Korea's Post-1997 Restructuring

An Analysis of Capital as Power

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This paper is a postprint of an article published by the Review of Radical Political Economics (0486613415594147, first posted on August 20, 2015 as doi:10.1177/0486613415594147, and later published in Volume 42, Number 2, May, pp. 287-309).

Abstract

This paper aims to transcend current debates on Korea's post-1997 restructuring, which rely on a dichotomy between domestic industrial capital and foreign financial capital, by adopting Nitzan and Bichler's capital-as-power perspective. Based on this approach, the paper analyzes Korea's recent political economic restructuring as the latest phase in the evolution of capitalist power and its transformative regimes of capital accumulation.

***JEL classification**:* B59, F59, O16, P16

***Keywords**:* differential accumulation, dominant capital, *chaebols,* transnationalization, strategic sabotage

1. Introduction

More than 15 years have passed since Korean society underwent a radical neoliberal reform in the immediate wake of the 1997 financial crisis. The so-called Washington consensus of liberalization, deregulation, privatization, and labor flexibilization, which in Korea was originally intended to be implemented in a gradual and controlled way, turned into a radical reform under the IMF's supervision.[1] In 1998, a year after the Korean government had officially asked the IMF for a bailout, Korea's exchange rate was floated; restrictions on the foreign ownership of Korean stocks and bonds were abolished; and the foreign takeover of Korean firms was fully deregulated. In addition to these financial changes, flexible labor has become the norm. Consequently, Korea's economy has become increasingly exposed to the vagaries of the global market, while job insecurity has become widespread.

There is a widespread consensus among Korean critical economists that a qualitatively different society has emerged from the 1997 crisis. Yet debates on the nature of the restructuring and the cause of the crisis remain heated. Leading opinion makers commonly characterize the social change as defined by "polarized growth," a consequence of Korea's transition from a "high-economic growth model with high investment" to a "low-economic growth model with low investment" (Ryu and Ahn 2010). Although the Korean economy recovered rapidly from the crisis, the benefits of the recovery did not "trickle down." Except for a few members of the upper class, most social groups have suffered economic hardship as the engine of Korea's long-term growth has weakened, flexible labor has made the job market extremely unstable, and the gap between "big" and "small" businesses has widened (Jung 2006).

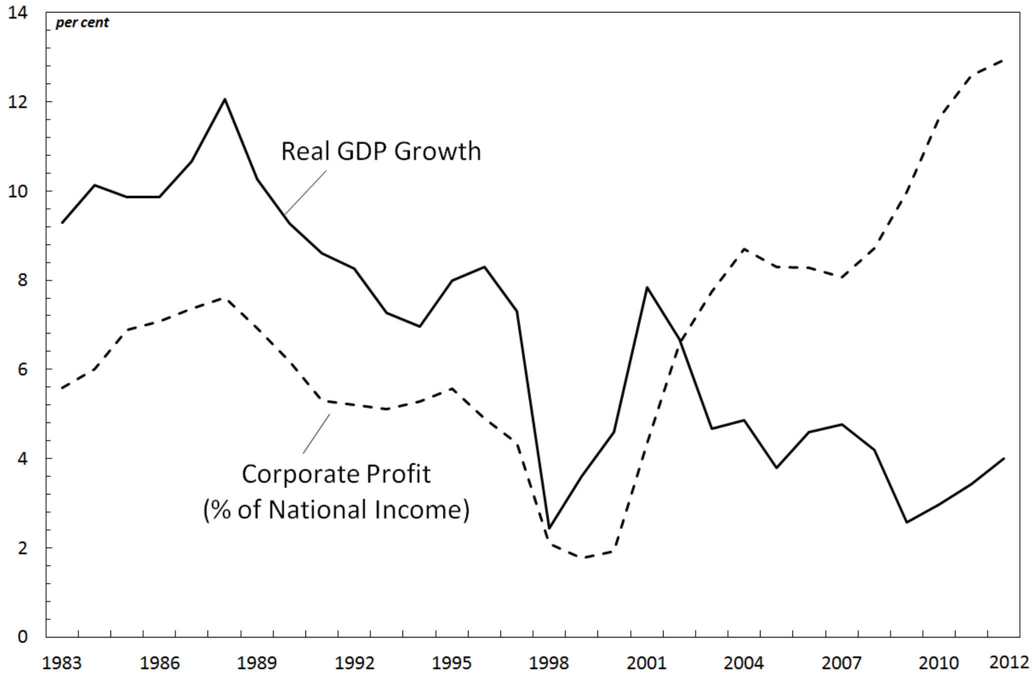

Figure 1 **Corporate Profit and Economic Growth**

Note: All series are expressed as three-year moving averages.

Source: Bank of Korea

[1] The beginnings of Korea's neoliberal reforms can be traced back to the early 1980s, when its commercial banks, previously under state control, were completely privatized. This was also the period when Korea-U.S. bilateral negotiations for trade liberalization began.

Figure 1 offers a snapshot of the Korean political economy before and after the 1997 crisis. The chart shows two series: real GDP growth and the share of corporate profit in national income, both expressed as three-year moving averages. The data reveal two important patterns: (1) that growth had already been trending downward by the mid-1980s; and (2) that after 1997, the rate of growth and the profit share have decoupled. During the pre-1997 period, the profit share of national income was positively and tightly correlated with the growth of GDP. By contrast, after 1997, growth continued to decelerate while the profit share of income soared to record highs. In post-1997 Korea, capitalists prospered as the economy lingered.

While most observers agree that growth has become polarized, they disagree heatedly on the underlying causes and their relationship with the 1997 crisis. Views on the subject can be grouped into two opposing camps. One camp finds the cause in cronyism and the anachronistic management of the *chaebols*, Korea's leading business groups (S. Kim *et al.* 2007; S. Kim 2004; G. Kim 2001; Jang 1998). The other camp blames the process on the "unproductive" and "speculative" nature of foreign financial capital (Chang 2007, 2004; Chang and Sin 2004). Accordingly, the former camp, expecting an improvement in corporate transparency and economic efficiency, welcomes the "retreat of the state" and the advent of market-centred economic reforms. The latter camp, reminiscing about the rapid economic growth under the military dictatorship, campaigns for the restoration of the statist development model in which the economy is led by the state-*chaebol* nexus.

This paper argues that, despite their popularity, both camps use inadequate frameworks and fail to grasp the nature of Korea's recent social transformation. First, it is misleading to assume that the state stands against the market and that domestic industrial capital is productive while foreign financial capital is unproductive, or *vice versa*. These dichotomous assumptions lead both camps to ignore the intertwined transformation and integration of capital, the state, and the market, as well as the capitalization of power on a global scale that underlies these processes (as elaborated below). Second, the two camps offer little or no empirical evidence to show that the interests of "market-oriented" foreign capital in fact conflict with those of the "state-centered" Korean *chaebols*. The net result of these theoretical and empirical inadequacies is that most "progressive" critiques of foreign capital or the *chaebols* end up offering "conservative" solutions.

Historically, Korean capitalist power has evolved under state protection; at the same time, the development of this power has changed the very nature of the Korean state. On the one hand, the power of the state to affect capitalist earnings and risk has been "capitalized" into stock and bond values, and in that sense this power has become a facet of capital. On the other hand, state organizations and institutions have been increasingly conditioned and shaped by the logic of capital. Since earnings and risk perception are affected by the increasingly intertwined power of state and capital (whether "industrial" or "financial"), and given that this intertwined power is discounted into present asset prices, we can say that state and capital have become "part and parcel of the same architecture of mechanized social power" (Nitzan and Bichler 2009: 281). From this perspective, it is misleading to distinguish industrial capital from financial capital. The reason is partly because conglomeration has made the task practically impossible, but mostly because both types of capital pursue one and the same goal: to accumulate capital as power denominated in financial terms.

One of the major premises of this article is that, in order to grasp the nature of Korea's post-1997 restructuring, we need to focus on the transformation of the country's *chaebols* and their changing patterns of accumulation. To highlight the historical importance of this process, consider the aggregate concentration of net profit shown in Figure 2. The chart shows three indices. The denominator in all three is the aggregate net profit of all Korean corporations as estimated by the national income accounts. The numerator for the first index is the total net profit of the 30 largest *chaebols*; for the second index, the numerator is the net profit of the top four *chaebols*; and for the third index, it is the net profit of Samsung. Over the ten years between 1987 and 1996, the average aggregate concentration was 14.7 percent for the top 30 *chaebols*, 10.7 for the top 4, and 4.4 for Samsung. In 2001-2010, these average shares were more than three times higher: 55 percent for the top 30, 34.2 for the top 4, and 17.1 for Samsung. This rapid increase in aggregate concentration suggests that the post-1997 rise in the capital share of national income shown in Figure 1 was led by Korea's core business group.

