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ECONOMIC GROWTH, LOW INCOME AND HOUSING IN S.KOREA

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Economic Growth, Low Income and Housing in S.Korea.

By
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A thesis submitted for the degree of Doctor of Philosophy to the Department of
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ABSTRACT

When S.Korea was liberated from Japan and soon partitioned between the South and the North in 1945, she was one of the world's poorest countries. The Korean War (1950-1953) had a profound impact on S.Korean society. Hunger became even more routine and famine very common. After the military revolution in 1960 onwards the S.Korean government consistently continued a "growth-first approach" to promote rapid economic development which could then generate resources to raise the living standards of those on low incomes, rather than a selective and targeted approach which involved extensive public action to improve the circumstances of destitute people. Since this time S.Korea began to be counted as a rapidly industrialising country. In 1960, about 65.9 per cent of the labour force in S.Korea was engaged in agriculture and a mere 9.2 per cent in the mining, manufacturing and construction sectors. In 1990, only 19.5 per cent of the labour force was engaged in agriculture and 34.7 per cent in the mining, manufacturing and construction sectors. Even in industry, the structure of the industry has changed from labour-intensive industry, such as textiles and shoes, to capital and skill-intensive industry, such as shipbuilding, automobiles and electronics. In 1960, the urban share of total population was 28.0 per cent. This figure grew to 74.4 per cent in 1990. All these were accompanied by changes in occupation, social class, even the way of life. Even within the house itself, the change in the use of fuel from timber to gas and electricity was accompanied by a dramatic change in the design and structure of housing.

S.Korea's rate of economic growth since 1960 has few parallels in the world. It has often been called an "economic miracle". Moreover, equality in S.Korea with a rapidly growing economy was enough to challenge the conventional economic wisdom that a tradeoff has to be made between augmenting growth and reducing inequality. Nevertheless, over 28 per cent of urban households, with an average of 3.7 persons, live in only one room. Several extreme cases related to housing, such as suicide because of increased rents, *Mock-Dong*, *Sadang-Dong* and *Sangge-Dong* tenant struggles and new squatter settlements are emerging in recent years. Thus, the main purpose of this research is empirical: to arrive at a better understanding of the

housing problems of low-income households in the big cities of a rapidly growing economy.

In a rapidly changing society to achieve a greater understanding of the housing problems of low income households and the housing policies of the past and present, and ideally to predict or even influence the future, it is necessary to analyse and comprehend many aspects of the changing economic, social and political structure historically. Thus, another purpose of this research is to explore the relationship between economic development and social development in S.Korea, particularly on the relationships to be seen through the "lens" offered by the housing sector of the economy. The other purpose of this research is to explore the function of housing in the relationship between economic and social development for different people at different stages of economic and urban growth.

This research tries to unravel the interaction of economic changes, social changes and changes in housing, and to explore the implication of the changed housing conditions of low income households for economic, social and political structures. Thus, it draws upon material from a wide variety of intellectual, cultural and historical contexts.

The thesis concludes with a summary of its findings, and a brief exploration of the new challenges facing a changing generation and the implications of the reunification which now seems increasingly likely. It is high time to make a fundamental re-examination of housing policies if Korea is not to become a divided society instead of a divided country.

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ABBREVIATIONS

AID	Agency for International Development
BOK	Bank of Korea
CPCLO	Commission on the Public Concept of Land Ownership
EPB	Economic Planning Board
GDP	Gross Domestic Product
GNP	Gross National Product
HLD	Housing Lot Development
HISD	Housing Instalment Savings Deposits
HSTD	Housing Subscription Time Deposits
KCCI	Korea Chamber of Commerce and Industry
KDI	Korea Development Institute
KHB	Korea Housing Bank
KICT	Korea Institute of Construction Technology
KLDC	Korea Land Development Corporation
KNHC	Korea National Housing Corporation
KOTRA	Korean Trade Promotion Corporation
KRIHS	Korea Research Institute for Human Settlements
LPP	Livelihood Protection Programme
LRP	Land Readjustment Project
MHA	Ministry of Home Affairs
MHSA	Ministry of Health and Social Affairs
MOC	Ministry of Construction
MOL	Ministry of Labour
NACF	National Agricultural Cooperative Federation
NHF	National Housing Funds
NHSSD	National Housing Subscription Saving Deposit
NSO	National Statistics Office
R&D	Research and Development
UNKRA	United Nations Korea Reconstruction Agency

CHAPTER I. INTRODUCTION

1.1. Background to the Study.

One primary reason for desiring economic growth is to raise the general living standards of the population. Many studies and theories have suggested and confirmed that in a poor country, economic growth is the first and necessary step for the well-being of all people, and some people have assumed that the benefits of economic growth will eventually "trickle down" to even the poorest people, and thereby non-income problems such as housing would be solved by increased national and household incomes.

The economic growth of S. Korea has often been called an "economic miracle". Income and productivity growth, life expectancy, literacy, life expectations, etc., dramatically increased and improved. For instance, in 1960, per capita GNP in S.Korea was US\$ 79. This figure increased to US\$ 5,659 in 1990. The proportion of expenditure by the average S. Korean household devoted to necessities such as food, clothing and footwear has substantially decreased and the standards of such necessities have been dramatically improved.

But, behind this picture of average growth and progress in S. Korea, the World Bank estimated about 5 per cent of S.Koreans (about 217,600 persons) were still living in absolute poverty in 1990. There were 28.8 per cent of households using only one room, 1 per cent and 0.4 per cent of households living without a kitchen and even a toilet in cities in 1990. Furthermore, there were 3.5 per cent of urban households living in buildings not intended for human habitation. Yet total output of housing was very high, achieving annually a 6 per cent increase in urban housing stock during the period 1960-1990. Average monthly housing expenditure as a percentage of household income in cities has been steadily and rapidly increasing over time. In 1965 the average urban household spent only about 13.8 per cent of their income on housing consumption costs. By 1988 that figure had increased to 30.9 per cent.

It is apparent that, in general, the lower the income and the greater the number of dependent people in a household, the smaller the proportion of income they can afford for housing. However, according to the Korea National Housing Corporation's report (1983), in certain poor housing areas, some low-income households living in rented houses with over two dependents spend up to 63 per cent of their incomes on housing consumption costs. In June, 1991, there were several frustrated households who committed suicide because they were unable to pay the increased rents. Furthermore, new squatter settlements, which had almost disappeared in the early 1980s, began to appear again in the biggest cities.

Two things are clear in S. Korea; firstly, on average, most aspects of living conditions have substantially improved, but those of some people have worsened; secondly, unlike other commodities, housing in S.Korea appears to have special features not present in other commodities. Lower income households are paying more and more for what is not becoming better and better, and this despite rapid economic growth and very high total output of housing. This situation poses several questions:

- 1) Are the housing situations of low-income households an unfortunate, and probably temporary, effect of urban growth in any rapidly growing economy, or are they due to the general structure of S.Korea's social, economic, political and housing system?*
- 2) Is poor housing simply a symptom of low income, or does the housing system itself cause low income?*
- 3) Are these situations the temporary and inevitable costs of economic growth, or are they becoming structural under present systems as time goes by?*
- 4) Will the benefits of economic growth eventually "trickle down" to even the poorest people?*

1.2 Research Purpose and Direction.

The main purpose of this research is empirical: to arrive at a better understanding of the housing problems of households with low incomes, particularly in the big cities of a rapidly growing economy, in S.Korea. It may be first required to consider the nature of housing problems and the definition of low-income households.

1.2.1 The Housing Problem.

Housing is often called 'shelter', but shelter itself is only a part of what is meant by a house. The simple function of shelter from the elements such as rain, wind and enemies is a relatively minor aspect of a house. The meaning of a house contains not only the physical unit, but also a place of privacy and a collection of rights and duties, which may be distributed in various ways among various people in a different form in a each society.

Housing has many different characteristics from other consumer goods and it has many characteristics of private goods and public goods too. The period of production is particularly long because of the nature of the building process and the need for land which is a very limited resource and not elastic to demands. Thus there are high risks

to realise surplus value (or profit) and it takes a long time to begin a new circuit of production. Houses, unlike other consumer goods, cannot move between areas and regions in response to change in needs or demands.

The price of housing is very expensive in relation to the income of the vast majority of households. Thus, equity accumulation in housing is the largest means of saving for the vast majority of households. Most households are unable to purchase houses outright and can only pay for them as they consume them over an extended period of time, making for a unique financial system. Housing has relatively high transaction costs, involving advertising, agents' commission, legal charges, survey fees and moving costs. This acts as one of the discouragements to exchange (or mobility) unlike other consumer goods. Therefore, when housing consumption costs go up, it is not easy to substitute cheaper housing, at least in the short run. Moreover, in general, the consumption of housing is by a household not an individual, and the proportion of economically active and dependent members of the household varies at each stage of the life-cycle. So their housing needs and their capacity to pay vary at each stage of the life-cycle.

Housing consumption does not mean the consumption of the housing unit itself. Housing affords a package or bundle of facilities, including the environment of the area or region. This means on the one hand that the preference for housing and the price of housing largely depend not only upon the quality of the housing unit itself, but also upon the environment and location. On the other hand, in the context of urban decay, the neglect of an individual house can affect neighbours and the immediate community by imposing social costs on other local residents. In addition to this, in theory the economies of scale are consistent with most commodities of private production, but when considering environmental amenities or public facilities and services as a part of housing, no suitable large scale entrepreneur may be available.

The excess demand induces a variety of non-price adjustments, such as discouraged movement, reduced household formation or increased occupational densities which are difficult to monitor and this may diffuse and reduce the clarity of price signals to suppliers. Nevertheless, housing obviously has some different characteristics from other social services such as education and health. Housing has the nature of being both a commodity and a private good. This means that this 'service' lends itself more readily to market provision than so many other aspects of welfare. Housing, hence, seemed the most appropriate welfare commodity to lead the U.K.'s privatisation drive, since it is the one welfare service whose benefits are continuously and individually experienced (Whitehead, 1984).

At a macro level, housing construction (supply) and consumption (demand) do not only depend on the physical structure itself. There are various important facilities within housing such as TV, freezer, etc and outside the house such as street lighting, piped water systems, etc. Housing supply and demands affect the vast industry of a nation. Therefore, investment in housing can have an important impact on income and employment through the utilization of unemployed or underemployed workers. In fact, in S.Korea, housing represented 4.1 per cent of national output in 1988 (Lee M-S, 1992); according to the Bank of Korea, housing makes up one fourth of gross investment in fixed capital in the economy (KHB, 1993) and construction employs 1.3 million people, equivalent to 7.4 per cent of the total employed (NSO, Monthly Statistics of Korea, 1992). Multiplier linkages through the economy can be substantial. In addition to this, housing has important social dimensions. It is often argued that housing mediates, sustains or ameliorates some wider aspects of deprivation. As Edwin Chadwick (1842) argued, 'low moral standards' were a consequence rather than a cause of poor housing environment.

The nature of housing is a complex one to define in a simple manner. Therefore, for different kinds of people - rich, poor; young, old; etc - and different kinds of countries - socialist, capitalist; developing, developed; etc - different emphases and interpretations would be appropriate. So 'housing' means different things to different people and countries, and to the same people and countries at different times. What, therefore, are housing problems? According to the traditional housing policy aim, "a decent home for all families at a price within their means", housing problems seem to be essentially about quality, quantity and price.

First, housing problems can be assessed by asking how many houses are '*unfit for human habitation*' or '*below tolerable standard*'. How is it possible to decide which house is unfit for human habitation or below tolerable standard? Most countries explicitly or implicitly establish minimum standards (in capitalist countries) and minimum requirements (in socialist countries). These standards differ from country to country and tend to be changed from time to time. The distinction between the definition used by the Census Bureau of the U.S.A. in 1960 and 1970 provides evidence of this (Morris and Winter, 1978, p.84). The 1960 concept of kitchen facilities was a kitchen or cooking equipment. A kitchen was a room used primarily for cooking and meal preparation; cooking equipment was defined as a range or stove, whether or not regularly used, or other equipment such as a hotplate regularly used to prepare meals. The 1970 concept of kitchen facilities includes complete kitchen facilities, defined as including a sink with piped water, a range or cook stove, and a refrigerator. These facilities must be located in the same building as the living quarters but need not be all in the same room. Thus in ten years one of the definitions

of a housing unit has drastically changed, from a room with merely a hotplate, to a kitchen, complete with running water, a refrigerator, and a range. In the socialist countries, like capitalist countries, minimum requirements have been altered as socio-economic conditions change. For instance, in 1919 the minimum space in the USSR was 8.25 sq. m of floor space and 30 cubic metre of air space for each adult and 20 cubic metre for children under 14 years of age. In 1926 the floor space in the minimum requirement was enlarged to 9 sq. m. On the other hand, the minimum requirement of China was still 8 sq. m. So, the UN(1977, p.3) has declared that housing standards should be guided by a nation's own climatic, economic, technical and social circumstances.

Secondly, in S.Korea, during the last three decades, 'housing shortage' has always been regarded as the first and most fundamental housing problem (EPB, 1992, p.2). The housing shortage in S.Korea has been defined as a shortfall of housing units compared to number of households, but this takes no account of size, location, quality, amenities or age of the house, or the characteristics, size and composition of the household. In a freely competitive market a shortage may be defined as an excessive demand at the prevailing price such that market forces will raise the price until demand and supply are once more in better equilibrium at a new and higher price. Hence, an economic shortage will be eliminated but this does not deny that those unwilling or unable to pay the new price will go without. However, if society believes that everyone should be housed above a given housing standard then this adds a new perspective to the meaning of shortage, for in the free market many people may be unable (or even unwilling) to acquire the amount and quality of accommodation considered 'socially desirable'.

Furthermore, in India and Africa there are many who sleep in the streets or in open country, not only because of housing deficits but also because of the climate. While summers in S.Korea are hot and humid, with July temperatures rising to 36 C, the winter of S.Korea brings the thermometer down below freezing-point. For instance, in January temperatures fall to below -13 C in the mountains. For much of the year, therefore, street sleeping would be impossible. So homelessness, in the sense of "rooflessness", is rare, providing different perceptions of the housing problem from those in India and Africa.

Thirdly, in S.Korea, although there are no explicit official lines, the generally accepted standard for determining 'high rent burden' is that any household paying over about 25 per cent of household income for housing is spending more than it should be (KNHC). However, this is, in fact, unrealistic. For some households, 10 per cent of their income is too much to have to spend for housing. For some, even 1

per cent is too much if they are to meet their other needs out of their meagre incomes.

Therefore, no one can tell in what respect and to what degree specified housing is deficient and problematic, and what number of households in a country have serious housing problems. Since housing problems are difficult to define and measure, the policies for tackling them may be equally difficult to plan and evaluate. Moreover, the inter-relationship between different sectors is very marked in housing. Housing is closely influenced by the large number of issues which are neither housing policy nor housing market behaviour. Statutory minimum standards, subsidies, eligibility rules for mortgages, price controls, various taxes, slum clearance, land use controls, urban policy, regional development, even monetary policy etc, - some of these may not normally be regarded as instruments of 'housing policy' but they nevertheless exert a great influence upon housing. Moreover, as mentioned earlier, the impact of housing is not confined to the housing sector alone. The most commonly discussed impacts envisage housing acting as a barrier to productivity of workers and to mobility, as a cause of misery, as a measure of economic growth and as a measure of the redistribution of wealth or income.

One important implication of the complicated characteristics of housing and the broader inter-relationship between different sectors in housing is the potential for conflict between different housing policies affecting different social groups. Professor Donnison (1967, p.86 quoted in Cullingworth, 1973, p.40) has deftly illustrated this:

A policy of housing those in most urgent need may conflict with a policy of replacing the worst houses, and both may conflict with a policy for stimulating demand through subsidies directed to those who are most likely to be persuaded by such help to build or buy homes for themselves: different people will benefit from the pursuit of each of these objectives. An attempt to keep pace with the housing needs of expanding industrial centres may conflict with an attempt to revive poverty stricken regions. A policy designed to improve productivity in the building industry may not be best suited for eliminating unemployment in the building trades. A policy designed to eliminate rent controls and create a 'free market' in housing may conflict with the need to avoid inflation of living costs and wages. Every country's housing policies contain the seeds of several such conflicts, for housing is so central a feature of the economy and the way of life it supports that many of the competing aspirations at work in society gain some expression in this field".

And he (1982, pp.13-4) emphasized, " *Housing problems can be solved, and many have been. But the solution of one problem focuses attention on others*".

Housing is the area where the government is involved in every aspect. In every country the government may be involved in the various housing markets in a different fashion within the social context in which there are always acute choices between the well-being of the current generation and of its heirs, and between the well-being of

one social group and another. It may be very hard to choose the best mix of policies to achieve particular objectives. Under these circumstances, the government's policy or programme would inevitably be influenced by keen political competition for limited resources, whether in absolute or relative terms. Therefore, housing policies should not be isolated from the changing social structure.

1.2.2 Low Incomes.

Low income and poverty can be defined as the living standards of 20 or 30 per cent of people in the lowest income bands or poverty can be viewed as mere physical subsistence (Rowntree, 1901, 1941 and 1951), as the inability to participate in certain forms of social interaction within a society of changing norms and customs (Abel-Smith and Townsend, 1965 and Townsend, 1979) or as deprivation with respect to certain basic needs or capabilities (Sen, 1986). These are quite different conceptions of low income (or poverty) with quite different consequences for how it is identified.

In Korea, the underground market (or curb market) accounts for about 20-30 per cent of GNP and remittance income is often a major source of household income in some households. Hence, the concept of income should be carefully defined. Even then, such estimates do not take into account certain types of income which must be included for an accurate picture. These include employers' national insurance contributions, benefits in kind as provided by both the employers and the state (e.g. school, public services, etc.), transactions in the informal economy which are particularly important for low-income households and benefits received in the form of expense-account living which have become increasingly important for high salary earners as a means of "topping up" salaries.

Furthermore, people at the bottom of the income distribution in Korea may not see themselves as poor, particularly if they make comparisons with the hunger and starvation of the 1950s and 1960s. Indeed, the poverty line drawn by the poor themselves was far lower than the poverty line drawn by the government (KRIHS, 1989, p.121)

To some extent, since the launch of housing related saving schemes in 1978, which gave preferential purchasing rights for new housing to the housing related saving account holders at controlled prices, many families have divided their members and registered as new legal households yet continue to live with the same source of income. Therefore, another conceptual problem in analysing low income is the basic unit for which the information should be gathered: is it the individual, the nuclear family or the household?

More importantly, the period over which resources should be measured should also be carefully considered. In Korea's rapidly changing society in which economic

growth, general price increases and social mobility were high, the poverty problem which is limited to those who are currently poor had less meaning than in a stable society. There has been a broader range of chances for people, as well as a broader pool of people at risk of being included in low income definitions. As Orshansky (1969) stated, "*Counting the poor is an exercise in the art of the possible. For deciding who is poor, prayers are more relevant than calculations because poverty, like beauty, lies in the eye of the beholder*" (quoted in Walker and Walker, 1994, p.43)

All these imply that low income is inevitably a political and moral concept, and thus inherently a disputable one. Since the term itself portrays a negative image of society, it implies, and requires, some social actions, which depend upon political negotiations. Various definitions of low income may be made in order to justify new and different policy actions. To select one rather than another definition would thus lead to a very different approach to both the problem and the solution of low income. This research is not designed to define poverty and measure the poor, but to explore who are the more vulnerable in a rapidly changing society.

Prior to the Korean War (1950-53), S.Korea was one of the world's poorest countries. The War brought about more serious and widespread hunger and famine. Until 1960, about half of the population lived in absolute poverty. National poverty was the main low-income issue.

After the launch of the First Economic Development Five-year Plan (1962-66), S.Korea has been celebrated as an exemplary case of a rapidly industrializing country in the Third World. Industrial growth was concentrated on cities and the disparity of income between urban areas and rural areas has been widened. Although basic infrastructure, amenities and public services were inadequate everywhere, rural poverty became the main low-income issue, which pushed a great number of people out of rural areas.

Although the economic growth of S.Korea remained rapid, the industrialization could not successfully cope with the rapid urbanisation, coupled with a rapid increase in the population. The most visible consequence of industry's inability in urban areas to provide adequate employment for such a rapidly growing labour force was the increase of the informal sector and street economy. The common characteristics of workers in those sectors was their low incomes, identifying them as the core of the poverty issue.

Since the mid-1970s, the industrial structure of S.Korea has been gradually modified from labour-intensive export industry towards capital and skill-intensive export industry. S.Korean firms began to reorganize on the basis of subcontract as the emergence of China and South Asia countries has squeezed S.Korea out of the low

end of international markets. Although economic growth of S.Korea steadily and rapidly continued, big factories moved out of the biggest cities and new manufacturing industry tended to locate out of them.

A great number of unskilled or less skilled workers who could not keep pace with the changes have fallen out of work or into non-standard employments. A new low-income issue emerged. The most serious problem is that this stage of the low-income problem is not frictional or cyclical, but structural.

1.2.3. Housing Problems of People with Low Incomes.

Urban poor housing conditions, such as overcrowding, lack of facilities and security, and physical decay, have always been regarded as housing problems of low-income households. However, it may be questioned whether low income households really want a high-standard house at the expense of other necessities and savings for the future. Indeed, a high-standard house and the improvement of houses did not have a high priority among dwellers in poor houses. For them the most important thing was reducing housing consumption costs (KNHC, 1983, p.118). Furthermore, can poor housing always be assumed to be problematic? Evidence from *Sadang 2-Dong*, called *Bulryang Chon* or an unauthorized settlement area in Seoul, which drew attention to the close-knit social structure which allowed the urban poor to survive because economic exchange networks underpinned social networks shows that poor housing itself is not problematic (Hur S-L, 1989). One household may endure substandard housing conditions at low rent in order to be able to acquire other necessities of life, while a second household may do just the opposite, sacrificing nonhousing essentials so as to occupy a decent home. It is inconsistent to suggest that the first is deprived and a problem, but the other is not. Both households do have a low-income problem. Only in the first case, though, does the problem manifest itself in the form of occupancy of a substandard house.

Throughout industrialisation and urbanisation, some were excluded from the main source of economic security - well paid employment in urban areas - and, therefore, are disenfranchised as consumers from the new forms of consumption emerging at an ever faster rate. Industrialisation was represented by the establishment of manufacturing factories which gave full-time gainful employment not only to men but also to women and children who in rural area rarely enjoyed more than seasonal or part-time work for pay. There was a serious housing deficit, but they were immune, at least from housing consumption costs, until the mid-1960s because they could build their house by themselves. Thus, the main housing problem of low-income households was the quality and size of the dwelling.

After the mid-1960s, with the emergence of underemployment, the increase of the informal sector and a street economy, the core of housing problems changed from the dwellings towards the dwellers and their low incomes.

Since the mid-1970s, there have been rapid increases in irregular workers and in house prices. Housing policy has been further focused on owner-occupation. Housing problems of low-income households began to combine dwelling problems and dweller problems.

All these are puzzles or paradoxes when viewed in isolation. Housing problems of low-income households are likely to arise from the operation of a broad range of social, economic and political processes, as well as housing processes.

1.2.4. Housing Policy for People with Low Incomes.

The question raised here is whether government's policy represents the needs and the problems of low-income households in theory.

It was quite clear that in poor countries economic growth was a necessary condition for eradicating social problems including housing problems related to low income. One of primary reasons for desiring economic growth was that economic growth makes it possible for those on low incomes to avoid a miserable life without reducing the living standards of others.

As Professor Donnison (1982, p.13) explains, "*Housing policy is any sustained course of action designed to affect housing conditions. It need not even be designed to improve these conditions: sometimes governments deliberately restrain investment in housing for the benefit of other sectors of the economy*". In this respect, there are two approaches towards solving housing problems related to low income households. One approach can be called a growth-first approach which refers to promoting rapid economic development which could then generate resources to improve overall well-being. It is based on the assumption that a proportion of increased income would be channelled into public services intended to raise the living standards of those on low incomes, which would be politically easier when the economy continues to grow. This involves social development alongside economic development. The other can be called a selective and targeted approach which involved extensive public action to improve the circumstances of certain destitute people. The latter was advocated in many developing countries by the international community under the name of a basic need approach on the assumption that policies sharply focused on basic needs are, in principle, capable of eradicating some of the worst aspects of poverty fairly quickly. The improved education, housing and health of the targeted group can make a major contribution to increased productivity. To some extent, adequate standards of nutrition, health, shelter, water and sanitation, education and other essentials can

make a major contribution to increased productivity. Thus economic growth and social development could have a momentum through linkages and multiple effects (Streeten, 1981).

In S.Korea, after the military revolution in 1960 onwards the government consistently continued the "growth-first" approach. As Kim K-D (1979) pointed out, *"Economic growth represented by the principle of growth-first-redistribution-later was the philosophy of national policy"*. Since the launch of the First Economic Development Five-year Plan (1962-66), the economic growth of S. Korea has often been called an "economic miracle". S.Korea achieved nearly full employment. Income and productivity growth, life expectancy, literacy, mortality, etc. were all indicators of an outstandingly successful example in developing countries (World Bank, various years). The relative equality achieved in S.Korea with a rapidly growing economy was enough to challenge the criticism. Moreover, there have been no mortgage markets, no tax relief, no public housing and no rent allowances or rebates. Nevertheless, over half of households in S.Korea possessed their own houses. Over the last three decades, government investment in the housing sector has only accounted for 1.4 per cent of the government's budget. Nevertheless, housing stocks in urban areas have continuously increased at over 6 per cent per year during the last three decades. Housing was, as I shall show, more evenly distributed through households in different income levels and occupations than lands and monetary assets. Housing standards such as density and amenities were all improved on average.

In contrast, the poverty issue is becoming the central focus of political and social debates. Moreover, several extreme cases, of kinds which the government intended economic growth would avoid, related to housing, such as suicide because of the increased rents, *Mock-Dong* and *Sadang-Dong* tenant struggles and new squatter settlements emerging in recent years. Is the cake not large enough? It is more likely that although the link between problems and the government's response to them has not always been obvious nor has the relationship always been appropriate, nevertheless it exists to a greater or lesser extent. It is more likely that the definition of a situation as a social problem and policy as a social solution related to the power structure of society.

Put simply, as a working definition of this research, power refers to the ability to produce a distinctive set of life chances and exclusion refers to the lack of ability to change the existing set of life chances. These patterns of power and exclusion occur not only through the operation of housing markets, but also labour markets and the socio-political process. Thus, if there is one dominant theme in this research, it is the need consciously to integrate housing into broader issues of social structure.

1.2.5 Research Direction.

These arguments mean that the fundamental question is what was the power structure in S.Korea and how has it developed? When Korea was liberated from Japan and soon partitioned between the South and North, S.Korea was an agricultural society. In 1945, about 80 per cent of the labour force in S.Korea was engaged in agriculture and less than 3 per cent in the mining, manufacturing and construction sector. Under these circumstances, two land reforms in 1947 and 1949 meant the collapse of a traditional social order based on land, especially a rice cultivating society, and the start of a new social order. Furthermore, the Korean War (1950-1953) had a profound impact on S.Korean society, destroying existing capital stocks and levelling out the distribution of non-agricultural assets, with the majority of Koreans in destitution. In 1960, S.Korea experienced another massive change by the military revolution. The military government adopted a currency reform and nationalised commercial banks. The Economic Development Five-year Plan, which combined the planning function with the budgeting process, was first launched in 1962. Since this time S.Korea began to be counted as a rapidly industrialising country. In 1990, only 19.5 per cent of the labour force was engaged in agriculture and 34.7 per cent in the mining, manufacturing and the construction sector. Even industry has changed from a labour-intensive structure for production of goods such as textiles and shoes, to capital and skill-intensive industry, such as shipbuilding, automobiles and electronics. Until the early 1960s, S.Korea was a rural society in which 72 per cent of the population lived in rural areas. In 1990, more than 74 per cent of the population lived in cities with a population of over 50,000. All these were accompanied by changes in occupation, social class, even the way of life.

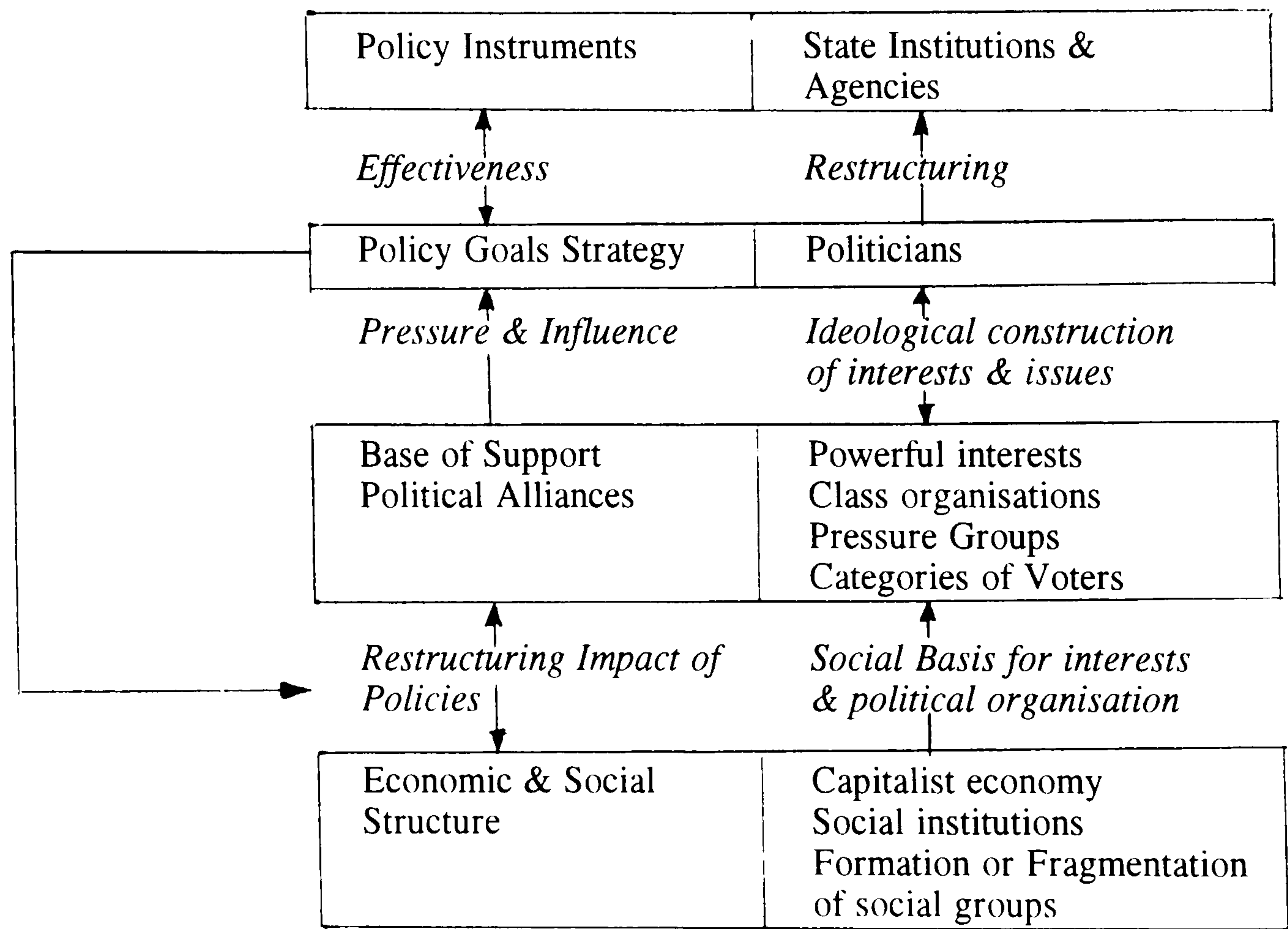
Furthermore, the contemporary S.Korea is still changing in such profound ways that the accounts of social life offered by "classical" theorists - above all Marx, Weber and Durkeim - are likely to be an obstruction to understanding. Similarly, the nature and limits of state action cannot be settled on abstract grounds of principle. For instance, occupation, as the basis for constructing class categories, has always been anathema to class analysts in S.Korea (see Kim Y-M, 1982; Hong D-S, 1983; Sur K-M, 1984; Koo H-K, 1985 and Kwon S-W *et.al.*, 1992). This raises many difficult issues for analysis of the power structure or class structure because of the rapid changes in industrial structure and occupation in less than a half century. Their common conclusion is that social class in Korea has not yet formed, it is still in the process of formation.

These rapid changes - in every aspect - make it more difficult to analyse housing on the basis of conventional accounts which often apply to the most advanced and stable countries, such as the market analysis based on neoclassical economics, state-centred

social policy analysis, a consumption approach based on the labour market, the structure of housing provision approach, etc. In other words, the housing market, problems and policies in S.Korea cannot be appropriately understood prior to examining the general changes in the S.Korean society. Thus, the starting point here is to avoid relying on a theoretical framework by which the society and the role of the state are assumed to be fixed according to a certain ideological stance.

The key route to power in S.Korea has been, on the one hand, in and through the state, but the state is not a source of power in its own right. On the other hand, those in government were using a degree of autonomy to actually recast the basis of social power on which the state rests. Skocpol's statements are more likely the case in S.Korea, "*to talk of states as actors involves a recognition that they can formulate and pursue goals that are not simply reflective of the demands or interests of social groups, classes or society*"(quoted in Bonnett, K., 1994, p.26). The Figure below drawn by Bonnett (1994) portrays these links and gives a framework for understanding how the different dimensions of the government and society relate in the development of a power structure in S.Korea and the associated political processes.

Figure 1-1 Dimensions of Political Change.



Source: Bonnett, K., 1994, p.28.

It must be emphasised that this research is not intended to establish a form of political determinism but to understand how political factors combine with economic

and cultural factors to determine historical patterns of development in Korea, particularly exploring the relationships to be seen through the 'lens' offered by the housing sector. The general conclusion is that housing policy in S.Korea reflects the power structure in society, under the impact of major changes in economic, social and political restructuring and relationships. These patterns, then, tend to support and solidify the existing structures.

A further conclusion, developed in this research, is that, throughout the two land reforms, the Korean War and the military revolution, the traditional social order and power structure collapsed and new economic, social and political structures led by the public bureaucracy began to emerge. This altered way of life, industrial structure, occupation and social class system, necessarily resulted in the alteration of the power structure. Since the late 1970s, the new economic, social and political structure began to solidify, as another strong bureaucratic organisation emerged in the private sector, and supported the economic, social and political structure, sustained by a developing white collar politics.

Starting from a study of economic growth, low income and housing, it became clear in the course of this research that the central problem was not the physical character of the poorest housing - that, in a very rapidly growing economy, can be improved fairly quickly. The main problem, on which the thesis has to focus, is the processes leading to the exclusion of significant numbers of poor people from the opportunities available to people in the mainstream of their society, and the part which housing plays, along with education, family structure, and other factors, in bringing about that exclusion.

The core of this thesis deals with 'exclusion' and explores when, how and why some people have been excluded from the mainstream of society. This research was not intended to explore class and status structures and their consequences in terms of social inequalities, but how power structures in S.Korea formed and how they affect housing policies and markets. Throughout the exploration of the changed economic, social, political and housing environments according to the following research structure, the relationship between economic development and social development will be pictured, the function of housing in such relations. That will enable the housing problems of households with low incomes to be better understood. This research tries to unravel the chain of economic changes, social changes and the changes in housing, and then finally the changes in the housing of the low income households. Thus, this research draws upon material from a wide variety of intellectual, cultural and historical contexts.

1.3 The Structure of Research.

The questions and purposes which I envisage in the last sections will be explored in the following chapters.

Chapter 2 briefly traces the evolution of S.Korean society and national policies which have helped to shape S.Korea's economic, social and political structures and to frame S.Korea's housing policy and housing markets.

Chapter 3 considers the economic, social and political context to S.Korean housing. The power structure in society emerges as a consequence of how things are produced. In order to produce things people have to enter into social relations with one another (Rose and Marshall, 1994, p.3). This chapter first deals with urbanisation, and changes in economic and social structures in line with economic development. This chapter explores the cause and the effect of such changes on the power structure of S.Korean society.

Chapter 4 focuses on a low-income issue. A low income can result from life-cycle transitions or from economic changes. Thus, the low-income problem should not be confined to those who are currently poor. Moreover, high and costly housing consumption, for example, can also make a household poor. A household can be cast into poverty because of low earnings or high consumption expenses, or a combination of both. Social policy, therefore, can be carried out by direct subsidies or by indirect ways, such as encouraging opportunities of making a livelihood or reducing consumption expenses. This chapter deals not only with the earning aspect but also household spending and social policies related to the low-income people in the context of changing economic, social and political structures. It explores how power in society and policies come together and influence - or even transform - one another.

Chapter 5 first traces the evolution of housing policies which have helped to shape S.Korea's housing conditions and explores the impact of the changed economic, social and political structures dealt with in the previous chapters on housing. Then this chapter explores what the government tried to achieve through housing, and how the government was able to achieve it and at what costs.

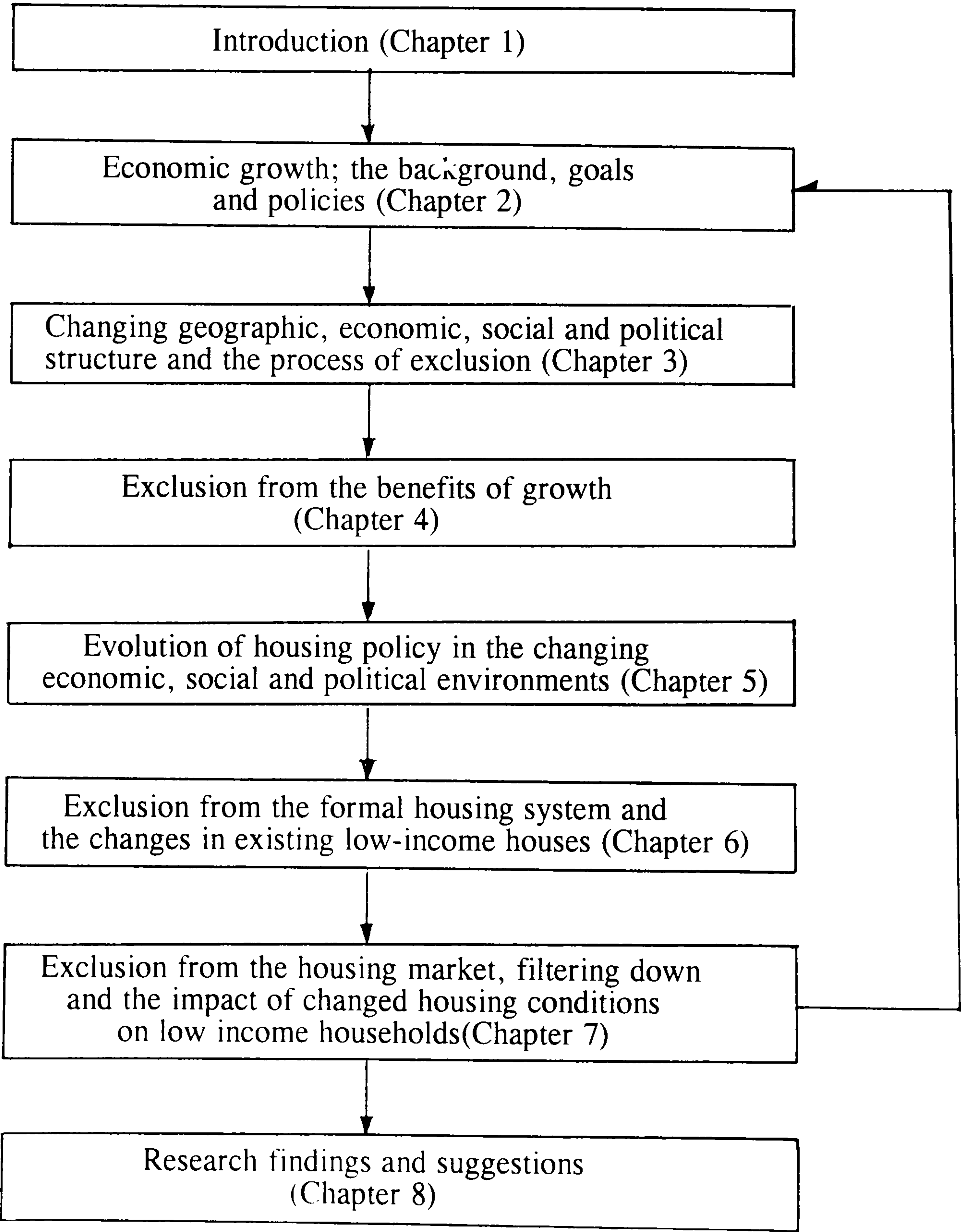
Chapter 6 first discusses the housing system of S.Korea and what people of different income gain from the system, and the dilemmas posed by any attempt to continue this system. Subsequently, this chapter explores what happened for the households excluded from the housing system by tracing urban redevelopments. It shows the ways in which households move through the housing system, the effects of urban redevelopment and the kinds of people who are most likely to be in difficulties.

Then, in Chapter 7, I look at the problems of people at the bottom end of the housing market and suggest the indirect impact of housing policies which in the long run create many difficulties in housing. Patterns of consumption of housing may

themselves contribute to inequalities of life chances. Housing price inflation is constantly widening the economic gap between owners and non-owners. Increasing rents widen the gap further. This chapter explores how existing economic and political inequalities are overlaid by housing. Housing contributes an important aspect to the economy, society and politics, embodying not only personal meanings but expressing, maintaining and mediating social orders and structures. This Chapter tries to reveal the meaning of housing to economic, social and political arenas, in other words, the impact of the changed housing conditions of low-income households on economic, social and political structures.

Chapter 8 summarizes the main findings of this research and suggests foreseeable changes in S.Korea in the near future.

Thus, this research will take the following form.



1.4 The Scope of Research Area and Period.

Area: Urban areas.

Some have asked why most low-income housing studies focus on urban areas. In rural areas housing conditions are worse than in urban areas and the availability of and access to basic infrastructure are less (Gilbert and Gugler, 1982, p.96). Nientied and Linden (1988, p.319) explained this focus by saying that high visibility seems to be the prime reason why urban situations attract so much attention. That seems to be correct. In S.Korea, in 1990, over 74 per cent of the population were living in cities which had a population of over 50,000. Moreover, over 90 per cent of illegal houses in which most occupants live with insecurity were concentrated in cities. But in most rural areas there are still clean streams nearby if there is no piped water supply. There is lots of space for children to play. Furthermore, the urban household's expenditure on housing consumption is generally higher than that of rural counterparts. In the rural areas of S.Korea, after the two land reforms (1947 and 1949), although people often suffer from harvest crisis, the communities are more equal than they are in urban areas, and households help each other more than city dwellers do. In urban areas, living standards are crucially dependent on harsh cash income. People have to buy coal or gas for heating and cooking, and so on. There are no alternatives if they have no income. Also, if housing conditions become very bad, they are, in urban areas, more likely to provoke political turbulence demanding government attention.

Period: mainly since 1960 to 1990.

In a rapidly changing society to achieve a greater understanding of the housing problems of low income households and the housing policies of the past and present, and ideally to predict or even influence the future, it is necessary to analyse and comprehend many aspects of the changing economic, social and political structure historically. The story told in this research therefore begins after the second World War, but most of the emphasis is placed on the years since 1960 when the S.Korean economy began to grow rapidly.

Prior to the start of industrialisation, self-building was an alternative way of meeting housing needs for low income households. People built their own houses using raw materials which they collected and processed themselves with the help of friends and neighbours. The quality of housing was limited by the availability of materials and the skills of self-builders but housing was not a commodity produced

for profit, that is for its exchange value rather than its use value. Most house builders were no more than small artisans. Housing consumption costs and housing tenure were no problem. Since the start of industrialisation, housing has increasingly become a commodity, house builders have also begun to change from the form of small artisans towards mass productive enterprises. The standard of housing enjoyed by a family depended increasingly on what it could afford rather than what a household could build for itself. Thus, in S.Korea, housing problems in their modern forms only emerged as industrialisation and urbanisation got under way after the Korean War of 1950-53. Interesting though it might have been, a study of earlier periods would have dealt with different issues.

CHAPTER 2. THE PATHWAY TO AN "ECONOMIC MIRACLE".

2.1. Introduction.

Korea was liberated and, at the same time, partitioned just after the end of the Second World War, 1945. Five years later, the Korean War broke out, devastating the process of development. Destitution was not confined to a minority group. The whole country suffered from famine. Henceforth, economic growth was seen as of primary importance. Huge resources and energy have since concentrated on economic growth in Korea.

It is necessary to recognize that, in many other capitalist countries, the state has often intervened to correct pre-existing market distortions. In S.Korea, however, as Amsden (1989) titled chapter 6 of her book "Getting relative prices 'Wrong'", the S.Korean government has intervened in the market mechanism to distort capital, labour, and other markets. Many studies about S.Korea (Kuznets, 1977; Hamilton, 1986; Henderson, 1993; etc) have commonly concluded, as J. Henderson (1993) entitled his article, "*Against the economic orthodoxy*", although some argue that policies in Korea conformed to the natural functioning of markets (Westphal, 1978; Balassa, 1990). Therefore, to some extent, low-income households and housing in Korea cannot be appropriately understood without understanding the wholesale process of economic growth.

This chapter explores how S.Korean society created an economic miracle and what role the government played in that, as a precondition to understanding low-income households and their contemporary housing problems.

2.2 National Goals and Policies.

In 1945, just after the conclusion of World War II, Korea was partitioned between South and North. The partition of the country along the 38th parallel left South Korea with slightly less than half the Korean peninsula, but with about 66 per cent of the population.

At that time, as Table 2-1 shows, the South was primarily an agricultural country, with three quarters of its population engaged in farming. Manufacturing output accounted for a mere 23.8 per cent of output in 1940. In manufacturing, the South concentrated on light-industry products, the North produced largely heavy and

chemical-industry products. In mineral resources, the North's dominance was considerable. The mining production of the South was only a quarter of the total. All the iron ore and coal and more than 70 per cent of the gold, silver, tungsten and graphite were produced in the North. More critically, at the time of partition, 92 per cent of total electric power was generated in the North (BOK, 1949).

Table 2-1 Comparison of Net Commodity Product Between South and North Korea, 1940
(million yen at current market prices)

	South(A)	North	All Korea(B)	A/B %
Agriculture	965.1(60.2)	561.9(42.7)	1,527	63.2
Forestry	109.7(6.9)	103.3(7.9)	213	51.5
Fishery	141.2(8.8)	85.8(6.5)	227	62.2
Mining	62.0(3.9)	194.0(14.7)	256	24.2
Manufacturing	324.3(20.2)	371.7(28.2)	696	46.6
Total	1,602.3(100)	1,316.7(100)	2,919	54.9

Source: Kwang-Suk Kim and Michael Roemer, 1979, p.23.

Partition didn't just mean the loss of heavy industry, it meant the loss of major coal deposits and almost all electric power generating capacity. The loss of the North, therefore, caused massive damage to the Southern economy because of these deficits. An industrial survey conducted in March 1947 revealed that the number of manufacturing and construction establishments in S.Korea declined to about 4,500, less than half the 10,065 establishments existing in June 1943. Employment in manufacturing and construction declined by 41 per cent between 1943 and 1947 (BOK, 1948).

After partition, the South's economy and it's living standard were extensively dependent on the harvest cycle. However, Korea was not a well endowed country even in agriculture. The proportion of arable land in the South was only 20.6 per cent and per capita arable land was a mere 1,309 sq.m at the time of partition. More than two-thirds of the farm families were full-time tenants, and most of the others were part-time tenants - that is to say, they combined farming with other work. Together they accounted for 94 per cent of the rural population (Hatada, 1969, p.127). Most rural S.Koreans lived in abject poverty (G.Henderson, 1968, p.156), subjected to exorbitant rents varying from 50 per cent to 90 per cent of the crop. Hunger was routine, and famine was common (Hatada, 1969, p.126). To make matters worse, after 1945, the population rapidly increased, partly due to natural increase and largely due to refugees from the North and repatriated Koreans from Japan and elsewhere. The population of the South increased from 15.879 million in 1944 to 20.03 million

in 1948 (BOK, 1950). The refugees and repatriated Koreans were estimated to have added about 2.3 million to the South's population during 1946-1948 (BOK, 1949). Hunger became even more routine and famine very common.

Lessening the starvation, and social stabilization, were the most urgent objectives of national policy. One of the first land reforms in the South implemented in 1947, under American auspices, was the sale of half a million acres of confiscated Japanese land to more than 730,000 tenant farmers (Park K-H, 1966, pp.95-6). A law imposing a 33 per cent ceiling of the harvests on rents was also enacted and enforced, vastly improving tenancy conditions (G.Henderson, *op. cit.*, p.156) The South Korean Government was formally established in the Republic of Korea on August 15, 1948, after a general election (hereafter all references to Korea are to South Korea). Dr Rhee was elected as the president of the first republic. The second land reform was launched by the enactment of the Agricultural Land Reform Act in June, 1949 after protracted wrangling in the Assembly. The Korean government took over landlords' properties with nominal compensation and distributed the land to some 920,000 farm households. Tenancy was virtually eliminated. A limit of land holding of three *cheongbo* (roughly three hectares of paddy land) was imposed. The two land reforms not only improved the economic conditions of rural households, which accounted for about 62 per cent of households in Korea, they reduced rural starvation and increased the output through more intensive application of labour, and also contributed to the egalitarian growth of rural incomes and stabilization of Korean society (Choo H-J, 1982, p.51). However, they drastically increased the number of sub-marginal farms.

The land reforms hold significant meaning in Korean society. They represent the collapse of traditional social order based on land and the start of a new social order (Mason,*et al.*, 1980, pp.419-24, Kim C-Y, 1980, p.107). A large supply of labour was freed from the land which could easily be shifted to industry.

The Korean War(1950-1953) halted the wholesale process of progress and forced a return to economic, social and political chaos. During the War, damage to non-military buildings and structures, equipment, and other movable assets was estimated, at between U.S.\$2 billion (Cole and Lyman, 1971, p.22) and 3.1 billion (BOK, 1955), equivalent to about two years' GNP of 1952 and 1953. The war destroyed almost half of the manufacturing plants that existed in 1949, 20 per cent of education facilities and about 18 per cent of the housing stock. In addition to this, agricultural output dropped 27 per cent between 1949 and 1952, and GNP 16 per cent. Prices rapidly rose and the rate of inflation more than doubled between June and September of 1950, and then shot up to 2,128.5 per cent in 1951, 5,243.6 in 1952 and 7,618.8 in 1953 (Kuznets, 1977, p.38).

The war had a profound impact on Korean society, obliterating social distinctions and disrupting social networks (Lee H-B, 1968, p.55). During the war, civilian casualties approximated one million, including those killed, wounded, and missing, and the war casualties of all UN Forces reached about 419,000, of which South Korean Troop casualties were approximately 300,000 (BOK, 1955). The War left a large number of widows and orphans, who make up a part of the poor today. Housing conditions at the time were the worst in Korean history (KNHC, 1979, p.208 and MOC, 1987, p.932). Nevertheless, attention was distracted from housing problems by the even more urgent problems of hunger and famine.

For the coming years, most national resources and energy were concentrated on the reconstruction of industrial plants and infrastructure damaged by the War. Industrial policy was mainly inward-looking. At that time, the Korean economy could be managed only with a massive inflow of foreign relief and aid. But inflation began to rise and in 1956 was about 31 per cent. As a result, the government gradually shifted its policy emphasis from reconstruction to price stabilization. The first target of the program was to reduce public spending. Another program was to import cheaper grain. The price stabilization programmes were helped by the imported cheap grains and two consecutive bumper crops in 1957 and 1958. Both made possible a sharp decline in grain prices during 1957-1958.

The first republic, led by the Rhee dictatorship with the Liberal party, was toppled in April 1960 by a student revolt (Cole and Lyman, *op. cit.*, p.32). Although the issue of economic development was submerged under politics, its failure underlay the turmoil that brought the decade to a close (Amsden, 1989, p.42).

After the launch of the second republic, led by Jang, Korea was in no more than a state of anarchy. For example, in 1961, there were some 2,000 student demonstrations, an average of more than five a day. This state of instability needed, above all, a strong government. This was further taken for granted in Korea with a weak private sector, stunted local and provincial government and internal and external conflict between the Left and the Right.

After the launch of the third republic through a military coup on the 16th of May, 1961, the Korean government became strongly committed to 'a political strategy emphasizing economic performance' (Cole and Lyman, *op. cit.*, p.86). President Park declared; "*One cannot deny that people are more frightened of poverty and hunger than totalitarianism*" (cited in Oh K-C, 1990, p.28). Park summed up his political-economic goals in *the Country, the Revolution and I* (1963, p.105); "*The purpose of this revolution is to reconstruct the nation and establish a self-sustaining economy, and its essential purpose is to restore to all the people the political and economic systems that had become the possession of a few privileged classes*". Unless

the people were relieved from their perennial economic plight, he believed that "*democracy is a species of social luxury, at best a precarious venture*". "*Expulsion of want and extreme poverty*" became the first and foremost national goal (cited in Park Joong, 1961, p.13).

Poverty was still not confined to a minority in Korea. Nearly all Korea was in poverty. Therefore, the expulsion of want and poverty could only be achieved through national growth, rather than redistribution. The government adopted the principle of 'growth-first-distribution-later'. There was a strong belief that accelerated economic growth would sooner or later trickle down to everyone and every place. Economic growth was the most significant administrative norm and served as the primary criterion for allocating government resources (Whang I-J, 1969). National planning was the chosen instrument for national resource allocation for reasons of efficiency.

On January 1, 1962, the military junta announced the First Five-year Economic Development Plan (1961-66). It was generally believed that the process of national development was a well defined task which could be planned and managed with central directives. A hierarchical executive structure was the instrument for the effective implementation of the plan. The Economic Planning Board (EPB) was established on July 22, 1961. The EPB was soon upgraded to a full ministry to coordinate all economic plans.

It is noteworthy that talented and ambitious technocrats for the plan (rather for economic development) were increasingly recruited by a highly competitive examination, called "*Godung Gosi*", replacing the under-qualified officials, the so-called political bureaucrats. In the early periods of the Park rule, for instance, about 36,000 employees, equivalent to about 10 per cent of the bureaucracy, were thus replaced (Cho S-C, 1971, p.224). Park's appointees to the economy-related posts in the Third Republic were professionals who climbed up the ladder in their fields based on the criteria of a meritocracy (Oh K-C, 1990, p.32). To improve the effectiveness of the plan, centralisation on decision making occurred. In the classless society, however, it was a prelude to the emergence of a bureaucratic authoritarianism.

The dominant thinking among the powerful technocrats in the public bureaucracy was that national poverty could be solved by reducing unemployment and forming self-sufficient economic structures which could be achieved through industrialisation, rather than rural development. Thus industrialisation was first directed to labour intensive and import substitution industry on the basis of urban areas. However, the import substitution industrialisation policy did not achieve the economic growth desired by the government, due to limited domestic markets, a deficit of domestic capital and the increasing balance of payments crisis (Kang B-K, 1989, p.7).

Accordingly, after 1964, industrialisation policy was switched to production for exports. Thereafter, the government increasingly made exports a compulsion rather than a choice for the private sector (Suh S-M, 1985, pp.5-6). Exports as a share of GNP rose steadily from less than 5 per cent of GNP in the 1950s to approximately 35 per cent in the 1980s. The growth of exports in labour intensive manufacturing could absorb the mass of underemployed workers, transforming Korea's domestic political environment (Amsden, op.cit., p,72). In the five years from 1965 to 1969, employment in the manufacturing sector expanded by 50 per cent.

The technocrats soon realized that labour-intensive industrialisation was accelerating the dependence of the Korean economy on imports of intermediate materials and capital goods in line with the increase in the export of products of labour-intensive light industry. According to their assessments, Korean industrialisation policy shifted towards heavy and chemical industry in the Third Economic Development Five-year Plan(1972-76). In 1971 the share of merchandise exports was only about 14 per cent of total exports. The share had increased to 38 per cent by 1979, and by 1984 to 60 per cent.

On the one hand, the achievement of high economic growth gave Korea the feeling of "pride", "self-confidence", etc. On the other hand, the military revolution was partly justified by visible economic growth. For example, in the general election immediately after the coup, Park had defeated the opposite candidate only by a slim margin. In the general election two years later, he won a landslide victory. Then economic growth itself became a paramount goal that could not be compromised by any other competing objectives. In pursuit of economic development, all other democratic values, processes and means were of secondary importance for the Park Administration. Most of the national resources and energy were concentrated on maximizing economic growth. All measures ranging from macro policy to wage negotiation were used for visible economic growth. Most resources were invested on the basis of the traditional consumption-investment dichotomy and under the rule of efficiency.

President Park's authoritarian leadership was ended by his assassination in 1979 after the Pu-Ma strike, led by students and unemployed immigrants to the cities, just before the second oil crisis. After that, the fourth republic was launched. It was led by the former prime minister, Choi, who had a non-military background. However, the second oil price shock and the following worldwide recession brought the growth of the Korean economy to a halt. Korea recorded its first negative economic growth since the end of the Korean War in 1980 and faced unprecedented high inflation rates, high unemployment rates and a crisis in the balance of payments. To make matters worse, Korea suffered its worst harvest failure, especially in *Honam* region.

This accompanied with the recession in 1980, resulted in the *Kwangju* riot - (*Kwangju* is the biggest and central city in *Honam* region).

The army, led by general Chun to put down the *Kwangju* incident, again became involved in politics. General Chun came into power leading a new political party, the Democratic Justice Party. With the birth of the new republic in 1981, president Chun outlined four major political doctrines; expansion of democracy, realisation of a just society, construction of a welfare state, and development of native culture. The title of the "Economic Development Plan" was changed into the "Economic and Social Development Plan" from the Fifth Plan (1982-86). This plan was aimed at achieving three main objectives; growth, equity and stability of society. The Fifth Plan clearly defined its objectives as follows (Government of the Republic of Korea, 1982, p.89); (1) to mitigate 'undesired effects that have resulted from a part of the past growth process' ; and (2) "to cope efficiently and effectively with the rising demands of the people for social welfare". Priority in the Fifth Plan was more or less given to dispersing the fruits of growth to the excluded people and regions. Indeed, the government's expenditure on social development such as eduction, health, social security, housing and others, steadily increased. The share of the central government outlays on social development, for example, rose from 22.2 per cent of the budget in 1975 to 27.7 per cent in 1985 (Ministry of Finance, Government Finance Statistics in Korea).

However, fundamental changes had already affected the economic and social structure. As Table 2-2 shows, a large number of those who were self-employed, including farmers, had transferred to become dependent on wages and salaries. By the early 1980s salaried or waged workers constituted the largest part of the population. Under these circumstances, further economic growth itself afforded a sort of political legitimation since stabilizing the position of salary and wage workers was the best way to reduce political insecurity.

Table 2-2 Structural Change of Labour.
(percentages)

Year	1963	1967	1971	1975	1980	1981	1982	1983
Self-employed	63.5	60.9	58.0	57.0	50.0	50.4	50.0	48.4
The dependents on wage and salary	28.3	32.9	37.5	38.9	44.8	45.1	45.6	47.5
Unemployed	8.2	6.2	4.5	4.1	5.2	4.5	4.4	4.1
Total	100%	100%	100%	100%	100%	100%	100%	100%

Source: reconstructed from Suh Kyon-Mo, *Class Structure and Class Division of Modern Korean Society*, Study series of Korean sociology, Vol.1, Hanwool, 1988, p.67

The fifth republic government (1981-87) adopted a policy for economic growth through "the second economic leaf" by encouraging high-tech industries, such as semi-conductors, automobiles, electronics etc. The highest priority in national policies was given to price stabilization. This was followed by policies to stabilize the position of salary and wage workers, to recapture the international competitive power of Korean goods, to increase domestic savings and then to overcome the crisis of the balance of payments.

Tight monetary and fiscal policies along with a low-wage policy were launched. The salaries of civil servants were frozen - (since then more talented young people have flowed into the private sector). The Chun military government amended the Labour Act in December, 1980. It was characterized as being more restrictive on trade union organization, in institutionalizing the autonomous collective bargaining mechanism and in providing the right of collective action (Park F-K, 1993, p.45 and Park J-W, 1991, p.78). Instead, there were a rapid increase in the government's expenditure in social welfare and various social welfare programmes. The Chun government also launched the Five-million Housing Construction Plan (1981-91).

One notable policy saved revenue by reducing agricultural price supports and by increasing imports of cheaper grains to 28 per cent of total consumption by 1983. Political priority was given to the urban salary and wage workers at the expense of farmers. It may be noteworthy that between 1982 and 1985 there was a mass exodus from rural areas (roughly 600,000), even larger than the migration associated with the 1980 harvest failure (about 85,000). It was at this time that massive urban redevelopments were launched, resulting in the real estate boom of the early 1980s.

A feature of changes in Korean society since the late 1970s was the growth of the private sector. Big businesses became a powerful lobbying group able to influence government policy. A notable feature of the changed circumstances was the economic liberalization policy. A central aspect of the liberalisation policy was the sale of the government's shares in the large commercial banks, which occurred between 1981 and 1983 (Cho H-J and D.C. Cole, 1992, p.122). Another feature was the emergence of another faceless, but powerful bureaucracy based on white-collar, managerial and middle-income workers in the private sector. They began to run those big businesses, and lead the Korean economy. Since then, the Korean economy was led by these two bureaucracies. (This will be discussed in detail in the next Chapter).

Those changes in Korea can be understood by looking at high economic growth even during a period of political turmoil. Between 1986 and 1988, student demonstrations reached their peak and spread nationwide. Oh K-C (1990, p.45) pictured it in the following manner, *"the police fired volley after volley of tear gas at students hurling rocks and fire bombs, and in most cities the biting stench of the*

'pepper gas' hung heavily in the air". On June 29, 1987 a democratization declaration was announced by ruling party Presidential candidate Roh Tae-Woo. In March 1988, former General Roh was elected with 36.6 per cent of the votes cast and the National Assembly elections held on April 26, 1988, also produced a first minority ruling party (125 of 299 seats) in the National Assembly. It was a period of political turmoil. Nevertheless, economic growth recorded over 12 per cent per year during this period. This was explained by factors such as low wages, low oil prices, low exchange rates, etc. Although this discussion is beyond the scope of this research, without considering the strong bureaucracies based on white-collar middle income groups which actually ran the businesses and led the Korean economy, the rapid economic growth of this period may not be appropriately explained.

After the launch of the sixth republic in 1988, the term "welfare state" had arrived in public policy. The role of taxation and public expenditure was emphasized as a means of correcting injustice in distribution of wealth and income. The "two million housing construction plan" was announced in 1988. This was to be completed within five years. However, the reality of the welfare state was no more than the liberalisation of the economy, as the Sixth Economic and Social Development Plan (1987-91) stated, *"injustice in the redistribution of the fruits of growth has been due to the government intervening too deeply in the market mechanism, that is 'government failure". Therefore, restoring the free market mechanism is the solution to the problems in redistribution"*.

In conclusion, in Korea, economic growth has been the dominant political ideology over the last four decades. The commitment to a high and stable level of employment was essential to underpinning political stability. Koreans have believed that economic growth was the first step for achievement of social development. This is being increasingly challenged not by theory, but by the reality, and will be explored in the following chapters.

2.3 Development Strategies and National Planning.

2.3.1 Limitation and Furtherance.

Conflict in a society may be caused by various factors, not only by economic factors but also social factors, such as race, gender, etc. Fortunately, in Korea, there is one single race, a single language, common cultural assumptions, and there is no minority group of significant size. The differences between Koreans are not defined

so much by ethnic, language, or religious differences but mostly by differences such as urban or rural, regional, industrial or agricultural, modern or traditional, rich or poor, and educated or uneducated. It could even be said that one of Korea's greatest problems has been that of excessive social and cultural homogeneity and integration (Lee Y-H, 1975, p.13). Korea has few natural lines of social and political cleavage which could also be regarded as sinews of cohesion at the intermediary level. Power in Korea has thus tended to be excessively centralized in the president and the capital city, with few other organisations and regional centres of power which could counterbalance the central power (G.Henderson, *op.cit.*, p.64).

As mentioned on page 18, Korea is not a well endowed country in terms of natural resources. Moreover, after the Korean War, as Table 2-3 shows, considerable proportions of available resources have had to be allocated to the maintenance of strong military forces to forestall any new attack from the North (see Cole and Lyman, *op. cit.*, p.164). Korea faced continuous security threats from North Korea, bearing in mind that Seoul, the capital of S.Korea, is only 40 miles away from the de-militarized zone. A strong defence policy has been pursued consistently from the Korean War to the present and has been an objective which is given priority over all other objectives. This national security consideration has been a serious obstacle in the government's responsiveness to societal pressure.

Table 2-3 Government Final Consumption Expenditure by Function, at constant prices of 1985.

	(Thousand million Korean Won)				
	1970	1975	1980	1985	1989 (%)
1. Defence	1,425	2,219	3,005	3,562	4,958(43.6)
2. Education	979	1,245	1,453	1,793	2,434(21.4)
3. General public services	503	701	1,071	1,203	1,596(14.0)
4. Public order and safety	413	481	625	804	979(8.6)
5. Economic services	120	177	223	271	425(3.7)
6. Social security and welfare.	69	78	122	182	385(3.4)
7. Health	44	74	128	92	173(1.6)
8. Housing and Community amenities.	39	79	136	106	167(1.5)
9. Recreation and culture.	22	39	54	55	159(1.4)
10. Other functions	28	38	60	68	90(0.8)
Total	3,641	5,131	6,875	8,136	11,365 (100)

Source: U.N.,National Accounts Statistics,1989.

Where are the sources of Korean economic growth? It has to be understood in a much broader economic, political and social framework.

2.3.2 Development Strategies.

The basic determinants of economic growth may be classified under five main headings; natural resources; labour both in terms of quantity and quality; capital; technological progress; and the social, economic, political and cultural climate. These determinants are closely interrelated. A serious deficit of one of the determinants may limit economic development and the rate of development.

Since the launch of the third republic with strong government thereafter, it has been seriously advocated that the way to grow is to organise a planned and controlled market mechanism. This was advocated on the assumptions that since there were great scarcities of national resources, it would be possible for a centrally planned system to overview the national economy as a whole, to sustain the risk-taking activities that are one of the basic components of the growth process and to remove various barriers on the way to growth in efficiency and effectiveness.

As a way of doing this task, the military government nationalized the commercial banks five months after the coup. The government also amended the Foreign Capital Inducement Act in 1962, to provide stronger government guarantees to foreign lenders. Together with nationalization of the banks and control over credit guarantees, the government effectively controlled overall capital flows with the exception of the unofficial "curb" market, often referred to as the "underground financial market" or "underground market".

This contributed more or less to prevent the concentration of wealth in the hands of a few people. In addition, the Korean government reorganized and centralized both the budget and planning functions of the Economic Planning Board under a strong Deputy Prime Minister in 1964. Under this planning structure, housing policies and other social development programmes deliberately functioned for economic growth. Another point to bear in mind is that the government has consistently exercised great control over the economy, both in the direct implementation of economic decisions and in the enforcement of compliance by the private sector. For example, the government supported exporters by establishing the government-subsidized Korean Trade Promotion Corporation (KOTRA), and by authorized KOTRA to collect one per cent of the value of imports for use as an export promotion fund (Suh S-M, 1985, p.5).

This "planned capitalism" since 1961 was possible because the Korean government was able to consolidate its power, not only because of traditional ethics but also because of the weakness of social class. Workers constituted only a small percentage of the population, the aristocracy had been dissolved by land reforms, the peasantry atomized into smallholders, whilst existing industrial capitalists had been destroyed by the Korean War and dismantled by the strong measures to confiscate unjustifiably

accumulated wealth in 1962, and following the currency reform. The new industrial capital remained beholden to the state. Furthermore, partition between South and North and the following "Cold War" contributed to consolidate Koreans.

Limited national resources were, however, the crucial obstacle to the economic growth of Korea. Thus, the priority among various issues was partly compelled by economic and political constraints. Even with identical preferences, various choices were affected by the availability of finance in terms of absolute amounts and in relative terms. The key question was not whether the return to investment in certain sectors was high, but whether they were higher than returns to alternative uses of the resources.

The government tried to tackle the problem of limited national resources by changing the trading pattern from import substitution towards a trading pattern of exporting products processed, using imported materials. Most of the raw materials and the manufactured goods were intermediate products that had to be imported, to be processed and then exported. By carrying out an export-oriented economic policy, Korea could solve the problem of limited national resources and, at the same time, access international capital markets. *"The government implemented numerous export promotion measures including preferential loans for operation and facility expansion, tax and tariff exemptions, wastage allowances, and other social overhead and administrative supports"* (Kim Y-B, 1980, p.232). If overseas sales were not profitable, then the government compensated the losers by inflating the returns on domestic sales (Amsden, *op. cit.*, p.70) and by giving industrial licences which permitted the losers to take part in more lucrative industries. In addition to this, the Korean government adopted an expenditure-switching policy; the expenditures of domestic households were to be switched from foreign to domestic goods to reduce imports. This was accomplished by changing the prices of foreign goods relative to domestic goods. That was often done by taxing imports and subsidizing exports or by devaluing the exchange rate.

The Korean government tried to engineer a massive and fairly abrupt shift of resources from consumption to investment for production. The rate of new investment was one of the determinants of the rate of economic growth. Production capacity could be increased by the stock of capital. Capital could be accumulated from two sources. Firstly, it may be accumulated from savings from households. Domestic saving was crucially emphasized, as Lipsey (1971, p.663) pointed out, *"In the long run, investment by firms is at least partly limited by the amount of saving done by households and firms"*. The conflict between high interest which encourages savings and low interest which increases investment has been mediated by subsidies such as long-term credits, multiple interest rates, etc. However, mere capital

accumulation would not necessarily lead to rapid economic growth. A shift of resources from consumption to investment and a prevention of the shift of resources from investment to consumption was another determinant of the rate of growth.

Domestic savings could be raised in line with increasing households' incomes. But the increase of households' incomes was not sufficient to achieve this. High levels of domestic savings could be achieved largely by government intervention to force people to save at a much higher rate than they otherwise would. Inflation policy was often used as a means of forced saving, especially between 1962 and 1965. Tax policy was also used as a means of encouraging savings. Tax tools were employed in encouraging private initiative in industrialisation. In particular, interest income was almost untaxed; an Act guaranteeing the anonymity of bank accounts was enacted in the early 1960s (Kwack T-W, 1993, p.395). Underground financial markets had a root in this.

The Korean government tried to increase savings by reducing consumption. High levels of tariff and prohibition of imports of certain goods and services were executed, not only for protection of domestic industry but also to reduce consumption. Additionally, high levels of tax were levied on luxury goods to reduce consumption and to reduce felt disparities between the rich and others. The housing sector, which was the main component of consumption, was insulated from the rest of economy. Thus, the development of mortgage markets was originally excluded from government policy. Most households had to purchase houses outright through inheritances or through their own savings, which increased domestic savings (this will be explored in Chapters 5, 6 and 7). Furthermore, firms were permitted not to distribute all their profits to households, in terms of lagged wage increases to increases in the labour productivity, in order that they could be used for re-investment. This was justified on the basis of the assumption that if firms could use their savings in re-investment, this would bring into use unemployed labour. This, in turn, could increase household income in the near future.

