

Compositional Changes of Economic Policymakers and New Economic Discourses in the 1970s and 80s*

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As is well known, in the early 1970s the ROK government relentlessly pursued an export-oriented economic policy. In terms of industrial policy, however, the focus shifted from labor-intensive light industries to heavy chemical industries. This conventional interpretation, however, misses an important point. It fails to account for the continuous economic stagnation in the late 1970s – early 1980s and how it changed the economic policy of the ROK government. This paper analyzes new economic policy as proposed in ‘economic stabilization policies’ from the late 1970s to overcome the signs of an ailing economy. South Korean economic policymaking during the 1970s and 1980s can be seen as a process of expanding the market-centered views based on the neoclassicist introduced by the so-called “Sogang School” and the KDI. The discourses espousing the minimization of government roles in the economy, unthinkable during the 1970s, began to gain dominance among economists. Although differences between the “market-centered” group and the “gradual liberalization” group nevertheless remained, new domestic and international developments did not permit the counter-discourses of Pyŏn Hyŏngyun and Pak Hyŏnch’ae to influence policy. Of course, market-centered views could not be institutionalized in their full theoretical implications in the South Korean context, as the South Korean economic system continued to invite government interventions despite the neoclassicist tendencies of the “Sogang school” and the KDI. The “result-oriented” “Park Chung

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Hee” style of policymaking of the 1970s continued to play an important role, and the two oil shocks and the economic crisis around 1980 prevented complete economic liberalization. However, considering the situation then, it appears likely that neoclassicist economists and bureaucrats, such as Yi Sŭngyun and Kim Chaeik, were appointed to important positions in policymaking, and they appear to have justified their approach in publishing *Kyŏngje anjŏng sich’aek charyojip* in 1981. However, it was to take a long time before the neoclassical stabilization policies were fully adopted, since they only took root after the financial crisis of 1997. The reason for this delay was an attachment to balanced growth theory, which had held sway over economic policy discourses since the 1950s, and the socio-economic structure established during the Park Chung Hee era, the so called “developmental state.”

Keywords: Stabilization policy, KDI, Sogang school, Economic development theory, Modern Korean history (1970s-80s)

Introduction

The 1970s and early 1980s were a time of notable change. While the *Yusin* system of the Fourth Republic (1972-1979) inherited the material and human resources of the Third Republic (1963-1972), it had a fundamentally different ideology and social structure. The Park Chung Hee government of the 1960s, albeit superficially, had upheld many democratic values such as freedom of the press. The authoritarian governance of the 1970s and 1980s, however, was blatantly oppressive to a South Korean populace that had already been inculcated with the values of American democracy.

Unprecedented and notable changes were also observed from the societal perspective. Oppression of social freedom and diversity and enforcement of standardized culture from the top collided with continuing desire for change from the bottom. Western culture began to be imported into Korea via the United States Forces in Korea and other channels, in particular during the Vietnam War, while new ultra-nationalist Korean social culture, as defined by military rulers, was being enforced.

New developments were also evident in the economic sphere. As is well known, in the early 1970s the ROK government relentlessly pursued an export-oriented economic policy. In terms of industrial policy, however, the focus shifted from labor-intensive light industries to heavy chemical industries. An important factor in overcoming the impact of two successive oil shocks was the advance into the Middle East by Korean construction companies, which had been strengthened by their experience in Vietnam. This is the conventional interpretation of the Korean economy in the 1970s and the 1980s, inspired

mainly by the framework of the developmental state theory that put emphasis on the coalition between the state, finance and *chaebŏl*.¹

Such interpretations, however, miss an important point. They fail to account for the continuous economic stagnation in the late 1970s – early 1980s and how it changed the economic policy of the ROK government. Economic problems started in 1978, even before the assassination of Park Chung Hee could have had a big impact on the economy. They brought about a social and political atmosphere conducive towards the victory of the opposition party in the general elections of 1978, and the YH female workers strike incident and the Pusan-Masan uprisings of 1979. The economic problems of the late 1970s persisted until the early 1980s. Consequently, the government proposed the adjustment of economic policies under the slogan of ‘restructuring the economy’ in the hope that it would resolve the crisis.

Although these developments since the 1970s ultimately led to the assassination of Park and collapse of his regime and can, thus, serve as an important index in the evaluation of the success of the regime’s economic policies, there has not been much research on this subject. Woo Jung-en defined the reforms of this period as financial liberalization, Park Yung Chul dealt with the changes in the financial and banking system, Lee Sang Chul focused on the shifts in industrial policies in response to the crisis of the late 1970s, but all these studies fail to grasp the fundamental character of the transformations of the period.²

Where shall we start the discussion of the adjustment in industrial and financial policies of the early 1980s? Why, in spite of other available solutions to the economic crisis, the direction taken was towards liberalization, as pointed out by Woo and Park? Did this shift imply a break with Park Chung Hee’s model? This paper seeks answers to these questions in ‘economic stabilization policies’ proposed from the late 1970s to overcome the signs of an ailing economy.

1. Alice Amsden, *Asia’s Next Giant: South Korea and Late Industrialization* (New York: Oxford University Press, 1989).

2. Woo Jung-en, *Race to the Swift: State and Finance in Korean Industrialization* (New York: Columbia University Press, 1991), 176-203; Park Yung Chul, “Korea: Development and Structural Change of the Financial System,” *The Financial Development of Japan, Korea and Taiwan*, edited by Park Yung Chul and Patrick Hugh (New York: Oxford University Press, 1994), 147-164; Lee Sang Chul (Yi Sangch’öl), “1979-80 nyŏn kyŏngje wigi wa sanŏp chŏngch’aek ŭi pyŏnmo,” in *Pak Chŏnghui model kwa sinjajujuŭi*, 167-219.

Economic Crisis of the Late 1960s: Background to the New Discourse Formation

Starting with the implementation of the First Economic Development Plan in 1962, the South Korean economy grew at a remarkable rate. In particular, an annual average growth of 9.7% was achieved from 1967 to 1971. Exports played a leading role in boosting economic growth. From an annual value of 320 million dollars in 1967, South Korean exports grew to 450 million dollars in 1968, 620 million dollars in 1969, 830 million dollars in 1970, and 1 billion dollars in 1971. Slogans such as “*such’ul man i sal kil*” (exporting is the only way to survive) appeared. Such developments were fundamentally different from the 1950s, when the country focused only on rice and marine products exports, and the early 1960s, when exports were treated only as a means to alleviate the trade deficit.

However, an economic strategy based on exports for a country with few natural resources resulted in rapid increase of imports. From an annual value of 990 million dollars in 1967, South Korean imports increased to 1.46 billion dollars in 1968, 1.82 billion dollars in 1969, and 1.98 billion dollars in 1970. While the ratio between exports and imports decreased, the absolute value difference increased from 660 million dollars in 1967 to 1.01 billion dollars in 1970.

Such developments resulted in the first economic crisis in the late 1960s. Foreign capital was indiscriminately brought in to stimulate export industries, and many “bad” companies were established as a result. While many government-supported banks warranted such capital, these banks could not indefinitely support companies without much capital of their own. The government’s negative interest policy, which was put in place to encourage savings, weakened the financial foundations of the banks. Weakened banks affected businesses and tax revenues, and vice versa, which seemed to be a vicious circle. With the weakening of banks, private loans (*sach’ae*) became more widespread. Because of high inflation and weak banks, individuals with investable capital often turned to private lending. While a bank’s interest rate was around 15% a year, interest rates for private loans were well over 50% and as high as 100% a year. Private loans at such outrageous rates further facilitated the weakening of businesses.

Responding to the crisis, International Monetary Fund (IMF) researchers carried out a survey in South Korea in 1969 for two weeks starting on October 25. Their work pointed to the overuse of foreign savings, which increased

overall liquidity to the point that it threatened the financial foundation of many businesses.³ IMF researchers also pointed out that the government's inflationist policy was a serious threat to the South Korean economy, and suggested that the South Korean government curb its inflationism and prescribed a cooling period of about three years to stabilize the overheated economic growth drive. Given the IMF's significance as a major contributor of public loans to the South Korean government, its recommendations did influence the revision of economic policies even though the South Korean government did not accept the IMF's recommendations in full. In addition, the IMF's recommendations seem to have led to the hiring of new neoclassical economists by the government.

