profit ratio of capitalists.

To assess the policy impact on business' profit standings, this analytic model adopts the index of the profit ratio referring to normal profits to net worth during 1963-1989, and the profit share referring to profits among total value added during 1974-1989.

In figure 7.13, one can observe the changes of the profit ratio and its share to value added. These index went to the lower point in 1971, 1974 and 1980, and from 1988 it became lower again. Around these points, the state adopted the financial intervention of 1972, and idle land policies of 1974, 1980 and 1990.

In 1970, the profit ratio of all manufacturing was 10.7 percent, dropping to 4.5 percent in 1971. After the 1972 intervention, it increased to 16.7 percent in 1972 and 30.0 percent in 1973. It fell again to 22.7 percent in 1974 and 16.5 percent in 1975. After the 1974 crackdown, it improved to 21.6 percent in 1976. The year of 1980 was the worst
year for the Korean capitalists. The profit ratio dropped dramatically to -1.3 percent. It was recovered gradually after the crackdown of 1980; the profit ratio increased to 0.1 percent in 1981, 5.3 percent in 1982, and 15.5 percent in 1982. When the third land boom peaked in 1988, it was 20.6 percent. However, as the profit ratio seemed to be dropping after 1988, the state adopted again the 1990 idle land policy. The trends of the profit share to total value added have gone with the trends of the profit ratio as shown in figure 7.13.


Figure 7.13. Trends of Business’ Profit Standings, 1963-90
According to table 7.13, the profit ratio had worsened by 4.5 percent every year before adoption of the 1974 idle land policy, with 0.001 level of statistical confidence. The impact coefficient on the post-policy trend was not statistically significant. It is thus hard to evaluate the impact after the crackdown. However, the level of the profit ratio suddenly improved due to the 1972 policy by 16.3 percent and the 1980 policy by 15.7 percent, at statistical significance at the 0.01-0.05 level. The impact of the 1974 policy was not clear due to its failure to reach the statistical significance.

Before 1980, the profit share to total value added had increased by 20.3 percent with the state’s auspice, which had tightly controlled labor movements. However, after the 1980 intervention, it declined by 10.4 percent. It implies that the shares of a laborer’s wage increased, reflecting the relative increase of laborer’s power. Nonetheless, the 1980 policy intervention enhanced the level of the profit share by 2.2 percent every year. All estimates are statistically significant at the level of 0.05-0.1 levels.

This impact analysis supports the hypothesis that the decrease in the business’ debt ratio and financial costs was due to the Chaebol’s high compliance with the policy, i.e., redeeming their bank debts by using the proceeds of the sales of their idle land. The increase in business’ equity and profit ratios was likely due to the existence of these
### Table 7.13 A Linear Model for Impact on the Profit Ratio, 1963-89

(Unit = percentage)

| Variable     | Coefficient | T-ratio | Prob > |T| |
|--------------|-------------|---------|--------|---|
| Constant     | -6.272      | -1.025  | 0.3181 |
| Pre-policy   | -4.546      | -4.897  | 0.0001 |
| Post-policy  | -0.978      | -0.805  | 0.4305 |
| 1972 Policy  | 16.301      | 2.918   | 0.0088 |
| 1974 Policy  | -10.052     | -1.669  | 0.1116 |
| 1980 Policy  | 15.695      | 2.511   | 0.0212 |
| GNP          | 0.305       | 4.771   | 0.0001 |
| Money Supply | -0.001      | -3.731  | 0.0014 |

R-square: 0.686
Adj R-sq: 0.570
F-statistics: 5.926
Durbin-Watson D: 1.757

### Table 7.14 A Log Model for Impact on the Profit Share, 1974-89

(Unit = percentage)

| Variable     | Coefficient | T-ratio | Prob > |T| |
|--------------|-------------|---------|--------|---|
| Constant     | 183.013     | 1.065   | 0.3121 |
| Pre-policy   | 20.298      | 2.385   | 0.0383 |
| Post-policy  | -10.418     | -2.128  | 0.0593 |
| 1980 Policy  | 22.202      | 2.759   | 0.0202 |
| GNP          | 39.293      | 0.933   | 0.3727 |
| Money Supply | -83.614     | -2.412  | 0.0366 |

R-square: 0.863
Adj R-sq: 0.795
F-statistics: 12.597
Durbin-Watson D: 1.284
idle land policies. Otherwise, their financial standings would not be improved.

F. Conclusion

Contrary to the skeptics’ assertion that the idle land policy had only nominal effects on the issues of land speculation and business’ financial standings, these empirical assessments support reformers’ arguments that this policy was effective in managing both issues.

Because of state intervention, land prices became stable. This policy not only decreased immediately the rate of changes in land prices for short-term basis, but it lowered it for long-term basis as well. However, this empirical analysis supports the skeptics’ arguments that the policy effects were temporary, due to the state’s immediate concessions to capitalists. This analysis shows that, if the state did not relax its initial policy rigor, the rate of changes in land prices would have been even lower, and thus land price would have been more stable.

The state’s concession to capitalists was explained partly by the state’s rational choices to recover the depressed economy which was influenced by the international situation, and partly by the effectiveness of capitalists’ investment revolts. The empirical analysis shows that the level and the rate of private investment in industries, including housing construction, declined, due to the
existence of the idle land policy. State leaders tried to avoid this situation because their political status and legitimacy needed the rapid growth of economy, which was fundamentally dependent on capitalists' (particularly the chaebol's) investments in industries. Though capitalists were excluded at the initial stage of policy formation, and thus they could not reflect their interests over the idle land policy, they utilized their resources to influence policy makers at the policy implementation stage, i.e., by withholding capital from industrial investment. The initial intents of the autonomous policy, which was responding to the demand from the general public to control the chaebol’s speculation, were consequently evolved by the state’s concession to capitalists’ strategies.

As extensively discussed in chapter 4, this policy was initiated also when the economy faced an accumulation crisis. After the policy intervention, the level and changes in the debt ratio and financial costs declined, while those of business’ equity and profits increased. Because of these improvements in the capitalists’ financial standings, the depressed economy around the years of 1973-1974 and 1979-1980 was revitalized. This policy restored the system for furthering capital accumulation.
## Appendix

### Variables Used in the Regression Analysis

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Note: (*) unit = thousand square meters.