Another way of accumulating the capital needed for growth was to borrow it from abroad. The Foreign Capital Inducement Act enacted in the early 1960s provided generous tax privileges for foreign investment in Korea and borrowing from overseas. In the course of economic growth, imported capital played an enormous role in Korea. For example, when the first oil crisis hit the world economy in 1973, the domestic savings share of GNP declined from 19.8 per cent to 15.5 per cent in 1975. Total foreign debt as a per cent of GNP rose from 32 per cent in 1974 to 40 per cent in 1975 and total investment rose from 25.6 per cent of GNP in 1973 to 30 per cent in 1975. By 1976 GNP grew by 14.4 per cent. However, direct investment by foreigners was restricted except in rare cases to prevent the domination of foreign

investors over domestic firms. This, as a result, protected domestic firms from the movements of capital in the fluctuating world economy, most of which were beyond the control of policies and efforts of the Korean government. Also, direct investment by foreign investors in the consumption sector such as the housing and service sectors was restricted to prevent high inflation. The conflict between undervalued exchange rates to boost exports and over-valued exchange rates to minimize the cost of foreign debt repayment and of imports has also been mediated by multiple prices and multiple exchange rates.

The accumulated domestic savings and borrowings from overseas have been channelled into industry in a number of ways. Financial institutions were used as a means to control the flow of funds towards investment for production according to the government's plan. As the World Bank (1979, p.63) pointed out, "*In the Republic of Korea, the major government-supported development banks have become pivotal institutions in industrial development*". For example, rural savings have been successfully transferred into industry through the National Agricultural Cooperative Federation. In addition to this, the Korean government has tried to maximise efficiency and effectiveness in the overall level of investment by using 'policy finance' such as loans with low interest, making borrowing easy and giving various benefits, such as tax exemption and subsidies. Thus, the basic condition for domestic savings making investment and growth possible was the widespread control by the government over the economy and society of Korea. In terms of investment patterns, the allocation of national resources was concentrating on growing sectors or areas for reasons of efficiency.

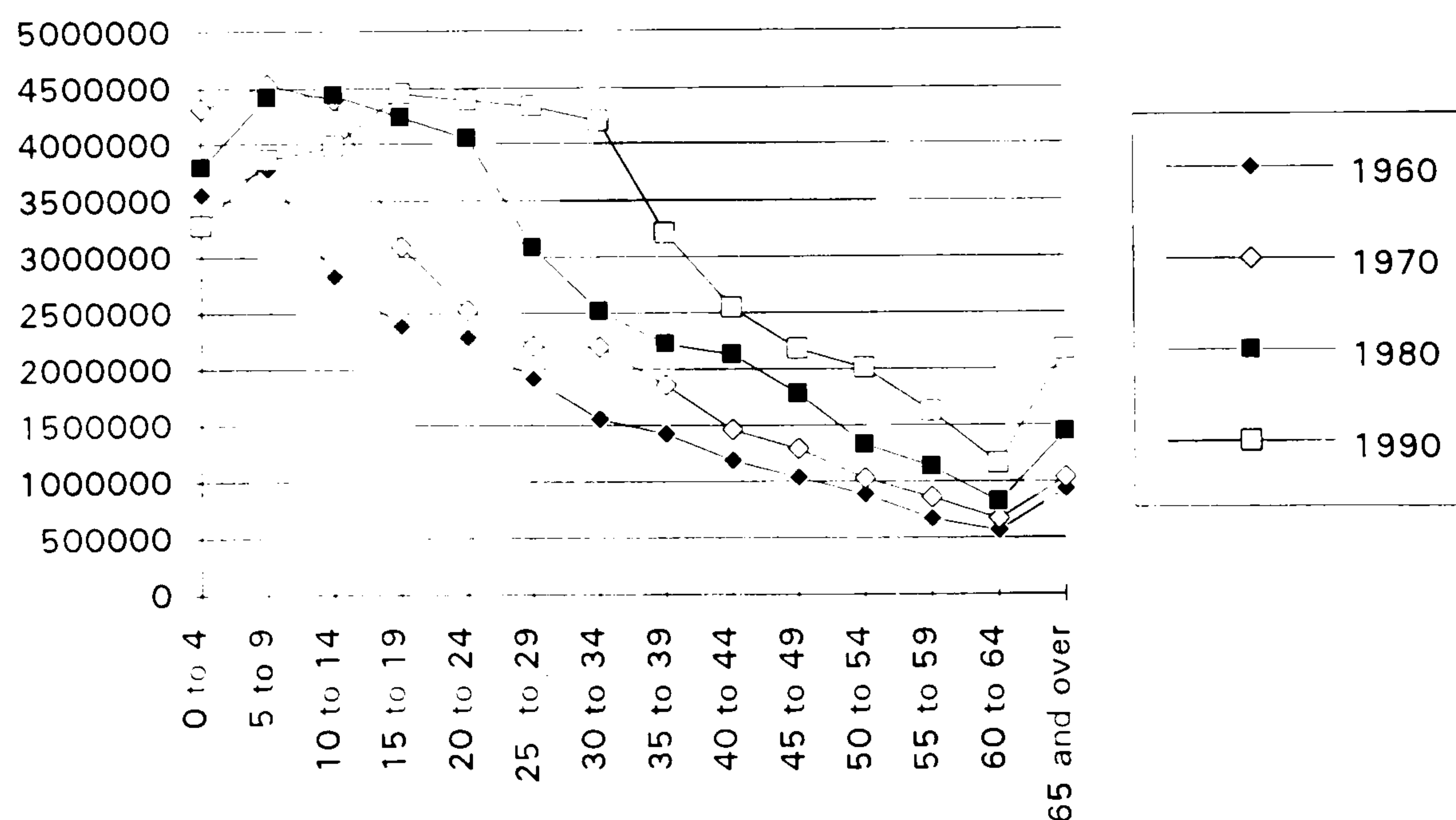
As Deane(1979, p.142) emphasized, "*An inescapable condition of successful economic development is the existence of an expanding, mobile and adaptable labour supply*". In the respect of labour, in terms of quantity and quality, Korea had sufficient for the requirements for economic growth. The quantity of labour was plentiful at the start of the first development plan, as the level of unemployment was over 17 per cent in urban areas (Population and Housing Census, 1960). Moreover there was an absence of a strong trade union movement, a lack of opportunity for mass international migration, and changed social attitudes towards women, mainly due to the Korean War, had made it increasingly easier for women to enter the labour force. All of these factors contributed to supply a labour force needed for industrialization and contributed to keep down wages, encouraging investment in the early stage of economic development.

However, it was perceived that the size of the population affected the level of output per capita. If population expands rapidly, a country may make great efforts to raise the quantity of capital to feed a corresponding rise in population. Over-

population is an obstacle to rapid economic growth as well as social development (Whang I-J, 1986, p.7). This was fully anticipated because, between 1955 and 1960, natural increases in population recorded the highest level of 2.98 per cent per year due to the baby boom following the Korean War (Lee G-S, 1986, p.146). A rigorous family planning program was launched in 1962.

The labour force needed to sustain the industrialisation process was growing at a faster rate than ever before, not only because of natural increases but also because of rapid urbanization (this will be discussed in the next chapter), and participation of women in the labour force. The abundant supply of labour at a relatively low price was immensely encouraging to investors. However, for the coming years from the mid-1970s, the labour market temporarily turned to shortage because of the Middle East construction boom which drew about 25 per cent of its production workers from Korea. In Korea itself, the cost of labour began to rapidly increase. However, the rapid rise in real wages has driven firms to invest in greater technological capability for the future. Thus, the wage increases rather contributed to sustaining economic development. Just after the end of the Middle East boom in 1979, the scarcity of labour was soon remedied by the returned labour. Since the early 1980s, as Figure 2-1 shows, the baby boom generation has begun to enter the labour market. So the combination of low wage levels in the early stages, fast wage increases since the mid 1970s and an acceptable supply of labour in 1980s has contributed to the dynamism of Korean growth (Amsden, *op. cit.*, p.189). Moreover, in a small country in which there are no social differences, such as religion, race etc, the mobility of labour has been easy and, in fact, rapid.

Fig 2-1 Population Structure, 1960, 1970, 1980 and 1990.



Source: Population and Housing Census, each year.

In addition to this, Korean labour has been of relatively high quality. Since the end of the Korean War, the government used a large part of overseas aid to rapidly expand education, *"which by 1960 led to universal primary education and contributed to increasingly higher enrolment rates at all levels above the primary level"* (Westphal, Rhee Y-W and Pursell, 1981, p.10 and see in detail; Krueger, 1979 and Mason, et al., 1980, chapter 10). Aid also financed overseas education and training for thousands of Koreans. Education has played a most important role in the development process, helping to change social barriers and overcoming bottle-necks on the way to economic growth. Family planning, public health care, the participation of women in the labour force, etc were made possible by the well organized education system.

By 1944 approximately 50 per cent of Korean children were receiving primary education, and every town had at least one primary school. According to the census, Korea had a national literacy rate of 22 per cent in 1944. In 1963, it had risen to over 80 per cent (G.Henderson, *op.cit.*, p.89 and Cole and Lyman, *op. cit.*, p.66). The dramatic expansion of education was reinforced by a long-standing tradition. Korean parents have viewed education as a necessary, if not a sufficient, condition for the social and, to a much lesser extent, economic advancement of children and the family as a whole. G. Henderson (*op.cit.*, p.221) aptly depicted such circumstances in 1968, which still holds to a large extent today;

"Many a family borrows beyond conceivable capacity to repay, mortgaging all property, skimping on food and clothing, making desperate sacrifices. The child is driven to almost constant study and every crucial entrance examination becomes a shattering emotional crisis. Failure to obtain admission to the proper institution occasionally leads to the breakdown of child or mother or even suicide".

Moreover, the development of the meritocracy, in terms of recruitment, promotion and reward on the basis of achievement, reinforced such strong desires.

The combination of the government's effort and a strong desire of the Korean people have contributed to improve the quality of labour, which, in turn, has increased Korea's ability to adapt to new technology. Moreover, although defence costs have been one of main constraints on economic and social development, the military was also a great user of the products of industrialization, particularly in the early stages. The increased complexity of modern military technology, weapon systems and organisations generated a growing requirement for training among Koreans in a wide variety of skilled occupations which would not have been otherwise possible for a people who had just been freed from colonial domination (Lee C-S, 1981, p.90). The technology, organisations etc were easily transferred to the private sector via the military governments. Furthermore, the draftees in the army

had a chance to interact by learning about "*perceptions of other people, other places, and other ideas and techniques*" (Lee H-B, 1968, pp.59-60). The military was one of the major sources supplying the technical manpower needed for industrial and economic development in Korea.

In addition to this, to promote higher value-added products embodying a greater level of skill and technology, the government directly established the Korean Institute for Science and Technology in February, 1966 and other public research institutes. Moreover, the government aptly organized the private and public research institutes by using subsidized credit and executive power. For example, to enter the world semiconductors market some 182 research projects of 131 industrial firms were selected as national R & D projects to which the government contributed about \$28 million. In addition, seven special projects in semi-conductors and bioengineering were funded with an additional \$40 million (Amsden, *op. cit.*, p.83).

Finally, the Korean government made great efforts to create a climate in which economic growth could run a steady path. The Korean government adopted the incentive system (see Brown, 1973 and Jones and Sakong, 1981) : punishment for failure is focused on a few individuals while reward for success is diffused throughout the system. Industrial licensing, government credit allocation, price supports and price fixing, etc., all these were aptly used for economic growth. This incentive system was not confined to trade and industry. The Korean government used social policy as a means to provide a disciplined hard working labour force by placing them in fear of losing their jobs and falling into poverty. Pensions, medical insurance schemes were based on occupations, whereas unemployment benefits were not designed. The support for the poor was limited at the lowest level of survival (this will be discussed in Chapter 4).

Table 2-4 Hours of Work in Manufacturing, 1976-1985.

Country	Average Workweek (hrs)
Korea	53.3
Malaysia	48.4
Hong Kong	47.1
South Africa	47.0
Mexico	46.0
Japan	46.0
Germany	41.2
United States	40.1
Sweden	37.8

Source: International Labour Office(1986), requoted and reconstructed in A.H.Amsden(1989), p.205, Table 8.6.

The development of the meritocratic system in the public sector as well as in the private sector was able to offset the criticism about the lack of social security systems, planting a widespread prejudice that low-income people have only themselves to blame. The combination of the meritocratic system and the lack of a social security system partly helped to increase the input of labour into the productive process and to increase hours worked per worker and per day, as Table 2-4 showed.

2.3.3 National Planning.

In Korea, given the circumstances of scarce natural resources, widespread poverty, mass unemployment and of limited government budget, the Economic Development Plans were planned on the basis of the following assumptions. First, employment would be created whenever the factors of production were mobilised. Secondly, high employment rates through education and job training would resolve the source of poverty rooted in unemployment. Thirdly, inequality of income would be reduced in the later stages of development because economic growth would be accompanied by changes in the industrial structure as it became more developed and modernized. This would promote an eventual increase in the demand for labour by offering workers a higher wage, and would then increase lower incomes more rapidly than others. Fourthly, economic growth would increase the ability of the government to supply more public facilities and services. All of these results together would raise the living standard of the people in Korea.

Since the nationalisation of commercial banks and the launch of the First Economic Development Plan (1962-66), as noted earlier, the government led the pace of industrialization. The Korean government set the private sector according to the development plan partly by using industrial licensing, state credit allocation, price control, executive power such as tax investigation, etc., but largely by relying on the superior capacity of public bureaucrats, in terms of knowledge and organisation.

Under the centralised bureaucratic system, the major objectives and targets of development projects at each sector and level are organized through a "top-down" approach, from the national-level target to sectoral and regional level targets. The central planning agency draws up the objectives of, and constraints on, national development planning as basic guide lines. Implementing ministries and agencies then draft and submit project proposals in line with these guide-lines. Through repetitive interaction between these two processes, a mutually acceptable agreement was reached, particularly at the national level, for the final commitment in terms of resource allocation.

The Korean government linked planning with budgeting under the Minister of Economic Planning to prevent encountering difficulties and inefficiencies in obtaining budgetary support, as budgeting is primarily a political process. Accordingly, although the Ministry of Construction (MOC) has been in charge of the overall housing policy, the housing policy and construction programme of the MOC must be coordinated with the national economic plan and resource allocation plan of the EPB. Consequently, sector plannings such as housing, education, health, etc become incremental rather than a rational calculation from the systematic and overall perspective (Lindblom, 1959).

In the MOC, the main policy-making body for national housing development is the Housing Bureau. The function of this bureau is to study and collect basic data on housing to formulate and implement long-range housing policy and to co-ordinate public and private efforts in order to ensure the efficient allocation of housing funds and resources (Ha S-K, 1987, p.89). However, the Housing Bureau is one of several bureaus in the MOC such as the National Physical Environment Planning Bureau, the Land Bureau, the Urban Affairs Bureau, the Water Resources Bureau, the Road Bureau, the Construction Industry Bureau and the Overseas Construction Bureau. Accordingly, the housing development of the Housing Bureau must be coordinated with the resource allocation plan of the MOC. Thus, housing has been treated as a part of national physical environmental development and the development of housing has been closely related to economic development, rather than social development.

While the planning of tasks takes place primarily at the central level, local authorities are the principle institutions for implementing policies. They are appointed by the central government and are statutory bodies legally dependent on central government. This hierarchy has been reinforced by the budgetary process. At the local level, the planning process coincides with the budgetary process because the project proposals are relatively simple and routine in terms of implications on resource allocation. Budgeting in practice at the local level has tended to be simply a listing of projects and consolidations of funds for accounting purposes (Whang I-J, 1986, p.23). So local governments have played the role of mere agents of the central government, with limited authority.

The state initiative had the benefit of an overview of the economy that the individual entrepreneur lacks (see Nath, 1962). But under this centralized planning system, planners fall short of an acute awareness of the need to distinguish between national prosperity and prosperity in different regions and the people's prosperity in different social groups. The monitoring and evaluating systems are not institutionalised in the local administrations, particularly for social policy where it is costly and time-consuming to evaluate effects. Some attempts have been made to

monitor and evaluate project performance in quarterly or annual reports through administrative channels for some projects. These usually include indicators on average of national levels on the basis of quantitative terms and often hide the real problems. The measures of judgement have tended to be based on quantitative outputs and on efficient results. This has occurred in housing as well and will be discussed in Chapter 5.

Under the centralized planning system, the general development process takes the following steps. First, the government defines what, when and how much to produce. In this decision, the government has two different directions associated with the size of firms, especially when planning involves a new product or process. In the case of production mainly for domestic consumption, the function of planning mainly rests on market rationale. But in such cases, the firms must also have responded to the overall planning directions, including the use of capital, labour, etc. In the case of production for exports, the directions of their activities are primarily decided by the government. The firm's policy must be combined or coordinated with the government's planning in the following areas (Jones and Sakong, 1980, p.81);

1. Perception of a new economic opportunity, including new products, new processes of production and new markets.
2. Evaluation of the profitability of a new opportunity.
3. Gaining command of financial resources.
4. Plant design, technology, and construction supervision.
5. Recruiting and training of new personnel.
6. Relationship with government.
7. Relationship with suppliers and purchasers.

According to such a general framework, the government chooses its industrial strategy.

Secondly, the government develops industrial estates, or sometimes plans a new industrial city, or changes land use for the production of a chosen industry or items, often by using compulsory powers. To optimize land distribution among competitive uses, all developmental activities related to land-use planning and land allocation are administrated and coordinated by the centralized government. The ability to sustain or expand economic growth has been determined not only by the accumulation of capital but also by many supporting services, particularly transportation and communication infrastructure. These have been particularly important in export-oriented industry. In Korea, infrastructure for production such as the development of industrial parks, transport links, power supply, etc were given high priority in national planning. However, the government's direct investment in infrastructure and in the physical environment has been focused on what it regards as productive activities and based on long-term investment not on short-term consumption. Most of

the development of the built environment has been left to individual households and financed by utilizing personal savings (this will be discussed in Chapters 5 and 6).

In addition to this, the government's investment in the built environment was often used as a means of coping with the economic cycle. An example was the "*Jamsil*" large scale Apartment construction project in 1975. When the first oil crisis hit the Korean economy in the 1973-74 period and the mass of unemployed people had no other opportunities, the government started large scale apartment construction projects earlier than planned in February 1975. About 2.8 million people were employed per year on the project. This played the role of a stepping stone for economic growth during the period of the oil crisis (KNHC, 1979, p.277).

Thirdly, as mentioned earlier, to promote technology and to accelerate technical progress, the government established a number of research institutes and organized existing private and public research institutes, for planned product development.

Fourthly, the government protected the domestic market against foreign competition by such measures as the use of tariff barriers for approved projects until such time as the new industries or products were internationally competitive. It restricted direct foreign investment in favour of joint ventures.

Finally, as we have seen earlier, the development of capital markets and access to foreign sources of credit were rigidly controlled by the government. Loans and foreign credits were delivered at very low interest rates for government approved projects and enterprises. Table 2-5 demonstrates the government's policy shift from light industry towards heavy industry from 1976, in terms of investment.

Table 2-5 Investment by Heavy and Light Industries, 1976-79, as a share of total investment (percentages)

	1976	1977	1978	1979
Light industries	25.8	24.6	17.5	18.1
Heavy industries	74.2	75.4	82.5	81.9

source: KDI, 1981.

One dilemma for economic growth planning was that as projects became more capital intensive, more public funds and comprehensive incentive packages were required to attract private firms to take risks. Thus, the government investment in social development has not increased in line with economic growth. As I shall show in Chapter 5, after 1976, the shift of the government's industrial policy towards heavy and chemical industries required more resources, and acted to emphasise self-help housing renovation.

Private firms in Korea contributed very little of their own capital to investment projects. By law, 30 per cent of a plant's total costs has to be self-financed. In

practice, however, internal financing in 1963-1973 accounted on average for only 20 per cent of the total finance (Lim Y.,1981). In 1983, the manufacturing sector in Korea is said to have financed only 9.9 per cent of its business through retained earnings and capital increases (Amsden, *op. cit.*, p.85). The remainder of the capital was highly subsidized. As a consequence, until recently nearly all big businesses in Korea were technically bankrupt. Through the control of the banks and credit, however, the government was able to seize indirectly a substantial share of the value produced and allocated for investment or savings, following carefully defined economic and political objectives.

In this process, big business conglomerates, known as "Chaebol", played central roles for Korean economic growth. They have acted as agents of industrialization, and have spearheaded the advance in terms of technology, management skills, etc. In exchange for entering especially risky industries, the government rewarded entrants, not only with various incentives, but also with other industrial licenses in more lucrative sectors such as the service sector and even golf courses. Thus big business gradually diversified over time.

Big business was consistently pressured by the government to share its benefits with its employees, the main strategy of redistribution of the Korean government. The pressure was very effective in so far as the government's subsidy was essential. As the economy grew, private business groups also grew, prompting popular demands for reforming the government dominant industrial nature. As outlined earlier, the response of the government was "liberalization" in the early 1980s. However, as Cho and Cole (1986, p.145) pointed out, "*It is widely believed that the large conglomerate groups.... succeeded in gaining control of individual banks*". Big business grew even larger and concentration increased further as a result of the liberalization measures.

2.4 National Growth: output and outcomes.

The economic growth of Korea has continued to expand. Between 1953 and 1962, the growth rate recorded an average of 4.1 per cent per year. Since the launch of the First Economic Development Plan in 1962, as Table 2-6 shows, Korea began to record dramatic growth. Thanks to this rapid economic growth, the amount of GNP and GNP per capita have rapidly increased. In 1960, Korea's GNP and per capita GNP were merely U.S.\$2,315 million and U.S.\$79. They increased to U.S.\$19,926 million and U.S.\$565 respectively in 1975, and by 1990 jumped to U.S.\$242.2

billion and U.S.\$5,659. This high rate of economic growth was largely fuelled by high rates of domestic saving, high rates of investment and exports, at the expense of consumption.

Table 2-6 The Increased Rate of GNP, Domestic Saving and Investment.
(percentages)

Period	1953-62	1962-66	1967-71	1972-76	1977-81	1982-86	1987-91
GNP	4.1	7.8	9.6	9.7	5.8	8.6	9.9
Dom. Saving	3.7	11.8	14.6	23.9	20.5	32.5	35.5 ¹⁾
Investment	n.a.	21.6	25.1	25.6	30.3	29.5	37.2 ¹⁾

Note 1): 1990.
Sources: The Bank of Korea, National Income in Korea, 1975, pp.142-143; N.S.O., Major Economic Indicators.

Economic growth successfully absorbed the unemployed despite an increase in population of over 100 per cent between 1949 and 1990 from 20,167,000 people in 1949 to 43,520,199 people in 1990. In 1963 the official unemployment rate was recorded at 16.2 per cent. This fell to 4.5 per cent in 1972 and 2.3 per cent in 1990. Moreover, during the last three decades, real wages of workers have steadily increased. For instance, during the period of 1977-1987, the nominal wage increase rate was 18.4 per cent per year on average, whereas the consumption price increase rate was only 10.4 per cent per year on average. Such high rates of employment and the increases in real wages substantially reduced poverty in the population. As Table 2-7 shows in 1960, about 41 per cent of the population was in absolute poverty. This has dramatically fallen to 5.3 per cent in 1989.

Table 2-7 The Proportion of Absolute Poverty in Population.

Year	1960	1970	1975	1980	1985	1987	1989
%	40.9	23.4	14.8	9.8	6.8	6.2	5.3

Sources: KDI, 1981 and EPB.

Furthermore, inequality, in terms of wage and income differences between education levels and between different jobs had deteriorated until the mid 1970s and then improved thereafter. As a consequence, Table 4-2 in Chapter 4 shows that the Gini coefficient showing inequality between households was increasing by the mid 1970s and then reducing, although data on income distribution has several limitations. Before 1978, for example, both the highest and lowest segments of the distribution were systemetically excluded in Korea, and even now, income of the self-employed is not measured adequately.

As the Korean economy has grown and households' incomes have increased, many commodities' prices have fallen, at least in relative terms. In 1955, household expenditure on food accounted for 56.9 per cent. This declined to 55.7 per cent in 1965 and 44.7 per cent in 1975. In 1985, it accounted for 36.8 per cent of household expenditure. Similarly, the proportion of household expenditure on clothing and other personal effects had fallen from 10.4 per cent in 1955 to 7.2 per cent in 1983. In 1959, the number of TV sets per 100 households was a mere 0.03. By 1969 it was 3.84 sets and now it is unusual for any household not to have at least one TV set. Social indicators also show that Korean society has improved in line with economic growth. For instance, infant mortality per 1000 persons was 59.9 in 1962. It had steadily fallen to 50.0 in 1971, 35.8 in 1981 and to 33.3 in 1984. Life expectancy has steadily extended from 44.9 years in 1944 to 57.5 years in 1961, 63.8 years in 1971 and to 71.3 in 1990. College and university enrollment rates also rapidly increased from 8.0 per cent of the age group in 1966 to 37.6 per cent in 1990. All of these economic and social indicators show the improvements made in Korean society over time.

Economic growth was certainly the first and necessary step towards the positive achievements mentioned above. Given the apparatus of the state, the partition between the Northern socialist regime and Southern capitalist regime, the lack of natural resources, and the limitations on government expenditure, the Korean government's device to economize on the use of limited public funds was to shift the financial burden from the public sector towards the private sector. The government concentrated its resources on the creation of further resources and investments. In that, the Korean government's development strategy can be characterized as an 'unbalanced development' strategy by specializing in those sectors in which the country had the greatest comparative advantage. This was carried out to allow the country to achieve rapid growth in the short run, using the 'big push' strategy with massive investment in major projects to achieve a large overall shift in national production. In terms of spatial impacts, the Korean government adopted 'growth pole' strategies until the late 1960s, and new industrial cities from 1972, and then 'growth centres' in the early 1980s onwards. (The meaning of these concepts will be explained in Chapter 3).

All of these policies were accompanied by a rapid economic, spatial and social change. The structure of industry has been manipulated to change from an agricultural economy towards an industrial economy. The industrial economy itself has been manipulated to change from a labour-intensive import substitution industry, to a labour-intensive export-oriented industry in 1964 and to promote heavy and chemical industry in the early 1970s, to a technical and capital intensive industry in

the early 1980s. In spatial terms, the government's policy for industrialization was initially centred on cities to maximise efficiency in existing facilities, and then modern industrial and service activities benefited greatly from economics of agglomeration. This spurred the growth of the industrial economy in the cities. These changes imposed considerable demands for readjustment and change. They made it necessary for people to move among occupations, industries and areas. Some industries and occupations which could not or did not readjust to the changes collapsed causing unemployment. At the same time some people who could not or did not readjust to the changes were left out of the mainstream of society. This was often described by the terms of informal sectors, dual labour markets, marginal or peripheral jobs or people, underemployment or latent unemployment.

The centralized economic development plan was based on a strict efficiency rule. The efficiency rule also has applied to even social policies. As many academic studies have pointed out, policies have been implicitly directed to benefit middle-income households. There is a break-even level of income, at which consumption equals disposable income. Below the break-even level, consumption expenditure will exceed income. Households would go into debt or use up past savings (dissaving) below this level. Above the break-even level, consumption would fall short of disposable income, and households would, on the aggregate, be saving out of current income. Social policy for low-income households would only increase consumption, rather than saving. In contrast to this, support with the same money for those above the break-even level would increase savings. Thus, the Korean government's policies tended to aid those whose income would be turned into savings rather than be used for consumption. Moreover, throughout the period 1961-1990, military governments have had very fragile support from the people. Because of the political instability of such governments, they have focused on enlarging the middle-income group, rather than the minority of low-income households (this will be discussed in Chapter 4).

High economic growth over the last three decades has meant a high proportion of resources and a high proportion of the fruits from economic growth have been devoted to investment, at the expense of the consumption, in other words, living standards. This has always been justified on the basis of the assumption that if the investment was used to build new factories, etc., then there would be an increase in production and profit, in turn, increasing household income. However, for some people, for instance the elderly, economic growth tomorrow at the expense of current consumption would not be satisfactory. For some people, such a reduction in current consumption would result in a loss of future chances in life.

The Korean government has been mainly concerned with the structure and development of the economy. This has had significant constraints on urban policy

development. Urban policies over the last three decades relied on the same logic - because socioeconomic forces affect spatial forms, so, too, by spatial strategies the state might reshape the socioeconomic forces (Kim H-K, 1980, p.177). Moreover, the Korean government was not able to afford the enormous funds which were required for the construction of infrastructure. So limited resources were to be concentrated on chosen cities and items, whereas the development of the related built environment was left to households and individuals.

The government's low spending on consumption and the shift of the financial burden from the public sector towards the private sector meant that there were no safety nets for excluded people. Although, policies for education, retraining and increasing mobility of labour were used as part of a general effort to adjust the excluded people to the changing pattern of society, the economic growth could not offset the powerful market trends of profit and, thereby, the exclusion of those who were unable to pay.

The exclusion, in aggregated terms, was reinforced by the changed industrial structure itself. For the export-oriented industry, their goods were sold in foreign markets and raw materials were produced in foreign countries. Thus, their non-key workers were no more than a commodity like other components needed for production. Less productive workers could be easily replaced from the pool of labour supplied by immigrants from rural areas. Nevertheless, there was little argument for and little attention paid to the human cost of those excluded from such changes. The rediscovery of poverty which took place in Western countries in the 1960s had little influence under the conditions of mass poverty and high social mobility in Korea during the 1960s and 1980s, and then by the changing social powers (which will be discussed in the following Chapters).

Rapid economic growth implanted in Koreans a widespread prejudice that low-income people had only themselves to blame; people could escape low income if they tried hard enough and failure to do so was because those with low incomes were workshy and feckless, or at least unwise in their spending. Failure to achieve reflected personal, mental or physical inadequacies such as inability to manage household budgets, lack of effort to improve earnings or not making full use of their earnings. At best, they could be considered unlucky. Many successful cases of people who had overcome extreme poverty by saving and working hard were shown on the TV, radio and newspapers under the banner of "Human triumph".

One primary reason for desiring economic growth was to raise the general living standards of the population. In Korea, GNP per capita increased by one hundred times between 1948 and 1990. But have real living standards been improved at the same rate? Have the living standards of various sections of the population been

increased by the same proportion? In every society, the benefits from growth will not be spread evenly. Has economic growth made it possible for those on low incomes to avoid a miserable life without reducing the living standards of others? Furthermore, there are costs as yet not fully known with regards to deterioration of, or even destruction of, the environment. There is almost complete ignorance about who are the victims of these costs.

The most fundamental question raised here is whether the increased cake can now be allocated to help the excluded minority? This will be discussed in the following chapters.

CHAPTER 3. CHANGING INDUSTRIAL AND SOCIAL STRUCTURE.

3.1. Introduction.

Prior to 1950, as witnessed in Chapter 2, the economy of Korea was dominated by agriculture, and social structures were based on land. The distribution of income, and social cleavages in Korean society were based on agricultural assets, especially land. The two land reforms in 1947 and 1949, therefore played a central role in levelling out the distribution of wealth and social cleavages. Moreover, the Korean War (1950-53) destroyed existing capital stocks and flattened the distribution of non-agricultural assets, leaving the majority of Koreans in destitution. After the Korean War, some people accumulated large amounts of wealth through war-time business and bribes, tax evasion, etc; but just after the military coup, the military junta launched strong measures to confiscate such unjustifiably accumulated wealth. Furthermore, the military government launched a currency reform, and forced people to save incomes over certain fixed amounts of exchanged money (Choo H-J, 1982, pp.56-9). Government control through the nationalisation of commercial banks and the Economic Development Plan, crucially restricted the principle of private ownership and the government came to play a greater part in the control of economic decisions.

Thus, even though Korea was a very poor country, there was no serious social stratification. New social strata were created by the differing access to knowledge and capital. Further opportunities for knowledge and capital depended upon further investment. The first unequal opportunities arose between the agricultural sector and the industrial sector, in other words rural and urban. Such different opportunities (or life chances) caused massive movement of people from agriculture to industry, which was accompanied by the movement of people from rural areas to urban areas. This change will be discussed in section 2 of this chapter. In industries, big businesses as development agents benefited more than others. Such unequal allocation of national resources resulted in centralisation of the Korean economy, which will be discussed in section 3. These altered habits of life, occupation, industrial structure and organisation necessarily resulted in the alteration of social structures and vice versa, which will be discussed in section 4. These changes then further influenced the opportunities open to Korean people, which will be discussed in the next chapter.

This Chapter tries to unravel the chains of economic and social changes to achieve a greater understanding of low-income households.

3.2 Urbanisation and poverty.

3.2.1 Urbanisation: an overview.

In Korea, urbanisation is a very recent phenomenon. Traditional Korean society has a relatively stable balance in terms of population. After liberation from Japan and the following partition in 1945, population rapidly increased partly due to natural increases, but largely due to repatriated Koreans from overseas and refugees from North Korea. The population of South Korea increased from 15.879 million in 1944 to 20.03 million in 1948. The repatriated Koreans and refugees were estimated to have added about 2.3 million to the South Korean population during the years 1946-1948 (BOK, 1949 and 1950). Although there are no precise data for the location of the refugees and repatriated Koreans, about 40-50 per cent of them were estimated to have settled in urban areas (Song B-N and Mills, 1980, p.76; Kwon T-H, 1980, p.210). The uprooting effects of the Korean War and the influx of refugees accelerated the urbanisation process during the 1950s.

Table 3-1 Population and Growth Rate, 1392-1990.

Year	Population (1,000 persons)	Annual Growth Rate (%)	Urban Share of Population
1392	5,549		
1592	13,737	0.45	n.a.
1776	18,003	0.15	n.a.
1876	16,884	-0.06	n.a.
1910	17,427	0.09	n.a.
1920	17,264	-0.09	3.3
1944	25,900	1.67	14.5
1950	20,389		18.4
1955	21,526	1.06	24.5
1960	24,989	2.98	28.0
1970	31,466	2.31	41.2
1980	37,436	1.74	57.3
1990	43,411	1.01	74.4

Note: Figures prior to 1950 (above the horizontal line) include North Korea; Urban area is defined as an area with more than 50,000 people which is administratively designated as a city.

Source: Data for the year prior to 1955 are from Byung-Nak Song, *The Rise of the Korean Economy*, Hong Kong, Oxford University Press, 1990, p.35, Table 3.1 and EPB and NSO, *Population and Housing Census*.

The War was followed by a baby boom. Between 1955 and 1960, annual population growth rates recorded a 2.98 per cent increase. The urban share of the total population rose from about 18 per cent in 1950 to about 28 per cent in 1960.

Since the launch of the First Economic Development Five-year plan, industrialisation has occurred in urban areas, especially Seoul and Pusan. This was

necessarily required not only because of the market rationale which tends to locate factories in urban areas, but also because of the constraints of national resources and for reasons of maximizing the use of existing infrastructure. The period 1960-1990 was characterised by rapid industrialisation and by urbanisation. As Table 3-2 shows, the growth of secondary and tertiary industry has been closely related to the growth of urban areas. By 1970 the urban share of the total population had increased to 41.2 per cent. It reached 57.3 per cent in 1980 and 74.4 per cent in 1990. Today over 80 per cent of the population of Korea live in cities with a population of over 50,000. As a result of this very rapid urbanisation, it is true to say that most of the urban poor as well as the urban rich have their roots in rural areas.

Table 3-2 Shares of Urban Population and Industrial Distribution of Total Labour Force, 1920-1990.

Year	Urban share of total population(%)	Agriculture	Mining,manufacturing and construction.	Services and other.
1920	3.3	91.5	1.5	7.0
1930	4.5	87.9	1.6	10.5
1940	11.6	n.a.	n.a.	n.a.
1950	18.4	79.4	3.7	16.9
1960	28.0	65.9	9.2	24.9
1966	33.6	58.6	13.3	28.1
1970	41.2	50.5	17.2	32.3
1975	48.4	45.9	23.5	30.6
1980	57.3	34.0	28.7	37.3
1985	65.4	24.9	30.5	44.5
1990	74.4	19.5	34.7	45.8

Note: Urban area is defined as an area with more than 50,000 people which is administratively designated as a city.

Sources: Data prior to 1960; Economic Planning Board, Statistical Year-book, various years, Ministry of Home Affairs, Municipal Year-book, various years and Ministry of Labour, Year-book of Labour Statistics, various years and EPB and NSO, Population and Housing Census, each year.

Explanations for this rapid urbanisation include many factors, such as the income disparities between urban and rural areas, demographic and social factors, etc. All of these factors have influenced the urbanisation process at different levels and at different times. S.Korea is a very small country with a total area of 99,274 sq. Km, about two fifths of the U.K (244,046 sq Km) with a single race, language and common cultural assumptions. There are few territorial, social and cultural barriers to inter-migration.

Another characteristic of the urbanisation of Korea is the concentration of population in a few cities. After independence in 1945, the urban population accounted for 14.5 per cent of total population of which the population of Seoul and Pusan accounted for about 6 per cent and 3 per cent respectively. After the launch of

the first Economic Development Plan, the government adopted a growth pole strategy. Population growth in the two cities began to accelerate, creating many urban problems, especially with housing. These problems encouraged the government to launch the first National Land Comprehensive Development Plan (1972-81). This was based on the assumption that fast urbanisation and concentration of the population in other centres of the country, as counter-magnets of Seoul and Pusan, was required (Choi S-C, 1976, pp.67-8). Since then, four big cities (*Taegu, Inchun, Kwangju* and *Taijun*) also began to grow, as the Table below shows.

Table 3-3 Distribution of Population in Six Big Cities, thousand persons, 1960-90

	1960	(%)	1990	(%)
Total	24,989	(100.0)	43,411	(100.0)
City	6,997	(28.0)	32,309	(74.4)
Six big cities	5,231	(20.9)	20,646	(47.6)
Seoul	2,445	(9.8)	10,613	(24.4)
Pusan	1,164	(4.7)	3,798	(8.7)
Taegue	677	(2.7)	2,229	(5.1)
Inchun	402	(1.6)	1,818	(4.2)
Kwangju	314	(1.3)	1,139	(2.6)
Taijun	229	(0.9)	1,050	(2.4)

Source: EPB and NSO, Population and Housing Census, 1960 and 1990.

In 1990, 74.4 per cent of the population of Korea lived in cities and the population of these six big cities accounted for about half of the population in Korea. Thus, it is not an exaggeration to say that most of Korea's housing problems are the problems of urban areas and most of them are the problems of the big cities.

3.2.2 Out- and In-migrants.

Until the 1910s, it was evident that the economy was predominantly agricultural, the population predominantly rural, and that the characteristic unit of production was the family. The principle industries were organized on a domestic basis and were subordinate to agriculture. In the hemp cloth industry, for example, the family picked, cleaned and spun the hemp, and the community boiled it. Women and children wove it. Sicklemakers and other metal workers generally worked in sheds attached to their cottages. Many craftsmen also owned strips of land and its produce was of crucial significance in the domestic economy. Many of the labourers moved from industrial to agricultural occupations at times of harvest or planting. Most of the

production of goods was for consumption by the producer and his immediate family and it was rare for them to enter into the process of exchange. Another characteristic of the society at that time was a lack of integration among its regions. Most economic decisions were taken in relation to the conditions of the regional market. The price of products differed from one region to another. "*Bobusang*", hawkers and pedlars, only mediated. The main social division was on the basis of land.

After the colonization by Japan in 1910 and the introduction of medical technology, as Table 3-1 showed, the relatively stable balance in terms of population was upset. Subsistence agricultural production could no longer be a realistic objective. Industrialisation was no longer an option but a vital necessity. However, the impact of colonization was unquestionably highly negative. Agricultural production was encouraged to provide for the deficits of Japan, not for Korea. The result was the emergence of the "**Tomak**" which was a primitive form of housing with illegal occupation of land on hillsides or river banks in cities. The precise origin of such a form of shelter is not clear, but, according to a survey in Seoul in 1940, 65 per cent of residents of "Tomaks" were expelled migrants from rural areas (Kang M-K, 1987). Yi Sang-Hwa's (1900-43) poem, *Does Spring Come to Stolen Fields?*, well represents such situations;

*The land is no longer our own
Does spring come just the same
To the stolen field?*

Liberation and the following partition in 1945, as noted earlier, brought about an enormous influx of population, repatriated Koreans from overseas and migrants from the North. However, in urban areas, many industrial plants suspended production activities, owing either to the loss of managers and technicians, most of whom were Japanese, or to the lack of fuel and electric power which were largely supplied from the North. Urban areas could not provide the immigrants with appropriate livelihoods. The symptom of such inability of urban areas to cope was the emergence of the "**Sangjajip**", i.e. housing constructed from any available material, usually cardboard.

The land reform in 1949 substantially halted the movement of the rural population. A huge number of seasonal wage workers in rural areas could own their land. However, within one year of this land reform, the Korean War (1950-1953) broke out and devastated the whole of Korea.

After the Korea War, a rapid increase in population occurred due to the introduction of advanced medical techniques and medicines from industrialized economies. Furthermore, two consecutive bumper crops in 1957 and 1958 meant cheaper grain and better nutrition, which increased the fertility of women, resulting

in a baby boom. The rising population began to press on food supplies and prices began to rise.

Industrialization still could not successfully absorb the urban unemployed. In Seoul in 1960, for instance, over 30 per cent of the economically active population were estimated to be unemployed. Until 1965, out of a total labour force of 1,012,000 persons, the unemployed amounted to 230,000 or 23 per cent (Kuznets, 1977, p.111). In contrast to this, the average annual increase in agricultural output rose by 2.3 per cent per annum in the period 1953-1962 (*Ibid*, p.133), which more and less reduced the burden of rapid population growth in rural areas. The parity index (1965=100) showed that product prices received/farm cost paid rose from 78 to 113 in 1963. Although income per worker in rural areas was lower than that of urban workers (the ratio of income per rural worker to income per urban worker was 43.4 per cent), incomes of rural households and income per capita were higher than those of urban areas. The ratios of rural to urban were 116.3 and 101.1 respectively. Poverty became a more acute problem in urban areas than in rural areas.

Thus, until the early 1960s, urban population growth was mainly caused by external factors such as independence, the partition and the Korean War with some outmigrants from rural areas - mainly the extremely poor, or the rich looking for better opportunities (Kwon T-H, 1980).

Since industrialisation began in the early 1960s, commodities were increasingly being supplied by urban manufacturers. The economy was becoming more specialized and hence more dependent. Cash incomes were becoming more urgent and more valuable. Rural labour became a great deal more vulnerable to harvest crises and trade depressions than in the past. Continuing population growth in rural areas meant that rises in the real incomes of rural households were frustrated unless the productivity of rural products could keep pace with the population increase or the prices of agricultural products rose.

Agricultural output depends on inputs of land, labour, and the different types of farm capital such as machinery, irrigation, fertilizer, etc. Agriculture in Korea has been characterized by small holding size and specialization in producing rice. Production was already so labour intensive that output could not be increased with additional labour input alone. According to the study of farm labour utilization, an excess of workers of the order of one-third during 1958-64 was found (Hong Y-P, 1966). For the rural poor, the problem was not the level of wages but where they could earn them. At that time, mechanization was limited because farm households' incomes were too low to purchase equipment without credit. Credit was not often available. Moreover, low wages and draft-animal costs made mechanization uneconomic.

One notable change in Korean agriculture since 1961 was the use of fertilizers. All chemical fertilizer was imported before 1960, when the first of a number of urea plants was built. By the late 1960s, Korea was largely self-sufficient in producing nitrogenous fertilizers. Input of fertilizer elements increased more rapidly than did output during the 1963-72 period (Kuznets, *op. cit.*, p.134). In 1956, 170.8 metric tons of chemical fertilizer were used, it rose to 307.1 in 1963 and 647.7 metric tons in 1973. Thus, the increases in agriculture output were accompanied by increases in running costs. The need for cash and/or credit was being increased. However, most farm households' income came from agricultural products, only about 20 per cent of rural households' income was derived from non-agricultural activities.

In rural areas, there were no financial institutions. Most farm households had to borrow money for running costs from individuals at high interest rates. The government enacted the Usurious Debt Settlement Act of 1961 and established the National Agricultural Cooperative Federation (NACF) to supply institutional loans to farm households. The NACF survey showed that over three-quarters of farm debt was obtained from individuals at rates of 10 per cent or more per month (NACF, 1965a, and 1965b). Since 1961, informal curb market interest rates subsequently dropped to 3-5 per cent a month. Even though the interest rates of the NACF loans, 15-25 per cent, were double the export support loans, 6 per cent per annum, it was a benefit compared with the curb market.

Agriculture contributed over one-third of GNP by 1970, yet received less than 10 per cent of all institutional loans. Most of the loans benefited larger farmers and small or marginal farmers still had to rely on the curb markets for fertilizers and other running costs. This often resulted in permanent indebtedness. When recurrent harvest crises struck, marginal land holders had no alternative but to starve or to migrate.

Each year, the Ministry of Agricultural and Fishery estimated demands for the domestic output of foods and the price changes in foods, and decided how much to import. Cereals imports made up 5-10 per cent of domestic crop supplies from 1956 through 1968, and 20-30 per cent afterward. The imported cheaper agricultural products must have contributed to reduced wage increases for urban workers. However, the imports had adversely affected agricultural production and it can hardly be refuted that the rural economy was ravaged (Choo S-K, 1963, p.231). The imports of agricultural products also hindered commercialisation in domestic agricultural production. Urban demand for agricultural products rises with urban households' income and urban population increase because demand for food is typically inelastic. Prices should have increased, raising farm households' incomes.

However, the imports of grain lowered the increase in prices of agricultural products to less than that of general prices.

In contrast to this, as industrialisation accelerated, there was an increasing specialization by industry and occupation, narrowing the range of tasks performed by the individual workman. This increased the number of purely routine tasks falling to the unskilled operators. Women or uneducated workers could enter into the industrial labour force. Factories gave full-time gainful employment not only to men but also to women and children. Since 1964, the government shifted from a policy of import-substituting industrialization towards labour-intensive export-oriented industrialization. As Norton's study (1974) noted, manufactured products which displayed the most rapid export growth were among Korea's most labour-intensive manufactures. The growth of labour-intensive manufactures contributed to the increases in wages of urban workers.

The income ratio of rural household to urban household was reversed from 116.3 per cent in 1963 to 60.1 per cent in 1967. The income ratio per capita also fell from 101.1 to 53.6 in 1967. The standard of living of rural households was deteriorating over time, and rural poverty became the main poverty issue. The story of success for many urban migrants filtered back to rural areas. The miserable urban life was overlooked and successful stories were embellished.

Most marginal farmers, whose incomes were largely derived from fluctuating seasonal wages, left for urban areas looking for uncertain opportunities. In contrast to this, many better-off farmers also left for urban areas looking for better opportunities because the ceiling of agricultural land holding (roughly three hectares) constrained further investments. The rate of out-migration from rural areas into urban areas peaked 1966-1970. During the previous 1960-1966 period, migrants from rural areas accounted for 49.2 per cent of the urban population increase. Between 1966-70, this accounted for 73.5 per cent of the urban population increase (Population and Housing Census, 1960, 1966 and 1970). According to the Ministry of Agriculture and Forestry annual surveys, an absolute drop in farm population began after 1967.

Although rapid migration, particularly rural to urban, contributed to the supply of labour required for the early stages of industrialisation based on low-wages, the influx also gave rise to various problems, such as squatter settlements, traffic congestion, etc. Even though the economic growth of Korea remained rapid - for instance in the period between 1965-1975 manufacturing grew at an annual rate of nearly 20 per cent - the rapid industrialization absorbed less than 35 per cent of the increased labour force. The most visible consequence of industry's inability in urban areas to provide adequate employment for such a rapidly growing labour force, having no education or only primary education with no assets except their labour,

was the emergence of underemployment, a state of low labour productivity, sporadic employment, depressed earnings, and the increase of the informal sector and street economy. The rapid growth in the service sector around 1970 can be seen in Table 3-4. The common characteristic of workers in those sectors was their low income identifying them as the core of the poverty problem.

Table 3-4
Distribution of Employment by Sector.
(percentages)

Year	1965	1967	1969	1970	1971	1972	1973	1975	1980	1985	1989
Primary	58.9	55.2	51.3	50.4	48.4	50.6	50.0	45.9	34.0	24.9	19.5
Secondary	10.4	12.8	14.3	14.4	14.2	14.2	16.3	19.1	22.6	24.4	28.2
Tertiary	31.0	32.0	34.4	35.2	37.4	35.2	33.7	35.0	43.4	50.6	52.3

Source: EPB, *Economic Active Population Year-book*, various years.

Housing also represents the influx of rural migrants at the time. According to the Seoul Municipal Government (Seoul Statistical Year-book, 1972), about 20 per cent of all immigrants to Seoul in 1970-71 settled in substandard houses were built without authorized permission. The terms which indicated squatter settlements or poor houses varied from a description of a housing unit, such as *Tomak*, *Sangjajip* and *Panjajip* towards the term "**Daldongne**", or moon-village, which refers to poor housing areas on a hill-side.

After 1969 onwards, the government launched the "Dual Grain Prices" policy on rice and barley, as a major instrument for raising farm household income and, at the same time, for subsidizing the wages of industrial workers. It bought these crops at a high price from producers and resold them at lower prices to consumers. Since then, rural households' incomes have steadily increased. Nevertheless, until 1970, rural household's income had remained less than 70 per cent of the average urban household's income. Moreover, the dual grain program could not benefit marginal farmers, whose products were only enough to feed their families. Thus, the dual grain policy was more or less successful at subsidizing the wages of industrial workers, but could not successfully halt the immigration from rural areas. Other compensatory methods such as a compensation for harvest failure in coping with the influx of rural migration to cities were constrained by other pressures of national resources. The government inevitably adopted coercive methods which required less public spending. Since the mid 1960s until the early 1970s, massive squatter clearance policies and high-handed policy on the construction of new squatter settlements were introduced.

The Sae-Maeul (New-Community) movement was initiated in late 1971 by the government as a nationwide, comprehensive self-help program to improve the standard of living in rural areas. The program was in line with the government's

determination to arrest, or at least, to slow down the growth of cities by rejuvenating rural areas, principally by the creation of more nonagricultural jobs in them. The Saemaul Factory Program was a part of the comprehensive program, aimed at raising off-farm incomes of rural households. By 1976, 770 plants were established, but mostly near cities. Nevertheless, the composition of non-agricultural income in farm household income declined from 24.1 per cent in 1970 to 18.1 per cent in 1975.

Unlike other programmes in the Sae-Maeul movement, it was less successful partly because of poor infrastructure, credit difficulties and the character of rural labour which fluctuated over the seasons. It must not be imagined, however, that the transition from agricultural or domestic industries with their seasonal routine and their kinship-based organization to the monotonous, machine-driven, impersonal grind of factory work did not come easily in rural areas at that time. Moreover, the first oil price shock in 1973 made it difficult for them to succeed. In effect, most Saemaul factories worked as a training ground for potential out-migrants.

The government launched the First National Comprehensive Land Development Plan (1972-81), designed to achieve more balanced national development. Since early 1972, as the government's economic policy shifted towards heavy and chemical industries, new industrial cities were developed according to the Plan. The growth of new industrial cities gave rise to enormous "feedback" effects on rural areas, which began to raise rural household income. To improve matters still further, there were no poor harvest years between 1971 and 1976 and agricultural output increased over 5 per cent a year during that period (EPB, various years). The parity index, which dropped to 94 in 1968, advanced to 113 in 1972 (EPB, 1972).

In urban areas, owing to migrants from rural areas during the 1966-70 period, manufacturing industry grew without a rapid increase in wages. The rate of increase in the wages of production workers was recorded in single digits, 7.1 per cent per annum, between 1971 and 1974. As the first oil price shock hit the Korean economy, many immigrants found it difficult to get jobs. By 1975, rural household income on average exceeded urban household income. The ratio of rural household income to urban household income was 101.6 per cent. The migration from rural to urban areas slowed down.

When the nation's industrial structure was shifted from light and labour intensive industry to heavy and chemical industry in the early 1970s, plants located away from existing industrial estates and needed more skilled labour. The government began to develop new industrial cities and to expand education facilities. While unemployment or under-employment were acute in the biggest cities, there were recurrent scarcities of labour in the expanding industrial towns or cities of southeastern Korea. Many young and skilled workers migrated from rural areas as well as other urban areas to

the new industrial cities. Since then, migration between urban areas rapidly increased and rural migrants also moved to the new industrial cities rather than the biggest cities.

Increasing rural household incomes enabled rural families to afford higher education for their children. The combined consequence of rural household income growth and the deficit in the young labour force accelerated mechanization in rural areas from 1973 (Lim J-C, 1985, p.49). Accelerating mechanization, in turn, substantially reduced labour input in cultivating rice and barley per acre. More farm households could cultivate cash crops by using new technologies such as green houses, which again raised rural household incomes. Pulling factors became more important in intermigration than pushing factors in the early 1970s.

In urban areas, the surplus of labour turned to shortage in the mid 1970s (Lim J-C, 1985, p.42). Additionally, after 1977 the Middle East construction boom attracted a vast number of workers from Korea. According to the Ministry of Labour, the Middle East construction boom drew as much as 27 per cent of the male manufacturing workforce away from Korea. The combination of industrial development and the Middle East boom boosted the wage of production workers during the latter half of the 1970s. Between 1975 and 1979, the rate of wage increase was 16.8 per cent annum.

After the mid 1970s, more priority was given to the development of heavy and chemical industry in government investment which needed more capital. More resources were invested in associated infrastructure as preconditions of the development of the heavy and chemical industry. Accordingly, as Table 3-5 shows, even the small allocation of government budget to the agricultural sector declined. Productivity in agriculture could not continue to rise with less investment. Furthermore, high inflation during the late 1970s raised the running costs of agriculture. Consequently, the farm household parity index steadily declined. In 1981, it fell to 88.9 from a base of 100 in 1972. To make matters worse, harvest failures occurred in 1978 and especially 1980 when output decreased by over 19 per cent.

As a consequence of urban prosperity and rural stagnation, the ratio of rural household income to urban household income declined to 81.0 per cent in 1980. Small land holders, who largely depended upon non-agricultural incomes, began to migrate away from rural areas, looking to Middle East construction sites and for urban manufacturing jobs even though these were being substituted by machines.

Table 3-5 Composition of Agricultural Sector in Government Finance Expenditure.

Year	General account (A)	Agriculture(B)	B/A
1976	2,142.2	119.6	5.5
1977	2,739.9	118.1	4.3
1978	3,538.2	133.0	3.7
1979	5,053.2	186.7	3.7
1980	6,486.1	234.5	3.6
1981	7,907.8	424.7	5.4

Source: EPB, Outline of Budget, various years.

By 1979, the Middle East boom suddenly cooled and the second oil crisis hit the Korean economy. The scarcity of production workers finished with the collapse of the Middle Eastern construction market and a slow-down in Korea's growth rate. Urban unemployment rose from 4.7 per cent in 1978 to 5.6 per cent in 1979 and to 7.5 per cent in 1980. Whereas, consumer prices rapidly increased over the same period. They rose by 14.5 per cent in 1978, 18.2 per cent in 1979 and 28.7 per cent in 1980. As a result, civil unrest increased with strikes such as the Pu-Ma strike (Kim H-K, 1980, p.172). To make matters worse, the poor harvest crisis in 1980 led to further deterioration in the Korean economy and drew many rural households off the land. In 1981, the *Kwangju* incident extended into nearby rural areas in which the worst harvest failure occurred.

In order to halt high inflation, the government increased imports of cheaper grains and reduced agricultural price supports. By 1983 imported grain was equivalent to 28 per cent of domestic output. The government also froze the government purchasing price in the dual grain price system. Moreover, the volume of purchases also reduced. Accordingly, the farm parity index(1972=100) declined to the lowest level of 84.0 in 1983, and slightly advanced to 86.9 in 1984. As noted earlier, between 1982 and 1985 there was a mass exodus from rural areas, even larger than the migration associated with the 1980 harvest failure. The imported low price grains halted the increase of consumer prices, and enabled the government to carry out a low-wage policy with the help of the massive influx of rural workers. As Table 3-6 shows, since 1983, the increase in wages and consumer prices tended to stabilize.

Despite the low wage increases for manufacturing workers and the relatively high unemployment rate in urban areas, rural household income on average was less than 90 per cent of urban household income. In the early half of the 1980s, the stabilization of the Korean economy and continuing growth was possible at the expense of the agricultural population which accounted for a mere 28.9 per cent of the population in Korea in 1980 (Major Statistics of Agriculture and fisheries, 1981).

Table 3-6 The Increase Rate in Government Purchasing Grain Prices, Wages of Manufacturing Workers and Consumer Prices (comparison with pre-year and per cent).

Year	Government purchasing grain price increases	Norminal wage increases for manufacturing workers	Consumer price increases
1977-81	17.7	27.9	18.6
1982	7.3	14.7	7.2
1983	0.0	12.2	3.4
1984	3.0	8.1	2.3
1985	5.0	9.9	2.5
1986	6.0	9.2	2.8

Source: Kang Bong-Kyoun, Economic Development strategy and Income Distribution of Korea, Seoul; KDI, 1989, Table 2-16 and Table 2-15.

In the mid 1980s, the Korean economy recaptured its growth momentum. The economic prosperity of urban areas, concentration of higher education, and the re-uniting of families in urban areas continued to draw away the rural population. Sequent harvest failures in 1987, 1989 and 1990 removed the remaining marginal farmers off their land. As a result, by 1990, about 75 per cent of the Korean population lived in cities with over 50,000 population.

3.2.3 Urbanisation and Poverty.

The effects of migration and/or urbanisation may substantially vary from one country to another or in the same country over time. Those who have a positive view of urbanisation argue that in the urban areas on the one hand, the marginal product of the migrant may be higher than in the rural areas, on the other hand, rural outmigration may reduce the rural labour surplus, increase agricultural output per capita and raise rural incomes via urban-rural remittances. Moreover, the costs of public services and facilities per capita may be lower in cities than in rural areas. In addition to these, urbanisation is positively viewed because cities are seen as centres of consumption which drives economic change forward. Urban agglomeration economies can reinforce these trends (see Wrigley, 1987, pp.133-156).

In contrast to this, urbanisation is criticized on the following grounds. Firstly, rural outmigration is selective in age and skills, resulting in the export of human capital, worsening rural income distribution, and increasing the cost of public services in rural-areas (Lipton, 1982). Secondly, the movement from rural farming to urban informal sectors reduces the marginal productivity of labour for the migrant (Todaro, 1969 and 1985). It generally used to be argued that the process of enclosure, by drawing smallholders and cottagers off the land and depopulating the rural areas, created the large proletarian labour force. To a great extent, dependency theorists

argued that in the developing countries, such processes were initiated and accelerated by the interest of developed countries via the international market structure (Oxaal, Barnett and Booth (ed.), 1975; Evans, 1979).

Three quarters of the Korean population were engaged in farming in 1945. This dramatically decreased to less than 15 per cent of the population in 1990. Over 80 per cent of the population lived in rural areas in 1945. By 1990, only about 25 per cent of Koreans lived in rural areas. This meant agricultural production exceeded the consumption of the rural population. The number of agricultural households grew until 1967 after which it declined leaving more land available per farm household. Family sizes had also been decreasing as a result of effective family planning since 1962, again adding to the increase in size of farm per household. Thus, urbanisation positively affected household income for farmers who remained and reduced the burden of poverty, at least in aggregate terms.

Another important factor in the rise of rural income has been remittances. In Korea, outmigration from rural areas did not only mean the export of selective human capital from rural areas to urban areas. In urban areas, serious housing shortages forced people to share accommodation. Many elderly parents remained in rural areas and many returned back, contributing to the nuclearisation of the family in Korea (Lee K-K, 1980, p.147). Most migrants, therefore, continued a close relationship with their rural hometowns (Lee M-O, 1985, p.134). They sent part of their income back home in various ways. As Table 3-7 shows, the share of remittances in Korean farm households' non-agricultural income has increased rapidly, in line with urbanisation, accounting for about 20 per cent of the total farm household income in 1981 (Park F-K, 1983, p.12).

Table 3-7 Composition of Farm Household Income.
 (percentages)

Year	Household income	Agricultural income	Non-agricultural income			
			Sub-total	side income	wage income	Remittance
1962	100.0	79.6	20.4	3.8	9.4	7.2
1965	100.0	79.2	20.8	3.5	8.9	8.4
1970	100.0	75.9	24.1	3.8	10.4	9.9
1975	100.0	81.9	18.1	2.5	9.4	6.2
1977	100.0	72.3	27.7	2.7	12.5	12.5
1979	100.0	68.7	31.3	2.0	14.2	15.1
1981	100.0	67.2	32.8	2.9	10.0	19.9

Source: Ministry of Agriculture and Fisheries, Report on the Result of Farm Households Economy Survey, quoted in Funkoo Park, 1983, p.11.

The growth of cities helped to further agricultural investment and specialization and thereby carry forward the rising trend in real incomes. As Adam Smith (1970, Book III, chapter IV) has stressed, urban growth and agricultural improvement can afford

each with a mutual stimulus to the other. Indeed, despite the increase in urban households' income, the Engel Coefficient had not dramatically decreased by the early 1980s. According to the study of the Central Council of National Agricultural Cooperative Federation (1981, p.8), between 1970 and 1980, urban households' monthly income had increased from £56.3 to £100.6 on average, whereas the Engel coefficient remained at 42 per cent. Thus, food consumption has substantially increased. Although a large part of the increased demand was fulfilled by imported grains, increasing population in urban areas required vast quantities of food which had to be drawn from an increasingly wider area. Rural households could trade the surplus agricultural products into cash, which in turn encouraged the productivity of agriculture (Park J-H, 1969). For example, the yield per 10 acres of paddy rice steadily increased until 1977 (Park F-K, *op.cit.*, p.36). Such a large and growing market encouraged specialisation, not just in the growing of rice and raising of animals, but also in all the tasks associated with their processing, distribution and sale.

By the early 1960s, farm households could save "cash" income (Moon, P-Y, 1979, p.165). The share of commercial products in agriculture steadily increased. In 1961, it accounted for only 24.3 per cent, and rapidly increased to 70 per cent in 1980 (Kim S-H, 1980, p.186). The commercialisation of agricultural products, in turn, encouraged farmers to cultivate a higher proportion of cash crops. For example, in 1947, rice accounted for 72.2 per cent of agricultural products. The proportion fell to 52.1 per cent of agricultural products in 1975 (*Ibid*, p.186). Furthermore, the development of agricultural technology, such as the green house, the method of early seeding and fertilizers, since the mid 1960s accelerated the increase in agricultural productivity, and then commercialisation. Moreover, since the mid 1960s, the government focused on the development of roads, for instance, in 1965, the Seoul-Pusan motorway construction was started. The development of transportation shortened the physical and social distances between urban and rural areas. The development of transportation accelerated, not only out-migration from rural areas but also commercialisation of agricultural products (Keidel, 1980).

In the early stages, the distribution of agricultural products was mainly carried out by merchants in urban areas. Small land holders were easily exploited by urban merchants because of their lack of knowledge of the urban market and lack of capital. Urban merchants gave advanced credits to the farmers for seeds, implements, and other necessities, pending the harvesting of their crops. They exploited the farmers by promoting their indebtedness (Jang Y-S, 1985 and Kim S-H, *op. cit.*).

After the early 1970s, the rural community began to organize and distribute agricultural products themselves. The *Saemaeul* movement fuelled the acceleration of

rural community organization. In addition to this, the government also intervened in the distribution of agricultural products through a well organized National Agricultural Cooperative Federation, which protected farmers from forced sale of crops at harvest time at cheap prices by building rural warehouses for the storage of crops. It also protected them from merchants' usurious credits, and encouraged the organisation of rural communities.

The land reform of 1949 limiting land holdings up to three *Chengbo* (roughly three hectares) acted to push the rural rich off the land. Furthermore the ceiling of land holding itself acted as a protector of the rural community from the invasion of urban capital (Eddy Lee, 1979, p.27). Moreover, whenever the harvest crises struck, the rural poor had no alternative but to starve or to migrate. The stagnating rural economy, with no other income sources and no social safety nets, made the rural poor more predisposed to factory work. The poorest were being compelled to leave rural areas as well as the richest. Therefore, community interests could easily reach consensus. Such factors increased rural households' income as well as agricultural productivity and contributed to making rural areas a more egalitarian community than the urban community.

Urban places, at least until the late 1970s, had an "open" structure. There was no visible group of dominant capitalists. Furthermore, the nationalisation of commercial banks, and strong government intervention after 1962 effectively halted the emergence of powerful merchants. Although industrialisation began to create some big industrial groups, these were originally manufacturers, not merchants. Furthermore, as seen in the last Chapter, the industrial capital of the big business was subordinate to the government, not to the circuits of merchant's capital and credit. They operated more in accordance with the logic of industrial capital, increasing overall production and the productivity of labour, rather than merchant's interest bearing capital, increasing overall circulation and accelerating the turnover time of capital.

Industrialisation was represented by the establishment of manufacturing factories. The factories gave full-time gainful employment not only to men but also to women and children who rarely enjoyed more than seasonal or part-time work for pay in rural areas. For instance, in 1972, 3.4 million women were engaged in agricultural activities during June, at the time extra labour was needed to transplant rice, but only 1.2 million in December after harvesting (Kuznets, *op.cit.*, p.113). As the Table below shows, women's participation in the work force has rapidly increased, contributing to the increase in household incomes.

Table 3-8 The Ratio of Economic Active Participation, age between 15-65 years old.

Year	Total	Male	Female
1963	55.3 %	76.4 %	36.3 %
1965	55.6 %	76.6 %	36.5 %
1970	55.9 %	75.1 %	38.5 %
1975	56.5 %	74.5 %	39.6 %
1980	57.1 %	73.6 %	41.6 %
1982	56.8 %	72.5 %	42.4 %
1983	55.8 %	70.9 %	41.6 %

Source:EPB, Economic Active Population Year-book, each year.

The big businesses mainly engaged in production for export and the government left the domestic market to market rationale. This led to multiple industrialisation. Most commodities for domestic consumption were supplied by small capitalists or artisans, mostly taking the form of family manufacturing. There were no dominant merchants. Therefore, the supply of commodities for domestic consumption, the distribution and sale of them had an "open" structure.

As cities grew, the development of the tertiary sector lagged behind that of the secondary sector. The deficit of a tertiary sector attracted rural unskilled households, who could easily find jobs in cities. A multitude of small shops, hawkers and pedlars carried out the function of sale and distribution and operated as a training field for the new in-migrants. As urban areas grew and the real income of urban households grew, demand for secondary and tertiary products also grew, increasing employment in secondary and tertiary industries. Therefore, the location of a certain export industry and its workers touched off multiple growth in the region and gave rise to a great expansion of "supportive" or "supplementary" occupations.

As seen in the last Chapter, since 1961, the unemployment rate has rapidly decreased. Some argue that the unemployment rate was disguised by overemployment in services and in the informal sector which has not been taken sufficiently into account in calculations of the extent of urban underemployment. At the early stages of industrialisation, the incomes of migrant households were relatively "low", but this does not imply that they were relatively poor either in relation to rural areas, or to the past.

It has often been argued that any increase in employment in services in the framework of an economy in which agricultural and industrial productivity remain relatively low would impede development (Bairoch, 1988, p.484). In a country where imports and exports are open, overemployment in services would exert pressures both on the standard of living and on prices in the productive sectors of the economy, owing to the additional distribution costs entailed, and consequently on the level of

productive investment. Furthermore, the capital accumulated in services would not be directed toward fresh investment.

However, in Korea this sector was an asset of steady economic growth, a training field for urban life for new immigrants and an instrument for reducing poverty. As export industries grew and productivity rose in industry and agriculture, the general level of consumption increased. The informal sector connected the production of goods and services to meet the essential needs of the population, collecting people's savings and channelling them into productive activities. Often the capital accumulated in services was directed towards fresh investment. This "open structure" was protected by high tariffs against imports of consumption goods. That was well illustrated by a statement made by the chairman of the Lucky-Goldstar group, one of the top ten businesses in Korea;

"My father and I started a cosmetic cream factory in the late 1940s. At the time, no company could supply us with plastic caps of adequate quality for cream jars, so we had to start a plastic business. Plastic caps alone were not sufficient to run the plastic-molding plant, so we added combs, toothbrushes, and soap boxes. This natural step-by-step evolution through related businesses resulted in the Lucky-Goldstars group as we see it today. For the future, we will base our growth primarily on chemicals, energy, and electronics" (Harvard Business School, 1985)

Some rural unskilled poor started urban life as construction or manual workers. When they had accumulated a small amount of capital, they could open a corner shop and expand it, or set up a small factory to produce commodities for domestic consumption. Others amongst the rural poor started as hawkers or pedlars, moving on to open small corner shops, and so on. In comparison with studies carried out during the 1960s and the early 1970s, the national migration survey in 1983 confirmed how successfully the informal or traditional sector transferred into formal and modern sectors. For instance, in most market economies, the service sector expands in both absolute and relative terms over time with economic growth (Chenery and Syrquin, 1975). In Korea, as we have seen in Table 3-4, by 1971, the composition of the service sector in terms of employment ratio in total employment had increased to 37.4 per cent. It steadily decreased to 33.6 per cent in 1976 and then increased again as the economy grew.

So this open structure contributed, not only to increased opportunities for social mobility but also to economic growth. Moreover, many technical high schools, polytechnics and national universities with high subsidies by the government played an intermediate role between education of young rural poor and the supply of a skilled labour force needed for industrialisation. The cities were a pool of opportunities, although the opportunities were not the same for everyone.

However, since the mid 1970s as the industrial structure has shifted from labour intensive industry towards skill-intensive industry, the "open" urban structure has increasingly become a "closed" structure, and universities have essentially been functioning as instruments of control over opportunities rather than as ladders of social mobility.(This will be discussed in detail in Chapter 4). Most sons and daughters of urban low-income households have been increasingly excluded from opportunities of upward social mobility because they cannot afford to open cornershops. Even the existing cornershops were being closed by modern super-chains. Neither can they afford tuition fees which have been rapidly increasing over time.

If a society relies on the family as its principle means for survival in hard times, as times get better it is to be expected that successful families will do their best to ensure that their children benefit from their growing prosperity, thus building growing inequalities into the social structure. Economic resources can be used to gain power, the power can help to reinforce power or to create economic opportunities. Thus, inequalities of condition at any one point in time create inequalities of opportunity for future achievement.

In Korea, a crucial change occurred in the late 1970s. At this time the majority of people were separated from the land and became wage earners. They became dependent upon wages from paid labour. Those who could not work for wages could not support themselves and thus were poor. Moreover, household expenditures on education, medical treatments, transport and especially on housing began to rise rapidly in the late 1970s. This implies that in an urban system, other sources of indirect income apart from the labour market, appeared to be creating new or deeper patterns of inequality. Pahl (1973, p.101) argued that the provision of public services and facilities has its own pattern of inequalities. The question raised here is whether the urban system in Korea itself generates inequality or whether it reflects the economic and social system within which it is encapsulated. Thus, the changing economic and social structure will be explored in the following sections.