Emergence of New Economic Policymakers and Discourses

1. Professional Economic Bureaucrats

The policy makers who were most influential in shaping economic policies during the 1950s and 1960s were mostly economists from the Seoul National University (SNU) Department of Economics and intellectuals who wrote economy-related articles for the journal *Sasanggye* and newspapers such as *Kyunghyang Sinmun* and *Hankook Ilbo*, with the exception of technocrats like Song Insang, Kim Hyŏnch'ŏl, and Sin Hyŏnhwak.⁴ They took a leading role in discussions related to economic development policies and played key roles in policymaking in the Economic Development Committee under the Department of Rehabilitation under the Syngman Rhee government, the Department of Construction and the National Construction Agency under the Chang Myŏn government, and the Economic Planning Board under the military junta. Their roles assume particular importance after the May 16th coup, as they worked as economic advisors under Park Chung Hee and led the shaping of South Korean economic policies.

After the late 1960s, however, academics educated in the United States and a younger generation of bureaucrats began to assume important roles in economic policymaking. A turning point was the rise of three technocrats in the Economic Planning Board (EPB), the Ministry of Finance (MOF), the

3. *Chosun Ilbo*, 9 November 1969 and 18 November 1969.

4. Park Tae-Gyun, *Wŏnbyŏng kwa Pyŏnyong: Han'guk kyŏngje kaebal kyeboek ū kiwŏn* (Seoul: Sŏul taehakkyo ch'ulp'anbu, 2007), 49-65

Ministry of Commerce and Industry (MOCI) and the Blue House, being Chang Kiyŏng, deputy prime minister at the EPB (1964), Kim Chŏngnyŏm, minister of commerce and industry and presidential secretary (1969), and Kim Hangnyŏl, deputy prime minister at the EPB (1969).⁵

The younger generation of bureaucrats who had to pass the state examination began to assume important positions at the MOCI and the EPB and shaped economic policymaking in the late 1960s. The most prominent economic bureaucrats who rose when Chang Kiyŏng was the head of the EPB (also known as the KY era, from May 1964 to October 1967) are: Chang Yejun, Chŏng Chaesŏk, U Yonghae, Kim T'aedong, Yi Kyŏngsik and Yi Hüil.⁶ Kim Chaeik, Yi Kiuk, Kim Ch'anjin, Cho Chŏngje, Sŏ Sŏkchun, Kang Kyŏngsik, Kang Ponggyun (passer of the 6th examination for higher civil service (EHCS)), Chŏn Yunch'öl, Han Ihŏn (the 7th EHCS), Chang Sŭngu (the 7th EHCS), Im Ch'angyŏl (the 7th EHCS), and Chin Nyŏm also worked for the EPB. However, they differed from the so-called KY era bureaucrats in the sense that they were significantly influenced by neoclassical economics.⁷

The above-mentioned economic bureaucrats gained practical experience during the 1970s and were likely to be influenced by the ministers and vice-ministers they worked for. They later assumed important positions in the EPB, MOF, MOCI and the Blue House, and tensions and conflicts among them while working in these institutions reflected their career backgrounds rather than their institutional affiliations and ideological differences. Sometimes, like in the case of Kim Chaeik, their study abroad experience was an important factor.⁸

2. *Academics with Neoclassical Inclinations*

American economics became dominant after economists trained in the United States began to assume academic positions at major universities' departments

5. Kim Hangnyŏl, after serving as the head of the MOCI and presidential secretary, was appointed deputy prime minister at the EPB in 1969. His influence in economic policymaking earned him the nickname, "Park Chung Hee's economics tutor."

6. A number of economic bureaucrats had experience working for banks. For example, Yi Kyŏngsik (who was economic deputy prime minister under the Kim Young Sam administration), Kim Myŏnggho, Na Ungbae, and Sin Pyŏnghyŏn worked for the Bank of Korea (BOK) before moving to the EPB.

7. Pak Pyŏngyun et al., "T'ŭkpyŏl ripot'ŭ: Han'guk kyŏngje ŭi büreindül," *Sedae* (May 1977).

8. Nam Dŏgu et al., *80-nyŏndae kyŏngje kaehyŏk kwa Kim Chaeik susŏk: 20-jugi ch'umo kinyŏmjip* (Seoul: Samsung Economic Research Institute, 2003).

of economics in the 1960s and 1970s. Microeconomics was particularly popular among them, and they specialized in diverse fields such as econometrics, monetary policies and labor policies. If the Korean economists of the 1950s and 1960s focused on big issues such as economic development, their successors were specialists in specific fields. Going against Keynesian and post-Keynesian economics, these America-trained economists espoused neoclassical theories in suggesting economic policies.

Economists of the so-called “Sogang school” were important in this group. With Sogang University Professor Kim Manje⁹ serving as the head of the Korea Development Institute (KDI) for 10 years, Yi Sŭngyun¹⁰ (who served as the head of the EPB and had profound influence in shaping economic policy in the 1970s and 1980s), Nam Dŏgu¹¹ and Kim Pyŏngguk all studied in the United States until the early 1960s and served as faculty members at Sogang University. The “Sogang school” submitted a report named “T’onghwaryang kyŏlchŏng yoin kwa kŭmyung chŏngch’aek” (Decisive Factors on the Amount of Currency Circulation and Fiscal Policy) in 1965 under a service contract with the EPB and the United States Operation Mission (USOM), marking the beginning of their influence upon economic policymaking. While members of the “Sogang school” shared a common background in so far that they had all

9. Kim completed his undergraduate work at the University of Denver in 1958, majoring in Economics. He graduated from the University of Missouri Graduate School in 1959 and received his Ph.D. in Economics from the same university. He served as a faculty member at the Sogang University Department of Economics from 1965 to 1970, president of the KDI from 1971 to 1982, a member of the Monetary Policy Committee from 1975 to 1983, Sogang University faculty in 1982, president of KorAm Bank and Minister of MOF in 1983, deputy prime minister and head of the EPB in 1986.

10. Yi completed his undergraduate at Seoul National University (SNU), majoring in English. He studied at Adams State College in 1955, graduated from the University of Missouri Graduate School in 1957, and received his Ph.D. in Economics from the University of Wisconsin in 1960. He served as a faculty member at SNU College of Business in 1961-1964, faculty member at Sogang University in 1964-1976, member of the Agricultural Policy Committee in the Ministry of Agriculture and Forestry (MOAF) in 1969, member of the Monetary Policy Committee in 1971-1976, member of KDI research advisory committee in 1973, member of the Petroleum Well committee in 1976-1980, and minister of MOF in 1980-1982. Interview with Yi, November 25, 2005, in his house, Sŏch'o-dong, Sŏch'o-gu, Seoul, Korea.

11. Nam completed his undergraduate work at Kookmin University in 1950, majoring in Political Science. He graduated from the SNU Graduate School in 1956 and received his Ph.D. in Economics from Oklahoma State University in 1961. Nam worked for the BOK in 1952. He became a Kookmin University faculty member in 1954, a Sogang University faculty member in 1964, a member of the Kyŏngje kwahak simŭi wiwonhoe (Council for Economy and Science: CES) in 1969, deputy prime minister and head of the EPB in 1974, and special assistant to the President in Economic Affairs in 1979.

studied monetary theory,¹² it is questionable whether they can be classified as an exclusive “faction.”¹³

The Sogang school also exerted significant influence upon economic policy using microanalysis. Most economists tended to focus on large discourses based on macroeconomics, touching on issues such as economic structure, problems of growth models, and problems of capital and savings rates until the late 1960s. However, while the “Sogang school” touched on macro topics in research papers such as “T’uja sunhwan kwa naeja tongwŏn” (Investment Circulation and Mobilization of Domestic Capital, 1968) and “Han’guk kyŏngje ŭi sŏngjang mohyŏng” (Developmental Model for the Korean Economy, Oct. 1969), they also worked on more concrete topics related to financial and monetary policies such as “Kukch’aek ūnhaeng kyŏngyŏng hamnihwa yŏn’gu pogosŏ” (Research Paper on Rationalizing the National Bank, 1967), “Such’ul nŭngnyŏk ŭi yech’ŭk kwa such’ul chŭngdae pang’an” (An Estimate of Export Capability and a Proposal for Export Increase, September 1968), “Chagŭm sunhwan kyejŏng e ūihan pumunbyŏl chagŭm konggŭp ‘rut’ŭ’ mit chagŭm hŭrŭm ŭi yech’ŭk” (Estimate of a Sectional Capital Supply ‘Route’ by Circulation of Fund Account and Fund Flow, December 1969), “A Study of Money Market and Industrial Investment Financing in Korea” (1971), and “Kugyŏng kiŏpch’e e taehan chŏngbu kamdok chedo e kwanhan yŏn’gu” (Research on Governmental Supervision over the National Companies, 1973). Such research papers must have been attractive to the South Korean government, which was trying to formulate a new economic policy due to a financial crisis in the late 1960s.