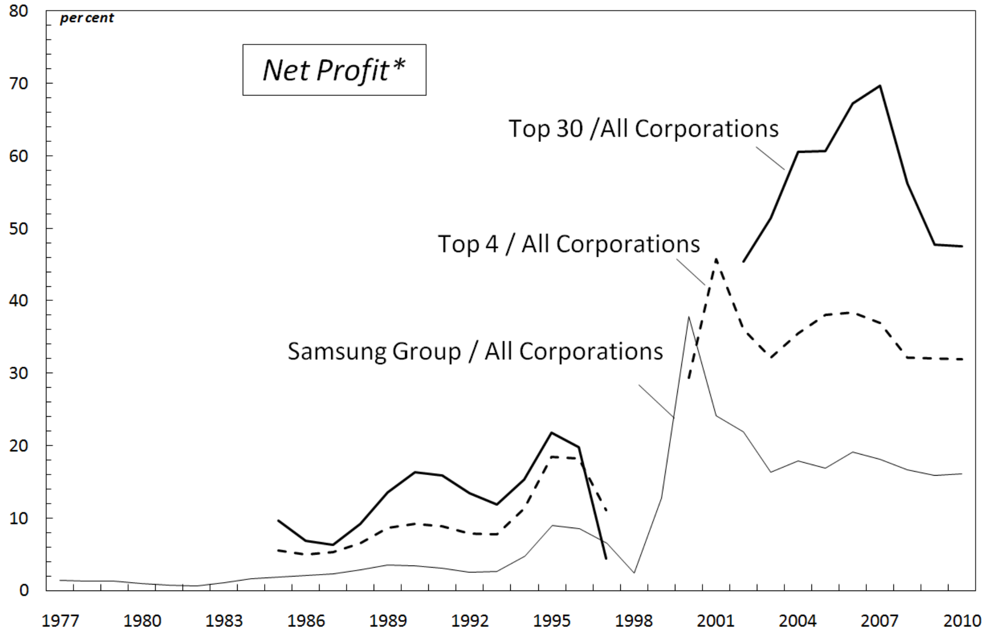

Figure 2 **The Aggregate Concentration of Corporate Profits**

*The ratio of the net profit of the *chaebols* to corporate profit in the national income accounts.

Note: All series are expressed as three-year moving averages. Periods during which either the *chaebol* groups' or overall corporate profits were negative are omitted.

Sources: Bank of Korea; Fair Trade Commission; Samsung (1998) and Samsung Online.

The purpose of this article is to go beyond current debates on the post-1997 restructuring of Korean society in two related ways: (1) by providing new empirical insight into the transformation of the Korean political economy in general and capital accumulation in particular; and (2) by using a new analytical framework to articulate and make sense of these processes.

This framework is that of *capital as power*, an alternative political economic approach elaborated by Nitzan and Bichler (2009, 2002). Their analysis of capital accumulation can be characterized by the following two key features, which distinguish it from both Marxist and neoclassical approaches. First, Nitzan and Bichler argue that the main driver of capitalism is not absolute wealth but relative power. Modern capitalists are compelled not to "maximize profit," but to "beat the average" and exceed the normal rate of return. Their key goal is to accumulate not "real" commodities measured in *utils* or labor time, but relative claims on nominal income streams and discounted assets. In their quest for power, they seek not maximum accumulation, but *differential* accumulation.[2]

Second, the focus on differential-accumulation-read-power rather than the growth of "real assets" shifts the focus of analysis. Instead of seeking economic growth through productive activities, capitalists are forced to engage in what Veblen called *strategic sabotage*: a deliberate attempt to *limit* the productive capacity of society at large and to exclude others capitalists from business opportunities (a process that will be explained in the next section). Thus, whereas from the conventional viewpoint, both liberal and Marxist, economic slowdown and unemployment are detrimental to accumulation, from the perspective of capital as power they are often essential for its success.

Based on Nitzan and Bichler's capital-as-power approach, the research here demonstrates, first, that Korea's low, "polarized" growth is not detrimental to, but rather *essential* for, its new regime of accumulation. In an attempt to overcome the limits of the previous regime of rapid industrial expansion, the country's *chaebols* intensified their strategic sabotage against other social groups. This intensification enabled them to emerge quickly from the 1997 crisis by constructing a new regime that uses low growth to achieve a massive upward redistribution of income, assets, and power.

Second, the article shows that the process of globalization, which has contributed significantly to Korea's drastic social transformation, has been driven primarily by the transnationalization of capitalist power through the spatial integration of ownership and accumulation. Korea's ruling capitalists, having transcended their parochial boundaries, have integrated into the transnational structure of *global absentee owners*. As a result, it makes little sense to posit that the interests of "Korean industrial capital" are pitted against those of "foreign financial capital." As *chaebol* ownership grows increasingly transnational, the interests of "local" and "foreign" owners become inseparably fused and the alleged difference between their "industrial" and "financial" character dissipates.

2. Understanding Polarized Growth from a Power Perspective

Nitzan and Bichler's capital-as-power framework offers theoretical vantage points for the systematic understanding of the phenomenon of polarized growth, characterized by accumulation amidst low investment and low growth. This phenomenon may appear abnormal when viewed through the lens of conventional economics, which defines capital as a productive entity and

[2] In practice, capitalists can never know whether they have maximized their profits and assets; but they can usually know whether they have beaten the average. For example, whether a rate of return of 10 percent is high or low depends on the average rate of return. If the average is 5 percent, it is high; if the average is 15 percent, it is low.

analyzes economic development primarily in aggregate terms. Although emphasizing the class nature of economic growth, most Marxist approaches also tend to assume a positive relationship between economic growth and capital accumulation. From a Marxist viewpoint, capital accumulation through the never-ending cycle of $M \rightarrow C \rightarrow P \rightarrow C' \rightarrow M'$ (or $M+\Delta M$) is associated with more investment in fixed capital; and from this viewpoint, Korea's transition from a "high-economic growth model with high investment" to a "low-economic growth model with low investment" must be viewed as detrimental to capitalist accumulation. Writing in this vein, prominent Korean Marxist Sengjin Jeong (2005: 18) argues that the Korean economy is not out of the woods yet. Until it embarks on a new economic boom, with high levels of employment, investment, and profitability similar to those of the mid-1980s, any talk of a new regime of capital accumulation is premature.

Seen from the perspective of capital as power, though, polarized growth is not a hindrance to accumulation but, on the contrary, an integral part of it. Capitalists, as Thorstein Veblen (1923) said, do "business" by privatizing "industry." In Veblen's terminology, the distinction between industry and business is based on a parallel separation between *workmanship* and *the predatory instinct*. Industry, denoting the integrated, holistic processes of production and reproduction, is derived from the historically accumulated creativity of the community as a whole. By contrast, business is an exclusive claim on—or the privatization of—this productive communal effort. In this sense, profit-seeking capitalists are reminiscent of rent-seeking absentee landlords, which is why Veblen defined modern capitalists as *absentee owners*. In this conceptual framework, capital income represents not productive activities as such but power over the social process of industry. This power in turn is based on organized *exclusion* and *deprivation*. This latter aspect of capitalism was also emphasized by Karl Marx (1887: 454), who explained the enclosure movement as the "usurpation of common lands" by landlords. From the viewpoint of capital as power, though, "enclosure" is not confined to the era of primitive accumulation, but is embedded in the legal concept of private ownership as such. With private ownership, capitalists are entitled to deprive the underlying population of the right to work and to build barriers that prevent other capitalists from entering their business territories. Veblen (1921: 38) referred to these actions as "strategic sabotage" and held that "the conscious withdrawal of efficiency"—the deliberate limitation of production below its full potential—was a necessary condition for capitalists to maintain high earnings.

From the viewpoint of capital as power, the capitalist income share does not necessarily have a positive relationship with production. Up to a point, this share is likely to move together with the utilization of industrial capacity. Beyond that point, though, the relationship between the two becomes negative. This non-linear relationship is succinctly illustrated in Figure 3. The reason behind this changing relationship is not difficult to figure out. "If industry always and everywhere operated at full socio-technological capacity (bottom right point)," argue Nitzan and Bichler (2009: 236-7), "industrial considerations rather than business decisions would be paramount, production would no longer need the consent of owners, and these owners would then be unable to extract their tributary earnings."

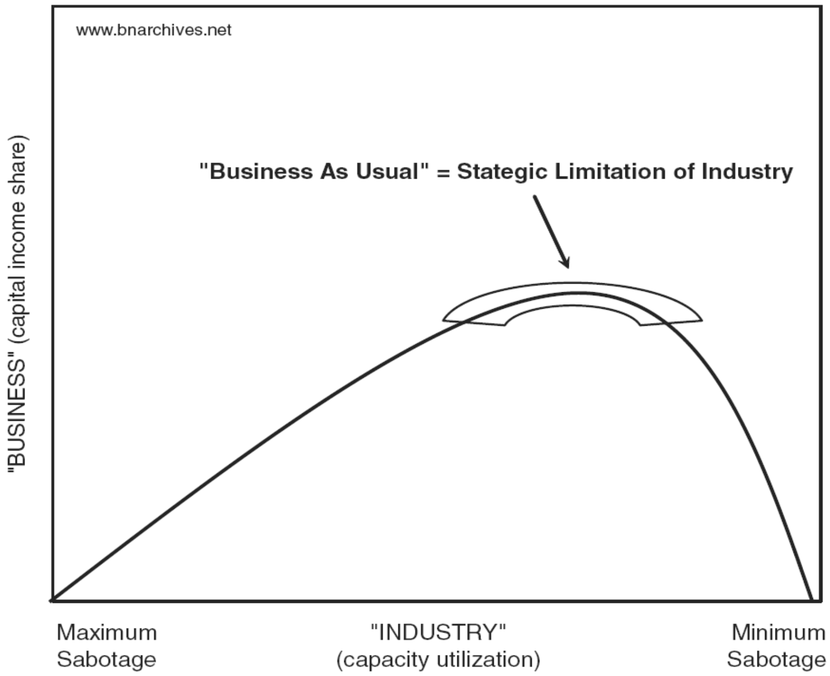

Figure 3 **Business and Industry**

Source: Nitzan and Bichler (2009) *Capital as Power: A Study of Order and Creorder*, p. 237.