Sources: For construction investment, Han'guk unhaeng, Kyongje t'onggye yonbo, 1964-1990. For industrial investment, Han'guk unhaeng, Kiop kyongyong punsok, 1974-1990.
D. Financial Standings Index

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<tr>
<td>88</td>
<td>25.30</td>
<td>65.60</td>
<td>20.59</td>
</tr>
<tr>
<td>89</td>
<td>28.20</td>
<td>53.60</td>
<td>10.10</td>
</tr>
</tbody>
</table>

Source: Han'guk unhaeng, Kiop kyongyong punsok, 1974-1990.
Notes to Chapter VII

1. The theory of the Ordinary Least-Square model (OLS) assumes that adjacent error terms are not correlated (i.e., covariance \( e_t e_{t-1} = 0 \)). This assumption is seldom satisfied by time series data. Because error terms are often correlated, the standard error of OLS parameters are biased contrary to its assumption. Thus, the impact of policy intervention may be obscured by the existence of error terms or "noise," including the general trend (i.e., the general drifts of the history), seasonality (i.e., periodical changes), and random error of the time series (i.e., white noise remaining even after eliminating the general trend and seasonality).

The ARIMA (Autoregressive Integrated Movement Average) model was designed to resolve these problems, by separating these noises from the pure impact of the intervention. For more details, see Box and Jenkins 1976, Box and Tiao 1975, Glass et al. 1975, and McDowall et al. 1980.

2. The acceptance zone at a 1 percent point of significance is as follows:

<table>
<thead>
<tr>
<th>Number of Observations</th>
<th>Number of Variables</th>
</tr>
</thead>
<tbody>
<tr>
<td>27 (1963-1989)</td>
<td>3 0.95-2.58</td>
</tr>
<tr>
<td>16 (1974-1989)</td>
<td>5 0.81-2.37</td>
</tr>
<tr>
<td></td>
<td>7 0.67-2.14</td>
</tr>
</tbody>
</table>

3. For instance, the measures of February 16, March 17, and April 18, 1983. These measures included; the designation of the Special Areas of Anti-speculation, where the tax offices would levy the capital gains tax on the basis of market prices of property; the application of a public-bond purchase requirement to those who entered competition for newly built apartments; and the repeal of the "flexible tax rate," which had allowed the tax offices to fluctuate the rate of the capital gains tax by 15 percent.

4. C.Y. Son used the time series data from 1974-1990. According to his findings, the increase of money supply (either \( M_t \) or \( M_{t-1} \)) positively affected land prices with a six-months lag, while the increase of land prices did not affect
money supply. Both wholesale and consumer prices did not affect land prices, but land prices affected wholesale prices with a 18-months lag and consumer prices with a two-years lag. The GNP growth and land prices did not affect each other. The increase of land prices positively affected the increase of interests on the curb market with a one-year lag, but the increase of interests did not affect land prices.
CHAPTER VIII
FINDINGS AND CONCLUSIONS

During the last few decades, Korean society and its political economic structure has undergone a significant transformation. Korea has changed from an agrarian society to an industrial one. Along with this industrialization, it has experienced the most intensive and rapid urbanization in the world. During this process, urban land problems have occurred as a serious source of socio-economic conflict. The Korean government has intervened in these conflicts.

This study interpreted this government intervention in land issues. Analyzing the idle land policy, this dissertation studied the government’s regulatory policy, including the perspectives of how policy problems came to be constructed, the motivations which influenced policy adoption, the policy making and implementation processes, interactions with target groups, the consequences of policy implementation, and the contexts in which the policy was adopted, implemented and evolved. The first part of this study dealt with the nature of policy questions: the nature of land under contemporary capitalism and the relationship between land and capital accumulation (chapter 2 and 3). It then analyzed the policy system concerning the idle land policy, from agenda setting (chapter 4), and policy adoption and responses from interest groups (chapter 5), to policy
implementation (chapter 6). It ended with an impact analysis of this policy (chapter 7).

In pursuing the basic objective of this dissertation to investigate the public policy process in South Korea, the major avenue taken was to explore the critical dimensions of the Korean political economy. Since the land question has become the central policy issue in Korea, this study searched for the development of the Korean political economy in addition to studying the regulatory land policy. In particular, this study made an in-depth analysis of the dynamic relationships between the state, large scale capital, and the general public surrounding the issue of idle land. This relationship has been continuously reshaped by the environmental factors, such as the political and socioeconomic situations at both domestic and international levels.

**Idle Land Policies**

The main content of this analysis examined three idle land policies of 1974, 1980 and 1990. The study sought to answer the following questions for each policy adoption: What was the background of policy problems? What were the contextual and structural tensions for policy adoption? How were policies formulated and implemented? What were the responses from the interests groups, both the general public
and the chaebol? What were the consequences and impacts of policy implementation?

Land speculation first appeared in 1962 when the Ulsan Industrial Center was constructed. During the 1960s, land prices in the major cities increased by forty-nine percent per year. The government attempted to control this rapid increase in land prices by adopting the Anti-Speculation Tax on Real Estate in 1967. Nevertheless, when the government initiated projects for installing the Seoul-Pusan Expressway and developing the Southern Seoul region (Kangnam), the first land boom peaked in 1969. Since then a land boom occurred more or less cyclically every ten years.

In 1972 President Park Chung-hee conducted an in-office-coup against his own government, when his rule was seriously challenged by opposition groups. He needed a more impressive economic achievement to legitimize his now blatantly authoritarian rule. In his New Year’s address in January 1973, he proposed a new industrial policy, shifting the emphasis from light to heavy and chemical industrialization. One critical problem in implementing this new strategy was a lack of capital in both the state and private sectors. The financial situation were deteriorated further with the collapse of the Bretton Wood System in 1971 and the oil crisis in 1973.

To the policy elite, domestic resources had to be mobilized to finance these new strategic industries. Given
the fixed amount of available funds, the investment in industries and the investment in land had a zero-sum relationship. An increase in one sector must lead to a decrease in the other sector. To regulate capital flow to land and to direct it toward industry, the government introduced the idle land tax in January 1974. Four months later, the government moved beyond the moderate regulation through taxation. In May 1974, it adopted the first policy measures concerning idle land. The basic objective was to force the business sector to strengthen their weak financial standings. By compelling the chaebol to dispose of their non-essential land holdings, the government attempted to induce a transfer of idle capital sunk in land to industrial capital. For this reason, it established the Korea Land Bank in April 1975 to buy this land which was not sold in the market place.

The general public strongly supported these measures, for they regarded this policy as a means to mitigate the conditions of extreme concentration of wealth and property ownership by the chaebol owners and their family members, as well as stabilizing land prices. The general public had doubts, however, whether this policy was designed to punish the chaebol or help them.

