

CAPITALIST LANDOWNERSHIP AND STATE POLICY IN 1989-1990 IN KOREA*

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In 1989, the Korea government enacted the new land acts to remedy-land speculation. And following that successively in 1990, the government ordered that large capitalists (chaebŏl) sell their large landholding to others who are end users. Examining changes in the Korean land policy promulgated in those years, this paper argues that land-owning chaebŏl prevented any substantial social transformation. Referring to these experiences, the author concludes that land-owning chaebŏl are likely to hinder the implementation of progressive land reforms under the Kim government.

Theoretically, the author maintains that capitalist landownership or landownership by chaebŏl is the main cause of land speculation in Korea. Thus he emphasizes the class character of land speculation in Korea. In this respect, he differs from those who argue that conflicts between producers and land speculators represent the basic contradiction in Korean society.

INTRODUCTION

In an effort to launch a policy of clean government, the newly elected administration (1993-) required the disclosure of personal assets of elected and executive officials. During February and March 1993, the Korea media and public opinion were astonished and angered by the excessive land holdings of these officials. Indeed, in a number of cases it was determined that the properties had been amassed illegally and both forced and voluntary resignations followed.

Though the general public is very indignant over the disclosed assets of power elites, money making through land speculation has been a widespread, if notorious, way of getting rich in Korea. While land speculation produced many overnight millionaires, it decreased the upward mobility opportunities of those unable to participate in the economy of speculation. In this way, the rapid increase in earnings from land speculation over the 1980s has led to increased class differentiation and social inequality. In addition, skyrocketing land prices resulting from this speculation have

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aggravated the urban housing problem such that many people do not have access to affordable housing. This increased class differentiation and housing inaccessibility have been the focus of social unrest, including labor, urban poor, and middle class movements.

The 1989 and 1990 legal and policy reforms were a response to the contentious debate prompted by these problems and civilian unrest. However, because these reforms favored the interests of land-owning large capitalists (*chaebŏl*), the basic landownership structure has remained unchanged.

CAPITALIST LANDOWNERSHIP AND LAND SPECULATION: THEORETICAL ISSUES

Scholars turned their attention to land speculation in Korea beginning in the mid-1980s. T-G. Lee (1984) analyzed the causes of land speculation in Korea by comparing the profitability among various investment options. He concludes that from the 1960s to the 1980s land investment provided the highest profits. This thesis has been confirmed by other scholars and by the continued escalation of land speculation.

Although Lee's analysis of the profitability of land speculation is well-founded, he did not discuss the social by-products of this trend. In the late 1980s, Kim and Lee (1989) argued that conflicts between producers—capitalists and laborers—and land speculators represent the basic contradiction in Korean society. Their argument is based on the thesis of George (1879). Though violent and fervent labor disputes were prevailing at that time, their argument was widely accepted and presented in their bestselling book, *Land: the Object of Speculation or the Heart of Life*. The land policy reform proposals arising from this analysis argue that it is necessary to make the market mechanism work through tax reform. The tax reform option considers market failure as the main cause of land speculation, arguing that tax reform will remedy this failure.

Instead, I maintain that capitalist landownership is the main cause of land speculation. Indeed we will see that land-owning capitalists have been able to evade tax reform. Capitalists have successfully lobbied lawmakers, managing to evade tax increases, while continuing to make money through land development. They get information about land development in advance which ensures them windfall gains. Additionally the government has helped capitalists make money by land development and infrastructure investment (D-H. Han 1992a, Ch.4). It is not an overstatement to suggest that the public outcry against land speculation since the late 1980s

represents a response to the profits initiated through such political contacts and insider information.

Capitalist landownership has been bolstered by government land policies. Large land development projects, urban redevelopment, industrial location and tax policies for the capitalist class have provided capitalists with various landownership incentives. Large land development projects, for example, are open only to large capitalists. Also capitalists have been favored through changes in land use classification. The Land *Konggaenyom*¹⁾ Study Committee (1989, p.3) demonstrates the enormous profit of capitalists through shifts in land use classification. In the case of Inchon near Seoul, for example, land use classification changed so that Green Zone land—farmland, forest, and parks—became Residential Area or Commercial Area land. As a result, the land price increased threefold even before any investment or development. In the case of change from forest land to residential site, the increase is six-fold. In Seoul, the increases are even higher. If forest land in Seoul's green belt area is changed into a residential site in a Commercial Area, the land price increases about 40 times (Y-P. Kim 1985, p. 669).