For instance, without intellectual-property rights, which are enforced by states and free-trade-related international organizations, the earnings and capitalization of global conglomerates such as Microsoft, Pfizer, and EMI would plummet dramatically because cheap or "free" counterfeits of similar quality would occupy the markets. To boost their differential profits, capitalists try to *strategically* restrict the industrial activities of their existing or potential rivals. Quite often, they also restrict their own output, sometimes in alliance with others, in order to maintain higher profit margins that more than compensate for the lost volume. The aggregate consequence of these efforts is a lingering economic slack and under-capacity utilization, which mainstream economists often refer to as the natural rate of unemployment.[3] From this viewpoint, the decelerating economic growth after the 1997 crisis, along with slowing green-field investment, worsening job security, and a widening gap between "big" and "small" businesses, can be understood as a result of the *chaebols*' intensification of their strategic sabotage to augment their differential earnings. The success of their strategy is evident from the massive concentration of corporate profit in the hands of the 30 largest *chaebols* (Figure 2), which, in turn, led to an unprecedented rise in the share of corporate profit in na-

[3] Writing in a similar vein, Baran and Sweezy (1966: 108) held that "the normal state of the monopoly capitalist economy is stagnation… chronic underutilization of available human and material resources." But for them, this stagnation represents the inevitable *crisis* of monopoly capitalism, whereas from the viewpoint of capital as power, it is a necessary basis for differential accumulation (see Bichler and Nitzan 2014).

tional income (Figure 1). In order to understand the structural underpinnings of this process, we need to delve a little further into Nitzan and Bichler's analytical framework.

3. Strategic Sabotage and Differential Accumulation

Elaborating on Veblen's concept of strategic sabotage, Nitzan and Bichler put forward a systematic framework to analyze capital accumulation that is very different from the ones offered by both neoclassicists and Marxists. From their viewpoint, capital is power, and therefore the value of a commodity, the profit of a firm, and the accumulation of capital represent neither the productivity of factor inputs (*i.e. utils*) nor socially necessary abstract labor time, but the power of capitalists over the entire societal process of production and reproduction. This power is based not only on business arrangements in a narrow sense, but on the whole spectrum of institutional arrangements that systematically impact capitalist abilities to subjugate the underlying population and prevent other capitalists from having access to the same profit flows. Historically, dominant capitalists have developed various means of imposing this strategic sabotage, thereby creating and sustaining their superior performance over competitors. Nitzan and Bichler (2009: 247) argue that

> These means include direct limitations, such as predatory pricing, formal and informal collusion, advertising and exclusive contracts. They also include broader strategies like targeted education, patent and copyright laws, industrial policies, financial regulations, preferential tax treatment, legal monopolies, labour legislation, trade and investment pacts and barriers and, of course, the use of force, including military, for differential business ends.

In contemporary capitalism, virtually all government policies and legal arrangements have a differential impact on business performance, an effect that favors some groups of companies over others. Thus, nowadays, strategic sabotage needs to be understood in this broad sense, in which the state plays an integral role in capitalists' politics of exclusion and deprivation. Furthermore, capitalist struggles to strategically shape institutional arrangements in their own interest prompt "the relentless formation and reformation of 'distributional coalitions.'" Eventually, this process culminates in the emergence of *dominant capital*, which Nitzan and Bichler (2009: 315) define as "a cluster that we equate with the leading corporate-government coalitions at the core of the [social] process." Dominant capital is the victor—at least temporarily—in the war of mutual strategic sabotage to secure higher-than-average profit and differential accumulation. The upshot of this understanding is that the quantitative analysis of capital accumulation should focus also, and perhaps more so, on the disaggregate level. In practice, differences in the growth rate of corporate profits and assets between dominant capital and the rest of the business universe are the rule rather than the exception; furthermore, *out*performance is the driving force in contemporary capitalism. It is for this reason that Nitzan and Bichler's capital-as-power approach makes "beating-the-average" a key tool in analyzing accumulation.

Although most Marxist approaches emphasize the "concentration and centralization of capital," there has been little effort to elaborate a systematic framework to quantitatively analyze accumulation at a disaggregate level. The inhibition here is at least partly related to the labor theory of value, the cornerstone of Marxist political economy. The problem is that the labor theory of value is premised on perfect competition and the free flow of capital and labor, and therefore on an "equilibrium profit rate and equilibrium prices of production" (Howard and King 1992: 278).

One exception is the monopoly capital school, which emphasizes the role of capitalist and state power, and therefore abandons labor values in favor of prices and surplus value in favor of surplus.[4] However, although it deals with aspects of power, the theory of monopoly capital remains pitched at the aggregate level (see Foster and McCheney 2012). Furthermore, the theory has not incorporated power into its concept of capital, which is still conceived as a "real," backward-looking economic quantity rather than a differential, forward-looking power entity (Nitzan and Bichler 2009: 261-262). Sweezy (1991), recognizing the limits of the "capital-as-real capital goods" approach, said that "a better understanding of the monopoly capitalist society of today will be possible only on the basis of a more adequate theory of capital accumulation, with special emphasis on the interaction of its real and financial aspects, than we now possess."

By contrast, Nitzan and Bichler focus on capitalization, which denotes the present value of expected future earnings, and which in their view is "the universal creed of capitalism" (Nitzan and Bichler 2009: 8). Based on this view, they suggest the following analytical formulation of capital accumulation.

1. From a static perspective, the differential power possessed by a particular group of owners should be measured by its differential capitalization (DK), that is by comparing the group's combined capitalization to that of the average capital unit. If this average is \$5 million, a capital worth \$5 billion represents a *DK* of 1,000. This magnitude means that, as a group, the owners of that capital are 1,000 times more powerful than the owners of an average capital.
2. From a dynamic viewpoint, the change in differential power is measured by the rate of *differential accumulation* (*DA*), defined as the rate of change of *DK*. To achieve differential accumulation, owners need to have their own capitalization grow faster than the average capitalization. Positive, zero, or negative rates of *DA* imply rising, unchanging, or falling differential power, respectively.
3. From a power stance, only capitalists with a positive *DA* are said to accumulate. These differential accumulators should be the center of analysis (*ibid.*: 313).

Applying this definition to Korea, Figure 4 uses two different measures to examine the differential accumulation of the country's three top business groups: Samsung Electronics, Hyundai Motor, and Posco.[5] *Differential capitalization* (*DK*) is the ratio of the average market capitalization of the top three corporations to the average market capitalization of all listed companies; *differential earnings* refers to the ratio of the average net profit of the top three corporations to the average net profit of all corporations (listed and unlisted).

[4] Another relatively little-known exception is Farjoun and Machover's *Laws of Chaos*, which attempts to combine the labor theory of value with stochastic analysis.
[5] As of the end of 2013, the market value of these three corporations accounted for 26.5 percent of the overall Korean stock market.

Let us begin with differential capitalization. This ratio was only 5 in the early 1980s (39.7 billion KRW compared to 7.7 billion KRW). By the early 2010s, it had risen to around 60 (91 trillion KRW compared to 1.4 trillion KRW), a 12-fold increase. From the viewpoint of capital as power, this increase suggests that, relative to the average listed corporation, the differential power of a typical top-three corporation in the early 2010s was 12-fold greater than in the early 1980s. The trend growth rate, which indicates the rate of differential accumulation (*DA*), shows that, during this period, the relative power of the top three firms had grown at an average annual rate of 8.3 percent.

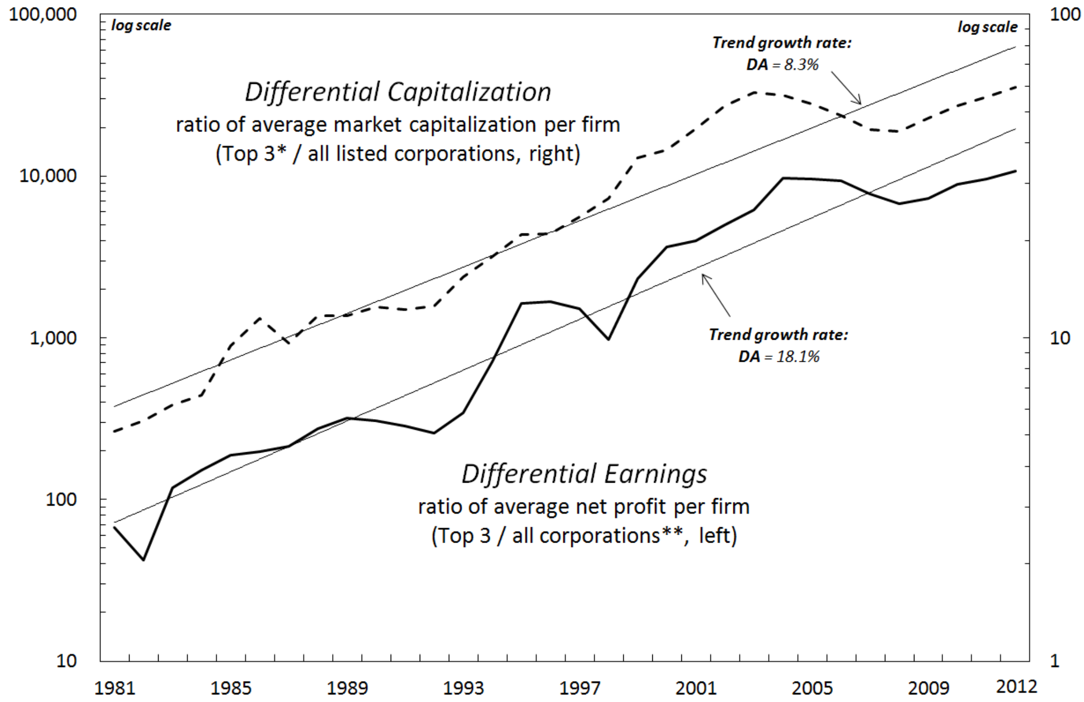

Figure 4 **Analyses of Differential Accumulation**

* The top-three corporations consist of Samsung Electronics (listed in 1976), Hyundai Motor (listed in 1974), and Posco (listed in 1988). Their market value does not include that of their preferred stocks.
** “All corporations” does not include companies that reported net losses.

