

Austerity in reverse: Korea, capabilities, and crisis

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ABSTRACT

Development is austerity in reverse. And austerity is development in reverse, a form of de-development. This paper argues that austerity is a neoliberal technology for returning countries to positive economic growth that reduces social spending and thereby reverses development. Drawing on Sen and Nussbaum's human capabilities approach, an exploration of Korea's development since 1960 supports this and three additional claims. First, the expansion of capabilities in Korea is tied to democratization and exponential increases in social spending. Second, Korea's experience with financial crises and austerity programmes demonstrate that increased social spending is compatible with rapid recovery. Third, Korea's roll out of neoliberal technologies and economic transformation since the 1980s have undermined the capabilities developed during earlier industrialization. Fourth, the importance of housing as a vital tool for political legitimation, especially since democratization, has sustained political interest in providing better housing, suggesting that social movements are essential to protecting social spending.

KEYWORDS

Korea; capabilities; crisis; austerity; housing

1. Introduction

Austerity is a relatively new phenomenon in Western Europe, but it has been practiced in the developing world for over three decades. Austerity has been employed as a neoliberal technology for prying open developing countries' markets for global capital and for ensuring that financiers in New York, London, and elsewhere recover their loans. The outcome for the ordinary citizens of affected countries has typically been setbacks in wealth accumulation, health, education, and security (Rodrik 2006). In effect, austerity has reversed development outcomes for the world's poorest while securing returns for Wall Street. It could thus be said that development is austerity in reverse. And austerity is development in reverse, a form of de-development. Therefore, an understanding of development—austerity in reverse—may contribute to our understanding of the contemporary situation in Europe and vice versa.

The case for making a comparison is bolstered by three parallels between austerity in the North and South (cf. Greer 2013). First, the crises that have produced demands

for austerity have been precipitated by international finance. In the North, profligate lending fueled by the false security of complex financial instruments, especially in housing markets, created the instability that threatened national economies (Blyth 2013). In the South, the surfeit of petrodollars in the 1970s led international financial actors to irresponsibly push loans on developing countries and then new loans to pay off old loans, which ultimately became unsustainable (Rist 1997). Second, in both cases, financial institutions have sought to protect their own revenue from the crises they collectively created. In the North, state bailouts in the trillions of dollars were granted to international financial actors to avoid a meltdown, shifting all the costs of risk onto states. In countries of the South, the goal of austerity programs was always to achieve a positive flow of state revenue that would allow them to at least keep making interest payments. The third parallel is that in both cases the chief strategy for restoring fiscal stability that has been considered viable by the IMF and others is cutting social spending.

On the basis of these parallels, this paper explores the case of Korea's rapid economic, political, and social development to make the case that austerity is development in reverse and to find insights into state and social responses to crisis. It proceeds by first delineating the contrast between austerity and development, drawing on the capabilities approach. This distinction is then made tangible through the presentation of Korea's really existing development and findings from the developing world. A closer look at Korea's development trajectory then suggests evidence that austerity is only one viable approach to crisis and that global economic restructuring has posed new challenges for development. Finally the paper zooms in on the housing sector to show that social movements have been essential to maintaining developmental gains.

2. Austerity as development in reverse

2.1. *Austerity as neoliberal technology*

Ong (2007) has argued that neoliberalism is a mobile technology without quite identifying what that technology is. She positions it as a 'logic of governing' and as a technique for re-managing populations by increasing self-management and so-called freedom (cf. Harvey 2010) in order to maximize profits. In her presentation, neoliberalism is both a singular technology (a logic of governing) and a set of practices or technologies (e.g., privatization). Her underlying goal is to argue that neoliberalism is not a rigid set of policy approaches that are applied *en toto* by states and international actors. Neoliberalism instead 'migrates and is selectively taken up in diverse political contexts' (Ong 2007, 3). For Ong neoliberalism consists of a set of governing practices that contribute to private sector profit maximization by reducing state responsibility for citizens' well being. However, it is perhaps more useful to distinguish between a set of individual practices or technologies that may be combined in a myriad of ways contingent upon local conditions and a strategy of governing that uses those practices to achieve a particular goal. A clearer conception would be that neoliberalism itself is a logic or strategy of governing by increasing self-management that selectively avails itself of an often consistent set of technologies of governing in order to maximize profits.