Thus, construction corporations get more gains from land value increments than from construction profits. They get information in advance about land development and buy land at low prices before development begins. In Seoul, for example, construction companies have bought land even in areas where construction opportunities are limited. It amounts to about 110 acres (*The Naeway Economic Daily*, June 14, 1989). After purchasing this land, they participate in land development and profit both from land value increments and construction earnings.

Consequently, many large capitalist conglomerates established construction companies in order to participate in large land development projects. Participating in large land development enabled most construction corporations to grow rapidly in the 1970s and 1980s. Even though it could not be denied that *chaebol* construction companies to a great extent earned profits from the construction boom in middle east Asia, they got windfall gains from land value increment as above mentioned. As it were, for these construction corporations, land became a financial asset.²⁾ This is particularly true for financial corporations.

Financial corporations bought and sold land in central urban areas. Stock companies participated in land speculation by establishing branch

¹*Konggaenyom* means public control over landownership and land use. This concept will be explained more in this paper.

²Harvey (1982) for discussions about land as a financial asset.

corporations thus evading stringent laws curtailing the land purchase of corporations. While banks and stock companies invested in land dealing by establishing branches, insurance companies also participated in land dealing as an integral part of their business. That is, laws relevant to land dealing grant advantageous rights to insurance companies. The value of downtown land which financial capitals bought rapidly increased in conjunction with the extension of urban infrastructure, which Harvey (1982) calls the built-environment. Thus land-owning capitalists are rewarded by the fruits of social development without any toil.

In addition to construction and financial corporations, property companies, manufacturing companies, tourist companies, agribusiness and forest companies have also participated in land speculation. The Association of Hog Farmers announced that while most hog farms owned by *chaebŏl* have extensive land, less than 10% is used for hog farming. This is true of ranches owned by *chaebŏl* (D-H. Han 1992a, pp. 54- 55). *chaebŏl* started tourist companies to participate in developing golf courses. Golf course development was stipulated as a tourist business by law until 1990. Though capitalists could buy land for golf courses at low prices, the price of golf course land increased rapidly. Manufacturing companies were also able to purchase more land than necessary for factory building at low prices with the help of the government. The value of such land also increased rapidly through changes in land use. Also relocation resulted in enormous profits.

In summary, in Korea, large capitalists actively participate in land speculation. So capitalist landownership is the most important factor in land speculation. Capitalists have more money than any other classes. And they have an advantageous position in getting information about land development projects. In fact, they have agencies for land development. Finally, they can influence legal policy which favors their interests, and discriminates against other classes.

LAND SPECULATION AND CLASS POLITICS

As mentioned above, those who benefited most from land speculation are land-owning capitalist conglomerates (*chaebŏl*). Of course, speculators such as power elites and wealthy women speculators (*Pokbuin*) have also benefited. While they get unearned gains so much through land speculation, working people and the landless middle class have been deprived.

Social Differentiation Resulting From Land Speculation

Accurate statistics about the amounts of unearned income resulting from land speculation have not been published, much less statistics concerning resulting class inequality. However, we can estimate social differentiation on the basis of land value increment gains. Son (1990), a member of the Land *Konggaenyom* Study Committee, calculated the land value increment gains and compared them with other economic indices.

These statistics were calculated on the basis of land price increases. So the gains are not realized. However, this data shows land speculators were able to get so much that the amount reached 81.1% of all working people's compensation in 1987 and 135.4% in 1988 (See Table 1). Thus unearned capital gains surpass income gains. Son calculated the above mentioned statistics on the basis of government agency data. If we can recalculate the statistics on the basis of market value, the capital gains are even greater. These capital gains are concentrated into the hands of big landowners. In June 1988, the top 5% of the population owned 65.2 % of privately owned land. As a result, the top 5% enjoy most of the land value increments. In 1987, the top 5% enjoyed 57% of total capital gains, and in 1988, 59.6% (Son 1990, p.24). Much more, most big landowners use others' names (sons and daughters', relatives', and employees', etc.) to hide their property acquisition. Especially, they use this method for registration of farmland (D. H. Han 1992a, Ch.5). According to Chaeböls' own reports, the ratio of land registered by relatives and employees is about 8.7% of their own total land. Some Chaeböls are notorious for excessive landownership by using others' names. For example, Tong Il Chaeböl possesses five times more land registered in the name of employees and relatives than registered legally in

TABLE 1. TOTAL VALUE OF AND CAPITAL GAINS FROM PRIVATELY OWNED LAND

(Unit: billion won)