Note: All series are expressed as three-year moving averages.

Sources: KIS-VALUE; Bank of Korea; National Tax Service.

Differential market capitalization reflects the way in which the market mechanism discounts into asset prices the potential impact of current and expected changes in institutional arrangements on profit flows. However, because the vast majority of firms in general and small firms in particular are unlisted, this measure may underestimate the overall power of dominant capital. In order to bypass this limitation, Nitzan and Bichler suggest another differential measure based on net profit. Given that capitalization is calculated as the risk-adjusted discounted value of expected future earnings, *i.e. capitalization* ≡ *future earnings* / (*risk* x *discount rate*), we can expect, particularly over the long run, there to exist a positive correlation between the differential capitalization of dominant capital (*DK= KD /K*) and its differential earnings (*ED*/E). Here, the D subscript denotes dominant capital; no subscript denotes the average capital.

As we can see from Figure 4, the two measures, although very different in scale, are tightly correlated (with a Pearson coefficient of 0.88 over the 1981-2012 period). Differential earnings are calculated by dividing the average net profit of the top three corporations by the average net profit of all Korean corporations (total after-tax corporate profit divided by the number of corporate tax returns). In the early 1980s, this ratio was about 67 (7.6 billion KRW compared to 114 million KRW). By the early 2010s, it had risen to around 10,000 (7.3 trillion KRW compared to 681 million KRW), a 150 times increase! The trend growth rate of differential earnings suggests that, over the period, the differential accumulation-read-power of a top-three corporation grew at an average annual rate of 18.1 percent.

4. Power Restructuring and the Changing Nature of Differential Accumulation

Nitzan and Bichler's theory of differential accumulation, which draws in part on Veblen's concept of strategic sabotage, fits well with the evolution of Korean capitalism, from the emergence of the Korean *chaebols* during the era of state capitalism, through the financial crisis of 1997, to the so-called polarized growth that occurred in its wake. The key factor in this strategic sabotage is the Korean state; without the state's exclusive institutional support, the *chaebols* would not be what they are today.

During the authoritarian regime, protectionist policies enabled the *chaebols* to monopolize domestic markets, while repressive labor policies helped them maintain a production system characterized by low wages and long working hours. Furthermore, the state provided dominant capital with various types of financial support, including tax reductions, preferential interest and exchange rates, direct subsidies, and exclusive access to foreign loans. The advocates of developmental statism (*e.g.* Amsden 1989; Wade 1990; Woo-Cumings 1991) claimed that these forms of state support were crucial for Korea's rapid economic growth. This claim, though, is only partly true. It emphasizes overall growth, but this aggregate emphasis serves to conceal the underlying differential processes, whereby the fruits of communal efforts were increasingly privatized and concentrated in the hands of a few. From the viewpoint of capital as power, these policies are typical examples of strategic sabotage; while encouraging overall growth, they also strategically restricted and channelled this growth to fuel the differential accumulation—and therefore power—of Korea's *chaebols* relative to other firms and the underlying population.

The polarized growth after the 1997 crisis can also be understood in this light. The decrease in fixed-capital investment, the increase in job insecurity through labor flexibilization, and the intensification of the *chaebols*' so-called "unfair trade practices" against small- and medium-sized companies, which critical economists refer to as indicators of polarized growth, are reminiscent of Veblen's "business as usual"; they are all forms of strategic sabotage geared to achieving differential accumulation for the *chaebols*.

The foregoing does not mean that nothing has changed in the wake of the 1997 crisis. Indeed, Korean society underwent radical neoliberal reform and consequently economic growth has become sluggish; job insecurity, especially among young people, has risen; and more importantly, social inequality has increased. To some, this record suggests that Korea's neoliberal experiment is "a dismal failure for the majority of Korea's people" (Crotty and Lee 2006: 386). Yet it should be noted that, from the very outset, Korea's ruling class implemented neoliberal restructuring not to improve people's wellbeing, but to consolidate their power.

From the viewpoint of capital as power, the 1997 crisis and the radical restructuring in its wake represent a broader restructuring of power relations, a process whose quantitative manifestations are recorded by the ups and downs of differential accumulation. Since the mid-1980s, the Korean ruling class had faced mounting internal and external pressure. The domestic pressures came mostly from below. An ever-growing number of Koreans, having lost their patience with the military regime, joined street protests organized by university students. The situation was getting out of control, leaving military elites with the choice of either violently quelling the unrest, or giving in to demands for democratization. Simultaneously, Korea's dominant capital was coming under increasing international pressure to abandon its Cold War protectionism. The country emerged as a key target for the expansion of global dominant capital, and the local elites were called on to structurally adjust Korea in line with the rising tide of neoliberalism.

Initially, this domestic-global conjuncture appeared detrimental to Korean dominant capital, the *chaebols*. Domestically, there were more labor disputes in 1987 than in the entire 1947-86 period. As a result, the real-wage increase between 1987 and 1991 averaged 12.5 percent annually, whereas the average between 1982 and 1986 had been 5.4 percent (Statistics Korea). Externally, Korea was forced to open up. The country's import-liberalization ratio, *i.e.* the ratio of unrestricted import items to total import items, rose rapidly from 69 percent in 1980 to 94.7 percent in 1988 (Ministry of Commerce and Industry). These new circumstances meant that, in order to survive, the state-*chaebol* nexus had to be radically transformed.

And indeed, rather than accepting neoliberalism passively, Korea's ruling class chose to endorse the ensuing transformation in a way that served its own interests. This choice was symbolically reflected in the 1994 "globalization strategy" of the Kim Young Sam government. Formally, this strategy echoed the pre-1997 accession requirements that Korea had to fulfil in order to become a full OECD member, which were in turn almost identical to those spelled out in the post-1997 IMF financial bailout package. But its actual implementation went far beyond the initial blueprint.

The main catalyst was the 1997 crisis, which broke out in the middle of this restructuring process. Most critical debates on the process focus on the IMF's role in the crisis and the appropriateness of its remedial policies (*e.g.* Crotty and Lee 2009; Feldstein 1998; Wade 1998). Feldstein (1998: 27-31), for instance, argued that it would have been enough for the IMF to "provide its technical advice" and help Korea to "persuade foreign creditors to continue to lend by rolling over existing loans as they came due."

Although important, this narrow preoccupation with policy serves to conceal the broader, structural origins of the crisis, both internal and external, and the ways in which these structural origins affected Korea's dominant capital. Some of these structural roots were identified by Krugman (1994) and Jeong (1997). Krugman, following conventional growth accounting, pointed to the limits of economic growth that were almost entirely dependent on the mobilization of factor inputs without productivity increases, while Jeong, taking a social structures of accumulation approach, emphasized the impediments to further growth and accumulation imposed by internal and external changes in power relations. Using the terminology of capital as power, we can say that Korean capitalism was approaching its "envelope." Its old accumulation regime, built on the massive and oppressive mobilization of people in the broader context of the Cold War, had become unsustainable. For Korea's leading capitalists to retain their primacy and continue their differential accumulation, all of Korean society had to be restructured.

Jeong's social structures of accumulation approach to the 1997 crisis and neoliberal reforms (2005, 1997) shares some similarities with the capital-as-power framework adopted in this article. But there is also a big difference. By analyzing the accumulation of capital in *aggregate* terms, Jeong (1997: 109) concluded that "the imposition of neoliberalism would not guarantee high economic growth in the coming century" but "only aggravate the structural crisis of the Korean economy," which in turn meant that neoliberal restructuring would not stop the tendency of the rate of profit to fall. In contrast, this paper takes a *disaggregate* view. According to the differential-accumulation approach, which focuses on redistribution, sluggish economic growth is not a failure of, but integral to, the new regime of accumulation. In the remainder of this section, I examine the 1997 crisis and the post-crisis restructuring from the viewpoint of the changing regime of differential accumulation. I analyze the limits of the old regime, and how these limits were transcended, giving rise to a new order characterized by intense strategic sabotage.

As noted above, differential accumulation is measured primarily by the rate of change of differential capitalization, which can be proxied by the rate of change of differential earnings. Focusing on differential earnings, Nitzan and Bichler (2009: 327-33) identify four business strategies to increase corporate profit: green-field investment, mergers and acquisitions, stagflation, and cost cutting, which they then associate with broad regimes of differential accumulation.

More specifically, if we understand the level of corporate earnings as the product of the number of employees multiplied by the average earnings per employee (*i.e. employees* x *earnings per employee*), a firm can achieve a positive rate of differential accumulation in the following two ways: either by expanding employment faster than the average to increase its market share, or by raising earnings per employee faster than the average. The first route is called "breadth"; the second is called "depth." Focusing on a particular firm or group of firms (*e.g.* dominant capital), breadth can be measured by *differential employment*: the ratio of the number of employees of the group to the average of the business universe. Depth can be expressed as *differential earnings per employee*: the ratio of the profit per employee of the group to that of the average firm.