The “Sogang school” also played an important role in the KDI. The KDI was established with the United States Agency for International Development (USAID)’s support in 1971. Kim Manje, who served as the first president of the KDI for more than a decade, hired a number of Economics Ph.Ds from abroad under exceptionally generous terms. While many eventually moved on to

12. The Sogang school’s early publications are *Kagyŏngnon* (Theory of Price) by Nam Dŏgu, *T’onghwa kwalli ŭi t’onggyejŏk mohyŏng* (Statistical Model for Managing Currency) by Kim Manje, and *Kyŏngje palchŏn e issŏsŏ ŭi hwap’ye wa chabon* (Currency and Capital in Economic Development) by Yi Sŭngyun. The Sogang University Economic Research Institute’s first publication was also on monetary theory. They made a great contribution to the development of monetary theory based on neoclassicist theory.

13. They played an important role in introducing cutting-edge American economic theories and elaborated their work based on the works of Paul Samuelson, who was considered to be in between neoclassicist and Keynesian thought. See Kim Kyŏnghwan, “Sogang hakp’a ka Han’guk ŭi kyŏngjehak palchŏn e mich’in yŏnghyang,” *Sogang University 40th Anniversary Symposium* (May 2000).

assume academic positions, many of them moved to government ministries and offices related to economics and participated in policymaking.

Kim Kwangsök (Kyunghee University), Hwang Pyöngt'ae (Hankuk University of Foreign Studies), Kim Wansun (Korea University), Mun P'alyong (Konkuk University), Hong Wönt'ak (SNU), Yi Ch'önp'yo (SNU), No Puho (Chungang University), Song Pyöngnak (SNU), Kim Yöngbong (Chungang University), Sö Sökt'ae (Yonsei University), Nam Chönghyön (Korea University), Kim Sönung (Hanyang University), Yi Sönghui (SNU), Kim Tonghyön (Sungkyunkwan University), Yi Söngsun (Sungkyunkwan University), Ku Söngnyöl (Yonsei University), Im Hogyu (Inha University), and Pak Seil (SNU) are those who moved into academia after working for the KDI. Kim Taeyöng (EPB), Mun Hüsang (Prime Minister's Office), and Kim Yunhyöng (Ministry of Energy and Resources) are the ones who became economic bureaucrats after working for the KDI. KDI researchers who moved into academia formed the dominant group in academia and influenced economic policymaking in significant ways.

3. *Economists who focused on Social Structures*

In South Korea, during the 1950s and 1960s obtaining an advanced degree in the United States was a guarantee to success. However, the dominant group of scholars who led the economic discourses into the 1960s was educated and studied economics in Korea, and economists who were influenced by the *Kungnaep'a* (domestic group) scholars continued to form an important axis in policymaking. They were usually referred to as the "Institutional school," and they paid attention to social structures in researching economic problems. They believed that the particular social structure of a nation must be accounted for when analyzing the whole socio-economic structure, including how it had taken shape in the course of history.

However, these scholars were still influenced by American economics. They often visited major universities in the United States to carry out economic research during their sabbaticals, and critically introduced new American economic theories to South Korea. The most notable researchers in this group are Pyön Hyöngyun, Pak Hyönoch'ae and Cho Sun. While Pyön Hyöngyun and Pak Hyönoch'ae approached economic development from a structural reform perspective, Cho Sun critically adopted Keynesian theories in criticizing neoclassicist tendencies.

Pyön Hyöngyun is possibly the only economist who followed in the footsteps of the 1950s and 1960s economic development theory led by Ch'oe

Munhwan, Pak Hŭibŏm and Sin T'aehwan. If Pyŏn Hyŏngyun's stance was to the "right" side of the above-mentioned perspective, Pak Hyŏnch'ae's "national economy theory" was to the "left." Pyŏn Hyŏngyun, together with Pak Hŭibŏm and Pak Hyŏnch'ae, were among the first to criticize Rostow's theories in South Korea. While he had experience studying in the United States and specialized in statistics and econometrics, Pyŏn Hyŏngyun emphasized the necessity of changes in economic structure in economic policy making. In particular, Pyŏn differed from neoclassicists in the sense that he prioritized the importance of balance and distribution over growth.¹⁴

Pyŏn, while criticizing mainstream economics, suggested that reforming economic structure is necessary for continuous economic growth.¹⁵ While Alfred Marshall is mentioned in important ways in his works, Pyŏn suggested his opinions on economic policy from the perspective of structuralism. Such stance also can be found in Pak Hŭibŏm and Ch'oe Munhwan's works in the 1950s and 1960s.

Until the 1980s, Pyŏn Hyŏngyun's views were largely excluded from policymaking. From 1980, Pyŏn was even without an academic position for four years because he was forcibly dismissed by the Chun Duhwan government. After the 1997 economic crisis, however, a number of Pyŏn's former students (the so-called "Hakhyŏn" group, which is the penname of Pyŏn Hyŏngyun) joined the economic policymaking process due to a dire need for structural change in the economy.¹⁶

Pak Hyŏnch'ae followed an economic development theory with socialist inclinations. His *Minjok kyŏngjerŏn* (national economic theory) calls for democratic and self-reliant economic development, combining political and social issues. The significance of his work is that he suggested alternatives to the Park Chung Hee-style of economic development with ideas such as

14. Pyŏn Hyŏngyun, "Minjok hyŏngmyŏnghyŏng kaebal chŏngch'aek e ro ŭi chŏnhwan," *Sedae* (December 1971); "Han'guk ŭi imgŭm," *Kyŏngje nonjip* (March 1964); "Han'guk ŭi kyŏngje sŏngjang koyong mit imgŭm" *Kyŏngje nonjip* (June 1967); *Naengch'ŏl han mŏri ttaddŭt han maŭn: kyŏngje kisado ril saenggak hamyŏ* (Seoul: Chisik sanŏpsa, 1986).

15. Pyŏn Hyŏngyun, *Kyŏngje ril toesaegimyo* (Seoul: Yŏgang ch'ulp'ansa, 2000).

16. *JoongAng Ilbo* 9 March 1999. Kim Taehwan (Inha University, former minister of labor 2004-2005) and Chŏn Ch'ŏlhwan (Chungnam National University, former president of the BOK, 1998-2001) are former students of Pyŏn Hyŏngyun. Members of the "Chunggyŏnghoe" group, which led economic policymaking in the Kim Dae Jung administration, including Kim T'aedong (former Blue House economic chief and policy planning chief), Yi Chinsun (former president of the KDI), Yun Wŏnbae (former vice chairman of the Finance Service Commission), and Chang Hyŏnjin (former president of the Korean Energy Economics Institute) have all been influenced by Pyŏn Hyŏngyun.

“alternative modernization project” and “the nationalist path of the masses.”¹⁷

While Pak’s stance significantly influenced the opposition leader Kim Dae Jung’s economic policy, his ideas largely failed to influence actual economic policymaking after the mid-1970s. However, his “national economy theory” played an important role as an alternative ideology for the social movements. The purging of the “colonial structure” is suggested as the most important task in Pak’s works. Pak even suggested public ownership of land in the late 1970s, when there were active discussions on establishing a “self-reliant” national economy and balanced growth through the development of agriculture along with the abolition of any limitations to land ownership.¹⁸

Pyŏn Hyŏngyun and Pak Hyŏnch’ae were similar in the sense that they both advocated a turn away from export-led or foreign dependent economic development strategy and “revolutionary” changes in the structure of the South Korean economy in order to solve many of its economic problems.¹⁹ However, while Pyŏn sought change within the confines of the establishment, Pak sought an alternative to the dominant discourses from mass social movements.

Cho Sun is similar to Pyŏn and Pak in the sense that he also emphasized the importance of social structure in analyzing economic issues. However, Cho differed from Pyŏn and Pak in that Cho more readily and actively used western economic inclinations and carried out his research mainly in academia. Cho graduated from the SNU College of Business in 1949, two years before Pyŏn Hyŏngyun. Although Cho received his Ph.D. in Economics from Berkeley in 1967, his academic career largely took place at SNU. In particular, Cho played a crucial role in criticizing economists who studied in the United States and had neoclassicist inclinations, while critically adopting Keynesian ideas.²⁰

17. Yi Pyŏngch’ŏn, “Tasi minjok kyŏngjeron ūl saenggak handa – kungmin kyŏngje wa minjujuūi ūi chŏngch’i kyŏngjehak,” *Tonghyang kwa chŏnmang* 48 (2001); Pak Sunsŏng and Kim Kyun, “chŏngch’i kyŏngjehakcha Pak Hyŏnch’ae wa minjok kyŏngjeron: Han’guk kyŏngje sahaksa ūi kwanjŏm esŏ,” *Tonghyang kwa chŏnmang* 48 (2001).