The chaebol and other businesses accepted the policy as a necessary measure at the beginning stage of policy implementation. But, they soon cooperated to counter with
this policy. Most of their demands were accepted by state leaders, resulting in the gradual erosion of policy rigor. To the policy makers, recovering from the depression in the domestic economy, which was influenced by the fluctuation of the world economy including the first oil crisis, was the most important factor.

Moreover, even if the government commanded the chaebol to sell their idle land, it continuously encouraged them to hold industrial and productive land. Just before the 1974 policy measures were announced, the government enacted the Industrial Base Development Promotion Act in December 1973, which was designed to accommodate the increasing demands for industrial land used for the heavy and chemical industry. The government bought land from small landowners or farmers by using the Land Expropriation Law. The government then developed it into industrial parks, installed infrastructure, and sold it to capitalists at low prices. This was the single most important factor that allowed the chaebol to increase their land holdings. Its consequence was that 403 persons owned sixty-seven percent of all corporate land as of 1988.

Partly because of this policy which had encouraged the chaebol to strengthen their financial standings and to concentrate their investment in industries, the Korean economy bounced back along with the successful industrial restructuring. The construction boom in the Middle East in
the mid-1970s also contributed to a buoyant economy. However, the policy was not effective in regulating corporate speculation. When the policy officially ended in 1977 and the economy prospered, the chaebol’s investment in land spiraled. The second land boom peaked around 1978, accompanied by growing criticism from the general public. The government initiated the comprehensive speculation-control measures in August 1978, which had the same intent as the 1974 policy measures. The implementation of this rejuvenated policy, however, was aborted by the assassination of President Park in October 1979.

The political power vacuum was filled by new military forces led by General Chun Doo-hwan, who succeeded in installing another military regime in 1980. The Chun regime was much less welcomed than Park’s had been in 1961. New state leaders needed symbolic measures to legitimate their power as well as to tame the economically dominant groups, which had a good relationship with the Park regime. With this need in mind, four weeks after Chun was inaugurated into the presidency, the government adopted the second idle land policy measures. Whereas the first measure was basically designed to strengthen the businesses’ financial standings, the second program emphasized both improving the firms’ financial standings and controlling corporate speculation. This policy was on the continuum of policy
reforms initiated by the new military junta, including arresting political leaders and purging corrupt bureaucrats.

At this time, the whole society was frozen including the business community. Three days after the policy announcement, the business community summoned all businessmen and supported these policy measures. On the same day, President Chun met with the representatives of the business community, telling them that the policy measures were designed not to punish the business community but to support them.

During this period, the land market as well as the general economy was in recession, partly because of Park’s assassination and partly because of the second oil crisis. The new government gave priority to recover the economic depression. While the policy prohibited the chaebol from holding idle land, a relaxation of the existing speculation control measures followed. The capital gains tax rate was lowered, and then was exempted. These measures contradicted the idle land policy, but were regarded by the policy makers as necessary to encourage the construction industry. Many public projects were initiated at the end of 1980. For the first time, World Bank loans were used to finance land development projects.

When the 1980 policy was formulated, the business community created a countermeasure committee to cope with it. Since the recovery of the recession and the achievement
of rapid economic growth was critical to the new state leaders, most of the suggestions received from business groups were reflected in the policy implementation stage, in order to restore the businessmen’s confidence in government policies.

Partly because of the 1980 policy and partly because of the favorable conditions in the international market, the Korean economy was able to bounce back. It experienced even a trade surplus during the mid-1980s. Business financial standings improved significantly; the debt ratio and financial costs decreased, whereas the profit ratio increased. Nevertheless, the chaebol did not cease investing their capital in land, but went so far as to buy back the land which they sold to the Korea Land Development Corporation. Obviously, the policy objective of regulating excessive land holdings by the chaebol was not achieved.

During the late 1980s, a third land boom reoccurred. The surplus capital from the trade surplus, and the inflated money issued during the Presidential and National Assembly elections in 1987-1988, caused land prices to increase. After Roh Tae-woo’s regime was inaugurated in the first peaceful transfer of power in post-liberation Korea, the Korean society became more democratized. During the formation processes of the 1974 and 1980 policies, the people’s complaints had been sporadic, even if land problems were serious, and thus over ninety percent of the people
supported government policies concerning idle land. In contrast, voices from the subordinate classes influenced the adoption of the 1990 policy. The people’s mobilization became more organized, including the Citizen’s Coalition (Kyong-sil-lyon) established in July 1989. This movement overtly criticized the chaebol’s speculation and the government’s land policy. The government needed to respond to their demands.

Moreover, the consolidation of three parties in February 1990 was not welcomed by the general public, as demonstrated by the results of the 1992 National Assembly elections. (Even though the newly created ruling party had occupied over three-fourths of the National Assembly seats before the 1992 elections, it failed to receive even half of the National Assembly seats.) In addition, most reform programs initiated before the party conversion were withheld after the party merger. The government needed to employ some metaphorical measures to justify their unwelcome measures.

Furthermore, the government needed to control corporate speculation for smooth capital accumulation in the production sector. During 1986-1988, the Korean economy experienced a trade surplus amounting to $28.6 billion, of which twenty-six percent was invested in land by businessmen (H.G. Mun 1992: 30 & 242). Apparently, large firms ignored the investment in R & D but preferred land investment. It
resulted in a deterioration of their world competitiveness in the face of rising neo-protectionism in the world market. Korea was lagging behind the other three Asian NIEs (Singapore, Hong Kong and Taiwan) after 1990.

Therefore, the government had to adopt another idle land policy in May 1990. Compared with the 1974 and 1980 policies, the objective of the 1990 policy was more specifically targeted to regulate corporate land speculation. People’s support for these policy measures was very strong. The chaebol’s opposition to the policy was also strong and explicit unlike their responses to the 1974 and 1980 policies. However, the state did not completely regulate the chaebol’s behavior. When President Roh announced the 1990 policy measures, he accepted all requests from the chaebol that the government increase the supply of industrial land and relax the regulation in the chaebol’s landfill projects and urban building heights. Thus, contrary to the will of the government and the expectation of the general public, business groups actively purchased new land, which amounted to thirty percent of the idle land they disposed of during the same period.