Breadth can be further subdivided into two distinct forms: *external breadth* and *internal breadth*. External breadth denotes the increase of market share by a particular group of capital through the building of new capacity and by hiring new employees faster than the average. Without creating new capacity, the group can enjoy the same effect by taking over other existing companies. This way of increasing market share is referred to as internal breadth. Depth also has two distinct routes to differential accumulation. The group can increase its earnings per employee by cheapening production (*i.e.* cost-cutting) faster than the average, which is named *internal depth*. The group can achieve a similar outcome through stagflation if it manages to increase its relative profit gains per unit faster than its relative decline in volume. This type of differential accumulation is called *external depth*.

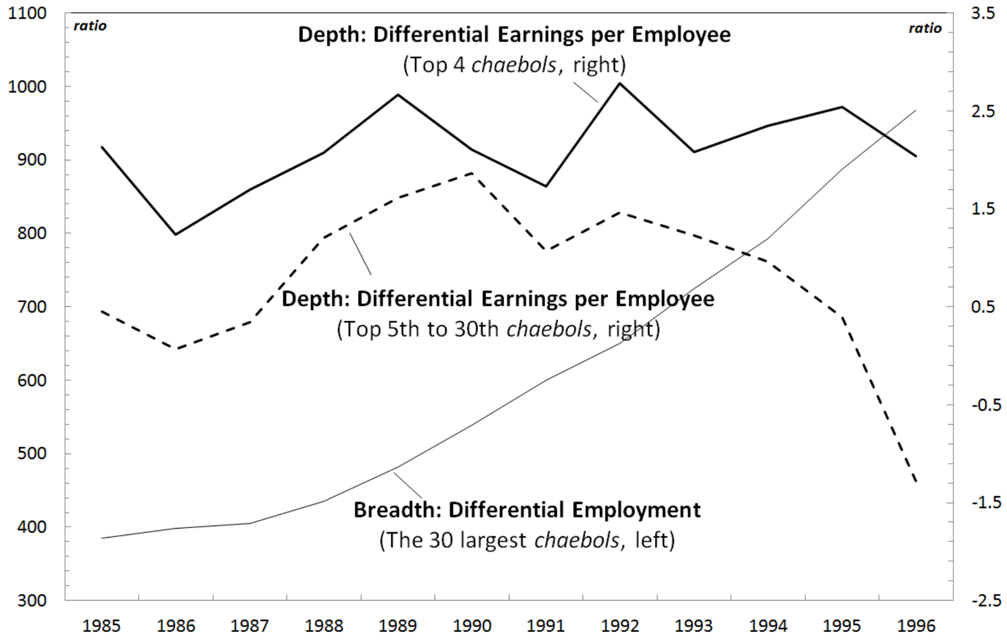

Figure 5 **Downward Pressure on Earnings per Employee**

Note: "Differential employment" expresses the ratio of the average number of employees of the dominant-capital groups to the average number of employees per firm in the manufacturing sector. All series are expressed as three-year moving averages.

Sources: Fair Trade Commission; Choi (2001); Bank of Korea.

Applying this analytical framework to Korea during the years leading up to 1997, Figure 5 examines the evolution of differential employment and differential earnings per employee. The focus is on Korea's 30 largest *chaebols*, which are the largest and most profitable corporate coalitions at the core of the Korean political economy, and which are treated here as the country's dominant capital. Differential employment is measured by the ratio of the average number of employees of dominant capital to the average number of employees per firm in the manufacturing sector. Differential earnings per employee is measured by the ratio of the average net profit per employee of dominant capital to that of the average firm in the manufacturing sector.

In the figure, this measure is disaggregated into two series, one for the top four and one for the top fifth to 30th conglomerates. The chart shows that the ongoing expansion of differential employment by Korea's 30 largest *chaebols* was accompanied by stable or declining differential earnings per employee. This negative relationship is consistent with Nitzan and Bichler's argument that "'excessive' green-field growth creates a downward pressure on prices and hence on profit per employee” as strategic sabotage becomes too loose (2002: 49-50).[6]

According to the chart, Korea’s dominant capital sustained differential employment growth through the mid-1990s. The ratio grew by a factor of 2.5 during 1985-1996. While the green-field investment strategy of the four largest business groups in this period appears to have allowed them to maintain their level of differential earnings per employee, the other 26 groups suffered from a relative profit squeeze. The ratio of earnings per employee for the fifth to 30th largest *chaebols* to the manufacturing sector’s average dropped below one in 1994, which means that they differentially *de*cumulated in terms of depth. After that, their relative depth performance became even worse, with the ratio becoming negative in 1996. The 1997 collapse of the Korean political economy started with these 26 *chaebols*, whose performance began to deteriorate well before the onset of the crisis.

Seven of these *chaebols* filed for bankruptcy protection in 1997, even before the Korean government formally asked for an IMF bailout. The collapse of the Kia Group—the eighth largest *chaebol* in terms of the book value of total assets at that time—characterizes the limits of the pre-crisis breadth regime. Kia’s breakdown was triggered by the bankruptcy of its core firm, Kia Motors, whose main sin was “overinvestment.” Kia Motors—in competition with Hyundai Motor Company, Daewoo Motors, and Ssangyong Motor Company—was trying to increase its domestic and export market share by rapidly expanding its productive capacity. This expansion relied heavily on debt financing, especially on short-term loans through non-bank financial institutions. As a result, the company’s debt-to-equity ratio rose from 2.7 in 1987 to 8.1 in 1997, making Kia vulnerable to unfavorable shocks.[7] To complicate matters, in 1995 Samsung Group entered the automobile sector, which was already struggling with “overcapacity.” The result was generalized downward pressure on automotive profit. Kia, which was the most vulnerable, was the first to fall, followed by Ssangyong Motor Company in 1998, Samsung Motors in 1999, and Daewoo Motors in 2000. These bankrupt companies were eventually amalgamated into Hyundai Motor Company, Shanghai Automotive Industries, Renault, and General Motors respectively, a breadth solution to a depth problem.

Thus, in hindsight, we can say that the seeds of the crisis were planted well before 1997. The decline of dominant capital’s differential earnings per employee coincided with the slowdown of GDP growth and the fall of the corporate income share, as shown in Figure 1. Graphically, this situation can be described as a downward slide to the right in Figure 3, an entry into a “danger zone,” where overcapacity loosens strategic sabotage and undermines the income share of capital. From the viewpoint of capital as power, the 1997 Korean crisis was the culmination of an overextended breadth regime. This regime had relied on the massive and oppressive mobilization of people domestically and on Cold War protectionism internationally. And by the early 1990s, both arrangements had started to crack. Using the same framework,

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[6] Nitzan and Bichler (2009: 331-3) associate the abovementioned breadth/depth taxonomy with broad regimes of differential accumulation. They claim that, historically, (1) breadth and depth tend to be mutually exclusive and move counter-cyclically to each other; (2) differential accumulation progresses primarily through internal breadth and external depth. It should be noted that regimes are different from the actions of individual firms. A single firm may combine various business strategies, including green-field investment, mergers and acquisitions, cost-cutting, and monopoly pricing. However, “the same does not hold true for dominant capital as a whole” because “the broader conditions that are conducive to one regime often undermining the other.”

[7] Author’s computations based on data from KIS-VALUE.

we can think of the "polarized growth" characteristic of the post-1997 period as the manifestation of rising strategic sabotage. In terms of Figure 3, capital in general and dominant capital in particular were moving up and to the left, intensifying their strategic sabotage to boost their differential accumulation and raise their income shares. And as we can see from Figure 6 below, for dominant capital, the strategy proved highly successful. While overall growth stagnated, the Korean *chaebols* recorded massive increases in their differential earnings.

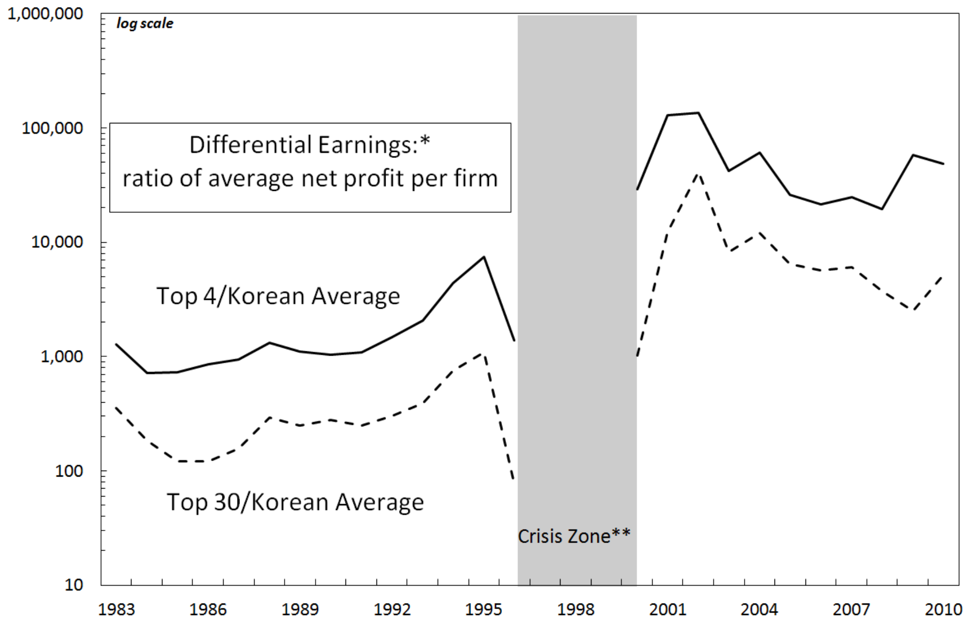

Figure 6 **The Differential Concentration of Corporate Profits**

* The ratio of the average net profit of the *chaebols* to the average net profit of all Korean corporations that are officially registered at the National Tax Service as limited-liability companies.
** The crisis zone is the period during which either the *chaebols*' profit or overall corporate profit was negative. Observations for this period are omitted.