	1985	1986	1987	1988
Total Value of Privately Owned land	158,163	169,086	181,428	216,234
Capital Gains(CG)	10,923	12,341	34,806	67,902
CG/GNP	14.0%	13.6%	33.0%	54.9%
CG/Disposable income	15.4%	14.9%	36.1%	60.4%
CG/Employee Compensation	34.2%	34.0%	81.1%	135.4%
CG/Central Gov't Expenditure	80.4%	80.6%	199.0%	303.1%

Source: Son (1990, p.24).

the name of the corporations. Samsung *chaebol* owns an amusement park (about 4,000,000 pyong = about 3,300 acre) which is registered under about 40 names. If the land was registered only under the corporate name, land concentration would turn out to be much higher, as would capital gains concentration.

While big land owners gain much from land speculation, the deprived suffer from difficulties in living decent lives because of soaring prices. In urban areas, the majority of the urban poor and middle class suffered from the soaring cost of housing (See Table 2). Even in 1985, the price of houses and rentals was considerable. Nevertheless, in the late 1980s, the price and rent rose at high speed. Especially the housing rent rose very rapidly, which means the situation of homeless people became more difficult. The government tried to build high rise apartments in order to ameliorate the housing problem. Considering the rapid increase of housing rent, the goals of the government were quite conscionable. However, most of the costs for building the apartments were shouldered by the private sector, which means that the urban poor could not afford to buy the newly built apartments. On the contrary, they were deprived of accessibility to public land. In 1990, about 60,000 poor people in Seoul were living in vinyl plastic hothouses or dugout mud huts—miserable conditions. They were pushed out of the dugout mud huts and shanties that they built on public land. And, not all the middle class can afford to buy a newly built apartment. The supply was short, in the face of mounting excessive demand in the late 1980s.

According to social opinion surveys about the land and housing problem, more and more people feel the housing problem is getting worse. These surveys (The Korea National Housing Bank 1990) show that among respondents those who feel it is a very serious problem have risen from 32% in 1986 to 42% in 1988, and 52% in 1989.

Most scholars studying land speculation only consider the urban land problem. In fact, peasants are also among the deprived. In rural areas

TABLE 2. INDICES OF HOUSING PRICE AND HOUSING RENT

Year	Sale Price					Rent				
	1985	86	87	88	89	1985	86	87	88	89
Urban area	100	97.3	104.2	118.0	135.2	100	105.6	126.2	142.9	168.0
Seoul	100	95.5	97.5	106.4	124.1	100	104.5	123.6	132.7	164.2
5 Big Cities	100	99.2	112.4	131.2	146.5	100	106.3	128.8	152.1	169.5
31 Other Cities	100	98.9	109.5	128.1	146.4	100	107.4	128.9	154.8	174.9

Source: The Korea National Housing Corporation, *Handbook of Housing*, 1990.

influenced by land speculation, the price of farmland and forest land increased very rapidly. Capital gains from selling land deprived peasants of industry. Many peasants sold their land and some became brokers for speculators. Of course, rural poor didn't have enough land to become millionaires. Generally, the rules of the speculation game were very severe to most peasants (D-H. Han 1992a, Ch.5). What is worse, many peasants living near Seoul have been forcefully pushed out from their own land and home by large land development projects such as building new towns.

Social Conflicts Arising From Differentiation

Difficulties of the poor resulting from land speculation, more directly from housing inaccessibility drove some people to commit suicide. From February to April 1990, 18 people committed suicide because they could not afford the rent hikes (*The Han-Kook Daily* April 13, 1993). Most of victims were heads of family or housewives. In the worst case, the rent hikes drove a whole family to commit suicide. And some people committed burglary and theft in preparation for increased rents. These behaviors are a kind of everyday forms of poor people's resistance.³⁾

Organizational disputes as well as everyday forms of resistance were initiated by land speculation and the housing problem. As the places they could afford to live in were more and more transformed into middle class housing or upper class housing, their protest was very fierce in the late 1980s. Urban poor resisted land re-development policies which demolished their houses. There were various movements of the urban poor. The early 1970s Kwangju Complex riot near Seoul is a famous incident of the urban poor movement in the early 1970s. After the riot, the urban poor movement was not organized until the 1983 Mok-dong urban poor struggle in Seoul. This three year struggle was so fervent that it aroused public resentment toward land redevelopment projects. The organized urban poor movement has developed owing to the Mok-dong movement. The Sadang-dong urban poor struggle continued from April 1985 to November 1985. The redevelopment project was postponed because of this movement for a short period. The Sanggye-dong urban poor struggle continued from March 1986 to December 1986. After that, the Sanggye-dong movement continued in Myongdong Catholic Church which was the center of civil political protest in Summer 1987. Those living in the shelter tents at Myungdong Church participated in the June Protest—the national civil protest against the