3.3 Changing Industrial Structure.

The two land reforms and the Korean War (1950-53), as mentioned earlier, flattened the distribution of non-agricultural assets. After the Korea War, some people could accumulate large amounts of wealth through war-time business and by bribes, tax evasion, and so on. Just after the military coup, the military junta

launched strong measures to confiscate unjustifiably accumulated wealth. The total amount of confiscated wealth was significant. It representing 6.6 per cent of total corporate savings in 1961, 16.6 per cent in 1962, 3.8 per cent and 2.4 per cent in 1964 and 1965 respectively (Bank of Korea, 1965 and 1968). After the launch of the Confiscation of Unjustifiably Accumulated Wealth, Korea's five biggest businesses, *Buksam Chemical*, *Taichang Textile*, *Donglip Industry*, *Daiwang Construction* and *Jungang Industry*, collapsed and were never revived (Choo H-J, 1982, p.62)

After the launch of the first economic development five-year plan in 1962, new larger firms began to be established as a matter of government policy. Firm size was significant because large firms tend to be more mechanised, and thus increase productivity faster. However, given narrow domestic markets and a poor endowment of natural resources, import-substitution industrialization offered limitations for further economic development. By launching the second economic development plan (1967-71), the government's economy policy shifted from import-substitution towards export-oriented (or outward looking) industrialization, shifting major demanders from domestic households towards foreigners. The export oriented industrialisation was very successful, but also had a crucial flaw - i.e. sustaining growth depended crucially on responding to changes in world trading conditions.

The shift towards export-oriented industrialization itself generated the conditions for industrial restructuring. Once an export-oriented policy was adopted on a macro level, a deliberate effort had to be made to diversify the economy to make it less vulnerable to international downturns. At the micro level flexibility and functional efficiency in Korean industrial organisation became necessary in coping with fluctuating international markets; industries then began to organize in a hierarchical subcontracting structure with functional divisions as a way of achieving greater flexibility and efficiency.

Big businesses did make significant capital investments in equipment and machinery, or more usually by building larger plants and employing more workers. Although large firms tended to be more capital intensive, and thus absorb proportionately less labour than small ones, thanks to the growing size of establishments, the majority of the surplus labour force derived from rural areas could transfer into new factories. For example, jobs in manufacturing grew at an average annual rate of over 11 per cent during 1960-1970. In manufacturing, exports accounted for just 3 per cent of employment in 1960. It increased to 25 per cent by 1970 (EPB, 1965 and 1972). Evidence from D.Morawetz (1974, p.501) shows that the shift towards export-oriented industrialisation went hand in hand with growth in employment.

The informal (or traditional) sector with little capital and less educated and less skilled labourers could fill the vacuum between the production for domestic consumption and the consumption of the products. They played the role of inter-linkage between industry and commodities of consumption (Bromley, 1978; Peattie, 1979). Together the establishment of new industries for export and the prosperity of the informal (or traditional) sector could successfully absorb the increasing labour force and reduce poverty. There was always a dilemma between whether the informal sector should be basically seen as a social service which should be encouraged to help provide good access to goods for all the population, or whether it should be viewed from a purely economic perspective as a largely privately owned industry, often making irresponsible demands on the environment (see, Park C-C, MP, 1989, pp.27-56). Nevertheless, its growth was propelled by the economic structure itself.

However, rapid urbanisation between 1966-1971 increased unemployment and underemployment. The first oil price shock in 1973 resulted in even more rapid growth of unemployment and underemployment. Since then, the government decided that the time had come to undertake a new strategy leading to a higher stage of development, characterised by capital and skill-intensive industrialisation, such as shipbuilding, machinery, steel industry and petrochemicals. A large part of national resources were allocated for the development of heavy and chemical industrialization in which the government saw that the economies of scale necessarily took a greater advantage. Some big businesses were chosen by the government, as an agent of such development. According to one estimate, during the second half of the 1970s, as much as 37 per cent of the investment at the margin was given to investors in eligible key industries in the form of tax privileges (Kwack T-W and Lee K-S, 1991).

In contrast to this, under resource constraints, such development had severe effects on small businesses. The shortage of capital reduced rates of productivity and hindered the growth of small businesses. As the turning point of the early 1970s, big businesses, known as the *Chaebols*, began to grow rapidly and, at the same time, the Korean economy began to be centralized. Since the early 1970s, for example, the average annual rate of value added of the biggest five *Chaebols* has grown at more than twice the average annual GDP growth rate. Until the late 1970s, the growth of the *Chaebol*, and thereby the centralisation of the economy, had mainly occurred through new establishment and then the expansion of heavy and chemical industrial complexes by the *Chaebols*.

In contrast to this, the creation of small firms, especially in the manufacturing sector, was given low priority until the early 1980s, because of the Korean government's policy of promoting the expansion of production capacity in existing firms rather than the establishment of new small firms (Song B-N, 1990, p.109). The

shift of money flow towards the heavy and chemical industry resulted in the bankruptcies of many small labour-intensive light industries. The difficulty of such industries was furthered by changes in the labour market. Since the mid 1970s, the supply of labour shifted from over supply towards scarcity (Lim J-C, 1985, p.42), causing rapid wage increases pushing up production costs.

Problems were not confined to small firms. The "big push" policy began to show over-capacity by the late 1970s as a consequence of the world-wide recession. The second oil price shock in 1979 resulted in bankruptcies not only of small firms but also of large firms such as *Dosan* and *Yulsan*. *Chaebols* realigned their overall organisations by selling and internally merging unprofitable firms. Moreover, the government launched the Anti-Monopoly and Fair Trade Act in 1981 under the belief that a new economic order was necessary to adapt to the changing economic environment as a legal tool to attack directly the problem of the centralisation of the economy (Lee K-U, S.Urata and Choi I-B, 1992, pp.212-3). As Table 3-9 shows, as a consequence of rationalisation of the *Chaebols* themselves and the Act, the numbers of affiliated firms temporarily declined. However, the unemployment rate began to rise.

A harvest failure in 1980 was accompanied by mass out-migration from the agricultural sector. As mentioned earlier, this in turn led to several social crises. The government then permitted corporate integration for the purpose of rationalising industry and strengthening international competitiveness, encouraging big businesses to take over closed industries with strong support. For instance, through the tax reform in 1982, the government reduced corporate income tax rates. As Kwack T-W (1993, p.401) pointed out, "*From a pure fiscal view point, the system was a major source of revenue loss. ... led to unequal tax burdens among individuals and different sectors*". Nevertheless, such policy successfully reduced the unemployment rate, and hence mitigated a social crisis.

Table 3-9 The Number of Affiliated Companies of 30 Big *Chaebols*.

Year	1970	1979	1982	1985	1989
Total affiliated companies	125	412	387	404	513

Source: Hong J-P, 1989, p.87.

In addition, to cope with high inflation in the early 1980s, government launched tight monetary and fiscal policies. As a result, small companies were running out of money to pay wages, and many of them were affiliated to big businesses as subcontractors. Since then the centralisation of the economy by the *Chaebols* has been undertaken by takeover, mergers, affiliation and/or incorporation with the

support of the government via tax, credits, etc. As a consequence, the number of affiliated firms in *Chaebols* began to increase. The integration of small firms into big businesses as affiliated firms allowed the Korean economy to deal more easily with structural adjustment problems by allocating resources and technologies internally from profitable and affiliated firms to others within the *Chaebol*.

After the world-wide recession in the late 1970s, more restrictions by developed countries were placed on the established exporting countries such as Korea, Hong Kong, and Taiwan (McMullen, 1982). The enlarged big businesses therefore began to look for more flexibility, and began to diversify into new areas as a way of diffusing risks over several sectors. They began to enter into the tertiary and service sector. It was at this point that massive urban redevelopment began, changing the land use of city centres into an office and commercial economy (this will be explored in Chapter 6).

The Third World began to enter into international markets with cheaper wages since the early 1980s squeezing Korean firms out of the low end of the markets. Big businesses had to compete not only with the leading American, European and Japanese firms, but also the Third World countries on the basis of quality and responsiveness to specialized customer demands and not exclusively on the basis of price.

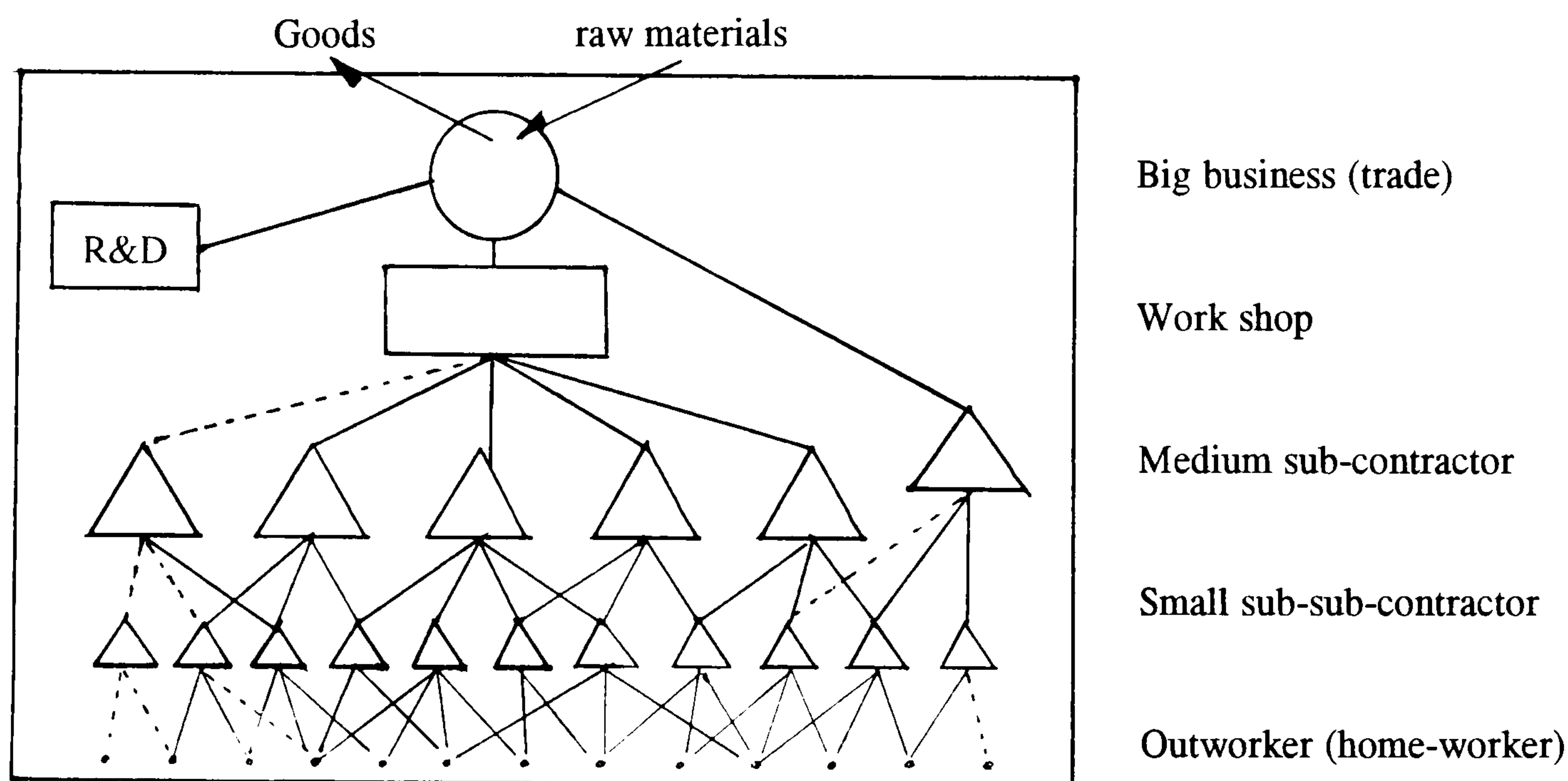
In the export oriented industrial structure, flexibility, as well as cheaper production costs, were necessary to cope with the changing environments of the international market. Such requirements often resulted in minimizing the quantity of labour required to perform a given set of operations, in other words mechanization or automation, or economies of scale. This had previously been achieved by patterns of organisation which have been described as "Fordist". However, in many modern industries, if not all, rapidly changing models or tastes of world demands often resulted in the failure of Fordism.

Korean industry could cope with these obstacles in two ways. One was by increasing non-standard employment contracts (irregular workers), especially on the production line. The other was by networking between big firms and small firms, formal and informal, modern and traditional, as Figure 3-1 shows, expanding subcontracts or reducing subcontracts, resulting in very high turnover rates of employees. Through this structure, Korean industry could have flexibility and the products could have an international competitive power by reducing the indirect payments of non-standard employment contractors relying on part-time workers, temporary workers, and outworkers, whether legally or illegally. Moreover, reliance on the combination of both irregular workers and subcontracting has enabled *Chaebols* to reduce capital commitments, which has helped to release resources for

investment in high-tech industry, for R & D and for the diversification of activities. Thereby, on the one hand, Korean goods could compete in high-tech markets and penetrate low-income markets in the international market place, continuing economic growth. On the other hand, the centralisation of the Korean economy by the *Chaebols* developed its own momentum.

Under these circumstances, since the mid 1980s, the rapid growth of organised work-place-based groups has generated political pressures 'from the bottom up' in deciding wage levels. Production workers began to organize and challenge professional and political orthodoxies, by demanding a larger share in the fruits of growth and more influence over decisions. As a consequence, the wages of production workers have rapidly increased. So the classic economic argument again applied; "as labour costs increase enterprise will seek cheaper alternatives". Since then, militant unionisation in big factories and extremely expensive factory space have encouraged an increase in irregular workers and subcontracting as a way of alleviating the increased wage demands which increased production costs, and/or as a way of reducing capital commitment on factory sites.

Figure 3-1 Industrial Structure of Korea.



This structure is common, if not universal in industry, especially in the case of labour intensive industries such as textiles, footwear, clothing, etc. which accounted for over 31 per cent of manufacturing workers until 1989 (MOL, January 1989), whose competitive power has traditionally been based primarily on low labour costs. In general, the smaller the firm, the more likely it is to be a subcontractor. It seems that the smaller factories rely more extensively on non-standard workers due to extremely expensive factory space in an effort to maintain competitiveness.

The contracting firms usually supply the raw materials and additional machines, or even assist in production management and technology. Thus any new technology developed can easily be transmitted to small firms. Subcontractors are dependent on contracting firms for other sources of capital, and for the marketing of their products. They have no control over the marketing of their products and they are paid by contract rate, and therefore they have no control over profit extraction. Some subcontracting firms serve only one firm, yet most work for several simultaneously. It is then up to the subcontractors to finish the tasks in the specified time, the so-called "just in time" process, whether by working overtime or by bringing in more irregular workers in order to obtain new orders from the contracting firms. Under this structure, the growth of small and medium-size firms has depended upon the growth of the large firms. This gives the small firms an impetus for growth (Lee K-U, Urata S. and Choi I-B, 1992, p.215). The industrial structure can be easily understood by looking at the Financial Times (Monday August 8 1994):

" Hyundai Heavy Industries, South Korea's largest shipyard, says it has lost Won338bn (£274m) in sales as a result of a strike by its workers that began on June 24. The Korea Federation of Small Business warned that continuation of the Hyundai strike could push many of HHI's 1,500 suppliers close to insolvency. The small business association (sub(-sub)contractors) urged the government to call for emergency arbitration in the dispute and punish the HHI workers who have been occupying the shipyard since the company imposed a lock-out on July 20".

The Korean government has devised numerous policies since the mid 1980s for the purpose of easing start-up and helping small businesses. These include low interest loans, providing cheap sites or space, job creation programmes, and retraining schemes. Little is known about the effects of these policies. It may be too early to evaluate the policies. Under the export-oriented economic structure, the changed international market and this industrial structure, however, the impacts of such programmes necessarily have limitations.

Moreover, as mentioned earlier, in the latter half of the 1970s the government used bank credit instruments with greater than usual intensity to develop heavy and chemical industries. But throughout the second oil price shock and the following world-wide recession, the consequence was over-investment and an apparent misallocation of capital (Cho Y-J and Cole, 1992, p.122). Partly in reaction to these assessments, but mainly due to the growth of *Chaebols'* power in the economy, the government changed direction and reoriented its financial policies with the liberalisation of commercial banks, occurring between 1981 and 1983. Government-held shares of all nationwide commercial banks (about 20-30 per cent) were privatized (Sakong Il, 1993, p.72). However, as T.Michell (1988, p.68 and see Cho Y-J and Cole, 1992, p.135, note 4) pointed out, *"After 1980, when the government*

sold holdings in the commercial banks, almost all the shares sold are believed to have ended in the hands of the Chaebols despite stringent measures to prevent this". Thus the liberalisation of the commercial banks contributed to the growth of *Chaebols* and the further centralisation of the economy. By contrast, small businesses faced more difficulty in their access to the commercial banks.

If economic sociologists' findings that strikes are apparently more frequent when a large number of workers are employed under one roof, e.g. in a motor car factory, are correct, then sub-contracting industrial organisation must have contributed to reducing strikes and thereby reducing aggregate costs. Under this structure, big businesses are located far away from subcontractors. Managers in contracting firms do not see the living conditions of the workers in subcontracting firms. Employers of subcontractors live fairly close to their workers. They have a more personal relationship with their employees. Most of these employers also take part in the production process (Han H-O, 1985 and Cho H-Y, 1993). Thus both employer and employee have mutual obligations to a much broader extent than in a big factory. These structural environments have blurred the conflicts between employers and employees in subcontractors.

On the other hand, any failure of subcontractors in the output process would result in no guarantee for a further contract (This has been much emphasized in explaining Japanese industrial success in Western countries). The growth of *Chaebols*, and thereby that of the Korean economy are based on this internal organization.

Such industrial organisation is accompanied by a crucial functional division between contractor and subcontractor. The contracting firms mainly focus on marketing in international markets and the development of new technology and goods, whereas subcontractors perform purely the function of "just in time" production according to the order of contracting firms. Such functional division is also accompanied by the intellectual division of labour according to the functions. In subcontracting firms, work becomes routine and meaningless. This has been reinforced by the development of technology. In that structure, *Chaebols*, the contracting firms, require the careful internal conditioning of their members for maximum external effects against subcontractors and other competing enterprises in international markets. The new recruit to the labour force of the *Chaebols*, via highly competitive examination, is deeply and carefully drilled in the purpose of his enterprise. Higher compensations or rewards are necessarily required to create the solidarity on which external power depends. Dualistic labour markets emerged as the Korean economy shifted towards capital and skill-intensive industry and this industrial organisation accelerated the bifurcating tendency in the labour market.

The diversification of the *Chaebols* was carried out by expanding their activities to the tertiary sector in association with enlarged domestic markets. Since the mid 1970s, liberalization in imports of goods and services by the force of developed countries through GATT resulted in a consumer revolution. Moreover, the rapid growth of wages during the second half of the 1970s accelerated the consumption boom. Retailing also seems to have an inbuilt momentum for change, at once both leading and being led by changing consumer preferences in a very competitive market.

Moreover, as a result of the world-wide recession after the second oil price shock, the *Chaebols* experienced severe losses due to rigidities of over investment in heavy and chemical industries, as mentioned earlier. They tried to offset these losses by participating in the lucrative tertiary sector and even speculatively in real estate markets. Big businesses even began to penetrate retailing. The concept of super chain stores emerged at this time and began to dominate the retailing sector. Thus the centralisation of the economy was driven forward by the *Chaebols* which kept a large number of affiliates and subcontractors, ranging from manufacturing, construction, finance, insurance to retailing.

Table 3-10 Combined Sales of Top Ten Chaebols, as Percent of GNP, 1974-1984.

Groups	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
1	4.9	4.3	4.7	7.9	6.9	8.3	8.3	10.5	10.4	11.8	12.0
2	7.2	7.5	8.1	12.5	12.9	12.8	16.3	19.1	19.0	21.2	24.0
3	9.0	9.8	11.3	16.0	16.9	17.6	23.9	27.6	27.4	30.5	35.8
4	10.3	11.4	12.9	18.2	20.7	22.1	30.1	35.2	35.6	38.7	44.3
5	11.6	12.8	14.5	19.8	22.9	24.6	35.0	41.3	42.2	46.7	52.4
6	12.7	14.1	16.1	21.3	24.7	26.6	38.2	44.9	46.0	51.0	56.2
7	13.5	15.3	17.5	22.8	26.4	28.5	41.0	48.0	49.2	54.2	59.4
8	14.3	16.2	18.4	24.0	27.7	30.3	43.6	50.9	52.2	57.1	62.1
9	14.7	16.7	19.3	25.2	28.9	31.6	46.0	53.3	55.1	59.8	64.8
10	15.1	17.1	19.8	26.0	30.1	32.8	48.1	55.7	57.6	62.4	67.4

Note: (Aggregate net sales of the largest ten business groups/GNP) X 100 for each year.

Source: Seok-Ki Kim (1987)

The changed industrial structure, centralisation, subcontracting relationships, and the diversification of centralised big businesses have all eliminated small individual businesses and restricted the number of newcomers to industry and business (Lee K-U, S.Urata and Choi I-B, 1992, p.210), resulting in a "*closed industrial structure*". Han H-O (1985, p.138) depicted such trends in the following manner through her empirical study of small self-sustained shoe factories in 1983;

"Small self-sustained producers well know the limitation of marketing, so that they are reluctant to expand their businesses. Even though they could accumulate a small amount of capital, they invest in housing or land rather than re-investment for the

expansion of their businesses. This attitude already has been widespread in all other small self-sustained producers "

Since 1987, domestic savings began to exceed domestic investments. Under this closed industrial structure, the surplus money was channeled into real estate markets, and the unexpected real estate boom since late 1987 necessarily followed, resulting in explosive house price increases (KRIHS, 1990, p.7).

3.4 Changing Social Structure.

Once general Park came into power through the military coup in 1961, massive political and administrative reforms were introduced, setting the First Economic Development Five-year Plan (1962-66) which incorporated both administrative functions and political processes such as budgeting (Lee C-S, 1981, p.98). The government was re-organized with a centralized hierarchy. Since then, as outlined in Chapter 2, in the political and administrative landscape of Korea, there has been no division of power, no independent local government, no strong political parties, no independent parliament and no judiciary capable of curbing executive power. National resources were allocated according to the development plan by the government. The resource allocation system was a vital source of power. The government was the core of power. The public bureaucracy, with strong social and ideological cohesion and shared professional interests and cultural values, held power and led Korean society until the late 1970s.

The dominance of the public bureaucracy not only in policy implementation but also in decision making was often explained by the assertion that executive dominance stems in part from the leadership's personal motivation and strong commitment to economic performance and in part from historical tradition rooted in Confucianism (Whang I-J, 1992, p.308; Jones and Sakong, 1980, pp.58-66). However, the main background for the executive dominance arises from two factors. Firstly, there were no other groups competing for power outside the government. As mentioned earlier, the aristocracy was dissolved by two land reforms, industrial capitalists were destroyed by the Korean War and dismantled by the military revolution, and industrial workers were a small percentage of the population. Moreover, the unions were divided by their ideologies (Park F-K, 1993, p.30). The military revolutionaries formed the Democratic Republican Party (DRP) and won the election. The chairman of the DRP, President Park, argued, *"A new, efficient and incorruptible state which will guarantee liberty and justice under law, and provide for*

a better economic, social and political way of life for our people" through an "administrative democracy" (General Assembly Official Records, requoted in Lee Y-H, 1975, p.29). For instance, when the Comprehensive Measure for Economic Stabilization was announced in April 1979, "although the EPB technocrats understood the political implications of the CHES, they tended to neglect them as they pursued economic rationality to cope with the problems that the program was to address" (Whang I-J, 1992, p.314).

Secondly, the technocrats in the public bureaucracy have been recruited through a highly competitive examination on the basis of merit, then provided with extensive training. Incompetent bureaucrats were promptly removed, while others were promoted on the basis of merit (Lee C-S, 1981, p.96). Thus, it is not an exaggeration to say that the public bureaucracy was made up of the most talented people in society. Moreover, they were highly motivated by the meritocratic system of promotion and rewards. Thus, there was little competing organisation of power and talent to challenge the public bureaucracy.

Some observers have often described this bureaucratic dominance as authoritarian and undemocratic. This is true. However, it should be kept in mind that most of the bureaucrats recruited on the basis of their ability had common experiences with the people they in effect ruled. They had lived under harsh colonial rules and they had experienced the Korean War and the hunger and famine which followed. Even though they were authoritarian and undemocratic, they knew the misery of poverty and understood the poor. For them, economic development was seen as the first and most necessary step. Even dictatorship was tolerated, rather required, for the sake of national solidarity and economic development. They have been anxious to alleviate the problems of acute poverty, but not to provide general social welfare schemes (Hasan and Rao, 1979, p.169). The method to cope with the problem was "through economic growth". The government's strategies for equity can be summed up under three headings; high investment in education, strong control of the mode of production and cross-subsidization through highly progressive tax on the wealthier people, e.g. through the Special Consumption Tax.

Ralph Turner defined two ideal forms of mobility which he termed *contest* and *sponsored* mobility. Contest mobility is the form of mobility where the top positions in society are dependent principally upon the ability and effort of the individual. Sponsored mobility is the form of mobility where recruits to the leading positions in society are chosen by the powerful, not on individual merit. In Korea, both forms of mobility exist, but the contest form is absolutely dominant. The combination of the meritocratic system in the public bureaucracy and the government's strong emphasis on education contributed to the building of a remarkably fluid society. Additionally,

as Hwang E-G (1993, pp.74-5) pointed out, "*without the belt tightening sacrifice of the then poor Korean parents for their children's education, the foundations for subsequent high growth in the 1960s and 1970s would never have been laid*".

This has allowed Korea to utilise its resources of talent fully. Considerable potential talent has not been wasted by the stratification system itself. This system has become acknowledged as one of the main factors explaining the "economic miracle". However, in a highly homogenous society without ethnic, linguistic or religious cleavages, traditional social stratification has been dismantled. Educational attainment has begun to loom large as the most important cause of social stratification (this will be discussed in the next Chapter).

Under the national resource allocation, big businesses as exporters benefitted more than others. Such unequal allocation of national resources has resulted in the centralisation of the Korean economy, as we have seen in the last section. The concentration of economic activities has been a pervasively characteristic feature of industrial development ever since (Galbraith, 1985, p.131). It was Marx's assertion that only a small fraction of increased value was returned to the worker in his wages. Surplus value in the form of interest, profits, and rents was appropriated by the capitalist. Should wages rise because of an unnatural scarcity of workers, this would provoke a crisis or depression. Such crises would ultimately bring an end to capitalist power. Any such crises leading to the demise of small entrepreneurs would contribute to the process of concentration and centralisation. Large capitalists would gobble up the smaller businessmen or force them into the proletariat. Along with the crises, attenuation and weakness from over concentration and centralisation would contribute to the final collapse. During this process, the state would be viewed as an executive committee for managing the affairs of the governing class as a whole (Marx and Engels, 1976, p.486).

In Korea, the government was subjected to the accumulation of capital, but the bureaucrats mostly had a background of poverty. The control of national resources gave power to the public bureaucracy to prevent the emergence of a few big capitalists who could dominate the whole economy. As Table 3-11 shows, for instance, the average debt to equity ratio in manufacturing industries is over 300 per cent. So technically speaking, all big businesses in Korea are in a state of bankruptcy (see Kim E-H, 1990, pp.341-57 and Jones and Sakong 1987, pp.343-64). There is increased centralisation of control in the economy by the *Chaebols*, but without entailing increased concentration of ownership.

Many critics have highlighted the fact that the *Chaebols'* asset portfolios were owned and controlled by a few individuals and their family members. It seems to be the case at a first glance. As of April 1992, about 46.1 per cent of total paid in

capital of the top 30 *Chaebols* was held by the minority individual shareholders (usually the founders or their inheritors), their relatives and the *Chaebol* itself (Sakong, 1993, p.186). However, considering the high debt to equity rates and the control of capital by the government, the real owner of the *Chaebols*, or conglomerates, is still the state. Proof of this lies with the example of "Kukje", one of the top five *Chaebols*, which was dismantled overnight by the decision of the government to withdraw credits. After dismantlement, the *Chaebol* was divided and incorporated into other companies and continued to grow under a changed name. The chairman of the *Chaebol*, generally known as the owner, became no more than an ordinary retired person. It is fair to say that in Korea, there are some very wealthy businesses but there are no very wealthy families.

Table 3-11 Average Debt to Equity Ratio in Manufacturing Industries.

Year	1968	1970	1975	1980	1985	1988
Debt Ratio	201.3	328.4	339.5	487.9	348.4	340.1

Source: Byung-Nak Song, 1990, pp.74-5.

The process of export-oriented expansion of enterprises increased the technical complexity of the work of management, creating the need to delegate control in varying degrees to various levels of the bureaucratic apparatus. Moreover, the development of technology proceeded apace, accompanied by the development of bureaucratic structures to carry out managerial work. Some Marxist works and a host of non-Marxist economists also have similar views on the analysis of the impact of the separation of ownership and management and the bureaucratisation of managerial work on control relations in enterprise and on class formation (see Poulantzas, 1973 and 1975 and Carchedi 1975a and 1975b).

Growing corporate size, as the Korean economy grew, increasingly sophisticated technology and the need for specialized management and marketing skills contributed to transfer power from shareholders to managers, from property to organisations. The shift in power from capitalists towards the management was affirmed by Berle, Jr.and Means (1933). They concluded that in the majority of the two hundred largest corporations in the U.S. control had passed to the management, and Berle, Jr.(1969) later concluded that in the modern large corporation, the management rather than the owners of the property, emerged as the decisive holders of power. Lindblom (1977, p.26) confirmed that organisation is the ultimate source of all power. It was further affirmed by Burnham (1941), Schumpeter (1947), Chandler (1977) and Herman (1981). Burnham coined the phrase managerial revolution to describe an economy in which paid managers control vast business enterprises and those who work for them.

He predicted that the main holders of power in future societies would not be communists, socialists, or capitalists, but rather people who possessed expert technological skills. For Schumpeter, the bureaucratisation of modern economic enterprise was an inevitable complement to modern economic development. Herman emphasized that it was obvious that the shift from property to organisation was the prime source of power in the industrial enterprise. Of course, there is strong opposition to this view. For example, Scott (1985, p.77) showed that 43 out of the top 250 British firms were still controlled through personal shareholding.

In Korea, the ceiling of shareholding, limitation of total voting rights etc., all invalidate the theory that ownership remains crucial. Hence, a Marxist emphasis on the prime importance of economic power residing in the hands of a dominant economic class often an inadequate account of the Korean economy.

Since the mid 1970s, with a centralized economy but not a concentration of wealth, the means of production have been increasingly controlled by the technocrats. Industries, being restructured on the basis of function according to status as a contractor or subcontractor, have paved the way for the emergence of another strong bureaucracy, a faceless and propertyless but powerful group, holding more power as businesses grew and management became more complicated.

As the Korean economy has centralized, the growth and the collapse of the *Chaebols* have shaped patterns of employment, wages, tax revenues and so on. This meant that economic power has become more concentrated and hence more influential in dealing with the government. In other words, the government has had to increasingly take account of the interests of these powerful big businesses. For instance, since the 4th Economic Development Plan (1977-81), major policy issues began to be discussed in the "Economic Policy Conference Council" in which the private bureaucrats began to take part. Moreover, after the launch of the price stabilisation which froze the salaries of civil officials in the early 1980s, the young and talented have turned to the private bureaucracy because jobs and other compensatory rewards became more important as an instrument of power as society become more affluent.

There were two bureaucracies, the public bureaucracy and the private bureaucracy, which have led the Korean economy (Rodgers, 1993, p.70) and society. The relationship between the government and businesses was authoritarian during the early stages of economic development, when the private sector was relatively weak in capital accumulation, managerial talents and institutional infrastructure; but not since the late 1970s.

The development of the private bureaucracy has several advantages. Firstly, it enforces a universal set of rules on industries rather than relying largely on

nationalised firms - i.e. imposing a common discipline of growth maximisation rather than profit maximisation in private business. Secondly, this discipline is achieved without public expenditure. Moreover, the emergence of a private bureaucracy, as a competitive and countervailing power against the public bureaucracy, allegedly acts as an important factor in checking what O'Donnel (1973) termed "bureaucratic authoritarianism" in Korea.

The two do not always converge. Rather the public bureaucracy and the private bureaucracy are widely regarded as mutual enemies. For instance, as the *Chaebols* grew, in 1981 the government introduced the Monopoly Regulation and a Fair Trade Act and formed the Fair Trade Commission. In 1983, through the amendment of the Bank Act, the government set a ceiling of 8 per cent for any individual or group shareholder owning shares of a bank. In 1984, the government strengthened the system of credit supervision for large *Chaebols*. In 1986, the existing monopoly regulation and fair trade Act was amended specifically to deal with *Chaebol* growth (Sakong, 1993, p.63). They have varying degree of influence at different times and over different issues, and exercise countervailing power against each other as and when necessary, depending on the issues. Nevertheless, there has existed a basic consensus on norms and goals. They have common characteristics in that they are recruiting people on a meritocratic basis through competitive examination, who have often graduated from the same universities. All emphasis is on service to economic growth. Whang I-J (1992, p.318) aptly described the relationship between the two bureaucracies, *"the business community was able to provide information and advice on policymaking not only through formal mechanisms, but also through informal bilateral channels - the latter means seemed more powerful, whereas the former tended to be largely cosmetic"*. To a great extent, corruption and distortion in economic management in Korea (see Kim K-S, 1983) can be explained by these informal channels.

The emergence of a private bureaucracy helped to distribute power to more people. But the pluralist assumption (see Dahl, 1961; Dunleavy and O'Leary, 1987; etc.) that all citizens have potentially equal access to influence through the operation of interest groups is too optimistic. Under the subcontracting structure the difference in the strategic position of subcontractors and contractors is so overwhelming that the work contract ceases to be a "contract" in the ordinary sense of the word, because the former are unconditionally at the mercy of the latter - to some extent, in the position of workers and employers in subcontractors. Therefore, low-income in Korea is a synonym of powerlessness in economic and political life. Rodgers' article (1993) describes the industrial relations and human resource management policies and practices of individual firms aptly from an economist's point of view.

" Almost all female employees, employees in small and medium-sized enterprises, irregular employees, and production workers in labour intensive industries face low wages, poor working conditions, a routinized, fragmented, non-participatory form of work, minimal skill formation and unstable employment. Nonetheless, because of the relatively lower labour costs and greater external (numerical) flexibility associated with these categories of workers, their role in the Korean economy is holding steady or even rising. At the opposite end of the spectrum, very different policies are applied to managerial, professional and technical employees (virtually all male), particularly those in large companies affiliated with a major Chaebol, and particularly in capital/technology/knowledge intensive industries. They are very carefully selected, trained, and socialized to become highly competent craftsmen or professionals who will remain faithful members of the corporate families (p.75).

These relationships make up the urban social form. In other words, the relationship of superordination and subordination plays an immense role in social life (this will be discussed in Chapter 6). Trade unions can exert a countervailing exercise of power for the blue collar workers. The end of the Second World War in 1945 brought about labour strife with the union houses divided by their ideologies (Park F-K, 1993, p.30). Since the launch of the military government, to maintain competitive power in international markets, the government exercised tight control and rough treatment over labour activities, especially in the key export industries (Deyo, 1989). As Kim S-K (1989, p.10) described, government's intervention in the labour market took the form of "labour-government relations" replacing "labour-management relations". Evidence of the government's control over labour may be found in strike statistics. Sharp peaks in the number of labour disputes, towering above the very low numbers in normal years, occurred in 1960-61, 1979-80, and 1987-89, beginning in the months immediately after the successive regimes of Presidents Rhee, Park and Chun had ended. It does not appear that economic factors relating to the business cycle had any significant impact on the number of strikes (Park Y-K, 1991, requoted from Rodgers, 1993, p.78).

Meanwhile the public and private bureaucracies became increasingly homogeneous. It may be noteworthy that the examination method helped to recruit a heterogeneous social group when the access to educational opportunities was equal, but it recruited an increasingly homogeneous social group when access was increasingly limited to a certain group, homogeneous in social origins, educational background and social intercourse. Low-income households have been increasingly excluded from access to educational opportunities either by increased education costs or increased housing consumption costs (this will be discussed in the following chapters).

Of course the two bureaucracies are not political parties. However, they have specialist knowledge and information to offer the politicians for decision making and they bring pressure to bear on decision-making, as translators of raw political demands into political issues. As a consequence, disagreement about large and fundamental issues of social life has declined. Ideological conflict is becoming

steadily less prominent. These are now regarded as the exclusive concern of students. But a white-collar style of politics has been dominating Korean politics in which there was apathy about income equalisation, but active opposition to high taxation and public spending on social welfare services. There has been support for programmes expanding control of employers as well as production employees in the enterprise, arguing for political, economic and social democracy on the basis of a meritocratic system.

The "labour-government relations" were able to be continued by the implicit and often explicit support of the white-collar workers. Their most articulate and compelling voice was that of Jeremy Bentham, urging the testing of all public action by the rule "*The greatest good for the greatest number*". The result may not be perfect, but it is the best possible. Implicit, rather than explicit, was the idea that not all could prosper; some must fall by the wayside in order that the greatest number be served, for the so-called "*the public interest*" or "*the need of the nation*". Some suffering and deprivation is inevitable even in the most developed country. That, it was assumed, was a manifestation of Darwinism in the social order; its governing principle was the survival of the fittest; the poor were poor because they were inferior in a competitive society. Poverty was the cost of those who were inherently worse.

A prevailing ideology significantly influenced by a powerful group forms the boundaries within which policies will be made, influencing the kinds of issues that develop and limiting the range of possible options for consideration, so that a group adopting this ideology will have a significantly greater chance of influencing policy, and then be able to benefit even more from those policies. They are likely to have the skills, resources and organisations necessary to mount campaigns that will ensure the protection of their interest. Steven Lukes (1974) called this the "*third dimension of power*". Galbraith (1985) termed it "*conditioned power*", the most important instruments of power in modern society. The bureaucrats pursue policies which they genuinely believe to be in the communal interest but which -in Korea- objectively benefit middle-income groups much more than others. This conception of power and interest can be easily identified by examining the routine, institutionalised, unchallenged public policies, and/or non-politics of the status quo (this will be examined in the following chapters).

3.5 Conclusion.

After the Korean War (1950-53), the low-income issue was mainly national poverty itself. At this stage, national poverty was the core of issues. After the launch of the First Economic Development, Korea began to be celebrated as an exemplary case of economic development in the Third World. Society had an open structure in which most big businesses mainly engaged in manufacturing and exports and domestic markets were largely developed by small artisans and family firms. Under these circumstances, industrialisation meant the establishment of new factories.

The economic growth of Korea steadily and rapidly continued, but industrialization could not absorb the increased labour force. The most visible consequence of industry's inability to provide adequate employment for such a rapidly growing labour force, especially in-migrants from rural areas having no education or only primary education, with no assets except their labour, is the emergence of underemployment and the growth of the informal sector. Their common characteristics were low-income, extremely poor working conditions and harsh discipline, which identified them as the core of the poverty problem. Continuing economic growth provided more full-time gainful employment for men as well as women and as urban areas grew, with rising real incomes for households, demand for secondary and tertiary products grew also. Employment in the secondary and tertiary sectors rose as a result. Surplus rural labour was absorbed by industrialisation as production workers in factories located in urban areas.

The growth of the urban population increased demands for rural output. The decline in rural population reduced the burden of rural poverty. The government's strong investment in education and the development of the meritocratic system in recruitment, promotion and reward in the public bureaucracy, the most powerful group at that time, made Korea a fluid society. This was coupled with a strong desire of Korean parents for their children's education.

This authoritarian and undemocratic regime was tolerated by the people for the sake of national solidarity and economic development. Contrasting socialist and capitalist Acts and reforms were possible because many policy makers themselves had backgrounds of poverty and were accepted by the people because society was more or less equal, offering more or less equal access to opportunities. Thus the fluid society itself operated as the best mechanism for social development.

However, things changed after the mid 1970s. Diversification of economic bases led by the government itself brought about centralisation of the economy. The centralized big business required flexibility in production according to fluctuating international markets. Thus hierarchical subcontracting became the general form of Korean industrial structure. Moreover, sluggish international demands pushed the

centralized big business to penetrate into the domestic market, even retailing. All we can say with certainty is that the changing industrial structure did not provide a ready alternative for people who lost their jobs. Centralisation and technological innovation slowed down employment growth in low-income groups significantly. The structural changes penalized low-income groups and made low-income a structural problem.

The Korean economy has been centralized by the *Chaebols*, but without entailing concentration of wealth. This has resulted in the emergence of another strong, faceless propertyless, but powerful bureaucracy. Korean society was led by the two bureaucracies. Meanwhile, the education which gave the only ladder for the urban low-income households to move upwards began to operate as a powerful discriminator, as access to educational opportunities has increasingly been limited to certain groups based on family backgrounds.

The powerful bureaucracies are made up of people from similar social groups and educational backgrounds. Relations between the two bureaucracies have become more cooperative partly through formal mechanisms but largely through informal bilateral channels. What serves these bureaucrats - the control of concentrations of wealth, the promotion of economic growth, the provision of qualified manpower, the property-owning democracy etc., leaving the poor as they are - are the public interests, issues and problems, and the aim of public policies.

In Korea, there is no visible ruling class nor underclass. However, Giddens (1973, p.107) describes the situation aptly with his concept of "structuration", "*The greater the degree of 'closure' of mobility chances the more this facilitates the formation of identifiable classes. For the effect of closure in terms of intergenerational movement is to provide for the reproduction of common life experiences over the generations*".

CHAPTER 4. ECONOMIC GROWTH AND LOW-INCOME HOUSEHOLDS.

4.1. Introduction.

Following the discussion about the evolution of Korea's economic and social structures, this Chapter investigates the meaning of such changes for low-income households.

Much of the writing on poverty has emphasized the importance of measures to increase employment opportunities. As Gilmour (1983, p.69) suggests, "*Keynes saw that unemployment was an intolerable evil*". As Beveridge (1943, p.118) put forward, "*Unemployment makes men seem useless, not wanted, without a country*". In a similar vein, Gans (1968, p.281) proposed, "*Ultimately, then, most of the problems of the poor can be traced to unemployment and underemployment, and these in turn are largely responsible for bringing about the crisis of the city*". In Korea, "the principle of growth first and distribution second" has been credited with the reduction of poverty. Indeed, economic growth seemed to tackle poverty in four ways. Firstly, a high rate of economic growth meant a higher demand for labour relative to supply. Secondly, an expansion of investment increased worker productivity by increasing both the quantity and quality of the capital stock per worker. Thirdly, economic growth expanded the market for manufactured goods and so further increased investment and output and labour productivity. Finally, growing national income made the reduction of poverty politically easier by enabling for the government to redistribute some of the income to poorer people because richer people were gaining from the economic development too. Zero or negative growth makes it far harder for politicians to help the poor.

Since the launch of the First Economic Development Five-year Plan, according to the official statistics, as Table 4-1 shows, Korea achieved nearly full employment. Was the poverty problem confined to the small minority of the unemployed? Could the continuing economic growth and full employment eventually eradicate poverty? In Korea, there are two schools of thought on these issues, optimists and pessimists. Productivity increased faster than the number of people and the consumption levels per head actually increased for the last three decades. The majority of the population benefitted from falling prices, in terms of relative and real prices, and from more employment and a wider range of earning opportunities to enjoy a rising standard of living. Optimists, who held this view provided evidence such as improving social indicators.

The controversy is not small. Others - their sympathies strongly engaged by the sufferings of the poor - hold the pessimistic view. They argue that economic growth

not only by-passed some people who have weak connections to the formal economy, but also put them into a network of deprivation. Actually it is quite difficult to give a conclusive answer to these arguments. Moreover, the argument has been further complicated by the introduction of "moral" and "aesthetic" and other non-economic considerations. Thus section 2 of this Chapter explores those on low incomes in full employment in Korea.

Table 4-1

Unemployment Rate.

year	1960	1st plan ('62-'66)	2nd plan ('67-'71)	3rd plan ('71-'76)	4th plan ('77-'81)	5th plan ('82-'86)	6th plan ('87-'91)
Unem. rate	16.3	7.1	4.5	3.9	4.5	3.8	2.3

Sources: 1960 data; from '60 Population and Housing Census, and NSO, major economical statistics, various years.

A person can be cast into poverty not only because of low income or an income loss, but also because of high consumption expenses. Although someone can be employed with better wages than before, if he has to expend more than the increase in his earnings, has his living standard been improved? To a great extent, if there are important discontinuities in the development process in social overhead capital such as harbours, roads, housing etc, current consumption may actually have to be reduced to make room for social overhead capital expenditure as a precondition for economic growth. The main sources of the funds for such expenditure would stem from tax revenue. If such tax revenue came from indirect tax with no other social compensations, these factors would tend to depress some households' future opportunities more than others. A recent opinion poll (Kwon S-W et. al., 1992, p.252) showed in contrast to official statistics, that over 50 per cent of people perceive their incomes to have decreased compared to five years ago. This implies that earnings are not the only factor determining living standards of a household. Section 3 of this Chapter briefly envisages low-income households' expenditures in connection to the changes in society.

As we have seen in Chapter 2, in 1960, about 41 per cent of the population were estimated to be living on incomes below physical subsistence level. Using the same measure, in 1990, the rate has decreased to 5.3 per cent. In strict terms, general living standards of the population have improved, in particular, compared to those in 1960. Nevertheless, in recent years, the poverty issue is becoming the centre of political and social debates in Korea. Some argue it is because of the unequal distribution of income. There are some disagreements about what the actual trends in income distribution are and how economic growth and affluence have affected this. Pareto and his followers (Pareto, 1971; Kuznets, 1966; Jackman, 1975) contended

that there is a long-term trend towards equality, which is a product of changes in market forces caused by growth and the level of affluence. In contrast to this, others argue that there has been little change in income distribution in the post-war period despite rapid economic growth, thus economic growth does not have any equalising effect (Titmuss, 1963; Roberti, 1974).

However, in Korea, according to statistics such as KDI, World Bank, EPB, etc., inequality during the 1980s declined. As the Table below shows, the Gini Coefficient and Decile Distribution Ratio (bottom 40 per cent to top 20 per cent) have improved over time.

Table 4-2 Distribution of Income

	Year	1965	1970	1976	1982	1986	1990
Whole country							
Gini Coefficient		0.3439	0.3322	0.3908	0.3574	0.3368	0.3226
Decile Distribution		0.4625	0.4716	0.3716	0.4373	0.4753	0.5066
Non-farm household							
Gini Coefficient		0.4167	0.3455	0.4118	0.3705	0.3424	0.3239
Decile Distribution		0.2993	0.4384	0.3154	0.4129	0.4733	0.4994
Farm household							
Gini Coefficient		0.2852	0.2945	0.3273	0.3061	0.2974	0.2991
Decile Distribution		0.5935	0.5497	0.4788	0.5433	0.5657	0.5520

Note; decile distribution rate refer to the share of lowest 40 per cent to highest 20 per cent.
Source: Choo Hak-Chung, 1993, pp.339-340

Nevertheless, over 60 per cent of people perceive the disparities between the better-off and the worse-off to be wider than before (Kwon S-W *et al.*, 1992, p.256). The widening perceived gap between the measured and felt income distribution in recent years is often explained (Choo H-C, 1993, pp.354-6) by what Hirshman (1973) termed the "tunnel effect", referring to the decrease over time in people's tolerance of inequality. Are the perceptions of Koreans explained by the tunnel effect?

In terms of redistribution and poverty, as Figure 4-1 shows, the distribution A would be considered more equal than distribution B according to the Gini measure. However, considering poverty, more people would live in poverty in the society of A. To some extent, this logical misunderstanding can be found in the decile distribution rate. The decile distribution A in Figure 4-2 would be considered more equal than B. However, more people would live in poverty in A because poverty is not just inequality. Moreover, inequality is a state of affairs, and whether it is acceptable or not is a matter of opinion. Opinions may be hotly disputed about whether, and how much, inequality is acceptable. Some may argue some inequality is rather desirable as an incentive to hard working. Others may not. Therefore, how to

define inequality or measure it is also both a technical one and a political problem. Poverty may be thus correlated to inequality but the two concepts are not the same. Therefore, equality may be a necessary step towards reducing poverty but not a sufficient one. For example, equality can be improved, more or less, by penalizing the top income group. However, this cannot guarantee a reduction in poverty unless the living standard of the poor is raised.

Figure 4-1 Poverty and Gini Coefficient.

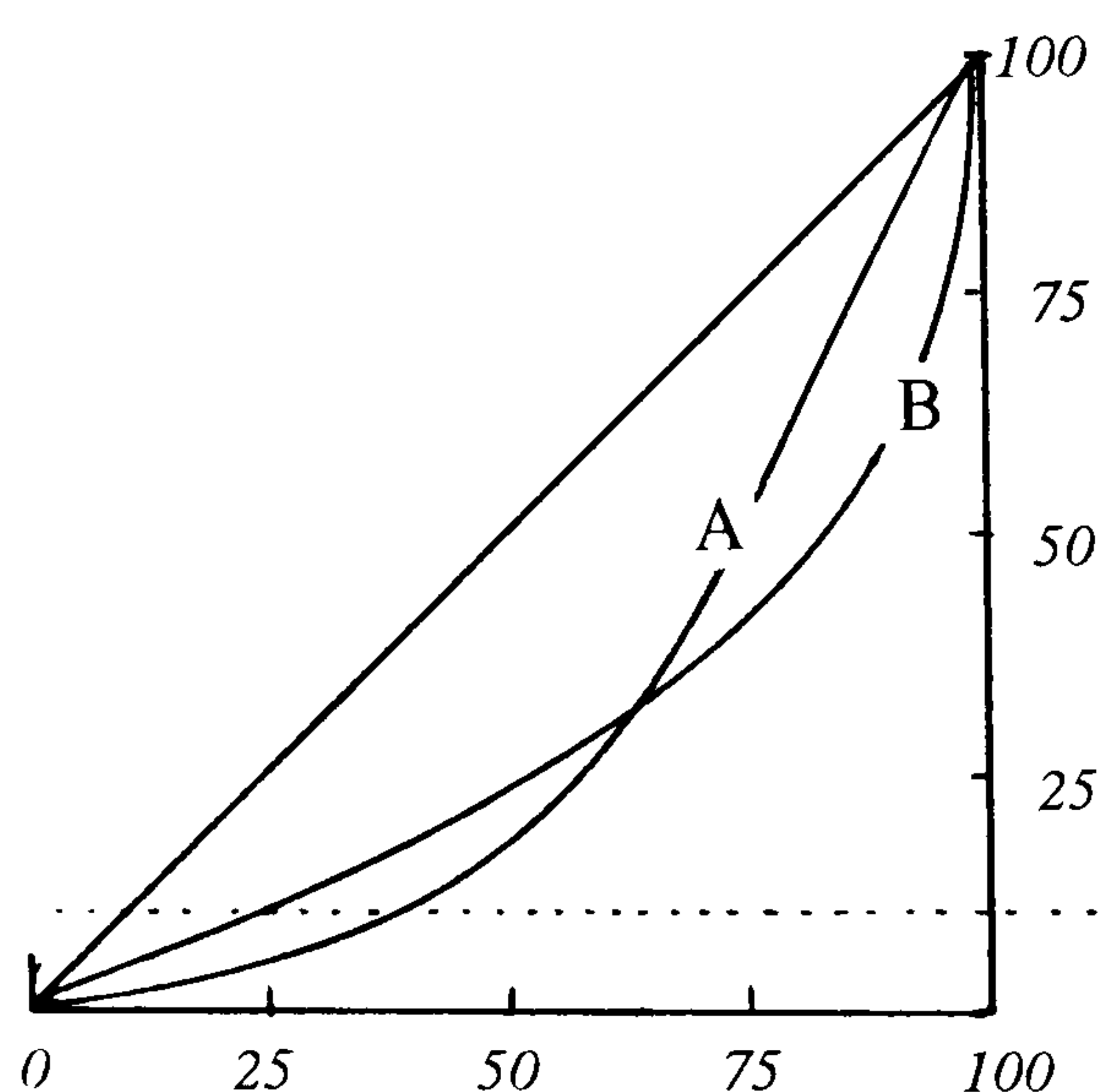
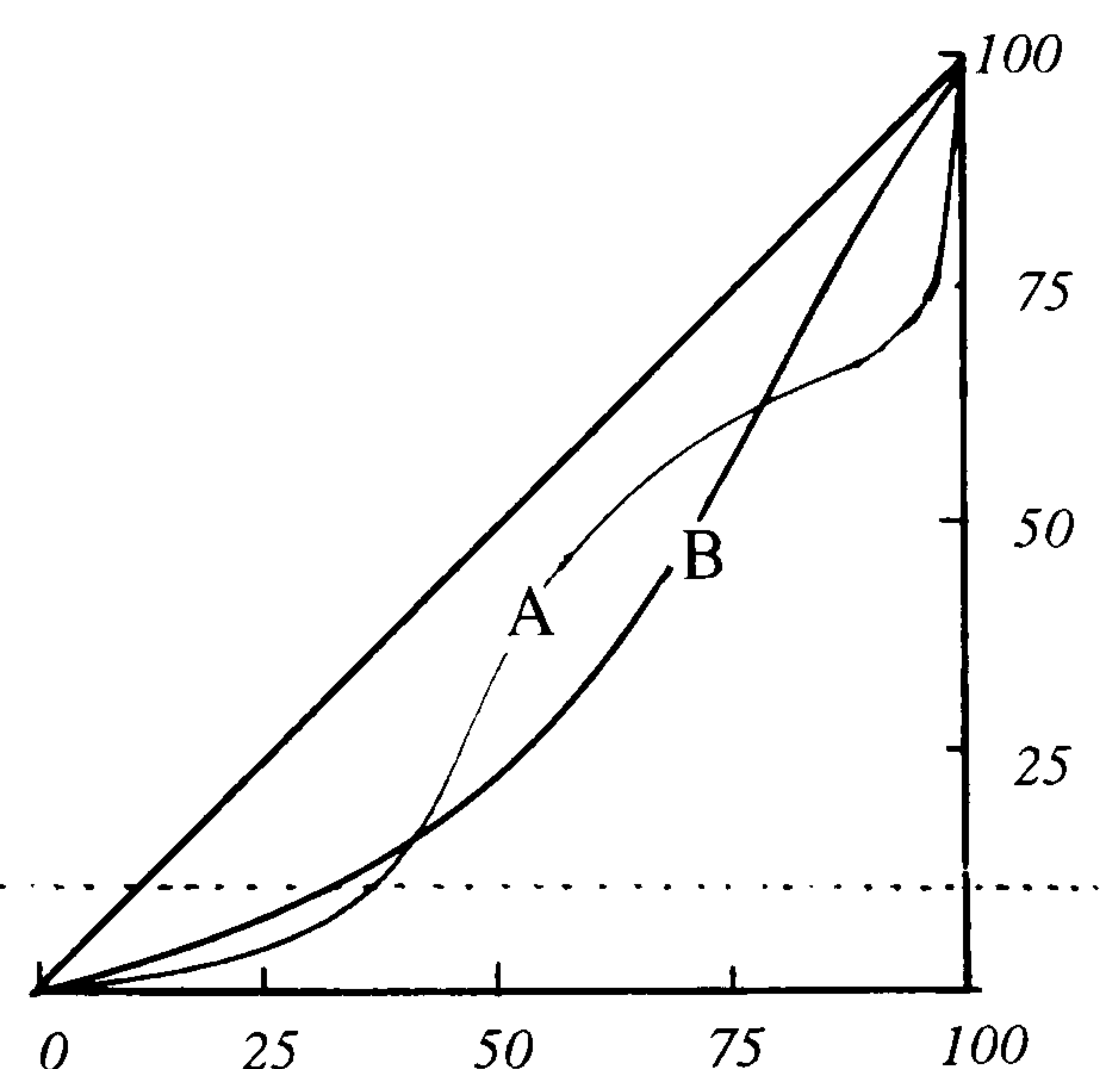


Figure 4-2 Poverty and Decile Distribution



The ultimate aims of the good society cannot be achieved by one policy or program alone. Nevertheless, it may not be denied that taxation and social policy can play a great role in the redistribution of income and the reduction of poverty. Section 3 traces the structure of taxation and the change in the social protection system in Korea.

Finally, the experience of Korea about the main subject, the impact of changes in economic and social structures on low-income households, posed at the beginning of this chapter will be drawn together in a concluding section. The micro-effects of changes in detailed policy are outside the scope of this research. The main concern of this chapter is with the economic, social and political implications for low-income households of Korea's development.

4.2. Full Employment and Low Income.

4.2.1 Changing Industrial Structure and the Low-income Labour Market.

Under the centralized system, as we have seen in Chapter 3, the industrial structure of Korea has been gradually adjusted from a labour-intensive and import substitution industry to high-tech industry. When a new technological system emerged and

reorganised social and economic life, its effects on the macro variables and on the individual were far different. Many of the poor in the labour force have been unable to find employment despite the economic expansion because their skills were not in demand. This 'structural unemployment' contrasts to the temporary loss of jobs, i.e. 'frictional unemployment'. Furthermore, some relatively skilled jobs, such as those of miners, carpenters, etc., have been automated out of existence with changes in the Korean economic base.

As economic growth proceeds, the mix of required inputs (e.g. labour and machines, and skilled and unskilled labour) changes, as do the proportions in which final goods are produced. Poor people - often migrants from rural areas - could in earlier years get jobs, but the mechanization of many unskilled tasks has reduced the demand for such unskilled workers. One example is Korea's paper industry. Half of the workers in the industry during the late 1950s were employed by small establishments that made Korean-style paper - "Hanji". A decade later, value added by these establishments had dropped from 15 to 3 per cent and employment from 50 to 20 per cent of the paper industry total (Kuznets, 1977, p.121). The traditional labour intensive Korean-style paper industry was being replaced by the modern products of larger, more capital-intensive factories. Many of those on low incomes are competing for fewer jobs with the new arrivals who have come to the city in search of a better life. The rising supply of unskilled workers and the declining demand for them combined to assure that the wage rate for these occupations has not automatically lifted households' living standards.

Some economists claim that when labour markets are very tight, employers break down complicated tasks into simple ones which the most unskilled workers can accomplish. They argue that the myth of structural unemployment can be destroyed if the rate of growth of economic activity is drastically increased. Table 4-3 indicates the changing industrial structure and employment patterns of Korea. Since the early 1970s, the development of the heavy and chemical industries increased the demand for professional and skilled workers. The demand for such a workforce was derived from the establishment of new enterprises and expansion of the production capacity. Thus a higher proportion of the population could work and the increased demand resulted in rapid wage increases during the second half of the 1970s. As a consequence, despite the increases in inequality (see Table 4-2), poverty rapidly reduced until the mid 1970s (see Table 2-8 in Chapter 2) in terms of both rates and numbers.

Throughout the second oil price shock in 1979 and the following world-wide recession, the emergence of China and South Asia countries in the international market and the move to increased protection in the industrialized countries since the

early 1980s, all have imposed considerable demands for readjustment on the Korean economy. The industrial structure of Korea began to shift towards a more capital and skill intensive industry. Another change in industrial structure since the late 1970s has been the expansion of the tertiary sector. Thanks to continuing economic growth and rapid mechanisation, people had less work-time and could spend more on leisure and consumption. So, service and exchange industries, such as banks, insurance, super chain stores, holiday agencies, entertainment, sports, etc., began to grow.

Table 4-3 The Employed Labour Force by Occupation.

	1960	1970	1975	1980	1985
Professional, technical and related workers.	165,904 (2.4)	322,772 (3.2)	417,426 (3.3)	580,882 (4.6)	811,977 (6.1)
Administrative and managerial workers.	90,351 (1.3)	95,799 (0.9)	102,327 (0.8)	133,608 (1.1)	173,572 (1.3)
Clerical and related workers.	185,924 (2.6)	593,475 (5.9)	884,210 (6.7)	1,203,176 (9.5)	1,629,193 (12.2)
Sales workers.	581,800 (8.3)	1,028,090 (10.1)	1,317,122 (10.4)	1,531,068 (12.1)	1,683,524 (12.6)
Service workers.	424,019 (6.0)	678,616 (6.7)	815,791 (6.4)	894,618 (7.1)	1,044,917 (7.8)
Agriculture, animal, husbandry and forestry workers.	4,601,007 (65.4)	5,147,955 (50.7)	6,190,008 (48.8)	4,768,414 (37.6)	4,114,331 (30.9)
Production related worker, transport equipment operators and labourers	928,622 (13.2)	2,197,775 (21.7)	2,890,668 (22.8)	3,569,686 (28.2)	3,878,097 (29.1)
Workers not classified by occupation	58,732 (0.8)	88,468 (0.9)	104,492 (0.8)	542 (0.0)	934 (0.0)
Total (A)	7,036,000	10,152,950	12,682,041	12,682,004	13,336,545
Population (B)	24,989,241	31,435,252	34,678,572	37,406,815	40,448,486
A / B	28.16	32.29	36.56	33.90	32.97

Sources: EPB, *Population and Housing Census*, each year.

Technical progress continued at a fast pace and significantly altered the industrial structure and employment patterns in Korea. Enterprises employed more developed machines and techniques in the production line, meaning new labour-saving methods of production often achieving the same output with reduced labour. According to Rothwell and Zagveld (1979, p.20), in the manufacturing sectors of EEC countries, until 1965, growth in employment and in output had been equal. Since 1973, output has continued to grow but labour use has declined. In Korea, until the late 1970s, employment elasticity (employment growth rate/ output growth rate) in manufacturing was very high, 0.832 between 1970 and 1975, and 0.730 between

1975 and 1980. Since 1980, this slowed down rapidly to 0.22 during 1980-1985 and to 0.314 between 1985 and 1987 (Park N-K, *et al.*, 1990, p.23).

Along with the changes in the industrial structure and technology, the number of professional, technical and related workers, clerical and related workers and sales workers began to increase rapidly from the mid 1970s. Whereas, agriculture, animal husbandry and forestry workers, fishermen and hunters declined more rapidly. The growth in production workers began to slow and could no longer fully absorb the migrating farm workers, fishermen, etc. Traditional labour-intensive industries and mature industries such as textiles, clothing, and rubber began to show negative employment elasticity and, moreover, the number of workers in such industries began to decline from the mid 1970s as a result of plant closures and reductions in capacity. While capital and skill intensive industries such as shipbuilding, chemical and steel industries grew rapidly from the mid 1970s onwards and then the so-called sunrise industries, such as electronics, automobiles and finance grew in the early 1980s, the negative effects of the old and mature industries were far larger than the jobs created in high-tech and sunrise industries. Moreover, the increase in employment of the latter has not increased opportunities for unskilled manual workers.

Together those industrial changes and demographic changes, e.g. the increase in older people, as the bottom column of Table 4-3 shows, reduced the proportion of the total population in active employment since the early 1980s. This implies that in order to maintain average consumption levels, the income of those who are working must rise fast enough to ensure that the living standards of the whole family do not fall.

Among production workers, the decrease in unskilled manual workers has been more visible. According to the estimation of the Korean Institute for Industrial Economics and Technology (1990), as Table 4-4 shows, such trends are fully expected to continue. While the growth of other workers continues, the proportion of production workers in Korea, including male and female, continues to decline. Of which, unskilled manual workers (operatives) were estimated to have declined from 24.1 per cent in 1989 to 21.1 per cent by 1994 - more so than craftsmen who have decreased from 44.5 per cent to 43.9 per cent of the total number of industrial workers.

Table 4-4 The Changing Labour Market (excluding the primary sector).
(percentages)

	Scientist and engineer	Professional and technician	Production worker Craftsman Operative	clerk, manager and salesman	Total
1989	3.0	9.8	44.5 24.1	18.6	100
1994	4.6	11.2	43.9 21.1	19.9	100

Source: Korea Institute for Economics & Technology, 1990, pp.6-7.

The diversification of the economic base has usually been brought about by changing market conditions in line with economic growth. In Korea, as we have seen in the last Chapters, the economic base has been manipulated by the government through distorting resource allocation, resulting in a high debt to equity ratio in manufacturing industry. These debts became the main obstacle to wage increases and made the manufacturing sector the lowest waged sector of industry, except the primary sector, because a larger part of increased profits had to be paid towards interest on debts (Bae M-K, 1985, p.25).

Table 4-5 Wage Differentials of Whole Workers by Industries
(Average manufacturing wages: 100)

	1970	1975	1980	1985	1988	1989
Manufacturing.	100.0	100.0	100.0	100.0	100.0	100.0
Electricity, Gas & Water.	259.8	241.4	192.9	190.8	183.7	177.7
Construction.	169.9	229.3	175.7	150.9	137.0	132.3
Wholesale & Retail trade and Hotels and Restaurants.	138.5	133.8	143.9	136.4	123.8	123.0
Transportation, Storage and Communication.	129.5	128.2	138.7	129.0	123.1	121.4
Finance, Insurance, Real estate & Business services.	265.1	212.7	192.0	170.1	147.8	153.1
Social & Personal service.	170.3	201.2	187.7	166.7	151.5	160.9

Sources: Ministry of Labour, Monthly Labour Statistics Survey, various issues.

In line with the diversification of the economic base away from labour-intensive and towards skill-intensive industry, the focus of education policy has shifted from general education towards higher education since the early 1970s. Education has become the most important factor determining the line between adjustment to changing industrial structure and exclusion from it. It marks out a dichotomy between white-collar work and blue-collar work and dualistic labour markets have also emerged (Fei, Ranis and Ohkawa, 1985). The development of the *Chaebol* in Korea accelerated the bifurcating tendency in its labour market. In comparison with Taiwan, where the labour market is too complex to be split into a simple binary structure due to the dominance of small and medium sized enterprises. In contrast to this, the wage disparity between blue and white-collar workers, in other words highly educated workers and less educated workers, tended to be wider and more evident in Korea than in Taiwan (Tun-jen Cheng, 1993, p.234). For example, in the early 1980s, Korean college graduates in entry-level positions earned as much as 2.3 to 2.5 times as much as high school graduates, whereas the same earnings ratio in Taiwan was 1.5 (Koo B-R and Kim J-C, 1985, p.103). As Table 4-6 shows, the ratio of wage and

salary differentials by level of education has continued, although it has reduced from 3.9 times at the highest point in 1976 to 2.3 times in 1990.

Vocational training centres, both inside and outside factories broadly produce craftsman to support technicians and engineers. Technical vocational high schools provide educated technicians to support engineers, scientists and other professionals. This structure, however, became otiose as dual labour markets and wage disparities according to educational level emerged. Semi-skilled, skilled workers and technicians aspired to become college graduates. Vocational high schools transformed themselves into junior colleges; junior colleges, in turn, tried to emulate fully-fledged colleges in their instructional programs.

Table 4-6 Wage and Salary Differentials by Level of Education.

Year	Middle School and Lower	High School	College & Higher
1971	60.9	100	175.2
1976	59.1	100	229.7
1982	69.9	100	221.6
1986	77.6	100	222.0
1990	83.8	100	185.5

Source: NSO, *Social Indicators in Korea*, 1991.

Blue-collar workers, especially unskilled production workers, once hired, receive very little orientation or formal training. They are typically assigned to simple jobs that they can learn in only a few days of on-the-job training, and they are rarely rotated or given opportunities to learn new jobs (Cho S-K, 1987).

Table 4-7 shows another change in the labour market. During the 1960s and until the late 1970s, the increase in work forces could be absorbed mainly by the growth in regular work and self-employment thanks to rapid industrialisation. Since the late 1970s, corresponding to the changing industrial structures and to centralisation of the Korean economy by the *Chaebols*, it was led by the increase in irregular work.

Table 4-7 Trends of Non-farm Workers by Type of Contract.
(units; 1,000 persons and (%))

Year	Self-employed	Family workers	Regular workers	Temporary workers	Daily workers	Total
1963	803 (29.5)	212 (7.8)	779 (28.7)	341 (12.5)	584 (21.5)	2,719 (100)
1970	1,250 (27.0)	417 (9.0)	1,959 (42.3)	427 (9.2)	576 (12.4)	4,629 (100)
1980	2,270 (26.4)	642 (7.5)	3,833 (44.6)	914 (10.6)	933 (10.9)	8,592 (100)
1985	2,790 (25.0)	786 (7.1)	4,860 (43.6)	1,527 (13.7)	1,177(10.6)	11,140 (100)

Notes; temporary workers based on contract between employers and employees, including part time workers; daily workers based on daily contract, for example in construction work.

Sources: EPB, *Economic Active Population Year-book*, various years and Yoon J-H, "The Vicious Cycle of Poverty; The reality of urban poor", *Shin-Dong-A*, 1987, requoted from KRIHS, 1989, p.64.

In Korea, the measurement of unemployment rates include those who are over 15, who are able to work and want to work and those who work less than a hour in the survey week. Those excluded are soldiers, those who are attending school or vocational training, those engaged in housekeeping, those too old to work and those who have other reasons for inactivity (Kim S-K, 1976, pp.23-4). Thus, the achievement of full employment shown in Table 4-1 can be explained by the increase in irregular workers.

Regular workers in big business or in some medium firms enjoy an array of indirect benefits such as bonuses and some measure of employment security. As Rodgers (1993, p.91) noted, *"To non-Korean businessmen considering doing business in Korea, the number and size of bonuses, allowances, paid holidays and fringe benefits that are typically paid are often truly alarming"*. Such compensation packages are often larger than the basic wage. Extra payments are almost invariably fixed in advance, mainly according to the industrial structure and the worker's position (Ito and Kang, 1989). Part time workers, workers employed in small and family subcontracting firms, and outworkers are not entitled to any of these fringe benefits whilst they also have a lower basic wage. As Table 4-8 shows, irregular workers, although belonging to the same group of production workers, were paid lower wages than their counterparts, even excluding fringe benefits. Part of the reason why a small subcontractor can manufacture at a low cost level and how small businesses can show higher rates of profit in spite of lower labour productivity, lies in the evasion of these indirect payments in addition to lower basic wages. Thus, in Korea, the most visible wage disparities stem from the industrial structure, according to the difference between contracting firms and subcontractors. Thus, the irregular workers suffer not only from fluctuating earnings but also from low incomes. Nevertheless, the increase in irregular workers and workers in subcontractors, as outlined in the last Chapter, has resulted in a weakening of trade union power. This is despite full employment which, in theory, meant that strikes could be more effective as there were no reserve pools of labour available.

Table 4-8 The Range of Production Workers' Monthly Wage by Worker's Position in Big Four Cities.

Distribution (Korean 1,000 Won)	Regular workers (percentages)	Irregular workers (percentages)
Below 50	0.0	5.2
50 - 100	6.4	11.7
100 - 200	34.3	44.8
200 - 300	38.5	28.8
300 - 500	18.3	9.3
Over 500	2.5	0.1

Source: Yoon J-H, 1987, p.520.

Furthermore, as Table 4-9 shows, the relative accident rates to the overall workforce have been declining, whereas absolute numbers of industrial accidents have not declined. According to the ILO's estimation, in manufacturing, the risk of being killed in a factory accident in Korea is higher than in India and Singapore and six times higher than in America (The Economist, survey, October 1st 1994, p.39). Unfortunately most of the industrial accidents occur amongst subcontractors. Although there are no systematic statistics about detailed accidents based on industrial structure, according to the National United Workers Federation, the accident rates in the smaller manufacturing workshops (in which less than 50 workers are employed) was 4-8 times higher than in big firms (in which more than 200 workers are employed)(requoted in KRIHS, 1989, p.199). The lack of a national health service and moreover the exclusion of non-standard employment contractors from the meagre social policy based on the insurance system, and high costs of private medical care combined with low-wages, exacerbate a vicious cycle of poverty (this will be discussed in section 4 of this chapter).