Sources: Fair Trade Commission; National Tax Service.

The chart shows two indices of differential earnings: one for the top four *chaebols*, the other for the top 30 (note the log scale). The indices are computed by dividing the average net profit of dominant capital by the average net profit of all Korean corporations (total corporate profit after taxes divided by the number of tax returns). The data show that, in 1990-1992, the average profit of the top four *chaebols* was 1,191 times larger than that of the average Korean firm (206 billion KRW and 173 million KRW, respectively). In 2007-2009, this ratio had risen to 29,838 (7,141 billion KRW for the *chaebols* compared with 239 million KRW for the Korean average), a 25-fold hike in 20 years. The differential rise for the top 30 *chaebols* was almost as large; during the period, the index rose 22-fold, from 275 to 5,933.[8]

[8] The average profit of the top 30 *chaebols* has risen from 47.5 billion KRW in 1990-1992 to 1,420 billion KRW in 2007-2009.

Korea's dominant capital used the crisis to consolidate its power and redistribute income upward. In the post-1997 era, the influence of the *chaebols* on the government increased conspicuously, so much so that it has become common to refer to Korea as "the Republic of Samsung." In the words of the country's president: "as power has been transferred from the government to the market, the government cannot make policies against the interests of the business world."[9]

To resurrect the Korean *chaebols*, the corporate-government nexus adopted the following strategies: (1) socializing private debt into public debt; (2) undermining labor unions through mass layoffs and increased labor-market flexibility; (3) introducing radical deregulation and liberalization; (4) providing lucrative incentives for foreign capital and the *chaebols* to attract investment; (5) privatizing the country's most profitable state-owned enterprises.[10]

Policymakers propagated these business-friendly policies as inevitable, arguing that they would quicken economic recovery and revitalize the growth engine of Korea. They also suggested that the benefits of economic growth would automatically "trickle down" to the underlying population. And indeed, the aggregate Korean economy has bounced back rapidly from the crisis, but the trickle-down effect has failed to materialize. The recovery has been *differential*, distributed in a way that has greatly amplified income and asset inequality. It seems that economic growth as such has not been the primary concern of the Korean ruling capitalist class. Seen from the viewpoint of capital as power, the post-1997 restructuring served to create a new regime of accumulation. The purpose of this regime, whether latent or conscientious, was to shift Korea from breadth to depth. The underlying goal was not to promote growth, but to eliminate the risk of glut associated with rapid green-field investment and lessen the resulting downward pressure on prices and profit.

Figure 7 shows the differential consequences of this strategy. The chart plots the average earnings per employee of the top 30 *chaebols* relative to the manufacturing sector. We can see that the earnings per employee of both dominant capital and the manufacturing sector as a whole increased significantly after the 1997 crisis. But the respective increases were highly differential. Comparing the period of 2001-2008 to the pre-crisis period of 1988-1995, earnings per employee of the top 30 *chaebols* rose 15-fold (from 2.8 to 43.7 million KRW), whereas the manufacturing average rose only 10-fold (from 1.5 to 15.3 million KRW). All in all, the gap between the two groups increased by 54 percent, from 1.8 to 2.9.

[9] Quotes from Rho Moo Hyun's speech at a meeting to monitor progress in the cooperation between large and small- and medium-sized firms (July 5, 2005).

[10] For instance, Posco, the fifth-largest business group, which is also one of the world's largest steel companies, was privatized in 2000. KT and KT&G, which respectively monopolized the wired communication and tobacco sectors until recently, were privatized in 2002.

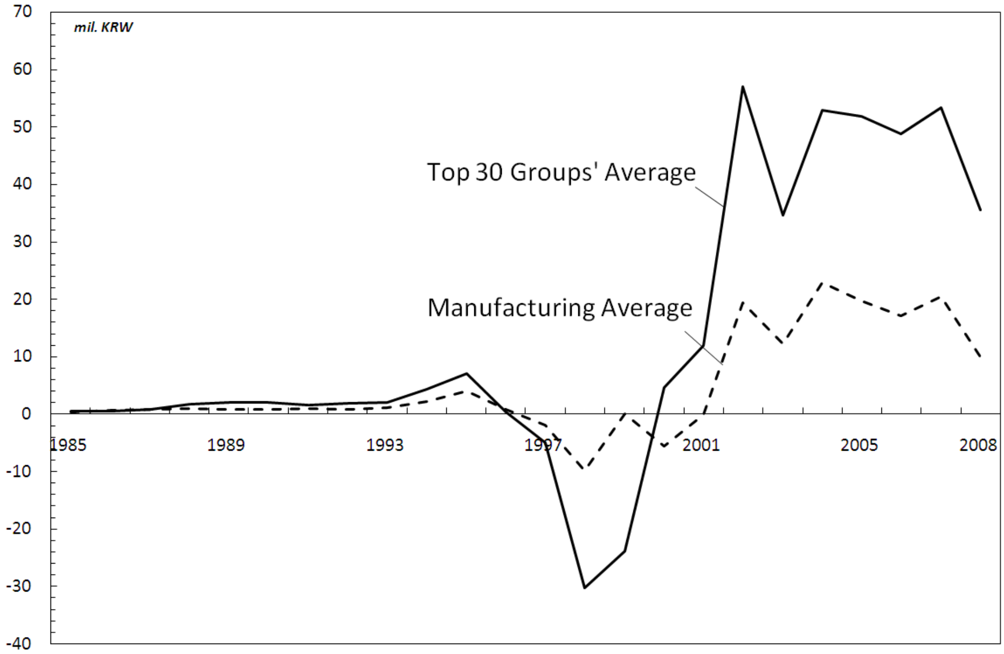

Figure 7 **Comparison of Earnings per Employee**

Sources: Fair Trade Commission; Bank of Korea.

The *chaebols*' increasing reliance on depth is paralleled by their decreased reliance on breadth. Whereas Figure 7 demonstrated the growing significance of differential profit per employee, Figure 8 shows the decreased emphasis on differential employment growth. The chart shows the differential employment of three dominant-capital groups: Samsung, the top four, and the top 30 *chaebols*, all benchmarked against the manufacturing average. Although data for the top 4 and top 30 *chaebols* begin only in the mid-1980s, those for Samsung indicate how rapidly Korea's dominant capital expanded its employment relative to the corporate average up until the 1997 crisis. In 1970, the ratio of employment per firm of Samsung to the manufacturing sector average was 254. By 1997, it was 9,120. In other words, on average, Samsung's annual employment grew 14 percent faster than the manufacturing average. The difference in scale notwithstanding, the top four and the top 30 *chaebols* seem to have followed the same pattern as Samsung. From 1985 to 1996, the ratio of employment per firm of the top four *chaebols* to the manufacturing average grew at an annual rate of 10 percent, while the same proxy for the top 30 *chaebols* grew by 9 percent.

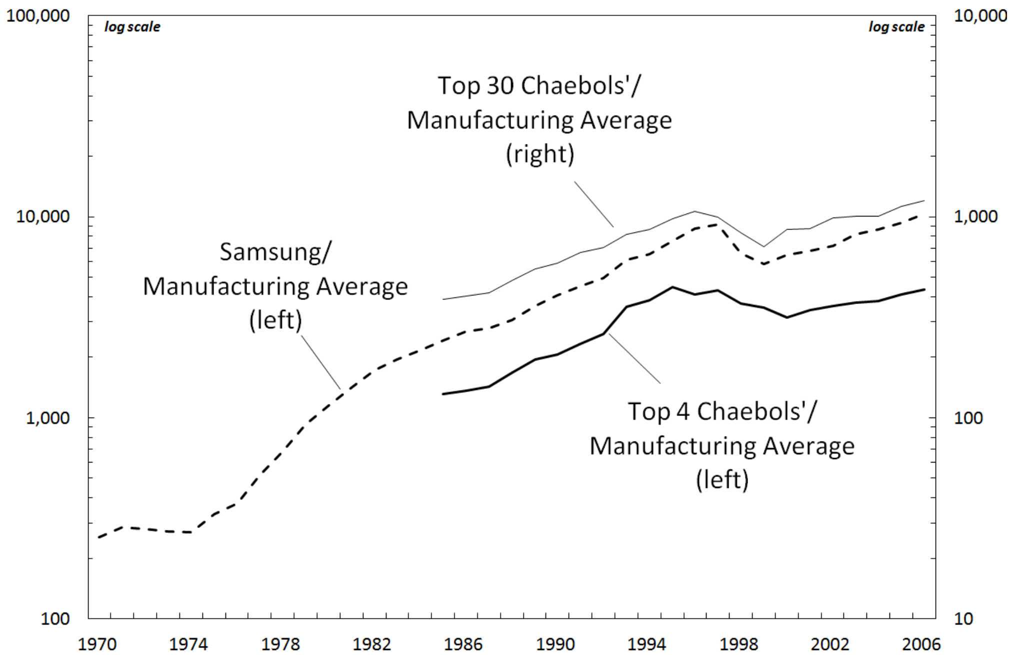

Figure 8 **Differential Employment: The Ratio of the *Chaebols*' Average to the Manufacturing Average**

Sources: Fair Trade Commission; Bank of Korea.