18. Pak Hyŏnch’ae, “Kyech’ŭng chohwa ūi chŏkŏn: singminjijŏk kyŏngje kujo ūi ch’ŏngsang wa chajujŏk minjok kyŏngje ūi hwangnip i chŏnjae doeŏ ya handa,” *Chŏnggyŏng yŏn’gu* (November 1969); “Miingyŏ nongsanmul wŏnjo ūi kyŏngjejŏk kwigyŏl,” *Chŏnggyŏng yŏn’gu* (October 1970); “Che-3 ch’a kyehoek ūi kyehoekhwa munje: kungmin kyŏngjejŏk ch’ŭkmyŏn ūrobūt’ŏ ūi p’yŏngka,” *Chŏnggyŏng yŏn’gu* (November 1971); “Kyŏngje kaebal 15-nyŏn ūi tŭk kwa sil,” *Sindonga* (February 1977); “Kyŏngje palchŏn kwa Han’guk nongŏp ūi chemunje,” *Sindonga* (August 1977); “Kungmin kyŏngje rosŏ ūi naesu sanŏp ūi yuksŏng,” *Sindonga* (February 1978); “Toji e taehan kong kaenyŏm ūi hwaktae nŭn wae p’ilyo hanga” *Sedae* (September 1978).

19. For Pyŏn Hyŏngyun, reform of export-oriented strategy and *chaebŏl* structure was the foremost policy to solve economic crisis. Pyŏn Hyŏngyun, “100ŏk dallŏ such’ul kujo wa segye kyŏngje” *Sindonga* (February 1978); Chŏn Ch’ŏlhwan, “Kwan Chudohyŏng kyŏngje ūi chemunjae,” *Sindonga* (February 1978).

Researchers of the SNU Department of Economics, centered around Cho Sun, operated around the Economic Research Institute and the journal *Kyŏngje nonjip* (Seoul Journal of Economics: SJE), based on the theoretical base of Keynes,²¹ criticized mainstream economics represented by neoclassicism.²² He argued that modern economics cannot solve practical and broad economic problems such as problems arising from the oil shock, domestic distribution and structural issues.²³

The above-mentioned scholars certainly did have individual differences in terms of their views. Unlike the neoclassicists, however, they also strove to absorb economic theories from areas outside of the United States. They were interested in economic research from Europe as well as from Latin America. They also absorbed Western works on economics through Japan and highly valued the works of Japanese economists. Such tendencies are reflective of their background, as they were educated in Japanese during their formative years and were familiar with Japanese language throughout their early lives.²⁴

Continuation and Change of Economic Discourses

1. Continuation of the Balanced Growth Discourse: An Imperative Idea

Important ideas in the discourses of economic development until the 1960s were “balanced growth theory,” “unbalanced growth theory,” and the Rostovian take-off model. The “balanced growth theory” in particular was

20. Cho’s experience as an instructor at the Korean Military Academy appears to have been influential in shaping his intellectual tendencies. The Korean Military Academy text book *Chŏnghun*, which Cho took part in writing, shows Cho’s Keynesian stance very well.

21. Cho Sun, “Keinzū ūi iron kwa sasang e kwanhan sogō,” *SJE* 18 (1979); Cho Sun “Keinzū wa Syump’et’ō,” *SJE* 22 (1983).

22. Cho Sun, “Segye kyŏngje chilsŏ ūi chŏnhwan kwa hyŏndae kyŏngjehak e taehan pansŏng,” *SJE* 14 (1975).

23. Im Wŏnt’aek, who taught at the SNU Department of Economics with Cho Sun, also interpreted Keynes in a neoclassicist perspective. Im Wŏnt’aek, “Pan Samyuelsin,” *SJE* 20 (1981); “Tokchŏm kyŏngje wa Keinsū kyŏngjehak,” *SJE* 22 (1983).

24. Kim Chŏngghyŏn often quoted European economic history and Pyŏn Hyŏngyun adopted many discussions of Japanese economists. Pak Chaeyun also adopted theories on inflation from Latin America. Kim Chŏngghyŏn, “Yŏngguk yoŏmaen e kwanhan ilyŏngu,” *SJE* 4: 3 (1965); “Kyŏngje palchŏn ūi chedan’gye,” *SJE* 4: 2 (1965); Pae Mugi, “Nongŏmmul saengsanbi e kwanhan ilgoch’al,” *SJE* 6:2 (1967); Pyŏn Hyŏngyun, “Han’guk ūi saengsan kujo,” *SJE* 6: 4 (1967); “Han’guk sanŏp kujo ūi t’ŭkching,” *SJE* 8: 3 (1969); Pak Chaeyun, “Inp’ŭlleisyŏn ūi wŏnin e taehan ironjŏk taerip,” *SJE* 7: 1 (1968).

attractive to a country like Korea, which had experienced colonization. Most scholars sympathized with the idea of economic self-reliance through balanced growth, and such idea became an imperative to many. Although there has been some criticism of the “balanced growth theory” in the mid-1960s,²⁵ most scholars accepted “balanced growth theory” as a principle.

As already mentioned, the idea that export-led unbalanced growth is appropriate as a national economic development strategy became popular by the late 1960s. Such ideas became established as “export-led growth theory.” However, the “balanced growth theory” remained an important alternative theory. Pak Hŭibŏm and Pyŏn Hyŏngyun, for example, actively criticized W. W. Rostow’s theories despite Rostow’s great popular authority.²⁶ Pak and Pyŏn pointed to the problems in the first and second Economic Development Plans, and suggested the necessity of import substitution industrialization (ISI) strategy.²⁷ While such discussions led to key state industry development strategy including heavy and chemical industries, they also led to an emphasis on the importance of agriculture.

Continuous discussions on agriculture had been an important economy-related discourse in Korea since the 1950s. Interest in agriculture did not cease among intellectuals even during the 1970s, when economic policy wholly concentrated on industrialization. In particular, scholars who argued for the structural change of the Korean economy – Pyŏn Hyŏngyun, Pak Hyŏnch’ae and Kim Chingyun – argued that industrialization without agricultural development can cause serious dependency problems.²⁸ Cho Sun, who advocated a Keynesian economic policy, and Pak Hŭibŏm, who advocated comprehensive self reliance industrialization, also argued for the importance of agricultural development.²⁹

Problems related to balanced growth of agriculture and secondary industry

25. Hong Sŏngyu, “Palchŏn iron kwa nonggong pyŏngjin chŏngch’aek,” *Chŏnggyŏng yŏn’gu* (September 1966).

26. Pak Hŭibŏm, “Hanguk kyŏngje ūi hyŏndang yesŏl – Rosŭt’ou ūi palchŏn tan’gyeronjŏk chindan;” Pyŏn Hyŏngyun, “Rosŭt’ou toyak iron ūi Han’guk kyŏngje e taehan chŏgyong munje,” *Kyŏngje sŏngjang ūi iron kwa hyŏnsil* (1969).

27. Pak Hŭibŏm, “Kaeal kwa chabon ūi dŭrama,” *Chŏnggyŏng yŏn’gu* (October 1970).

28. Pyŏn Hyŏngyun, “Minjok hyŏngmyŏnghyŏng kaeal chŏngch’aek e ro ūi chŏnhwan;” Kim Chingyun, “Nongch’ŏn e issŏsŏ ūi saengsan kwa sobi haengwi ūi sahoejŏk, simnijŏk yoso,” *Kyŏngje nonjip* (October 1971); Pak Hyŏnch’ae, “Kyŏngje palchŏn kwa Han’guk nongŏp ūi chemunje.”

29. Cho Sun, “Charip kyŏngje ch’eje ūi chŏngch’aek kijo,” *Chŏnggyŏng yŏn’gu* (December 1969); Pak Hŭibŏm, “Hugi kongŏphwa tan’gye e issŏsŏ ūi nongŏp chŏngch’aek,” *SJE* (October 1971).

were extensively discussed even at the end of the 1970s. While scholars and bureaucrats with neoclassicist leanings argued for the abolition of double pricing of rice and reform of grain and fertilizer accounts in carrying out a retrenchment policy as part of the economic stabilization policy in April 1979,³⁰ *kungnaep'a* economists continued to argue for continuous state support for agriculture.