Table 4-9 Trends of Industrial Accidents.

Year	1973	1975	1977	1979	1981	1984	1988
No. of accidents	59,367	81,642	118,011	130,307	117,138	157,800	142,329
Index of accident	100.0	137.5	198.8	219.5	198.7	265.8	239.7
Percentage to workers	5.089	4.446	4.476	3.612	3.412	3.599	2.478

Sources: Ministry of Labour, Labour White Paper, 1985; and Korea Labour Institute, The Analysis of Labour, 1989.

Among workers in the same office, shop or factory, the wage differential between new recruits and senior employees is particularly large (Park S-I, 1980). This reflects the traditional norm of 'patriarchism'¹ and the "living wage" ideology whereby employees must be paid enough to meet their family obligations. These traditional norms and ideology may have on the one hand contributed more or less to reducing the life cycle poverty that would otherwise have arisen. On the other hand, it may have contributed to the ratio of female wages to male being lower in Korea, as Table 4-10 shows, than in any other country in which the ILO has gender-based wage data except Japan (Rodgers, 1993, p.91).

The disparity in wages between men and women is explained on various grounds; girls are less willing to undertake long apprenticeships because they do not look upon the job as a lifelong career; employers are reluctant to accept girls for apprenticeships because they are likely to get married and not stay the course; and so on. An empirical analysis (Lee B-S, 1991, p.146) based on about 8,000 households from the 1983 National Migration Survey showed that widow-headed households had 20 per

cent less earnings than those of currently married male-headed households. The exploitation of women's labour has marginally decreased through the enactment of the minimum wage in 1988. The unequal social and economic position of women in their opportunities to enter a firm, to work, to train and to be promoted has an important meaning in Korea since the Korean War (1953-1955) left so many widows. Indeed, studies have consistently shown a high rate of women-headed households among the poor (Ministry of Health and Social Affairs, 1974, p.180; Kang K-K *et al.*, 1978, p.20; etc).

Table 4-10 Trends of Wage Differences Between Women and Men, (Woman/Man x 100).

	1971	1976	1980	1985	1988	1990
Whole Industry	43.6	43.9	44.5	48.3	52.0	53.7
Manufacturing	44.2	44.2	45.6	49.1	52.0	51.4

Source: Ministry of Labour, various years, quoted from Korean Women Study, Korean Women Labour Association and Incheon Women Labour Association, 1991, p.62.

Employers are, therefore, keen to employ very young women, the cheapest labour, and young men as far as possible to minimize their labour costs. The increasing rate of women's participation in economic activities (from 37.2 per cent in 1965 to 47.0 per cent in 1990) cannot be divorced from this. In other words, the older male is first excluded from job competition, then the male and older women. For example, the comparison between 1964 and 1979 of the composition of age cohorts among workers in the formal sector clearly shows such trends (Korean Christian Social Problem Research Institute, 1986, p.61). Between 1964 and 1979, the proportion of young workers (between 14-25 years old) increased from 35.2 per cent to 41.6 per cent, whereas that of older workers (over 40 years old) declined from 26.7 per cent to 19.9 per cent, not in line with demographic trends. The excluded older workers mainly transferred to become irregular employees (KRIHS, 1989, p.61). Table 4-11 represents such trends. Construction work is a typical type of irregular employment in Korea. In comparison with manufacturing workers, more older people are employed in the construction sector.

Table 4-11 Age Distribution of Construction Workers in Comparison with Manufacturing, 1987.

	(percentages)				
	Below 30	30 - 39	40 - 49	Over 50	Total
Construction workers	21.7	34.0	28.9	15.4	100.0
Manufacturing workers	47.3	31.0	15.5	6.2	100.0

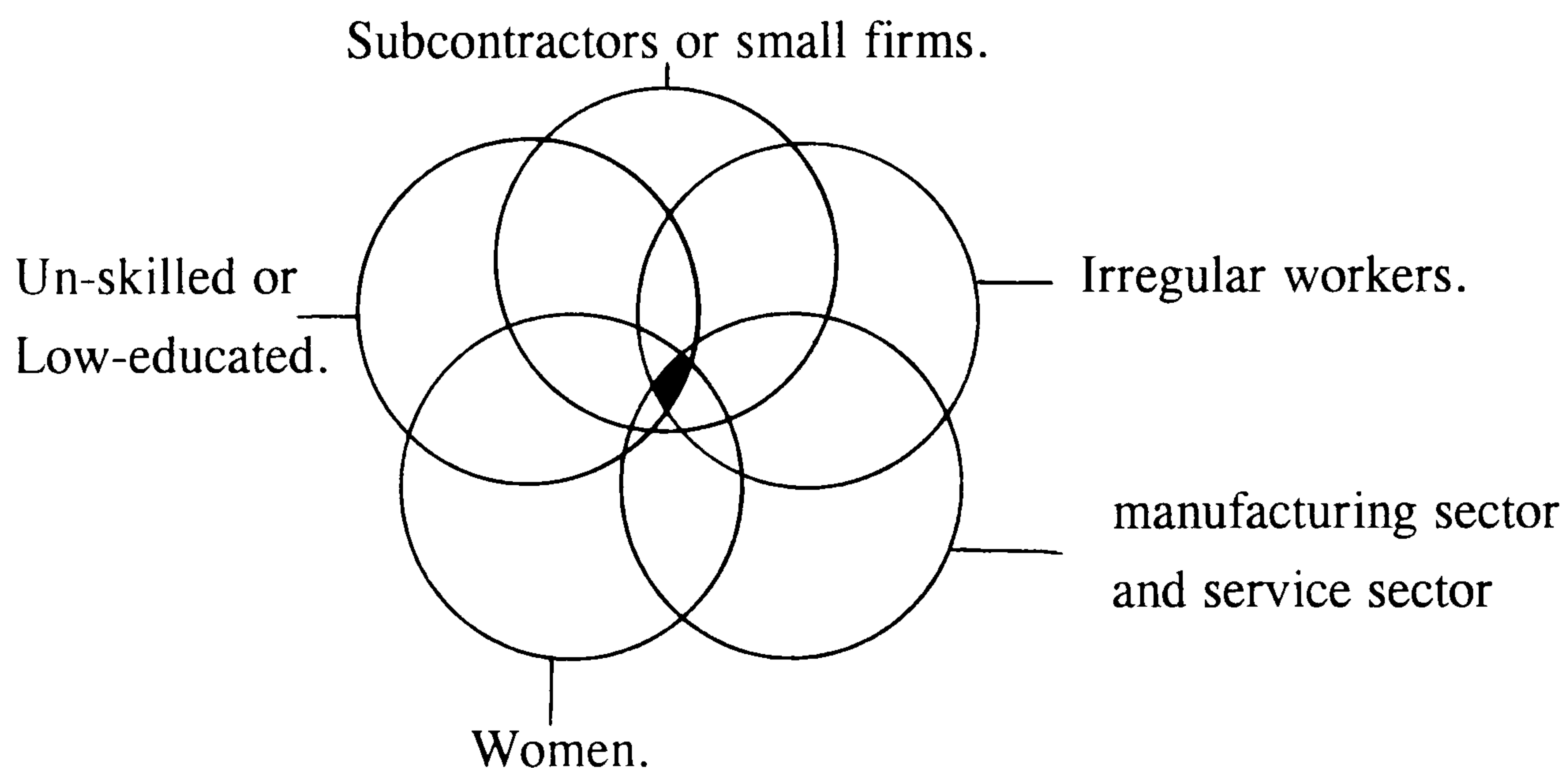
Source: EPB, The 2nd Employment Structure Special Survey, 1987.

4.2.2 Low Income in Full Employment.

Wage history has seen the existence of wide variations in both levels and trends with five visible wage disparities. Wages vary according to firm size or between contracting firms and subcontractors; between industrial sectors; between genders; between regular and irregular workers; and between different education or skill levels. All these are closely correlated and multiply interact.

On the lowest income would typically be unskilled, low-educated women, working in the manufacturing or service sector in a small company possibly in the informal sector or on a non-standard contract. Unfortunately, there is no consensus about how many poor there are and where they live. However, it is a fact that certain groups are better rewarded, not because they are functionally more important than others, but because they are well organised within the bureaucracy, in trade unions, in professional associations, or even by culture, having developed and used strategies and ideologies which further their claims for differential rewards. It is hard to say that they have a homogeneous situation in the market place. The diagram below simply shows those who are on low incomes, in other words those who are the more vulnerable in this rapidly developing economy, characterised by low wages, low security, and lack of effective union organisation and political representation.

Figure 4-3 Low income Group.



Until the late 1970s, mobility between jobs was fairly easy. Since the industrial structure shifted towards high-tech industry, this process has become more difficult for the unskilled. In a narrowing low-wage sector, the unskilled workers have had to compete with ever growing in-migrants. Those who lost their jobs in the process of industrial change have been transferred into irregular work at a lower wage. The use of more sophisticated machines (computers, word-processors, etc) has generated more

irregular workers. Increasing household expenditure and lower wages, have driven women and children to work, again increasing the number of irregular workers. Indeed, the number of workers in a family has an inverse relationship with household income (Hyundai Social Research Institute, 1985; KNHC, 1988; Kwon S-W, *et al*, 1992, p.144; etc). These extra incomes often make the difference between poverty and a comfortable standard of living.

Under such processes of change, most labour markets in Korea, especially for low-income groups, are characterized by high turn-over rates despite increasing adoption of the life-time employment system. Some interpret the very high labour turnover rates as a symbol of social mobility, which was partly true until the late 1970s when the economic structure was 'open'. Since then, high labour turnover rates can be explained by the industrial structure and changing employment patterns. As Table 4-12 shows, for instance, the separation rate in small firms and in particular in manufacturing industry is higher than in larger firms.

Table 4-12 **Separation Rate by Firm Size of Employees.**

	Whole Industry					Manufacturing Industry				
	10-29	30-99	100-299	300-499	over 500	10-29	30-99	100-299	300-499	Over 500
1986	3.8	3.9	4.0	3.3	2.9	5.3	5.3	4.6	3.8	3.2
1987	4.2	3.8	4.0	3.1	3.0	6.3	5.2	4.7	3.7	3.3
1988	4.4	4.6	4.4	3.0	2.5	6.6	6.7	5.5	3.6	2.7

Source: Ministry of Labour, quoted in the Korea Chamber of Commerce and Industry (KCCI), 1990a, Table 3-63, p.353.

In the urban context, the prevailing ideas of containment of urban growth, were epitomized by the Urban Planning Act of 1962, the National Land-use Management Act of 1963 and the adoption of Green Belt around 13 biggest cities in 1971, 1972 and 1973. According to these Acts, further peripheral growth has been strictly limited by land zoning and the Green Belt. However, land use control and the containment of the growth of cities contrasted to the development strategy of 'growth pole and concentrated decentralisation'. New manufacturing industry tended to locate in the biggest cities because of better access to labour and the benefits of infrastructure. But the sprawling cities lacked many community facilities, resulting in serious congestion and long journey-to-work times and so on. The problems of urban areas such as rapidly increasing land prices and taxes, frequent wage strikes supported by university students, deteriorating working conditions, evidently spurred big factories to migrate to the suburbs, the satellite towns or the "industrial" and "country" towns of Fothergill and Gudgin's classification (Fothergill and Gudgin, 1982). The movement of big factories was accompanied by the following move of many subcontracting firms or their closure. In contrast to this, urban planners mainly

focused on encouraging the decentralization of manufacturing firms and jobs (this will be discussed in Chapter 6). Thus, despite overall economic growth and employment prosperity, the people on low incomes have suffered more than others.

Many low-wage employees find it is necessary to move either voluntarily or by compulsion to find work. However, in Korea, two thirds of all jobs are acquired via information obtained from friends, relatives or acquaintances. Formal methods of job search such as public recruitment accounted for 32.3 per cent, and introduction via the school and job centres were only 5.7 per cent and 2 per cent respectively (Park N-K, *et. al.*, 1990, p.3). Part-time workers and workers in subcontractors find work mainly through friends, relatives and acquaintances. This informal channel of recruitment has been reinforced by the changing industrial structure. Thus, the neighbourhood in Korea, especially in poor housing areas, often played the role of job centre. Therefore, people cannot easily move house unless they have found a new job which guarantees better wages and security in the future because the neighbourhood is often their only source of access to jobs. The redevelopment of poor housing has had a negative impact on low-income households, not only because of the increased costs in housing consumption and reduction in the number of low cost housing units, but also because access to informal recruitment networks have been cut (this will be discussed in Chapters 6 and 7).

In contrast to this, the rapidly changing industrial base towards high-tech industry and the use of more sophisticated machines brought about a deficit in the supply of skills, such as those of engineers, technicians, professionals and craftsmen. Policies for retraining and moving labour (for example, through labour exchanges) could have been used as part of a general effort to adjust unemployment and underemployment by responding to the changing pattern of demands. However, priority in coping with such changes has been given to higher and formal education. This has increased education costs for households. Low-income households, with declining real income, have been increasingly marginalised and excluded from education as a ladder for upward social mobility (this will be discussed in the next section).

The service sector of the economy includes activities such as transport and the distribution trades, public administration, teaching, banking and insurance, the retail trade and the provision of personal services. There is a widespread assumption that the service sector will continue to expand in employment terms, and thus some argue that the service sector should be reviewed as a strategic industry for the future. Female employment is high in the service sector as a whole. It rose by 326 per cent between 1970 and 1987, and women accounted for 60.7 per cent of employment in the service sector in 1987, while the growth in male employment over the same period was only 221 per cent (EPB, each year). Most of the job losses in

manufacturing except textiles, shoes and clothing, have largely involved male employees. Thus the growth in the service sector has not, and will not, replace job losses in the low-income sector of manufacturing. Immigrants to the cities e.g. farmers, miners and fishermen are not likely to become computer operators, complicated car assembly operators, secretaries or accountants.

It is becoming increasingly clear that a whole series of mutual and overlapping factors are at work and that simplistic explanations of the demise of poverty are misleading. Nevertheless, economic growth disguised the problems of low-income households in providing misleading data. The increase in the number of automobiles does little to improve the welfare of low-income households. However, GNP rises with each car produced. This example illustrates the illusions associated with the use of GNP accounts as a measure of welfare. Official statistics show a rapid wage increase in the late 1980s. However, under this industrial structure and the segmented labour market, the wage increases have been unevenly distributed across firms of different type, industries of different capital intensity, and workers of different sex and position. This example also illustrates the illusions associated with the use of full-employment statistics and wage increase accounts as a measure of welfare.

Problems of unemployment, low-income, irregular working, wage discrimination, wage exploitation, etc tend to be concentrated on the poor and on the same families and neighbourhoods. Yet jobs are a necessary, not a sufficient condition for the reduction of household poverty. The concept of low income may differ from that of a low-income household. For example, a household with two low income earners could be better off in terms of household income than a household with one non-low-income earner. By contrast, a household can be cast into poverty not only because of low income, but also because of high consumption expenses. Therefore, earnings and expenses of households are the opposite sides of the same coin, especially in low-income households.

4.3 Household Expenditure.

What seems to have been crucial for improving living conditions and maintaining social peace in Korea despite relatively low wages, harsh working conditions and no social security benefits has been the existence of a large "informal sector" (or traditional sector) in the "open structure" of the economy until the late 1970s. Most unskilled or poorly educated immigrants could learn skills and adjust to urban life through this sector. Moreover, family ties have been very strong in Korea. If any one

of the family secured a job, the whole family and close relatives could escape from poverty through mutual support on this basis. Indeed this has often been noticed in empirical studies. Brandt (1982, p.1215) wrote the following about one squatter settlement in the 1970s;

"Young women in particular could find work more easily than men. They were willing to accept lower wages and less prestigious work. Spending less on themselves, they either saved most of their earnings or handed them over obediently to their parents. As maids, seamstresses, helpers in barber shops or beauty parlours, factory workers, or shop girls they worked long hours for very little money, helping to maintain their families or to send a brother to school. and their families were soon able to move out of the squatter areas and into a real house down below."

In 1966, there were 2,565 persons living in 42 institutions for the aged, increasing to 3,159 persons in 48 institutions in 1980, whereas, the aged population over 65 years old grew from 961,319 persons in 1966 to 1,446,114 persons in 1980. As we have seen in Chapter 3, remittance income sent by urban relatives accounted for over 20 per cent of total rural household income. Rowntree found that in Britain in the 1930s, large families were a main cause of poverty. In Korea, the most extreme poverty is found in small families or those without children (KNHC, 1989.10).

During the 1960s and 1970s, most urban in-migrants could find work within one month of their arrival. Most of them could increase their income and improve their employment status as a result of their move (World Bank, 1979, p.56). Despite the very obvious poverty of some in-migrants to the cities, the majority considered themselves better off than their rural counterparts. Many were relatively well off and helped their rural kin as well as urban kin. The Korean government believed that it was the role of education to overcome poverty by increasing social mobility. As education has become more widespread, additional spending has been invested for backward rural areas, girls, and the poorest urban children. After leaving school, children were able to earn higher incomes than their parents. The incomes were diffused to the other members of the family through strong family ties.

From the late 1970s things began to change. As we have seen in Chapter 3, society was moving towards a "closed structure". Limited social mobility, especially for low-income families has meant the chain of movement from poverty has been cut off of for many poor families. Indeed, the decrease in the number of the poor slowed down, despite continuing economic growth. Education policy began to focus on high-technology or special technology. It was also oriented in ways which supported the ambitions of the middle income groups for their children. In other words, the priority of educational policy began to be oriented to perceived economic needs, rather than to broader social goals of equality of opportunity.

Social stratification theory posits that education may perpetuate inequality if access to it is not open or accessible (Bowles, 1972, pp.219-251). A higher portion of public expenditure on higher education began to offset previous redistributive effects because children of poor parents have comparatively little opportunity to benefit from it (Choo H-J (ed.), 1979, pp.362-366 and Dong-A Ilbo, June 28th, 1977). Moreover, under resource constraints, educational expansion, especially higher education, was costly to the government. As Table 4-13 shows, the government encouraged the private sector to establish higher education institutions to reduce the government's fiscal burden (Yun C-I, 1993, p.197) and rapidly increased tuition fees of public schools of higher education, especially since 1979. The more education costs were borne by the family. The term "Cow-bone tower" instead of "Ivory tower" was fashioned by people since the late 1970s. It meant many rural households sold a cow, often their largest asset, in order to pay the costs of higher education for their children. According to Kong and Choen's estimation, the proportion of the financial burden of students to the total amount of public and private expenditure for education was about 71 per cent in 1990 (requoted from Yun C-I, 1993, p.205).

Table 4-13 Percentages of Private and Public School Students in Higher Education.

Year	College		University		Total	
	Private	Public	Private	Public	Private	Public
1970	56.9	43.1	75.4	24.6	72.0	28.0
1975	69.8	30.2	72.8	27.2	72.1	27.9
1980	83.7	16.3	71.4	28.6	75.0	25.0
1985	90.5	9.5	73.8	26.2	77.1	22.9
1988	91.1	8.9	75.5	24.5	78.8	11.2

Source: Korean Educational Development Institute, Educational Indicators of Korea, Seoul, 1988, pp.170-171.

Furthermore, as the baby boom (1956-1960) age cohort advanced, competition for entry into higher education, especially famous universities, became even keener and private tutoring became more pervasive. Entry into the famous, if not all, universities depended on the ability of affording expensive tutors. Low-income households couldn't afford costs of higher-education and the private tutoring costs. Even the middle-income households faced difficulty in affording the private tutoring costs. Educational reform was enacted in 1980, penalizing high-income households by making private tutoring illegal. Many studies consistently concluded that expanding access to higher education primarily benefited the offspring of those on middle incomes. The advantages that upper-income groups held disappeared by making private tutoring illegal, but educational opportunity for the lower-income groups did not substantially improve (Kim Y-H, 1990, requoted from Tun-Jen Cheng, 1993,

p.245). The moderate or middle income households tended to regard society as a kind of ladder, where it was and is possible to move up utilizing ability, initiative and hard work. However, those who have difficulty in affording higher educational costs tended to regard society as a kind of wall, impossible to jump over.

Most children of low-income households could not climb the ladder of education, their main chance for upward mobility, and so suffered from job demarcation practices based strictly on educational background (Park F-K, 1993, p.63). Moreover, by the late 1970s, secondary education had been generalized so that secondary school graduates formed the basis of the labour force (Kang M-S and Yun C-I, 1990, pp.66-68). Under this educational inflation, the subsidies of private, middle school and vocational training fees for low-income households became less effective. Unskilled and manual workers, mostly low-income households, had to compete in low-skill labour markets and marry those who were in the same social stratum. Under the breaking down of social mobility, the strong family ties have resulted in the poor helping the poor, and thereby becoming poorer.

Standards of living may depend on the purchasing power of money income in modern market places. If prices increase at the same rate as incomes, standards of living are left unchanged. Moreover, if prices increase more than incomes, standards deteriorate. As we have seen earlier, the increases in wages have been unevenly distributed. However, consumer price increases have an impact on all people. Moreover, the government has often used inflation as a method of reducing the burden of interest on government bonds, and this has acted as a tax on wage workers. Furthermore, as Professor Donnison (1991, p.3) pointed out, "*each generation invents new kinds of poverty by transforming some of the luxuries of its predecessors into necessities*". Economists describe this using Say's Law, i.e. that supply creates its own demand.

What are necessities is a matter of social definition which may change over time. In a rapidly growing economy like Korea such trends are fast. For example, until the late 1970s, colour TV's were classed as luxury goods with a high luxury consumption tax. Thus until the late 1970s, this luxury consumption tax played a role of cross-subsidization. Now they have become necessities in modern urban life. All this is very satisfactory for those who can afford these new necessities. Professor Donnison has called this "*the rising tide*". This is, as Saunders (1990, p.149) pointed out, the essence of Hayek's metaphor of the 'moving column' - the argument that capitalism is unequal yet dynamic and that those at the back of the column will in time come to enjoy the standard of living which those at the front enjoy today (Hayek, 1960). Those on low incomes have been deceived by the obvious and widespread symbols of the new affluence. These have been perceived as a symbol of improved living

standards. However, spending habits are not rational, but take place in the context of a social system which applies certain pressure upon its members (Townsend, 1954). Moreover, rapid economic growth has led to a more affluent middle income group and the subsequent expansion of the advertising industry and of credit purchases. Low-income workers may be unduly influenced by advertisers and the tempting hire purchase offers, as Parker (1967) pointed out, "*the consumer is by no means the key factor in the situation. Rather, it is the producer who as a rule initiates economic change...*". Some low-income families spend beyond their means and if subjected to adverse economic pressures, must choose to work overtime or supplement their income in other ways. However, they have to compete with new immigrants for an ever decreasing number of low income jobs. It has become clear to people in Korea that the complacent expectation that 'a rising tide would lift all boats' is illusory, rather 'a rising tide sank some boats'.

With the increasing demand for new necessities, the Korean government, in order to off-set the deficits of firms stemming from exports, distorted domestic market prices according to the changes in the international market. According to Dong-A Ilbo (Korean newspaper), domestic prices were 2-3 times higher than export prices (24th November, 1981). All Koreans had to buy at higher prices for the growth of the export industry. The tax system based on indirect tax, contributed to increase household expenditure still further, especially in low-income households (this is discussed later).

As cities grew, the provision of amenities such as housing, transport, etc lagged behind and became more expensive. Whenever things are scarce, they become more expensive and the people with the lowest income tend to suffer the most. Table 4-14 shows these general changes in household expenditure. The consumption figures are inconclusive in their implications and we have to look at the consumption of the more important items for low-income household expenditure, e.g. rice, rents and medical costs. There are no reliable estimates of that expenditure. In 1965, household expenditure on foods accounted for over 50 per cent of the total in both urban and rural areas. The dual price system set up in 1969 was a double protection system, supporting incomes for farmers while also reducing consumption costs for urban residents. However, household expenditure on food has dramatically decreased as household income increases. These food subsidies also became less effective.

Expenditure on other items also decreased or only increased slightly. The main problems have occurred in housing, especially in urban areas. Expenditure on housing has continuously and rapidly increased over time. In particular, urban households' expenditure on housing began to outstrip spending on food since the mid 1980s. Moreover, as Figure 4-4 shows, lower-income households have spent more

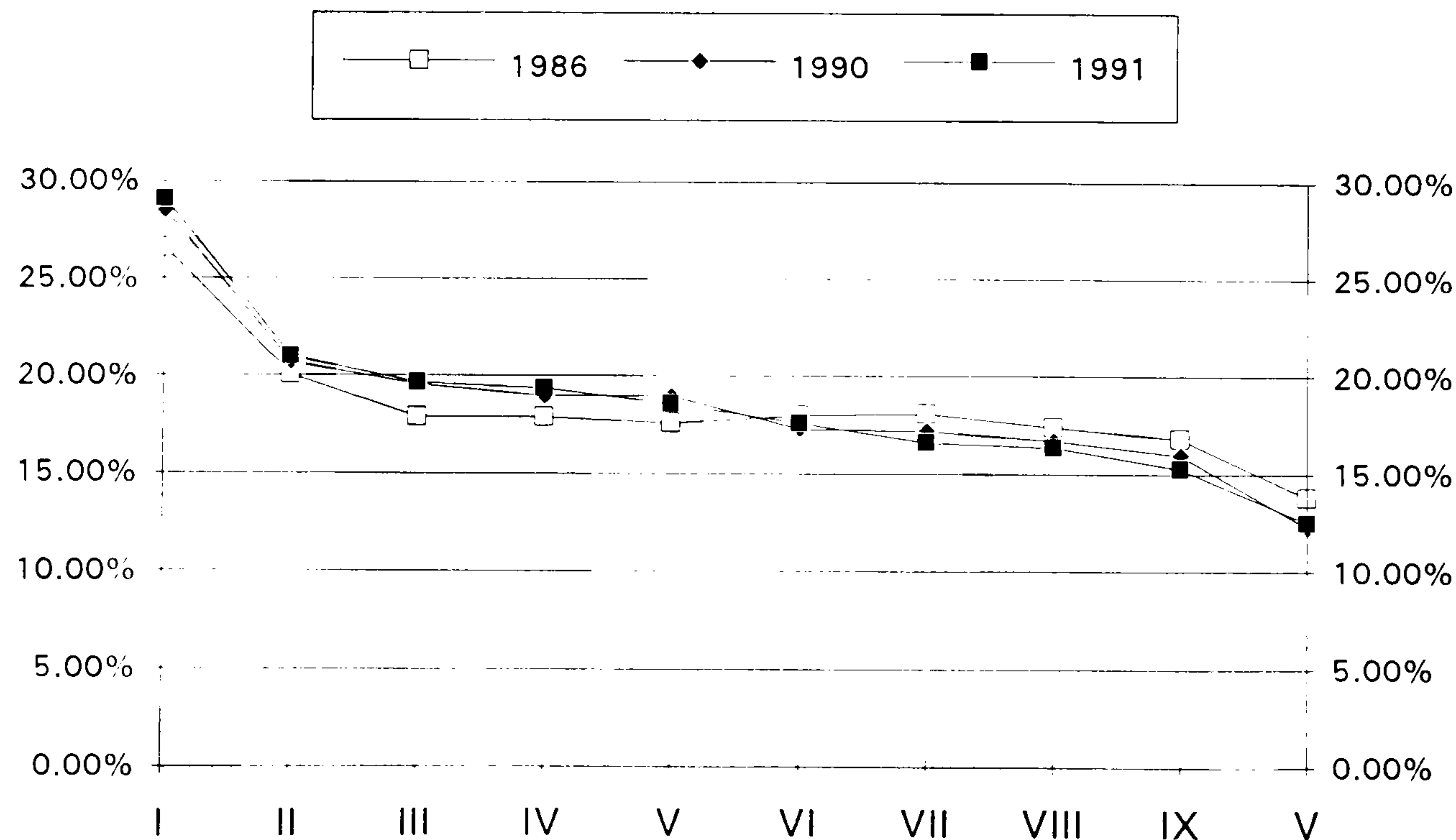
over time, whereas high-income households have spent less (see Song and Struyk, 1976, p.5). So the increasing costs of housing consumption have eroded increased household income, especially for low-income households in urban areas. Increasing housing expenditure has placed large families, young households and other vulnerable groups in low-income categories.

Table 4-14 The Consumption Expenditure of Urban and Rural Households.

	1965		1975		1985		1988	
	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural
Amount (£)	98	84	653	514	3987	3909	5830	5026
Share (%)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Foods	56.7	53.0	43.6	47.3	29.8	28.4	27.9	26.2
Clothing	6.5	8.0	8.7	6.9	6.1	4.0	6.7	4.5
Housing	13.8	11.7	17.5	13.3	27.0	7.6	30.9	9.0
Education	4.4	4.5	6.5	6.2	6.2	13.0	6.1	11.1
Medical	1.2	3.0	4.0	3.7	5.7	5.2	7.6	5.8
Transportation	2.0	1.6	4.1	2.1	5.1	4.1	5.6	4.7
Others	15.4	18.2	15.6	20.5	20.1	37.6	15.2	38.7

Note: Urban household expenditure on housing includes imputed rental value of *Chunsei* (or Key) money and owner-occupied housing.
 Sources: Computed from the Bank of Korea, Economic Statistics Year-book, 1971,1978,1981, and 1989; EPB, Bureau of Statistics, Annual Report on The Family Expenditure Survey, 1980, 1985, 1988; MOAF, Report on the Results of Farm Household Economic Survey, various years, quoted Byung-Nak Song, 1990, p.150.

Figure 4-4 Monthly Average Housing Expenditure as a Proportion of Income per Household by Income Decile in Cities.



Note: excluding electric, heating and other maintenance costs.
 Source: NSO, Annual Report on the Family Income and Expenditure Survey, each year.

4.4. Taxation and Social Protection Systems.

4.3.1 Taxation.

After the launch of the First Economic Development Plan, the Korean economy faced a severe shortage of capital. The domestic private saving rate was very low as a result of low income levels. Therefore, the objectives of tax policy were to raise revenue and to mobilize private savings (Kwack T-W, 1993, p.396). To promote private saving, capital taxation was drastically reduced. In particular, interest income was almost untaxed. The anonymity of bank accounts was guaranteed since the early 1960s until 1993. This was justified in that it supported industrial investment maximizing the mobilization of domestic savings (*ibid*, p.412). The history of the Korean tax system has seen wide variations and is beyond the scope of this research.

The characteristics of the Korean tax system could be summarised by three features (Han S-S, 1982; Kim M-S, 1987; Kwack T-W, 1993). Firstly, although the total tax burden relative to GNP has been rising steadily, from 14.6 per cent in 1970 to 19.4 per cent in 1990, the total Korean tax burden relative to GNP is still low (Wielde, 1993, p.439).

Secondly, revenue has depended heavily on indirect taxation, from 66.1 per cent in 1970 to 75.2 per cent in 1984. In direct tax, although capital gains from real property sales were subjected to taxation at fairly high rates from the mid 1960s, burdens for property owners are far lower than for wage and salary earners. This was often explained by the lack of a reasonable and consistent asset value assessment system as a primary source of administrative difficulties and, because of the typical combination of poor administration and low compliance, tax authorities did not effectively capture the realized capital gains (Kwack T-W, 1993, p.413). Speculation in real estate was often explained by this tax structure (Lee S-K, 1985). However, as shall be shown in the following chapters, this speculation has been the main mechanism for urban and housing development. Capital gains were left to individuals not because of ineffective government administration but for reasons associated with urban and housing development. However, as Kim M-S (1987) concluded, using 1985 data, the burden of property tax exhibits a skewed U-shape pattern of incidence in relation to income.

Thirdly, nominal statutory direct tax rates have been maintained at a very highly progressive rate with five bands, ranging from 5 per cent to 50 per cent (exclusive of surcharges). The top marginal rate has been very high, but the cases for exemption have been increased. The explicit emphasis of the tax policy in the 1980s was moved towards equity and neutrality. A major tax reform was carried out in 1988, penalizing the wealthy. However, the tax structure based mainly on indirect tax has not been changed. As a result of the tax reform in 1988, about 60 per cent of the

income earners in Korea are not paying any income tax (Kwack T-W, 1993, p.422). The benefits have mainly been focused on the moderate and middle income groups by increasing the exemption base. The higher marginal tax rate encourages both employers and salaried employees to provide and seek forms of income that are untaxable or only slightly taxed. This has led to the development of a "total remuneration package" which includes a wide range of fringe benefits as mentioned earlier. The income tax burden for middle income groups has reduced as a result of keeping basic salaries low and supplementing them by tax free benefits.

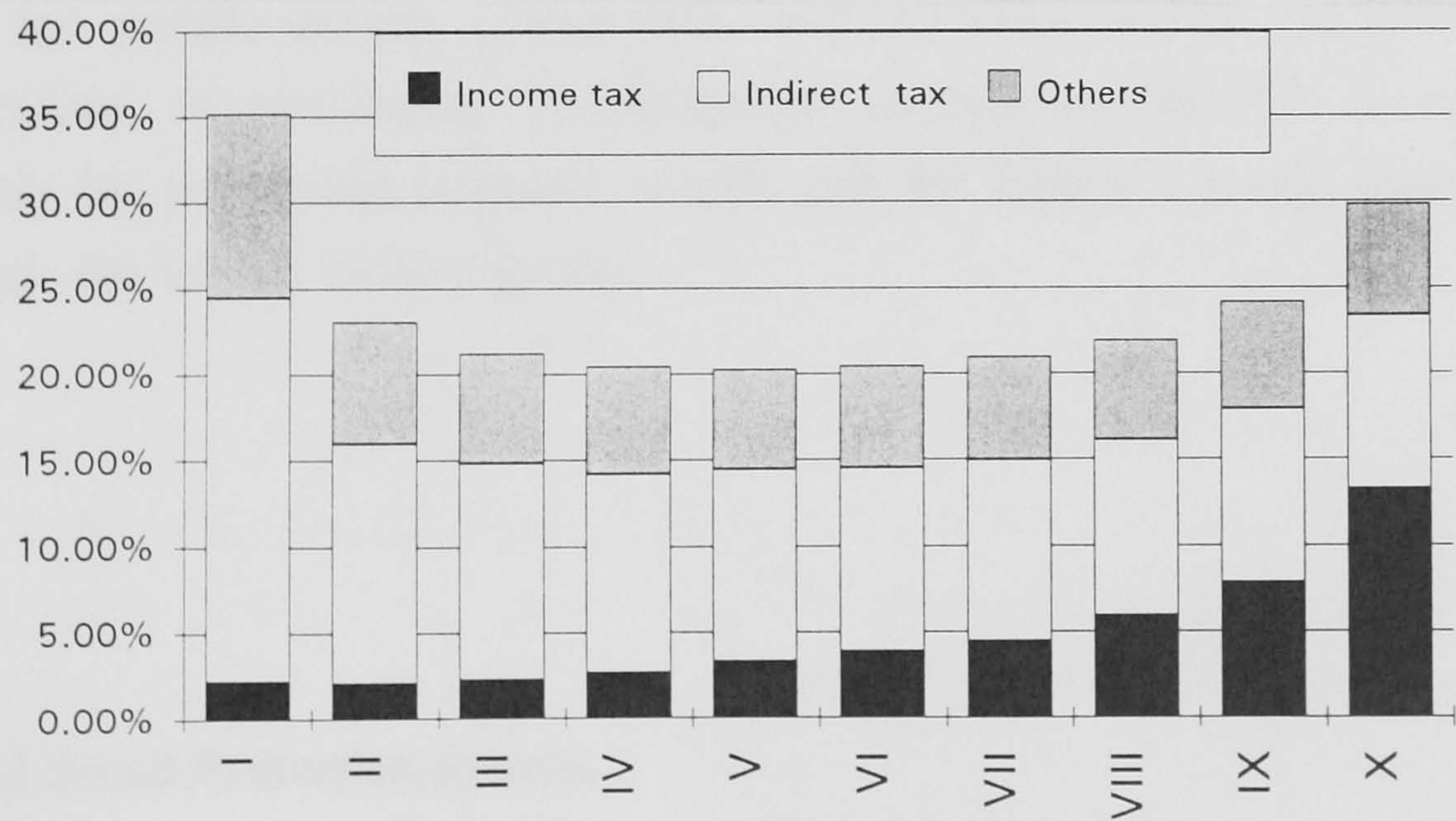
Table 4-15 Changes in Tax Structure.
(percentages)

Year	Indirect taxes to total taxes	Indirect taxes to GNP	Total taxes to GNP
1970	66.1	9.4	14.6
1974	70.1	9.4	14.3
1976	70.4	11.7	16.9
1978	72.0	12.3	17.3
1980	74.8	13.4	18.4
1984	75.2	14.0	19.2

Source: EPB (1989), cited from Kwack T-W, 1993, p.409, Table 4.

To sum up, the burdens of taxation by income groups, as Figure 4-5 shows, exhibit a U-shape pattern of incidence. There is a high burden for the bottom income group due to reliance on the indirect taxes and a high burden for the highest income group because of the progressive income and property tax structure. This tax structure in Figure 4-5 shows where the social and political power lies. It is also demonstrated by the Land Tax reform in 1990.

Figure 4-5 The Burdens of Taxation by Income Groups, 1986, percentages of income.



Source:Shim S-D and Park I-W, 1989.

Since the mid 1980s, increasing land prices have given enormous windfall gains to property owners who have paid very low tax on their gains. By contrast, urban lands have been increasingly concentrated in the hands of a few individuals (see Table 5-10). Therefore, the most important single element in the middle income group's prevailing social discontent about equality does not involve the distribution of ordinary income, but the uneven distribution of windfall gains due to property ownership. Accordingly, revolutionary tax reform was implemented in 1990. Three measures were carried out.

First, the Aggregate Land Tax was enacted in 1990. This tax is levied on "excessive" capital gains accruing mainly to undeveloped urban land holdings. Under this, accrued excessive capital gains compared to the national average rate of land price increase are taxed at 50 per cent every three years. Secondly, a ceiling on the holding of residential land was enacted. Prior to this, a few polls were taken and most people supported the introduction of the ceiling. (Such a result was fully expected because the majority of people do not own land). The National Assembly passed the bill to establish a ceiling on the holding of residential land in city areas, partly enacted in 1990. A household should not hold residential land in excess of 200 pyong (about 660 sq.m.) in the six major city areas. Those who want to hold land in excess of the limit have to pay 7 to 11 per cent of the value of the excessively held land as annual charges for the holding. The third measure was the system to capture development profits. According to this, private land developers have to pay 50 per cent of the evaluated profit from the project to the government.

These taxes on land may be a very useful method to reduce speculation, but they inevitably increase the land prices which low-income households will have to pay. The revenue from the above goes directly into the newly established Special Account on Land Management and Balanced Regional Development which is mainly used by and for middle-income groups (this will be discussed in the following chapters). Therefore, in conclusion, redistribution through taxation in Korea has proceeded mainly by penalizing property wealth and the highest income group, and, to some extent, the lowest income group.

4.3.2 Social Protection System.

As noted earlier, Korea has a small government budget in comparison with other countries.

Table 4-16 Government Consumption to GNP by Country and by Period.

Country	Year	%	Year	%
USA	1950-1950	17.9	1986	18.6
Sweden	1950-1959	16.8	1986	27.2
Korea	1953-1959	10.6	1986	10.8

Sources: Kuznets (1966, Table 5.3); OECD (1988); The Bank of Korea (1991); World Bank (1988).

Moreover, expenditure on defence has accounted for over 40 per cent of government final consumption for over three decades (see Table 2-2). Under such circumstance, as Table 4-17 shows, although the government expenditure on social development has steadily increased over time, the share of social development expenditure outside education is particularly small.

Table 4-17 Trends in Central Government Expenditure on Social Developmentcentral (percentages of total government expenditure)¹⁾

Year	Education	Health	Social ²⁾ security	Housing ³⁾	Others ⁴⁾
1970	17.7	1.4	5.1	0.1	1.5
1975	14.0	1.0	5.2	1.1	0.8
1980	17.1	1.2	6.4	1.1	0.8
1985	18.4	1.4	5.7	1.0	1.1
1987	18.2	2.6	6.5	0.8	1.0

Notes; 1) The data used here is the consolidated central government's expenditures on social development using the IMF's Manual on Government Finance, and includes the social development expenditures from each part of the general account, special account and the social security fund; 2) social security and welfare; 3) housing and community amenities; 4) other community and social services.

Sources: The Ministry of Finance, Government Finance Statistics in Korea, 1970-87, and IMF, Government Finance Statistics Year-book, 1977-87, reconstructed from Yeon H-C, 1989, p.5 and p.7.

It would be a mistake to look at public spending in isolation. In practice the provision of social services for the poor takes various forms. In some cases it would take the form of public finance, or public provision. In some cases social services are directly provided by the state and a market operates. Even in areas where both provision of a service is private and it is paid for privately, public sector regulation may have very important effects. Moreover, there are many other ways of achieving the ultimate aim. These include what Titmuss (1958) identified as "fiscal welfare", operating through what have come to be called "tax expenditure, "occupational welfare", operating through employers, and "family welfare", operating through mutual support in a family. These discussions are beyond the scope of this research.

If nothing else, however, the small scale of government expenditure on social development suggests that it is more important to examine the way in which such a sum is spent. In Korea, there is no national health service, no unemployment benefit, no child benefit, and no public housing. The social protection systems in Korea consist of risk relief policy and anti poverty policy.

Risk-relief policy.

The risk-relief policy can be subdivided into (1) Pension Scheme, (2) Health insurance and (3) Industrial Accident Insurance. The Pension Scheme is subdivided into four types. Type I pension program is for civil servants, Type II for military personnel, Type III for private school teachers, and the Type IV pension program, called the National Pension Plan, is for those employed in firms with 10 or more workers and it is compulsory. The contributions are charged equally to employees and employers on the basis of a fixed rate formula. The revenue of these pension schemes consists of contributions from the insured persons and their employers, which accounted for 96 per cent of revenues in 1988. The four per cent financial support from the government is supposed to absorb the administrative costs necessary to operate the system. The contributions and profits accrued through the operation of the pension reserve fund form the main pension fund which is used for pensioners and the insured.

With regard to benefits, the first three types are related to earnings. Under the National Pension Scheme, the amount of pension received is divided into two parts. One is the basic amount and the other is the additional amount according to the contributions. Benefits are basically associated to contributions and the earnings from the operation of the fund. Therefore, the pension funds cannot be invested in rental housing or for the improvement of workers' living conditions unless they are profitable.

Irregular workers, workers in a firm which employs 10 or less and the self-employed can be insured on a voluntary basis. However, the contributions to the pension have to be paid by employers alone or by themselves in the case of the self-employed. Thus, in reality, most of them are excluded from the National Pension scheme.

Health insurance is also subdivided into three types. In 1977, the type I health program was launched, compulsory for all employees and employers of firms employing 500 or more people. It was voluntary for others. The compulsory scope was extended to firms with over 360 employees in 1979, over 16 workers in 1983, and 5 or more workers in 1987. Type II is for civil servants, military personnel and

private school teachers. The other is type III for the self-employed in rural (launched in 1988) and urban areas (launched in 1989). Employees in small enterprises with five or less workers and pensioners can join the type III health insurance program. Health insurance premium rates are in the range of 3 to 8 per cent of the insured person's income or earnings, with the payment divided equally between employers and employees. In the case of type III, a flat rate is paid by the insured.

The benefits of health insurance in most cases are provided by means of medical services in kind. Cash benefits are given in exceptional cases. However, the medical services are not free. Patients pay the following: 2,000 Won (about £1.60) for a visit to clinic (3,000 Won, about £2.50, for a visit to a university infirmary); 30 per cent of fees (55 per cent of fee in a university infirmary) in the case of total medical costs exceeding 10,000 won (about £8.30). Therefore, the low-income households who cannot contribute are not entitled to medical assistance. Even when they are entitled, they can hardly seek hospital treatment because the fees are too expensive.

The Industrial Accident Compensation Act of 1963 (most recently amended in 1988) compulsorily applies to enterprises with 5 or more employees. Contributions are paid by employers alone to the central fund. The rate of contribution differs according to the industries' frequency of accidents. The government bears the cost of administration which accounts for 1.2 per cent of total expenditure.

In the case of temporary disability, medical treatment along with 70 per cent of wages are provided while under medical treatment. After medical treatment, a lump sum is paid according to the degree of disability. In the case of permanent disability, a choice is given between a pension equal to 138-329 days' average earnings and a lump sum payment equal to 55 to 1474 days' earnings according to the degree of disability. In the case of death, a lump sum payment equal to 1,300 days' average earnings or a pension is provided to the surviving family together with a funeral grant. This insurance also excludes irregular workers and the self-employed. It covered only 41.8 per cent of employees in 1990. Since the compensation for industrial accidents and the contribution of other insurances are calculated by the basic wage or salary, employers have been keen to keep basic wages or salaries as low as possible, increasing other fringe benefits which are untaxed instead.

Poverty-relief policy.

The components of the poverty-relief programs are generally subdivided into the Livelihood Protection Program (LPP), and the Medical Assistance Program. The assistance for subsistence according to the LPP is the most direct means of helping the poor in Korea. Under this program, the poor are defined by five categories; (i)

those unable to work (over 65 years old, under 18 years old, mentally or physically handicapped, pregnant women); (ii) those able to work but deemed absolutely poor; (iii) in both, a person who does not have a legal guardian, or the legal guardian is not able to support that person; (iv) a person whose income and wealth do not exceed the ceilings set by the government each year; and (V) those who have lived about one year in the same administrative district.

The beneficiaries of this program are selected by local government according to the criteria provided annually by the Ministry of Health and Social Affairs (MOHSA). As Table 4-18 shows, 5.5 per cent of the population on average have received benefits from this program during the last 10 years. The estimations of absolute poverty by EPB and the working poor by MOHSA have until recent years far exceeded this figure.

Table 4-18 Proportion of Benefit Recipients by the Livelihood Protection Program (MOHSA) and Poverty (EPB) in Population.

Year	1970	1976	1980	1985	1987	1989
Benefit Recipients(MOHSA)	-	-	5.3	5.5	5.7	5.4
Absolute Poverty (EPB)	23.4	14.8	9.8	6.8	6.2	5.3

Sources: MOHSA and EPB.

The types of subsistence assistance have become quite diverse during the last three decades. The components of the assistance are; in-kind assistances such as food given to those unable to work; cash assistance for fuel expenses; exemption from children's middle school tuition fees; cash income supplements, ranging from 39,000 Won (about £32.50) to 48,000 won (about £40) per month; and free medical, maternity and funeral services are provided. Under the subsistence protection program, 80 per cent of the expenses are met by the central government, except in the case of Seoul in which more than 50 per cent of the expenses have to be met by the city government (Lee M-W, 1993, p.117).

Since the introduction of the Medical Insurance Program in 1977, the Medical Assistance Program was also formulated to help the poor who are protected under the Assistance for Subsistence. It covered about 7.7 per cent of the population in 1990, including benefit recipients of LPP. All medical services are free for those who are unable to work, but those who can work pay 50 per cent of hospital expenses in larger cities and 40 per cent in other areas, with the exception of out-patient care which is free.

In addition to this, after 1964 the government has launched many public works projects on the basis of self-help ideology, including road construction or improvement, cleaning of small rivers and streams, construction of rural irrigation

facilities, and miscellaneous urban construction to offer temporary employment opportunities and additional incomes. Current wage rates under the program are 8,000 Won (about £6.70) per day which is, of course, far below the average market wage (Lee M-W, 1993, p.117). Moreover, the ceiling of working days per participating household declined from 35 days per year in 1974-75 to less than 8 days in recent years. This program has been used as an absorbing measure in economic downturns. For instance, in the years 1974-75 those temporarily employed reached a high point to absorb the impact of the first oil price shock, and again in 1979 just after the second oil price shock.

Another program is Vocational training and financial assistance for the education of the poor and their children. The government provides subsidies for poor trainees, paying each of them 20,000 Won (about £16.70) for training preparation, 50,000 Won (about £41.70) as a monthly subsistence allowance and 50,000 Won as a special adjustment fund for the initial period of employment to those who graduate from vocational training courses. At the same time, after 1979, the government has also exempted tuition fees for middle school students of poor families. The public works projects, vocational programmes and the exemption of middle school tuition fees are not confined to the benefit recipients of LPP. The beneficiaries of these programs vary according to changing circumstances, mainly according to the allocation of budget to that program.

Table 4-19 The Ratio between Risk-relief Policy and Poverty-relief Policy in Government Expenditure.

	(billion Korean Won)			
	1970	1980	1985	1989
Risk-relief policy				
Pension insurance	12.2	183.1	444.9	1,002.6
Health insurance	-	148.2	633.6	1,454.1
Industrial Accident insurance	2.2	72.0	201.9	395.7
Sub Total (A)	14.4	403.3	1,280.4	2,852.4
Poverty relief policy				
Livelihood Protection	4.7	58.1	116.9	221.7
Medical Assistance	-	14.2	65.9	219.4
Sub Total (B)	4.7	72.3	182.8	441.1
A / B	3.06	5.58	7.00	6.47
Total Expenditure	19.1	475.6	1,463.2	3,293.5
As percentage of GNP	0.69	1.29	1.87	2.32

Notes; Livelihood Protection expenditure include education assistance, vocational training and public work projects and the 1970 data of it include disaster relief.

Sources: Ministry of Finance, Summary of Financial Implementation for Fiscal Year, various issues and years; Ministry of Health and Social Affairs; and EPB, government Finance Statistics Year-book, various years.

Table 4-19 shows the trends of public expenditure on risk-relief programs and on poverty-relief programs. Although public expenditure on these programmes has increased over time, more priority has been given to the risk-relief programs in which the beneficiaries make a contribution for compensation and benefits according to their incomes. Thus, increased government expenditure has been channelled to those who have already satisfied their subsistence needs. Whereas the poverty-relief programs in which the beneficiary does not make a contribution for compensation, and thereby the compensation is made mainly from tax revenue, have become marginalized. Thus, poverty-relief policy has made only a small contribution to the reduction of poverty (Lee M-W, 1993, p.127).

Why has there been such a limited social policy for the poor? Answers have been given on various grounds, starting with the Confucian ethics of Korea (Kwon S-W, 1992, p.1). A family or employer must be responsible for the misfortune of individuals. The provision of social services by the state would conflict with the traditional ethic of self-reliance. Indeed, in the case of family income supplements in LPP, the take-up ratio of the policy is only 50 per cent. In the case of non-monetary compensation such as free welfare food, the take-up ratio is as low as 4 per cent (Lee M-W, 1993, p.134).

Secondly, there has been only a small proportion of elderly in the population, thus enabling Korea to spend a smaller proportion of its GNP on social security benefits than most countries (Kwon S-W, 1988, p.8). In 1960, Koreans who were 65 or older accounted for 3.7 per cent of the total population - a figure which rose to 5.1 per cent in 1990, but is still low compared with other countries.

Thirdly, until the 1960s Korea was a relatively equal society, but a very poor country. As Lewis and Ulph (1988, p.117) pointed out, *"in a society in which average income is above the poverty line, the removal of inequality will simultaneously abolish poverty, so the elimination of these two problems are complementary objectives of society. However, when average income is below the poverty line, eliminating all inequality necessarily makes everyone poor"*. Social policies were designed in relation to national growth and were not much concerned with redistribution. They were designed to achieve redistribution "through the growth of income". Hard work and saving have been seen as the essence of national growth in a country in which national resources are limited. It was often assumed that a wider range of social policy by the state would produce a decline in individual initiative and a reduction of personal and family responsibility, and would lead to too high a level of taxation which would act as a disincentive to further investment as well as to work. This was summed up well by Whang I-J (1986, p.27), *"The Korean model of a welfare state should not necessarily be oriented to the Western Model, in*

order to avoid the undesirable by-products of the Western approach. Korea as a late starter in modernization should try to maximize the benefits of the Western experience, both positive and negative, in national development". An alternative approach was to subsidize items that were particularly important for poor people. For instance, school feeding in primary schools and grain rations for the poor, subsidies on transport fares and public facility fares and public projects to give extra income to the self-help poor. Social policies were developed in conjunction with structural adjustment measures to avoid negative incentive effects on work and investment (Suh S-M and Yeon H-C, 1986, p.7 and Yeon H-C, 1989, p.8).

These may explain why social policy is undeveloped in Korea, but do not give an answer for why the benefits of social policies have been concentrated on middle income salary workers? (In Korea they are collectively called *Salarymen*). Since the military revolution in 1960, the military governments have not been widely supported by the population and have always been challenged by students and production workers. Enhancing the middle groups has been seen as a way to achieve political security. The meritocratic system has become the main mechanism for recruitment, promotion and reward in the society. In a similar vein, the government's policies have focused on those who have ability and who are hard working. Since the late 1970s, the centralisation of the national economy generated another bureaucracy, the private bureaucracy. It has enhanced its power through industrial restructuring. It is noteworthy that until the mid 1970s, most social security systems were targeted at public bureaucrats, such as civil servants, military personnel and teachers, and were then expanded to the private bureaucrats, such as the type IV pension program and the health insurance, etc. Then "white collar politics" of two bureaucracies have led the Korean economy and society reluctantly towards an egalitarian society but with active opposition to high taxation.

As a result, the Korean tax structure, as we have seen earlier, exhibits a U-shape pattern of incidence by income groups. Whether social policy is through public finance or public provision, it is largely financed by tax revenues. A small tax revenue has limited the government's expenditure. These circumstances brought about the idea emphasized by Lee M-W (1993, p.132);

"In a country like Korea where there is a demand for excessive expenditure on social development and national defense, it is desirable to rely on the social insurance system. For the poor who do not benefit from the social insurance system, it is desirable to utilize social benefits based on a strict means-test" .

Under these circumstances, social service planners have found it very difficult to pursue social welfare policies because they neither encourage nor enhance Korea's productive capacities. Therefore, they have to pay special attention to locally

available, readily mobilizable or marginal resources to whatever extent possible. For example, newly qualified doctors are forced to serve in rural areas for three years as a legal obligation before engaging in private medical practice in urban areas. For another example, some nurses are retrained to become community health practitioners entitled to provide simple medical care as well as preventive care for residents in remote rural areas. Another way to reduce the cost of social provision was to pass the burden towards employers. Indeed, in Korea, a large part of social protection and the social insurance system is financed through prior contributions by employers.

In a self-sufficient economy, an automobile worker helps in the production of motor cars and he probably drives a car himself. Thus, he is both a producer and a consumer on whom the decisions about the product depend. In the long run, the production of goods and services will be determined by the effective demand of the people. However, in export-oriented industry, the main consumers are not domestic households but foreigners. Employers do not see their production workers as consumers of their products.

There was a plentiful supply of labour from population growth and immigration. Since the mid 1970s, this almost infinitive labour supply turned into a deficit in terms of workers required as a result of changes in the industrial structure. Employers began to offer production workers private welfare in order to attract the required labour (Lee K-C, 1985, p.86). Furthermore, in order to cope with the deteriorated economic conditions before and after 1980, the government launched a low-wage policy. As a means of compensation for the low-wage policy, the government legally forced employers to establish welfare facilities in workshops and expanded various social insurance policies to which employers had to contribute. The government transferred a large part of social welfare costs to employers. As mentioned in Chapter 3, the development of the private bureaucracy has made this possible, with no investment in terms of government budget outlay.

Employers have been keen to increase fringe benefits and employ more irregular workers to avoid the burden of the social welfare of their employees. According to Lee (*ibid*, p.88), in Korea, fringe benefits, most of which are out of tax, accounted for 21.5 per cent of total labour costs in 1979, far higher than in Britain which stood at 17.4 per cent in 1978. This is particularly the case for those employed by large enterprises (Kwon S-W, 1992, p.7) and those who are regular workers. In these aspects, the interests of employers and the private bureaucracy has been reconcilable. As Olson (1982, p.178) argues convincingly, "*economic liberty requires vigilant authoritative intervention to protect it from the tendency of market participants with similar interests to combine in distributional coalitions*". Social welfare schemes tended to overlap or totally exclude. Better-off workers who have stable jobs could

afford to contribute to insurance and pension schemes, but irregular workers not only cannot join the schemes, they cannot spare the money for subscriptions to such schemes.

The lack of social welfare services provided by the state and by entrepreneurs has in fact helped to increase in low-income households' expenditure. For example, according to a comparative study between a low-income housing area and a middle-income housing area in 1982 (Byun C-H, Suh M-H and An S-K, 1982), the incidence of disease in the low income housing area was higher (22 per cent compared to 15 per cent). The low-income households opted mostly to use a pharmacy rather than a hospital to treat the disease because the costs were cheaper. Those from the more affluent area used hospital treatment. Doctors, therefore, preferred to open in better off residential areas where people tended to use the hospital to treat disease. Nevertheless, household expenditure on health in the low-income households as percentages of their income was about 2 times higher (8.5 per cent) than the middle-income households (4.5 per cent).

Under such circumstances, hardship in old age with no relatives or poor relatives may be especially distressing because there is so little chance of things ever getting better. People just wait for the end, living on the barest *subsistence* assistance.

4.5 Conclusion.

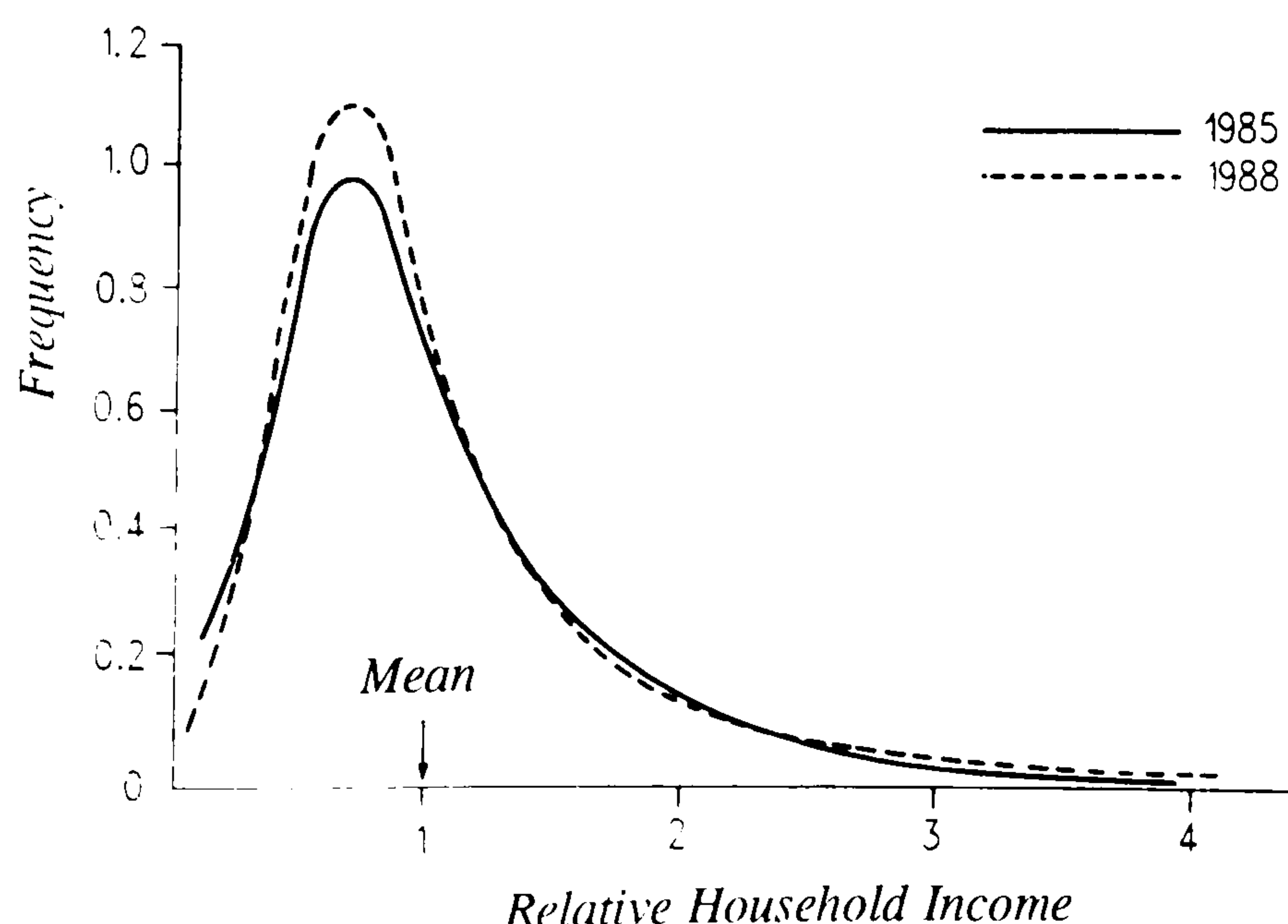
Thanks to the economic growth of the last three decades, the pleasures of life and the benefits of civilisation have been available to more people than ever before. Clearly more Koreans are immensely better off with each passing decade. However, it is also clear that economic growth has failed to benefit those in greatest need.

Korea achieved nearly full employment due to the increase in irregular workers. Unskilled people have to compete with ever growing in-migrants to the cities and newly trained labour for a declining number of low-income jobs. As economic growth has continued, wages have increased, but the increase in wages has been unevenly distributed across firms of different types, industries of different capital intensity and workers of different sex and position. Problems of unemployment, low income, irregular working, wage discrimination, etc., tend to be concentrated on the poor and the same families. Moreover, the poor have remained relatively poor as their greater income has been relatively less valuable as a means for security, and gaining access to scarce urban resources and facilities.

The orthodox view that life chances are directly related to income gained from the work situation alone is perhaps too limited. It has been well illustrated by Konrad and Szelenyi (1969), in Eastern Europe, that attempts to redistribute resources in favour of less-skilled workers were frustrated by the distributional effects of an urban system which appeared to be creating new or deeper patterns of inequality. This can be identified, as noted earlier, by the perceived income distribution prevailing in Korea. Therefore, perceived income distribution and deteriorating living conditions are not a result of high expectations, as Hirshchman's tunnel effect suggests, but of real experience.

The fundamental difficulty is that problems of earnings and household expenditure tend to be concentrated on the poor, on the same families and at the same time in the most difficult periods, resulting in the breaking down of social mobility. Under these circumstances, strong family ties resulted in the poor helping the poor, and thereby becoming poorer. It is certain that inequalities of condition at any one point in time create inequalities of opportunity for further achievement. Education reform was oriented in ways which supported the ambitions of the middle income groups for their children. A U-shaped tax revenue has been mainly invested through social policies for the benefit of middle income groups, not for low-income groups. Redistribution has proceeded by penalizing the top income group, not by lifting the bottom income group, and expanding more benefits to middle-income groups and their children. Figure 4-6 demonstrates all these patterns.

Figure 4-6 Frequency in Household Incomes, in cities (1985, 1988).



Source: Kwon S-W *et al.*, 1992, p.75.

The above Figure also implies that equality may be a necessary step towards improving the living standards of low-income households, but not a sufficient one.

The lowest quartile of income earners has seen how the benefits of rapid economic growth trickled-up rather than trickled-down. It has often been pledged that their sacrifice would be compensated when the cake becomes larger. But the poor have become poorer, relatively in some households, absolutely in others. The poorer households have gained little or no substantial advantage from rapid economic growth.

Note.

¹. The patriarchy is found in wage management and even in promotion. To be sure, labour unions everywhere object to merit systems. Park S-I (1988) express it by following manner: "*Hence, employers are afraid of damaging employee morale and the sense of 'fairness' by a strict application of performance appraisals*" (p.104).

CHAPTER 5. THE EVOLUTION OF HOUSING POLICY.

5.1 Introduction.

The last three chapters have discussed low-income households and their place within the changing economic, social and political structures of a rapidly developing country. The rest of this thesis focuses more closely on housing.

This chapter investigates how changes in economic, social and political structures have affected housing policies. The evolution of Korean housing policy is reviewed in section 2 which considers how housing problems have changed and how the government has coped with those changes within a rapidly changing economic, social and political environment. The next section explores the changing housing conditions, and the achievements of housing policy in relation to other social aims and the mechanisms used for these achievements. In discussing the evolution of housing policies the emphasis will be on their patterns and trends rather than on the specifics of particular programs and their results. This chapter is designed to set out the broader framework and trends of housing policy in Korea, and to provide an overview for the subsequent chapters which deal with the housing system and changing housing markets in relation to low-income households in detail.

5.2 Housing Policy Overview.

Housing in Korea was not an issue in political and social debate at least until the early 1940s. Korea was a society where people built their own houses using raw materials collected and processed by themselves with the help of friends and neighbours, utilizing various traditional saving schemes to mobilize the necessary resources, such as "*Gae*", referring to a neighbourhood-based informal saving association which had various purposes. The quality of housing was limited by the availability of materials and the skills of self-builders but homelessness and housing tenure were unlikely to be a problem.

After independence from Japan and the subsequent partition in 1945, a large number of repatriated Koreans from Japan and elsewhere, and refugees from North Korea entered the country. The symptom of this influx was the emergence of "**Sangjajip**", a kind of poor housing, made of cardboard and the like. It was common for between 2-10 households to be sharing a house (MOC, 1987, p.932). However, at that time, the government, the individual household, and the house builder were all unable to cope with the housing shortage. The revenue of the government depended heavily on aid from overseas. Most of the population were in

poverty or near poverty. House builders were no more than small artisans. Other social, political and economic problems took precedence over housing. The construction of crude refugee camps was the only initiative taken by the government.

To make matters worse, the Korean War (1950-1953) destroyed or made uninhabitable about 600,000 housing units, equivalent to 18 per cent of the housing stock (MOC, 1987, p.932), and a further million were estimated to be damaged to a lesser extent. Moreover, refugees from the North added to the serious housing problems. Although no clear statistics are available, over 1 million refugees fled from North Korea. According to a 1961 North Korean source, the total reduction in the northern population from 1949 until 1953 was 1.13 million, or some 12 per cent of 1949's 9.6 million population (quoted in Henderson, 1974, p.61). Moreover, unexpected typhoons and floods took away about 30,000 housing units per year during the second half of the 1950s (MOC, *op.cit*, p.932). The term **Sangjajip** was replaced by **Panjajip** made of wooden boards which came into Korea with foreign troops. Every night, stations were full of homeless people.

Refugee camps or temporary shelters were built with the aid of UNKRA, AID, etc to accommodate the refugees and the roofless. They were no better than self-built shelters in terms of standards. Housing standards and environments were not a concern. Urban planners had little opportunity to put their ideas into practice. Wooden boards and bricks were laid in a hurry on any open space to shelter people from the severe climate. Until the early 1960s poor housing was largely ignored by the government. It would have been foolish to tear down existing houses, however bad they were, when there was a serious problem with rooflessness.

The house is an extremely important aspect of human life, but next to nourishment. In 1960, about 43 per cent of the urban population were still living in subsistence conditions (EPB) and the official unemployment rate was recorded as 17.3 per cent ('60 Population and Housing Census). Nevertheless, the population was growing more rapidly than before. Housing problems were far behind unemployment and hunger in terms of priorities. Moreover, for those who experienced the war, today's concepts of housing need would have been a luxurious idea. Food, clothing, and therefore economic growth were more urgent and necessary requirements.

Although housing was scarce and of a poor quality as a whole, the assumption of the government was that increased household income would be transferred into effective demands for new decent housing which builders would supply, increasing the number of households accommodated in decent houses. Hereafter, this will be called the "filtering up" process as a working definition in this research. Schwabe's law of rent demonstrating that the proportion of income devoted to housing would fall as household income rose was the implicit background for such an assumption.

Thus, the principle of the government's policy for tackling the problems of the urban poor and their housing has continuously been focused on "through the growth of the economy".

Given the constraints of defence expenditure, the housing sector had to be insulated from other investment for economic growth. This lack of money available for expenditure on housing by the government has constrained Korea in coping with housing problems to more negative means, such as regulations and controls, rather than by positive means, such as direct supply or subsidies. The lack of resources also conditioned the public sector into closer collaboration with the market. The government adopted the private ownership solution mainly because there was no money available. Freehold property ownership in urban areas was to be the main tenure in the housing system. That was justified by the assumption that strong restrictions on the right of the private landlord would not only halt housing supply but also dry up the stock of privately rented accommodation.

Since the launch of the Economic Development Five-year Plan in 1962, new industries were built up, partly by the expansion of domestic markets but crucially by the expansion of exports. An internationally competitive economy had to be sustained, and that called for control of wages, prices, production and investment. At this stage, in most Western countries and some other countries, social or public housing became a key element in housing provision. It had on the one hand to be closely controlled and provided relatively decent houses for workers at costs which did not encourage rapid wage inflation. On the other hand, it did increase labour productivity in European countries (Harloe, 1988), and it contributed to the low-wage economy with high productivity in Hong Kong and Singapore (Castells, *et al.*, 1990). As Ball (1978, p.92) similarly puts it, the prime function of public housing is to house the workers adequately as cheaply as possible.

As a means of keeping living costs and wages under control and raising labour productivity, the Korean government adopted food subsidies and mass investment in education, rather than subsidising housing. Since 1969, for instance, the government launched the "dual grain price programme", buying at higher prices from farmers and selling at lower prices to urban workers. At that time, those policies were more efficient given local circumstances. Until the 1970s, household expenditure on foods accounted for over 50 per cent of household income, while that on housing accounted for less than 15 per cent; over 60 per cent of urban households were owner-occupiers; there were surplus uneducated and unskilled work forces until the mid 1970s and the shortage was among skilled and educated labour for further industrialisation. Moreover, there was no serious social stratification or conflict between social groups. The issue in Korean society was the creation of income. With

respect to inequality, concerns mainly focused on the allocation of growing income, rather than on the urban system and housing or, in Marxist terms, "social consumption". Under these circumstances, to some extent, it would be an exaggeration to argue that owner-occupation was a deliberate strategy for dividing the working class, or an inducement to workers to identify with bourgeois values on ideological grounds.

Housing policy during the 1960s can be characterized by the term "*laissez-faire*". Private builders, however, could not supply enough houses to keep pace with rapid urbanisation and household increases coupled with the trends towards the nuclearisation of the family. Houses began to be a target of speculation, especially in 1967 and 1968. It was at this point that housing became a commodity to be produced for profit, that is, for its exchange value rather than its use value. The importance of housing as an exchange good was partly a reflection of migration and partly a reflection of the economic growth by which surplus capital held by individual households began to grow. Accordingly, house builders also began to change from small artisans to become mass productive enterprises (Kim J-Y and Kim I-T, 1984 and Ko E-A, 1993, p.24). This trend was further accelerated by the change in fuel for heating and cooking from timber to coal and gas. The change in fuel was accompanied by changes in the housing design and structure. Most self-builders and artisans who possessed traditional skills was being squeezed out. This meant that the standard of housing enjoyed by a family depended on what it could afford rather than what a household could build for itself. The supply of housing increasingly reflected effective demand rather than need. Housing prices were increasing faster than general price increases and household income growth. There was a significant gap between the price of decent accommodation and the rent that could be afforded by a large number of the immigrants to the cities.