Austerity is one of these neoliberal technologies. Blyth (2013) draws on widely used definitions to characterize austerity as 'a form of voluntary deflation in which the economy adjusts through the reduction of wages, prices, and public spending to restore

competitiveness, which is (supposedly) best achieved by cutting the state's budget, debts, and deficits.' While this definition is generally sound, it reflects the experience of advanced nations and is complicit in disguising the fundamental driver of austerity behind a discursive veil. First, the suggestion that austerity is voluntary only holds in a handful of cases, like those of the Baltic states Blyth describes. For an overwhelming majority of countries, the austerity experience has been as voluntary as choosing to hand over one's wallet to a mugger with a gun to one's head. In the developing world, austerity has served as one of a set of neoliberal 'conditionalities' imposed by the International Monetary Fund (IMF) under the rubric of Structural Adjustment Programs (SAPs), especially during the 1980s and 1990s. These conditionalities, characterized as 'stabilize, liberalize, and privatize', by Rodrik (2006), had to be met before the IMF would grant desperately needed loans and often countered the countries own spending priorities (Stiglitz 2003a). This involuntary character reveals the authoritarian, anti-democratic impulse underlying such policies.

Second, the discursive emphasis in the austerity literature on restoring 'competitiveness' serves two functions. First, it obscures the more fundamental goal of reestablishing the fiscal stability of a state so that it is capable of paying back its debts to international financial interests. Second, the notion focuses budget cutting on programs that do not directly contribute to economic growth in the short term, even if they may be vital to citizens' well being, like health and education (Stiglitz 2003a).

2.2. *Development*

Like neoliberalism, development is also visible as a set of technologies or practices (Rist 1997). The set of practices employed has included a vast array including promoting primary education, distributing anti-retrovirals, subsidising fertilizer, subsidizing industrial inputs, reducing tariffs, building infrastructure, stigmatizing open defecation, and promoting solar ovens. Just as the set of practices vary, so do the goals to which they are put. Within most development discourses the broad strategy of development remains something along the lines of 'enabling human beings to realize their potential, build self confidence, and lead lives of dignity and fulfilment' and to free them 'from the fear of want and exploitation' (Nyerere 1990). However, scholars adopting the post-development approach credibly argue that in really existing development the multitude's push for idealized development is overwhelmed by strategies for maximizing the production of commodities and perpetuating forms of colonialism that employ a set of practices for transforming the natural and social environment (Escobar 1995; Esteva and Prakash 1998; Norberg-Hodge 2009; Rist 1997; Sachs 2010). Since the late 1970s, really existing development has been dominated by the imperial expansion of neoliberal capitalism and its technologies, including austerity. Neoliberalism offers its own concept of development, one that emphasizes the short term sacrifice of social development in favor of establishing sound economic fundamentals that will encourage foreign direct investment (FDI). The expectation is that prioritizing business and FDI will generate economic growth that will trickle down to the multitude and facilitate the expansion of social welfare down the line. Really existing neoliberal development has in recent decades relied not on 'restoring competitiveness' but on 'realizing competitive advantage', that is, achieving competitiveness to begin with. When this is not literally the imposition of austerity through SAPs, the discursive impact is similar to that of austerity: social welfare is deemphasized while economic growth is emphasized. To mount a discursive challenge to this approach, Amartya Sen and Martha Nuss-

baum have spearheaded the ‘capabilities approach’, which strives to empirically and theoretically ground the ideals of the former notion of development in a politically actionable form.