The 1997 crisis broke these uptrends. Within two years, 360,000 workers had been laid off by the top 30 *chaebols*, of whom one-third were accounted for by the top four. Since then, the differential employment of Korean dominant capital has recovered to its 1997 level, but its trajectory remains flat. In recent years, the *chaebols* have been heavily criticized for failing to create employment, but so far these critiques have fallen on deaf ears. With depth having substituted for breadth, the *chaebols* have little reason to risk their massive differential gains in earnings per employee by resurrecting the dangerous pre-crisis regime of differential-employment growth.

5. The Transition to Transnationalized Market Capitalism

The "resurrection" of Korean dominant capital does not mean that the old mode of power was restored; the very nature of the corporate-government nexus has undergone fundamental changes. From the viewpoint of capital as power, the enormous post-1997 rise of the *chaebols*' differential earnings represents the transformation of various institutional arrangements and power relations among social groups. As mentioned earlier, the Korean corporate-government nexus radicalized the post-crisis reform processes of liberalization, deregulation, privatization, and labor flexibilization. In this section, we examine how the Korean ruling class leveraged this restructuring to turn the tables on the domestic population, and how this victory facilitated its integration into the transnational structure of *global absentee ownership*

Ironically, the 1997 crisis was a blessing in disguise for Korea's ruling class: it offered it a golden opportunity to reconsolidate its power. Following the 1987 end of the military dictatorship, the process of democratization and the emergence of organized labor and popular social movements had pushed the ruling class into a corner and robbed dominant capital of the labor obedience and low wages it had previously taken for granted.[11] The 1997 crisis tipped the balance of power from the underlying population back to the rulers. The process of "industrial rationalization" gave dominant capital the green light for mass layoffs.[12] Regular employees have been increasingly displaced by temporary and contingent workers who receive lower wages, enjoy fewer benefits, and have little or no job security. All in all, workers were made to suffer the brunt of the crisis, which, for dominant capital, meant lower costs.

But the benefits for the ruling class extended beyond cost-cutting proper. The crisis enabled dominant capital to divide and rule the underlying population, particularly by sharpening inner divisions and amplifying internal hierarchies within the working class. For instance, according to Y. Kim (2011), while the average hourly wage of regular workers increased by 77 percent, from 8,139 KRW in 2001 to 14,401 in 2010, the average hourly wage of contingent workers rose by only 53 percent, from 4,546 KRW to 6,951 KRW. The wage level of contingent workers decreased from 56 percent of that of regular workers in 2001 to 48 percent in 2010. This increasing income gap widened a solidarity gap between the two groups, which, in turn, has weakened the power of organized labor relative to capital.

The restructuring of domestic power relations coincided with and to some extent facilitated the transnationalization of Korea's dominant capital through the spatial integration of ownership. This latter process was part and parcel of the newly emerged global accumulation regime, which was characterized by high foreign direct investment in emerging markets, capital-market liberalization, and worldwide cross-border mergers and acquisitions. Even though the development of Korean capitalism has been embedded in the global political economy from the very outset, until recently virtually all Korean companies were domestically owned. Since the early 1990s, though, and particularly following the 1997 crisis, the national identity of Korean corporations, especially of the core business groups, was gradually diluted. By the early 2000s, it was no longer possible to refer to dominant capital as a "Korean" business group.

Figure 9 shows the share of foreign ownership in three groups of Korean firms: the top 10 *chaebols*, city banks, and the Korean stock-market capitalization as a whole. The overall trend in all indicators is up. Foreign ownership in the overall market has risen from negligible levels in the early 1990s to roughly 30 percent in the 2000s, while for the top city banks the number rose to roughly 60 percent, up from 35 in 1999. The data for the top 10 *chaebols* indicate a more muted trend; but at roughly 30-40 percent, they surely represent massive increases compared to the early 1990s.

The increase of foreign investment was not confined to the stock market. For instance, the value of gross foreign assets, which comprise cash, deposits, loans, bonds, and equities

[11] Succumbing to popular uprisings that year, dictator Jun Doo-Hwan promised to hand over political power peacefully and democratically.
[12] The Mass Layoff Law was enacted in 1997 and became effective in March, 1999. It provided new discretion to capitalists to dismiss workers for business reasons.

owned by non-residents, also increased rapidly: between 1994 and 2009, it more than tripled, rising from 25 to 82 percent of GDP (Bank of Korea).

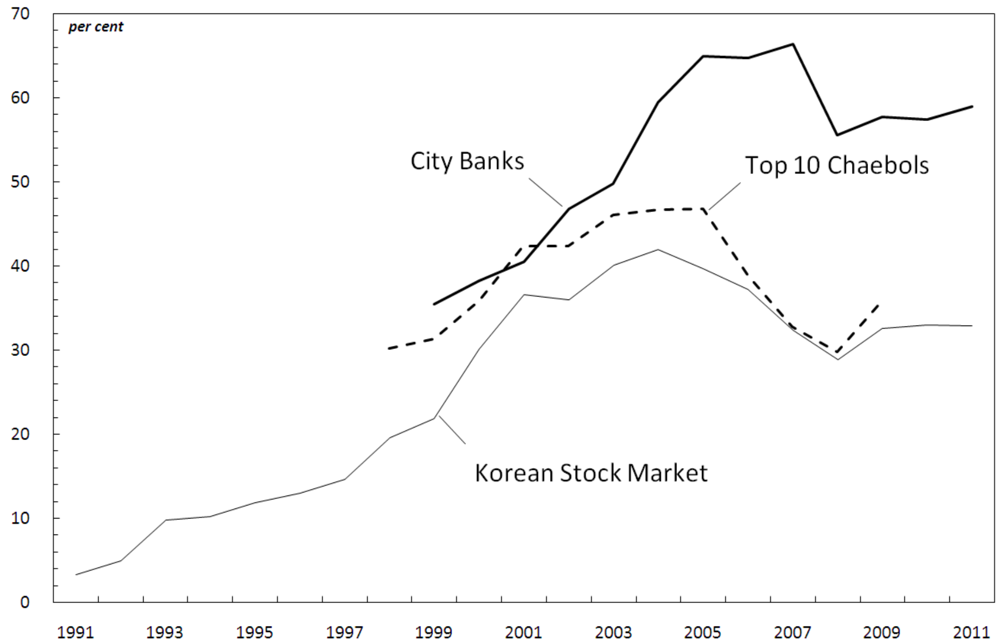

Figure 9 **The Percentage Share of Foreign Investors in the Korean Business Universe in Terms of Market Capitalization**

Sources: Korea Exchange; Financial Supervisory Service; D. Kim (2007).

The particularly high level of foreign ownership in the banking sector symbolizes the transition from state capitalism to market capitalism. During the early 1980s, virtually the entire Korean banking sector was under state control. According to statist developmentalism (*e.g.* Amsden 1989; Woo-Cumings 1991), this "public" banking system played a central role in channelling resources into the industrial sector, thereby promoting rapid economic growth. Nowadays, though, the banking sector is in the hands of foreign investors: as of 2011, the foreign-ownership share of the seven major commercial banks is about 60 percent.

With growing foreign ownership, particularly after the 1997 crisis, the accumulation basis of Korea's dominant capital has become increasingly global. And with accumulation becoming more and more global, the autonomy of the Korean "nation state" has been undermined. Globalization means more than just the free flow of investments. Korea's state organs and institutions have also been amalgamated into the global accumulation process. Through various free-trade and investment agreements, legislative and policy changes have been increasingly shaped by the standards and demands of global dominant capital. Furthermore, Korean government policies have been subordinated to indicators of the country's financial markets, which are themselves increasingly correlated with the ups and downs of the global financial market. This subjugation, in turn, substantially weakens the effectiveness of domestic macroeconomic policies.

The central template of the neoliberal globalization of Korea is the establishment of the “market mechanism” in every corner of society, a process that is often characterized as the “retreat of the state.” This repeated mantra, propagated by policymakers and mainstream economists, has made the “free market” a sacrosanct ideal and state intervention something of a taboo in Korean society. Policymakers and mainstream economists promised that the self-regulating mechanism of the free market would make the Korean economy more efficient and its society fairer and more equitable. That was the popular rationale for the neoliberal reforms. The actual outcome has been very different. The “free market” has meant freedom for the resurrected *chaebols* to exercise strategic sabotage. Suppliers and subcontractors have increasingly complained that dominant capital forces them to endure unfair transaction practices, including the supply of goods and services at “unjustly” low prices, intentional delays of payment, a concerted refusal to deal, and unfair transaction terms.[13] This unlevel playing field has culminated in the massive upward redistribution of earnings, which, in turn, have resulted in the intensification of inequality in Korean society at large. For example, according to the Bank of Korea, the three-year moving average of Korea’s Gini coefficient rose from 0.26 in the early 1990s to 0.31 by the late 2000s, a 21 percent increase. During the same period, the ratio of the income of the highest to the lowest quintiles (expressed as a three-year moving average) increased from 3.8 to 5.7.

6. The Transnational Fusion of Vested Interests

Despite the rapid transnationalization of Korea’s dominant capital, the Korean political economy continues to be understood within the framework of interstate relations. The increasing foreign ownership of the core business group provoked a domestic backlash against foreign investment. Interestingly, the anti-foreign-investment campaigns have been initiated not by the Korean ruling capitalists who, ostensibly, might lose their control over the Korean political economy, but by the advocates of the old corporate-state coalition in the progressive camp (*e.g.* Chang and Jung 2005). As noted earlier, the latter held that foreign investors, pursuing nothing but short-term profits and high dividends, would drain the national wealth and severely weaken Korea’s growth engine. Yet it was Korea’s dominant capital that pushed hardest to liberalize the Korean political economy. For example, in 2006-2012, Hyundai Motors spent \$ 2.7 million on lobbyists in the United States in an attempt to prompt Congress to approve the U.S.-Korea Free Trade Agreement; the Federation of Korean Industries, led by *chaebols*, spent \$1.4 million for the same purpose (*Kookmin Daily*, 3/March/ 2013). Figure 10 may explain why Korea’s ruling capitalists do not oppose but actively pursue the liberalization of capital movements.