The Korean government relied heavily on local government for action dealing with low-income households, mainly for those displaced by the clearance programmes which were largely the result of unplanned settlements built during the late 1940s and the 1950s. However, until the early 1970s, the housing authorities failed to tackle the low-income housing problems. It was clear that, given limited public spending and under the circumstances of massive immigration, public intervention in housing was not only inefficient but also ineffective. By contrast, most academic studies showed that although physical standards were very low in low-income neighbourhoods, overcrowding and squalor did not breed disease and crime. Moreover, a great number of poor houses had been improved by the occupants themselves as their income grew, rather than by public interventions. Public services were considered

more important than housing. Indeed, the dangers to health did not lie in housing but in the lack of provision of basic services, such as piped water, sewage systems, etc.

The idea of housing as a "merit good" - whose consumption by the poor is readily supported by society partly because of negative externalities usually from bad housing - was not developed in Korea. Economic conditions were seen as being more important for individuals and the state than housing. Therefore, although housing began to be an issue in political and social debates, the housing problem mainly consisted of the fact that there were far more households than there were dwellings.

To make matters worse, in 1970, the *Wa-Woo* citizen's flat - a five-storey block built by the Seoul local government for displaced low-income households - collapsed, killing 34 residents. *Gwangju* new town project planned to accommodate displaced squatters from Seoul caused a riot in 1971 (this will be further discussed in the next chapter). This signalled a shift of government policy from even the residual direct supply of houses for low-income households towards a general filtering strategy. The government emphasized owner-occupation even more than before as an attempt to disengage itself from involvement in housing. The Korean National Housing Corporation, operating on the basis of independent balance sheets, began to expand its role for moderate-income households on the basis of the filtering up assumption (KNHC, 1979, p.328).

The First Housing Construction Ten-year Plan(1972-81) was established, setting a target for the completion of 2.5 million housing units within 10 years, accompanied by slogans such as "every household its own house" and "one household one house". The Housing Construction Acceleration Act of 1972 was enacted for the plan. The main component of the Act was to encourage housing supply through the smooth working of the market mechanism (Rho Y-H, 1984, p.16). Housing bonds, a housing lottery and borrowing from overseas for housing construction were initiated. Given limited public investment, the Korean government relied heavily on the private sector. Instead, the imposition of building regulations, and the control of building plots and street layout were emphasized to prevent environmental deterioration. As president Park indicated (1973, p.7), *"If the cities form without planning, some time or other they will have to be corrected, which will require mass national resources. Therefore, urban planning and controls over city development must be increasingly applied in order to reduce further spending"*.

Housing was a part of town planning which was a part of a national land use plan which was a part of the national economic development plan which was dominated by an economist-planners' view. Therefore urban development took the form of cleverly-planned savings of indirect costs and an overall strategy for economic

growth. One of the most eminent town and regional planners in Korea, Professor Choi (1976, p.52) described such circumstances in the following way:

"While the Ministry of Construction (MOC) was struggling with voluminous paperwork, EPB (Economic Planning Board)'s economic planning activities became the most powerful reference point above all other national sectoral plans. As national priority and resource allocation expressed in the Economic Development Five-year Plan seemed to dictate the fundamental course of actions, other planning efforts like MOC's regional planning (including town planning) were regarded to be peripheral or technical aid to economic planning. MOC's regional development planning almost lost its ground under the strong shadow of the prestigious aggregate economic plan"

Production targets and the numbers game became a familiar aspect of the politics of housing. The number of houses built was to be a major measure of housing policy. Central and local government planning control set overall targets, in terms of the number of dwellings to be built or approved in the year in association with land use controls. The dominant objective was consistently to increase housing numbers, and the clearance of poor housing was held in abeyance. From that time onwards, housing policy in Korea can be characterized as a "quantitative policy" or "high-output policy" as termed by professor Kwon T-J (1988) and by the Ministry of Construction (1993, p.1). Home ownership was to be seen as an essential response to the problems of housing providers for mass housing supply.

Housing policy placed more emphasis on the construction of high-rise flats. A pre-fabricated flat was first shown by the Korean National Housing Corporation in 1972 (KNHC, 1979, p.331). However, the first oil crisis of 1973 resulted in a rapid decline in private housing construction. Since then, the role of public agents began to expand greatly as an instrument of the high-output policy and a means to counteract a down-turn in private building and in the economy generally (see Figure 5-6, p.146).

The oil price shock in 1973 also had a great impact on housing consumption patterns of Korea. Until then, demands for housing were mostly for detached houses based on tradition, and many flats built were unsold and unpopular. The rapid increase in oil prices was accompanied by high maintenance costs such as for heating in detached houses. Since then, flats and high-rise apartments with lower costs than houses began to be more popular in Korea, especially in urban areas and among middle-income households (KCCI, 1990b, p.51). Such trends have been reinforced by the increase in women's participation in the non-domestic economy and the second oil price shock in 1979.

Until the late 1970s, government housing policy operated a "supply-oriented approach" intervening with supply side solutions to supplier problems. For instance, standardization of construction materials, the expansion of housing finance and various tax benefits were given to housing suppliers. Nevertheless, private and quasi-

public house builders couldn't supply enough houses, because of limited housing resources, to accommodate the increased number of households. Housing prices continuously increased as a result. Houses had been empirically proved to be the best investment option. In addition to this, wages began to increase more rapidly after the mid 1970s, especially fuelled by the Middle East construction boom since 1977, which raised households' income. Furthermore, the generation born during the baby boom of 1955-60 began to form their own households. In contrast to this, the development of heavy and chemical industries and new industrial cities drained housing funds, materials and labourers. Moreover, the Middle East construction boom drew housing construction materials and labourers away from Korea. Housing prices began to rocket owing to a combination of demand-push factors coupled with cost-push factors.

Although real household income increased, the increase in housing prices was far higher than that. For instance, between 1971 and 1978, the average urban household's income increased by 4.24 times and the general price level increased by 2.99 times, whereas housing prices increased by 19.04 times (KNHC, Housing Statistical Year-book and EPB, Major Statistics of the Korean Economy). Enormous fortunes were made from housing which led to more speculation which in turn accelerated housing price increases. As the number of people with serious housing difficulties increased, not only in low-income households but also middle and even some high-income households, the housing issue rose up the political agenda.

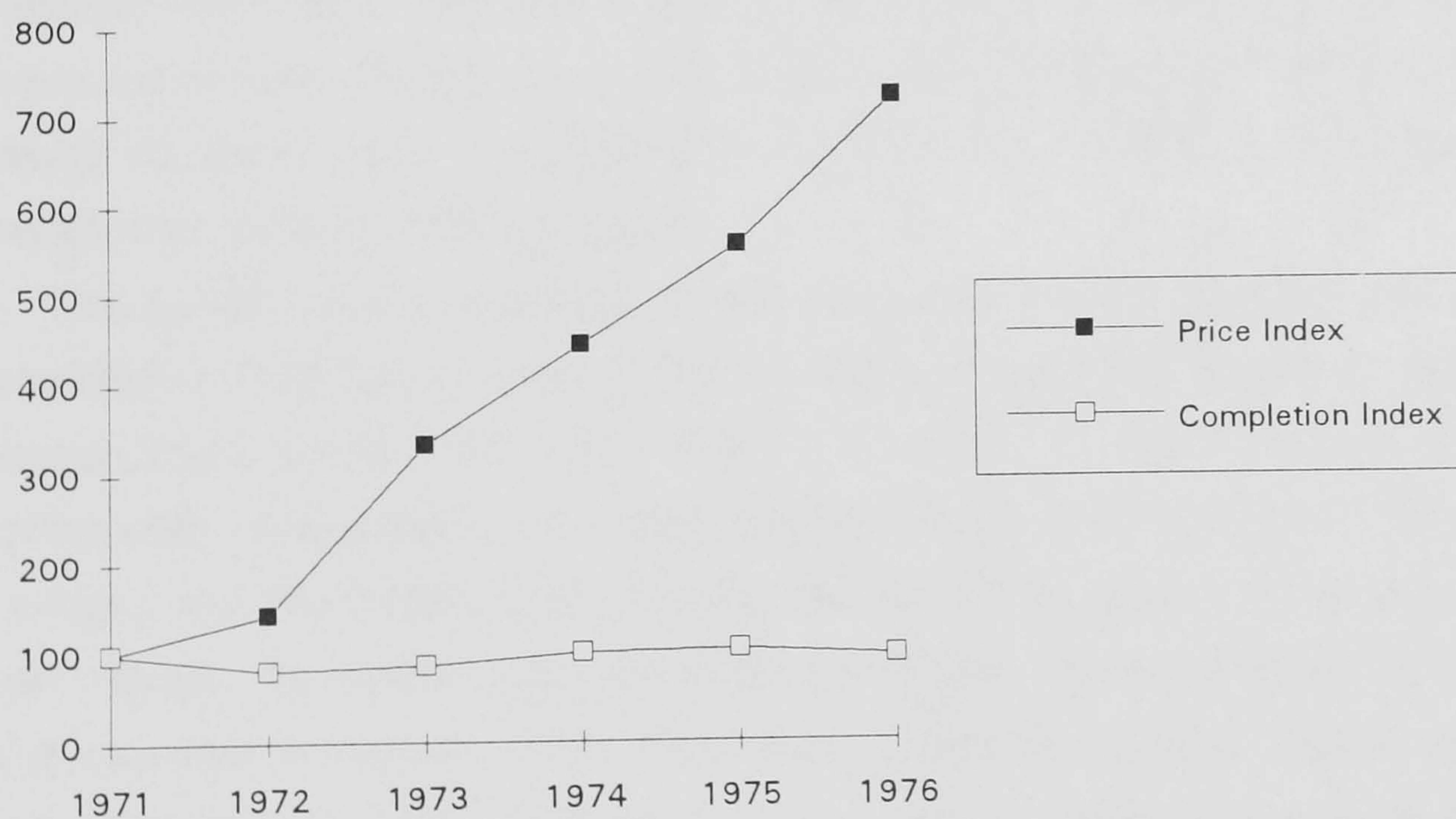
The Korean house building industry was highly labour intensive. A large majority of house building firms had weak asset structures (Kim J-Y and Kim I-T, 1984, pp.26-27). Profits varied widely depending on cyclical changes in the housing market. Sustaining business operations was not easy. There was a high turnover of companies in the construction industry (Kim J-H, 1990, p.11) and a considerable lack of coordination as a result of the large number of small firms. All these combined to make the building industry unstable. In addition to this, one of the difficulties in the house building industry, as the direct general of the Housing Bureau in the MOC (Lee D-S, 1990) pointed out, was the frequent shortage of building materials, which made it difficult for the industry to improve productivity and stabilize production. These shortages were a result of various big public projects such as motorways, airports and harbour construction, etc.

Therefore, housing starts were not dependent on prices alone. In fact, as Figure 5-1 shows, despite the rapid rise in house prices during the first half of the 1970s, housing construction each year in the private sector was unchanged. If households could not afford privately constructed houses, construction firms could not extend. In other words, unless their incomes exceeded the increase in construction costs, private

builders would not supply houses. As seen in Chapter 3, much of the migration by the mid 1970s was a "push" phenomenon linked to the scale and depth of rural poverty. These rural people could not afford to purchase new houses.

As housing prices were steadily increasing, the effective demand for new houses was reduced despite the growing housing shortage. Questions of efficiency on the supply side and price and affordability on the consumption side were at the centre of the housing problem in technical terms. In political terms, ownership rates began to fall, and housing price inflation gave great capital gains to homeowners. This became a great cause of inequality between property-haves and have-nots. Nevertheless, housing construction was sustained by a speculative process generated by demand for property from house owners anxious to make a small capital investment as a defence against menacing inflation. This kind of inequality was intolerable to the meritocratic bureaucracy. Inequal distribution of capital gains was the core of housing problem for the Korean government (MOC, 1987, p.946). One can certainly see the influence of middle-income group organizations and interests in the efforts of some of the housing ownership movements: enormous *Kunchuk Johap*, or building associations, formed on the basis of occupations were generated at this time. A large portion of capital which would otherwise have been invested in industry began to flow into real estate markets speculatively (see Table 5-7, p.135).

Figure 5-1 The Index of House Prices and Housing Completion by Private Builders, 1971=100.



Source: the Ministry of Construction.

Until then, government housing policies had always been fragmentary and pragmatic in character, that is a series of *ad hoc* responses to particular problems only under the general principle of "high output". However, market failure or at least the presumption of market failure seemed clear - more precisely the inability of the market to cope with decreasing ownership rates - given the circumstances of housing

suppliers, finance and consumers. This consideration led the government to some action within economic constraints. If household incomes were low, in theory they could be raised to allow increased housing consumption but that was practically impossible because it meant intervening in the labour market and raising wages substantially, undermining the very basis of international competition. The only option open was to reduce housing costs and prices.

There was a drastic amendment of the Housing Construction Acceleration Act in 1977. Through the amendment liberal housing markets were put under control of the government (Ha S-K and Kim Y-M, 1991, p.29). Since then government housing policy shifted from a "supply-oriented approach" towards a "consumption-oriented approach" in which the government intervened to deliver solutions to consumer problems.

The government had to become more interventionist in order to promote 'effectiveness' and 'efficiency' in housing construction. The problems in housing provision were viewed for the most part as an institutional problem. Through the amendment of the Housing Construction Acceleration Act, the building industry was re-organized. The private building firms were divided into designated builders, registered builders and small-sized non-registered builders, on the basis of firm size and their output (Lee D-S, 1990). Under Korea's strong government, the act laid down the framework of rules defining the rights and obligations of enterprise and their relative status, ranging from credit allocation to planning permission. It was the familiar logic of a "big push". From the government's view, small house builders were too volatile during recessions to stabilize housing output and prices. Moreover, many of them were irresponsible about the environment, town planning and the installation of basic infrastructures.

The government's assistance or benefits were mainly focused on encouraging the establishment of larger house builders. These trends were fuelled by the Middle East construction boom (Do J-H, 1984). In order to earn foreign currencies, the government encouraged (or rather forced) *Chaebols* to take part in the construction industry and the Middle East construction market for reasons of their marketing skills and capital. To support this, the Overseas Bureau was established in the Ministry of Construction in August, 1976. Since then, *Chaebols* began to extend and expand their activities into the house building industry and big construction firms began to grow rapidly with the support of the government. Once the *Chaebols* established construction firms as one of their affiliates, they continued to grow by siphoning capital within the *Chaebol* group. In contrast to this, the "self-build" sector and small firms were being restricted to producing a diversified output on smaller sites or in rural areas, and to be subcontractors for larger firms (Korean Construction

Association, 1978, p.12). These trends were accelerated by rapid increases in land prices, construction costs, the development of a piped water and a sophisticated gas system. Small builders with traditional construction skills and only a small amount of capital were expelled from competition in new housing markets.

To create an active lender in the form of an official financial institute, money had to be attracted from households, yet this depended heavily upon fluctuations in the attractiveness of other investment. Hence the capacity to lend to suppliers varied enormously through time in ways that bore no relation to the demands from housing suppliers. Furthermore when money was scarce, interest rates to lenders had to be raised to attract funds. This was accompanied by the raising of rates to borrowers which in turn caused increases in production costs, and then housing prices, increasing the number of people who might find difficulty in paying. A stable supply of housing funds could be sustained if the government itself had moved in to supply funds, but the Korean government's limited budgets and strong demand from other sectors which needed more money circumscribed the government's expenditures on housing. This produced frictions between builders who wanted secure finances and consumers who wanted stable and affordable housing prices, and the government who wanted quantity under given constraints of quality.

The first housing exchange bond, which was later substituted by the Housing Related Saving Scheme, was issued by the public sector housing suppliers and the designated builders in 1977. Price controls were launched initially in Seoul in 1977 with the Housing Related Saving Scheme which entitled account holders of savings to preferential purchase rights of new apartment units at controlled prices of a half to one third of open market prices and entitled holders to housing mortgages when they purchased a house of 85 sq. m or less in size. Hence the scheme could effectively draw savings from households into housing funds at low interest rates, and could supply cheap loans to housing suppliers, and allocate houses at controlled prices to the account holders. This scheme was to become the main source and instrument of housing finance.

The most important aspect of the housing related saving scheme is not the raising of housing funds but the ideology of the queue. Those at the top of the waiting list according to the amount and period of their savings are rewarded for their fortitude by being able to buy a decent home at cheaper prices than the market price. It was an idea devised not by politicians but by the public bureaucracy, and was widely accepted by the white-collar group, its main beneficiaries. The key point is that the ideology of the queue serves to displace resentment at the failure of the government to provide sufficient housing. It reduced the problems of the housing deficit, in political terms, and thus of investment needs in the housing sector, thereby easing the

constraints. Moreover, it gave people a discipline of hard work and high savings. It taught Korean the idea that responsibility for housing standards lies with the individual.

The Ceiling-price and the Housing Related Saving Scheme were first confined to the apartment units constructed by the public sector of 85 sq.m. size or less in 1977 and then extended to private sector apartments in 1978. However, the extension of the ceiling-price set at half to one third of market prices to private builders producing apartments of 85 sq.m. or less in size inevitably resulted in less construction of small apartment units, which led the government to impose a quota system on builders. Over 50 per cent of their total construction of floor areas had to be constructed in the form of apartments of 85 sq.m. size or less.

The extension of the ceiling price increased effective demand, resulting in the explosive housing boom of 1978 (Kim K-S, 1979, p.99). In that sense the policy did reach a group who otherwise would not have become owner-occupiers. The ratio of housing investment to GNP reached the highest point of 6.8 per cent in 1978 (see Table 5-7). Then came the "hard-hand" program against speculation, launched in 1978, the so-called 8.8 measurements which increased the rate of the capital gain tax and compelled people to report their land transactions to the government, and the housing market entered a slump. Moreover, as a result of the effects of economic and political crisis in 1979, the second oil crisis and the assassination of President Park, economic growth slowed down and in 1980 the first recorded negative growth occurred since the end of the Korea War.

The Korean government began to encourage urban renewal as a counter-measure against the economic downturn (this will be discussed in Chapter 6 in detail). After then, general price inflation led by a real estate boom recorded the highest level in a decade. Land, office buildings, and real estates in general were demanded not only for use but also for proving wealth. A large portion of domestic savings were being switched from investment in industry to speculative investment in real estate. Moreover, government regulations over housing prices and housing standards etc created conditions in which management of house builders focussed increasingly on the speculative skills of buying land, selling at the right time, arranging favourable deals with sub-contractors, and lobbying to change land use under the name of "land banking".

Paradoxically, the larger builders were even more enthusiastic speculators in land than smaller ones and usually held very extensive land banks in the hope of development and windfall gains. The efforts to increase productivity were pushed aside and house builders became more concerned with windfall gains from land speculation, and land development gains. The speculative building companies were

keen to reduce their fixed labour force and to sub-contract as much as possible. Land speculation was increasingly seen as a major facet of low productivity, falling output and deteriorating cost control. A further instrument used by the government has been powers for land development since the enactment of the Housing Estate Development Acceleration Act of 1980. Since then most large land developments have been monopolized by the public sector (Hwang M-C, 1985, p.208; Cho J-H, 1990 and Lee T-I and Choi H-J, 1991, p.23). It was a signal that control of urban land development also had shifted from the market mechanism towards the political process.

High inflation under the staggering economy led the government to give the highest priority in national policy to price stabilization from 1979. In order to stabilize price increases, the government launched a tight monetary and fiscal policy. As a result of the policy, public sector housing suppliers faced a serious scarcity of funds. With respect to the consumption side, demands for owner-occupation were declining because of deteriorating economic conditions, especially in moderate-and middle-income sectors. The housing boom began to cool and the worst housing output since 1974 was recorded in 1981. The National Housing Fund (NHF) was established in 1981 for public sector housing suppliers. In 1982, to reduce affordability problems for first-time buyers, rented houses leased for five years with an option to buy began to be supplied with various government indirect subsidies such as cheap land supply, tax exemption or deduction and low interest loans. The ceiling price system was extended to apartments of over 85sq.m. size.

Housing entered a boom period once again and the government launched the Bond Bidding system in 1983. Thereafter those who intended to purchase apartments with floor space exceeding 85 sq. m. in size in certain areas designed as speculative areas by the government had to join the Housing Related Saving Scheme and bid to buy National Housing Bonds. New apartments built were allocated to those who held the housing related saving accounts and bid the highest amounts to buy the National Housing Bonds, one of the main sources in the National Housing Fund raising, and they were obliged to purchase the bond before the house was officially allocated. These were aimed at discouraging speculative motives as well as to recapture a large portion of windfall gains and to raise the National Housing Funds.

Under controlled prices, however, increasing land and construction costs gradually decreased profits of house builders, which necessarily led to a relative lag in housing supply and the quality of housing tended to decrease, especially in the biggest cities. By contrast, continuing economic growth expanded effective demands under the controlled prices. The queue of waiting households with a large amount of deposits or instalments in the housing related saving accounts gradually lengthened. Government

housing policy was being challenged by both consumer sovereignty and the flexibility of the market mechanism.

As outlined in Chapter 4, temporary and irregular workers with low- and insecure-incomes were increasing, as were professional, technical and white-collar workers with high salaries and secure jobs. Trade unions mobilised support from the mid 1980s. Their main aim was to secure and maximize wages for their members who were mostly regular workers and, in fact, wages did increase more rapidly than ever before in this period. More people could participate in the housing market as buyers under the controlled prices and more people could take part in the owner-occupied housing market.

Political conditions were in favour of expanding owner-occupation rather than social rented housing. Housing problems were not only related to the gap between housing prices and affordability, but also to a lagged supply. Later commentators were to highlight the well-known feedback effects of price control (Kim K-H, 1987; Kim J-H(a), 1991; Kim J-H(b), 1991; Yoo J-H, 1991; Lee J-H, 1992; Cho D-H, 1993; etc). The inelastic supply was often incorrectly seen as simply a failure of state intervention. Models derived from idealised views of the market process gained greater sway, in that competition, the very nature of the market mechanism, was seen as a spur to efficiency and customer-orientations. As a consequence of the changing social, economic and political environments, price control was shifted from the Ceiling-price system towards the Cost-linking Price system which guaranteed an appropriate profit to the supplier in 1989, resulting in a rapid increase in housing starts as well as housing prices.

Table 5-1 Changing Housing Prices and Housing Construction.

Year	1983	1985	1987	1989	1990
Housing Prices (in cities)	100.0	102.8	107.2	139.0	159.1
Housing construction	225,990	227,362	244,301	462,159	750,378
Housing output per 1000 inhabitants	n.a.	5.6	n.a.	n.a.	17.2
Housing Price to Income Ratio (in cities)	n.a.	n.a.	5.63	6.46	8.08

Note: 1988 data.

Sources; KHB, The Survey on the Changing Housing Prices in Cities, each year, and Housing Economic Statistical Year-book, 1993, p.375; EPB and NSO, Population and Housing Census, 1985 and 1990; Data for the housing price to income ratio are cited from the MOC (1993, p.35).

5.3. Progress and Prospects.

5.3.1 Changing Housing Conditions.

The achievements of housing policy can be examined through the change in the quantity, the quality and the price of housing. The rise in housing costs as a share of household expenditure has been seen in Chapter 4 in brief, and the change in house prices and rents will be explored in Chapter 7 in more detail.

For a long time, the supply of new housing each year has continued at a high rate, especially in urban areas, as Table 5-2 shows. But, as Table 5-3 shows, advances in the ratio of dwellings to people have not necessarily been great between 1960 and 1990. The rate of population growth has risen rapidly in urban areas. The quantity of houses has always been below the number of households, as Figure 5-2 shows, i.e. growth in households has outpaced the growth in dwellings. Too many households have meant that many households have to share with others. The steady deficit of houses over households has made it difficult to satisfy demands and meet needs over the past three decades in Korea.

Table 5-2 The Growth in Dwellings ('000).

Year	1960	1970	1975	1980	1985	1990	Annual growth rate (1960-90)
Whole country	3,464	4,360	4,734	5,319	6,274	7,160	2.5
Urban	783	1,398	1,809	2,468	3,428	4,646	6.1
Rural	2,681	2,962	2,925	2,851	2,846	2,514	-0.2

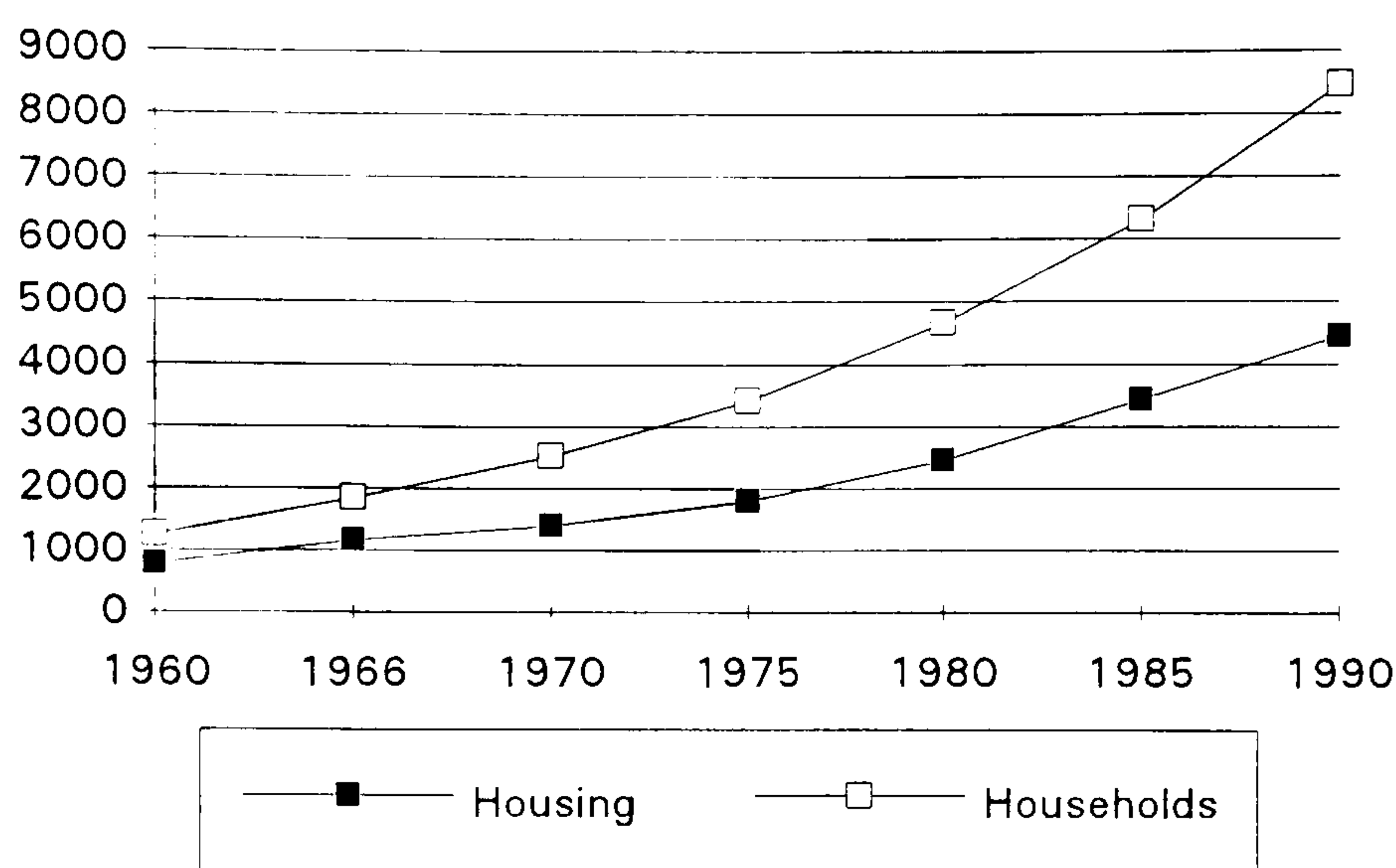
Sources: EPB and NSO, Population and Housing Census, each year.

Table 5-3 Population, Population Growth and Quantity of Dwellings.

	Population (millions)		Average annual rate of change per 1,000 1960 - 1990	Number of dwellings per 1,000 inhabitants		Percentage change 1960 - 1990
	1960	1990		1960	1990	
Whole country	25.0	43.4	19.2	139	165	+19
Urban	7.0	32.3	54.2	112	144	+29
Rural	18.0	11.1	-16.5	149	226	+52

Sources: EPB and NSO, Population and Housing Census, 1960 and 1990

Figure 5-2 Households and Dwellings in Cities ('000).



Note: Excluding one person households and non blood relationship and data for 1960 and 1970 excluded foreign households.

Sources: EPB and NSO, Population and Housing Census, each year.

Increases in the population have begun to slow down (see Figure 2-1). As Table 5-4 shows, the number of people in households has declined, and the composition of generations in the households has also changed resulting from nuclearisation of families. This is the main reason for the faster growth in the number of households than in population. Thus, the demand for new houses is not likely to slow down because of an increase in households, especially one person households which were excluded from official statistics, not being regarded as an ordinary household (Population and Housing Census).

Table 5-4 Changes in Family Type in Ordinary Households and in Cities.
(percentages)

Year	1960	1970	1980	1990
Average household size (persons)	5.4	4.9	4.5	3.7
Generations in household				
One generation households.	117 (9.3)	218 (9.2)	422 (9.0)	814 (9.6)
Two generation households.	899 (71.6)	1,793 (75.4)	3,335 (71.4)	5,876 (69.4)
Three generation households.	232 (18.5)	354 (14.9)	591 (12.7)	896 (10.6)
More than three generation.	8 (0.6)	12 (0.5)	14 (0.3)	18 (0.2)
One person households.	- -	- -	220 (4.7)	724 (8.6)
Not blood relationship.	- -	- -	88 (1.9)	135 (1.6)
Total	1,257(100.0)	2,377(100.0)	4,670(100.0)	8,463(100.0)

Note: Data for 1960 and 1970 excluded institutional households and foreign households.

Sources: EPB and NSO, Population and Housing Census, each year.

It is a fact that the quality of houses supplied over time has improved, as Table 5-5 shows. However, as Table 5-6 shows, over 2.4 million urban households, equivalent to 28.8 per cent of urban households, are still using only one room for their whole family of 3.7 persons on average. In comparison, between 1960 and 1990, while the

proportion of households using one room for a whole family had decreased, their absolute numbers have dramatically increased despite the high output of housing during the last three decades.

Table 5-5 Trends in Dwelling Space, in cities, sq.m.

		1960	1970	1975	1980	1985	1990
Floor area	Per housing unit	n.a.	50.4	65.6	77.3	81.7	91.6
	Per household	n.a.	27.1	35.8	41.1	43.6	n.a.
	Per capita	n.a.	5.7	7.4	9.3	10.7	13.5
No. of room	Per housing unit	n.a.	3.3	3.5	3.8	4.0	4.5
	Per household	1.9	1.9	1.9	2.0	2.1	2.5
Persons per room		n.a.	2.7	2.5	2.2	2.0	1.5

Sources: EPB and NSO, Population and Housing Census, each year.

Table 5-6 Number of Households by Number of Rooms Used ('000).

Year	1960 (%)	1980 (%)	1985 (%)	1990 (%)
1 room	600 (46.1)	1,963 (42.0)	2,452 (38.7)	2,436 (28.8)
2 rooms		1,495 (32.0)	1,980 (31.3)	2,209 (26.1)
3 rooms	592 (45.5)	780 (16.7)	1,181 (18.6)	1,904 (22.5)
4 rooms		277 (5.9)	472 (7.5)	1,220 (14.4)
5 rooms	102 (7.9)	104 (2.2)	171 (2.7)	520 (6.1)
6 and over		51 (1.1)	74 (1.2)	174 (2.1)
Unknown	7 (0.5)	- -	- -	-
Total	1,301(100.0)	4,670 (100.0)	6,331 (100.0)	8,463(100.0)

Sources: EPB and NSO, Population and Housing Census, each years.

According to the Population and Housing Census (1990), there were 35.6 per cent and 58.6 per cent of urban households living without a flushed W.C. and hot water. There were about 583,000 households, equivalent to 6.9 per cent of households in cities, living without piped water system. Furthermore, there were 160,767 households living in the buildings not intended for human habitaion, about 75,000 households without a kitchen and about 41,000 households without even a toilet in cities. There has been a continuous absolute housing shortage and the consumption of housing has depended upon a household's ability to pay. As a result, all sorts of deficits are concentrated on low-income households.

For urban low-income households, the most pressing housing problems are now of a different kind. Most houses have been supplied for owner-occupation by the private as well as the public sector. Moreover, a large part of the improved housing

conditions have been achieved by replacing poor houses with high-standard houses through clearances (this will be discussed in detail in the next chapter). This implies that, in contrast to the middle and upper-income households, the choice available to low-income households has been narrowing with rapidly increasing rents over time for the urban poor. Thus, higher income households have paid less and less, as a share of their household expenditure, for housing consumption costs for better houses and lower income households have had to pay more and more for worsening housing conditions over time.

5.3.2 Housing Policy and Other Social Aims.

In Korea, housing policy has been often used as an instrument by which wider social aims can be achieved. For example, a priority in the allocation of new houses built was given to those who practiced contraception when the government launched a strong family planning campaign. For another example, when the Middle East construction boom started, another priority was given to those who worked overseas. This section was not designed to investigate all these programmes and their effects in detail, but to explore general directions in housing policies.

As we have seen in Chapter 2 regarding the structure of national planning, the Korean government's investment in the housing sector has consistently reflected the view that resources should be used effectively, i.e. not whether the returns to housing investments are high, but whether they are higher than returns to alternative uses of the resources. Although improved housing raises the welfare of individual households, housing investment does not necessarily increase productivity more than other investment at national level. So housing has been given low priority in the allocation of national resources.

Indeed, as Table 5-7 and 5-8 show, during the period 1960-1990, the ratio of housing investment to GNP was a mere 3.9 per cent and government investment in the housing sector accounted for only 1.4 per cent of the government's budget (MOC). A study (Pyo H-K, 1988) that integrated national account data, National Wealth Survey data and sectoral censuses to measure the evolution of the various components of the capital stock between 1960 and 1985 also shows the low priority of the housing sector. The national real gross capital stock expanded at an average rate of 9.72 per cent, whereas the dwelling stock grew the slowest of all major economic sectors at 6.85 per cent, or 30 per cent less than the total capital stock.

Table 5-7

Housing Investment.
(percentages)

(percentages)		
	The ratio of housing investment to GNP	The ratio of housing investment to fixed capital
1962	1.3	12.0
1963	1.3	10.9
1964	1.4	13.9
1965	1.5	12.2
1966	1.9	10.8
1967	2.3	11.4
1968	3.0	12.0
1969	2.7	9.9
1970	3.4	13.4
1971	3.3	13.5
1972	3.5	17.8
1973	4.1	19.0
1974	6.1	26.7
1975	5.7	24.9

	The ratio of housing investment to GNP	The ratio of housing investment to fixed capital
1976	5.1	21.5
1977	5.6	20.6
1978	6.8	20.6
1979	5.8	17.1
1980	5.2	17.2
1981	3.9	14.2
1982	4.6	16.3
1983	5.5	18.8
1984	4.7	15.6
1985	4.4	15.0
1986	4.5	15.6
1987	4.4	14.6
1988	4.7	15.6
1989	5.4	16.4

Sources: KHB, 1982 Statistical Yearbook, 1983, p.373 and Housing Economic Statistical Yearbook, 1993, p.368.

Table 5-8 Ratio of Government Investment in the Housing Sector.
(million Korean Won)

(million Korean Won)							
	Government Budget(A)	Investment in the Housing Sector (B)	B / A %		Government Budget(A)	Investment in the Housing Sector (B)	B / A %
1972	701,143	4,155	0.6	1981	8,040,001	180,369	2.2
1973	655,433	5,935	0.9	1982	9,313,725	153,175	1.6
1974	1,013,915	2,695	0.3	1983	10,416,710	152,611	1.5
1975	1,586,931	39,924	2.5	1984	10,966,710	105,909	1.0
1976	2,258,511	26,191	1.2	1985	12,275,115	80,478	0.7
1977	2,869,956	26,528	0.9	1986	13,800,532	212,572	1.5
1978	3,157,036	55,310	1.8	1987	13,805,547	204,066	1.5
1979	5,213,436	93,519	1.8	1988	18,429,079	271,480	1.5
1980	6,466,756	140,947	2.2	1989	22,046,825	532,038	2.4

Source: KHB, Housing Economic Data Book, 1990, p.394.

Housing need may be defined as the quantity of housing that is required to provide accommodation (of an agreed minimum standard and above) for a family (given its size, household composition, age distribution etc.) without taking into account the individual household's ability to pay for the housing assigned to it (Robinson, 1979, pp.55-6). However, in Korea, the Ministry of Construction first established the minimum standard of housing sizes for the guide-line of public housing provision in 1985. As Table 5-9 shows, the minimum housing sizes were distinguished between housing for owners and for tenants, and between income groups, according to the numbers of people in a household on the basis of ability to pay, rather than need.

This is partly because the dangers inherent in a system where the planners who set standards are also responsible for their attainment (Needleman, 1965, p.36). This, he argued, may well lead to excessive caution in defining standards.

Table 5-9 The Guide-line of Public Housing Provision by Size.

Classification	Rental housing		Owner-occupation housing.			
	size	Proportion	£167 - £250		£250 - £333	
No. of household			size	pro.	size	pro.
2	24.5	4.0	40.3	4.0	44.3	4.0
3	28.4	10.8	43.6	10.8	47.6	10.8
4	32.1	26.9	47.3	26.9	51.2	26.9
5	36.4	31.4	50.9	31.4	54.5	31.4
6	40.0	18.3	54.2	18.3	58.2	18.3
7	44.0	8.6	57.9	8.6	61.5	8.6
Average	35.0m	100.0	49.9m	100.0	53.9m	100.0

source; Ministry of Construction, 1985, p72.

As a consequence, in Korea, there has been no direct subsidy on dwellings, such as council housing in Britain, therefore there has been no need to use public money for maintenance or repair of public housing, and no direct payment to occupiers as were housing benefit subsidy or rent rebates and allowances.

In terms of housing as a means of redistribution, housing has been seen by many as a key means to achieve the redistribution aim, in other words, as an instrument of "trickle down policies". Those in favour of owner-occupation argue that it is not only cheaper for society and extends freedom, but also that it would redistribute wealth. Stretton (1975, p.15) argued in Britain, *"The diffusion of house ownership has been the main and almost the only means of diffusing capital ownership in this century"* and Atkinson and Harrison (1978) and Saunders (1990) have identified the way in which the increase in owner-occupation has led to a reduction in the degree of concentration of wealth in Britain. In contrast to this, Forrest and Murie (1989) have reassessed their previous work on wealth inheritance through owner-occupation, concluding that the increase in home-ownership does not in fact lead to a 'democratisation' of wealth. 'Ultimately', they say, *'the process of intergenerational transfers of housing wealth may have more oligarchic than democratic consequences'*(pp.37-8).

In a simple comparison with other assets, although there is no available information to cover the last three decades and no census data about housing in relation to income groups (MOC, 1993, p.5), housing, at the first glance, seems to have contributed to the reduction in the degree of concentration of wealth in Korea in relative terms. As Table 5-10 shows, the top 30 per cent of people possess over 93 per cent of the

private land in Korea and 88 per cent of the monetary assets, whereas the bottom 30 per cent of people own 0.5 per cent of the land and nothing in monetary assets. In contrast to this, as Table 5-11 shows, about 36 per cent of low-income households possess their own houses. Of course, if the quality, prices, etc., were considered, homeownership alone may not indicate any major redistribution of wealth.

Table 5-10 Distribution of Lands and Monetary Assets in Korea by Income Decile in 1988.

Income Decile	Possession rates of Lands (%)	Possession rates of Monetary assets (%)
(Top 10 %) 1	76.9	61
2	10.8	17
3	5.4	10
4	3.2	6
5	1.9	4
6	1.0	2
7	0.5	0
8	0.3	0
9	0.2	0
(Bottom 10%) 10	0	0

Sources: Data for lands; Commission on the Public Concept of Land Ownership, Report on the Public Concept of Land Ownership, 1989, and the data for the monetary assets; Kwon S-W, *et al.*, 1992, p.174.

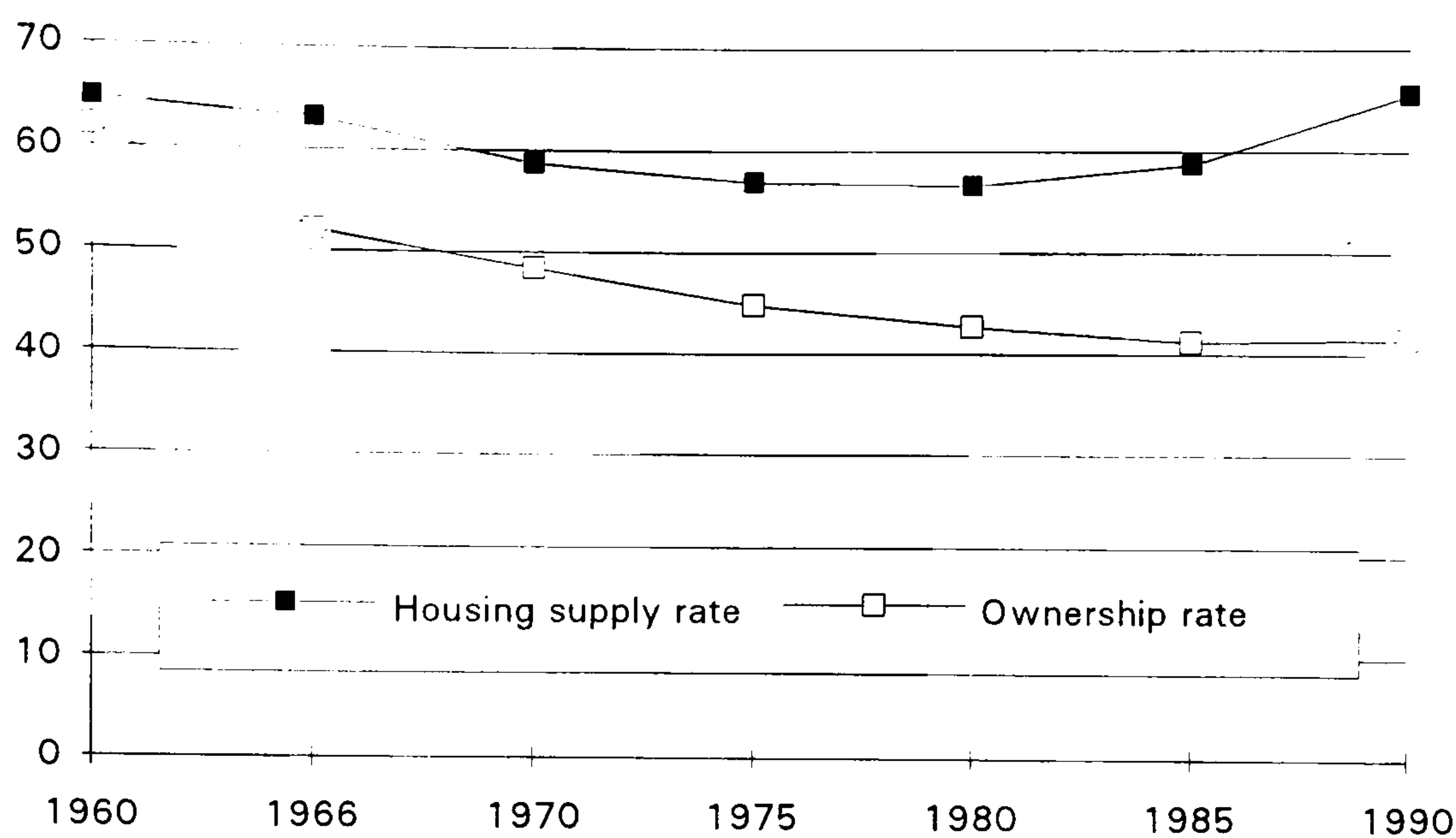
Table 5-11 Housing Tenure Division by Income Groups in Seoul, 1980.

Tenure form	Low-income	Middle-income	High-income
Owner-occupation	35.7 %	63.6 %	90.0 %
Tenancy	62.7 %	35.0 %	9.2 %
Other	1.6 %	1.4 %	0.8 %
Total	100.0 %	100.0 %	100.0 %

Source: Kwon W-Y, 1985, p.188.

By contrast, as Figure 5-3 shows, until 1960 the house ownership rate was generally consistent with the housing supply rate (housing units/households). This implies one household possessed a house. However, since then the ownership rate has been diverging from the supply rate. This implies that the number of households who possess more than one house has been increasing. In this aspect, housing in Korea has reinforced a concentration of wealth. Thus, at this point, it is difficult to say whether housing contributed to the redistribution of wealth or whether it reinforced the concentration of wealth. (This will be discussed in detail in the following chapters).

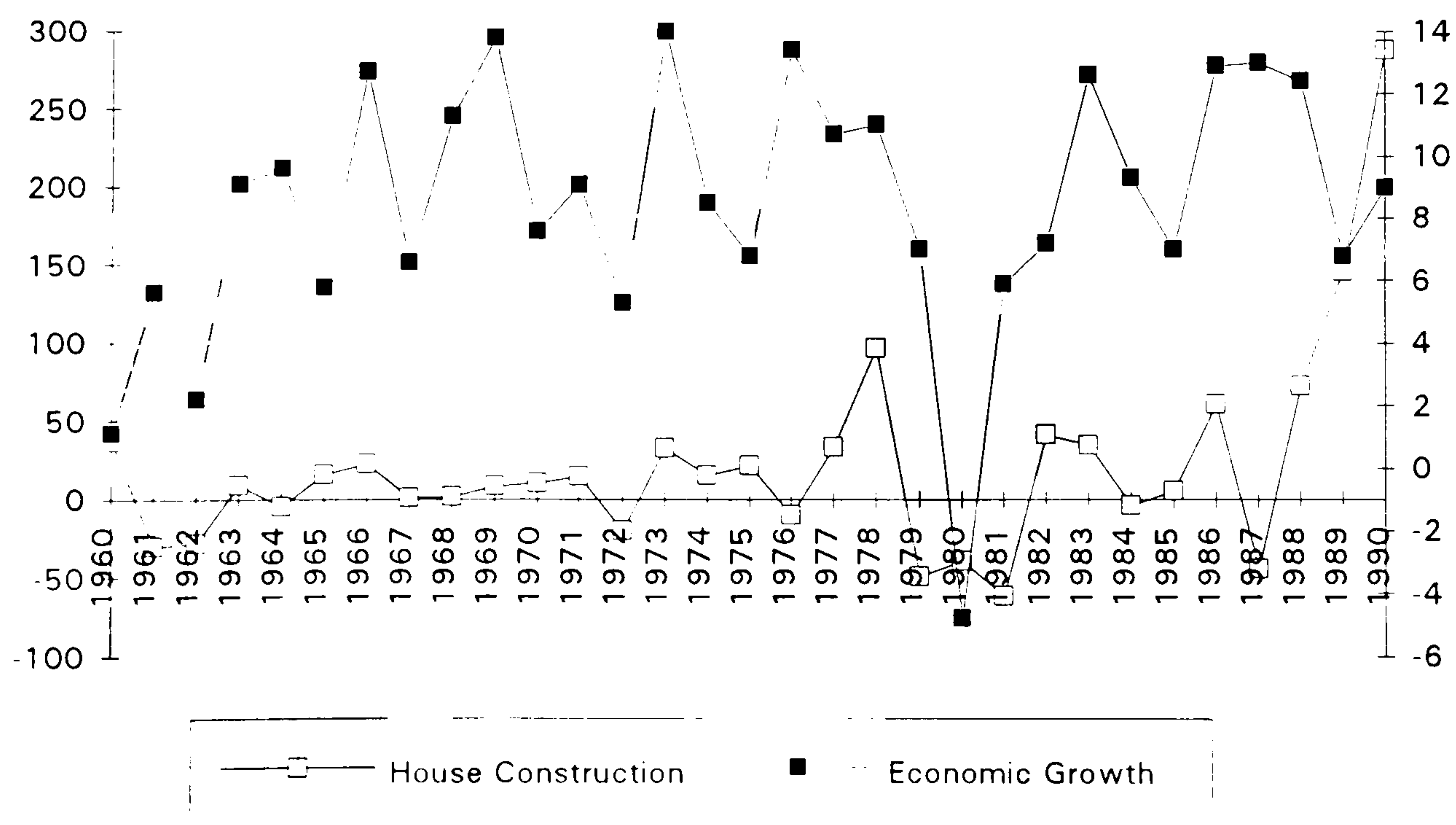
Figure 5-3 Housing Supply Rate and Ownership Rate, in cities (percentages).



Sources: EPB and NSO, Population and Housing Census, each year.

In addition to the very low level of government investment in the housing sector, no mortgage markets have developed in Korea. Despite these factors, housing stocks in urban areas have continuously increased at over 6 per cent per year during the last three decades. Moreover, as Figure 5-4 shows, housing in Korea has performed the role of an economic regulator even in the periods of apparently falling demand, e.g. in 1975 and in 1980. The Korean economy slipped into stagnation and unemployment rates grew, the housing sector absorbed the impacts.

Figure 5-4 Growth Rates in Housing Completion and Economic Growth Rates, 1960-90, percentages.



Sources: Data for the real estate market, Son B-D, 1990 and data for the general economy, EPB.

In Korea, as outlined in Chapter 2, a larger part of the construction of built environment has been left to be financed by individuals and households in hopes of capital gains. It was speculation which attracted money to construct the physical infrastructure with small amounts of public spending. The origin of the speculative urban development, mainly for residential land development, has a root in 1937 through the launch of the Land Readjustment Project (LRP). After the late 1960s as rapid urbanisation began to start, the LRP became a major instrument in the development of cities.

Local governments designated a certain area as the LRP area according to the city development plan; the project carrier, usually local government and a quasi-public institution, developed the area, constructing roads, installing a sewage system and public facilities, setting up schools, parks, etc and providing residential sites for low-income households. The developers then took away certain proportions of land from each land-owner in the area in order to recover the development costs. The sale of the cost-equivalent land was carried out through a public auction. The rest of the developed land was returned to the land-owners at its original location as closely as feasible. Approximately 40 per cent of the developed land was taken from land-owners to cover the project costs and for public uses (Hwang M-C, 1976, p.53 and Ha S-K, 1984, p.180). Thus, most of the costs in such a development were borne by the land-owners. According to Hwang M-C's study (1976, p.58), the total contribution from the land-owners comprises almost 94 per cent of the total costs of the project. After the completion of the development and reallocation, owners could construct their own houses, or other structures on their reallocated land according to the Construction Act. However, developers were often faced with enormous difficulties in carrying out a project when the land-owners were unwilling to contribute their land to the project. To counteract this, the government launched "stick and carrot" measures.

Since 1962, with the passage of the Land Expropriation Act, the Korean government has empowered itself with enormous powers of land acquisition. This power was softened by the 1975 Special Act on Public Land Acquisition as the LRP were being halted. The carrot measure for the development was to encourage speculation. For instance, the participation in the auction for the sale of the cost-equivalent land did not exclude the land speculators, rather they were encouraged. In order to recover investment quickly, the developers sold the cost equivalent lands to speculators, rather than end users (Kwon T-J, 1972). The possible land speculation pushed up the auction price, and the developers easily recovered their costs and the land-owners could receive greater gains. Indeed, as Table 5-12 shows, in Seoul, the

average increase in the value of the land was about six times after the project. Urban development was often carried out by voluntary land-owners.

Table 5-12 Land Value Increase after the Land Readjustment Project.
(post development value as a multiple of pre development value)

City	Value Increase after the project		
	Average	Highest	Lowest
Seoul	5.8	13.1	2
Daegu	2.7	4	1.7
Kwang-Ju	2.5	2.8	2

Source: MOC. Data collected by Hwang M-C and Boebele, W.A., Land Readjustment, Lexington: Lexington Books, 1982, p.143. (requoted in Ha S-K, 1984, p.181).

Using this method and at virtually no cost the Korean government was able to develop over 50 per cent of built-up areas in Seoul, over 30 per cent in Kwang-Ju (Hwang M-C, 1976, p.52) and over 40 per cent in Pusan (Pusan Municipal Government, 1992, p.552) and the like in other cities by 1975. However, such methods resulted in speculation fever in real estate in 1977 (MOC, 1987, p.521).

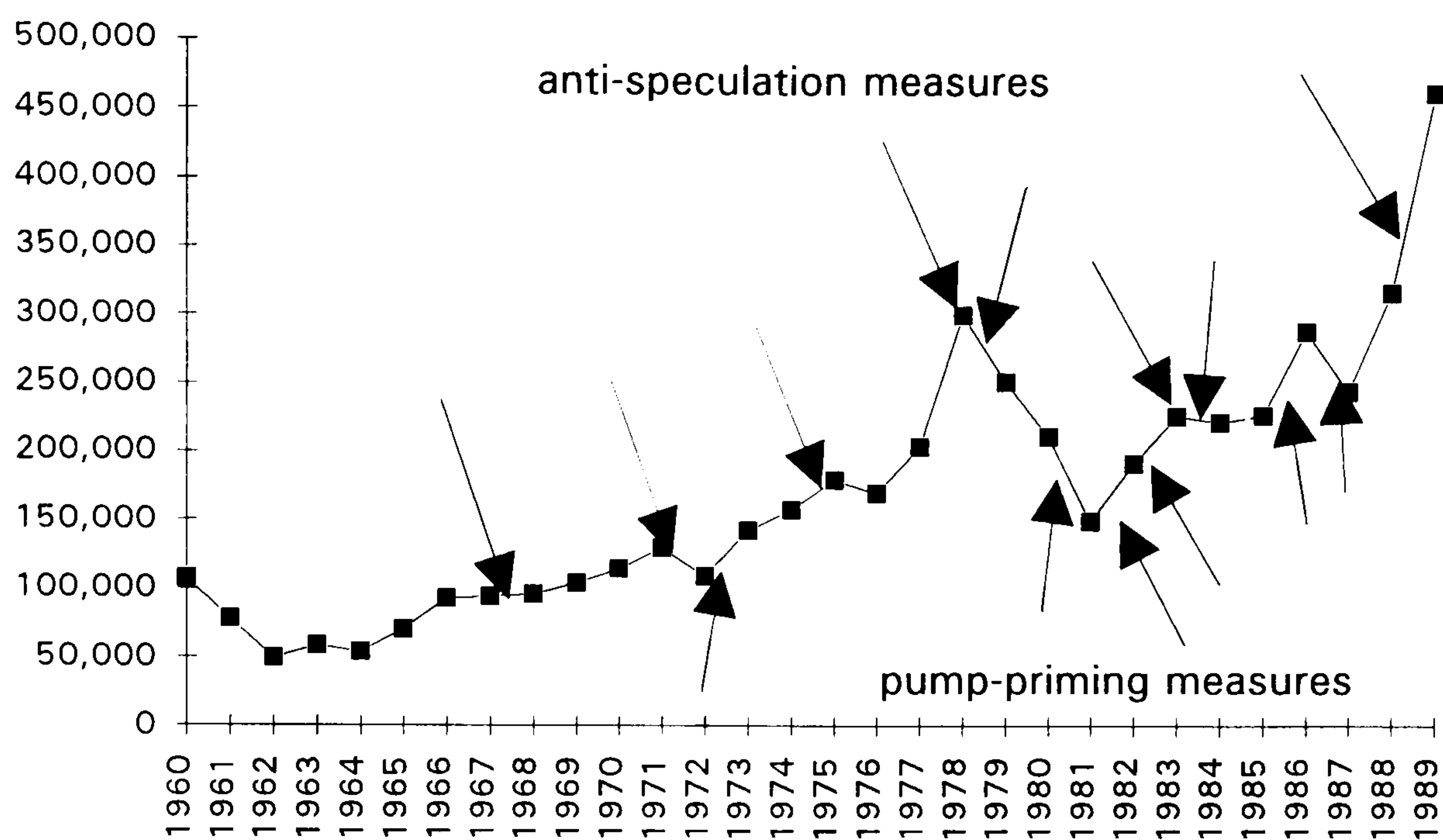
Over-investment in housing and land resulted in the exhaustion of its potential for production purposes. Therefore, the control of over-investment was also a necessary condition. The government enacted, as mentioned earlier, the Housing Estate Development Acceleration Act of 1980. Since then most large land developments and construction of housing have been monopolized by the public sector, using two schemes named "Public Purchase and Development" and "Housing Lot Development". These two methods have many differences in detail, but in principle the developments have been monopolized by the public sector.

In the housing sector, as Figure 5-5 shows, encouraging speculation and then discouraging it in association with the general economy was the main mechanism of housing policy in Korea. Thus, the patterns of house price increases are often referred to as leap-frogging increases (KRIHS, 1990, p.8).

This mechanism has some benefits for the general economy. When a recession occurred, the government deliberately encouraged speculative investments in housing through regulatory rules, using curb markets and other devices and thereafter successive economic growth itself expanded effective demand, then anti-speculative measures were in turn launched. A boom in the housing market (or the real estate market in general) could help to keep economic growth going. The boom in the construction industry itself helped to stimulate a boom in the steel industry, the car industry, the energy supply industry and so on. Such new investment itself stimulated fresh demand for the products of industrial capital and could use vast unemployed capital. It helped to overcome blockages in the circulation of industrial capital.

As a result, when industry was in recession, and unemployment was rising, house prices were also rising. Low-income households have faced even more difficulty in housing under harsh economic circumstances. *Structural poverty* was beginning to emerge in Korea. This is why owner occupation in Korea has become so costly in relation to speculation.

Figure 5-5 Housing Construction and Policies.



Sources: KHB, Housing Economic Statistical Year-book, 1992 and *A Study of Korean Housing Problems*, 1989, pp.65-69.

In the US and in Britain, in the wake of the Depression and once the more urgent needs had been met after the Second World War, government policies had encouraged home-ownership as an end in itself and as a method to stimulate the construction industry (Agnew, 1981, p.73). Clearly, though, the possibility of owning has been much extended in the US and Britain by government policies encouraging private approaches to the housing of their nations (Mellor, 1977, p.58 and Friedland, 1982, p.69). These spurts were financed by building societies with encouragement from national and local governments (Boddy, 1976). Home ownership was transferred into a mass phenomenon, at least in part, by the activities of building societies (Pawley, 1978, pp.65-69). The development of mortgages helped to solve the income-housing-cost problem. Of course, it may have been not only because of the development of mortgages. In some measure, as Jackson (1973, p.35) pointed out, "*this was a response to relaxation by certain building societies, but it is also reflected the increasing prosperity and size of the middle classes*".

In Korea, it is certain that continuing economic growth over the last three decades, which increased real and money income of households, increased effective demand. Meanwhile demographic growth and migration also increased the number of potential first-time buyers in urban housing markets. In Korea, however, there are no building

societies, and no mortgage markets. Most households have to buy a house outright. Nevertheless, as Table 5-2 showed, Korean housing construction has sustained a high output for over three decades without any sizable injection of public spending. This was due to the "*policy of speculation*" combined with the "*policy of owner-occupation*".

Owner-occupation and absolute property rights were a prerequisite for those housing policies. Given limited housing resources, outright owner-occupation was the best tenure to economize the use of public resources and to insulate the housing sector from the rest of the economy, by shifting the burdens of housing finance towards the private sector and the urban household itself. House builders could sustain their construction activities by the high turn-over of money. It was only possible by selling to owner-occupiers rather than for renting.

The desire for owner-occupation has been sustained, not only by the tradition of Koreans but also by government policies which gave a concrete hope of capital gains to speculators, combined with changed labour markets. As Professor MacLennan (1982, p.183) suggests, "*The concept of tenure essentially relates to the legal arrangements existing between properties and their owners and inhabitants, thus tenure differences are essentially variations in the property rights and obligations of property owners and inhabitants*". Aspirations are based on societal norms. Attitudes towards specific housing tenures are partly a function of the presence or absence of constraints on the achievement of aspiration. House ownership does mean individual control over a unit of that commodity, and purchase is undertaken on terms and conditions that individuals find acceptable subject to the relevant constraints and alternatives.

Although the origin is not clear, the differentiation between owner-occupation and tenancy began to emerge on the introduction of the legal system of Japan, and then the first republic of Korea supported by America in 1948. However, until the early 1960s, households desired for home-ownership on the basis of the tradition. Since 1960 housing became a scarce necessity, and the possession of a house became another life chance, whether for capital gain or rental income. Speculation in housing first emerged in the late 1960s. As the economy grew, more people could accumulate small amounts of capital. However, nationalisation of commercial banks, undeveloped stock markets and continuing high inflation proved that housing was the best investment option for ordinary people.

Many behavioural studies of demand (Song and Struyk, 1976; Follain, Lim and Renaud, 1980; Lim, Follain and Renaud, 1980; Kim J-H(a), 1982; Kim C-S, 1984; Kim K-Y, 1988 and Gyourko and Han, 1989), although they didn't search for the causes of the desire for homeownership, consistently confirmed (or rather

represented) that Koreans are responsive to income and price incentives for homeownership, but restrictions from the cost structure and the financial structure reduced homeownership opportunities. The government has controlled the investment in housing through changing the cost and financial structures. (This will be discussed in detail in the next Chapter)

Clearly governmental promotion of owner-occupation was a response to popular demand which was largely determined by the state of the economy and the legal system. It would have been a nonsense for policy makers to ignore such demands. During the last three decades, even under authoritarian military regimes (from 1960 to 1991), the Korean leadership has consistently faced periodic electoral challenge. So the expansion of middle income groups was consistently required as a political buttress. Under this political reasoning owner-occupation has been consistently emphasized (Suh S-M and Yeon H-C, 1992, p.301), as it was assumed that homeowners would have an interest in protecting the social and economic system in order to protect their property.

There was really no supply of new rented houses by the private as well as the public constructors largely because structurally they could not sustain their activities unless houses built were sold to effective demanders (this will be discussed in the next chapter). In other words, owner-occupation was chosen as the only alternative to renting.

Owner-occupation could be transferred from other tenures; a process frequently described as *gentrification*. However, in Korea, house-builders did not lose part of their market because most landlords let a part of their home, which is also due to the low supply of rented houses. Therefore, the strong desire for owner-occupation resulted in a high output of houses. Given the absolute housing shortage and limited housing funds, this housing market structure was consistent with the high-output policy, and the government was increasingly keen to encourage home-ownership.

However, the fatal fact by which such mechanism could be sustained was a scarcity. Thus a chronic housing shortage over the last three decades was an inherent result of the Korean housing system.

5.4 Synthesis.

The term policy generally relates to a particular problem which it is intended to solve or ameliorate in pursuit of some objective (MOC, 1993, p.1). However, in practice, a technical definition of housing problems reflects the political power of

those who stand to benefit from such a definition: Different problems all have different technical solutions. The selection of problems for solution is a function of government policy. During the last three decades, the first priority in the national planning has been economic development. In the housing field, the first housing problem has been an absolute shortage of housing. There was general agreement that there was a need for high levels of housing production, in order to eliminate shortage, to remove the poor houses and to provide for the rapidly growing number of households. In fact, Korea's economic growth has few parallels in the world. There has been a very high housing output.

The failure of the low-cost housing provision has often been attributed to speculation and land shortages. However, the evidence provided by this chapter are; first that housing supply in Korea has largely depended upon speculative money, especially in the period of economic crisis. Secondly, as Table 5-1 showed, since 1989 just after the shift of the ceiling price system towards the costs linking system, housing completion was nearly doubled. It seems to be certain that low housing output, in relative terms, was not a question of land shortage but a question of profit shortage for the supplier in the Korean housing system. Thirdly, until the mid 1970s, the Korean economy and society was an open structure in which if people worked harder, they could be better off. Under that structure, home-ownership was not problematic. Rather it seemed to be a better policy to encourage people to save and work hard. However, as the structure of the economy and society became more closed since the mid 1970s, ownership rates diverged from the housing supply rates. The policy of speculation contributed to the high output of houses and the health of the economy, but the fruits of them have been unevenly distributed.

The Korean government tried price controls and unique allocation methods, etc (the existing housing system of Korea is considered in detail in the next Chapter and only the mechanism was presented earlier) to encourage home ownership for more households. The various government controls and/or regulations provided played a kind of subsidy to consumers at the expense of builders. For example, the price control involves direct subsidy from the builders to consumers, equal to the difference between the market price and the controlled price. However, such subsidies are based on the consumption of housing. They are not related to households in different economic circumstances and with different housing needs.

It has unfortunately proved impossible to achieve much redistribution without tackling severe inequalities in wealth and income at the same time. In practice, what has happened in a number of countries, such as Britain (see Le Grand, 1982), is that general consumption subsidies have benefited the better off more than the poor. The

reason is simply that the better-off, including their offspring, consume more than the poor.

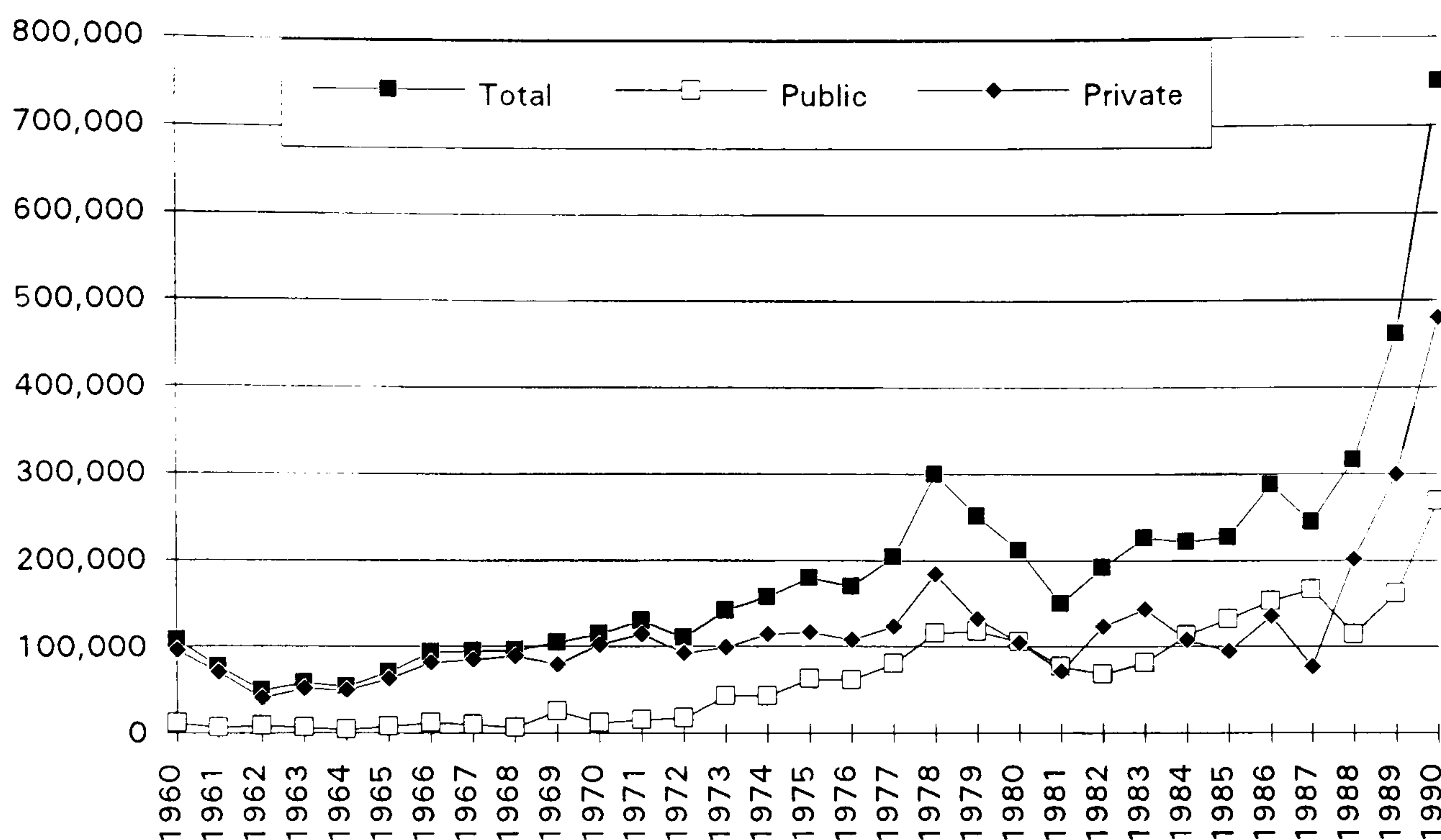
Such subsidies in Korea have represented a direct boost to demand for owner-occupation, as seen in 1978 and 1982 just after the expansion of price controls, resulting in higher housing prices as a whole. Thus, the beneficiaries in housing price inflation were existing home owners, landlords, land owners and potentially the holders of housing related saving accounts. Among them, the main beneficiary of the subsidy was the household who was allocated a new housing unit at less than the market price, irrespective of their need or income.

In the longer run, higher house prices had only a marginal impact on new construction because the main beneficiaries have been others, not builders. Thus house builders could not sustain their output enough to cope with increases in households. Moreover, the increased demand for housing simply resulted in a transfer of income from tenants to landlords or homeowners. Although the housing related saving scheme was mainly confined to tenants, this led to inequity between tenants in different financial circumstances. Under these circumstances, improving the purchasing power of the low-income households does not necessarily improve their ability to secure decent housing.

In Britain, the provision of public housing has been the main factor by which the association between the deficit of houses and poverty and bad housing has been weakened by diverting housing resources towards those most needing help. In Korea in the past, public housing which is defined as publicly developed but built by private construction firms on contract and delivered according to the Decree on Housing Allocation, tended to be particularly encouraged at times when the whole economy was in recession and the private sector was in a downturn.

The advantage of the public provision of housing was that it guaranteed a stable supply of housing that might otherwise not have been provided (Chung H-S, 1985, p.341), and thereby contributed to stabilize house prices, and help cope with the general economic cycle. As Figure 5-6 shows, in the long term, the number of housing units constructed by the public sector has risen, especially since 1972, whereas the private sector has dipped, especially since 1978, as a consequence of price controls. It should not be denied that such massive public housing provision certainly provided more households with better living conditions than private building alone would have. However, such public houses have been allocated according to the allocation policy noted earlier on the basis of ability to pay rather than need. So, public housing mainly contributed to the concentration of the limited housing resources in moderate and middle-income households.

Figure 5-6 Dwellings Completed by Sectors, 1960-1990.



Source: The Ministry of Construction.

Moreover, the government's little direct intervention into the housing sector has given it a flexibility in the control of housing markets. That is, housing markets could easily be changed by a small injection of public spending. The Korean government could use the housing market as an instrument by which wider economic aims could be achieved. Housing policy mainly focused on a "health of the economy" and on catering for the middle income groups. Government involvement in the housing sector was not primarily intended to compensate those who were excluded from the changing economic and social structure.

The massive housing supply since 1989 successfully met most effective demands for owner-occupation, pushing housing issues down the political agenda as defined by parliament and the mass media. How were the housing issues dropped so suddenly when 28.8 per cent of urban households, equivalent to about 2.4 million households, were still using only one room for their whole family of 3.7 persons per household on average? Housing consumption costs as share of household expenditure are still increasing. Moreover, low-income households are paying more and more for housing which is little or no better than before (KRISH, 1990, p.24). Furthermore, new squatter settlements began to re-emerge in the biggest cities in the late 1980s.