Some specific issues related to the “balanced growth theory” are the arguments of Keynesians centered around Cho Sun. Being different from Pak Hyŏnch’ae and Pyŏn Hyŏngyun’s collisions with neoclassicists, Keynesians, like neoclassicists, argued for the reduction of the government’s role and market-centered liberalization in the economy while suggesting continued investment for the agricultural sector. The Keynesians’ stance is evident in their 1979 publication led by Cho Sun, “Chungjanggi kaebal chŏllyak e kwanhan yŏn’gu” (A Research of Mid-long Term Strategy for Development) [abbreviated hereafter as “Mid-long Term Strategy”], presented at the “kyŏngje kwahak simŭi hoeŭi” (Council for Economics and Science: CES):³¹

We must change the unbalanced growth thus far to balanced growth. It is desirable that the state support for agriculture continues at a reasonable level. Liberalization of the import of agricultural products must be conducted carefully (iii).

This work pays attention to the necessity of protecting Korean agriculture along with the problems of foreign capital and income distribution to promote balanced growth.

Already by the mid-1960s, there were a number of works arguing for the mobilization of domestic capital as an alternative to relying on foreign capital

30. KDI, *Kyŏngje anjŏng sich’aek charyojip* (Collection of Sources of Proposals for Economic Stabilization) [abbreviated hereafter as “Proposals for ES”]: 79.4.17, in *Kyŏngje anjŏnghwa chonghap sich’aek ŭl chungsim ŭro*, pp. 35-36.

31. Cho Sun, “Overall Policy,” paper presented at CES, Seoul, Republic of Korea, 1979. According to Cho Sun, this research started with an order by the CES. Although the research was submitted in 1979, it was not released to the public due to censorship. Researchers who took part in the research were: Hong Wŏnt’ak, Song Pyŏngnak, Chŏng Kijun, Chŏng Unch’an, Yi Kyudong, Pak Uhŭi, Pae Mugi, Pak Chaeyun, Kim Sewŏn, An Sŭngch’ŏl, Pak Yŏngch’ŏl, Kim Wansun, Cho Sŏnghwan, Kim Pyŏngju, Kim Tŏkchung, Pan Sŏnghwan, Hwang Ilch’ŏng, Na Ungbae, Pak Chingŭn, and Pak Sŏngyong. With the exception of Pak Yŏngch’ŏl (Korea University), An Sŭngch’ŏl (BOK, the Blue House secretary), Kim Wansun (Korea University), Kim Tŏkchung (Sogang University), Hwang Ilch’ŏng (Sogang and Hanyang University), and Pak Chingŭn (Yonsei University), most of the researchers were faculty members of the SNU Department of Economics and/or involved in *Kyŏngje nonjip* of the Economic Research Institute.

in carrying out economic development plans.³² Caution and criticisms of foreign capital intensified with the financial crisis of the late 1960s. Many economic researches analyzed and criticized companies that grew on foreign capital,³³ and sought ways to continue economic growth over the financial crisis.³⁴ Therefore, many works suggested the need for a qualitative change in the import and use of foreign capital, and in national economic policy as a whole.³⁵

Although “Mid-long Term Strategy” also takes a critical view on the use of foreign capital, its main stance was different from the criticisms of the late 1960s. If the late 1960s’ critical view argues for mobilization of domestic capital, “Mid-long Term Strategy” argues for a more efficient use of foreign capital. It argues that the marginal efficiency of [foreign] capital decreases with time, and “maintenance of reception preparation” is therefore continuously necessary.

“Mid-long Term Strategy” also makes a strong point on distribution. Issues on distribution already formed an important discourse regarding “balanced growth theory” and problems with Korean economic structure. If most social movements until the late 1960s focused on national issues like unification and the normalization of relations between Korea and Japan, social movements of the 1970s began to focus on issues of class and income distribution. In the 1960s, the focus was placed on how to make the pie bigger, as the pie back then was too small to be divided. However, scholars in “Mid-long Term Strategy” paid attention to how to divide and distribute the pie fairly.

When the focus shifted to the issue of distribution, neoclassicists relied on Simon Kuznets’ theory. Using the examples of more advanced nations, Kuznets

32. A number of discussions took place in the journal *Chōnggyōng yōn’gu* between 1965 and 1967 on ways of mobilizing domestic capital. *Ch’ōngmaek*, a popular journal, also suggested the necessity of domestic capital mobilization based on comprador capital theory. The editor and staff of *Ch’ōngmaek* were prosecuted under suspicion of violation of the National Security Law in 1968.

33. O Kyōnghūi, “Ch’agwan kiōpch’e: kŭ hyōnhwang kwa chōnmang,” *Chōnggyōng yōn’gu* (April 1968); Kim Sōngdu, “Ch’agwan kiōp ūi pusilhwa wa taeoe ch’aemu ūi nujōk,” *Sasanggye* (November 1969).

34. Im Chongch’ōl, “Oejawa Han’guk kyōngje kaebal,” *Chōnggyōng yōn’gu* (November 1968); Chōng Toyōng, “Oehwan wigi wa such’ul sip ōk pul ūi changnae,” *Sasanggye* (November 1969).

35. Kim Chōngt’ae, “Chilchōk chōnhwan p’ilyo han oeja toip,” *Chōnggyōng yōn’gu* (November 1968); Im Chongch’ōl, “Kaeal sahoe ūi chabon,” *Chōnggyōng yōn’gu* (June 1969); Ch’oe Hojin, “Chōnhwan’gi e sōn Han’guk kyōngje,” *Chōnggyōng yōn’gu* (November 1969); Cho Yongbōm, “Kodo sōngjang ūi kungō rŭl munnūnda: oehwan wigi ha ūi 1970-nyōndo chōngbu yesanan munjejōm,” *Sasanggye* (October 1969).

suggested that the distribution issue will be automatically solved after a country reaches a certain level of growth and development.³⁶ His theory was applied to the Korean case through Irma Adelman, who participated in formulating the Korean economic development plan, and such view was reflected in the report to the World Bank. However, there were dissenting opinions that argued for the special conditions of Korea, which made its distribution problems different from that of other countries. Sō Sangch'öl, for example, harshly criticized the application of Kuznets' theory in Korea, arguing that, "because the madam [Adelman] selected an erroneous method, we achieved an almost insignificant result."³⁷

The researchers in "Mid-long Term Strategy," however, were directly opposed to Kuznets' theory on distribution issues. In other words, they argued for the need for a policy that can achieve distribution balance. They continuously brought up the issue,³⁸ and some of them even argued for the need for a labor union.³⁹ "Mid-long Term Strategy" approaches the problems of distribution as follows:

10. Fair distribution of income has become an important policy issue. Economic growth does not automatically bring equilibrium in income distribution, and there must be an active effort towards the fair distribution of wealth. Checks on inflation, discouraging disproportionate bank loans, and reasonable interest rates will help in distributing income more fairly. Retrogressive aspects of the taxation must be revised. State funds would also have to be spent in ways that are more advantageous to the low-income groups.

14. The government must develop a basic plan for the advancement of public welfare. However, our welfare policies should not indiscriminately imitate those of the Western nations. The basic direction of our welfare program must be strategic, purposeful, and preventive. To achieve comprehensive growth, investments on human resources and tendencies for saving must be increased. In addition, to achieve balanced growth in the economy and harmony in society, income distribution will have to be fairer, labor rights must be protected, pollution will have to be prevented, the environment has to be conserved, and housing supply must be expanded. The abovementioned policies must be the basics of our welfare policies.

36. Pak Chaeyun, "Hujin'guk ū punbae munje e taehan chōpkŭn," *SJE* (September 1969).

37. Sō Sangch'öl, "Kyōngje palchōn kwa sodŭk punbae," *Sindonga* (May 1975); Pae Mugi, "Adelman ū Han'guk sodŭk punbae p'yōngdŭngnon kōmt'o," *SJE* 15 (1976).

38. Im Chongch'öl, "Sŭngjang ūi ridŭm," *Chōnggyōng yōn'gu* (November 1969); Pyōn Hyōngyun, "Han'guk ūi kyōngje sōngjang koyong mit imgŭm," Pae Mugi, "Ch'oejō imgŭmje ūi kyōngjejōk punsōk," *SJE* 15: 1 (1976).

39. Pyōn Hyōngyun, "Han'guk ūi imgŭm."

Such a stance in income distribution appears to be influenced by Gunnar Myrdal. Myrdal wrote the book *An American Dilemma: The Negro Problem and Modern Democracy* in 1944 and continuously paid attention to the poverty problem in the Third World. Although Myrdal's theories already had been partly introduced by Ch'oe Munhwan during the 1950s and 1960s, it was through SNU's *SJE* in 1977 that Myrdal's theories received a thorough overview.⁴⁰ Influenced by Myrdal's theory, some also argued that a balanced growth of both agriculture and industry was necessary.⁴¹ Such "balanced growth theory" is different from Ragnar Nurkse's "balanced growth theory." Although the two are similar in the sense that they both argue for continued development of agriculture, Nurkse's position argued for greater structural reform of society while focusing on welfare policies to solve the problems of distribution.