[13] For example, the Fair Trade Commission recently accused Samsung Electronics of the illegal unilateral cancellation of parts-purchase contracts (daily news briefing, May 23, 2012: http://www.ftc.go.kr). From January 2008 to November 2010, according to the Fair Trade Commission, Samsung Electronics terminated 28,000 purchasing contracts without any justification. In most of the cases, the goods that Samsung Electronics had ordered had already been prepared when it cancelled the contracts.

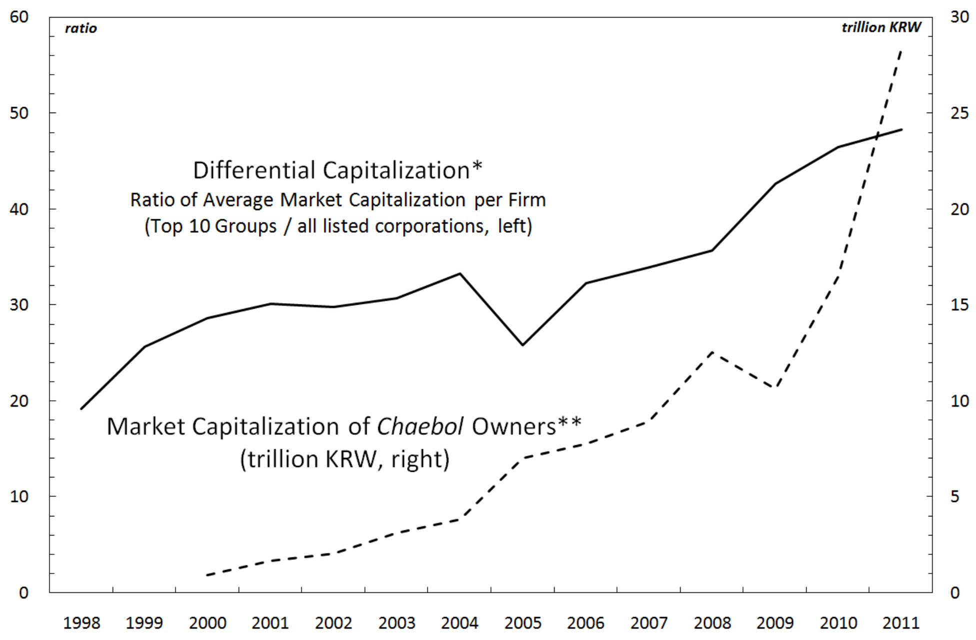

Figure 10 **The Differential Capitalization of the Top 10** ***Chaebols***

* The ratio of the average market capitalization of the top 10 *chaebols* to the average market capitalization of all listed corporations.
** The market value of the stocks owned by the presidents of the top 10 *chaebols*.

Sources: Korea Exchange; Bank of Korea.

The chart shows two series covering the period after the 1997 crisis: the differential capitalization of the top 10 Korean *chaebols* and the market value of the stockholdings owned by the presidents of these *chaebols*. The average capitalization of the top 10 *chaebols* in 1998, a year after the 1997 crisis, was 19 times the capitalization of the average listed company (3.5 trillion KRW vs. 184 billion KRW). By early 2011, this ratio had risen to around 48 (63.6 trillion KRW vs. 1.3 trillion KRW), a 2.5-fold increase over a dozen years.[14] And it is the *chaebol* families more than anyone else that have benefited from this differential capitalization. The market value of the stocks possessed by the primary owners' families as a whole increased from 937 billion KRW in 2000 to 28 trillion KRW in 2011, a more than 30-fold increase!

In addition to their huge capital gains, the primary owners of the top 10 *chaebols* have also received very large dividends. According to the Korean Exchange, the aggregate dividend payments of all listed companies have increased from 3.8 trillion KRW in 2001 to 14 trillion KRW in 2007. Due to the 2008 global financial crisis, dividend payments temporarily dropped to 8.7 trillion KRW. But they have bounced back pretty quickly: in 2010 and 2011 respectively, companies listed on the Korean stock market managed to pay more than 13 tril-

[14] The aggregate concentration of Korean dominant capital, *i.e.* the percentage share of the top 10 *chaebols* in the Korean stock market in terms of market capitalization, also rose from 25.7 percent to 59.3 percent over the same period.

lion KRW in dividends to their shareholders. Dividend payments to foreign investors have a growth trend similar to that of total dividend payments, having increased from 1.2 trillion KRW in 2001 to 5.6 trillion KRW in 2007. Again, the *chaebol* families benefited from the rapid increase in dividend payments more than anyone else. According to *Chaebul.Com*, their dividend income rose from 24 billion KRW in 2001 to 158 billion KRW in 2007, and further to 172 billion KRW in 2011, a more than seven-fold increase.

Advocates of the state-*chaebol* nexus have argued that the rapid increase in dividend payments during the 2000s was led by foreign investors who were interested in nothing but short-term profit. This claim is problematic on two counts. First, the increase in dividends has to be put in relative context. While absolute dividend payments have indeed risen during the neoliberal restructuring process, according to Bank of Korea data the *ratio* of dividend payments to net profits has in fact decreased. While in the 1980s, the average ratio of manufacturing companies' dividend payments to net profit was 32 percent, this rate dropped to 24 percent in the 1990s and to 19 percent in the 2000s. The average ratio of the dividend payments to the market value of all listed companies also decreased from 5.5 percent in the 1980s to 1.9 percent in the 2000s.

Second, it is hard to attribute the absolute increase in dividend payments during the 2000s to "foreign financial capital" as opposed to "domestic industrial capital," if only because the difference between these two categories has become decreasingly relevant. In my view, the rise in dividend payments was driven by the soaring differential earnings of dominant capital, which has itself become increasingly transnational. On the one hand, as the barriers to foreign ownership of domestic stocks were gradually lifted beginning in the early 1990s, foreign investment in the Korean stock market rose and, consequently, the share of dividends in foreign-investment income has increased relative to the share of interest *per annum*. On the other hand, the rapid expansion in the differential earnings of dominant capital led to the increase of dividend income in absolute terms.

7. Conclusion

This paper has attempted to offer an alternative understanding of Korea's neoliberal globalization resulting from the 1997 financial crisis and the radical social restructuring in its wake. The paper challenges the two predominant approaches to Korea's recent social transformation: the frameworks of state *versus* market on the one hand and domestic industrial capital *versus* foreign financial capital on the other. Arguing that these dichotomies preclude us from grasping the nature of Korea's recent social transformation, I have tried to go beyond their limits by adopting Nitzan and Bichler's perspective of capital as power.

The capital-as-power approach is characterized by the following two key premises, which distinguish it from both Marxist and neoclassical approaches. First, the value of a commodity, the profit of a firm, and the accumulation of capital are not based so much on productive activities such as *utils* or labor time but on capitalists' *strategic sabotage* in the Veblenian sense, a deliberate *limitation* on the productive capacity of society and the *exclusion* of other capitalists from business opportunities. Second, this capitalists' politics of exclusion is quantified in their relative claims on nominal income streams and discounted assets. Nitzan and Bichler's approach has allowed us to build a bridge, tentative but nonetheless meaningful, between the huge increases in the differential accumulation of the Korean *chaebols* and the consolidation of the power of Korea's ruling class in the wake of the 1997 crisis. It is this expansion of differential accumulation (read power) through the intensification of strategic sabotage that has resulted in the reduction of green-field investment and the escalation of social inequality, relative to the pre-1997 period. Nitzan and Bichler's approach has also enabled us to explore the incorporation of Korean dominant capital into the transnational structure of global absentee ownership.

The 1997 crisis tested Korean dominant capital, but it also offered it a good opportunity. Neoliberal restructuring, which accelerated after the crisis, has culminated in massive differential profits and capitalization for dominant capital. Furthermore, it was the Korean *chaebol* families, more than any other social group, that benefited from the restructuring process. Contrary to the argument made by advocates of developmental statism, the transnationalization of ownership has actually strengthened, not weakened, these families' power. Their success in expanding their power over society should be attributed not to good luck, but to their active engagement in the restructuring of society. In other words, the massive differential profits and accumulation of the transnationalized *chaebols* in the post-1997 period should be understood as a consequence of power restructuring. On the one hand, by increasing complex cross-holdings, these families have leveraged the enormous inflows of foreign investment without losing their managerial grip on dominant capital. On the other hand, by taking advantage of and later aggravating the increased job insecurity after the 1997 crisis, they have regained the upper hand over labor, which has, in turn, led to the intensification of inequality in Korean society at large.

"Battle lines" should be drawn not between "domestic industrial capital" and "foreign financial capital," but between transnationalized dominant capital and the underlying population. In the aftermath of the 1997 crisis, the Korean ruling class accelerated neoliberal deregulation, liberalization, and labor flexibilization. Through these institutional rearrangements, Korea's ruling class, transcending its parochial boundaries, has turned itself into a group of global absentee owners; Korean society has become increasingly integrated into the global mega-machine of differential accumulation. Consequently, the interests of "domestic capital" are inseparably fused with those of "foreign capital." They have become amalgamated in a single bloc of transnationalized dominant capital that pursues the accumulation of power over society.

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