The answer to those question must be sought in the social structure of Korea (see Chapter 3), just as in the case of other social policies (see Chapter 4). As Byrne and Damer have argued in Britain, " *For the state the housing problem at the level of physical reproduction was the housing conditions of those who were worst housed. The political problem in terms of articulated political pressure came from the better*

housed in the working class who wanted cheap high quality council housing" (requoted from Malpass and Murie, 1990, p.15).

To conclude, Housing policies are reflecting wider economic, social and political structures rather than a response to the needs of poorer people. In line with the changes in economic, political and social structure, in 1977, the government dramatically amended the Housing Construction Acceleration Act which brought the liberal housing markets under political influence. The Ceiling price system, the Housing Related Scheme and the special allocation systems certainly benefited moderate and middle-income groups, but the system itself played the role of gatekeeper against the low-income households in the owner-occupation market. (This will be discussed in the next chapter in detail). General policies to overcome the problem of income inequality have been increasingly undermined by housing policies. In contrast to this, large and luxury housing construction was strictly controlled, and taxed heavily from 1967. Since 1976, luxury housing in which floor space exceeded 200 *pyong* (about 662 sq. m.) was taxed at a rate 7.5 times higher than other housing (KHB, 1991, p.72). In this context, general policies to overcome the problem of income inequality have been helped by the high tax on luxury houses.

The important point to be established here is that even given the prevalence of the "welfare state" launched in 1987, there has been no attempt to give an explicit definition of acceptable minimum standards, or establish unambiguous rights to housing.

In the overall context of housing policy in Korea since 1960, the late 1980s represents the most important period of re-orientation, in which the private sector was increasingly set free and given the dominant role in housing provision. What is certain is that the increasing role of the private sector is in contradiction with the decline in the ability of this sector to provide decent and affordable housing for considerable sections of the population within the changing industrial structure, reinforcing the exclusion and isolation of low-income households even in housing politics. This will result in a more homogeneous poor housing community. Indeed it is already doing so. It must be at this point that housing problems shift from being a question of shelter for an individual household towards being a question of conflict between social groups. This will be explored in the next chapters.

CHAPTER 6. THE HOUSING SYSTEM AND LOW-INCOME HOUSING.

6.1 Introduction.

Chapter 5 demonstrated that housing policies cannot be divorced from the changing economic and social structure. The Korean government have not been prepared to leave the provision, finance and allocation of housing entirely to the free play of market forces. Nevertheless, housing has never been a social service for those who are excluded from the changing economic and social structures.

In most cases the new housing provision seems to have made a little impact on the lower income households. For them, the most serious housing problems are often caused not by the exclusion from the new housing provision, but by the change in their existing living environments. During the last three decades, substantial attention has been focused upon poor housing. Those problems were a result of the development process characterized by explosive population growth and urbanisation with the resulting pollution, floods, land slides, fires, chaotic land use, etc. In consequence, the government has introduced a number of measures, ranging from the provision of sites and services to clearance. The poor housing areas were characterised by a variety and diversity in both dwellers and function. However, as time went by, a number of common characteristics and difficulties were noted. They suffer from the declining economic and industrial base, physical decay and adverse social conditions. This change is clearly different from the experience of others in Korea who have benefited from rapid and sustained growth accompanied by substantial decreases in inequality.

This chapter first explores the structure of new housing provision and allocation in the Korean housing system and the changes that have occurred to housing for low income groups. The underlying issue linking this chapter is the impacts of the changed economic and social structures on new housing provision and the effects these have had on low income housing in particular.

6.2. The Housing System of Korea.

Korea had a major and consistent crisis of housing scarcity as a result of wartime destruction and rapid urban growth, etc. Nevertheless, to achieve rapid, continuing industrialisation, housing had to be insulated from the rest of the economy. Prior to the late 1970s, the government's intervention in the housing sector had mainly been

undertaken to correct pre-existing market distortion and bring about a smooth operation of the market mechanism. However, housing shortages have deteriorated over time. Under these circumstances, in order to produce the required houses quickly it was necessary, in some way or other, to harvest large amounts of small savings and tax payments from large numbers of people and to invest this money in housing - despite many other, competing, demands for capital.

The Korean government perfected unique and original ways of doing this through the amendment of the Housing Construction Acceleration Act in 1977. These methods built on a culture which made high rates of saving within family units possible if incentives could be provided. As Chapter 5 demonstrated, the housing system of today originated from the amendment of the Act. Although the housing system in detail has changed many times - for instance, the Decree on Housing Allocation was enacted in May of 1978, and thereafter it was amended twenty times by 1990 - the basic structure in terms of general finance, provision and delivery has continued without fundamental changes. This section focuses on the basic structure.

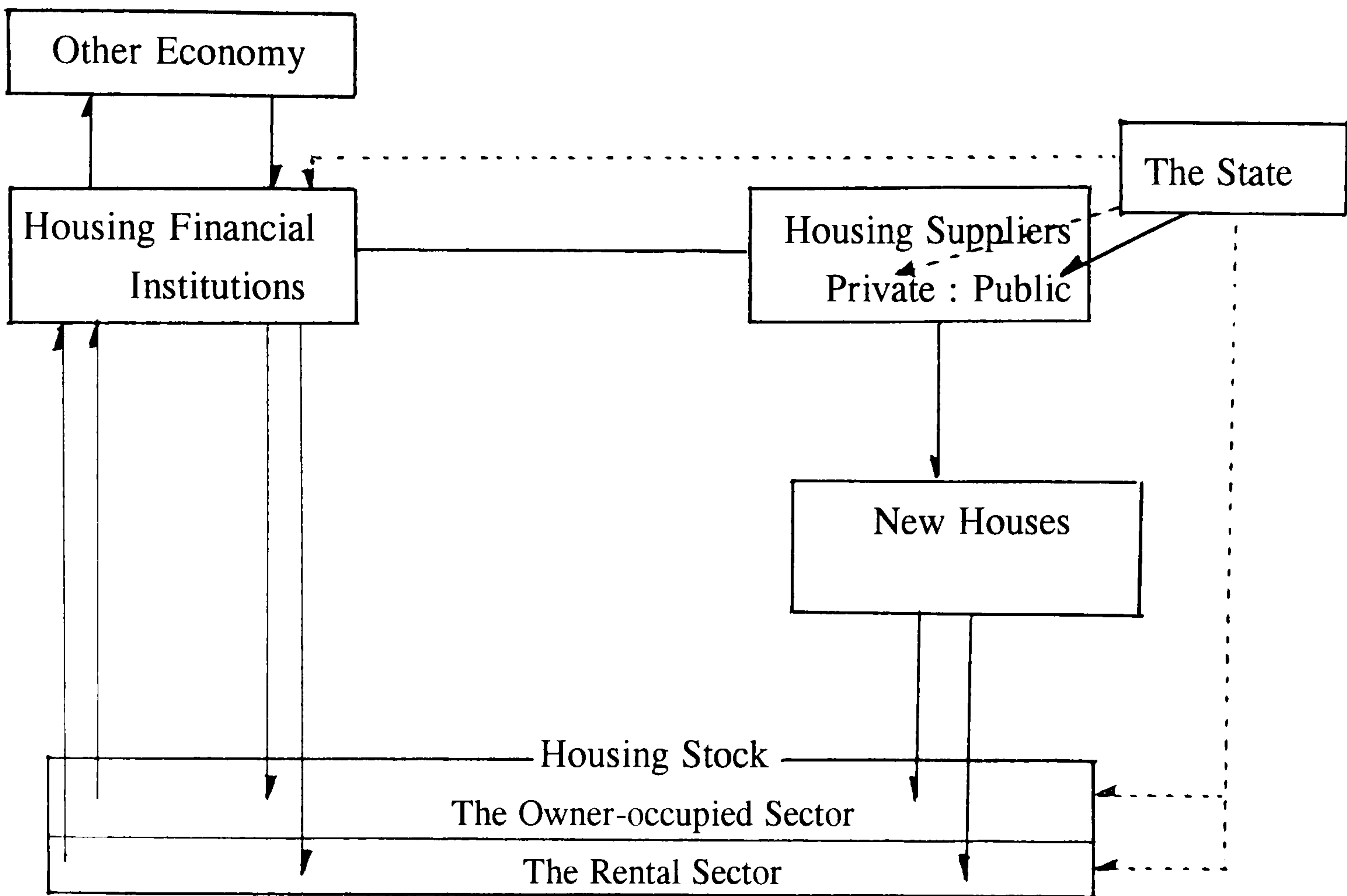
The Figure 6-1 overleaf shows the Korean housing system in comparison with the typical Western housing financial system in general. The Korean housing system gives the first priority to tenant households in the allocation of new houses built. People join the Housing Related Saving Schemes, either through depositing a lump sum of money or through monthly instalments. People must then wait until new houses are allocated to them. These deposits or instalments are the main source of housing funds. The funds are mainly allocated to house builders for construction. New houses are allocated (precisely, a preferential purchase right) to those who have contributed to the Housing Related Saving Schemes at controlled prices and, at the same time, the loans to builders are converted into mortgages to the purchasers of the new houses. Households then repay the mortgages.

Financial institutions for housing are divided into the formal sector and the informal sector. The formal sector is sub-divided into three institutes. Firstly, the Korea Housing Bank (KHB) established in 1967 is the main institute for housing finance in Korea. Most of the housing loans are allocated through the Korea Housing Bank. Secondly, the National Housing Fund (NHF) established in 1981 through the amendment of the Housing Construction Promotion Act mainly supplies housing finance for public housing construction and other public objectives such as housing renewal. It is managed by the Korea Housing Bank under the direction of the Ministry of Construction. Thirdly, there are a number of different institutions including the National Agricultural Cooperatives Federation, the Citizens National Bank, commercial banks and life insurance companies, who constitute the rest of the housing financial system. Their main role is to make loans to housing purchasers.

They finance the purchase of larger and more expensive dwellings with high interest rates (over 16 per cent) and short terms (2-15 years).

Figure 6-1 Housing System of Korea.

(1) Typical Western System of Housing Finance.



(2) Korean System.

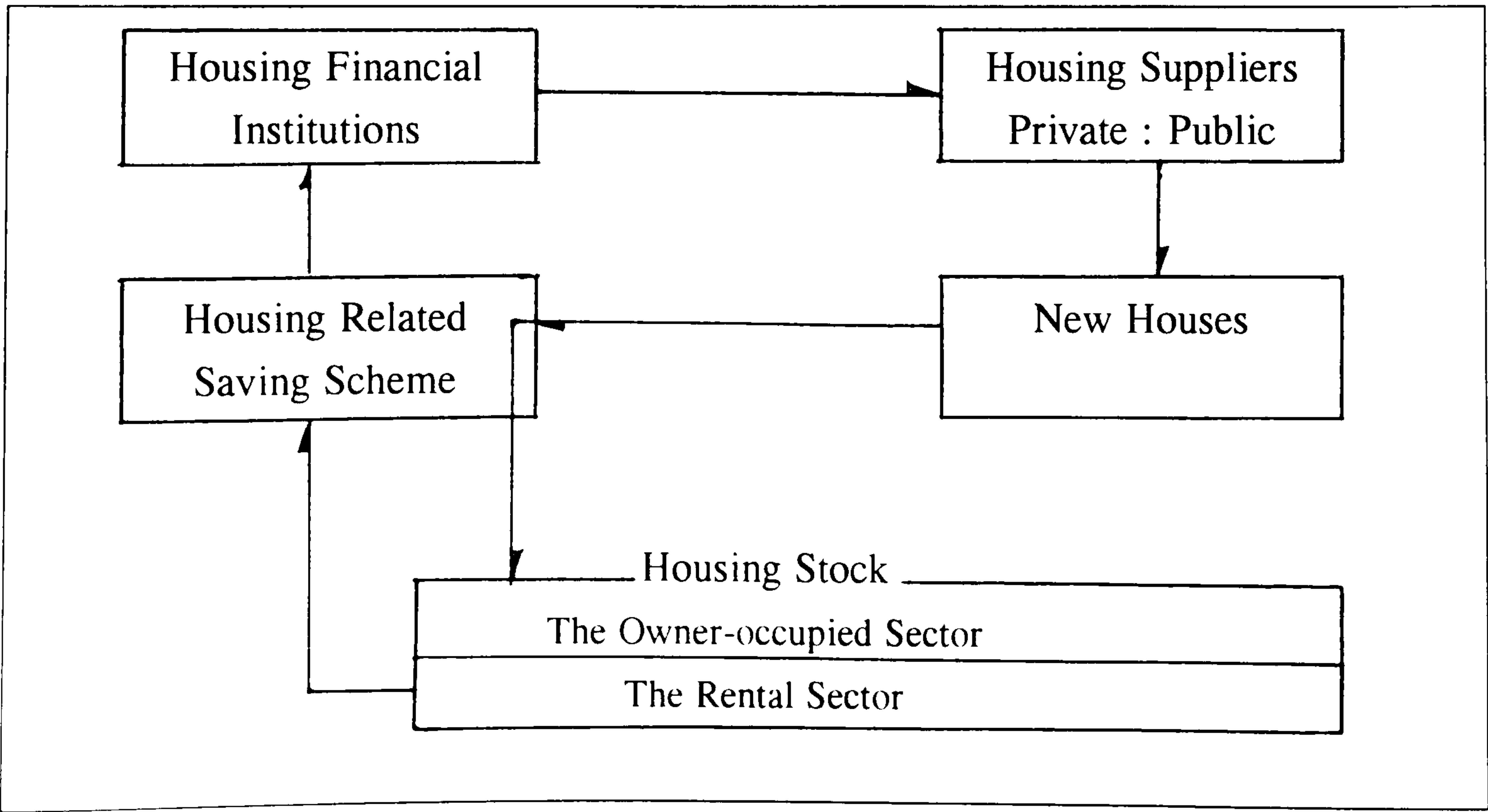


Table 6-1 The Share of Housing Loans Outstanding by Institutions, 1990.

Total	100.0 %
NHF	45.1 %
KHB	41.3 %
Others	13.6 %

Source: The Korea Housing Bank,

As an invisible reality, curb markets play a great role in housing finance. But, unfortunately, few studies have been made of these curb markets in housing finance. Informally, it has been estimated that hidden financial assets may amount to 10-25 per cent of all financial accounts and 20-30 per cent of GNP (the Financial Times, October 11, 1993, p.4), and about 30 - 40 per cent of finance in housing construction firms is provided by the curb market. These figures have been decreasing over time.

With limited national resources and persistent housing shortages (housing units to households), the Korean government viewed funds for construction as more efficient than funds for consumption. Housing funds paid directly to builders have the effect of expanding supply directly, whereas funds for consumption would increase prices before they affect output. In addition to this theoretical background, loans to builders were more easy and economic for financial institutions to administer than loans to consumers.

The price of the new house built is set by the government. Thus, changing prices has been one of instruments by which the government has controlled the housing market. Just after the launch of price controls and the Housing Related Saving Scheme, the Decree on Housing Allocation was enacted in 1978. According to the decree, the output of new housing has a dual structure; regulated housing and unregulated housing. Any new housing construction with more than twenty housing units has to be priced at the level set by the government and allocated to the housing related saving account holders. The price was set generally at half to one third of market prices. The difference between the controlled prices and market prices is the main mechanism by which the government could harvest a lot of small savings from large numbers of people. The interest rates and the amount of the loan are regulated by the government, and thereby has been one of instruments by which the government has controlled housing demand.

Single, detached houses and row houses built with less than twenty units have not been subjected to the regulation. Therefore, there has been no systematic housing finance for the construction of these houses, and they are sold directly to any household at open market prices without regulation of their allocation. However, the construction of these houses has been strongly controlled not only by housing

finance, but also by planning permission, land use planning, etc. The proportion of regulated housing in the new housing supply has varied widely from city to city and from time to time, but more than 60 per cent of new houses in cities were supplied under the regulation in 1990 (KHB, 1993).

The Housing Related Saving Scheme is divided into two categories. Under one, qualified households pay a lump sum deposit at one time. Then, they are entitled to second priority after twelve months and first priority after twenty months. Housing Subscription Time Deposits(HSTD) fall into this category. The other category includes those participants who make monthly instalments, entitling them to second priority after twelve monthly instalments and first priority after 24 monthly instalments. The National Housing Subscription Savings Deposits(NHSSD), which is the main source for the National Housing Fund, and Housing Instalment Savings Deposits(HISD) created in 1989 fall into this category. In reality, the length of the waiting period before a house is allocated to the account holder depends on the number of competitors and the number of houses supplied.

Houses built by the public sector or using the National Housing Funds are allocated to the holders of the NHSSD. Thus the NHSSD emphasises redistributive effects. By contrast, houses built by the private sector are allocated to the holders of the HSTD and the HISD, therefore emphasising the raising of housing funds. The common qualification for joining the Housing Related Saving Scheme is that a household must be registered as a separate household in legal terms. Since the launch of this housing system, the increase in the number of single households was not only the general trend produced by the nuclearisation of the family, but also an affirmation of their right to enter their names onto the housing related saving schemes.

In the NHSSD, the household's monthly income should not exceed the average income of all households in the city they are located in and the household is required to have lived as tenants at least for five years before joining this scheme. In the HSTD and the HISD, every household can join, but the first priority is given to tenant households in the allocation of new houses. This is based on the view that moves by owner-occupiers do not, in general, alter the balance of demand and supply very significantly, since the purchase of a house involves the simultaneous release of another. In essence, therefore, the change in the balance of supply and demand depends on the rental sector. Moreover, the government believed that movements within the owner occupied market have little impact from inflation of housing prices since the rising prices affect the price at which the owner sold his own house as well as that of the one being purchased. The change of the priority periods for preferential purchase is another means by which the government controls demand for new housing.

The amount required from mandatory deposits and instalments varies in proportion to the size of the house which a household wishes to be allocated. The interest rates earned on these deposits differ according to the deposit and saving amounts, from 2.5 per cent to 10 per cent. This is quite low compared with inflation (generally 8 per cent) and the interest rate of curb markets (a bit over 20 per cent). Under the circumstances of high inflation and chronic housing shortage, this preferential purchasing right of new houses at controlled prices means an ensured capital gain in the near future. The compensation for the low interest rates is then realized by the difference between market price and controlled price of the new dwellings.

Table 6-2 Housing-related Saving Schemes.

	Interest Rate (% per year)	Maturity	Saving Amount	Benefit
Housing Subscription Time Deposits (HSTD)	4 - 10	1 - 36 Months	- Lump-sum deposits of 2-15 million Won - Differentiated amount according to size and cities	- Preferential purchase right of private sector housing
Housing Instalment Savings Deposits(HISD)	10	1, 2, 3, 4, or 5 years	- Monthly instalments of 30 - 300 thousand Won, according to size	- Preferential purchase right of private sector housing - Created in 1989
National Housing Subscription Saving Deposit(NHSSD)	2.5 - 8	When the depositor purchases a house	- House size of 40m or less; 20-50 thousand Won - House size of more than 40m; 55-100 thousand Won - Monthly instalments	- Major revenue source of the NHF - Preferential purchase right of public sector housing

source: The Ministry of Construction.

Through the Housing Related Saving Scheme, the Korean government has tried to achieve both redistribution effects and provide a solution for financial problems in the housing sector by connecting household savings with the allocation system. Since the launch of the housing related savings, the overall scale of public finance for housing has expanded and by 1990 it accounted for over 50 per cent of housing funds raised (KHB, 1991).

Over two thirds of the raised funds are allocated to builders via the Korea Housing Bank. However, the volume of the supply of housing loans has been meagre, amounting to only 28.6 per cent of the total amount of housing investment during the 1967-1989 period. The housing loans to builders for construction have been allocated mostly for high-rise flat construction of apartments less than 85 sq. m. in size. The allocation of housing funds has also been one of the instruments by which the

government has influenced the housing market. Most house builders were, however, increasingly over-burdened with financial difficulties as construction costs increased. This consideration led the government to devise another measure to alleviate the difficulties. The Korean government decreed that house builders could be allowed to sell apartment units as soon as 10 (for designated house builders) or 20 per cent (for registered house builders) of the construction was completed. The housing related saving account holders who are selected as the privileged purchasers of new dwellings pay 20 per cent of the purchase price at this stage and pay 60 per cent of the proceeds in instalments by the time of housing completion. The remaining 20 per cent is paid when the unit is ready to be occupied. In houses of 85 sq. m. size or less, housing loans allocated to builders are converted into a mortgage at the point when the houses are completed, and the builders offset the remaining purchasing prices by the mortgages. Under this device, the house buyers are financing the house builders during the construction period with no interest charge.

Table 6-3 The Sources of Housing Funds, 1985.

N H F			K H B		Others
	NHPSD.	27.3 %	General Deposits.	22.2 %	General savings
	National Housing Bonds.	29.4 %	Housing related		
	Housing Lottery.	1.4 %	saving scheme.	43.5 %	
	National Housing Fund Bonds.	10.2 %	Fund Carried Over.	24.2 %	
	Borrowing from Government.	0.1 %	Loan Collection.	10.3 %	
	Loan Collection.	16.4 %	Housing Bonds.	3.7 %	
	Funds Carried Over.	28.7 %	Others.	6.9 %	
	Others.	7.1 %			
T o t a l 100 %			T o t a l 100 %		

Source: KHB.

Since the establishment of the National Housing Funds (NHF) in 1981, most government contributions have been injected into the housing sector through the NHF. Thus the NHF are classified as public funds. The housing units constructed by using the NHF are called "**public housing**" and are allocated to those holders of NHSSD. Public housing in Korea refers to houses constructed by using the NHF which are 85 sq.m or less in size. This is regardless of whether they were built by the public sector or the private sector. The loans allocated to builders for construction of new apartments of less than 85 sq.m. in size are converted into mortgages and passed on to purchasers at 11.5 per cent interest rates for 20 years. The mortgage-to-controlled-price ratio is approximately 30 per cent. So house buyers are confined to those who can afford the rest of the amount. Moreover, in houses over 85 sq. m., there is no systemic channel to provide loans to suppliers, and thereby mortgages to

consumers. Therefore, housing over 85 sq. m.(roughly equivalent to an average 3-bedroom council house in Britain) is beyond the reach of even average income households.

The main differences between the Korean housing system and typical western systems in terms of finance and delivery in the new housing markets include the following. First, housing markets in Korea are clearly separated between the second hand housing market and the new housing market. For second hand housing, buyers and sellers rely on the market mechanism. The government's intervention is mainly focused on new housing.

Secondly, the most fundamental characteristic of the Korean housing system is that it is a self-sustaining system. All aspects of the provision of new housing, ranging from housing finance, construction and delivery to consumption are closely connected with each other. With such a package, housing finance in general is insulated from the rest of the economy. Indeed in 1989, the ratio of mortgage debt (debt of housing loan, in Korea) to GDP was a meagre 3.9 per cent (KHB, 1990). Comparable figures in 1989 for other countries were 58 per cent in Britain, 45 per cent in the USA, 25 per cent in Japan and 21 per cent in France (MacLennan, Gibb and More, 1993, p.13). This indicates that the Korean government has been able to use interest rates as a vehicle for economic regulation with more flexibility. In other words, public policy for housing in Korea can be insulated from public policy for interest rates.

Thirdly, in connection with the role of the state, in Korea, there are no monetary subsidies for housing suppliers and consumers, no tax relief and no rent allowance. There is no public rented housing of the kind familiar in Britain, and therefore no rent rebates. Nevertheless, the Korean government has strongly influenced housing markets through the arrangement of the housing package mentioned earlier by changing preferential interest rates, preferential loans allocation, changing building codes, changing the status of builders, changing the controlled price, changing the delivery system and mortgages, changing the qualification of preferential purchase rights, etc and changing the combination of these.

The Korean housing system is in many ways very efficient. Under this system, a crisis in the mortgage market does not result in a financial crisis for the whole economy in general and vice versa. The system requires buyers to pay partly for housing before purchase. This implies that a large part of the risk of falling housing prices has already been absorbed before the housing purchase. Moreover, mortgage defaults or arrears would mean giving up the differences between market prices and controlled prices.

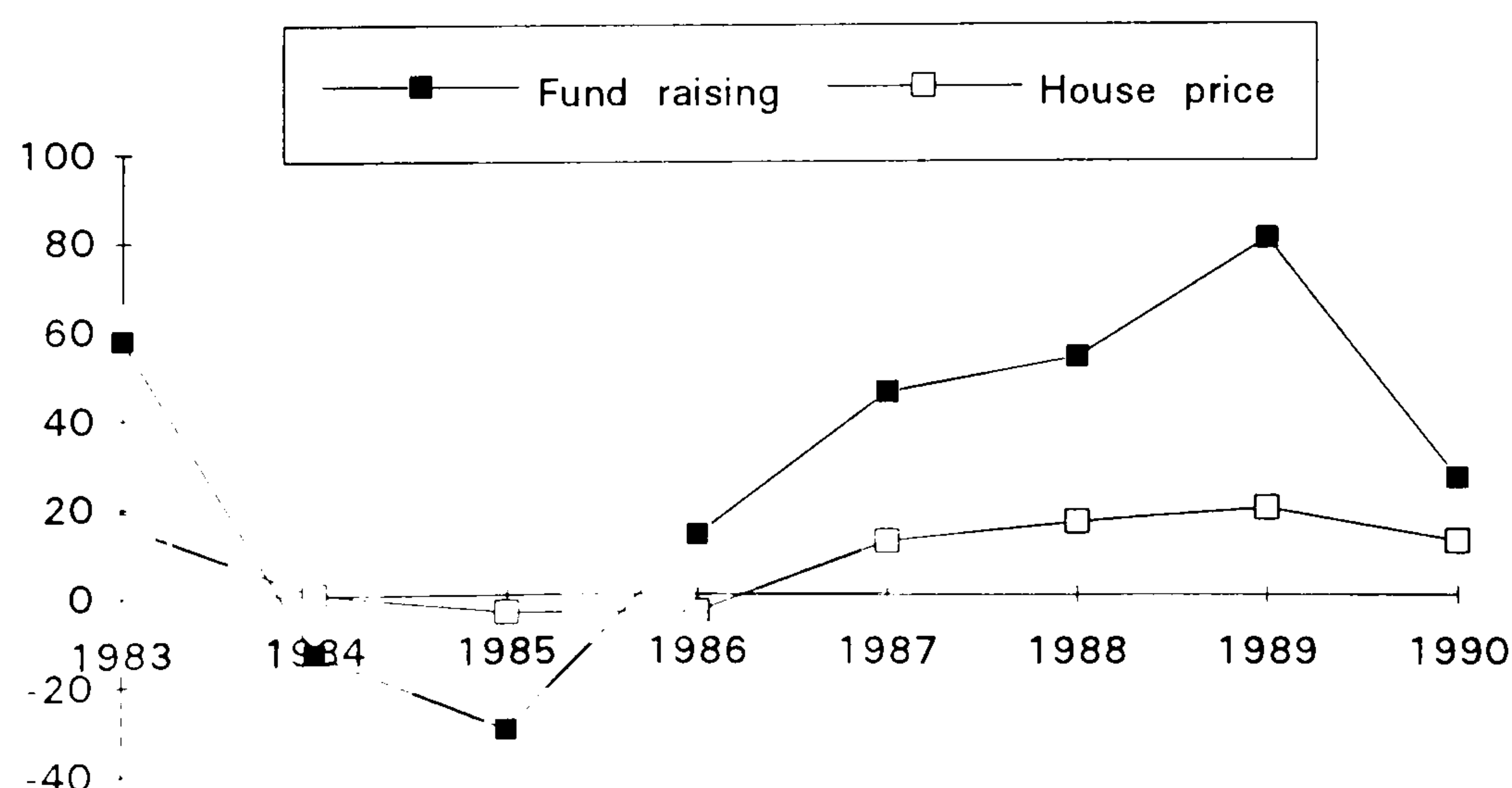
There are also significant savings to be made by not requiring legal and real estate agency fees, plus the considerable monetary and non-pecuniary costs of searching for

a home because new houses are automatically allocated to the housing related saving account holders. In addition to this, savings are made in the process of mortgage borrowing as well as lending. The loans are allocated to builders and converted into mortgages for buyers to repay. At a national level, enormous transaction costs can be saved both in terms of money and labour.

Above all, the housing system acts as one of the key mechanisms for social stability. The increase in housing prices in Korea has outstripped household income (this will be discussed in the next Chapter). Moreover, there are no mortgage markets as in western countries which reduce income-housing-cost problems. However, homeowners, over 40 per cent of urban households in 1990, have been able to enjoy enormous capital gains through housing price inflation. For the tenants who joined the housing related saving schemes, over 30 per cent of urban households in 1990, the increasing housing prices mean greater windfall gains because the increasing housing prices have widened the differences between controlled prices and open market prices. They will benefit from windfall gains in the near future. For them, the problem is a matter of time and an inelastic housing supply. So, under this system housing price inflation is not problematic for the majority of households.

A dilemma for the Korean government is how to keep interest rates low enough to hold down construction costs whilst at the same time attract households to join the housing related saving scheme. In order to attract more households to join the scheme and, to some extent, to make the advanced sale workable, some speculation which widens the difference between controlled prices and market prices is necessary. In fact, as the Figure below shows, when open-market housing prices soared, the inflow of housing funds increased.

Figure 6-2 Fund Raising in KHB and NHF and House Price Index, in comparison with the last year.



Sources: KHB, *A Study on Housing Cycle in Korea*, 1992, p.52 and Housing Economic Statistical Year-book, 1992.

Speculation may be possible in circumstances where the house is a scarce commodity. Therefore, the main factor which has sustained the housing system has been a chronic housing shortage. It is not an exaggeration to say that paradoxically a very high housing output has been achieved by a chronic housing shortage under the Korean housing system.

Through the evolution of the housing system in Korea, choices and the price mechanism have been crucially distorted, and have given free market advocates a ground for criticism against government control of the housing market. Owner-occupier's upward residential mobility through new housing has been constrained by the system itself. First time buyers are looking for new housing not on the basis of their need or taste, but on the basis of when and which houses give them the greatest windfall gains. As many studies have shown, for instance, the elasticity of consumer demand for housing to both price and income has been very uneven over time, ranging from 0.027 (Mills and Song, 1979) to 1.73 (Kim K-Y, 1988) in income elasticity and from -0.05 (Follain, Lim and Renaud, 1979) to -4.0 (Baek G-H, 1982) in price elasticity. Although the methods and statistics used might have brought about different results, the differences are very large. That can be more appropriately explained by the finding of many studies which have consistently confirmed that the housing cycle in Korea depended on government policies (KHB, 1992, p.41). Moreover, it has consistently distorted the distribution of housing stock in terms of size, type and location in no relation to the change in households' demands and needs.

The output of housing is determined by a variety of factors but especially by expected profitability, which in turn may depend on the difference between expected price and the cost of building, which may depend on land, credit, material, labour and overhead costs, and on the profitability of other construction work. Where production is motivated by profit, builders maximize the difference between selling price and costs. However, housing suppliers couldn't set the price on their own. They have had to abide by the prices "uniformly" set by the government and the houses built are automatically allocated to the housing related saving account holders according to the priority set by the decree. So the extra profits have been removed from housing builders, but so has much of the risk normally associated with the industry.

In addition to this, the entire process of the supply of urban land has been strictly regulated by the central government. Each local government estimates the approximate amount of land needed for residential, commercial and industrial purposes and requires the Ministry of Construction (MOC) to change land zonings. Land needed for various purposes is co-ordinated within the framework of the ten

year National Land Use Plan. The Ministry of Construction reassesses the requirements and changes the land use zonings accordingly. Land use conversions of any sort must be approved by the Ministry of Construction. Therefore, new land developments which must be accompanied by the conversion of land use zoning have depended on the government. Although more studies may be required, it cannot be denied that this land use control helped to encourage speculation.

The ratio of aggregate land value to GNP has been rising rapidly from 1.66 in 1975 to 2.16 in 1985. It was as high as 2.5 times that of the U.S. - 0.81 in 1984 - (Renaud, 1993, p.302). Consequently, the price of residential land in urban areas rose by 1,582 per cent between 1979 and 1985, about three times higher than the increase of the retail price index. The relative share of land in the composition of housing construction costs has risen sharply; it grew from 8.8 per cent in 1970 to 38.5 per cent in 1985 for a high-rise apartment and from less than 20 per cent to almost 70 per cent for a detached house over the same period (Kim J-H, 1990, p.6). Therefore, continuous increases in the price of residential land have persistently constrained housing construction, which in turn has further increased house prices, and pushed up housing consumption costs and placed pressure on workers to demand wage increases.

The economic technocrats began to worry about the possibility of a "bubble economy" (Lee J-S, 1991, p.51). As a result the government issued permission for public agencies to take control of most land development projects in order to prevent speculation and recapture the "development gains" which could be reinvested in other land development projects. The Korea Land Development Corporation (KLDC) established in 1979, and other quasi-governmental bodies such as the KLDC, the Korea National Housing Corporation and the local government were increasingly authorized to participate in the large scale residential land development process since 1980.

These institutes purchased large amounts of cheap agricultural or green land at appraised prices, using the power of land expropriation when necessary, to convert it into residential use. Improvements were made on the land, and the serviced lands were sold either to public entities such as the KNHC and local governments at cost price or to private builders at the market equivalent price. The sale price of land developed by public or quasi-public institutions has been directly tied into housing price controls which were based on estimated land value and other construction costs. This process excluded land owners, private builders and developers from land development gains. In addition to this, in order to stabilize land prices, the government established a "real estate transfer income tax", but it was accompanied by "lock-in effects" and substantially reduced the supply of residential land. The

government imposed another measure of "vacant land tax", which had the reverse effect of making "land banking" by builders more difficult.

The consequences of these policies on the housing system were; first, as Duncan concluded in his article *"House Building, Profits and Social Efficiency in Sweden and Britain"* (1986, p.30), *"In Britain land development gains and speculative extra profits are significant profit sources for house-builders. Making profits through building itself is neglected..... In Sweden house-builders do not have easy access to land development gains or extra profits..... They are pushed onto the road of making profit through increasing labour productivity and through product improvement"*. Although the source of profits varies between builders and between times, the Korean housing system contributed to increasing the productivity of house builders because the builders could get profit mainly by increasing productivity. Indeed, value added per person in the house building industry increased about 4.8 per cent per year between 1975 and 1985 (KRIHS, 1989.12, p.68). Although this was a lower rate of increase than that in manufacturing which grew at about 11.4 per cent per year over the same period (Song B-N, 1990, p.74), it was very high in comparison with most other countries where a 2-3 per cent increase per year might be expected (KRIHS, 1989.12, p.67).

Secondly, the builders were keen to construct standardized apartments because they had to minimize costs under the ceiling-price. Therefore, standardized design, procedures and products were introduced in order to operate economically. Housing construction costs have continued to rise even at times when the whole economy has stagnated or even fallen (Lee J-H, 1992). Industrialized large firms have tended to build mainly standardised high-rise apartments at high densities in order to cope with the increased construction costs. Furthermore, the government has encouraged (compelled rather, through the construction permission and housing finance) the public sector as well as the private sector to supply high-rise houses. This can be seen by examining trends in government permission for housing construction, a method by which the government controls housing provision. The number of detached dwelling units permitted for construction by the government was 131,850 units, or 73.3 per cent of the total dwelling units permitted in 1975. The number of housing units in high-rise apartments (over 5 storeys) was 37,828, accounting for 21.0 per cent of the total dwelling units permitted that year (row flats up to 5 storeys accounted for 5.7 per cent of the total). In 1990, while detached dwelling units accounted for only 14.1 per cent, high-rise apartments accounted for 66.8 per cent and row-flats accounted for 19.2 per cent.

Thus the domination of high-rise development in the private sector as well as the public sector was largely a consequence of the combination of inherent profitability

of builders under the Korean housing system and the government's policy of attempting to reduce the housing shortage as quickly as possible. These trends accelerated the collapse of the traditional self-build sector in housing provision. As a result of the expansion of the construction of high-rise apartments, the share of high-rise apartments as a percentage of total housing units has steadily increased from 7.0 per cent in 1980 to 22.6 per cent in 1990.

Thirdly, house builders were unwilling to build rented houses mainly because of the lack of financial incentive. They could not be financed from purchasers during the construction period, by selling houses in advance, and could not pass the burden of the loans of housing funds on to purchasers by switching them into mortgages. Moreover, the rate of return on rented housing construction was too low. Prior to the launch of price control, this was compensated by the gains from the difference between historic costs and current market values of property after rental periods due to the rapid increases in the housing price. However, since the launch of the price control, builders could not sell the rented houses at open-market prices. The Ministry of Construction established a guide-line for the sale prices of the rented houses after renting roughly at compromised prices between historic costs and market prices.

Fourthly, until 1985, the ceiling price was set at two levels: 1.05 million Won (about £875) per *pyong* (about 3.036 sq.m) for apartments of 85 sq.m. or less in size and 1.34 million Won per *pyong* in the over 85 sq.m. Thus, builders were disinclined to build small size housing units since the controlled price per unit of floor space rises with size while the cost per unit of floor space decreases with the size of floor space, as the Table below shows. In October 1985 the price of small units increased to 1.34 million Won per *pyong*. Nevertheless, builders had to be compensated for the costs in small size housing construction by building large houses. In other words, under the Korean housing system, large size housing buyers subsidized small size buyers.

Table 6-4 **House Size and Construction Costs.**

	Under 5 Stories				High-rise Flats		
	10 Pyong	17 Pyong	22 Pyong	29 Pyong	17 Pyong	33 Pyong	57 Pyong
Construction costs per Pyong	£708	£641	£625	£608	£658	£625	£575

Notes: With central heating, land costs excluded

A Pyong is equivalent to 3.306 sq. m.

Source: Korean National Housing Corporation, (requoted from KHB, 1989, p.46)

Through the monopolization of land development, the government imposed restrictions on land developers to allocate the lands developed at the cheapest prices

for the construction of rented houses, at costs for the construction of public houses and at appraised prices for that of private houses. The loss by selling lands for rented houses and public houses was covered by profits from selling for private housing. Through this cross-subsidizing mechanism, the government encouraged the construction of rented houses and small houses.

By contrast, the construction of large size houses has been strongly controlled by housing finance, planning permissions, executive power, and even by mass media. For example, the conditions of housing loans to builders, such as interest rates, repayment periods and methods differ according to the size of the house. The smaller the house, the better conditions of the loans. The Housing Construction Promotion Act stipulates that housing sizes eligible for the NHF loans must not exceed 85 sq. m, but in effect, the loans are mainly provided for housing units of 60 sq. m or less by the operational guide-line of the Ministry of Construction (KHB, 1992, p.29).

However, as the national economy has grown and households' incomes have increased, more people have demanded larger and higher-standard houses. In theory, if people were able to buy more at the same price, their demand for the housing would increase in proportion. The price control has allowed households to be able to buy more. But unbalanced supply of housing size in conjunction with these changes has boosted the price inflation of larger sized houses. It has already been shown in the 1981-2 period that while many small size houses were unsold, the competition for larger size houses was intense. For example, comparison of the market prices of apartments located in *Bun-dang* new town with the controlled sales price reveals that the differences between them was 173 per cent for average apartments but the difference between the largest units was 219 per cent (Kim C-H and Kim K-H, 1993, p.11). Thus, the subsidy by large size housing buyers to small size housing buyers was compensated for by these windfall gains.

Finally, there has been a shift in the pattern of housing investment away from those areas which have the greatest housing needs as well as demands, in favour of areas where the ability to generate profit is greater, such as peripheral areas. Some builders switched to building a much more narrow range of housing, concentrating particularly on the more expensive end of the market, building luxury houses, often in return for opportunities of building small houses. At a macro level, as a result of price control, the supply of new houses has decreased in the biggest cities in which most housing problems were concentrated (the Land and Construction, December, 1989, p.24). The decline in new housing supply was accompanied by increases in house prices, particularly in the biggest cities (Kim J-H, 1990, p.9).

The problem is not only the distortion of choices and market mechanisms but also, more importantly, the exclusion of low-income households from the housing system.

The system helps first-time buyers, yielding great advantages to owner-occupiers who start buying at below market prices with some portion of mortgages. The main beneficiaries are the households who can afford to join the housing related saving schemes and can afford about 60-70 per cent of housing prices outright, irrespective of the household's need or income after expenditure on necessities. In fact, KRIHS's survey in 1983 showed that only 33.9 per cent of rental households were able to afford the housing of 43.6 sq.m provided by the public sector and 20.7 per cent of rental households were unable, for lack of income and wealth, to afford the housing even though the privileged public houses were allocated to them (KNHC, 1983, pp.115-6).

This housing system may have more or less contributed to the decentralization of wealth by excluding high-income households and owner-occupiers from the new housing market and by creating a cross subsidy structure from larger size purchasers towards small size purchasers. This system also contributed to maintain social and political stability for a large sector of the population by offering a dream of owner-occupation in the near future. However, it divided society on the basis of tenure.

Through the working of the housing system, housing tenure divisions in Korea strongly represent a household's income and living conditions, since those who could join the housing related saving scheme have been becoming owner-occupiers of decent houses, while those who could not mainly remained in the rental sector. Thus, non-ownership began to become synonymous with the negative social status of being unable to afford even the meagre housing related savings. More importantly the distinction between the owner and the tenant involved differences in security, and freedom. Citizens in the modern "welfare state" may be equal before the law, but as far as housing is concerned they are not subject to the same laws. (This will be discussed in the next section).

However, by 1991, over 3 million households had joined the housing related saving scheme and were awaiting new housing construction. Furthermore, their contribution was the main source of housing funds. Their willingness to contribute was induced partly by hopes - often realised - of large speculative gains as land and house prices rose. But that is an inducement which cannot continue indefinitely. Already these prices have risen to levels which exclude more and more people from any hope of owning - or even in some cases renting - a house. Social and political stability will be threatened if the numbers excluded increase much further. It will therefore be very difficult for the government to change this system in any direction. The government began to emphasize the smooth working of the market mechanism still further (see Hur S-M, 1992)

6.3. The Structure of the Public Sector in Housing Provision.

The generally accepted problem in the public sector was that public expenditure on housing was too small to supply housing for all the poor and mass immigrants and that it was unlikely to bring down housing prices and rents to a level where they were within the capacity of those on low incomes. In the public sector, there are no subsidies for capital or operating costs for housing construction except for rental housing construction after 1985 thanks to the increased revenues derived from Korea's phenomenal economic growth. Therefore, there has been no obligation on public bodies to build for general needs. There are no significant differences between the private sector and the public sector except in the kind of overhead costs, such as preferential housing fund allocation to the public sector, easy construction permissions in public sector, etc. Under these circumstances, the public sector cannot provide housing for people with low incomes because it cannot afford the costs.

In addition, the main source of housing finance for the public suppliers comes from the NHSSD, one of the housing related saving institutions, and the houses built by the public sector are allocated to the account holders of the NHSSD. Therefore, the main fund lenders for housing construction and the clients for the houses built, and the main pressure group for the public sector housing provision is those who have joined the NHSSD. As a consequence, the system itself has increasingly selected the beneficiaries of public housing on the basis of saving ability, irrespective of need.

The KNHC and local government have provided rental housing with financial support from central government since 1985 and loans from the National Housing Fund. However, a considerable amount of capital input had to be covered by their own balance sheets and rental deposits from tenants. Under these circumstances, the problem has been dealing with how to balance restricted rent-paying capacity among public rented occupiers while easing public housing authorities' financial problems. This financial constraint has crucially hampered rental housing construction in the public sector and confined the rented houses to those who can afford the deposit and rent to cover, at least, the cost.

Table 6-5 Composition of Finances in New Rental Housing Construction in Urban Areas, in case of KNHC.

	1982	1983	1984	1985	1986
Government Contribution	-	-	-	10.0	16.0
Loan from NHF	50.0	55.0	61.0	48.0	37.0
KNHC own fund	35.0	30.0	21.0	25.0	27.0
Deposits from Tenants	15.0	15.0	18.0	17.0	20.0
Total	100%	100%	100%	100%	100%

Source: KNHC (1987)

Indeed, as of the end of 1990, the number of existing rented houses provided by the public sector was estimated at about 0.2 million units in cities (KNHC, Housing Statistical Year-book, 1991). It accounted for only about 4.4 per cent of total housing stock, accommodating about 4.3 per cent of tenant households in cities (Population and Housing Census, 1990). The level of rents was set, neither on the basis of a social rent nor on the basis of a market rent. According to the KNHC's estimation (Bang J-W, 1987, p.89), the economic rent of an average 43 sq. m. new apartment in cities in 1986 was £48 a month with £2,567 deposit. But the rent set by the government was £38 per month, about 80 per cent of the economic rent, with the same deposit. Thus, the KNHC showed a £10 monthly deficit. The deficit had to be covered by profits from the sale of other houses. Moreover, in order to reduce this accumulating financial burden, most rental housing had to be sold after one or five years of renting at controlled prices, not historic costs or market prices, and all responsibilities for the maintenance and repair of public rented houses had to be put in the charge of the tenants.

The dilemma which the public sector suppliers are facing is that in order to provide more rented houses, they have to be financed either out of profit from selling other houses or by increasing rents. Therefore, they have contrasting difficulties in reducing the price of the houses for sale and rent payments in rented houses for the low-income households. The steady increase in construction costs have made it increasingly difficult to accommodate the low-income households in the public sector (Ha S-K, 1991, p.30). So, public housing as well as public rented housing has been mainly confined to a limited range of income groups. Moreover, with limited resources, in order to build more houses in a short time period funds invested had to be returned as soon as possible in order to reinvest in new housing construction. The best way to return the fund soon was to supply houses for those could afford them for sale.

The main role of the public sector was, as mentioned in Chapter 5, to counteract a downturn in private building and in the economy generally. It cannot be denied that public housing has helped to stabilize house prices and has contributed to continuing economic growth. Moreover, the construction of public housing has been focused on smaller sized houses than the private sector. In this aspect, public housing has contributed to increase the flow of resources into the housing for moderate and middle income households.

6.4 Low-income Housing.

It has been shown that under the changing economic structure in Korea, the development of the housing system has created circumstances under which new houses are structurally and increasingly beyond the reach of low-income households. What has happened to the houses which have accommodated the low-income households? This is explored in this section.

The first phase of Korean urbanisation can be characterized by the sudden flow of population into the cities resulting from external factors such as independence, partition and the Korean War. During this period, Korean cities were characterized by uncontrolled development. Squatter settlements were to be found everywhere in the cities (Choi C-H, 1985, p.59). No urban planning was carried out in advance of the squatter settlements (Lee K-S, 1979, p.161). Factories and offices co-existed with residential buildings. Many buildings served as both home and workplace. The clearance program was inevitably initiated by this uncontrolled urban development.

Since 1960, rapid industrialisation has gripped Korea. The lack of infrastructure and public facilities which were destroyed or made unusable by the Korean War was a constraint to the industrialisation process. Moreover, the enormous influx of refugees and in-migrants from the north and rural areas occupied any open site in cities. As the economy grew, office employment in both private and public sectors increased and concentrated in the city centres. Increased commuting and the resultant congestion generated pressures for the renewal of primary urban road networks.

The government enacted the Urban Planning Act of 1962 in which land use planning was adopted and the Land Readjustment Projects were launched as a major aspect of the urban development and restructuring, as outlined in Chapter 5. This was the first phase of functional differentiation, the separation of industrial and commercial areas from residential areas. In this (re-)building process a strong role was assumed and carried out by the government. The first power of demolition was contained through the establishment of the Land Expropriation Act of 1962. This legislation also included the power of compulsory expropriations. Since then the government began to clear the massive squatter dwellings located on the land designated for the construction of the infrastructure, especially roads. Housing clearance and redevelopment offered the opportunity for urban rebuilding and the instalment of new roads and infrastructure, and the replacement of outworn roads and infrastructure that were no longer considered appropriate to meet the requirements of industrialisation.

Given limited national resources, however, the government was unable to pay much attention to the displaced households. Moreover, factory owners rarely took

responsibility for housing provision in the period of large-scale urbanisation since there was a plentiful supply of cheap labour. Strong sentiments were expressed that the demolition of poor housing and the resettlement of households in peripheral areas many miles away was destroying the social fabric of the older parts of cities and breaking links between work and home. Indeed, many of the displaced households returned to the city centres again (KHB, 1975, p.171 and Kim J-G, Kim K-Y and Son J-Y, 1991, p.134).

For the government at that time, however, it might have been difficult to make a decision. The function which an area served and the satisfactions which it provided for its inhabitants were not the only factor. The government had to consider others such as the need for new roads, schools and other facilities for all citizens and for the next generation. A public authority had to be more forward-looking than merely providing for individual needs. Indeed, not only "slum" and "shanty houses" but also "standard houses" were demolished in order to make room for development projects.

Most of these relocation sites were developed in the suburbs at that time, and were occupied and extended by the ever-growing inflow of immigrated families. As a result, many squatter settlements were simply relocated from inner city to the suburbs. However, the nature of the housing problem needs to be clarified. As seen in Chapter 3, the combination of periods of rapid economic growth and the open social structures successfully absorbed the dwellers in the squatter settlements into the formal sector. Thus, the problem was the squatter settlements, i.e. the dwellings, not the dwellers in the squatter settlements at that time.

Population growth became more rapid than before. The highest rate of urbanization in the period after 1965 was accompanied by mass squatter settlements. Meiyer (1970, p.382) described such dramatic urbanisation in the following manner, "*Nowhere else in the world today are the processes of urbanisation so intense, so compressed in time, as in the capital of South Korea*" (requoted in Lee K-S, 1979, p.123). Meanwhile, in the summer of 1966, the Great Flood of Han River made many squatters roofless, and became a major political problem (until that time, squatter problems were mainly in Seoul). Moreover, a general election was scheduled for 1967. The government planned a new town in *Gwangju* (today *Seong-Nam*) for the relocation of squatter settlements beyond the boundary of Seoul. It was planned to accommodate a population of 200,000 with labour-intensive industries. In addition to this, on the public land in the Land Readjustment Projects, high-rise or walk-up flats were under construction for the displaced households. It was the first and last systematic involvement of the government in housing for low-income households.

However, given limited national resources, public effort was mainly focused on clearance of illegal houses, rather than rehousing. For instance, there was a massive

clearance of poor housing undertaken by Seoul city in 1966 (Seoul Metropolitan Government, 1979). The project attempted to clear 130,000 poor housing units within a three-year period and to construct 90,000 units of public housing in order to accommodate the displaced households. More than 70,000 poor housing units were, in fact, destroyed according to the plan. However, only 16,000 units were built by 1970, which were obviously far too few to accommodate over 230,000 displaced households. Nevertheless, there was little opposition to the clearance. Most of those in the informal economy and in the informal housing could easily be absorbed into the formal economy and housing thanks to the continuing economic development.

The *Gwangju* new town programme, however, came to an abrupt halt in the summer of 1971. Roughly 27,000 households had been relocated to the area. It was envisaged originally that it would be funded by private finance. Large scale removals of squatters from Seoul began in 1968, with each resident receiving an allotment card on their removal from their former house, to be used as a claim for about 65 sq.m. of land in *Gwanju*. The price was about £50 at current prices, repayable at about £17 per year over a three year period, following a two year grace period. However, the various promises made before the general election when the new-town plan was launched were not fulfilled. Water, sewerage and electrical facilities had not been fully installed. Material assistance from the government was not enough. Employment was hard to find as few of the proposed industries had actually begun operation in the area. Most of the relocated people had to depend upon their livelihoods in Seoul. Over 60 per cent of relocated families went back to squatting, or doubling up with relatives in Seoul (KRIHS, 1983, p.23 and The Shin-Dong-A, October 1971, pp.171-2). Nevertheless, the bus service to Seoul was both infrequent and slow with high costs, and moreover taxes on the land and charges for electricity and water increased household expenditure. To make matters worse, the urbanisation recorded between 1966 and 1971 was at its highest and the competition for low-skilled jobs was increasingly acute. The number of unemployed was growing over time in the area. On August 10, 1971, about 10,000 residents of *Gwangju* staged a mass demonstration protesting against government policy, resulting in a riot.

Since 1968 high-rise or walk-up flats were under construction by local governments for the displaced households in the Land Readjustment Projects. As outlined in Chapter 5, in the Land Readjustment Project, the project land was divided into broadly three parts; cost-equivalent land, land for public uses and land returned to its former owners. Citizens' flats were built on the land for public uses, and financed by selling the cost-equivalent land on the private market. However, developers had to finance other costs, such as infrastructure, by selling the cost-equivalent land. This meant that the higher the costs were for the citizens' flats, the more land was taken

away from former owners, increasing resistance. Strong resistance was mounted to bring the Land Readjustment Project as a main means of urban development to a halt. Thus, a major difficulty with the program arose in the area of resources for both municipal governments (the suppliers of the flats) and the displaced low-income households (the beneficiary). The displaced squatters were expected to pay for the installation of water and electrical facilities for their own use. Due to the financial incapacity of so many of the residents, however, buildings often lacked water and electricity for as much as a year (Ha S-K, 1984, p.153). Moreover, residents were faced with two other major costs. Amortisation for the unit, although it was cheaper than other flats, and a service charge. On the other hand, the lack of resources in local government resulted in low-quality flats, poor construction methods and architectural faults. In 1970, Wa-Woo Apartment, a five storey block of flats, collapsed, killing 34 people. Because of the very poor construction methods and architectural faults, coupled with poor management (Kim J-G, Kim K-Y and Son J-Y, 1991, p.135), about 80 per cent of the citizens' flats have been demolished as of October 1975, containing 18,417 households (Ha S-K, 1984, p.155). This led the government to quit its direct involvement in the housing of low-income households.

During the 1960s, however, clearances were implemented near the city centres for the instalment of infrastructure or public facilities, or in the areas which were under the potential danger of flood or landslide. Although industrialisation led to a rapid urbanisation and a huge demand for space for housing as well as commercial and manufacturing activities, there was relatively enough land to meet these demands. The clearance was carried out providing the decanted households with small housing lots or flats. The core of the problem was the lack of national resources. Low-income households could build themselves homes with the help of friends or relatives. Other squatter houses and slum houses were largely ignored by the government. Until the early 1970s, self-help building was one of alternatives for low-income households.

Since the early 1970s, the government reacted against freshly built illegal housing, using wrecking crews and policemen, more strongly than ever before. By contrast, housing policy towards existing poor housing shifted towards a more positive approach with legalisation offering the option to improve under Temporary Management Act on Housing Improvement of 1973. The Act, which had a limited period of time until the end of 1981, provided legal support for housing improvement and legalization.

Meanwhile, the industrialisation and modernisation of Korea, especially in the cities, affected the physical structure of housing. One of the impacts on housing was the use of fuel for heating and cooking partly because it was increasingly difficult to supply timber in cities with a population of over a million. The change in fuel from

timber to more sophisticated coal or gas systems was accompanied by changes in the physical structure of housing. Therefore, most in-migrants who had traditional construction skills found it was hard to use their skills. Moreover, given increasing difficulties in getting the timber, severe winter weather in Korea did not allow the conventional type of self-build housing using timber for heating (Lee K-S, 1979, p.163). In addition to this, the provision of infrastructure and public facilities could not keep up with the pace of urban expansion. Transport costs and other living costs of the peripheral areas and steep upper hillside areas began to exceed the rent of existing shanty houses. The land use (zoning) system also partly contributed to impede the shape of squatter settlements. The outer ring areas of Seoul and Pusan in 1971 and of a further 13 cities in 1972 and 1973 were designated as Green Belt, areas in which any construction activities were prohibited. Most areas between the Green Belt and peripheral built up areas of cities were designated as industrial estates. The keeping of the Green Belt by the government and the development of industrial estates by private industrialists has effectively cut off the development of squatter settlements. The most important factor was that the continuing economic development made more households able to take part in formal housing markets.

The combined effect of these factors was the decline of illegal housing, as the Table below shows. Newly in-migrant low-income households from rural areas had to meet their housing needs in the formal markets.

Table 6-6 Status of Illegal Housing in Urban Areas, 1966, 1971, 1977 and 1980.

Year		All Cities	Seoul
1966	Housing Units (A)	1,160,000	361,945
	Illegal housing (B)	n.a.	136,650
	% B/A	n.a.	37.75
1971	Housing Units (A)	1,506,700	625,400
	Illegal Housing (B)	260,400	168,300
	% B/A	17.3	26.9
1976	Housing Units (A)	1,963,900	813,000
	Illegal Housing (B)	203,500	134,900
	% B/A	10.4	16.6
1980	Housing Units (A)	2,555,724	993,661
	Illegal Housing (B)	289,095	154,047
	% B/A	11.3	15.5

Note: n.a., not-available.

Sources: Seoul Municipal Government, Statistical Year-book of Seoul, 1966 and Ministry of Home Affairs, Municipal Year-book of Korea, 1972, 1977 and 1981.

Many shanty houses were being improved. Some described this in terms of the "evolving shanty-town", and argued for the expansion of self-help rehabilitation. In order to involve residents in the renovation process, the government provided them

with financial and organizational assistance. In areas where squatters were illegally occupying public land, the government legalized the ownership. Nevertheless, voluntary participation in these self-help renewal programs was low (Kim J-G, *et al.*, 1991, p.138). They were criticized by those who said that the assistance was not enough and was inefficient (Hs S-K, 1984, p.40). These arguments may be partly true. But the main reason did not lie in the lack of assistance or with inefficiency but lay with the social mobility of the dwellers. For most dwellers in squatter settlements and shanty towns, when their economic conditions improved, they moved to houses in better locations, rather than improve their existing dwellings. Soon after, the dwellings were occupied by subsequent in-migrants. Of the remaining low-income households, many were unable to improve their houses by the assistance alone because of their own lack of resources. In these cases, improvement could not reduce future needs for rebuilding (Ha S-K, 1984, p.141). Indeed, many studies have shown the reason for the low participation of the residents in renovation programs; most dwellers consider their time in the squatter settlements and shanty towns or collectively poor houses, as a largely transitory period before they purchase a house of their own in a better location. By contrast, some areas where there has been significant improvement have seen substantial changes in the nature of the occupants from low-income households into moderate and middle income households.

Rapid urbanisation especially in the biggest cities increased urban costs and became a difficult problem for the government. Urban planning increasingly tried to halt the population growth in the biggest cities whilst restructuring the city. Moreover, the government realized that one third of the nation's population and one half of the nation's industrial facilities were open to bomb attacks from North Korea. For instance, Seoul is situated only 40 miles away from the Demilitarized Zone. Moreover, the relationship between North and South Korea has worsened over time.

The government determined to devise strong measures for population decentralization and industrial dispersal (Choi S-C, 1976, p.60). The Seoul Population Dispersed Plan was established in 1976. It was intended to divert the future potential migration flow. Deindustrialisation of the city was promoted by reducing urban land use designated for manufacturing activities and moving polluting industries out of the boundaries of the city. Extensive expansion of urban redevelopment projects were conceived as priority projects (Kim H-K, 1980, pp.170-175). Although it was named the Seoul Population Dispersed Plan, in fact, it applied to the other biggest cities as well. As a legal support, the Industrial Distribution Act and Urban Renewal Act were enacted since 1976. Indeed, by 1979 relocation orders had been issued to 1,813 firms (as of 1980, 3,058 firms) in Seoul alone by the Industrial Distribution Act.

The Urban Renewal Act of 1976 distinguished urban renewal into downtown redevelopment projects and housing renewal. The main motive of the Urban Renewal Act was comprehensive renewal offering opportunities for urban industrial restructuring and the replacement of outworn roads and infrastructure. Until that time, a direct link between general economic performance and removal of poverty was a clear and major theme of Korean government thinking; continuing economic development was the most important key to ensuring that the condition of housing improved.

Another aspect of the downtown redevelopment was that, in addition to being a program to vitalize the city through new development, it was a program to clear poor houses and environments, and thereby reduce or eliminate the costs associated with them. It was often described by the terms of "cure", "social maladjustment" and "undesirable environment". There was the belief that the removal of poor physical environments would also remove some of the social and economic problems, and that clearance would reduce the threat of the spread of social disease as well as the ugly image of cities. In addition to this, as some argued (Jang S-H, 1989, p.226), the clearance and redevelopment might have offered local governments the opportunity of raising more revenue by selling public land occupied by squatters illegally.

However, people always forgot that those who benefit from the low prices of insecure, low-quality, squatter housing could not afford the secure, improved environment which city planners wanted to create for them. Extremely small amounts of resources were allocated for urban renewal which therefore needed to be carried out by private investment. As a consequence, in the initial years of the urban renewal projects, relatively few downtown projects were initiated.

With respect to housing renewal, by shifting the use of AID loans, which were introduced in 1973 from the Agency for International Development (AID), towards poor housing renewal, the massive clearance policies only began to start after 1976. The dwellers of poor housing could afford to redevelop their housing by using the loan, and the city could invest the loan to build public facilities. But these projects disappeared as the AID loan stopped in 1978. Since then housing renewal has been entrusted to private contractors, the so-called third party development. However, no major results were accomplished under this program because the costs far exceeded the value (Kim J-G, *et al.*, 1991, p.138).

Active urban renewal, especially downtown renewal projects, was initiated just after the second oil price shock in 1979. As seen in Chapter 3, the Korean economy began to be centralized by *Chaebols* since the mid 1970s. The firm's planning requirements and demands for research and development, prediction and control increasingly grew. As firms became larger and more complex, a larger percentage of

their workforces were employed in office jobs. At the same time, banking, accounting and law offices became increasingly important to the big businesses in the enlarged economy. The changing organizational structure stimulated the growth of banking, engineering, accounting and legal services, often called *producer services*¹. It was at this point that the government-led financial sector was being challenged and began to be liberalized, as we have seen in Chapter 3. Although the Korean government still could influence these banks through other means, for instance by influencing the appointment of a bank's chief executive and the like, privatisation was the first step to reduce government power and to increase market forces. As a result, the share of external funds (bank credit and foreign loans) of the corporate businesses with allocations which were *controlled or could have been controlled* by the government shrank to 29.3 per cent in 1980-84 from 56.3 per cent in 1975-79 and 63.7 per cent in 1970-74 (Cho Y-J and D.C.Cole, 1992, p.125; italics, their stress). Since then, the largest *Chaebols* have been more directly interlocked with financial institutions. The commercial banks, insurance companies, and other financial institutions were increasingly able to control the flow and direction of capital in favour of *Chaebols*, and they have become an increasingly important source of *Chaebols'* growth. It was at this point that such services became initiators of the impulses of urban growth and vehicles for it.

The development of transport and telecommunications massively reduced transport costs, which facilitated investment throughout the nation and allowed the physical separation of production and administration. The former pushed its way out of cities, reinforced by the Industrial Distribution Act, while administrative functions were concentrated in higher order cities. The growth of *Chaebols*, and banking, accounting and legal services also induced related office growth in business and professional services, generating explosive demands for offices especially in central cities. These changes have profound consequences for the location of economic activity. Haig (1926), Hoover and Vernon(1959) and Fitch (1993), in studies of New York City, confirmed that such activity tended to agglomerate in the central business districts of a few very large metropolitan areas. Furthermore, Moss and Dunau (1986) show how most financial services firms which relocate their offices within New York keep them in or very near to Manhattan.

Meanwhile, the harvest crisis of 1980 pushed out many unskilled farm workers into cities. As Table 6-6 showed, decreased number of illegal houses were again increased in 1980. For the very unpopular new military Chun regime which came into power through the second military coup in 1980, economic recession was the heaviest burden. The construction industry was seen as the most appropriate industry to absorb these and other unskilled workers at that time of economic recession. Massive inner

city redevelopment programmes were launched which originated from the Seoul Population Dispersed Plan. The original plan was changed by the strong single-minded desire to replace the biggest city's blue collar industries with office economies as the functional nodal centres of the nation and regions.

The renewal of Korea at that time was quite similar with that of Britain in the 1950s and the early 1960s, particularly in city centres, where commercial development replaced former housing and largely small-scale industrial users (Goldsmith, 1880, p.123). Moreover, in all these cases, it was the private sector that made the running. It was the property developers, often called FIRE industry (finance, insurance and real estate industry), many of whom have made vast profits from the commercial redevelopment of city centres (Marriott, 1967, chs. 9 and 14), particularly through the provision of office space (Elkin, 1974, ch.3).

The government encouraged the construction boom as a means to overcome economic recession resulting from the second oil shock. Therefore, the redevelopment of the early 1980s was the combined result of the political circumstance, economic policy of the government and the need for capital and continued capital accumulation of the private sector. These have not always coincided.

With the increasing demand for offices in the central city communicated through the market on the one hand, and, on the other, extremely small amounts of resources allocated for urban renewal, the government entirely relied on private developers. Indeed, over 90 per cent of downtown redevelopment in terms of areas has been carried out by private developers (MOC, 1987, p.888). However, it was impossible for the small firms or individuals to carry out the large downtown redevelopment projects which were left to big businesses. Since then, downtown and housing renewal (which will be discussed later) took a new turn in scale and rate which varied between cities according to their economic structure.

The concentration of the headquarters of the *Chaebols* in Seoul necessarily brought about the most active downtown redevelopment of all cities. Indeed, according to the MOC (Construction Statistical Yearbook, 1992), as of 1991, the completed rate of downtown redevelopment in Seoul since 1976 accounted for about 94 per cent of total downtown redevelopment area in Korean cities (Pusan 1.6 per cent and Daegu 4.3 per cent). For the private developers, all other developments, except high-rise offices, were unprofitable.

However, land was difficult to assemble because of its fragmented nature of ownership and the persistence of small proprietors who survived on family labour and loyal neighbourhoods. Small owners held out for high prices or refused to sell. Private redevelopment without powers of compulsory purchase was often very time

consuming and costly. For the *Chun* regime, the fastest way to show people that something was happening was to build things. The '86 Asian Games and the '88 Olympic Games were often explained in this context. Emphasis was focused on construction jobs, contracts, expanded central city facilities, and prospective rising tax bases. Local business and many white-collar workers were clearly expected to receive a wide range of benefits. The Amendment of the Urban Renewal Act in 1982 gave power of land expropriation to private developers. This was the most important feature of urban renewal. Since then, urban renewal witnessed large-scale land assembly by private developers, and downtown redevelopment became active, as Table 6-7 shows. Downtown land ownership became concentrated in the hands of a few *Chaebols*.

Table 6-7 Status of Downtown Redevelopment (1,000 sq.m).

Year	Total Designated Areas	Completed Areas	On-going Areas	Not yet started areas
1976-81	1,884	66	122	1,695
1985	2,040	207	316	1,517
1990	1,883	417	287	1,179

Note: The present condition at the end of 1981, 1985 and 1990
 Sources: EPB, The 5th Economic and Social Development Fiveyear Plan, 1982-86, p.58 and MOC, Construction Statistical Year-book, 1987 and 1991.

The Korean government believed, without question, that the development projects were beneficial to business interests, benefiting the whole economy and therefore the people. Redevelopment was legitimated on the basis of its macro-economic effects. It was certain that redevelopment projects stimulated new private and public investment, and changed the urban landscape. The hearts of big cities changed into offices and related service activities. These business districts provided the necessary quick and efficient communication between firms and within firms. This was a natural location for markets providing information, capital and expertise, necessary for bureaucratic corporate decision-making in Korea.

Downtown redevelopment raised the productivity of land. This enhanced productivity could be valued in terms of the pre and post clearance land prices. In fact, this resulted in the property boom of the early 1980s. Indeed, in one year, 1982, it was possible to buy and sell land without even occupying that land and still make a profit higher than most could earn in a lifetime. The property boom pushed up house prices and made it increasingly difficult for first-time buyers to break into the ownership market. In 1982, price control was extended to apartments of over 85 sq.m. size.

The Korean government could facilitate public infrastructure without any additional public investment through selling public land in the areas and simply by imposing building codes, construction codes, and planning codes on the private developers. Moreover, the demands upon local governments to balance their books forced them to use public land commercially. Private interest groups persuaded them to use the land for commercial rather than for social purposes under the banner of national economic growth. The private developers could cover the costs of the infrastructure and even public facilities with the increased prices. In this aspect, the Korean government again used the market well in urban renewal, just as with the Land Readjustment Projects.

As Table 6-8 shows, downtown redevelopment served the expansion of the office economy. They did not provide housing, rather they destroyed low-income housing and the livelihood of many of the city's poorer inhabitants. The typical downtown areas of Korea prior to the development were dominated by the urban poor, and their housing consisted of older, lower quality rented units. Many of the people relied on informal trading or manufacturing, and even prostitution. The expansion of the office economy in downtown areas expelled the urban poor and small businesses.

Table 6-8 Land Use in Downtown Redevelopment (1,000 sq.m. and percentages).

Total Areas	Official	Commercial	Official and Commercial	Hotel	Official and Housing
523	188	22	228	46	44
100.0	35.9	4.2	43.6	8.8	8.4

Note: including on-going areas at the end of 1985.
Source: MOC, 1987, p.888

Since the mid 1970s, the biggest cities have exerted more influence on the hierarchy of centres, and on the pattern of service employment growth. However, in the process, the city's low-income households have been pushed out and around to make room for the new activities and they have derived little benefit from the employment that was created. Industrial redistribution and downtown redevelopment contributed to reducing the proportion of informal workers in official statistics as well as to the decline in the share and level of industrial employment in the biggest cities (Kim J-G, Kin K-Y and Son J-Y, 1991, pp.26-33 and Pusan Municipal Government, 1992, p.13). Meantime rapid urbanisation was continuing.

Work by researchers at the British Department of Employment (Robertson, Briggs and Goodchild, 1982) has shown Korea a lesson. The study suggests that one-fifth of jobs in miscellaneous services (low-income jobs, including producer services and some consumer services) are derived from demand in the manufacturing sector

(requoted in Hall, 1991, p.17). The government working in a highly centralized bureaucracy using a "top-down" approach of policy formulation overlooked this fact (see Kim K-S, 1983, pp.64-68). The government believed the movement of the industries, whether they were polluting or informal industries, from the biggest cities and the city centres to other areas would not reduce employment as a whole at the national level, rather the growth of the office economy would increase opportunities. Policy makers ignored regional changes and the labour market readjustments. As many studies have pointed out, lower-income groups had the most difficulty in moving. In addition to this, the evidence from the past suggested that the promotion and the development of new industries in new industrial regions could take some ten to twenty years to have a major effect at a national level - witness the development of *Ulsan* as a shipbuilding and automobile centre since 1962, or the steel industry development of *Phohang* since 1973.

Office expansion in downtown areas drew in more and better-educated people, i.e. white-collar workers. Whereas the low-income blue-collar workers were being gradually replaced. However, because the development of transport has always lagged far behind population growth, a significant result has been increased journey-to-work time and congestion. As Lee K-S (1979, p.135) suggested, "*Presumably American style suburbanisation development with the use of private automobiles could not occur because of the inconvenience of urban transportation, even if there are many private automobiles owned by many middle income families*". Moreover, the designation of the Green Belt constrained the development of suburbs. The combination of the growth of housing demands associated with the increase in downtown employment and the inadequate transport network resulted in explosive demands for houses in those areas most accessible to the city centre. In those areas, private developers have been able to nurture profitably the emerging market for high-rise apartment units for middle-income white-collar workers.

New housing can be provided only at a price which is sufficient to cover the cost of providing it. If the cost of supply is higher than the market will bear, the housing will not be provided unless a subsidy is given to bring the price down to the required level. To some extent, private residential renewal is economically feasible only in areas where there is a significant middle-class demand, precisely demands for owner-occupation. New housing in suburban locations can be provided more cheaply than in inner cities, since land prices are cheaper and no renewal is required. This is the reason for why most housing renewal projects were accomplished in the areas near city centres or near the underground stations or near the main roads despite the fact that housing standards of these areas were better than other poor housing areas

(KNHC, 1993, p.96). It was closely associated with the development of the office economy in the downtown areas.