In summary, the three regimes under presidents Park, Chun and Roh repeatedly adopted idle land policies, compelling the chaebol to dispose of their excessive land holdings. Although the policy priorities varied somewhat across three programs, these policy measures shared
essentially the same objectives: regulating the chaebol's over-investment in land and thus 1) achieving the stabilization of the land market, 2) improving the firms' financial standings, and 3) revitalizing the depressed economy plus enhancing its international competitiveness.

Analyses of Idle Land Policies

Some causal regularities in policy adoption were found, even if limited in scopes: obtaining political legitimacy, promoting capital accumulation, and reshaping the state's relationship with the economically dominant groups.

It was the state's "role taking" (Edelman 1976) of the general public's sentiments against the chaebol's land speculation. The negative consequences of ten-year cyclical land booms attracted the attention of contending groups (e.g., tenants) and advocacy groups (e.g., real estate experts and mass media). They expressed their antagonism against the chaebol's speculation, and complained about the state's land policy. These demands also appealed to the general public, since many families, even the middle class, could not buy homes due to the high price of housing that was linked to high land prices.

When Presidents Park, Chun and Roh realized that their political image and the credibility of their governments would be severely damaged unless they took some actions, the Korean state implemented this policy. If land problems
became so severe that public discontent grew, it would jeopardize political security of state leaders and could endanger the existing capitalists and the political system itself. Thus, despite the negative impact on the chaebol's immediate interests, the state had to deal with the land problem in order to establish its legitimacy in the eyes of the general public and to maintain and prevent threats to its political viability.

The need to obtain legitimacy was reinforced by the fact that state leaders obtained and consolidated their political authority through undemocratic means. Korean politics had suffered from legitimacy issues since the First Republic in 1948, which were further aggravated from the 1961 military coup. (The problem of political legitimacy was resolved only recently through the 1992 presidential election.) Thus, political leaders strived to establish some measures of legitimacy by achieving rapid economic development. Even if three presidents suffered continuously from their illegitimate rule, when their legitimacy was seriously questioned, each of the three regimes utilized the idle land issue.

President Park's 1972 Yushin Revolution, Chun's 1979 military coup and his suppression of the 1980 Democratization Movements in Kwangju, all lacked political legitimacy to most people. Even if Roh's regime was inaugurated by democratic elections in 1988, the three party
conversion in 1990 created the public's doubt as to its legitimacy. Facing problems of legitimacy, due to their "irregular" suspension of the constitutional order, three presidents needed some token to justify their actions. They all utilized economic leaders' "irregular" activities: the irregularity of the chaebol's land speculation, at least to the general public. By doing so, they demonstrated that their restructuring of the political power structure was necessary for the people's welfare.

This policy was adopted by three presidents during the transitory period of the new political regime. New state leaders needed to reshape their relationship to the chaebol, which had maintained close ties with the preceding regimes. By compelling them to sell their property, new political leaders manifested their dominance over the business community, thus taming the chaebol (Chaebol kil turigi).

The idle land policy was also adopted when the general economy was depressed and when Korean business groups suffered from burdensome financial expenses. Since the rapid growth of the general economy depended on rapid accumulation in the private sector, the state elite had monitored the trend in capitalists' profits and accumulation. According to the policy elite's diagnoses, the economic depression was caused by the lack of businesses' investment in industries, resulting from the lack of industrial funds.
This policy proposed to regulate the chaebol's excessive investment in land, but it also encouraged their investment in industrial purposes. By compelling the chaebol to dispose of their idle land and repay their financial loans by using the proceeds of this land sale, the policy elite attempted to transfer idle capital invested in land into industrial capital, thus mobilizing more funds as well as cutting businesses' burdensome financial expenses.

The necessity for strengthening the chaebol's financial standing was rediscovered in the transitory stage for industrial restructuring from light to heavy and chemical industries in 1973-1974, the articulation of heavy industries and the introduction of high technology industry in 1979-1980, and the re-emphasis of technology intensive industries in the late 1980s.

According to the empirical impact evaluations, this policy was more or less effective in managing policy problems. Along with changes in the domestic and global economy, land prices became stable after government intervention; during the implementation periods (1974-1976, 1980-1982, and 1990-1991), the rate of changes in land price fell. Nevertheless, this empirical analysis also shows that the policy effects were temporary rather than long-lasting, due to the government's immediate concessions to the chaebol; after policy relaxation, the rate of change in land prices increased again. This analysis suggests that land
prices would have been more stable if the government had not relaxed its initial policy rigor. While the chaebol disposed of their idle land during implementation periods, the government’s concession caused the chaebol’s idle land stock to increase again. For the long-term assessment, therefore, this policy was not successful in controlling the chaebol’s excessive land holdings.

In fact, the three regimes focussed on the idle land issue when their legitimacy was in serious question. The new state leaders strived to obtain their legitimacy by reshaping property relations. However, the idle land policy did not allocate urban land to the landless. Nor did it curb the chaebol’s land speculative activities. Instead, during situations when the land market was in recession, the government manipulated its tax policies to precipitate land transactions of the chaebol’s idle land. Furthermore, the government purchased the chaebol’s unsold land at higher prices than the market prices. Even if the each regime succeeded to resolve land conflicts, it would be doubtful that their political legitimacy was justified by the general public. The policy failure to stabilize the land market aggravated their legitimacy crises.

While the effects of this policy on land prices were temporary and thus the actual benefits to the general public were insignificant, the chaebol, contrary to the general perception that this policy was designed to punish the
chaebol, received tangible benefits from this policy. The example includes the fact that the public enterprises bought more or less unmarketable land, but paid more expensively than paid in the market place. After policy intervention, the level and changes in the chaebol's debt ratio and financial costs declined, while those of business equity and profit ratio increased. The chaebol also effectively managed their strategies to avoid negative impacts from this policy. Moreover, they took advantages of this policy as a means to solve their urgent financial difficulties, transform their long-term industrial structure, and thereby maximize policy supports from the state.

In short, these policies essentially resulted in the government's giving of obvious benefits to the chaebol, while little or no benefits were received by the public. From the beginning, this policy was not intended to punish the chaebol, and it was not designed wholly to help the chaebol, either. The state's intention was to regulate the chaebol's rent-seeking activities and to encourage productive investments. Though this policy failed to meet the objective to control the chaebol's land speculation, it was successful in enhancing the productive activities of Korean capitalist economy, as well as restructuring the industry. After implementing idle land policies, the Korean economy was able to bounce back, and then prosper. In order to obtain their political legitimacy, the three regimes
chose to facilitate economic growth by moderating the idle land policy measures, rather than to impose strict implementation to curb corporate speculation.