2. Discussions on Stabilization Policies

In the era of rapid economic development that started in the 1960s, "growth" was considered sacred. Although many "side effects" emerged in the process of economic growth, solutions appeared only in limited ways so as not to disrupt the "growth" itself. Of course, it was not that "stabilization" was never suggested in the process of economic growth. There were discussions on the need for stabilization as early as the mid-1950s.⁴² Another round of discussions on stabilization took place in the mid- to late 1960s as well. In the midst of the financial crisis in the late 1960s, the problem of inflation was important to the people's livelihood.⁴³ Despite the fact that issues related to "stabilization" were largely geared towards price stabilization until 1974, high rice price policies were often put into effect to revive agricultural household economy at the same time. In other words, there was no specific "stabilization" policy with a

40. Gunnar Myrdal, "What is Development," *Kyŏngje nonjip* 16 (1977).

41. Kim Taehwan, "Kyŏngje palchŏn ch'ogi chokŏn mit nonggong kyunhyŏng palchŏn," *SJE* 16 (1977).

42. Such discussions in the 1950s largely took place in *Sasanggye* and *Chaejŏng*. The discussions in the 1950s are characterized by the fact that they took place along with the financial stabilization plan of the United States. The United States government advised the South Korean government to select the financial stabilization plan after 1956, and inflation stabilized in South Korea for the first time as a result. However, stabilization of inflation in 1957 led to economic recession in 1959.

43. Reflecting the crisis, the February 1970 issue of *Sindonga* and the June 1970 issue of *Sedae* included the transcripts of table talks on whether or not a stabilization policy is necessary.

consistent logic.⁴⁴

The economic situation after the mid-1970s, however, created a sense of emergency because inflation could destroy the achievements of economic development overnight. Such a situation, of course, is not unrelated to the two oil shocks of the 1970s. Although the South Korean government announced the freezing of prices on August 5, 1972, it had to increase the public utility charges by as much as 109.3% in February 1974 due to the first oil crisis. Prices of indispensable items, such as laundry soaps and sugar, also skyrocketed by as much as 57%. Although the EPB announced a comprehensive price stabilization on February 6, 1974, 15 key industrial products such as televisions, refrigerators, and cars nevertheless shot up 12-54.4%. Prices of rice and agricultural chemicals increased in May, the price of sugar shot up 49.6% on June 31, and prices of petroleum and electricity increased 31.1% and 42.4% respectively on December 7, as part of the comprehensive market measures.

After going through the first oil crisis, the South Korean government created the “Law on Price Stabilization and Fair Transaction” to strengthen price control, and the price of commodities did relatively stabilize. However, price stabilization in this period was temporary and was not the result of a fundamental curbing of inflation. The stabilization of prices in 1973 was followed by a massive increase in wholesale prices – a whooping 42.1%. The excessive “boom” between 1975 and 1978, including construction and real estate speculation, resulted in the prices of almost all commodities doubling.

Therefore, the South Korean government began to prepare for a more comprehensive price stabilization plan starting from 1978. On December 20, 1978, the MOF reduced the tariff rate on fuel and key building materials. A number of policy debates took place inside of the government: “Han’guk kyōngje ūi tangmyōn kwaje wa taech’aek” (Current Tasks and Measures in the Korean Economy, EPB, March 1978), “Han’guk kyōngje ūi kwaje” (Tasks of the Korean Economy, first secretary of the economy, the Blue House, April 1978), “T’onghwa anjōng ūl wihan tangmyōn chaejōng kŭmyung chōngch’aek” (Contingent Financial Policy for Currency Stability, EPB, April 1978), and “Han’guk kyōngje ūi tangmyōn kwaje wa taech’aek” (Current Tasks and Measures in the Korean Economy, EPB, December 1978).

44. Yi Ch’angnyōl claimed that stabilization is necessary for high-rate economic growth, and Ku Ponho of the KDI argued that stabilization is impossible without growth. Such arguments do not deviate much from the proposed antagonistic relationship between growth and stabilization, a logic which was in place since the 1950s. See “T’ukchip onŭl ūi Han’guk kyōngje – kŭ undong ūi haemyōng,” *Chōnggyōng yōn’gu* (August 1973); “Kyōngje taedam, sōngjang kwa anjōng, Ch’a Pyōnggwōn (Sōuldae), Ku Ponho (KDI yōn’gu pujang),” *Sedae* (March 1974).

Such discussions became even more active in 1979, and synthesizing the previous discussions, “Kyŏngje anjŏnghwa chonghap sich’aek” (Overall Policy for Economic Stabilization: abbreviated hereafter as “Overall Policy”) was released by the CES. Also, Sin Hyŏnhwak replaced Nam Tŏgu as Deputy Prime Minister of EPB. The domestic media at the time also prioritized stabilization over growth.⁴⁵ “Overall Policy” was created in March of the same year through discussions at the policy meeting headed by Park Chung Hee. The head of the EPB, the special assistant to the president on economic matters, the first secretary of the economy, committee members of the CES, the president of the BOK, and the president of the KDI participated in the meeting. Of particular significance was the discussion of “Uri ŭi tangmyŏn kwaje wa taech’aek” (Our Current Tasks and Measures; abbreviated hereafter as “Current Tasks”), submitted by the CES.

The CES’s “Current Tasks” and the KDI’s “Anjŏnghwa taech’aek panghyang” (Direction for Stabilization: abbreviated hereafter as “Direction”), documents that served as the background to the “Overall Policy” and the discussions, also assume significance in relation to the economic discourses in the 1970s and 80s, because they synthesize the expert views formed throughout the 1970s. The main contents of “Current Tasks” and “Direction” are as follows:

Table 1. Comparison between “Current Tasks” and “Direction”

	“Current Tasks” (by the CES)	“Direction” (by the KDI)
Reasons behind inflation	Backwardness of the industrial capital mobilization system.	Accumulated factors for the rise of prices. Unfair transactions.
Problems of businesses	Lack of capital for small and medium-sized enterprises that produce consumer products.	Government policy on finance. Real interest rate is not being applied.
Price control	Needs to be removed. Fair prices guarantee profit to businesses and smoothes the supply. It also stimulates imports.	Remove
Fundamental solution	1. Reforming the circulation of capital and increasing interest rates are not enough. Real estate speculation needs	1. Realization of accumulated prices. 2. Importing of foreign capital

45. Chŏng T’aesŏng, “Sin Hyŏnhwak kyŏngje t’im yŏn’gu,” *Sindonga* (March 1979).

Table 1. (continued)

	“Current Tasks” (by the CES)	“Direction” (by the KDI)
	to be suppressed and the private money market should be absorbed. 2. Support for small and mediumsized enterprises producing commodities for domestic markets. 3. Suppression of TV commercials promoting consumption.	to the point that it does not affect inflation. 3. Reforming of unfair trade.
Readjustment of interest rates	Increase from 18.5% to 22%. Other government interest rates should also be increased.	Realization of actual interest rate is necessary.
Medium- and long-term solutions	1. Comprehensive reform of taxation, including value-added tax. 2. Reform of the financial sector 3. Promotion of cooperation between capital and labor. 4. Improvement of land policy.	Not mentioned.

* Based on Proposals for ES, published in 1981.

“Current Tasks” and “Direction” are similar in the sense that they both stress the significance of stabilization in a broad sense. However, they differ in their explanation of inflation and in their proposals for fighting inflation. If the former looks at economic structure for the reasons behind inflation, the latter argues for free markets as the solution for inflation. In particular, “Current Tasks” also shares a lot of points with “Mid-long Term Strategy.”

“Mid-long Term Strategy” argued that, although the government interference in the economy has to be reduced given the development of the economy, the government needs to play a role in a broad range of issues, from promoting fair transactions to income distribution. Many of the solutions in “Current Tasks,” such as reforming the tax system and the finance sector, promotion of cooperation between capital and labor, and improving of land policy, largely match those of “Mid-long Term Strategy.”

On the other hand, “Direction” argued for minimization of government roles in the economy, and its view was broadly reflected in “Overall Policy.” Such policy measures includes stabilization of finances, mediation of investments, promotion of imports and competition, realization of actual prices, and liberalization of the financial sector. Such contention is reflective of the neoclassicist view that was being formed since the early 1970s. Although

the policy guidelines of “Overall Policy” were not able to be immediately put into effect due to the social and political disorder following the October 26 incident (the assassination of Park Chung Hee), they were carried out from the early 1980s based on neoclassicist contentions. This point is evident in the work of Kim Chaeik, the president’s first secretary of the economy in the Fifth Republic (1981-1988).