With respect to poor housing areas, as noted earlier, some illegal houses were being legalized and strong regulations over existing squatter houses were being loosened in the early 1970s. Poor housing areas were quickly incorporated into the formal market. Land prices began to jump. Housing and land prices of the squatter settlements and slums located in the areas accessible to the city centre rose faster than other areas. The increased land prices in poor housing areas benefited some low-income households. It was a blessing for some early immigrants who had built their houses illegally. But it did not benefit low-income tenant households.

Many middle and high-income people were encouraged to look for real estate in squatter settlements and in run-down areas, mainly for investment purposes. Absentee landlords began to increase and in some areas the figure was around 60 per cent. The increase of absentee landlords had a great impact on the poor housing communities. The response of different landlords was inevitably varied. The relationship between the absentee landlords, interested in a house as an investment producing partly rental income and mainly capital gain, and the tenant who looks to the house as his home, was not harmonious. The relationships between landlords and tenants was worsening. Despite the provisions of various Acts in relation to tenures, more families were being harassed and evicted to suit the financial convenience of landlords and a high proportion of poor houses fell into disrepair. Under these circumstances, the government's policy of self-help rehabilitation with a very limited public grant since the mid 1970s was necessarily ineffective.

Since the collapse of the Middle East construction boom in 1979, most construction firms returned, and had to survive, in narrow domestic markets. The difficulties in finding sites for large scale house building were so great that building firms recognized that it was necessary to redevelop poor housing areas at high densities. This was fuelled by the increased demands for better housing in or near the city centre in line with the growth of the office economy.

The interests of white-collar workers, looking for houses near city centres, the interests of the government, macroeconomic concerns and the high-output of housing, the interest of property owners in poor housing areas, capital gains, and the interests of construction firms, utilizing idle facilities and equipment, easily joined, and led to "*Hapdong*" (cooperative or joint) housing renewal since the early 1980s.

Renewal was carried out by a voluntary contract between the associations of property owners and construction firms on the basis of absolute property rights. Tenants had no rights over the renewal process and were totally excluded from the renewal. The construction firms built high-rise apartments (13-15 storey) to house

1.5 and 2 times the number of property owners. The owners each received a unit, and the construction firms sold the remaining units to the holders of the Housing Related Saving Accounts. By selling off the remaining units, the firms recovered their renewal costs. The local governments were in charge of designating areas for housing renewal, approving the projects, and imposing building and planning codes. They provided the redevelopment areas with basic facilities such as roads and sewage systems, financed by selling off public land occupied by squatters to the Association of property owners at appraised prices.

With chronic housing shortages and limited budgets, the government supported the method because the *Hapdong* housing renewal achieved not only the renewal of substandard houses but also quantitative objectives in terms of the number of housing units built without requiring public investment. For instance, throughout the *Hapdong* housing renewal programmes, a total of 37,513 units were constructed between 1983 and 1988 in Seoul, approximately double the number of demolished units - 17,555. Since 1983, the rebuilding rate through housing renewal was about 4 times higher than the annual average for 1974-82, the period before the *Hapdong* housing renewal was introduced (Kim J-G, *et al.*, 1991, p.140).

The costs tended to be higher in redevelopment schemes than on virgin sites because of the demolition costs and further additional costs associated with the length of time taken by clearance and renewal, site preparation and of construction itself. *Hapdong* renewal was inevitably costly and originally unable to meet low-income households' housing needs. Therefore, high-rise flats with dwellings of an average size of about 110 sq.m. were supplied by the renewal programmes replacing the land use from detached houses of low-income households in favour of upper-middle income households. Only less than 10 per cent of the former residents (all of them were former owner-occupiers or landlords) remained after renewal (KNHC, 1988). More had to be spent on maintenance and management in high-rise flats for lifts, insulation, heating, etc. Thus others were excluded, not only because they could not afford the apartments, but also because they could not afford the maintenance and management costs of high-rise and high standard housing (KNHC, 1988).

The replacement of the poor housing by tower blocks of flats clearly destroyed the old "communities" and "neighbourhoods" based on the tradition, often described as that of urban villages. Moreover, in the *Hapdong* renewal areas, the renewal methods necessarily divided the communities into owners and tenants, resulting in the breakdown of communities still further. The intact structure of mutual self-help within neighbourhoods, often highlighted as a proud Korean value and indeed the major source of the success of the Saemaul Movement ("new-village" movement) in the rural areas in the 1970s, broke down.

Downtown redevelopment contributed to stimulate the growth of the central city's office economy, and the *Hapdong* housing renewal played its role in accommodating white-collar workers commuting to the downtown offices. The government supported the *Hapdong* housing renewal for this simple reason.

Low-income households suffered from the squatter clearance, and from the commercial development areas in the ring surrounding the urban centres in the 1960s and the early 1970s. The urban manifestation of economic growth has been the expansion of the central areas which accompanied the development of urban road networks. The low-income households suffered from the development of "new centres" and the development of transportation and public facilities. The low-income households again suffered from the development of the office economy and then from the housing renewal.

The tale of Sanng-e-Dong clearly demonstrates the plight of the low-income groups. Sanng-e-Dong is located in the northeastern part of Seoul. Most of the residents were relocated from the central part of Seoul during the 1960's when urban renewal and site-and services programmes were developed, with 15-19 sq.m of land. When they were forced to settle in this place it was not considered to be part of the plan for the city's growth. In 1985, a major underground line serving the city was extended to Sangge-Dong. Soon after the extension of the underground line, the area was declared a *Hapdong* housing renewal project area displacing the poor once again. This is the tale of an evicted 65 year-old woman from the site (quoted from Kim J-C, 1987, p.3).

"Maybe I lived too long to experience this inhumane treatment. This is my third relocation in 20 years and each time they told me that it was our last settlement for good".

The accumulating consequences were gradual regional segregation and overcrowding with increased rents. Kim W-J's case study (1985) of the *Hapdong* housing renewal in *Guro* and *Daerim* and Cho E. and Cho O-L's study (1987 and 1992) in *Sadang* provide a case in point. These showed that the majority of residents in the renewal areas moved into nearby housing areas which were also physically decayed, but they attracted low-income households in search of cheap housing. Nevertheless, eighty per cent of the displaced households were reported to have experienced rent rises and 40 per cent of them paid higher rents for housing which was worse than before (Kim W-J, 1985). Other costs should be kept in mind. In districts of the inner city, for instance, where the cost of housing is very high per unit, living costs such as transport costs are cheaper than in other places. This is the central theme of the Ecological Model of the city developed by the Chicago school.

The displacement of the low-income households from accommodation near their livelihoods necessarily increased general living costs still further.

Perhaps more importantly, the demolition of the poor housing neighbourhoods reduced the amount of jobs as well as the information about jobs available to the people who once lived there. Most studies on poor housing areas indicate many families were self-employed and this work was dependent on their neighbourhoods. Fewer people were employed for wages than there were in other areas, and the main source of information about jobs was the neighbourhood (Hur S-L, 1989, pp.100-1). Furthermore, incomes were low and insecure and in order to supplement the househead's meagre income, all the family worked if they could. Because of their fluctuating earnings, indebtedness to relatives, friends, neighbours and shopkeepers was very common in poor housing areas. Borrowing was common and often the only way to maintain a minimum level of consumption. Housing renewal of poor housing areas were accompanied by the replacement of corner-shops, street shops, and informal workers such as peddlers and hawkers by modern super-chain stores with high standards, dismantling existing neighbourhoods.

As the city's demand for unskilled labour declined, inner city redevelopment accelerated the decline of the informal (or traditional) sector and miscellaneous jobs, and then housing renewal reinforced the trends. Urban renewal did little to provide new employment for its growing pool of poor in-migrants, except for temporary construction jobs. Small businesses were increasingly displaced by urban renewal and by the sequent increases in land prices. Low-income housing markets and low-income labour markets tightened. To make matters worse, the baby boom generation (1955-60) was entering into the housing and labour markets.

Not surprisingly, opposition to urban renewal came from the tenants, particularly the low-income households, who were excluded from its benefits. This led to tenant strikes against the government, and many conflicts between tenants and property owners during the mid 1980s. Strong sentiments were expressed by the public through the Mokdong Struggle in 1984 and Sangge-Dong struggle in which one of the tenants died (some argue, "killed") on 26 of June, 1986 (Kim H-K, 1989, p.241). Tenants' groups were formed in many urban redevelopment and housing renewal areas, with organized protests. The strong resistance from tenants increased the costs of renewal. Since the mid 1980s, policy towards poor housing shifted towards encouraging community involvement and neighbourhood revitalization on the basis of self-help improvement partly because academics stressed the functional virtues of poor housing and the negative effects of the renewal, but mainly because of the climate of public outrage against the housing renewal.

In 1989, the Korean government announced the construction of 250,000 units of permanent rented houses for the urban poor over a period of five years, which will be discussed in detail in Chapter 7. But in order to recover the costs of the permanent rented houses, housing prices for sale had to be raised, shifting from a price control towards a cost-linking system. In May of 1989, the government also imposed the construction of small rented units for displaced tenants in the housing renewal projects as a requirement of all *Hapdong* housing renewals. The requirement of rented units drove down profits for both property owners and construction firms (Kim J-G *et al.*, 1991, p.141). The boom of the *Hapdong* renewal soon cooled.

However, the continuing increases in land and housing prices increasingly removed such a valuation gap, the difference between the costs of rebuilding an older property, including rented units, and the increase in its market value. Moreover, expansion of the cities rapidly increased suburban living costs. Since then housing renewal began to develop in a different way. Property owners began to demand the government carry out housing renewal. The government answered in 1992 by deleting the urban redevelopment code which ruled that "*housing renewal projects can be carried out in a area in which most houses were over 20 years old*". Since then, there has been a second boom of *Hapdong* renewal, which at least in part reflects the cost of suburban living.

It is unclear precisely how many poor houses have been demolished or cleared, or converted into other uses in cities over the past three decades. However, the amount of housing loss was equivalent to about over 30 per cent of new housing construction each year, most of which were poor houses. In this process, those who could afford to pay had the widest possible choice in living conditions and locations, whilst the poor had to find shelters where they were able to pay in the areas where no one else had chosen to live. The displaced low-income households, who could not get access to cheaper decent new housing had to share through subdivision. Displaced households concentrated on other older and detached houses. Many of these have subsequently been demolished or converted.

Table 6-9 indicates these general trends. The number of households who exclusively used a house, whether for owner occupation or rent, had declined until 1980, thereafter increasing in line with the housing supply rate (housing units/households). Whereas households sharing with over three other households in a house have steadily increased over time, especially since 1980. Housing conditions of many households, in terms of overcrowding and privacy, have improved. However, housing conditions of others have deteriorated over time despite rapid economic growth and high housing output.

Table 6-9
Number of Households per Housing Unit.
(in cities, 1,000 households, percentages in brackets)

Year	Total Households	One household	Two households	Three households	Over three households	Housing supply rates
1970	1,398 (100.0)	771 (55.1)	372 (26.6)	152 (10.9)	102 (7.3)	58.8 %
1975	1,809 (100.0)	933 (51.6)	517 (28.6)	209 (11.6)	151 (8.3)	56.9 %
1980	2,468 (100.0)	1,261 (51.1)	698 (28.3)	290 (11.7)	219 (8.9)	56.6 %
1985	3,349 (100.0)	1,801 (53.8)	826 (24.7)	395 (11.8)	327 (9.7)	58.0 %
1990	4,646 (100.0)	2,882 (62.0)	831 (17.9)	445 (9.6)	488 (10.5)	65.6 %

Sources: EPB and NSO, Population and Housing Census, each year.

6.5. Summary and Conclusions.

Wartime destruction, rapid population and urban growth, etc., all contributed to a major and consistent crisis of housing scarcity in Korea. Nevertheless, for the sake of continuing industrialisation, housing had to be insulated from the rest of the economy. The Korean government had been weighed down by heavy defence costs and its ability to produce a lot of housing quickly was reduced. It was necessary in some way or other to harvest a lot of small savings from large numbers of households and to invest this money in housing. The Korean government perfected unique and original ways of doing this by developing a self-sustaining housing financial system which connected household savings with the allocation of new houses. It made house purchasers pay part of the price in advance by providing incentives, using the money for housing construction. This method was the reverse of a mortgage in which households pay the price after purchase.

However, such an approach inevitably excluded families who were too poor to save significant sums of money, unless other additional methods are devised for financing their housing or the benefits of continuing economic growth fully trickle down. This will remain the case. Moreover, under the rapid and sustained housing price inflation, the pre-exclusion from these privileged markets meant post-exclusion from other life chances of capital gains for the poor. However, the government perfected methods for presenting the middle income groups, who have been the main beneficiaries of such schemes, from gaining significantly from its low-price housing schemes. In effect, the government created a protected, self-sustaining sub-market for

the financing of housing built on a massive scale for middle and moderate income groups. But to make this system work it was necessary to maintain a continuing flow of small savings at low interest rates which could only be secured by permitting a rate of house price inflation which would ultimately make growing difficulties both for the system and increasingly for the lower middle-income households. Moreover, in this system, the main element which sustains the system was the scarcity of housing. Thus, chronic shortage of housing in Korea is an inherent element in the system.

Policy towards poor housing during the 1960s and the first half of the 1970s, was motivated by two factors; the first was a land use or land value problem, that is to say the adverse impact of poor housing on productive activity in the city centre or near the main roads. Secondly, the adverse impact of poor housing on society, such as the great fire, flood and landslides accompanied by the loss of life. However, since the late 1970s, policies for poor housing were motivated by the economic crisis of Korea in the pursuit of private investment and development. The dangers inherent in this downtown and housing renewal since the late 1970s were the scale and pace of the clearance which were determined not by the number of unfit houses and their function, but by the demands of businesses and middle-income households. Those with financial resources could change the poor housing areas. Those who could not afford the high prices of renewed areas and the housing related savings have been excluded from their existing houses and new housing markets.

The evidence from the Inner Area Studies (Inner City Working Group, 1977, p.9) in Britain in the middle 1970s stressed the importance of employment opportunities and levels of income as primary causes of urban problems, which are related to major structural changes in the economy. Nevertheless, the Korean government, rather Korean society, ignored the functional need for low-cost housing for low-income households in the period of the structural changes in the economy and relied on the unrealized myth of "filtering effects" with no social housing for those who suffered from the changing industrial and social structure.

During the 1960s and the early 1970s, clearances were accomplished with some alternatives, such as relocation plots or the citizens' flats. The main problem was always the lack of resources. However, since the late 1970s, clearances have been carried out and no measures to provide for the displaced were put in place. Large-scale downtown and housing renewal increasingly widened the choice of middle- and upper-income households. By contrast, for low-income households, the choice available in terms of the style of houses, their form of tenure, and their price was increasingly diminished. The problems in poor housing areas have often been tackled by arranging "over-spill" to adjacent areas. However, in Korea, the main problems in

poor housing areas are due to spill-over by high-rise office building and high-rise flats for middle-income groups.

As a consequence, low-income households have been increasingly excluded from benefiting from the housing system. They have been concentrated on the peripheral areas in the worst environments. Another market adjustment of the low-income households who have been excluded from the allocation of new housing and excluded from benefiting from price increases in the housing market was to share accommodation. For the low income households, new immigrants, the aged and families under stress, urban renewal was one big "notice to quit".

Unfortunately, the worst things are likely to come together at the same time. When Korea moved to a "closed" structure, new housing schemes based on the assumption of "filtering up" developed. Meantime existing low income houses were demolished more rapidly than ever before.

Note.

- ¹. Marshall *et al.* (1988) subdivide producer services, showing different shapes of development and location. Firstly, there are "pure" producer services such as advertising services, management consultants, investment banking services etc which show internalize rather than externalize consumption. Second, there are producer services generated by organizations solely for their own internal use, such as R & D. Thirdly, some producer services are generated firms dealing with final as well as intermediate demand, such as commercial banking, accountants, architectural services etc which are usually classified as "mixed" services (recited from Daniels, 1991, p.76). These producer services differ from other "consumer services" in their location. The latter are closely correlated with the distribution of population both within and between urban areas .

CHAPTER 7. LOW-INCOME HOUSEHOLDS IN CHANGING HOUSING MARKETS AND THE FILTERING PROCESS.

7.1 Introduction.

The first half of the previous chapter discussed the Korean housing system focusing upon new housing supply, finance and allocation. This contained two assumptions, firstly that both households and the state could continually spend more on housing with rising national income and secondly that benefits would be transmitted to the bottom income groups via the combination of trickle down and filtering up processes. However, the system has increasingly excluded families who were too poor to save. In contrast to this, it was observed that many houses had been improved through urban renewal at the expense of low income households. The evidence from the last chapter showed that a complex combination of economic, social and political circumstances led to a particular set of policies.

In this chapter, the issues dealt with are the housing market and the exclusion of low-income households from it. At a first glance, housing markets seem to be similar to other commodity markets. Less than 7 per cent of the total housing stock is traded each year under the government control. Beyond the operation of the market, the nature of tenure has become an increasingly important aspect of life chances in Korea. This is partly because of the question of equity in housing, the relative costs and advantages offered by different tenures. There is little doubt that one of the main sources of inequality in life chances in Korea lies in the difference of tenure. Nevertheless, for a large section of the population, no choice exists between them.

The first question in this chapter is whether the housing market is any different from any other commodity market in a mixed economy in which invisible hands principally rule the market? In other words, are housing problems of low income households simply a symptom of low incomes? Or do they have special features not present in other markets?

There are certainly a number of ways in which housing, the national economy and the society are connected. Housing problems arise from a variety of circumstances and time and poor housing conditions affect people in different ways. If so, does the housing market only reflect the changing economic, social and political circumstances, or mediate such changes? How are they connected with each other?

This chapter explores the connections between housing and the economy, society and politics. By examining these questions, further development in the housing market may be predicted.

7.2 The Exclusion of Low-income Households from Access to Owner-occupation.

The housing market in Korea is divided into two major tenures, owner-occupation and renting. There is no public housing that is supplied, allocated and managed on the basis of needs. Therefore, the rise and fall of one sector is the fall and rise of the other. The basic problem for the housing market in Korea is that housing is too expensive relative to earnings of most households.

Unfortunately there is no available data to cover the period 1960-90. Although the Korean Housing Bank has carried out a house price survey since 1985, in fact it is no more than an indicator of trends due to rapid changes in house prices which are often observed in a week. Several studies and surveys have shown that the rise in the cost of housing has far exceeded that of wages and consumer prices, as the Table below shows. For another example, house prices increased by 6.5 times between 1975 and 1990, while the increase in GNP and in consumer prices was 3.5 and 4.1 respectively (Lee K-B and Yang B-M, 1992, p.23)

Table 7-1 Indexes of House Prices, Wages and Consumer Prices (1965-80)

	Housing prices	Urban wages	Consumer prices
1965	100	100	100
1970	379	339	178
1975	1,108	763	364
1980	3,936	2,847	805
Average annual increase rates	27.7 %	25.0 %	14.9 %

Source: The Bank of Korea (requoted from Kang M-S and Kim J-W, *The Present and Development Direction of Housing Finance*, Seoul: KDI, 1987, p.147).

Average house price-to-income ratio was 2.3 in 1976 (KHB, Housing Finance Bi-monthly Review, 1991). As the Table below shows, it rose to 6.9 in 1989, and rose to 9.25 in 1991 in Seoul (Renaud, 1993, p.305).

Table 7-2 Average House Price to Household Income Ratio in Sample Houses and Households, 1989.

	Owners	Tenants	Whole household
Seoul	7.9	9.2	8.4
6 biggest cities	5.7	7.6	6.3
Other cities	5.6	6.9	6.0
Average	6.5	7.9	6.9

Sources: KHB, Housing Economical Data-book, 1990.

In most other commodity markets in the long run, rising real incomes are reflected in falling relative prices. As society has become wealthier, so people's incomes have outpaced commodity prices and they have been able to purchase more goods for the same number of hours worked. This has not happened with housing. As Professor Donnison (1982, p.210), Ball (1983, p.98), Saunders (1990, p.121) and the World Bank Report (1992, p.20) show, there is little systematic variation in the house-price-to-income ratio with the level of economic development over time. There appears to be a more stable connection between incomes and house prices in the long run (Lansley, 1979, p.61).

Various explanations have been put forward (see Mayers, 1979; Nellis and Longbottom, 1981; Buckley and Ermisch, 1982; Hendry, 1984; Meen, 1990; etc). In these studies, income is almost always a highly important determinant. However, besides the existence of mortgage markets in their equations and different circumstances (for instance housing surplus in their studies and housing shortages in Korea in absolute terms), the house prices of Korea which increased even during the period of declining real income cannot be explained by these econometric models (Hur J-W, 1991). Surprisingly, there has been little detailed analysis of this phenomenon in Korea. Some studies focus on the nature of demand for housing, others on the characteristics of supply. Neither factor on its own, however, can fully explain why house prices have risen steadily and at a faster rate than other prices.

First, there was a great demographic impact. According to the Population and Housing Census, between 1960 and 1990, the population of Korea grew from 25 million to 43 million, equivalent to about a 2 per cent increase per annum. Moreover, the population increase in cities was more dramatic than the average. It grew from about 7 million to around 32 million, equivalent to a 5.2 per cent increase per year. The growth of households in cities was even more striking than that of population. In 1960, the number of households in cities was approximately 1.3 million. By 1990 it had reached a figure of around 8.5 million, equivalent to a 6.6 per cent increase per year.

During this period, in Korea, there was a large increase in real and money incomes. Rapid economic growth over three decades certainly contributed to the increase in household incomes, although it was unevenly distributed. Households often contained more than one earner; average earners per household in cities were 1.16 persons in 1981 and grew to 1.39 in 1990 (NSO, each year). As a consequence of these factors, household income rose by 1491.4 per cent between 1971 and 1987 while the index of retail prices rose by 591.6 per cent during the same period (EPB, Annual Report on the Family Income and Expenditure Survey, and Major Statistics of the Korean Economy). This added to the bidding up of house prices.

Income may not be of major importance in the determination of house prices in the short run, since its role is outweighed by the greater significance of other factors such as credits, the ease of entry, etc. In a free market, the most important factor determining demand in the short term is the availability of mortgage finance (Lansley, 1979, p.50). Rising real incomes on their own would not produce rising house prices unless buyers could borrow more money on the strength of their incomes to finance their purchases (Holmans, 1987, pp.263-4). Indeed, most economic forecasting models strongly suggest that conditions in the mortgage market are of crucial importance to the housing market (see Meen, 1988 and 1990). In Korea, there has been no mortgage market. However, it is certain that a lump sum deposit in the *Chunsei* system (rental system) of Korea (which will be discussed later) has operated as a secured mortgage. Rental markets in Korea have been very competitive. There has been increased effective demands, translating into inflated prices. The inflated prices in turn required more borrowing, pushing up *Chunsei*. The increase in the *Chunsei* again served to boost owner-occupation, increasing the demand for housing, and therefore house prices, and rents, and so on (see Weibull, 1983). The *Chunsei* system is the means by which rising real incomes are transmitted into rising real house prices, but may be not the cause of it.

In addition, the strong desire for owner-occupation pushes the prices higher than otherwise might be expected, since housing is the best investment option in Korea. (This will be discussed in detail later).

The response of supply is of particular interest. In Britain new construction usually represents less than 2 per cent of the stock each year (Robinson, 1979, p.21, Ball, 1983, p.315 and Laver, 1986, p.180). In Korea, the rate of new housing construction in relation to the existing housing stock has been very high. Over the same period the rate of housing losses has also been very high. As a result, the number of net gains was not so high compared with the increase of households. During the period 1960-1990, over 5.8 million housing units were supplied, whereas approximately 37 per cent of that figure disappeared through demolitions or conversions, thereby increasing the housing stock by 3.7 million units (a 2.5 per cent annual increase). This was far below the growth rate of households, which was approximately 3.2 per cent per year. In cities, households increased at an annual rate of 6.6 per cent whereas new dwellings were added at a rate of 6.1 per cent each year. This is enormous compared with other countries. However, as a way of measuring housing shortages, the ratio of housing units to households which was 65 per cent in cities in 1960 had fallen to 61 per cent in 1990 because the number of new houses did not keep pace with the rise in the number of households, resulting in increased housing shortages. This relative

inelasticity in the supply of housing suggests that any increase in the demand for owner-occupied housing has been reflected principally in higher house prices.

Other explanations for the trends of house price increases has been the improvement in the quality of houses. The quality of TV sets and cars have improved as well, but their prices have fallen in relative terms. With regards to the quality of houses, the most important factor may be the increase in housing size. However, as Table 7-3 shows, house size in new housing construction has not increased in line with that of house prices. Therefore, it is unlikely that the increase in quality is sufficient to account for the full relative increase in house prices.

Table 7-3 Average Size in New Houses, sq. m.

	1981	1982	1983	1984	1985	1986	1987	1988	1989
Public sector	46.3	51.6	55.9	61.2	63.1	47.9	47.3	n.a.	n.a.
Private sector	92.9	106.5	122.3	125.6	128.9	102.5	117.4	n.a.	n.a.
Average	68.8	86.9	96.2	92.6	90.6	78.0	88.6	91.9	102.4

Source: Department of Housing Policy, MOC.

Other explanations refer to the slower rate of increase in productivity in house building than in the economy as a whole. As we have seen in Chapter 6, although productivity in house building was lower than in manufacturing, it was still very high in comparison with other countries.

Another factor is that higher house prices reflected steady increases in construction costs. Construction costs can be roughly subdivided into building costs and land costs. As the Table below shows, it is likely that house price increases are closely related to the trends of construction costs in the long term. However, the rise in house prices cannot be explained by construction cost alone.

Table 7-4 Indexes of Housing Construction Costs and House Prices.

	Housing Prices	Construction Costs (A=B+C)	Building Costs (B)	Land costs (C)	Share of (B) in (A)	Share of (C) in (A)
1975	100	n.a	n.a	n.a	n.a	n.a
1977	n.a	100	100	100	-	-
1980	355.3	205.4	201.7	217.1	0.758	0.242
1983	358.7	262.4	251.3	298.5	0.765	0.235
1985	397.0	291.7	264.2	363.6	0.723	0.277
1987	400.8	328.7	278.2	451.3	0.708	0.292
1988	466.5	380.0	290.3	579.6	0.690	0.310

Note: n.a, not available.

Sources: Commission on the Public Concept of Land Ownership, 1989 and KHB, 1992, p.154.

Additionally, many new houses were built after demolition of old houses, so the demolition costs added to house prices. According to KRIHS's study of housing renewal in 1982, house prices increased between 2 and 3 times after clearance and renewal. The study suggests that this was partly because of the improved quality, but mainly because of the transfer of demolition costs to house prices(1982, p.269)

To a great extent, continuing and periodic housing inflation is explained by the nature of capitalism. For instance, as Ball (1983, p.18) suggests, periods of rapid house price inflation have their origins in the attempts of housebuilders to raise their profits and to minimize the conversion of land development gain into land rent appropriated by others. In Korea, as we have seen in the previous Chapters, prices in new houses are set by the government and most land developments are carried out by the public sector. This argument may therefore be difficult to confirm in Korea.

A plausible explanation lies with tax policy. During the last three decades, the government has tried to balance increases in gains from wealth and income, and reduce general price increases through the control of interest rates, rent controls on office building and factories, and so on. However, housing, except new houses, and existing developed residential land has always avoided this policy. This has attracted speculative money to housing and the developed residential land, pushing house prices up still further. Lee S-K's (1985) study concerned with the relative returns to housing and competing assets with a non-neutral tax system particularly under inflationary conditions, concluded that tax non-neutrality would lead to a rise in the relative return to housing and consequently to an increase in the price of housing (see Hendershott and Hu, 1981; Ebrill and Possen, 1982; Kau and Keenan, 1983).

However, the main reason for recent trends in house prices is likely to lie in the Korean housing system and the government's policies. As we have seen in Chapters 5 and 6, the government has promoted very rapid development of housing without large investment of public funds. The government has created a mass market for owner-occupation, financed by personal savings attracted by the hope of speculative gains. This gave the government a reason to permit continuing increases in land values and house prices which kept the flow of household savings moving.

Housing output could be sustained by the injection of new personal savings. Moreover, there are few leakages of personal savings out of the housing market, not only because housing has been the best investment option, but also because there have been no alternative investment options for ordinary households. Thus, a large number of transactions can be financed at progressively higher price levels by the multiple effects of personal saving injections as a result of household income growth, despite quite small injections of new funds from public and formal financial institutions. Furthermore, when new injection of funds from personal savings into the housing

market was declining during a recession period while a huge amount of capital in the curb market was idle, the government used this capital to sustain high housing output. The curb market has played an important role in channelling savings into the business sector. As Michell (1988, p.68) underlines "*The government-controlled network was so closely geared to investment and export credits that any other need could only be satisfied by the curb market loans*". The exact size of the curb market was hard to determine. For instance, in accordance with the August 3rd Emergency Measure of 1982, the reported size of this informal market at the time was equivalent to almost 90 per cent of the total money supply, or 33 per cent of deposit banks' loans outstanding (Sakong Il, 1993, p.72). This gave the government motives for permitting them to flow into the housing market speculatively. When the economy turned towards growth, personal savings, in turn, were injected into the housing market. In order to direct the flow of capital into industrial investments, the government launched anti-speculation measures. Thus, house prices in Korea increased even during the period of declining demand.

In contrast to the rapid increase in house prices, formal supplies of housing finance, especially for the consumer, lagged far behind (KRIHS, 1990.12, pp.82-113). At national level, for instance, according to the Bank of Korea (National Account) and the KHB (Housing Finance), formal housing finance including both loans for suppliers and consumers accounted for about 30 per cent of housing investment between 1977 and 1990. This means that about 70 per cent of housing finance was provided by individual households or by informal finance.

One of the by-products of the lack of formal finance for owner-occupation has been a high rate of residential mobility. The percentage of households moving per year in Seoul in 1982 was 43.3, whereas in Bangkok between 1980 and 1986, Greater London between 1986 and 1987 and Paris in 1984 these figure were 19.2, 13.5 and 10.1 respectively (Strassmann, 1991, p.765). In Korea, when a couple start their own household, the tenure of their house depends on the wealth of the family. Some couples from wealthy families start their own families owning their own home, while couples from low-income families start renting on a monthly basis. When those who rent have accumulated a certain lump sum of money, they generally move to *Chunsei* houses. To hedge against inflation, they build up their key money in successive moves from being a tenant using part of a house toward becoming an exclusive user, and then trade up as an owner, possibly with *chunsei* money by letting part of the house. Finally, they become an exclusive user of their own house. This process is a major contributory factor with rapid urbanisation to the high rate of residential mobility. Table 7-5 shows the part played by general housing finance in the consumption of Korean households in this process.

Table 7-5 The Source of Funds for *Chunsei* Deposits and House Purchase, 1989.

	Part- <i>Chunsei</i>	Exclusive <i>Chunsei</i>	First-time Buyer	Second-time Buyer
From former housing sale.	7.2	16.3	-	66.8
From former <i>Chunsei</i> deposits.	43.9	29.4	18.3	-
Their own savings.	32.9	36.5	42.8	14.9
From other property sale.	1.0	0.5	7.3	2.5
Loans from formal financial institutions.	1.3	1.0	9.8	6.2
Loans from the employer.	-	-	0.8	0.2
Loans from curb-markets.	1.4	1.4	3.2	2.0
Deposits from letting part of their place (or house).	1.6	3.8	5.6	5.0
Assistances from family.	9.1	7.7	9.1	2.2
Others.	1.6	3.7	2.6	0.5
Total	100.0%	100.0%	100.0%	100.0%

Source: MOC, 1989, pp.19-20, reconstructed from table 3-1 and 3-2.

The above Table suggests several things. First, the main source of housing finance for most households is their own savings. The Citizens National Bank's survey of Actual Household Financial Use Conditions in 1991 shows the main purpose of savings in ordinary households is related to housing consumption, including purchase, repair and upward mobility. The high rate of domestic savings in Korea (35.5 per cent of GNP in 1990) on the one hand can be powerfully explained by the deficit of housing finance which has forced people to save (Song B-N, 1990, p.149). On the other hand, low-income households or large families who spend all their earnings to meet necessities have difficulty in improving their shelter conditions over time.

Table 7-6 Purpose of Household Savings.

Total	For housing	For children's education & marriage	Prepare for sudden needs	For retirement	To repay debts	For leisure	Others
100.0 %	34.3	30.3	21.8	10.5	1.9	0.4	1.0

Source: The Citizens National Bank, Survey of Actual Household Finance Use Conditions, 1991.

Secondly, the role of the family in housing consumption is more important than that of formal financial institutions. As noted earlier, a couple start their own household in a separated house from their family. At this point, *Chunsei* deposits or purchasing money (in rare cases) is generally provided by the parents or other family members. In Korea, it is a responsibility of the family to prepare accommodation for a new couple. As soon as a couple move from their parents' house they begin to save

in order to improve their housing conditions and to prepare for a move to a better *Chunsei* house. Parents or other family members help them in this process. The aim is to become an owner-occupier. After a couple own a home, assistance from their family rapidly declines as Table 7-5 showed. For many low-income households housing conditions were improved by this process based on strong family ties during the 1960s and the 1970s. However, as we have seen in Chapters 3 and 4, low income households have increasingly had to help other low income households, becoming lower-income households in the process. They were increasingly squeezed out of opportunities for owner-occupation and a decent home.

Thirdly, formal financial institutions account for less than 10 per cent of the finance for housing consumption in Korea. The operation of formal financial institutions in Korea is of particular interest. Most housing consumption loans from the formal financial institutions require certain amounts of savings over certain periods or some securities before a loan will be given. Low-income households or large families who are unable to save to meet these requirements are excluded from the loans. Table 7-7 shows that most housing loans have been allocated to upper-middle-income households who could repay without defaults or arrears.

Table 7-7 Average Monthly Household Income of Housing Loan Borrowers, in Comparison with Average Urban Household Income.

	1974	1976	1979	1982	1985	1988
Loan supported households	£66.6	£99.3	£208.6	£367.5	£495.0	£618.3
All urban households	£44.8	£80.0	£176.3	£264.2	£359.2	£547.5

Sources: KHB, Survey of Housing Loan Users, 1978,1979, and Survey of Actual Conditions of Loan supported Housing, 1982, 1985, 1988.

However, high income households have also been excluded from the allocation of housing loans from the Korean Housing Bank and the National Housing Funds by the conditions imposed on borrowers as a guide line. Housing loans have been confined to housing of less than 330 sq.m. in plot size and less than 100 sq.m. in floor area (KHB, 1990)

Under this regime of limited housing finance, rapid increases in housing prices gradually eroded effective demand. As seen in Figure 5 in Chapter 5, ownership rates gradually declined over time, despite the increases in housing supply rates. Capital gains were therefore concentrated in the hands of a declining portion of the population. Housing has become a visible cause of inequality over time. This led the government to launch a price-ceiling system and housing related saving schemes, with the twin aims of raising funds for housing and redistribution of wealth. However, it was not originally intended to benefit low-income households.

Minimum lump-sum deposits and monthly saving amounts by which the depositors were entitled to the preferential purchase rights of new housing units at controlled prices after certain periods were Won 2,000,000 (about £1,667) in the HSTD and Won 20,000 (about £16.7) in the NHSSD in 1978 respectively (see Table 6-2 in Chapter 6). The Ministry of Construction's '78 *Survey of Actual Living Conditions (Urban Tenants)* showed that those households with monthly savings below Won 20,000 accounted for 67.4 per cent of urban tenant households, as Table 7-8 shows. Therefore, the beneficiaries of public sector housing were only 32.6 per cent of urban tenant households. These were mostly better-off tenant households. In 1978, the survey also showed that those households who had saved over Won 2,000,000 (about £1,667) accounted for only 11 per cent of the total urban tenant households. Even in 1988, when about 50 per cent of households in Korea had less than Won 2,000,000 of monetary assets (Kwon S-W, *et al.*, 1992, p.174), a lump sum deposit of Won 2,000,000 for the allocation of the smallest private sector housing was beyond the reach of many moderate-income households. As a result, the government created the HISD in 1989. This entitles those who accumulate a specified amount of monthly instalments during a specified period, instead of a lump sum, to have priority in purchasing private sector housing.

Table 7-8 Monthly Saving Amounts and Proportion of Urban Tenant Households, 1978.
(Korean Won)

	Total	No savings	below 10,000	10,000 - 20,000	Over 20,000
Proportions(%)	100	24.9	27.4	15.1	32.7

Source: MOC, '78 Survey of Actual Living Conditions (Urban tenants), Seoul: KHB, 1979, p.12.

Table 7-9 Accumulated Saving Amounts and Proportion of Urban Tenant Households, 1978.
(Korean 1,000 Won)

Total	No savings	Below 500	500 -1,000	1,000-2,000	2,000-5,000	Over 5,000
100 %	32.1	17.8	22.7	16.4	9.1	1.9

Source: Ibid, p.18.

Increasing number of people could have benefits from this scheme. However, housing supply lagged far behind the increase in urban households. Moreover, social mobility began to decline through the restructuring of the Korean economy. Meanwhile housing prices and rents continued to rise. The possibility for enjoying the capital gains narrowed. To make matters worse, economic crisis and high inflation in the early 1980s sharply reduced effective demands, especially in salaried and waged workers. This circumstance can be clearly understood by looking at the housing market of the early 1980s in which the supply of small houses exceeded the

demand resulting in many unsold small houses, conversely the supply of large houses could not keep up with the demand for them (Modern Housing, 1993, p.39). This led the government to launch another program, called *Janggi Imdai Jutack* (long-term rented housing in English), which leased housing for five years with the option to buy. This took pressure off house prices for a period of five years. The *Janggi Imdai Jutack* program started in 1982 with the launch of the Plan for Supporting Rented Housing. These houses were let at lower rents than market rents. As the Table below shows, although the benefits differed from city to city, tenants in these rented houses paid less than other tenants.

Table 7-10 The Benefits of the *Janggi Imdai Jutack* Built by the KNHC.

City	Seoul	Big cities	Small and Medium
Estimated Market Rents (A)	£133	£123	£71
Public Rents (B)	£101	£83	£58
B / A	75.9%	67.5%	81.7%

Source: MOC, 1989, p.77.

However, these rented houses were allocated according to the housing related saving scheme. Consequently, as Table 7-11 shows, average household income in them was higher than that of other tenants but lower than in the owner-occupation sector. A striking figure is that local governments provided rented houses for higher income households than the KNHC, a quasi-public organisation.

Table 7-11 Comparison of Household Incomes by Sectors, 1989.

All households		Households in rented houses leased with option to buy		
Owners	Tenants	Supplied by KNHC	Local Governments	Private
£615	£418	£437	£475	£553

Source: MOC, A Study on the Effects of Public Housing Projects, Seoul: KRIHS, 1989, p.42.

Thanks to continuous economic growth, most moderate- and middle-income households were able to purchase the rented houses within five years. Frequently the tenants in the *Janggi Imdai Jutack* demanded the opportunity to buy them before the five years were completed because under the climate of rapidly increasing housing prices the earlier a household could purchase a house the more they could gain. There were no reasons for the government or the supplier to oppose such demands. Most of the rented houses were sold after 1 or 2 years of the lease.

The supply of new houses, including the rented houses with option to buy, still lagged far behind the increases in the number of households, and house prices

continued to increase. More and more moderate and middle-income households were excluded from enjoying windfall gains. According to Korea Housing Bank Surveys, in 1982, the average period of time that a household would take to become an owner occupier after marriage was 5.9 years. This was extended to 7.8 years in the 1988 survey.

As we have seen in Chapter 6, it was generally higher income tenant households who joined the housing related saving schemes for private sector housing, such as HSTD or HISD. The lower income households joined the NHSSD for the public sector housing. In fact, a survey (KHB, 1992a, p.88) showed that average household monthly income in HSTD was about £967, about £825 in HISD and about £775 in NHSSD. Households with lower incomes, of course, were not able to benefit from the windfall gains. In 1992 the earnings of the bottom 30 per cent of urban households was below £775 per month. Amongst those who joined the housing related saving schemes, the lower income households could only join accounts which entitled them to a preferential purchase right to small houses of 40 sq.m. or less in size. Thus, in Korea, owner-occupied housing sizes are closely correlated with household income, rather than family cycle. Indeed, a recent study shows that the correlation between housing size and household income was 0.96 in 1989 in the houses supplied by the KNHC.

In terms of the housing size supplied, as seen in Table 7-3, the average size of new houses built by even the public sector has been over 45 sq.m. For example, the KNHC, which has supplied over 60 per cent of total public housing, supplied 549,139 housing units between 1977 and 1990. Of this figure only 80,023 or 14.6 per cent of the supply were houses of 40 sq.m. or less in size.

The rapid increase in housing prices and the shortfall in housing resulted in many moderate and middle-income households seeking accommodation in the rented sector. Indeed, the number of households who joined the housing related saving schemes grew over time to 2,923,945 households in 1990 (HSTD; 939,582 households, HISD; 537,500 households, and NHSSD; 1,446,863 households). This was equivalent to about 34.5 per cent of urban households, or 59.1 per cent of urban tenant households (KHB, Housing Economic Statistical Year-Book, various issues and NSO, Population and Housing Census, 1990). They were waiting in a long queue for allocation (precisely a privileged purchase) of new housing at a controlled price. However, the number of housing units being sold under these schemes average only two hundred thousand a year, whereas the number of account holders was increasing rapidly as were housing prices. Consequently, the competition for acquiring a house was very severe and the difference between owner-occupiers and tenants, especially in *Chunsei*, in terms of income is gradually converging over time, as Table 7-12

shows. This factor explains why the Korean government changed housing policy from a consumption-oriented policy into a supply-oriented policy from 1989 onwards, resulting in a rapid increase in housing output.

Table 7-12 Household Income by Tenures, as percent of owner occupiers' incomes.

Year	Household Income On Average	Owner- occupation	<i>Chunsei</i>	<i>Woelsei</i> with some <i>Chunsei</i> deposits.	<i>Sakwolsei</i>	Pure <i>Wolsei</i>
1983	£303	£380 (100.0)	69.9	61.7	52.0	56.5
1985	£359	£453 (100.0)	71.3	62.8	48.8	48.0
1987	£468	£579 (100.0)	71.4	63.8	53.4	55.2
1989	£671	£821 (100.0)	71.6	62.3	63.2	57.9
1990	£786	£951 (100.0)	73.6	65.2	64.6	51.9

Sources: NSO, Annual Report on the Urban Family Income and Expenditure Survey, each year.

Under these institutional and market arrangements, on the one hand, low income households will never be able to take part in owner-occupied markets without increasing their wages more than the increases in house prices. On the other hand, once a household falls into low-income group, these arrangements make it increasingly difficult for them to gain access to owner-occupation.

7.3 Changing Rental Markets.

As we have seen earlier, it is clear that buying a house is not a feasible option for the majority of existing tenants in Korea and that social stratification increasingly determines tenure divisions. The rental sector combines the role of "first step" in the housing life-cycle for young households who have difficulty in paying for owner-occupation with a "last refuge" role for other households who will never be able to afford owner-occupation. Therefore, tenants are either those who are unable to afford owner-occupation or those who are waiting for the allocation of new apartments in the Housing Related Saving Schemes (Ko Chul, Jin J-S and Park J-T, 1992, p.22).

Basically, the rental system in Korea is fairly simple. The transactions between landlord and tenant are not different from any other commodity transaction. The price and availability of rented accommodation is determined by laws of supply and demand.

The term *Chunsei* is Korean for a collective tenancy which is subdivided into *Chunsei*, *Wolsei* and *Sakwolsei*, according to the method of rent payments. There is, however, no difference in legal rights, obligations, etc among them.

Chunsei is a system whereby a lump sum of money is deposited without monthly rent payments. The *chunsei* deposit is at the level of half of the housing price. These deposits are returned to tenants when the rental periods are finished. Rents are the opportunity costs of the deposits during the rental periods. Another form of tenancy is *Wolsei*, which is similar to the system of renting in Britain. Rent payments are roughly equal to the short-term curb market rate, approximately about 20 per cent, for the *Chunsei* deposit (Renaud, 1993, pp.298-9). The monthly rent payments vary according to the contract between tenant and owner. The other form of tenancy is *Sakwolsei*. According to this form, a lump sum of money is paid when the rent is initiated, but the sum of money differs from that of *Chunsei*. It is equal to the sum of monthly rent payments of rental periods. It is deducted each month, exhausted at the end of the rental period and not repaid.

The origin of today's rental system is not clear. Some argue that the *Chunsei* system of Korea is an inheritance from the agricultural society in which households' incomes were based on harvest seasons. Others argue that it is closely related to immigration patterns. Most immigrants from rural areas entered into cities with a lump sum of money raised by selling their land. It was not easy to find jobs for them in urban areas. Under this circumstance, lump sum deposits replaced rents as a method of paying for housing (Ryum D-M and Kim H-S, 1991, p.1). However, the development of the rental system is commonly explained in terms of lack of housing finance. With no mortgage and increasing house prices, house buyers (owners) were forced to share the costs with tenants. Thus, a unique rental system, the "*Chunsei*" system, has been developed since the post-war period (Renaud, 1993, p.297, Kim K-H, 1990, p.7).

For house owners, a lump sum *Chunsei* deposit substitutes for the lack of mortgages. This implies that, in Korea, tenants partly play the role of informal mortgage lenders. As KRIHS's *The Survey on Actual State of Rented Houses* in 1980 showed, 26.2 per cent of houseowners let their houses to repay the debt incurred when they bought the house, and 53.6 per cent of houseowners let for monthly rental incomes. Therefore, for landlords who let part of, or a whole, house, the rent system acts as an informal mortgage, a source of income, and sometimes individual financial loans. Indeed, in 1980 the *Chunsei* claims amounted to 7 times the total of outstanding bank mortgages (Strassmann, 1991, p.766). For tenants, the system provides various alternatives, suitable for various households' economic situations. For example, a young and highly educated couple earning much but with little accumulated capital can meet their housing needs through the *Wolsei*. Alternatively, some middle aged households, earning less money but with a lump sum of money already saved, can meet their housing needs or tastes through *Chunsei*. In this

respect, the interests of landlords and tenants, which were viewed as the ingredients of conflict (Fabian society, 1973), were reconcilable.

Under this rental system, however, the increase in house prices instantly resulted in an increase in "Chunsei". Furthermore, given competitive rental markets, even in the recession period, as households' income stagnates and thus the burden of housing prices increases, potential house purchasers reduce the burden by increasing the *Chunsei* money. Moreover, in rebuilding or repairing houses, landlords offset the difficulties in borrowing money from formal financial institutes by increasing the *Chunsei*. While these arrangements make things easier for those who have some equity in a house, they make difficulties for tenants whose incomes may be stagnant or declining while their housing costs rise.

Table 7-13 House Price and Rent Indexes, 1985-1990(1985 = 100)

	Housing price	Chunsei
1986 (Dec.)	97.3	105.4
1987 (Dec.)	104.3	125.6
1988 (Dec.)	118.0	142.9
1989 (Dec.)	135.2	168.0
1990 (June)	153.2	197.6
1990 (Sep.)	158.8	199.8

Source: Minister of Construction.

Over the last three decades, many factors which impacted on the rental market have emerged and disappeared. The first is the changing labour markets. The demand for rented houses increased with the rise in irregular workers. The demand for owner occupation also increased with the rise in the number of professionals, engineers and craftsmen etc, and of households with two earners. As households' incomes grew, more households preferred privacy to the rental income. As Table 6-9 in the previous chapter showed, the number of households exclusively using a house has increased over time. The absolute housing shortages, the shortfall in housing supply, and the growth of exclusive users has placed even more pressure on others to share housing. These trends were reinforced by the development of housing finance, allowing more purchasers to get formal housing loans.

The importance of *Chunsei* deposits in housing finance for owner-occupation has been declining. For instance, a comparison between KRIHS's 1980 *Survey on Actual State of Rental Houses* and MOC's 1985 *Study on Directions of Housing Policies (6); the Rented Housing* show that the percentage of house owners who let their houses to repay the debt incurred when they bought the house had fallen from 26.2 per cent in 1980 to 17.6 per cent in 1985. Moreover, price controls in the new housing market further reduced the need for housing finance.

In contrast to this, the influx of immigrants from rural areas was continuing to rise and place increased demands on rented accommodation. The number of tenant households has increased, and become an important aspect of the housing market. Nevertheless, the rapid increase in house prices has given an incentive to speculators to buy rented property and then sell to owner occupiers - sometimes after rebuilding works have been carried out. This has helped to create a problem of insecurity and harassment for tenants.

Although operating guidelines are provided by the Tenant Protection Act of 1981, landlords can exercise their absolute property rights. In practice, there is no secure system against arbitrary evictions and arbitrary increases of rent. This made possible the "*Hapdong*" (co-operative) housing renewal in which an association of property owners, excluding tenants, contracts with construction firms, and converts a poor housing area into high-rise middle income flats without giving any alternative to their tenants.

This has a root in a historical background in association with landlords. Landlords in Korea were originally not an exploitative class. There has traditionally been little hostility against landlords. People were not encouraged to possess over two houses. Historically owner-occupation was a common form of tenure in Korea. Until the early 1960s over 60 per cent of urban households were owner-occupiers. The problem was an absolute shortage of houses compared with households.

According to the Population and Housing Census (EPB, various years), the number of housing units did approximately correspond to that of house-owners until 1960. This implies that most landlords were resident landlords who let a part of their houses to tenants. Even nowadays, according to the Ministry of Home Affairs in 1990, there was was a total of over 7 million housing units in Korea and, as table 14 shows, the number of house owners totalled 6,421,384 while those who possessed only one housing unit totalled 5,987,500, i.e. 93.2 per cent of owners. Those who possessed over two housing units only accounted for 6.8 per cent, including enterprises and public organisations. This implies that only 592,616 housing units could be inferred to be purely rented houses let by absentee landlords.

Table 7-14

Scale of House Ownership, 1990.

(Nos. of houses owned, '000)

	One	Two	Three	Four	Five	Six	Seven	Eight	Nine or over	Total
Persons	5,987.5	377.3	41.5	8.0	2.6	1.4	0.7	0.6	1.9	6,421.4

Source: Ministry of Home Affairs.

As seen in Chapter 3, until the late 1970s, Korean society was characterized by rapid social and residential mobility which was accompanied by changes in tenure, mainly from renting to owner-occupation. During this period of rapid social mobility, most tenants saw renting as a largely transitionary period before they could buy a house of their own. The government also saw the rented sector in a similar light. These views of the rented sector being of little and only transitory significance have underlain the low concern and relatively limited government action in terms of policy for the rented sector in Korea.

Apart from the public sector seen in Chapter 6, the reason for the above scenario in association with the supply side is simple enough; lack of profits in commercial letting. Unlike resident landlords, house builders or building companies which let houses are taxed on rental income and capital gains. Moreover, rents are set by the government at the level of 60-70 per cent of market rents and they can increase rents up to only 5 per cent per year (KO Chul, *et al.*, 1992, p.76). Furthermore, the sale prices of rented houses by them are guided by the MOC at prices which lie between historic costs and market prices. Under these circumstances, as many studies have consistently confirmed, commercial letting is not profitable. This is the reason why in Korea there are no commercial landlords who possess 20 or more housing units. The government are aware that the sector cannot be operated without adequate returns. However, housing is the most profitable investment option in Korea. The removal of the regulations and controls over commercial letting would cause an influx of national resources into the housing market. Therefore, letting in Korea is left in the hands of individuals. Landlords were usually people earning extra income from letting a part of their houses. They operated on a very small scale. Thus, the characteristic of Korean landlords was that they are "income oriented", rather than the "capital gain oriented". Rental markets operate on a very small scale and are crucially affected by the changes in the whole housing market, rather than certain rent policies.

As we have seen in Chapter 6, the government's housing policy has increasingly tended to focus on the construction of high-rise apartments. High-rise building was not at all part of the cultural tradition in Korea. According to MOC's '78 *Survey of Actual Living Conditions (Urban Tenants)* (KHB, 1979, p.8), about 85 per cent of tenants preferred to live in houses, whereas only 11.7 per cent of tenant households preferred to live in high-rise flats. The high-rise apartment was first introduced by the construction of *Mapo APT*, an area in Seoul, by the KNHC in 1961. Since then, high-rise apartment construction has been advocated by several factors. Firstly, it makes intensive use of land, and maximizes the number of dwelling units on the land. Construction of high-rise flats is more economically efficient than building detached

houses. It contributes to reducing housing shortages more effectively than other housing types. In addition to this the avoidance of urban sprawl, the protection of farming land, and the preservation of green belts were seen as intimately related to high-rise building construction. Indeed, urban planning was directed to providing more open spaces, better schools with play grounds, more industrial estates and improved transport systems in urban areas, all of which required increasing space allocations. The onus of land saving in the urban area fell entirely on housing. Unlike other land uses, the designation of residential land uses has decreased over time in the biggest cities (Ministry of Home Affairs, Municipal Year-book of Korea, various years).

Even if no connection was made between high-rise/high density urban development and urban land savings as a whole, it was universally believed that the use of high-rise apartments on a particular site allowed the creation of open spaces within the city - areas of grass and trees in sharp contrast to the private spaces of the house. Moreover, optimistic expectations of a decline in construction costs were held. In Britain many studies showed, in contrast to these optimistic expectations, that the aggregate costs of high-rise building seemed to be higher than those of low-rise houses (Nevitt, 1966; Stone, 1970 and Dunleavy, 1981). However, optimistic expectations of high rise building were more likely to be true in Korea with limited land, high land prices and high housing demands. High-rise housing construction costs less than detached houses under the the building codes of the Construction Act (KRIHS, 1989.12, p.10). The problem was that these optimistic views based on efficiency concealed the issue of who are excluded from high rise development.

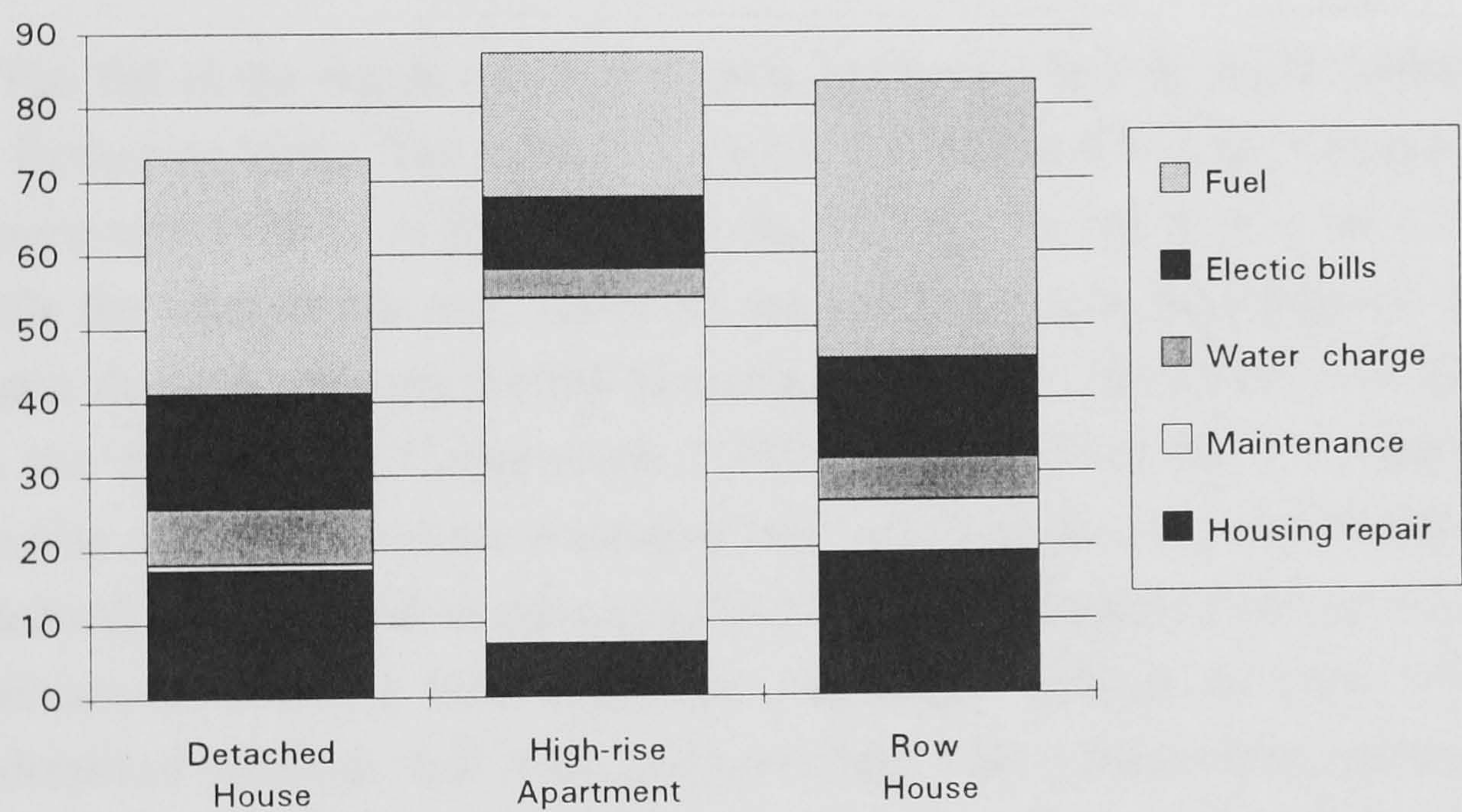
People who live in flats have a greater vulnerability to certain kinds of illness because they undertake less physical activity and go out of doors less; loneliness and social isolation are common problems (Hong D-S and Lee D-W (ed.), 1993). The main flaw of the high-rise apartment development in Korea is that most low-income households have been increasingly excluded from access to owner-occupation, and even from renting by the supply of these high-rise apartments.

High-rise housing in Korea is so expensive that most low-income households cannot afford to use it (KNHC, 1983, p.115). The increasing costs of high-rise construction were associated with the need to include lifts and to shift from brick construction to more expensive building materials (Nevitt, 1966, pp.107-9). Thus, because of high prices, rents per unit in high-rise apartment are higher than that of other forms of rented houses (Ko Chul, 1992, p.66).

The increasing proportion of high-rise apartments with no subsidies necessarily reduced the choices open to low-income tenants. Firstly, apart from high rents, as Figure 7-1 shows, the maintenance costs in apartments are higher than in other types

of housing. These are mainly due to management costs, such as lifts, public lighting, etc., on which individual households are unable to economize. Secondly, moreover, the design of high-rise apartments has made it difficult for people to share with other families. For low income households, the sharing of a house with other families is the only way to reduce housing consumption costs. As a consequence, about 80 per cent of tenant households live in detached dwellings, whereas about 10 per cent of tenant households are in apartment units (Population and Housing Census, 1990). Of those in apartments 97.3 per cent of tenants do not share with other households whereas only 8.8 per cent of tenants in detached dwellings do not share (KRIHS, 1991.7). This indicates that most low income households live in the detached dwellings sharing with other households.

Figure 7-1 Maintenance Costs by Housing Types, Korean 1,000 Won, 1990.



Note: The costs are based on the actually paid by occupants.
Source: KHB, Survey of Actual Conditions in Housing Financial Demands, 1990, p.52.

The choices open to tenants have further declined with the demolition and conversion of old and detached dwellings. As Table 7-15 shows, between 1975 and 1990, housing loss in Korea was about 1.9 million units largely because of the loss in detached houses. As a consequence, the KNHC survey in 1983 showed that urban tenant households used 1.81 rooms per household on average. Five years after the survey, the MOC survey in 1988 showed that this declined to 1.32 rooms per household. This is despite increased household incomes and increased housing supply rates (housing units to households).

Table 7-15 Changed Housing Stock by Housing Types, 1975-1990.
(Unit: 1,000units)

	Housing Stocks	Detached Dwelling	Row house	High-rise Apartment
1975 Census	4,636	4,382	165	89
1990 Census	6,958	4,727	603	1,628
Increases (A)	2,322	345	438	1,539
Units supplied between 1976 and 1990 (B)	4,214	1,350	679	2,185
Housing Loss (A) - (B)	-1,892	-1,005	-241	-646

Notes: excluding dwelling units in the building not intended for human habitation; Multi-family houses are included in the row houses.

Sources: EPB and NSO, Population and Housing Census, 1975 and 1990, and KHB, Housing Economic Statistical Year-book, p.348.

The fall in the number of rented units has been offset by more people sharing and by increasing rents. The KRIHS's study, *An Evaluation of the Government Housing Programmes*(1990), in Seoul, shows the average market rent to be £283 per month while the equilibrium rent, based on the economic rent, was assessed at £108. This means that tenants were paying in excess of £175 per month over the economic rent. As the Ministry of Construction (1993, p.52) pointed out, "*Tenants pay similar housing consumption costs compared with owner-occupiers, nevertheless, they live in relatively deteriorated housing conditions*". Given absolute housing shortages and no alternatives, there is little scope for significant increase in rents without causing widespread hardship, and more overcrowding. Under these circumstances, the idea of consumer sovereignty is a myth, with any increased income of tenant households being translated into increased costs of consumption without any improvement in living conditions.

Another unwelcome feature of the changing housing market is that low-income households suffer more than others within the rental sector. Slum and shanty housing areas in which most old and detached houses were concentrated have been replaced by high-rise apartments. The high-rise apartment redevelopment was seen as a way for increasing the number of households in these areas. However, this was an irrational plan. When comparing the number of households of the slum areas with the number after redevelopment, as Kim W-J (1985) showed, it can be seen that far more households lived in the area before the high-rise redevelopment. Over 115,000 units were destroyed in Seoul alone between 1973 and 1982 by urban renewal. These units could have housed at least 400,000 households, mostly the urban poor using one or two rooms for a family (Kim J-H, 1990). In contrast to this, most new housing units

provided were high-rise flats under the strong criteria of "minimum standards" which the low-income households could not afford. Housing conditions of tenant households, especially in low-income households deteriorated over time. Nonetheless, rents increased more than housing prices, household incomes and other prices. In June of 1989, several families committed suicide because they could not afford the increased rents, causing the issue to become a focus for the mass media.

Many commentators argued that rented houses were necessary and that some kind of financial assistance to the commercial builders for the supply of rented houses, ranging from direct subsidies to indirect tax relief, was necessary. However, the financial subsidies to property companies raised several questions. Firstly, how much financial subsidies were necessary to supply enough rented houses by the private sector? Secondly, could the subsidies paid to private property companies induce them to supply rented houses which low-income households were able to afford? The first permanent rented housing program for the urban poor was introduced in the construction plan for 2 million houses by the government in 1989 instead of subsidies to property companies. And in 1990, the government introduced a multi-family housing program. It may be too early to assess the effects and impacts of the permanent rented housing program and of the multi-family housing program.

The original plan for the permanent rented housing aimed to provide 250,000 units for a similar number of the urban poor who were designated as beneficiaries of the poverty relief policy in six big cities. The central government's subsidy accounted for 85 per cent of the construction costs. The remainder was to be covered by the supplier (local governments and the KNHC) and the tenants. It was allocated to the urban poor at cheap rents.

In practice, only 60 per cent of the targeted urban poor applied for permanent rented houses (KRIHS, 1989, p.62). For the urban poor, apart from the rents, high-rise apartments were too expensive to maintain (Ryum D-M, 1993, p.64). Moreover, in order to reduce the costs, the suppliers (local governments and the KNHC) built the flats in economically and geographically peripheral areas. Even though 85 per cent of construction costs were subsidized by the central government, the remaining costs and the operating expenses for the permanent rented housing had to be covered by the rent income which accounted for 60-70 per cent of required operating costs (Ko Chul, et al. 1992, p.74). The targeted urban poor were increasingly reluctant to move into these rented houses. The government cut down the target number of the permanent rented houses to 150,000 units in 1990. Nevertheless, many units remained unlet and, moreover, rent defaults began to occur. For the urban poor who tended to live hand-to-mouth, the rents and maintenance costs were too much of a

burden. In 1992, the target group was expanded to include those who joined the housing related saving schemes.

The multi-family housing program was based on a deregulation of building codes in the construction and remodelling of a house to allow for sharing. It arose partly from a concern about how to improve conditions in the existing rented houses and manage the process of decline. In a sense this was an acknowledgement of the intractable nature of the problems of existing housing finance, and reflects a belief that it was more efficient and effective to use existing rental systems, using individual resources. The government still believed that most tenant households would transfer to owner-occupation in the near future as their incomes grew. The aim of the multi-family house programme was concerned with temporarily halting the decline of rented houses and, at best, achieving a marginal increase in their sizes and an improvement in the quality of existing rented houses. However, as the Table below shows, KRISH's survey (1992) of the source of finance for remodelling of detached multi-family houses in *Seoul*, *Kwangju* and *Taijun* in 1992 indicates that about 37 per cent of the construction costs were financed through the *Chunsei*, whereas formal finance accounted for a meagre 7 per cent. This implies that many of these improvements were done by the tenants themselves.

Table 7-16 The Source of Finances in the Remodelling of Detached into Multi-family House,1992.

(percentages)				
Sources.	Seoul	Kwangju	Taijun	Total
Their own-money	39.6	67.9	60.4	50.8
Chunsei deposits	48.0	21.4	26.3	36.9
Loans from Banks	8.0	2.7	8.6	6.9
Loans from Curb market	2.2	2.0	2.4	2.2
Others	2.3	6.0	2.2	3.1

Source: Ko Chul, Jin J-S and Park J-T, Research for the development of private rental industry, Seoul: KRIHS, 1992, p.61, Table 4-10.

Multi-family housing, whether through new construction, rebuilding or remodelling, was essentially a long-term investment for private property owners. This increased the rate of return that the owners required in order to invest in housing to let. As with repair and maintenance, the costs were passed on to the tenants (Ko Chul et al., 1992, p.68). Moreover, under limited housing finance, most *Wolsei* or monthly rents, were converted into *Chunsei* to finance construction costs. Many low-income tenants were evicted by the landlords after improvements to accommodate the better-off *Chunsei* tenants. Monthly renters who did not have access to accumulated savings from relatives or from good incomes increasingly faced severe problems

(Renaud, 1993, pp.303). Thus, the improvement of rented houses further excluded low-income households.

7.4 Filtering Up and Down.

Filtering has for over three decades been the subject of a policy debate concerning the most efficient way of improving housing standards for Korean society (see Rho Y-H, 1984; Lim G-C, 1987; Johnson, 1987; Baer, 1991, p.71; Park C-B, 1987, p.171 etc). An empirical study (KRIHS, 1988) carried out on the filtering effect shows that "horizontal" moves producing neither gains nor losses in housing standards were similar for all groups, about 35 per cent of households made upward adjustments through residential mobility while 40 per cent made downward adjustments. But almost 31 per cent of tenants made downward adjustments through residential mobility whereas 26.3 per cent of the homeowners made upward adjustments in housing consumption.

Table 7-17. Changes in Housing Consumption with Mobility, 1988.
(unit: % of total moves)

	High-High	Horizontal Moves Low - Low	Downward Moves High - Low	Upward Moves Low - High
Owners	4.8	59.7	9.2	26.3
Tenants	4.7	56.2	30.8	8.2

Notes: Housing consumption was calculated by the equation of Imputed rents/Hedonic Function. Hedonic Function was calculated by using 11 independent variables - housing type, age, floor space, number of rooms, heating method, toilet, hot water, neighbourhood income level, and journey times to city centre, to high school, and to shops.
Source: KRIHS, 1988, p.65.

Once a household becomes a home owner, there is no tax on imputed rent income. Moreover, rental income is not taxed. Although the returns are different in different areas, types and times, in a rapidly growing economy which was accompanied by high inflation, the meaning of housing possession is quite different from what it is in a stable society in which annual price increase is less than 8 per cent. In a simple calculation, according to the Annual Report on the Urban Family Income and Expenditure Survey (NSO, each year), *Chunsei* deposits are about half of the housing price. Monthly rents are decided by the interest rate secured on the *Chunsei* deposits. These interest rates are generally 20 per cent per year (Ryum D-M, 1993, p.133). If someone lets a house, therefore, he/she could have a 10 per cent untaxed return from housing investment. Considering tax and other overhead costs, this rate

of return is not higher than the interest rates of the savings of commercial banks, which are generally 10 - 12 per cent.

The most attractive gain from owner-occupation is capital gains. These gains are also variable according to location, type, size and period. There are no systematic statistics but according to several piecemeal studies, housing investment has brought the highest returns, even considering capital gains alone. The average annual return from savings and stock investment between 1975-85 (KHB, 1989, p.87) was estimated as 14.7 per cent and 16.6 per cent respectively, whereas the return from housing was 20.6 per cent, excluding rental incomes. Another study found that the real return to housing investment exceeded that of corporate bonds by a very large margin of between 3 per cent to 8 per cent (Kim K-U, 1987).

As Table 7-18 shows, according to the Housing Finance Demand Survey in which 3,550 households were selected at random (KHB, 1990), the annual rate of return from housing investment in cities was 34.43 per cent, mainly due to the rapid increase in housing prices. Whether the capital gains are paper gains or not, it cannot be denied that for ordinary people in Korea housing is the best investment option.

Table 7-18. Differences between Purchasing Prices and Present Prices.

	Purchasing Prices (£)	Present Prices (£)	Residential Period (Years)	Increased Amounts per Year	Annual Rates of Return (%)
All Households	30,342	89,894	5.7	10,448	34.43
Seoul	42,333	147,942	5.1	20,708	48.92
Big Cities	21,796	57,918	6.3	5,733	26.30
Other Cities	24,103	52,624	5.7	5,003	20.76

Source: KHB, Housing Fiance Demand Survey, 1990.

Although there is no precise information about the changes in the wealth of Korean society until recent years (Choo H-J, 1982, p.95 and Kwon S-W, 1992, p.171), the main inequality in wealth in urban areas stemmed not from the monetary assets such as stocks and savings, and the mode of production, but from physical assets such as housing and land (Kang B-K, 1989, pp.75-90). For instance, when the government launched the currency reform in 1962, about 10 per cent of households in Korea accounted for about 50 per cent of the savings (Bank of Korea, 1962). Whereas, according to the Bank of Korea's *Saving Market Survey* in 1988, 10 per cent of households compromised about 41 per cent of total savings. For another instance, Choo's study (1982, chapter 2) based on the National Wealth Survey in 1977, although it excluded savings and stocks, showed that the inequality in the household wealth between regions, ages, and occupations was mainly caused from the

differences in the ownership of houses. This was partly the reason for the shift of housing policy from a supply-oriented policy towards a consumption-oriented policy in which price control and the housing related saving schemes which give priority to tenant households were the two wheels of the changed policy.

Housing in Korea compromised 67.0 per cent of household wealth in cities in 1989, including all monetary and physical assets, as Table 7-19 shows. The Korean housing system has double faces. On the one hand, it contributed to equalize the housing wealth on average, by giving priority to tenant households. However, as Figure 5-3 in Chapter 5 showed, ownership rates decreased in cities from 62.0 per cent in 1960 to 41.6 per cent in 1990. In this respect, housing contributed to aggregate inequality of wealth (Kwon S-W et al., 1992, p.180)

Table 7-19. The Composition of Household Wealth.