³⁾ I borrowed this term from Scott (1985). He used this term to describe forms of peasant resistance.

military government—in 1987 (Yeon 1992). In July 1987, the Displaced Coalition of Seoul (DCS) was organized in order to struggle more systematically against land redevelopment projects in urban areas. They demanded that the government discard the clearing policy of slums, abolish the redevelopment act, eradicate land speculation, and prepare for housing for poor (S-J. Han, 1988). They say that this organization is the first urban poor mass organization independent of religious leadership.

Beginning in July 1987, the clearing policy of slums was executed with the help of a privately organized gangster organization. The DCS had its most fierce encounter with the gangster organization in the Sadang-dong struggle in October, 1987. In February 1988, The Urban Poor Conference of Seoul was organized. This organization included the DCS and other religious urban poor organizations. It asked the government to prepare for social housing for the urban poor.

In November 1989, the Preparatory Committee for the National Coalition of Poor (NCP) was organized. The NCP was organized including the DCS, the National Coalition of Street Vendors, and the Daily Construction Workers Union of the Southern Area. The NCP was an active political group among the National Coalition in 1990. Some urban poor participated in civil movements such as the Citizens' Coalition for Economic Justice (CCEJ).

Though the CCEJ included various classes and strata, it is called a middle class movement. In July 1989, about 500 people founded this organization. This organization has many policy goals for achieving economic justice. The first and most important one among them is to eradicate easy money making by real estate speculation (Citizens' Coalition for Economic Justice 1991). They maintain that the main conflict in Korean society is not the class struggle between laborers and capitalists but the contradiction between producers and easy money makers. In 1989, several symposia and rallies were organized to promote more progressive land related bills than those proposed by the government. Rallies were organized in September and December 1989. Parliament Watch was organized in November 1989, to observe and appraise economic policy and the legislative process. They suggested a reform bill to prevent land speculation and to protect lessees. The Urban Poor Council of the CCEJ was organized in Jan 1990 and held a public forum and various types of actions such as a rally in front of the national government office complex in Kwachon, near Seoul. About 3000 people participated in this rally (*The Han-Kook Daily*, January 17, 1990). While the CCEJ is not a large organization, it has been influential in stirring up public resentment.

Organized labor movements erupted after the June Protest in 1987. Some

unions expressed their opinions on housing clearly. As a matter of fact, their resentment about the land and housing problem was reflected in their demands for raising wages (Kim and Yun 1991; Seon 1992).

LAND POLICY REFORMS AND CAPITALIST INTERESTS

We have seen that building high rise apartments cannot solve the social conflicts resulting from land speculation. To make matters worse, it costs the government more and more to acquire the land for housing and infrastructure because of soaring land prices. Thus, the government tried to control land speculation.

At first, the government tried to institutionalize conflicts over land speculation, i. e., to strengthen public control over land through changes in taxation policy. In summer 1988, the government launched the Land *Konggaenyom* Study Committee to introduce a new land policy. Mr. Roh, then President, avowed that he would eradicate unearned income resulting from land speculation. This special committee was formed to advise the president. With the help of this committee, the government introduced the land *Konggaenyom* legislation.

Land *Konggaenyom* advocates giving priority to the public interests over the landed interest.⁴⁾ Newly introduced land laws are as follows: the Comprehensive Land Tax, the Development Gains Charge Law, the Land Excess Profits Tax Law, and the Residential Land Ownership Limit Law.

The comprehensive land tax introduced in June 1989 as a part of the Local Tax Law is an integral part of the Land *Konggaenyom* legislation. This tax adds up all of an owner's land and charges a progressive rate. In addition, the government amended ongoing tax laws and rules : the acquisition tax, the transfer income tax, and the special surtax on corporate income tax.

The Development Gains Charge Law and the Land Excess Profits Tax Law aim to enable the government to appropriate windfall gains resulting from land value increment. The Development Gains Charge Law stipulates that 50% of land value increment above the construction profits should be paid to the government by the developer. The Land Excess Profits Tax Law imposes a tax on the land the price of which rapidly increases owing to development of neighboring lands. This burden is shouldered by landowners, not by developers.