This paper draws chiefly on Nussbaum’s version of the capabilities approach due to its explicit strategy for enabling political action. The capabilities approach draws on Aristotle’s notion of human flourishing, defining capabilities as all that an individual is able to do and to be (Sen 1999). Nussbaum (2000; 2011) identifies three types of capabilities: basic, internal, and combined. Basic capabilities are essentially those with which we are born, for example strength or intellect. Internal capabilities are those traits or abilities that are actively cultivated, often in interaction with social, familial, economic, and political environments, for example reasoning cultivated through education or agility achieved through training. Finally, combined capabilities are those ‘freedoms or opportunities created by a combination of personal abilities and the political, social, and economic environment’ (Nussbaum 2011, 20). To have a combined capability, one must not only possess the internal capability but also be in an environment where that capability can be realized. Freedom of speech is one instance: one may have the education and ability to express one’s ideas and opinions but live under a regime that censors speech, thereby extinguishing the combined capability.

Nussbaum believes that there are core, inviolable capabilities to which every human is entitled. Through wide ranging discussions with people throughout the world, Nussbaum (2011) has developed ten core capabilities that she offers for further consideration and improvement. These include: life, bodily health, bodily integrity, senses, imagination, thought, emotions, practical reason, affiliation, other species, play, and control over one’s political and material environment. There is insufficient space to elaborate on each capability, but it is evident that healthcare, education, welfare, and democratic decision making are key elements for enabling the realization of these combined capabilities. The goal of development as a state strategy, then, is to deploy technologies that ensure a social, economic, and political environment that enables each and every citizen to realize her combined capabilities. And by positioning capabilities as inviolable and fundamental to human dignity, Nussbaum hopes that they can be incorporated into national constitutions and thereby provide a legal basis for social movements to challenge states that fail to ensure them.

2.3. *Austerity versus development*

We are now in a position to contrast austerity and development. In one sense, they cannot be directly compared, as we have established austerity as a technology for implementing neoliberal strategies and development to be a strategy. If, however, we consider the technologies necessary to achieve development, i.e., to ensure combined capabilities, the task becomes tractable.

There is initially the difference in goals. While austerity is deployed to establish fiscal stability and ensure debt repayment, development technologies are implemented to cultivate internal capabilities and realize combined capabilities. Pursuing these disparate goals, however, leads states to pursue antithetical policies, to favor different technologies. As discussed above, neoliberal austerity’s emphasis on restoring competitiveness leads states to cut back on social welfare programs, like healthcare and education. Development, on the other hand, requires the opposite, an expansion of such programs.

There is ample evidence from developing countries that austerity programs have

negatively impacted social welfare. Beyond fictional and anecdotal accounts like those of Balogun (1995), Blyth (2013) provides ample evidence that austerity has failed to produce meaningful economic growth, Easterly (2003) argues that the poor stand to benefit less from growth under SAPs, and Greer (2013) adds that it increases inequality. Austerity has also negatively affected health through several pathways (Kentikelenis 2017). One major pathway is the decrease in public spending on health, for which there is evidence outside Sub-Saharan Africa (Kentikelenis, Stubbs, and King 2015). Daoud et al. (2017) find that child health is indirectly affected, and Coburn, Restivo, and Shandra (2015) find that maternal mortality increases. More grisly is the significant short term uptick in disability and death after an SAP is implemented, which is attenuated but still harmful over long term (Hoddie and Hartzell 2013). Thus, austerity has proven unable either to foster combined capabilities in the short or long term or to achieve development on its own terms.

Politically, too, there is a strong contrast between authoritarian inclinations and democratic requirements. As discussed above, austerity is seldom ‘voluntary’ and is, in fact, most often imposed upon a country or citizenry from without. Ample evidence that austerity policies contravene democratic preferences is apparent in the widespread resistance in Ethiopia during SAPs, Indonesia and Korea during the Asian Financial Crisis (AFC), and more recently in Southern Europe by both citizens and representative governments. Even as this article is being written, protests against the impacts of austerity programs, like rising prices for staple goods, are rocking Tunisia. The capabilities approach, on the other hand, insists on ever greater democratization of decision making. This is both because participation is intrinsically meaningful as a means of controlling one’s political environment and instrumentally valuable in that it fosters rational capabilities (Sen 1999).