	Nation	Cities	Others
Housing	55.7	67.0	17.4
Other estates	34.4	22.8	73.6
Savings	5.1	5.8	2.7
Stocks	1.3	1.6	0.2
Bonds	0.1	0.1	0.0
Insurances	1.1	1.3	0.6
Savings in curb market	0.9	1.0	0.6
Machinery	0.5	0.1	1.7
Car	0.1	0.1	0.1
Poultry	0.4	0.1	1.3
Others	0.4	0.1	1.9
Total	100.0%	100.0%	100.0%

Source: KDI, People's Living Standard and Economic Perception Survey, 1989.

The homeowners have been able to build up an equity in their property due to the rapid increase in housing prices which could be used for upward mobility in the housing market. Moreover, owner-occupation is the cheapest form of housing tenure. Ordinary households in Korea save mainly for the purchase of a house, requiring them to build up holdings of financial assets by reducing purchases of other consumption goods. This means that when households became homeowners, they need not save up for housing to the same extent as they used to (see Table 7-20). When they become owners, they begin to spend on other consumption goods and services more than before not only because of the reduced savings for house purchase, but also because housing costs are the least for owner-occupiers. They can invest more in their children's education and give more support for their chilfren's access to owner-occupation than can those who rent.

Table 7-20. The Purposes of Savings, by tenures.

Tenure	For housing	For children's education & marriage	Prepare for sudden needs	For after retirement	To repay debts	For leisure	Others
Total	34.3	30.3	21.8	10.5	1.9	0.4	1.0
Owners	14.1	41.7	25.1	14.9	2.6	0.4	1.1
<i>Chunsei</i>	65.3	14.3	14.6	4.1	0.9	0.3	0.5
<i>Wolsei</i>	55.5	15.8	23.7	3.6	0.0	0.7	0.7
<i>Sakwolsei</i>	47.5	20.5	20.5	6.4	1.3	0.0	3.8

Source: The Citizens National Bank, Survey of Actual Household Finance Use Conditions, 1991, p.113.

Some substantial residential improvements were evidenced among the middle and upper income tenant households through the housing system, as we have seen in the previous chapter. But the reverse occurred in the low and even in some moderate-income tenant households for whom things have become progressively more difficult due to the rapid increase in rents. If the low-income households were successful in purchasing a house, it was usually of poor quality, small in size and an illegal one. If they failed, what options were open to them? They could rent shared accommodation or reduce the number of rooms, or live with a family. They could not drop out of the private market because there were no public houses for them.

Meanwhile, most new and large housing developments have been concentrated on the outskirts of the city, taking the form of high-rise apartments. In contrast to this, most new industrial estates were designated in peripheral areas and suburbia, and many manufacturing factories in the inner city areas were increasingly replaced by office buildings and relocated by the Industrial Distribution Act of 1972. Thus, as Ha S-K and Kim J-I's study (1992) in the Greater Seoul area shows, many white collar workers commute from the suburbs to inner city offices, whereas many blue collar workers commute from inner city to the outskirts of the city or even beyond the green belt to factories located still further away. This cross commuting increasingly raised the issue of congestion, and placed pressures on the government for the construction of new roads, underground systems and public facilities. Many cheaper rented houses have been gradually demolished to give way for new roads, and stations, etc. The construction of new roads or the underground soon brought about housing renewal or gentrification, as seen in Chapter 6. According to KNHC's survey about the urban poor defined by the Poverty Relief Programme, over 18 per cent of the urban poor in Seoul had one or more experiences of eviction as a result of demolition (12.5 per cent in Pusan, 10 per cent in Daegue, 20 per cent in Inchun, and so on; see KNHC,

1989.10, pp.30,56,82,108,134,159). Most of the low-income households, including some owners, moved to old and inexpensive dwellings nearby. If that was not available, they had to move to inexpensive rented houses in areas farther away from their livelihoods.

Moreover, although housing consumption costs of the total number households increased, the proportion of household income spent on housing, excluding heating, maintenance costs, etc., varied very much between social groups even in tenant households. As Table 7-21 shows, this was around 20 per cent for higher income groups and 29 per cent for lower income groups in 1988. When including other costs related to housing, such as heating and electricity, the poorest tenants were paying over 50 per cent of their incomes for housing consumption costs (Table 7-22).

Table 7-21. Rent-income Ratio of Urban Tenants (without utilities)

Classification among tenants	1982	1984	1988
Low-income group	0.21	0.23	0.29
Middle-income group	0.15	0.20	0.26
Upper-income group	0.13	0.18	0.20

Note: chunsei deposits were changed into imputed rents.
Source: KRIHS, *Housing Market Survey*, each year.

Table 7-22. Housing Consumption Costs of Tenants, as percentage of the household income, in Seoul, 1983.

Income	Below £167	£167 - £333	£333 - £500	£500 - £667	over £667
1) Rents (without facilities)	30 %	26 %	23 %	22 %	Less 16 %
2) Total Housing Costs	56 %	50 %	46 %	44 %	Less 34 %

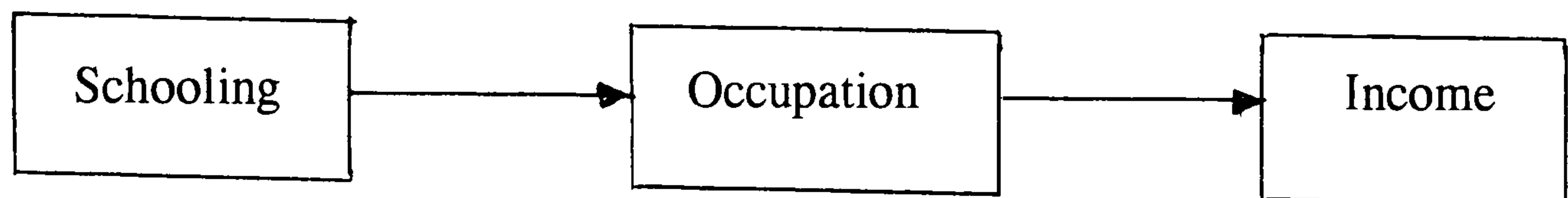
1) 'Chunsei' deposit was changed into imputed rent.
2) including, rents, repayment for debts for rent, heating, maintenance and repair costs.
Source: Korea National Housing Corporation, 1983, p.107.

For low-income households, the difference between a tolerable life and mere survival may depend on their earning and expenditure. The former may depend on their capacity to work and on their opportunities to work, and the latter may depend on the proportion of their expenditures on necessities such as food, clothing, health care and housing. Inadequate income is not the only problem facing urban low-income households. Food and housing are the most important areas taking the money of the poor. Shelter costs are one of the most rigid and inflexible of all consumption expenditures because the Korean winter is too cold. Sudden reductions in earning or increases in housing consumption costs are generally reflected immediately in

adjustments of the amount spent for other items, including food, clothing, education, etc., but not in the amount spent for housing.

As mentioned earlier several times, the education system has been the single most important channel of vertical mobility in Korea's history. Kim K-D drew the following figure which most aptly explains Korean society.

Figure 7-2. Social and Economic Characteristics of the Occupation in Korea.



Source: Kim K-D and Choi T-L, 1983, p.5.

In this structure, between 1967 and 1972 the increase in the rate of household incomes was higher than that of tuition fees in universities, including national and private universities. Thereafter until 1982, the increases in the two showed a similar level. However, since 1982, it was reversed. The increase in the rate of tuition fees was far higher than that of the household incomes (KCCI, 1990, p.386). In 1985, those households whose annual household incomes were below the university tuition fees accounted for 34.3 per cent of total households in Korea (*Ibid*, p.386). Moreover, most of them were paying higher housing consumption costs than their counterparts. This increase was spiralling. Increasing educational costs progressively excluded the children of low-income families from higher-education. The increasing housing consumption costs aggravated the trends.

In order to reduce housing consumption costs, the low-income households had to share with other families and/or reduce the number of rooms they occupied. The National Child Development Study in Britain (Davie, Butler and Goldstein, 1971, requoted in Nobbs *et al.*, 1980, p.372) showed that children from over-crowded homes, who lack a quiet and private place to study, are, by 7 years of age, already nine months behind their school-mates in reading attainment. The other way of reducing housing consumption costs is to live together, which has another effect on their children. Verbal intelligence tests have shown that children from large families perform less well than those from small families. The increasing household expenditure forced children and woman to work. In order to get more income to meet the increasing housing costs, parents worked longer hours. Resultingly, children have to carry out more housework and their parents have less time with their children. Some, nonetheless, on the basis of the culture of poverty thesis, describe this as a lack of parental interest. Nor can one expect the most patient and permissive child-rearing from parents who are very tired. Moreover, the development of the sub-

contracting system has placed many unskilled workers on piece work and the costs of providing a workplace has passed from the employers to the employee. Many low-income households' homes became workplaces. This is only the tip of the iceberg. If capacity is the other side of opportunity, the lack in children of the low-income households is not the capacity but the opportunity, as Wedge and Prosser (1973) said in, "*Born to Fail?*".

On the one hand, for low-income households, the education system has increasingly operated against social mobility. On the other hand, examination of recruitment into the powerful elite groups has shown there to be a substantial self-recruitment from people with similar backgrounds, excluding low income households. They also marry those who are in the same social strata, based on knowledge or wealth.

In the culture of poverty theory (Lewis, 1966), there was a cycle of deprivation which was transmitted from one generation to another in certain families (Lewis, 1959 and 1961). This was often denied in Korea by many empirical studies. Inequalities of income, educational and employment opportunities, health and environment, these interact with each other and reinforce each other, and are closely related to housing. One such is the circle of cause and effect in which being on a low income means living in poor housing, which means a poor neighbourhood, which means going to a second rate school, second rate hospital and second rate public services, which means having an inadequate education, which means having a low-paying job or no job at all, and thus being poor. The term "the culture of poverty" has been coined to describe this.

R. Lewis who analysed the "culture of poverty", emphasized in a study of poor families in the District of Columbia, "*In these so-called apartments, there is no place for children..... The close quarters, the drabness, the lack of something to do drives these children into the street*"(requoted from Schorr, 1968, p.121). In Korea, over 28 per cent of urban households use only one room for their whole family. On average this is 3.7 people. Thus it is not surprising that in Korea some children are wandering on the streets until curfew at 10 p.m. Housing mediates, sustains or ameliorates some wider aspects of deprivation. Low-income groups, therefore, demand an increase in wages on the basis of a desire for minimum living standards.

The characteristics of industrial disputes in Korea are as follows; firstly, most of the industrial disputes are led by production workers. Secondly, recent collective bargaining experiences have almost exclusively concentrated on the wage issue (Park F-K, 1993, p.60). Wage demand shocks are often explained by the mismatch between the supply and demand for labour. However, in recent years, this mismatch has been only a part of the story.

The key issue may be whether house prices directly affect wage demands or whether house prices merely reflect the pressure of demand. It has been a common assumption that high housing prices put pressures on wage demand. However, with a somewhat different specification from the standard Layard-Nickell model (1986), Meen (1993) suggests in the Oxford Economic Forecasting model that unemployment and house prices appear to substitute quite well for each other in an equation for manufacturing earnings. In this, it is difficult to conclude unequivocally that house prices play a key role in wage bargaining.

In Korea, almost all wage demands in wage bargaining are based on increased living costs. As Table 4-19 in Chapter 4 showed, household expenditure has increased in line with the increase in household income. As part of household expenditure, the rate of housing consumption costs has increased more rapidly than other expenditure and the total, especially in recent years. This implies that housing consumption costs increasingly absorbed an equivalent slice of income. As a result of discontent with the failure of living standards to rise fueling wage demands, housing consumption costs became the main factor placing pressure on wage levels. Moreover, as seen in the previous section, housing tenures in Korea represent different social and life-cycle factors. The low incomes are in the rental sector with high housing consumption costs and most young and production workers who are the key group influencing wage struggles are in the rental sector in which rents have been increasing more than housing prices. Table 7-23 used by trade unions for wage bargaining of production workers shows that increasing housing consumption costs became the main reason for demanding wage increases.

Table 7-23. The Composition of Minimum Living Costs for a Family of Five, in a production worker's family.

Year	1981	1982	1983	1984	1985	1986	1987	1988	1989
Foods	36.8	35.8	34.2	33.6	32.7	33.7	32.1	32.8	29.7
Housing	24.5	25.3	27.6	29.5	29.8	28.9	30.0	29.1	33.3
Clothing	8.7	7.9	8.0	8.3	8.2	9.0	8.8	9.2	10.4
Education	12.4	13.1	12.3	11.8	11.9	10.8	10.6	10.6	9.3
Transport	3.6	4.0	3.7	3.4	3.5	3.7	3.3	3.3	2.8
Health	6.4	6.8	7.3	7.2	6.6	7.3	10.8	9.1	8.4
Others	7.6	7.1	6.9	6.4	8.9	6.5	6.3	6.0	6.0
Total	100	100	100	100	100	100	100	100	100

Source: Labour Economic Institute, Study on the improvement for housing problems of workers, 1990.

In contrast to this, housing and other social policies in Korea have mainly focused on catering for middle-income groups. This explains that there have been extraordinarily few industrial disputes involving white-collar workers.

Workers demand higher wages to compensate for rent increases, thus reducing their company's competitive edge in the international market. The increase in wages is, therefore, self-defeating because of the Korean housing system and housing markets. For instance, the knock-on effect on the economy in comparison with Singapore and China is clear. Workers in the factories of Seoul and Kwanju receive average wages of US\$1,000 a month. This can be compared with US\$700 for their counterparts in Singapore and less than US\$100 in China (The Economist, 1993, p.75). This is despite income per person in Korea (about US\$ 6,500) being far behind that of Singapore (about US\$ 11,000). However, it is clear that housing consumption costs of the two countries are far below those of Korea. A more sophisticated view of economic development was put forward by James Stewart in his *Principles of Political Economy* published in 1979. He recognized that high wages meant high consumer purchasing power, which stimulated demand and the expansion of the import sector. In the absence of continuing technical progress, he argued, rising wages would eventually check national economic growth by raising domestic prices above those of foreign competitors and thereby reducing the market for exports. Thus, the impact of housing is not limited to the low-income households alone but extends throughout the economy.

However, the more important question is whose demands are effective? Under the industrial structure noted in Chapter 3, workers in large firms or medium firms can organize trade unions. For example, in the two months August and September 1987, 3,250 cases of strikes were recorded. Unfortunately there are no available detailed data about the strikes. On one account, about 70 per cent of the manufacturing establishments with more than 1,000 workers experienced some form of labour disputes (Park F-K, 1993, p.30). In 1989, 69 per cent of the establishments with more than 300 employees had become organized, and among those firms with more than 500 employees, 82 per cent became organized (Park K-S, 1991). This indicates that the most organized workers were those who were employed in bigger companies. So, as Tables 7-24 and 25 show, they could effectively achieve their demands.

The impact of trade union activity on wage increases can be found in the union wage premiums, which are the difference between wages for union members and non-union members, after controlling for individual human capital and industry-related variables. The union wage premium in 1989 was estimated to be 10.2 per cent (Song H-K, 1991). In small subcontractors and family firms, the typical unit of production is still the family. Most heads of these families are self-employed and relatively few individuals are employed for wages as the business relies upon members of the family group or others close relatives. Therefore, in small firms or

family firms and for others such as outworkers, trade union organisation is not possible.

Several writers noted that in the USA the narrow conception of the role of the trade unions and the lack of a working-class-based political party has been significant in contributing to the relatively underdeveloped alternative of socialized provision, or at least to the restriction of such provision to a minimal welfare service for the poor (Harloe, 1981, p.27; Marcuse, 1976; Heidenheimer *et al.* 1975, pp.69-96).

Moreover, the increased wage pushes the costs up, and then large firms pass a part of the costs on to the medium sized sub-contractor (Kang B-K, 1989, p.55). The medium firms pass the costs on to small sub-sub contractors, and then to the outworkers (the urban poor). Thus the wage disparities between large firms and small firms or formal and informal have been widening over time. Furthermore, large firms and medium firms try to absorb part of the costs by rationalization, using more machines, employing more part time women, or removing factories from biggest cities. A study (Kim C-S, 1986) estimated that a one per cent increase in real wages in manufacturing industry caused a decrease in employment of 0.11 per cent. Who would be the redundant?

Table 7-24. Wage Increase by Firm Size.

	1986	1987	1988	1989
10-29 employees	7.8	8.6	10.1	16.2
over 30 employees	8.3	10.3	16.2	21.2

Source: Ministry of Labour, Monthly Labour Statistics Survey, quoted in Kim Choong-Soo, 1991, p.7.

Table 7-25. Wage Disparities by Firm Size.

	10-29 employees	30-99	100-299	300-499	over 500
1986	100	108	120	125	171
1987	100	110	132	139	195
1988	100	108	119	140	200

Source: Ministry of Labour, Occupational Wage Survey, each year.

Low-income groups demand further increases in wages on the basis of a desire for minimum living standards, but employers argue that increased rates should be in line with increases in productivity (Kim J-W, 1988). Without adequate human capital, they are limited to unskilled and vulnerable work, especially when the industrial structure is changing as in recent Korean history. Moreover, industrial accidents are mainly concentrated on the unskilled production workers. The number of cheap

rented houses are dwindling and rents are increasing. Many life chances are cut off not only by income but also by this consumption factor. So they are more likely to need their children's meagre earnings, at best reducing expenditure for their children. This results in the children being unable to attend a higher school. When the children are grown up, they may have difficulty in penetrating into bureaucracies because of this low level of schooling. More importantly, thereby the poor are gradually excluded from the political market. The poor are caught in a poverty trap via this mechanism.

In the 1960s, upward mobility was a common expectation for every Korean; in the 1970s, upward mobility was the expectation for a large part of Korean society; in the 1980s, safety in their existing position was, for many on low incomes, the only aspiration; and in the 1990s, upward mobility is a hope anchored on their children. Indeed, it was common until the 1970s, for people to move 'from rags to riches, or riches to rags'. In recent years, 'from rags to rags' is common but 'from riches to rags' is rare and 'from rags to riches' is very rare. Increasingly the poor help the poor, likely becoming the poorer. In recent years, the squatter settlements have emerged in the biggest cities again. The squatters are not in-migrants but those who filtered down.

7.5 Politics of Housing.

The question raised here is how these arrangements have continued? Before criticizing the government and arguing the failure of the housing market, we must look at how many people, and who, benefitted from these arrangements.

Most home owners, which accounted for about 42 per cent in cities, are happy about continuous increases in housing prices. In a housing renewal, property owners, whether they are the poor or not, benefit from it. New houses built through the demolition of poor houses are allocated to the account holders. Over half of new houses are allocated at controlled prices to housing related saving account holders which accounted for about 50 per cent of tenant households in cities. Thus those who joined housing related saving accounts are potential beneficiaries. Even among those who did not join the housing related saving schemes, those who achieved housing improvement through increases in their incomes may be second beneficiaries. Therefore, the excluded are tenant households whose incomes relatively declined, so they could not join the housing related saving schemes and made downward adjustments through residential mobility. As we have seen in Table 7-17, they

account at most for 31 per cent of tenant households, equivalent to about 18 per cent of all households in cities.

Another empirical study carried out by the Korean Institute for Consumer Protection in 1991 also shows that only 16 per cent of tenants moved to worsened accommodations. Table 7-26 can be divided into two groups. Apart from those who pay less for lower quality accommodations after a move, tenant households in the squares shadowed may feel unsatisfied or unfairly treated because they pay higher rents than before for similar or lower quality accommodations through residential mobility, or pay similar rents for lower quality. They account for 30.2 per cent of tenant households. In 1990, tenant households accounted for about 60 per cent of households in cities. That is to say they are about 18 per cent of all households in cities.

Although 18 per cent may be enough to raise housing issues on the political agenda, it is not enough in terms of the politics of number to change existing housing arrangements. Moreover, most beneficiaries are those who are white-collar salaried workers, who lead the Korean economy and society, that is to say the most powerful groups. We have seen in Chapter 3, the lack of power in workers of subcontracting firms. We have seen in Chapter 4, where social powers lie and how social policies evolved. Housing is not an exception.

Table 7-26. Changes in Residential Mobility in Tenant Households, 1991.
(percentages)

Housing Quality				Total
Rents	Better	Similar	Worse	
More	25.7	19.2	4.5	49.4
Similar	7.3	29.5	6.5	43.3
Less	-	2.3	5.0	7.3
Total	33.0	51.0	16.0	100.0

Source: The Korean Institute for Consumer Protection, 1991, p.161 (cited in Ryum D-M, 1993, p.60)

In housing, over 60 per cent of households in cities lived in their own house until the late 1960s. The ratio of housing price to income was less than 2.3 until 1976. House builders were no more than small artisans until the early 1970s. Thus, housing was not a significant factor in the sense of wealth and capital. However, housing became the best investment option for people and gave to some enormous fortunes, in many cases far more than the life time earnings of salaried workers. House builders began to change from small artisans to large construction companies and increasingly dominated housing markets, taking a great portion of the gains from housing inflation. Home-ownership became a significant factor determining life chances in

Korea. Without increased taxation, the options open for housing policy were limited to regulations and controls. This led the government to amend the Housing Construction Promotion Act in 1977. Through the amendment the Korean housing market was framed within the political process. The house builders reorganized, and prices in new houses were set by the government. One of the clearest examples of the point being made is the development of the Housing Related Saving Schemes which give priority to tenants. In 1978, through the amendment of the Income Tax, very progressive tax rates on capital gains from houses were imposed except when a household possessed a house. Thus the government was able to invest more in housing from this increased revenue. The gains from housing inflation were, therefore, redistributed from property wealth towards salaried workers, i.e. those who worked for the bureaucracies. Meanwhile, the land in cities emerged as another source of great windfall gains. The next step was the legislation of the Housing Estate Development Promotion Act of 1981. Since then, large housing estate development was monopolized by the public sector, removing the gains from land price inflation and land development from land owners and builders. Nevertheless, increasing land prices gave enormous windfall gains to property holders who paid low tax on their gains. Moreover, urban land was being concentrated in the hands of a few individuals. The Commission on the Public Concept of Land Ownership was established in 1989, mainly constituted by the bureaucrats. After several public hearings and opinion polls, in 1990 the Aggregate Land Tax was enacted. Since then, capital gains from land price inflations in urban areas were taxed after assesment every three years. Moreover, in six major cities, the ceiling in the possession of residential lands or high property tax was imposed. The ceiling was determined at about 660 sq.m. without any theoretical reason. The revenue was allocated towards new housing construction, and the houses built were allocated according to housing related savings. The gains from the land price inflation were again redistributed from property wealth towards salaried workers. Thus, housing and land policies have acted as a weapon which impose "checks and balances" between property wealth and salaried workers.

The prominent theory behind the government's housing strategy has been the readily and ideologically acceptable Keynesian policy of more housebuilding to reflate demand. However, given the limited public spending on housing, housing had to be financed by personal savings, mainly from the pockets of the salaried workers, as we have seen in Chapter 6. Personal savings must therefore be compensated. Price control and a unique allocation system were imposed at the expense of builders. For those who joined the housing related saving schemes socialized form of housing provision financed by their personal savings was not acceptable, except for a very

rare case. Rents in public rented houses must cover, at least, the construction costs. This limitation is one reason why low-income households have been left to the rental sector in harsh conditions for such a long time. Nevertheless, there has been little political struggle over such procedures because housing system has not completely blocked people's access to a decent home with a possibility of making great windfall gains through the difference between market prices and controlled prices. However, this was only possible for those low income households who worked hard and saved their earnings.

Since there was always a possibility of upward mobility - and such cases occurred - people's sense of frustration would focus on the individual, either for themselves or for their children, rather than on society. The sense of shared experience and common prospects among the victims of exclusion could thus be weakened, and a precondition for radical mass dissent undermined. This was accentuated further in Korea in so far as social circulation made for ties of kinship, personal acquaintance, cultural emulation and social sympathy across the lines of social division. The housing system of Korea, based on individual success or failure, hard work and high savings, gives rewards to motivate the right people, operates as a mechanism of social control that has turned structural problems into individual failure and, at best, "bad luck".

The powerful groups who benefit from this ethos of "self-help" based on hard work and high savings made the wall of ideology supporting these policies. The policy itself imparted social education by which most people took the ideology for granted. Indeed, in Korea, over 70 per cent of the poor perceive poverty as their individual failure. Only less than 9 per cent of the poor perceive poverty as a result of social or structural problems, as the Table below shows.

Table 7-27. Perceptions of the Reason for the Poverty, 1981.

	Bottom 20 per cent Households	Households Under Absolute Poverty Line
Individual Failure	43.0	70.6
Social Structure	20.9	8.1
Half and Half	34.8	18.8
Others	1.3	2.5
Total	100.0%	100.0%

Source: KDI, *Reality of Poverty and Government Policy* (a report to the prime minister), 1981.

The housing system was, therefore, one of two pillars of social control, along with the examination system. Thus bureaucratic procedures increasingly dominated housing markets with little or no opposition. This made it difficult to reform housing

structure. Choices were distorted. Neither the need for decent housing at low prices for low income households nor the demand for higher profits by the builders and property wealth have been met in Korea.

7.6 Conclusion.

Previous chapters have shown how housing and urban policies evolved with changing economic and social structures. In this chapter, attention has turned to the changed housing market and how changes in housing conditions mediate economic and social structures.

Demand and supply seem to be a significant factor in the housing market. However, the demand and supply interact under the house building and financial structures and various government interventions, which are being re-organized by the changing economic and social structure. In the process of economic restructuring, those people excluded from the benefits of the economic miracle were also excluded from politics and then excluded from the housing market through the price mechanism.

They increasingly faced difficulties in access to owner-occupied markets not only because of their low incomes but also because of the arrangements in the housing market, such as the need for savings, formal finance, etc. In this context, the housing market seems to strengthen the nexus of social relations. By contrast, the reduction of the available lower rented stock has diminished the choices available to those on low incomes. Meanwhile, continuously increasing housing consumption costs have begun to eat even the unevenly distributed fruits of economic growth.

Poor housing conditions of households with low incomes imposed economic, social and political costs. But the costs were eventually passed on to low income households through the unequal industrial, social and urban structures. This caused the breakdown of social mobility, which again pushed up the economic, social and political costs but the costs again were passed on to low-income households. Through this process, exclusion pervaded these structures. In this context, poor housing conditions are not only the result of low incomes but also the cause of low-income households.

CHAPTER 8. RESEARCH FINDINGS AND POLICY SUGGESTIONS.

8.1 Research Findings.

Prior to 1950, the economy of S. Korea was dominated by agriculture, and the social structure of S. Korea based on land. So the distribution of income, and social cleavages in Korea were based on agricultural assets. The land reforms in 1950, therefore, played a central role in flattening the distribution of wealth and social cleavages. Moreover, the Korean War (1950-53) destroyed over 40 per cent of manufacturing facilities, over 20 per cent of the net capital stock and about 18 per cent of the housing stock. Therefore, the War also flattened the distribution of non agricultural assets - in every sense - leaving the majority of Koreans in destitution. After the Korean War, some people could accumulate large amounts of wealth through war-time business, tax evasion and so on; but just after the military coup, the military junta launched strong measures to confiscate unjustifiably accumulated wealth. The total amount of confiscated wealth was significant. Furthermore, the military government launched a currency reform, and forced people to save incomes over certain amounts of exchanged money. Then, through government control - nationalisation of commercial banks, the Economic Development Plan, etc. - the principle of private ownership was crucially restricted and the government came to play a greater part in the control of economic decisions.

Also, the Korean government reorganized and centralized both the budget and planning functions in the hierarchical bureaucracy. The bureaucracy began to recruit the most talented people in Korea through highly competitive examination, which was one of the powerful mechanisms of social mobility in the classless society and contributed to the fluid society. The rapid industrialization, starting from really nothing since the early 1960s, was necessarily orchestrated by the government and the Korean economy and society were led by the public bureaucracy.

In an extremely poor country, not well-endowed natural resources, which was devastated by the civil war and had about half of the population in destitution, economic development was the first and necessary step for social development. As we have seen in Chapter 2, on the route to industrialization, the government's efforts focused on manufacturing industry for exports by concentrating national resources on this fast growing sector - a policy which was often justified with phrases such as

"growth pole", "big push", "unbalanced development" as necessary for reasons of efficiency.

The government left domestic markets to a market rationale. Therefore, the production and distribution of commodities for domestic consumption was an "open" structure. In contrast to this, economic growth and prosperity based on exports were achieved via a state-dominated partnership with large, diversified corporations. With Japan as the prototype, Korea was the best example of this mode of development (J.Henderson, 1993, p.208). As a result, as we have seen in Chapter 3, the combination of meritocratic recruitment in the public bureaucracy and the open economic structure contributed not only to increase opportunities for social mobility but also to economic growth.

Meanwhile, since the launch of the Third Economic Development Plan which shifted the focus of industrial policy towards heavy and chemical industries in 1972, the growth of the large corporations, *chaebols*, was accompanied by the centralisation of the economy. The growth and the collapse of the *chaebols* have shaped patterns of employment, wages, tax revenues and so on. This meant that economic power has become more concentrated and hence more influential in dealing with the government. In other words, the government had to increasingly take account of the interests of these powerful big businesses. However, control over the capital markets and access to foreign sources of credit and the imposition of the ceiling in stock holdings of corporations by individuals and foreign investors were accompanied by centralisation of the economy, but without entailing the concentration of wealth. This necessarily resulted in the emergence of the private bureaucracy which actually runs the *chaebols*, increasingly recruited through a highly competitive examination. Since the late 1970s, there were two bureaucracies, the public bureaucracy and the private bureaucracy, which have led the Korean economy and society. In a country where there is one single race, a single language, common cultural assumptions and a society based on kinship, the competitive examination itself justified the power of the bureaucracies.

The two bureaucracies were homogeneous on the basis of ability or education, rather than family background or class background, sharing the common objective of economic development and common social values. In a classless society, the selection of the most talented persons through the highly competitive examination in the two bureaucracies was the main source of what Henderson (1993, p.209) pointed out, as having "... *built some of the world's most successful companies, irrespective of whether they have been state or privately owned*". This also explains how the state was able to discipline business in the interests of national economic development rather than short-term corporate profitability, without generating political opposition.

It was often misunderstood as having an authoritarian-corporatist nature (see Jones and Sakong, 1980; Mason *et al.*, 1980; Amsden, 1989; Wade 1990; Henderson, 1993), and this led Wade to believe that authoritarian, non-democratic regimes are essential, for an initial period, for high productivity, high wage economies in the developing world. That achievement was a consequence of selecting talented people in the two bureaucracies having the common objective of national growth and thereby co-operating with each other through variously and tightly woven informal channels between bureaucrats. The development of a meritocratic system in recruitment, promotion and rewards in the classless society created a culture of hard work. Thus the explanation that the high performance of Korean workers was the main factor in the economic miracle of Korea (Ranis, 1973) may also be partly plausible.

Despite small government spending on social welfare services and programmes, as we have seen in Chapter 4, this meritocratic system and the pattern of economic development encouraged social mobility without permitting great personal wealth and effectively contributed for many years to the reduction of poverty and inequality. This pattern challenges the conventional economic wisdom that there must be a tradeoff between augmenting growth and reducing inequality in the course of the development process.

However, rapid industrialisation has not lifted all boats equally and has not offered equal opportunities for everyone, partly because of the massive migration of people from rural areas and, in contrast, because of a gradual reduction in the number of urban jobs which accommodated the bottom income groups. As always, there have been optimists emphasising the long-run positive influence of technical change upon employment and pessimists pointing to the large reduction in industrial employment produced by the application of labour saving innovations. Until the late 1970s, the former were most likely to be right. Although inequality in income increased as the Korean economy shifted from labour intensive industry towards capital- and skill-intensive industry since the early 1970s, the ratio of workers to population increased until the late 1970s, which reduced poverty at a rapid rate and increased the living standards of the people as a whole.

Since the second oil price shock in 1979, the following world-wide recession and the emergence of China and South East Asian countries with cheap labour in the international market, Korean industry has been forced to restructure, requiring more flexibility in production and more skill-intensive industrialisation. It was certain from 1979 that the degree of standardisation of products has been decreasing; products and management have become more sophisticated; and businesses have to react faster to changing product market conditions. The consequences of all these processes were the increase in subcontractors and irregular workers, and the decrease in the ratios of

workers to population, especially in production workers, and the division, even among production workers, between key workers and residual workers. Firms preferred to employ daily workers or part time workers rather than full time workers. Moreover, under the subcontracting structure, labour organisation and wage demands resulted in the redistribution of income in favour of the upper low-income groups at the expense of the bottom income group.

The Korean government's interventions in the redistribution of the fruits of economic development were mainly focused on the issues of incomes, such as wages and disparities of wages. They were not extended to household consumption. This equalisation of income does not result in equalisation of opportunities. The principle of "equal opportunities" in a market society, in theory, can only be realized when people have equal resources at their disposal. As time went by, the consumption sector has increasingly influenced the life-chances of the people as significantly as changes in cash incomes.

The shift of the priority in educational policy towards higher education without increasing public spending on education led to an increase in education costs borne by the family. The low-income households were gradually excluded from the only ladder of upward mobility, the university. In contrast to this, the cornershops were closed down by urban renewal and by the super-chain stores. Many assembly lines were substituted by more efficient machines. The dominant ethos of urban life came to rest not on tradition or kinship but on money and the welfare of a nuclear family (Koo Hagen, 1981, p.106). Increasingly divergent opportunities resulted in different levels of household income, gradually stored in wealth. Wealth began to operate as a determinant of life chances, most obviously in housing. Then the differentiation of opportunities was increasingly shaped not only by increased educational costs but also by the increased household expenditure on housing.

The evidence in this research is that education has been the main ladder of social mobility and housing costs have been the main obstacle to such mobility. In this process, the bureaucrats in the public and private sectors were becoming more homogeneous, not only on the basis of their ability and education but also on the ground of their parents' incomes in a nuclear family. They were linked by cross-membership; they graduated from the same university, they had common economic interests and they possessed common social norms and values. The bureaucrats are mostly highly-educated and more or less intelligent members of the society, developing a white-collar politics.

This most obviously occurred in housing policies, as we have seen in Chapter 5. Like all the developing economies, Korea's housing problems were always essentially

quantitative. In the Korean government's housing policy - better described as a policy for built environments - the main strategy was to utilize the savings of households.

In most countries, the construction of the physical infrastructure or built environment was largely the role of the state or the capital market making loans for such investments. In Korea, however, it was the household orchestrated by the government. As we have seen in Chapter 5 and 6, in the early stages of industrialisation, such a strategy of urban and housing development seems to be more efficient and effective because households' growing surplus capital could be used for the accumulation of fixed capital. The investment of private capital, which grew in line with national economic growth, played a great role in the provision of physical infrastructure which aided production, further economic growth and further employment.

The pre-condition of such development was "profits" to investors (in other words, speculators). Such profits were necessarily individual ones, not social, and thereby increased the material well-being of speculators. Due to high social mobility which extended opportunities for individual profits to more people until the late 1970s, such methods themselves operated as a source of political legitimacy for the policy. Moreover, through a simple control over profits, the government was easily able to control the investment patterns in close relation to changed economic environments. Thus, housing and other real estate could be used as economic regulators and, in fact, played a great role for the "health of the economy" which benefited more people.

However, although industrialisation, urbanisation and population growth generated massive new housing demands, it became apparent that the private builders and, to some extent, the housing market as a whole, were unable to provide the required accommodation not just for low-income households, but also for much of the new middle income households. The possession of a house became another source of life chances. The growth in the numbers of bureaucrats and managers forced the government - burdened by very heavy defence expenditure - to intervene in the housing market but without high taxes and high public spending. This led the government to amend the Housing Construction Promotion Act in 1977.

Through the amendment of the Act, the Korean government has tried to cope with a chronic housing shortage, the deficit of housing funds and unequal distribution of wealth by creating a special market for house building and allocation, insulated from the rest of the economy and using what amounts almost to a separate currency - money which flows only within this system. In that system, big house builders were encouraged to play the role of agents in the "quantitative policy" and housing finances have supported particular categories of types and tenure of housing, which has been one of the major influences upon the shape of the building industry and of

the cities, as we have seen in Chapters 5 and 6. By encouraging the building of high-rise apartments and by relying on owner-occupation as the dominant tenure, those who were unable to afford these dwellings have been increasingly excluded from this privileged market. Meanwhile, to keep personal savings flowing into this privileged market, house price inflation and speculation were needed which also kept out people on lower incomes.

Nevertheless, the Korean housing system was justified by penalizing high-income households. So the whole system works well for middle and upper-middle income salaried groups. This system has helped to bring about a redistribution of the major asset, housing, among Korean households, conferring wealth on households in the middle range of affluence and dividing them more sharply from tenants. Anyone on a low income with little or no savings has found it almost impossible to become an owner-occupier. We discussed, in Chapter 7, how greatly the owning of a house influences the material well-being of households. Thus, tenure divisions are coming to express and reinforce existing social divisions via the housing system. Meanwhile inheritance of house property tends to increasingly reinforce these distinctions in succeeding generations.

Under these changed economic and social circumstances, increased public spending on housing mainly benefits those who are already doing reasonably well. But, all in all, the fatal flaw of the speculative method was that a "scarcity" has been essential for the working of the system. Indeed, although the government's white paper has every year restated the aim of providing a decent home for all families at a price within their means, over the past three decades Korea has only added to its housing stock at a rate of less than household growth. The housing scarcity has always continued.

In housing, given perfect market conditions, the fundamental choice would be between renting and buying. But the increasing cost of housing and the increasing number of irregular workers mean that increasing sections of the population have been unable, without some assistance, to afford the full economic price of decent accommodation. The public provision of rented accommodation can ensure that most households who cannot afford to buy can be supplied with housing which they can afford. But, up to now, the housing provided by the public sector has been used to provide an increase in owner-occupation of housing too expensive for people with low incomes. This housing has offered little flexibility in use, and has often been in unsuitable locations for households with low incomes. As seen in section 3 in Chapter 6, these are not the results of ideology but of the structure of the public sector within the housing system. As long as management was judged solely on the criteria of

output volumes and financed by private savings, the public sector could not provide houses for households with low incomes on the basis of needs.

Under this structure of housing system and market, social forecasts based on demographic trends have never been the main basis for planning housing policy and the housing shortage and housing problems of the low-income households would never be solved. The public sector can contribute something towards the stabilisation of house prices and to the health of economy. However, benefits are not likely to be transmitted to low income households under these changed social, economic and housing structures. Private housing construction can expand only by drawing in lower income households. However, the low-income households are increasingly unable to afford the increasing costs. Therefore, house builders cannot expand.

In theory, more rational urban planning ought to help all social groups efficiently. It should keep servicing costs down and allow low-income households to accommodate in decent housing with good environments and at cheaper prices. As we have seen in Chapter 6, while the needs for decent and cheap rented accommodation grew as the numbers of irregular workers grew, the numbers of professionals, engineers, craftsmen and other white-collar workers with secure jobs and high-salaries increased and this increased housing demands for better owner-occupied houses in better locations. Moreover, since the late 1970s, in line with changing industrial structures city centres increasingly attracted jobs for the latter at the expense of the former. In contrast to this, most new housing developments have been further and further away from city centres. Once built, houses cannot be moved.

Homes and work places have to be linked through journey-to-work trips. However, lagged investment in transportation gradually increased the journey-to-work times and costs. The increased costs boosted the demands for better houses near city centres or in other easily accessible areas. Property owners, the government and house builders reacted to the demands by replacing poor houses with high-standard and high-rise apartments at the expense of the minority low-income tenants. Under these policies, urban planning alone was unable to help the low-income households.

As a consequence, households sharing with over three other households in a house have increased over time. Average household expenditure on housing has increased from less than 15 per cent of income to 35 per cent and up to 63 per cent in some lower income households.

Urban land, housing and other forms of real estate are more than just items of consumption. Ownership confers rights; rights of exclusion, rights to decide who should or should not have access; rights to revenue and to capital accumulation. In a rapidly growing economy, which tends to be a high inflation economy, the meaning of ownership was quite different from that in contrasting economies. As we have seen

in Chapter 7, for those who owned or controlled them, houses were another source of life chances. Urban redevelopment from the late 1970s onwards, especially the *Hapdong* renewal described in Chapter 6, has been of the most regressive kind, giving most to those who already have a lot and giving least to those who need most. In the short run, this resulted in the direct displacement of low-income tenants. In the long run, it has a double effect via a reduction of the available cheaper rented stock. Homeowners have been able to build up an equity in their property, due to rapid increases in the price of houses and land, which could be used for purchasing better houses or a house in more desirable locations and for their children.

Housing opportunities, via the price mechanism, excluded poorer people who have already been excluded from economic, social and political areas of the society, and concentrated them in particular housing and urban spatial forms. For example, as regards the housing profile of the urban poor, defined by the poor-relief program, a survey in 1989 (KNHC) showed, about 25 per cent of the poor lived in illegal houses and 80 per cent of them lived in rented houses. For another example, regarding the economic profile of those dwelling in the poor housing areas defined by the urban renewal program, a survey in 1993 (KNHC) showed that about 15 per cent of househeads in poor housing areas were unemployed and about 50 per cent were irregular workers. For them, the average monthly household income of tenant households was £570, whereas that of homeowners was about £619, while for urban households on average, it was £1,130. A socio-housing-tenorial hierarchy is emerging. Spatial patterns are a consequence of the evolution of this hierarchy, distributing life chances increasingly unevenly. The children of well-educated people live in a neighbourhood where schools are better. By contrast, houses in areas where schools are better are more expensive in prices as well as rents (Ryum D-M and Kim H-S, 1991, p.69).

As we have seen in Chapter 7, inadequate income was not the only problem facing urban low income households. Housing consumption costs were so expensive related to low incomes that they cut back other expenditures and thereby cut back opportunity for the future. Lower paid workers demand increases in wages, but they benefit least from wage increases. Moreover, as the increased wages push costs up, large firms pass these costs on to medium sized subcontractors, and then to the urban poor.

The poor housing conditions of those with low incomes raise an issue on the political agenda, but they cannot change existing systems because they are a minority and, more importantly, they are the powerless in the society. Their struggles are often frustrated by the ideological wall that the housing system encourages - giving priority to those who are perceived as working hard and saving a lot.

Increasing educational costs progressively excluded the children of low-income families from higher education. The increasing housing consumption costs aggravated these trends. When the children are grown up, they cannot penetrate into the bureaucracies because of their low level of schooling. Thereby the urban low-income households are gradually excluded from the political market. They are caught in a poverty trap via this mechanism.

Those excluded today from what I have described as 'mainstream' opportunities are defined by a combination of handicaps, including the support available to them from family and kin, education, skills, income, occupation and their status within the labour market and social structure. Poor housing plays an important part in these processes of exclusion both as cause and as effect. It follows that no single indicator will precisely define the excluded.

Table 8-1 Poverty Line in a Family of Five Persons, based on Monthly Income.

	year	Poverty Line	Reference
The Inquiry Commission on Health and Social Affairs.	1978	£276	6 biggest cities
Korea Development Institute.	1979	£115	National level
KRIHS.	1989	£360	Sample in <i>Taegue</i>
Seoul National University.	1987	£600	In cities
The Federation of Korean Trade Union.	1989	£838	In cities

Source: quoted in KRIHS, 1989, p.115

The definition of poverty on the basis of absolute terms by the government (EPB, based on the study of KDI) and on the basis of a survey of a sample households by a quasi-government body (KRIHS), shows about 5 per cent of the population in poverty in 1990. That figure may help to reduce the responsibility of the state and to shift the consideration of poverty away from the discussion of the definition and measurement of poverty towards the poor themselves - in the opposite direction to that taken by Rowntree (1901 and 1941). As Keith Joseph argued, "An absolute standard means one defined by reference to the actual needs of the poor and not by reference to the expenditure of those who are not poor. A family is poor if it cannot afford to eat" (quoted in Mack and Lansley, 1985, p.16). By contrast, the poverty lines, drawn up by Seoul National university (Bae M-K, Park D-J and Cho W-H , 1987) and the Federation of Korean Trade Unions (1989) on a relative basis indicate that about 50-70 per cent of urban households in Korea in 1989 were in poverty. These can be criticised for several reasons, chiefly because they failed to distinguish between

people who did not consume certain goods or attain certain levels as a matter of choice and those who did not because they could not afford to do so.

As Chapters 5, 6 and 7 showed, housing tenures in Korea clearly represent social stratification. Among tenant households, those who did not join the housing related saving schemes were not declining to do so as a matter of choice, but because they could not afford to do so. The allocation of the privilege of a new house strongly influences the life chances of households, not only through capital gains but also through spending and saving patterns, which in turn influence the life chances of their children. In this process, those who are excluded from the economic market were unable to join the housing related saving schemes and were thereby gradually caught in a poverty trap. Thus, those tenants who cannot take part in the housing related saving schemes are not just relatively poorer than others in the society, but lack a mixture of basic opportunities for material well-being - they fail to attain certain minimum 'capabilities'. The housing system in Korea plays a role as gate keeper and provides a powerful indicator to identify the low-income households in a rapidly changing society.

In rural areas, the main issue related to poverty is that households' incomes rely heavily on agricultural output which fluctuates according to the harvest cycle. However, they spend on housing far less than their urban counterparts (see Table 4-14). In urban areas, there is a serious deficit of houses compared to households, but in rural areas one of the housing problems is that there are an increasing number of empty houses left by outmigrants. In contrast, as we have seen in the last Chapters, in urban areas, overcrowding, the rapid increase of rents, arbitrary eviction by house-owners, the lack of amenities and public facilities, etc., all these are concentrated on and connected with low incomes. My estimate would be that when describing people as 'excluded' from mainstream opportunities we are talking about some 18 per cent of the households in cities. The reasoning which produces this figure is explained in Chapter 7, on page 217. This proportion of the households has in recent years been falling mainly because of continuing economic growth and the increase in the number of households in those cities. But the absolute number has not been falling.

The Korean War which produced so many widows and orphans (see Chapter 2), changes in economic circumstance that have led to an increasing number of irregular workers (see Chapter 4), demographic changes such as the growing number of older people (see Figure 2-1) and social changes which have produced a dominant ethos of urban life which rests not on tradition or kinship but on money and the welfare of a nuclear family - together these all have the implication that economic growth alone cannot be relied on to raise the living standards of low-income households.

Moreover, as I shall show later, the prospects for the future depend very heavily on the prospects for reunification of North and South Korea.

During the 1960s and the 1970s, many low-income households solved their housing problems through mutual help of the family thanks to high social mobility. Nowadays, in contrast to others, increasingly the poor help the poor and thereby become poorer. They become marginal in terms of economic, political and urban structures. The "problems of poor housing" are a physical and spatial manifestation of deeply rooted changes in the economy and society. These patterns tend to support and solidify the existing social structure, albeit with improved living standards for the households of the middle income group. It is, therefore, clear that the housing needs of the poor cannot be met only by the provision of urban infrastructure permitting the poor to build their own houses. As professor Donnison (1991, p.7) euphemistically underlines, *"If we only tidy up houses and the surrounding landscape, leaving the people as poor as ever, decay will eventually re-emerge wherever they come to rest"*. This implies that the housing problems of the low-income households are not only a matter of housing and low incomes. The real problem for low-income households in poor housing areas is the loss of chances or powers by which they can change the socio-economic structure or their own position within it. Horizontal spatial policy without combining vertical social mobility will never solve the housing problems of low-income households.

This research, therefore, led to the following conclusions;

- 1) The housing situations of low-income households are not only an unfortunate effect of urban growth. They are also the products of the general changes in Korea's social, economic, political, housing and urban structures.**
- 2) In this process, poor housing is not only a symptom of low income but also housing itself causes low income.**

The evidence for these conclusions is to be seen in the decrease in the chances of upward mobility in the economic and social structures. With decreasing social mobility, the resources of public spending are raised by taxation on uniform principles which result in low-income households paying more than middle-income households, as we have seen in Chapter 4. Taxation is not used as an instrument for income redistribution. Rather it is used to satisfy merely collective wants of particular groups, as we have seen in social welfare services in Chapter 4 and in the housing sector. Thus new interest groups are created, stimulated by active government policies, and then, in reverse they drive policies on their own behalf.

- 3) Thus, the housing situations of low-income households are not a temporary problem, but are becoming structural under present systems.**

4) The benefits of economic growth are not likely to "trickle down" to the poorest people.

These patterns arise not from "government failure" or "market failure" but from "social failure".

8.2 Policy Suggestions.

8.2.1 New Times.

S. Korea is, in every aspect, likely to be at a stage of transition. Grouped as one of the poorest countries in the 1960s, it is now often called an industrialized country. In fact, Korea was ranked the 15th largest economy in the world in 1992 (The Economist, Survey, October 1st 1994, p.4). Moreover, if the World Bank's forecasts are right, by 2020 she might jump to 7th place, excluding North Korea.

The generation who experienced the most difficult and the greatest changes in Korean history, such as the independence from Japan and the partition between North and South Korea in 1945, the Korean War (1950-53), the period of famine and hunger and the period of the Cold War, has led the Korean economy and society from nearly nothing to the 15th largest economy in the world in the past three decades. But they are now moving off the stage of history and a new generation is coming. These historic changes are enough to make differences between the old generation and the new generation in every aspect. As Hwang E-G (1993, p.66) wrote;

"I myself, who was 11 years old when the war broke out, have vivid memories of being very hungry and of many people starving to death, adding to the war casualties. Those who survived the famine years filled their stomachs either with edible grasses and foods that pigs and domestic animals ate, or with leftovers from the foreign military compounds. The survivors cannot look back on those days of agony without tears. But the feeling is changing now with the emergence of the post-war generation".

National solidarity and economic development were the first and prime objectives and values in the old generation. Authoritarian and non-democratic regimes were tolerated by the people for the sake of national solidarity and economic development. Most political prisoners were, in real terms, arrested not because of their ideological backgrounds but for their impacts on national solidarity. In a restricted sense, most Korean officials can be called socialists. The Land Expropriation Act, the amended

Housing Construction Promotion Act, the Aggregate Land Tax, etc, as we have seen earlier, are all commonly found in socialist countries.

It may be more appropriate to describe S.Korea (N.Korea too) as showing a national solidarity which achieved national economic development, enabling almost all sectors and social groups collectively to march forward. On this road, the public bureaucracy, which was the executive committee of the most talented people, led S. Korea during the 1960s and 1970s. Gradually S.Korea came to be led by the two wheels of the public and private bureaucracies.

As time went by, entry to university and then to these bureaucracies is much influenced by family background today and depends less on ability, despite the very substantial rise in the number of university students. The bureaucrats in the two bureaucracies became homogeneous. What serves the bureaucrats, as mentioned earlier - the control of the concentration of wealth, the promotion of economic growth, the provision of qualified manpower, the property-owning democracy, etc, leaving the low-income households as they were - becomes "the public interest", dominating the issues and problems, and then the policies, of recent years.

The balance of power shifted from the understanding of poverty to protecting the interests of the white collar group as the older generation are moving off. Inequality could be reduced by penalizing the very wealthy, but the hardship of the low-income households was not ameliorated by leaving them as they were. Meanwhile the only and the most valuable resource in Korea, human capital, is wasting.

The failure of economic growth to abolish poverty in advanced countries gives an important lesson. In most advanced countries, reformist governments since the last war have subscribed to the view that people's incomes and their source should, in normal circumstances, be left to the interplay of market forces while ensuring that income inequalities should somehow be reduced through the operation of the tax system and the social services. As George and Wilding (1985, p.141) pointed out, *"all the available evidence from many countries now shows that this strategy - if it can be so described - has failed"*. The experience of the past three decades in Korea, and to a great extent in other far east Asian countries, suggests that social mobility and the aspirations of the people were the major sources of economic growth and rapid reduction in inequality and poverty. All in all, in a fluid society, many policy makers and other powerful people had their own background of poverty, and understood the needs of the poor pretty well.

In recent years, every statistic shows a more equal society, full employment, continuing economic growth, etc. Nonetheless, more Koreans are increasingly worrying about their unstable society. Until the 1980s, social stability was achieved

despite growing inequality by hopes rather than reality of getting a foothold on an upward ladder.

As we have seen in previous chapters, low income is one of the barriers to upward social mobility. In contrast to this, wealth by inheritance is also one of the barriers which hinder the upward social mobility of those who lack it. Therefore to reduce the vicious inter-generational cycle of poverty will call for a reduction in the cycle of wealth as well. Although the significance of income inequalities for work incentives is not clear, no one thinks it inequitable that when a reasonable provision has been made for all, exceptional responsibilities should be compensated by exceptional rewards as a recognition of the service performed and an inducement to perform it, provided opportunities for attaining the exceptional rewards are open to all. In recent years wealth began increasingly to stem from inherited property and not from work, reflecting differences in opportunity rather than differences in ability. Moreover, in the fast growing economy accompanied by high inflation, wealth is becoming the main cause of inequality and then of unequal opportunities. This damages hard work and social morality.

The traditional class structure was completely destroyed and, as all studies have confirmed, class consciousness has not formed yet. In this situation, education became the main machine which selects and divides Koreans. Thus, equal access to education, precisely universities, can halt the emergence of a divided society. Nevertheless, the combination of increased educational costs and housing consumption costs increasingly excludes the children of low income households from higher education. What is needed is an education policy not just another university, and a housing policy not merely more houses. Education policy is beyond the scope of this research, but principally the costs of learning should be charged on a basis affordable and open to all at all stages. An improved social security system, national health service, etc. - increasing incomes of the poor and reducing their expenditures on health care - can help to achieve that. That, however, will depend on the state of the national economy.

The concept of housing should be changed from a market commodity into a social service. Housing policy also should be shifted into the field of social policy, in that the distinguishing feature of housing policy should be that the distribution of goods and services to which it relates should be determined on the basis of an assessment of need. Of course, the need is often determined by political judgements because we do not know precisely how to measure satisfaction, happiness or the quality of life. Often the poor and the weaker members of society may be as disadvantaged in the political market as in the economic market. This problem can only be tackled with an open, fluid society in which low-income children can take part in political debate and

implementation. Then the political need will not differ from the need of the poor. Thus, education policy and housing policy must operate as opposite sides of the same coin.

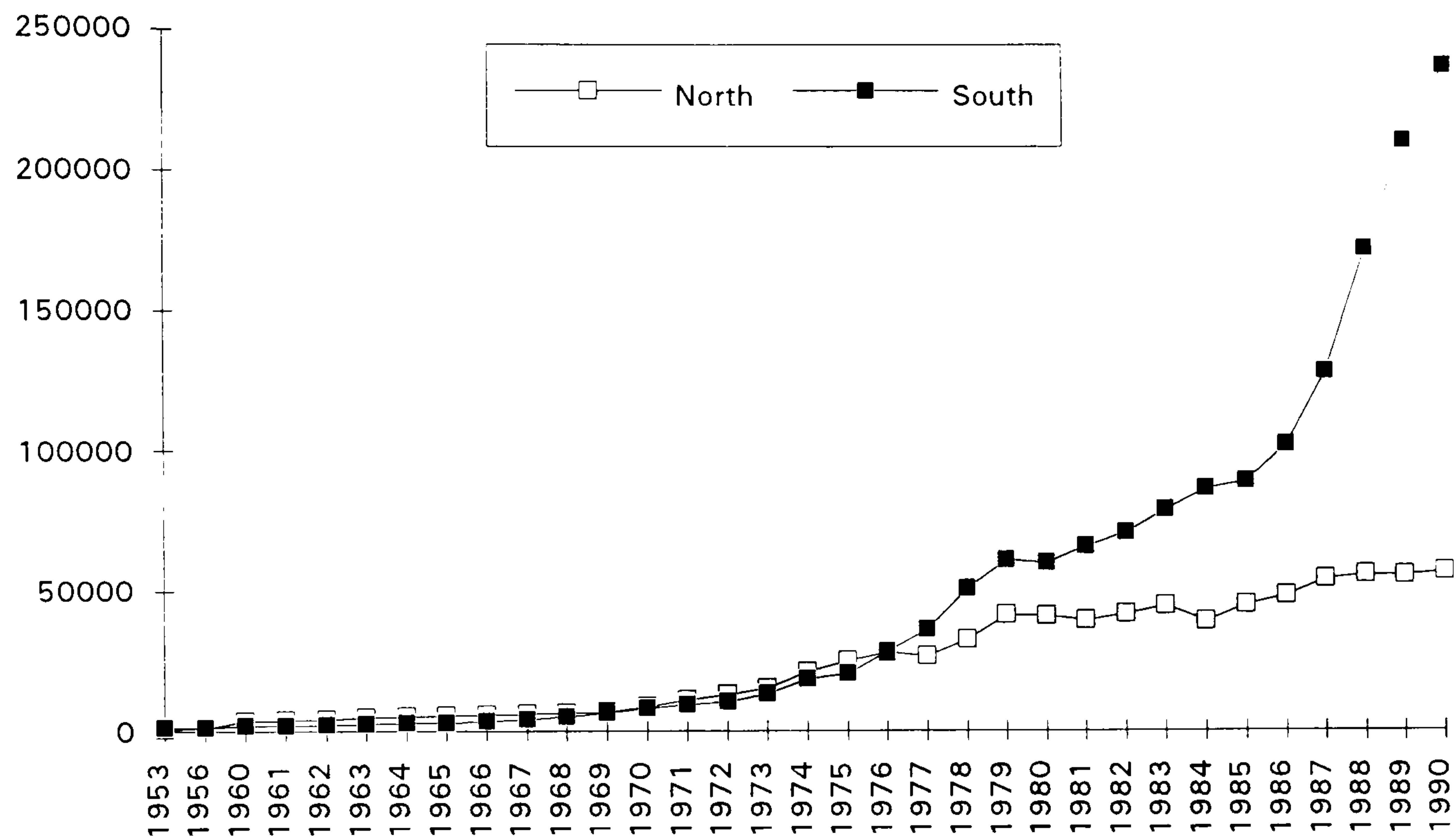
But real crises are likely to be coming in the near future. With the Cold War coming to an end, an unpredicted wind that blew off the Berlin Wall in October 1990, Koreans (South and North) see no reason why the Korean Peninsula should be left out of the surging tide of *detente*. On 17 September 1991 the two Koreas became full members of the United Nations. The older generation, including Kim Il-Sung, is moving off and the post-war generation is coming. Now is surely a time of change. There are many unforeseeable circumstances around reunification, and detailed discussion of them is beyond the scope of this research. But the impact which these changes are likely to make on housing is so great that some consideration must be given to the implications of reunification. What will happen in the Korean peninsula after the reunification which now seems increasingly likely? Apart from emotional and political factors, we cannot easily dismiss the economic impact that will be made on the society, just as we experienced during the last three decades.

Clearly, there are several hazards in attempting to compare the two countries' economic situations. Firstly, N. Korea's national accounts are based on the concept of net material product (NMP), whereas in S. Korea they are based on the gross national product (GNP) at market prices. Secondly, there are difficulties in the interpretation of the self-serving and often falsified statistics put out by each country. Thirdly, there are inconsistent methods of imputation used to account for production that takes place outside the normal buyer-seller relationships, hence having no monetary value assigned to it. Fourthly, an important factor is the artificially maintained exchange rate and so on. Thus if we seek simple comparisons of public welfare, there will be no conclusion. For instance, the N. Korean economy is extremely biased towards heavy industry and defence, at the expense of consumer goods. However, in S. Korea, high economic growth has been accompanied by a serious problem of pollution. This discussion is out of the scope of this chapter (see for details, Hwang E-G, 1993, chapter 3). The comparisons offered are based on Hwang E-G's work. To overcome such shortcomings, his approach was to aggregate the official physical output series into sector and GNP indexes using weights constructed from official data.

Such figures show the N.Korean economy grew faster than that of S.Korea during the first decade after the Korean War, but since the late 1960s S. Korea has achieved tremendous economic growth, exceeding that of N. Korea in the 1970s and 1980s. In absolute magnitude of dollar GNP, S.Korea began to overtake the North from 1976 on, but in terms of per capita income, according to the official exchange-rate-based

estimates, this did not occur until 1985 because the smaller population of N. Korea, which is just about half that of S. Korea, boosted per capita GNP relatively higher than S. Korea's up to 1985.

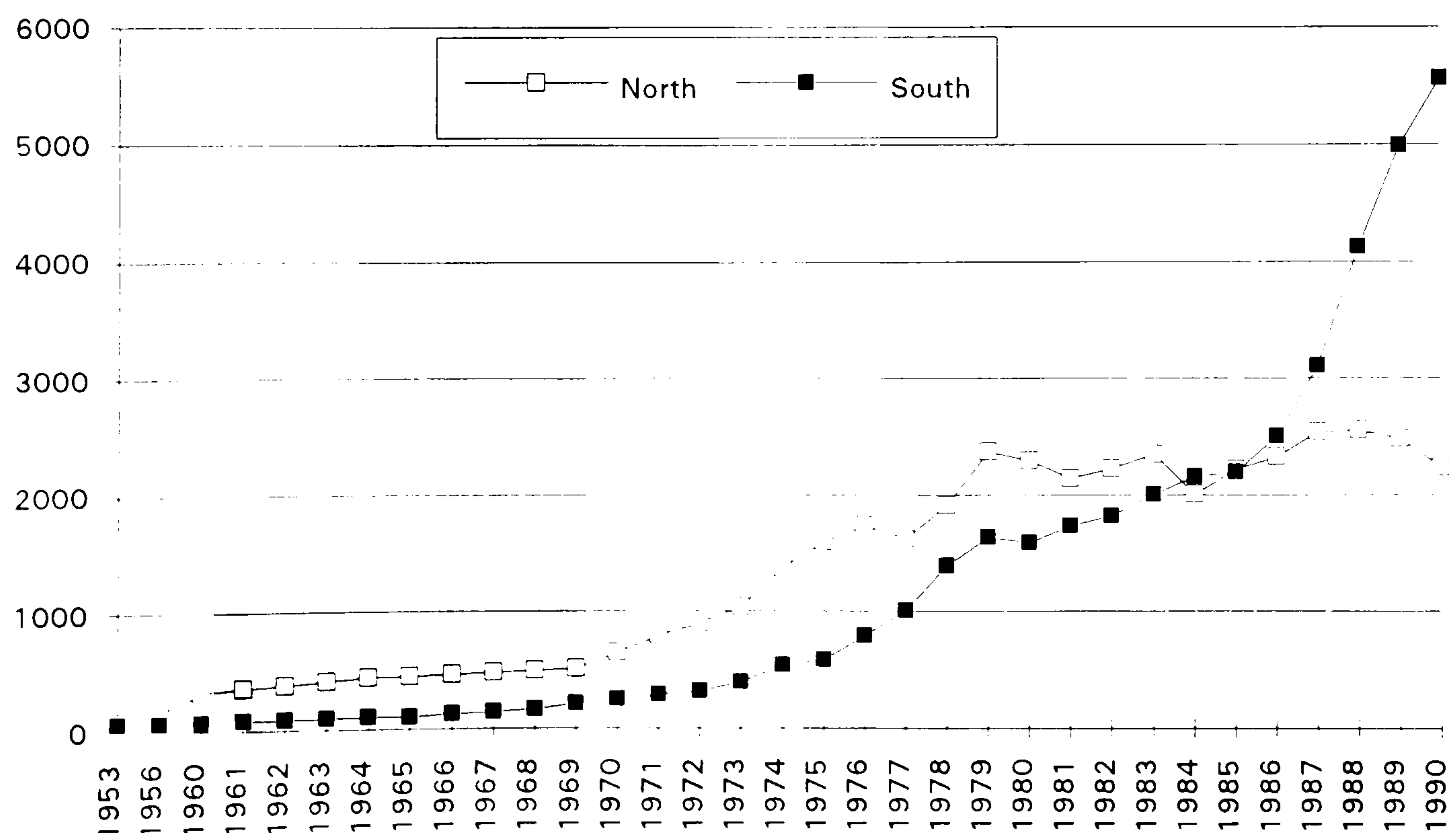
Figure 8-1 South and North Korea's GNP, million US dollars, 1953-1990.



Note: Data for North Korea was converted into US dollars by using North Korea's official exchange rate.

Source: Hwang E-K, 1993, Table 3.11 (a) and (b).

Figure 8-2 South and North Korea's Per Capita GNP, US dollars, 1953-1990.



Note: Data for North Korea was converted into US dollars by using North Korea's official exchange rate.

Source: Hwang E-K, 1993, Table 3.11 (a) and (b).

The gap between South and North is likely to grow wider owing to differences in labour productivity. The N. Korean government established the goals of labour productivity in the Second Seven-Year Plan (1978-1984) and the Third Seven-year Plan (1987-1993). According to the plan, the goals of industrial and basic construction labour productivities were an increase of 1.7 and 1.6 per cent per year in the Second Plan, and 1.6 and 1.5 in the Third Plan respectively. Whereas, as mentioned in Chapter 6, in S. Korea, value added per person in manufacturing and in the house building industry increased at 11.4 per cent and 4.8 per cent per year respectively between 1975 and 1985.

The gap between the per capita GNP of North and South does not necessarily indicate their real living standards. As Table 8-1 shows, for instance, in 1985, the World Bank estimated the food intake of the North to be slightly higher than that of the South. The World Bank Atlas (1989) gives the South figures of 60 and 70 years in life expectancy in 1970 and 1988 respectively, compared with 60 and 69 for the North. The total fertility rate for the South declined from 4.2 in 1970 to 2.1 in 1988, while for the North it declined from 5.4 to 3.5 in the corresponding years. With regard to education, in 1989, the literacy rate of the North was reported to have been about 95 per cent, compared with over 90 per cent in the South. Among other criteria, male and female income and employment, urban and rural standards of living, and general equity seem to be more equal in the North than South.

Table 8-2 Major Social Indicators, South and North Korea, 1960 and 1988.

	South Korea		North Korea	
	1960	1988	1960	1988
Population ('000)	24,994	42,380	10,789	21,877
Daily calorie supply per capita (Kcal)	2,000	2,907	2,000	3,232
Life expectancy	50	70	50	69
Total fertility (%)	5.3	2.1	7.8	3.5
Literacy rate (%)	-	90	-	95
Housing supply ratio	82.5	69.4	80.0	74.0
TV sets (millions)	-	12.71	-	0.24

Notes: 1) 1986 data from the World Bank Atlas (1989), p.7; 2) 1988 data from Hwang E-G (1993), p.125.

Sources: North Korea's Chung-ang Nyun-gam (Central Statistical Yearbook), each issues, South Korea's Economic Planning Board, Handbook of Korean Economy, each issue, and John Paxton (ed.), The Statesman's Year-book, 1989-1990 (New York: St Martin's Press, 1990); requoted and re-constructed from Hwang E-G, 1993, Table 3.12 and 3.13

What is the implication of the widening economic gap between S. and N. Korea for the people in the future? Firstly, until 1989, as Table 8-2 shows, in the North, about over 8 million, equivalent to 37.5 per cent of the population, were engaged in

agriculture over about 214,000 *ha* of cultivated land, whereas, in the South, over 7 million, equivalent to 17.3 per cent of the population, engaged in agriculture over about 212,700 *ha* of cultivated land. In the South, rural workers have been and are still migrating in large numbers from the relatively stagnant primary sector as the economy grows, as we have seen in Chapter 3, whereas North Korean workers have not been free to change jobs without official permission. Thus it can be fully expected that - if restrictions are lifted - a great number of rural workers in the North will migrate from rural areas to urban areas.

Table 8-3 Total Arable Land and Grain Production in North and South Korea, selected years, 1949-1989.

	South Korea			North Korea		
	1949	1967	1989	1949	1967	1989
Cultivated land ('000 ha)	205.3	231.2	212.7	196.6	199.6	214.0
(Paddy)	(122.5)	(129.1)	(136.0)	(46.4)	(56.8)	(63.2)
(Upland)	(82.8)	(102.1)	(76.7)	(150.2)	(142.8)	(150.8)
Grain production						
('000 metric tons)	3,191	6,333	7,160	2,575	4,102	5,482
Farm population ('000)	14,416	16,078	7,347	6,668	5,354	8,445
(% of total population)	(71.5)	(53.4)	(17.3)	(69.3)	(41.9)	(37.5)

Sources: For North Korea's data, *Chosen Chung-ang Nyun-gam*, Rodong Sinmun (Pyongyang newspaper) and National Unification Board (Seoul); for South Korea's data, EPB, Ministry of Agriculture and Fishery and Bank of Korea year-books; requoted from Hwang E-G, 1993, p.244, Table 6.2.

Secondly, as South Korea has experienced during the last three decades, income disparities between regions will cause a massive internal migration from the North to the South. Moreover, in Korea, there is still one single race, a single language and common cultural assumptions which the people of the North and South share. Thus it can be fully expected that the reunification will be accompanied by a massive internal migration in the Korean peninsula and most of the migrants will be expected to go to cities in the South.

However, considering the industrial structure and social structure in the South which were described in Chapters 3 and 4, it is clear that there is growing competition for blue collar jobs which are increasingly declining. But considering their education level, which is certainly higher than their counterparts in the South, a great number of inmigrants can be expected to get a job. Thus the more vulnerable people in the South, who were identified in Figure 4-3 in Chapter 4, will become even more vulnerable owing to the competition of migrants from the North.

More serious problems are likely to occur in housing. Housing is man's most important material need next to nourishment. The performance of economic growth in the South and North has gone far to tackle the grievances of nourishment. It is highly probable that one of the main concerns of Koreans will be therefore housing.

However, as of 1990, the housing supply rate (housing units to households) in the cities of the South is a mere 61.1 per cent. Under this circumstance, a sudden influx of immigrants will be fully expected to lead to a collapse in existing housing markets. It is not likely that the immigrants will be able to afford the housing prices which are 6.9 times the average annual income of S. Koreans in cities in 1990. The immigrants from the North have to face an unexpected higher expenditure in the South than in the North in which they spend only about 3.0-6.0 per cent of their household incomes on housing. Housing consumption costs will cut back other expenditure and thereby cut back opportunities for the future.

There will be a divided society instead of a divided country. So, what should Korea's housing policies now be?

8.2.2. New Policy.

Once that expected crisis is clear, it follows that housing policy should abandon the support of existing systems and markets. The development of housing finances, rent policies, etc., can solve some problems of housing politics, but will never solve the more fundamental housing problems now foreseeable. It is high time to go back to a clean sheet.

Attention can then be given to the supply of social housing on the basis of need. The benefit of cheaper housing consumption costs should be focused on the low-income households and the fruits of future economic growth should be redistributed throughout the society as a whole. Bearing in mind the education fever of Koreans, much of the reduced household expenditure on housing would be likely to flow into the education of their children, thus increasing social mobility as well as reducing the wastage of talented human resources. Moreover, through the allocation of social housing, the families divided between the North and the South can be more easily reunited and the strong family ties which have been the key of the Korean social solidarity system can be revived.

At this time, it is urgently required for the S. Korean government to demonstrate to low-income households and future immigrants that the society is interested in them. The public housing system in Hong Kong and Singapore gives us a lesson. As J.Henderson (1993, p.106) puts forward, *"In the case of Hong Kong where the personal security of an immigrant population could not be delivered through citizenship of a sovereign state, entrance into the public housing system became its functional equivalent and hence a central mechanism through which the colonial regime established its legitimacy"*. When housing is ignored by the economic planner, it will move into focus through the politician.

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