South Korean Democrats make empty populist appeal

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With South Korea's parliamentary and presidential elections to take place in April and December respectively, the newly-formed Democratic Unity Party (DUP) has turned to crass populism by announcing a platform based upon reining in the country's major conglomerates, or chaebols.

The DUP was established after the defeat of the Democrat candidate by an independent, Park Won-soon, in the primary contest for the important Seoul mayoral election in October. Park went on to defeat the ruling Grand National Party (GNP) candidate. The Democrats drew the conclusion that the party needed refashioning to prevent social discontent from developing outside the official parties. The DUP's formation ended a factional split in South Korea's Democrats.

Popular hostility to the Democrats has been building up for more than a decade. During the 1997-98 Asian financial crisis, Democrat President Kim Dae-jung played the crucial role in imposing the demands of the International Monetary Fund. In collaboration with the Korean Confederation of Trade Unions (KCTU), he began to dismantle the country's life-long employment system, opening the door for a wholesale casualisation of the workforce.

Kim's Democrat successor, Roh Moo-hyun, a "labour rights lawyer" in the 1980s, enacted policies that expanded the irregular workforce as a source of cheap labour for employers. As a result, some six million South Koreans, or a third of the workforce, are now employed in temporary work, earning less than 60 percent the wage of a regular worker.

As a result of popular opposition to their pro-business policies, the Democrats lost the 2007 presidential election to the right-wing GNP. Now the DUP is seeking to rebuild its electoral base by criticising the chaebols and making limited proposals to restrict their economic activities.

Last month, the DUP announced an equity investment cap that would prevent the top 10 conglomerates, including Samsung and Hyundai, from owning more than 40 percent in another affiliate or subsidiary. The plan would leave two-thirds of the chaebols unaffected, and still allow the 10 giants to hold a major controlling stake in any investment.

The DUP also said it would raise the tax rate on the top income bracket in order to increase funding for social welfare. However, the party will not announce its actual tax measures until later this month.

The chaebols are massive family-owned conglomerates modelled on the pre-war "Zaibatsu" in Japan, such as Mitsui and Mitsubishi. A holding company sits atop an interconnected web of subsidiaries that can range from consumer goods to shipbuilding, arms production and newspapers. The chaebols used to be financed by their own banks and enjoyed extensive state financial support up until the 1990s.

In the midst of the 1997-98 financial crisis, President Kim Dae-jung enforced a restructuring of these conglomerates. He banned them from owning banks and thus controlling much of the banking sector, and broke up their inter-holdings. These actions benefitted small and medium businesses—the Democrats' social base—and foreign investors.

However, the restructuring undermined the less competitive chaebols and thus laid the basis for an even higher concentration of capital in the top conglomerates. The 2008-09 global financial crisis accelerated the process. Since 2009, the 30 largest chaebols have acquired 211 companies, bringing their total holdings to over 1,000.

Hankyoreh reported in February that the annual sales of the 30 biggest chaebols totalled 1.134 quadrillion won ($US1.01 trillion), equal to 96.7 percent of Korea's gross domestic product. The value of their combined assets reached 1.4605 quadrillion won ($1.3 trillion). From 2001 to 2010, the top five had increased their sales as a proportion of the GDP from 59 percent to 70.4 percent.

The DUP blames the growing economic power of the largest chaebols on the decision of the current GNP President Lee Myeong-bak to repeal the investment cap in 2009. But there is no guarantee that the imposition of the cap, even if carried out, would slow the process, which is rooted in the worsening global crisis of capitalism.

DUP policy committee chief Lee Yong-sub was at pains to point out that the party was not anti-market or anti-capitalist. "The DUP's drive to reform the chaebols is not a denial of a market-based economy, but an effort to alleviate its side-effects," he said.

The GNP, which has just changed its name to the Saenuri Party, is also attempting to appeal to anti-chaebol sentiment. The party announced that it would drop its "non-interference policies and reinforce the social responsibilities of large firms." It voted for a new tax bill in January, dubbed the "Korean Buffet rule," that lifts the top tax rate from 35 percent to 38 percent.

Both the GNP and DUP are responding to widespread hostility to the country's deepening social divide between rich and poor.

The immediate result of the chaebols' rapid expansion is a staggering increase in the personal fortunes of their CEOs. From 2010 to 2011, the wealthiest 40 South Koreans saw their worth increase by over $20 billion to $65.5 billion. The personal assets of Hyundai Motor's Chung Mong-Koo, for instance, jumped by 80 percent to $7.4 billion.

At the same time, prices for essential goods such as food and fuel have increased sharply and wage levels have remained stagnant. The *Maeil* business newspaper reported in February that from 2006 to 2010, real household disposable income grew by only 1.6 percent.

Household debt has risen dramatically, up by 12.9 percent in the past year alone. The debt-to-disposable income ratio stands at 172.3 percent, among the highest in the world. Total household debt has reached $811 billion.

An OECD report last year on social inequality warned that South Korea's case "is actually worse than most member states." It explained: "First, its level of social spending is among the lowest in the OECD area. Second, the impact of its tax and transfer systems on income distribution and poverty is among the weakest. Third, Korea's dualistic labour market is highly segmented between regular and non-regular workers, leading to wide inequality in wage income."

South Korea spends just 7.5 percent of its GDP on social spending, compared to an average of 20 percent in OECD countries. The limited proposals for tax increases on the wealthy—even if implemented—will do little or nothing to alleviate the economic burdens on working people.