We can conclude that austerity and development work in opposite directions. Development cultivates and enables the capabilities of every individual. Austerity, however, leads to policy choices that curtail the investments necessary to expand capabilities. Further, while development moves in the direction of greater participation in decision making, austerity overrides democratic decision making by imposing policies on a populace. In the presentation of South Korea’s evolution since 1960 that follows, both the political and socio-economic aspects are components of Korea’s story.

3. The Korean Miracle

Korea’s rapid development trajectory has been called the ‘Miracle on the Han’ and serves as a useful case for demonstrating how development enhances capabilities and how global economic transformation has come to threaten those achievements. This section provides a concrete case that supports the above argument that austerity is development in reverse by showing that Korea’s economic growth has been accompanied by increased social welfare spending that has expanded combined capabilities and thereby contributed to human development. This account, as should become evident in the remainder of the article, does not propose that Korea’s development experience should be considered a model for other countries or regions. Rather, it aims to highlight the complex tensions that have been in play during Korea’s modern history so that actors in other contexts can make better informed decisions about their own unique situations.

In 1960 Korea was one of the world’s poorest countries. After decades of colonial exploitation by the Japanese, the Korean War (1950–53) had destroyed much of

the country's infrastructure and many lives. Slums and overcrowding were the norm. Though propped up by US aid, the national budget was miniscule and at least a fifth of that was dedicated to military spending. From this base, Korea grew economically at rates then unprecedented. In 1996 Korea finally joined the OECD, often called the 'rich country club', and joined the OECD's Development Assistance Committee (DAC) in 2008, becoming a formal donor country. In short, Korea has transformed from a poor nation living under austerity into one of the world's richest.

Though it is impossible to precisely measure how much Koreans' lives improved during this period of rapid growth, it is possible to provide some indication. Measuring development has always been problematic. Analysts long depended on GDP per capita as a basic indicator of development due to both the hegemonic sway of economics and its relative ease of measurement. While the rough correlation between per capita GDP and well being exists, it does not capture a particularly robust picture of development (Sen 1999). To provoke a deeper evaluation of progress, Mahbub Ul Haq at the United Nations Development Programme (UNDP) introduced the Human Development Index (HDI) in 1990. Though still a simple index, the HDI retains income as an indicator of material well being, but it also incorporates educational measures as indicators of intellectual growth and longevity as an indicator of health. It is particularly apt to consider the HDI here, as it evolved in conjunction with and is anchored in the capabilities approach.

Though Korea's HDI was probably lower than 0.500 on a scale of 0 to 1 in 1960 (estimated by comparison with contemporary low levels of HDI), formal data is only available from 1990, when Korea was well on its way to rich country status. Still, since 1990 Korea's HDI rose from 0.731 to 0.901 in 2015, when it ranked 18th in the world. By comparison, the US increased from 0.860 in 1990 to 0.920 in 2015, while the United Kingdom rose from 0.775 to 0.910 and Germany increased from 0.801 to 0.926. For those Southern European countries most affected by the contemporary crisis, outcomes have been less promising. Portugal rose from 0.711 in 1990 to 0.843 in 2015, Spain from 0.755 to 0.884, and Greece from 0.760 to 0.866. Korea began this period at the level of the latter countries and ended at the level of the former. This comparatively rapid increase was generated by across the board improvements. First, material well being has increased. The World Bank's World Development Indicators data set (World Bank 2018) shows that per capita GDP increased 25-fold from roughly 950 to over 25,000 in 2016 (constant 2010 USD) with purchasing power parity per capita now on a par with much of Europe, implying much higher levels of consumption. Meanwhile, Koreans' average life span has increased from 53 years in 1960 to 62 in 1970 and to over 82 in 2015. And even in the 25 years since data became available in 1990, maternal mortality has halved from 21 per 100,000 live births to only 11. Education has witnessed similar advances. According to the HDI data set (United Nations Development Programme (UNDP) 2018), expected years of schooling have increased from 13.7 in 1990 to 16.6 in 2015 and that mean years of schooling have risen from 8.9 to 12.2 during the same period. In sum, based on the most widely used indicators of human development and capabilities, Korea has improved immensely since 1960.