The Residential Land Ownership Limit Law sets a limit on the amount of housing land a household can own. Therefore, this law is a direct regulation

⁴⁾I acknowledge the advice of Dr. H. S. Kim of the Korea Research Institute for Human Settlement in determining this transliteration.

on large land ownership. This law stipulates that a household can own up to about 800 square yard of housing land in the six large cities, 1,200 square yard in other cities, and 1,600 square yard in rural areas.

These laws tried to appropriate unearned income resulting from land speculation. Generally the aims of this legislation are conscionable, but they grant many exemptions for land-owning capitalists. During the debate over the legislation, capitalist interests were against the land *Konggaenyom* legislation. The Korea Federation of Industries (1989) said that the land *Konggaenyom* would slow down the efficiency of land use and land for productive purpose should not shoulder higher tax. And many law-makers themselves were landed interests and land-owning capitalists. Especially some subcommittee members of the Construction Committee in Parliament were land-owning capitalists. Ironically this subcommittee was the most influential in stipulating the contents of the land *Konggaenyom* legislation. One member of the subcommittee, Lee Won Bae, was put into prison in 1991 because he received a big bribery from a land-owning capitalist conglomerate, Han Bo *chaeböl*. This scandal shows that many land-owning capitalists lobbied law-makers to pass the land *Konggaenyom* legislation to their own advantage. Thus, at that time of passing the legislation, the CCEJ and scholars bitterly criticized the process and results of the land *Konggaenyom* legislation. But all of their criticism were oriented toward lower taxes on speculation in general. As they did not consider land owning capitalists as the main cause of land speculation, so they did not feel it was necessary to introduce special measures against land owning capitalists.

Differing from them, the government directly attacked the land-owning large capitalists independently of tax reforms. In May 8, 1990, the government announced that big capitalists sell their excessively owned land to those who are end users and that 49 large capitalist conglomerates cannot acquire properties for the duration. Also properties acquired by using unauthorized owners (e. g. relatives of top executives and retired or present employees) were required to be registered again with actual owners. These measures were a kind of direct control of the government over land-owning large capitalists. Two large organizations of capitalists such as the Korea Chamber of Commerce and Industry and the Korea Federation of Industries clearly expressed their dissatisfaction. While at first, the capitalist interests said these measures were not lawful, they were forced to follow government policy. Instead, they lobbied the government to their advantage in the process of policy implementation.

The Korea Federation of Industries set up a special committee to follow government policy. Jeong Tae-Su, the tycoon of Han-Bo *chaeböl*, was the

chairman of the committee. He was organizing land speculation on a large scale at that time. After one year, he was put into prison because of notorious land speculation—the Susŏ scandal. This tells outright that the committee was an interest group of land-owning large capitalists. In fact, the 1990 decree was implemented through bargaining between the government and *chaebŏl*. While the general resentment over land speculation forced the government to attack the land-owning capitalists to some extent, at the same time the government could not override the wishes of them. The definition of the excessively owned land was changed through bargaining. The government tried to relieve *chaebŏl* of obligations through changing the related rules and laws such that the decree was almost nullified. Thus, land-owning capitalist interests generally remained the same.

CONCLUDING REMARKS: FUTURE PROSPECTS UNDER KIM YONG-SAM'S GOVERNMENT

The 1989-1990 reforms do not relieve the new government of the tedious land problems. They have been touched off by the recent public disclosure measures of government appointees' and law makers' assets. The disclosure tells us that most of power elites earned windfall gains through land and property speculation. Some appointees and law makers had to resign their office after public opinion strongly criticized their money making methods.

The resignation of some appointees and law makers demonstrates that despite tax reforms and policy reforms in 1989 and 1990, land speculation has not been eradicated.

Consequently the new government aims to correct public attitudes on land speculation through tax reform. President Kim said at the meeting of a committee—the New Economy Committee—that the government would reform tax related laws to make owning a large amount of land and other immovable assets a financial burden for the owner (*The Korea Herald*, April 17, 1993). The new government thinks that such reform is essential to preserving democracy. If this policy is implemented correctly, it will to some extent ameliorate land problems in Korea. However, as long as the new land policy is only based on tax reform, it seems to this author that the land problem will not be solved. Because land-owning large capitalist conglomerates will likely hinder the implementation of progressive reform and the promulgation of meaningful legal change, as in 1989 and 1990.

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