Political Economy of the Idle Land Policy

The result of our analysis on the idle land policy leads us to reconsider the Korean political economy, particularly in the area of regulatory politics and the relationship between the state and capitalists. To most Korean political economists, the Korean state since 1961 has been perceived as the "developmentalist" state. The characteristics of the Korean state and the impact of its intervention have been regarded as; 1) it had autonomy from social forces, 2) it had capacity to implement economic strategies effectively, and 3) it intervened in the economy in a positive way, i.e., promoting market functions rather than hindering them.

Most Korean political economists believed that the Korean state's strong intervention was quite positive and effective in managing the economy. The role of the state was prominent, particularly during periods of economic crises. Around the end of the 1950s, the economy had difficulties caused by the exhaustion of the import-substitution industrialization, the high rate of unemployment and inflation, and the curtailment of aid from the U.S. President Park’s strong commitment to the economy
in the 1960s affected the pattern of the Korean economic
development. The most important goal of state policies was
economic development based on export-oriented
industrialization. In implementing its ambitious economic
development plans which began in 1962, the state also
adopted various economic policy reforms, including fiscal
(1963), trade (1964), interest rates (1965), and foreign
capital inducement (1966) policies. Mostly because of these
arrangements, the Korean economy began to take off from its
under-development.

Around the end-1960s and early-1970s, the Korean
economy faced a crisis after several years of export-led
growth. The economic crisis was aggravated by political and
economic conditions at the domestic and international
levels; the exhaustion of light industries, increasing labor
conflicts, disruption of the Bretton Wood system, the first
oil crisis; increasing instability of the domestic politics,
and changing international politics. The state changed its
political system towards a more authoritarian one in 1972
and the economic structure towards heavy and chemical
industries in 1973. As a result, the Korean economy was
able to bounce back after 1975. The economy grew fast
during the second half of the 1970s.

At the end of the 1970s, the Korean economy faced
another crisis caused by several structural problems.
Massive investments in heavy and chemical industries
generated an overcapacity and a worsening financial situation for business firms. At the same time, labor costs also increased very fast. Then the second oil crisis hurt the domestic economy. The economic situation aggravated with the pressures from the international capital, including IMF. The state adopted a stabilization program in 1979. After a new military regime was inaugurated, it changed the economic system towards a more liberalized one in the early 1980s. Partly because of these timely adjustments of government intervention, the Korean economy prospered again, even experiencing several annual trade surpluses during the mid-1980s.

This brief review suggests that the role of the Korean state intervention in the economy was quite positive and effective in resolving the then crises, thereby successfully transforming Korean economic institutions from agrarian peripheral to industrial. In formulating its long-term economic strategies, the Korean state had a high degree of autonomy, i.e., being independent from the dominant capitalists as well as from labor. Its economic bureaucrats were able to devise policy measures without direct interference from societal forces, and even to reshape the structure of the society.

As the Korean state, since the beginning of the Park regime, had placed a higher priority on economic development, a sacred national goal, industrial labor was
excluded from policy making. Instead, they were disciplined tightly and discouraged from forming organized labor unions or other popular sector organizations. Given the limits on domestic capital and capable entrepreneurs, President Park selected the already existing group of capitalists to achieve his economic policy goals. The historical incidents of foreign occupation also helped the state to form a close alliance with the domestic capitalists. When the state adopted new economic strategies concerning heavy and chemical industrialization, and thus emphasized the scale of economy, this coalition between the state and capitalists was reinforced. The growth of the Korean capitalists class, particularly the chaebol, was apparently the outcome of the strong state’s auspices.

The Korean capitalists were not supported by the state in all cases, but were often disciplined. Macro-economic policies including tax, finance and monetary policies ensured that the manipulated prices worked as a carrot and a stick: The state rewarded those firms that demonstrated good achievement in meeting policy goals, and took sanctions against those that did not. In particular, the state utilized its control over economic resources, including allocation of domestic and foreign capital, to influence the capitalists’ behaviors. Another important instrument was the investment licenses. These two were the most critical state instruments: "Those who obtained major investment
licenses received cheap loans through government controlled banks; and those who were in a position to obtain large loans were in an excellent position to obtain a new, profitable license" (Koo and Kim 1992: 128). Under this situation, whereas the state was more autonomous, the capitalists became more dependent on the state, thus required to be the politicized capitalists in order to obtain a more easy access to the state’s resources.

Finally, to most Korean political economists, the Korean state also had institutional capacities to implement these strategies. The state bureaucracy had well trained, efficient and relatively uncorrupted technocrats. Authoritarian political and developmental institutions, including the Korean Central Intelligence Agencies, the Economic Planning Board and the Korea Trade Corporation, were closely linked to major private sector companies. On the one hand, these institutional arrangements helped the state manipulate economic incentives according to its changing strategic goals. On the other, the private conglomerates utilized these strategies of the state for their own interests, thus amplifying their capital capacities and augmenting their business activities.

In summary, the present literature on the Korean political economy has negated the arguments of the Friedman-style neo-classical economics. It emphasized the positive role of the developmental interventions in the economy by
the Korean state, which was autonomous and strong, and had the capacity to effectively implement its policies. Because of the state’s economic strategies, which often utilized the "wrong pricing" mechanism rather than the "right pricing" market mechanism, Korea achieved a rapid capital accumulation within a relatively short period.

To a certain extent, the analytical findings of idle land policies support the arguments of the Korean political economists. The state’s intervention in the idle land issue was quite positive and effective in resolving economic crises. Because of its timely intervention, the urgent problems of the big capitalists’ debt standings and the falling profit rates were largely resolved. Because of this success, the depressed economy was able to be revitalized; reaching high growth rates in the late 1970s after the 1974 intervention, and trade surplus in the mid-1980s after the 1980 crackdown.

The formulation of idle land policy was possible because the state was strong and autonomous (or authoritarian). In some sense, compelling the chaebol to sell their property was beyond the allowable boundary of the Korean constitution, one tenet of which has been the protection of private property. This type of policy measure, which attempted to restructure the property relations, is not commonly found in most other societies,
except in the case of a revolutionary regime or a military junta. Moreover, the targeted chaebol were excluded from the agenda setting stage, and thus were not able to reflect their immediate interests in policy decisions. Therefore, we can say that the Korean state was, indeed, strong and autonomous.