3. Discussions on the Roles of Market and Government

The influence of American neoclassicist economics brought significant changes to South Korean economic discourses after the 1970s. Most economists began to agree that, in order to overcome the financial crisis of the late 1970s, the role of government needs to be minimized while the market should be granted greater freedom. Inflation should not be combated with price controls, but with the establishment of a system of free competition through normalization of financial institutions, regulation of government spending, import liberalization, and fair transaction. The abovementioned “Current Tasks” and “Direction” are similar in this sense. Conventional ideas and practices, such as state intervention in the economy, total control of the finance sector, and protective trade to shelter domestic industries, began to be challenged. Although it was not yet easy to win popular sympathy, a new direction in economic policy began to take place in 1978.

The liberalization of imports is a good example of such developments. Although liberalization of imports took place in part due to pressures of advanced nations, they also took place due to domestic reasons. The expansion of supplies and a perceived need for correspondence between domestic and foreign prices were among the domestic reasons for the liberalization of imports. Eventually, the South Korean government partially liberalized imports in three phases on May 1, 1978, September 18, 1978, and January 1, 1979. The liberalization of imports expanded further in the 1980s,⁴⁶ and such measures were closely linked to stabilization through economic liberalization. Liberalization of imports continued into the early 1980s despite the negative perception of the populace and stiff resistance of farmers.⁴⁷ In addition, starting

46. The government announced the plan for further liberalization of imports in several phases on February 25, 1983. The government increased the import liberalization rate from 80.4% to 80.7% on November 25, 1983, and from 80.7% to 80.8% on May 26, 1984. The government included an additional 235 products on the list of free imports on May 18, 1985.

47. Yang Sugil, “Suip chayuhwa wa kyöngje unyong,” *SJE* 23 (1984).

from 1980, active policies to attract foreign investment began to be carried out.⁴⁸

The change of the Fifth Economic Development Plan of the 1980s, from a government-led program to a program of inducement, is also indicative of the overall transformation of the Korean economic system into a private-led economic system.⁴⁹ Proposing stabilization as the most important priority of economic policy in the 1980s was possible because of such atmosphere. Evaluating presidential secretary for the economy Kim Ch'aeik's economic thought as "most committed to neoclassicist theory" proves to be an apt description.⁵⁰

However, there was no total agreement among scholars and bureaucrats. Differences between "Current Tasks" and "Direction" show the different views on the roles of the market and government. Economists and bureaucrats with neoclassicist leanings argued for reduced roles of the government and greater freedom for the market. Economists in the opposition, however, while agreeing on expansion of the role of the market, argued differently for the roles of government. Although the two views agreed on the premise that the role of government should be reduced, the latter argued for a gradual reduction. The below citation shows the former's position.

In order to transform the economy into a competitive system, we must change the government role in the economy towards a more neutral and observatory one. In order to achieve this, various legal and institutional impediments in stimulating competition should be removed.⁵¹

Market-centered thought spread out from the "Sogang school" and the KDI, as mentioned above. They argued that the private market economy should lead economic growth, while government interventions should be minimized. In order to realize the abovementioned goals, they argued that the public enterprises should be privatized and preferential treatments of certain industries and businesses must be abolished.

Milton Friedman's monetarism further strengthened the new developments.

48. The EPB announced on September 25, 1980 the plan to attract more foreign investment. Details for such measures were released on July 24, 1981. On December 31, 1983, laws on inducement of foreign capital were revised.

49. Kim Kwangsök, "Han'guk ŭi kyöngje kyehoek kwa kyöngje palchön," *SJE* 20 (1981).

50. Nam Dögu et al., *80-nyöndae kyöngje kaebyöök kwa Kim Chaeik susök: 20-jugi ch'umo kinyömjip*.

51. Korea Development Institute, *Proposals for ES*, p. 64.

Friedman's works, however, began to be introduced in Korea starting around 1970.⁵² Friedman's work provided an important theoretical base to attack Keynesian ideas of expansion of government spending to increase demand. Friedman's theory also contributed to the starting of discussions on financial liberalization.⁵³ The need for financial liberalization was first suggested in earnest by Sogang University faculty member Yi Sŭngyun. He argued for financial liberalization while suggesting the need to stimulate the bonds market.⁵⁴ In addition, Kim Pyŏngguk argued that the introduction of foreign capital became inevitable and that there is a direct connection between the successful import of foreign capital and stabilization of the economy.⁵⁵

A number of measures to liberalize finances took place in phases. The real-name financial transaction system became established despite strong opposition, and the KorAm Bank opened as a private loaning institution. Friedman's theory also helped to expand the study of finance.⁵⁶ While the South Korean discussions on financial questions did not exceed that of J.R. Hicks and Harrod Domar's models before,⁵⁷ more diverse opinions began to emerge after the introduction of Friedman's works. Friedman's theories and interests in monetarism were still of great interest to economists into the 1980s.⁵⁸

Oppositional "gradual liberalization" discourses also began to spread. The SNU Department of Economics, in particular, was a center of such discourses. Mostly based on Keynesian or modified Keynesian theories, they argued against liberalization of imports⁵⁹ and total financial liberalization.⁶⁰ Although

52. Yi Ch'angnyŏl, "Kyŏngje sangsiksŏn ū oryu e taehan pip'an," *Chŏnggyŏng yŏn'gu* (April 1972); Yi Hyŏnjae, "Keinzū esŏ Fūridūman e irūnūn hwap'ye iron ūi chŏn'gae," *SJE* 13 (1974); Pak Chaeyun, "Demand for Money in an underdeveloped economy," *SJE* 14 (1975); Kang Kwangha, "Fūridūman ūi infūreisyŏn iron," *SJE* 14 (1975); Pak Chaeyun, "Chŏgaebal kyŏngje ūi hwap'ye suyo," *SJE* 15 (1976).

53. Yun Ch'angho, "An Essay on Financial Liberalization," *SJE* 13 (1974).

54. Yi Sŭngyun, "Chabon sijang yuksŏng ūl wihan chŏngch'aek mit chedosang ūi munje: kŭmyung chasan e taehan suyo sŏnt'aek ūl chungsimŭro," *Chŏnggyŏngyŏngŭ* (September 1969).

55. Kim Pyŏnggu, "Oeja toip ūi hyŏnhwang, munjejŏm mit chŏnmang," *Chŏnggyŏng yŏn'gu* (April 1970).

56. Ch'a Pyŏnggwŏn, "Chaejŏnghak ūi ironjŏk palchŏn kwa yŏn'gu tonghyang," *SJE* 20 (1981). Ch'a introduces the K. J. Arrow's theory in this article. Related to the study of finance, J. M. Buchannan and R. E. Wagner's book was translated into Korean in 1981.

57. Kim Tuhŭi, "Kyŏngje kaebal kwa chaejŏng chŏngch'aek," *SJE* 15:1 (1976).

58. Im Wŏnt'aek, "Fūridūman ūi hwap'ye iron" *SJE* 25 (1986); Yi Chisun, "Hwap'ye kyŏngje iron ūi ch'oegŭn tonghyang," *SJE* 25 (1986); Chŏng Unch'an, "Hwap'ye kyŏngjehaksa sŏsŏl," *SJE* 26 (1987).

they did not refute the argument that the government's role in the economy had to be reduced, they continued to suggest the need for guided financing. In addition, they argued that the autonomy of the central bank and the capacity for inspection must be strengthened. They also argued for the reform of the currency management system.⁶¹

Economic and financial policies must be transformed overall to strengthen the financial sector. The range of financial policy must be reduced in phases. In carrying out financial policies, the autonomy of private banks must be preserved, and the independence of the central bank must be granted with an eventual goal of privatization.⁶²

As an oppositional response to the market-centered tendencies, Keynesian theories also came back into the spotlight. In the *SJE* from 1976 to 1979, a number of interpretations and reinterpretations of Keynes appeared, as well as various warnings against the prevalence of neoclassicism.⁶³ Cho Sun, who had already claimed that neoclassicism failed to solve real problems of the economy back in 1975,⁶⁴ appraised Keynesian theory as a solution to the real problems of the economy.⁶⁵ In 1983, another special issue of *SJE* reinterpreting Keynes was published.