It is also important to note that the Korean state had the institutional capacity to implement these policy measures. The state elaborated its implementing apparatus to extend its control over coercive means to force the chaebol into compliance. The National Taxation Office with its tax records and the Bank Audit Board with its bank credit records, investigated the chaebol’s land holdings and monitored the degree of their compliance or non-compliance. The state kept a certain level of cohesion among government institutions by creating the coordinating organization such as the Policy Committee for Real Estate. Even when conflicts arose between government branches, the higher agencies such as the Economic Planning Board and the President’s Office were able to induce compromises with relative success. Moreover, by creating the Korea Land Bank and the Korea Land Development Corporation, and by extending the role of the Korea Auction Corporation, the state not only provided policy guidelines, but also participated directly in policy implementation. Finally, the state utilized its economic resources to draw the chaebol’s
attention to these policies, such as threatening to cut further bank credits or to recall existing debts. The single most important factor in explaining the early compliance of the chaebol to this policy was this state’s capacity, which provided direct financial rewards and penalties through its controlled financial institutions.

However, the analyses in this study demonstrate the limits of the Korean state’s autonomy and the limits of its capacity to control the chaebol’s behavior. State intervention was not always positive to the economy, contrary to the general arguments put forth by Korean political economists.

First, although the state’s policies played a positive role in facilitating Korean capital accumulation, past policies also contributed to the very source of land problems. Land problems, such as high land prices, mal-distribution of land ownership, and land speculation, were the results of the state’s policies, which, since 1962, pursued rapid industrialization and urbanization. The chaebol’s excessive land holdings, which the state had tried to regulate by using the idle land policy, were also precipitated by the state’s industrial and locational policies. These policies distorted the distribution of accumulation of wealth, generating social injustice. The idle land policy was the state’s remedy to cure problems that were created by state policies themselves.
The state wanted to curb land speculation activities. The series of idle land policies, in fact, failed to regulate corporate land speculation, which pointed the limit of the autonomy and strength of the Korean state. Although the state rigorously enforced the idle land policy, its rigor gradually eroded until the next land boom. Strong enforcement was once again necessary. However, the rejuvenated policy once again wore away. In spite of the state’s impressive intentions and bureaucratic capability, the chaebol’s land speculation was not seriously threatened or affected.

The policy instruments were not operative, either. In the first and second program implementation, the state did not use any financial sanction on the chaebol although they did not dispose of their idle land. The state also did not use the power of eminent domain to condemn idle land when the chaebol did not comply with the policy. This policy was repealed in effect during the implementation stage. At best, this policy was implemented only when it proved acceptable to the regulated groups or served the interests of the chaebol.

These analyses suggest that the strength of the developmental state was structurally limited. Even when the policy was formulated independently of the chaebol’s fundamental interests, most of the chaebol’s demands and
suggestions were reflected during the implementation stages. Thus, the state’s autonomy was also, at best, relative.

The analyses of the idle land policy also provide points that differ with the findings of other studies. Most Korean political economists, although not stated overtly, assumed that the subordinated business community did not challenge the state’s power. Instead, the business community attempted to establish favorable relations with the state, and obtain the state’s protection from the threats of domestic labor conflicts and international competitiveness, and thus search for the maximization of rent-seeking from state policies. For instance, one study found that the chaebol were reluctant to conform to the policy shift from light to heavy and chemical industries in the early 1970s, but followed later state policies (E.M. Kim 1987), and that this demonstrated the strength of the state vis-a-vis the chaebol (1987: 262). At best, this study concludes that the development of a symbiotic relationship between the chaebol and the state from the early 1980s, and thus the loss of complete control over the chaebol, resulted from the "growth of the chaebols [chaebol] in terms of size and internal diversity" (ibid).

However, this study shows that the chaebol was neither a weak nor passive party in state policy making. Instead, this analysis demonstrates that the chaebol were stronger than the existing presumptions and they were very adaptive
in their relationship to the state. On the one hand, they strived to influence state leaders, while on the other, their relative power over the state had increased over time.

State concessions to the chaebol were induced through effective maneuvering by the capitalists. Though the chaebol were excluded at the initial stage of policy formation, and thus they could not exert their interests over the idle land policy, they utilized their resources to influence policy makers when the policy was being implemented.

At the initial stage, the chaebol stayed calm seeming to follow the state’s directives. They swore not to engage in further land speculation. They proposed to sell their idle land voluntarily even before the state decided to target their land. Since the state’s coercive power was greater than any other social force at least at the transitory stage of the each new regime, and the general public highly supported this policy at the initial stage of its implementation, the chaebol were not able to oppose the policy overtly.

But, when the policy was being implemented, the chaebol strived to influence policy makers and implementors. Although the chaebol had competed with each other, they soon coalesced to counter this policy, which was perceived as a serious threat to their common interests. They organized countermeasure councils composed of business groups,
including the Federation of Korea Industries, the Korea Chamber of Commerce and Industries, and the Korea Trade Association. The recommendations from these councils were mainly reflected during the implementation stage. The idle land policy was modified and its enforcement was weakened.

The *chaebol* also withheld capital from investment in industries, thus demonstrating that they did not appreciate this policy. The level and the rate of private investment in industries, including housing and construction, declined due to the existence of the idle land policy. State leaders tried to avoid these situations, because their political status and legitimacy needed rapid growth of the economy, which was fundamentally dependent upon capitalists' investments in industries (particularly the *chaebol*'s). Thus, the state had to ease its initial rigor to restore the capitalists' confidence at the cost of the disappointment of the general public.

The findings of this dissertation suggests that the state's relationship with business had not been a one-sided vertical relation, or a "senior" partner (Johns and Sakong 1980: 132-140). One researcher has argued that the policy shift from the light to heavy and chemical industries in the early 1970s demonstrated the strength of the state. However, the authoritarian state became fragile in the late 1970s when the big capitalists did not support this industrial
readjustment program (J.C. Rhee 1991). The failure of obtaining the goal of idle land policies also supports this.

The analyses of idle land policies spanning the three regimes show that the relationship between the state and the capitalists has evolved as economic development proceeded. While the guiding position of the state had been undermined with this process of economic development, the relative status of the chaebol to the state was enhanced. The response of the chaebol to the 1990 policy measures demonstrated this. The business community overtly criticized this policy. The chaebol’s challenge to the state’s idle land policy peaked when the owner of the Hyundai Group, who was not pleased with this policy, ran as a presidential candidate in the 1992 election.

The practical policy instrument of idle land policies was the state’s control over credit allocation. In consequence, the chaebol’s autonomy was enhanced while state’s capacity declined, when the chaebol became no longer dependent on the state’s resources. The chaebol’s control over the financial institutions increased after the privatization of commercial banks in the early 1980s. The role of the secondary financial institutions owned by the chaebol, in terms of capital mobilization, also surpassed the role of commercial banks after 1983.

This decline of state capacity and the rise of the chaebol’s status were also precipitated by the globalization
of capitalism, both by the trans-nationalization of world capital and by the increasing overseas investment on the part of the domestic capitalists. From the political economy perspective of global capitalists, the regions of the world form differentiated sites of potential investment. They have options to choose the sites for their investment, based on their calculation of returns to investment related to such conditions as wage rate and the host state’s attitude. Global capital can now invest their capital in localities where the state adopts policies relatively favorable to capital, while they can threaten to withdraw investment from the states that provide policies relatively preferential to labor (Ross & Trachte 1990: 220-230).

As the Korean state faced this new dimension of world competition, state functions, i.e., legitimating its political system and encouraging capital accumulation, had to be expanded to cope with this new international order of economy. Coping with new changes in global competition, state managers lost their discretionary power over certain matters including taxation, labor relations and property relations, lest investment decline within Korea. The state also had to enforce a coalition with its domestic capitalists in order to compete globally, thus resulting in the shift of its policy priority from the issue of legitimation to focus on accumulation activities.
On the other hand, along with the structural change in industries and the expanding commands of the chaebol, Korean capital began to be globalized particularly after the mid-1980s, although only in an incipient stage. This process allowed domestic relations to the state and labor to be less important to accumulation for the chaebol (Douglass 1992: 28). This, in turn, illustrates that the Korean state’s ability to discipline capital and retain legitimacy has declined, while the chaebol’s capacity increased, as Korean capital became trans-nationalized.

In summary, the analyses of idle land policy illustrates the various aspects of the Korean capitalist state via a-visor external and internal relations. The policy initiation process required and supported a strong, developmental, autonomous and authoritarian state. However, the implementation process and its consequences showed that the Korean state’s strength and autonomy gradually eroded until the state was replaced by a new regime. These conclusions provide a contrary argument to the existing literature on the Korean political economy. In addition, the status of the chaebol was not as weak as frequently assumed. Furthermore, business autonomy and strength, via a-visor the state, has grown continuously.

Labor and the general public were excluded from the process of this regulatory policy system, although both groups expressed strong and continuous opposition to the
chaebol’s speculation activities. This was partly because the general public’s demands were sporadic rather than organized. More importantly, the public was unable to break through the tight coalition between the political authoritarianism and the economic capitalism, which prevented the people’s voice from being heard. Furthermore, as the Korean economy became more affiliated with the world economic system, the position of the general public became weaker. Although the labor movement was active after the June 1987, protests soon became moderated when the Korean economy slowed down since the late 1980s.

While this idle land policy allowed the chaebol and general capitalists to get tangible benefits they wanted from the government, there were less "real" impacts on the general public. At best, this policy resulted simply in changes of landownership from the chaebol to other capitalists. The policy was essentially ineffective as a means of resource allocation to the general public, particularly to the landless. To put it simply, this policy was largely a symbolic action of the state toward the public. In other words, while the state did not provide effective regulation in the long-run, its major long-run effect appeared to reassure the populace that someone was in charge of the land problems.

Any state, whether democratic and civilian, or authoritarian and military, has to assure its people that it
works for "our" own benefit rather than "theirs." Although the South Korean state had possessed a military authoritarian character and had fostered an alliance with the capitalists, it had to convey this reassurance, which did not necessarily lead to material benefits. As Edelman points out (1976), symbolic actions are often more powerful in sending reassurance to people than substantive ones. For instance, elections may be the most fundamental of all devices for reassuring the masses. By casting their votes, the masses "believe" that they are participants in policy making. In most cases, however, election outcomes do not significantly affect the behavior of government officials, even though people may believe that they have direct control over their government and its policy. Instead, voting becomes a ritual act of constituents, which strengthens social ties and reassures people of their government's actions (ibid: 2-3).

The idle land policy played a role similar to that of an election. People expressed disapproval of the chaebol's speculation, and the government responded partly by carrying out the idle land policy. By introducing this policy, each regime gave the people what they wanted, i.e., reassuring symbols which showed how the state worked. The general public was reassured by the existence of this policy in which the chaebol were kept under control. The public responded to this symbolic appeal but largely ignored its
reality. They applied their own meaning of this policy into situations that were provocative and emotional. Thus, despite its lack of real impact, this policy, as a symbol, satisfied people’s emotional needs. This policy constituted a potential base of political support for the retention of these regulatory measures in the law books or in the administrative ordinance codes. The public hostility that state leaders and politicians feared, would be developed actively, if the public were left to believe that their shield against the chaebol had been removed.

Thus this policy functioned to ease the tension, even though it did not resolve it, between the public and the chaebol, and between the public and the state. In fact, politics may not exist in a situation where all policy problems have been resolved. Instead, politics requires the existence of social tension. Because of this tension and through taking the role of the public, state leaders are able to achieve and maintain their political leadership. Since the existence of threatening forces conveys people’s reassurance, this reassurance must be periodically renewed as the idle land policy did. The general public in Korea was rendered quiescent by their success in securing non-tangible values, i.e., the reassurance that their voice was repeatedly heard by the state, which was "believed" to have the power and ability to carry out their demands and threaten the chaebol.
This explanation does not assume that the whole society was simply acquiescent to the state as a result of this policy. It suggests that people’s acquiescence was more susceptible to the state’s manipulated symbolism. Even if this may not accurately interpret land politics in Korea, this at least indicates that the idle land policy helped the Korean state to be more acceptable to the people and made it easier for the state to maintain a more stable social order than would have been possible if this policy was absent.

**Land, State and Capital: Ending Remarks**

In this dissertation, land was a window to analyze the policy process in Korea, a capitalist state. In concluding this analysis, we will return to the initially raised question, that is, the exploration of the relationship between land, state and capital under a capitalist system. Then we will discuss the possible future of land politics in Korea.

Land under contemporary capitalism has exchange and use values, and thus plays at least two functions, namely, furthering capital accumulation, and securing the efficient reproduction of labor. As elaborated in chapter 2 and 3, these roles are often mutually contradictory but integrated within the capitalist system as a whole.