For those opposed to a market-centered view, financial liberalization must be based on the overall transformation of economic and industrial policy, and the government must continue to interfere in the areas of distribution and the welfare system. While the KDI's "Kūmyung chedo kaep'yōn pang'an" (A Proposal for Reforming the Banking System), which followed the stabilization plan, argued for the across-the-board actualization of interests, the CES' "Kūmyung sanōp ūi kaebal pang'an" (A Proposal for Developing the Banking System), argued instead for publicizing private loans while expressing reservations about the interest realization. In addition, those that argued

59. Pak Uhūi, "Suip chayuhwa ihu ūi Han'guk kyōngje," *Sindonga* (June 1978).

60. Cho Sun, "Kyōngje palchōn ūi kūmyungjōk chokōn kwa Han'guk kūmyung ūi kwaje," *SJE* 21 (1982).

61. Chōng Unch'an, "Chōnhwan'gi e sōn Han'guk kūmyung ūi chinno," *SJE* 21 (1982).

62. Cho Sun, "Overall Policy."

63. Yi Chōngu, "Raiyōnhufudū ūi kyōngje sasang" *SJE* 15 (1976); Kim Tuhūi, "Keinzū ūi kyōngje sasang," *SJE* 16 (1977); Yi Chōngu, "Keinzū kyōngjehak e issōsō ūi pulhwaksilsōng ūi ūiūi e taehayō," *SJE* 16 (1977); Kim Tuhūi, "Keinzū ūi ija iron" *SJE* 17 (1978). Im Wōnt'aek criticized neoclassicism through his criticisms of Samuelson. Im Wōnt'aek, "Pan samyuelsūn."

64. Cho Sun, "Segye kyōngje chilsō ūi chōnhwan kwa hyōndae kyōngjehak e taehan pansōng."

65. Cho Sun, "Keinzū ūi iron kwa sasang e kwanhan sogo."

Table 2. Differences between the “market-centered” group and the “gradual liberalization” group

	“market-centered” group	“gradual liberalization” group
Role of government	To be minimized to an observatory role. Economy should be led by the private sector.	Gradual reduction. Rapid privatization is unadvisable
Labor market and problems of distribution	Expansion of supply of professionals to suppress rising of wages	Continued government interventions in areas of distribution and equality.
Measures for plutocrats and big businesses	Promotion of institutions for fair trade	Necessity of sound ethics for businesses. Government must play a role in making sure that free trade does not end up privileging big businesses
Financial liberalization	Necessity of across-the-board financial liberalization	Gradual financial liberalization in phases. Problems of financial sector must be discussed along with private loan and bill markets.

against a market-centered view made clear that they were even against the private sector leading the economy if such position ended up unfairly benefitting the plutocrats and large businesses.⁶⁶

Also, while the market-centered view argued that problems in the market would be solved through liberalizations that revive market functions, the “gradual liberalization” side argued for the existence of other relevant factors besides improving the market functions. Such a difference is evident in the differing policy aims for improving market conditions. While the former focuses on problems of the labor market along with financial liberalization, the latter argues for a sound business mentality. The market-centered view argued that the reason initial salaries of recent college graduates were rapidly rising despite the rapid expansion of the market during the 1970s was due to supply shortages. To remedy the situation, they argued for the expansion of entrance quota,⁶⁷ which led to a rapid expansion of incoming classes in universities

66. Ibid., 47-49. While the Korea Development Institute’s “Proposals for ES” is also critical of plutocrats’ indiscriminate land and real-estate speculations and advantages in financial policy, it did not argue for a fundamental reform.

67. “Proposals for ES,” 72-80.

across the country during the early 1980s.

On the other hand, the latter argues for a sound mindset within the capitalist system. In other words, Schumpeteresque thinking is emphasized.

Investments in education and human resource development must be expanded, as promotion of technology and knowledge is essential for internal growth. Savings must be encouraged and economic institutions and managerial rules must be revised in order to stimulate innovation in business

Long-term economic growth is dependent upon the sound mindset of economic subjects. In our country, the three economic subjects' (household, business, and government) thinking and practices are not yet modern. Sound ethics is of particular importance. The government must pursue ethical policies and businesses also must carry out business activities based on sound ethics.

Economic policies should not be dependent upon factors such as the amount of currency in circulation, the amount of exports, and the ratio of taxation against national income. They must be based on sound judgments and insights, which can persuade and guide the people into the future.

Conclusion

The "Overall Policy," which appeared in 1979, cannot be considered as a victory for the market-centered view. Although the market-centered view began to have a bigger voice, the "Park Chung Hee-style" of the 1970s continued to dominate economic policymaking.⁶⁸ However, suggestions by the IMF appear to have weakened the "Park Chung Hee-style" policymaking. In particular, the 1980 report by IMF investigators played an important role in institutionalizing a market-centered point of view. IMF investigators, who pointed to "protectionism" as an important reason behind the global economic downturn in the 1979 annual report,⁶⁹ presented a report on the state of South Korean economy after dispatching a negotiation team on May 22, 1980.⁷⁰

A particularly arresting part of the report was the section on finances. The IMF suggested that the Korean economy could grow continuously if market stability could be maintained. An important point was that there was a need for the liberalization of banks. The investigators also suggested that, because

68. Cho Sun has pointed out that economic policymaking since 1970 has not been based on a sound theoretical base. According to Cho, such tendency was a result of a "result-oriented" decision making process that neglected theoretical aspects of economics.

69. *Chosun Ilbo*, 16 August 1979.

70. The IMF researchers' report was published in the *Chosun Ilbo* from May 23, 1980 to June 3, 1980.

the South Korean government's privilege loans do not benefit all businesses, the government should minimize intervening in the financial sector. Such points are in line with the KDI's market-centered view.

The American and South Korean government documents and interviews of participants need to be consulted before making a firm argument about the impact of the IMF's suggestions. However, considering the situation then, it appears likely that the IMF played a critical role in shaping the 1981 "*Kyŏngje anjŏnghwa chonghap sich'aek*" towards a market centered perspective. Neoclassicist economists and bureaucrats, such as Yi Sŭngyun and Kim Chaek were appointed to important positions in policymaking after the IMF report, and they appear to have justified their approach in publishing the *Kyŏngje anjŏng sich'aek charyojip*.

In broad terms, South Korean economic policymaking during the 1970s and 1980s can be seen as a process of expanding the market-centered views based on neoclassicist thought. Discourses espousing the minimization of government roles in the economy, unthinkable during the 1970s, began to gain dominance among economists. Although differences between the "market-centered" group and the "gradual liberalization" group nevertheless remained, new domestic and international developments did not permit the counter-discourses of Pyŏn Hyŏngyun and Pak Hyŏnch'ae to influence policy.

Of course, market-centered views could not be institutionalized in their full theoretical implications in the South Korean context, as the South Korean economic system continued to invite government interventions despite the neoclassicist tendencies of the "Sogang school" and the KDI. The "result-oriented" "Park Chung Hee" style of policymaking of the 1970s continued to play an important role, and the two oil shocks and the economic crisis around 1980 prevented complete economic liberalization. Failures of the financial liberalization program and the real-name financial transaction system following the so-called "Chang Yŏngja incident" in the mid-1980s attest to the abovementioned conditions of the Korean economic system.

The market-centered view became dominant around 1990. However, this view suffered a backlash following the 1997 economic crisis. While the IMF suggested that the South Korean government remain committed to the market centered view, economists influenced by Pyŏn Hyŏngyun and Pak Hyŏnch'ae began to exert influence in policymaking instead.

Due to such phenomena, discourses on the history of Korean economic thought must be analyzed differently from those of Western nations that are often based on economic theories. As the Korean discourses on economic development during the 1950s and 1960s differed from their Western

counterparts, the post-1970 expansion of the market-centered view also cannot be understood by simply importing Western economic theories. Such an issue is perhaps the most difficult aspect in studying history of Korean economic thought.

Let us look at the answers to the three questions posed above. The discussion of the late 1980s about the adjustment of industrial and financial policies began unfolding since the early 1970s, the background of which was the economic crisis of the late 1960s. And because these discussions were grounded in neoclassical economics, economic stabilization and financial liberalization were chosen as the direction for reforms, even though many other opinions and policies were suggested in regards to the means of overcoming the economic crisis of the late 1970s. This, of course, cannot be explained only based on the internal debates. Another factor was the heightened criticism of Keynes and the spread of neoclassical economics in the 1960s in the United States, which reflected the IMF's recommendation to the ROK government both in 1969 and 1981. However, it was to take a long time before the neoclassical stabilization policies were fully adopted, since they only took root after the financial crisis of 1997. The reason for this delay was an attachment to balanced growth theory, which had held sway over economic policy discourses since the 1950s, and the socio-economic structure established during the Park Chung Hee era, the so called "developmental state."