Land became more important in the process of Korean capital accumulation. The more land the Korean capitalists
controlled, the more they were able to increase the capacity of their capital. A blend of motives attracted Korean capitalists to become landowners. They continuously strived to solve the intrinsic contradiction of capitalism. When they faced a fall of profit rates in the production sector or when they entered new strategies for flexible accumulation, they switched the circuit of capital into the built environment to achieve higher rates of return in land speculation and development. This also restructured the landscape in the urban area to accommodate their capital production.

Korean capitalists also attempted to resolve class conflict with landowners who tried to increase their share of land rents. Capitalists sought to avoid this situation, thus increasing their shares of the total surplus value created in the whole society. This resolution was manifested by their construction of office buildings and factories on their own land. Korean capitalists also utilized land as a source to increase their capital and wealth, because land prices inflated faster than other economic sectors, including financial interests and share dividends. Their eager efforts to maximize their profits from land speculation encouraged them to hold land without utilization. Finally, since the financial institutions required loan collateral, they bought land in order to secure more easy access to banks' credit allocations.
All these factors encouraged the chaebol, which had various advantages over other social groups in accessing land, to increasingly invest their capital in urban and peri-urban land. These advantages included their access to idle capital generated from their production activities, which was available for reinvestment in things that would yield more profits. They were also allowed easy access to financial credit, the interest rate of which was even lower than the interest rate that was applied to the general public. The state’s preferential treatment in allocating land to the industrial capitalists was also important.

Nevertheless, land also had to be made available continuously for the smooth working of the capitalist system, including reproduction of labor. Cheap housing for labor, particularly for low income households, was needed to sustain the low wages to produced goods in labor-intensive sectors in order to keep the comparative advantage in the international competitive markets. Other housing with better habitat was also demanded by the rising middle class. Rapidly rising land prices dominated by the expanding need of the chaebol blocked this function of land for labor reproduction. In addition, capitalists’ over-investment in land led to the decrease of capital investment in the production sector.

The tension in using urban land between capital accumulation and labor reproduction became contradictory to
the capitalist system. At the same time, the Korean capitalist state was compelled to balance its position between the needs of overcoming the contradiction of capitalism for further accumulation, and those of obtaining the legitimacy in which this accumulation process took place. The idle land policy was designed to modulate these needs, i.e. to placate the rising social protests against land accumulation by the chaebol and attendant extraordinary increase in land prices, particularly in Seoul. By regulating corporations' land speculation, this policy proposed, on the one hand, to supply the low priced housing for workers, which is one way for a capitalist state to subsidize its capital. On the other hand, it also aimed to adjust the capital flow between the primary and secondary sectors. Therefore, this policy was part of larger conditions for Korean capital accumulation.

Although the Korean state adopted the idle land policy to depoliticize the complaints of the middle and lower class householders, the policy aimed at showing up the legitimacy of the regime in power was only rhetoric for general public consumption. In fact, the main reason the idle land policy was adopted against the direct interests of the chaebol was to restore accumulation conditions, for the business community did not pay enough attention to the restoration of the whole system. In other words, the state's real motivation still was in providing the opportunity for the
business community to modulate their interests between accumulation via land investment and industrial/productive ones. It was because Korean state managers believed that sound economic performance justified their authoritarian rule, they sought more legitimacy by expending greater efforts in creating the favorable conditions for business confidence in capital accumulation.

The experience of the idle land policy contributes to a rethinking of the role of the Korean state in the future. Possibly, Korean land politics will be reorganized due to the changing conditions in the economy and society at the domestic and international levels. Thus, the functions of legitimacy and accumulation issues in land will be more complicated by the development of the Korean capitalists system and the political structure.

From the domestic economic perspective, the urban structure will have to be reshaped to fit the new demand for restructuring the industrial sectors as the Korean economy moves towards high technology industry. Along with the increment of the overseas investment by the Korean capital, the Seoul metropolitan region will also be re-emphasized, because the control function of the chaebol's headquarters, which are located in Seoul, will become more important. The tertiary industries including financing, consulting, marketing, and R & D will be more prominent in Seoul than industrial production.
Land will play a more important role in flexible accumulation strategies of Korean capitalists, and thus the state’s spatial regulation will be also reshaped to accommodate this strategy. This tendency will be reinforced by the influence of the changing international economy. As international flows of capital and labor increase, the nation-state’s boundary will be more blurred by the new international economic spaces. The Korean state will also need to make a more close coalition with the domestic capitalists in order to compete globally. All these factors will encourage the Korean state to use land policies in a way to help capital accumulation.

On the other hand, the Korean state will have to constitute the new legitimacy issue fitting to the "late democratization" era, which will be different from that of the "late industrialization" periods. The political structure has already moved from the military government to a civilian one in 1993. Since the late 1980s, most work places have had their labor unions. Along with the increasing prominence of the urban middle class and professionals, the subordinated will have a louder voice in formulating public policy, including land issues. These new environments may erode the state’s capacity to contribute to provide preferential treatment to the capitalist in land issues.
The Korean state will also face the new dimension of autonomy and capacity. When the economy meets serious crisis, it may adopt another idle land policy to restore larger conditions of capital accumulation. Nevertheless, the past mode of regulation in idle land issues which utilized more coercive and authoritarian instruments may not fit the changing situation. The capability of the domestic capitalists will be more enhanced, as their autonomy in financial resources increases and their capital is transnationalized: state autonomy may weaken. On the other hand, the Korean society, including the capitalists and idle land holders, will be governed by laws rather than the autocratic rulers of the political regime. The regulatory instruments will also be more institutionalized through the articulation of tax laws and other tools: state capacity may be enhanced as state policy measures become institutionalized. Thus, possibly, the erosion of the state’s manipulative capability may not necessarily coincide with the decrease of state autonomy. An exploration of whether the current democratization movement in Korea will reinforce or weaken the state’s autonomy and capacity in land policies will await more observations in the near future.

In conclusion, the idle land policy demonstrated that policy changes and institutional reforms evolved along with changes in the interaction of policy makers and the constraints placed on them by political, economical and
social environments, and by the influence of the global factors. It negated the reduction to a single model or consistent theories from either neoclassical economic or neo-Marxist models asserting a linear development path of policy evolution and transformation. Because of the dynamics of capitalist development, the idle land issue may rise again. There will not be a single future of idle land issues, however, but the issues will reflect the changes in contexts of both economic and political situations, and of domestic and international settings. State response to land issues will also be contingent, which reflects the changes in internal and external relationship within the capitalist system. Thus, policy analysis on an array of key political economic issues, including urban land policies, also will have to be made in a way to emphasize the historical and international-local contingencies.
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