These improvements have been accompanied by rapid increases in government expenditure on social welfare. Figure 1 shows that while per capita government expenses like defense have increased arithmetically, social welfare expenses, including education, health, and social protection, have increased exponentially, particularly after 1987. Social welfare expenses have also increased as a proportion of the total budget, constituting three of the top five categories and currently accounting for about half of the government's total budget, up from less than one-third. Though education spend-

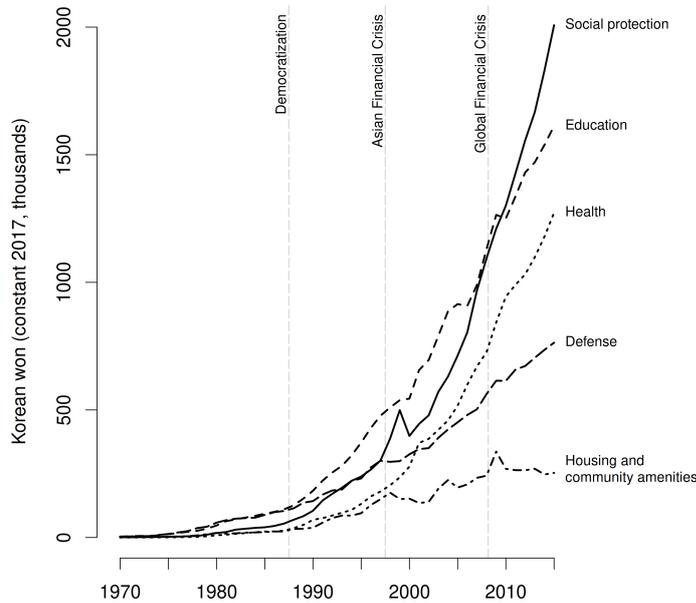


Figure 1. Per capita government expenditures for selected categories. Source: Statistics Korea (2018)

ing has dropped from roughly 22 percent of the budget in 1970 to 17 percent today, health spending has risen from about two percent to 12 percent, and social protection from five percent to 20 percent. Such figures strongly suggest that the Korean government has taken seriously its responsibility for expanding combined capabilities.

The capabilities approach is not only about these easily calculable aspects of development, it also insists on democratic participation in decision making as a central capability. Korea has also made steady progress in this direction. Political instability led Chung Hee Park to initiate a military coup in 1961 that placed him in power until his assassination in 1979. Due to outside pressure, primarily from the United States, elections were held regularly from 1963, but they were democratic in name only. Social movements, comprised mainly of workers and students with eventual middle class support, obtained substantive democratization in 1987. This fledgling democracy began decentralizing government in 1997 to be more responsive to local participation. And perhaps the crowning example of democracy was the peaceful mass movement in 2016 and 2017 that led to the impeachment on corruption charges of Chung Hee Park's daughter, Geun-Hye Park, who was elected in 2013 on a more authoritarian platform. This evolution has vastly expanded public discourse and participation in decision making, creating an environment that enables an expansion of combined capabilities.

4. Crises

While the rosy picture of expanding capabilities through increased social spending in the previous section provides concrete evidence that development proceeds in the opposite direction from austerity, a closer look at Korea's development trajectory offers

additional insights into crisis response and economic transformation. It also suggests that social movements have been the driving force behind the more equitable distribution of social welfare, rather than leaders' benevolence. Korea's modern development can be broken up into two broad periods or conjunctures (Hall and Massey 2010): industrialization, which generally preceded the rise of neoliberalism, and postindustrialization. Each of these conjunctures can be further divided into two phases punctuated by either political or economic crisis.

Korea is a late industrializer (Amsden 2001), and as a successful one its broad evolution from industrial to postindustrial economy has followed at a lag that of the North. The industrial period is characterized by an authoritarian developmental state and rapid export-led growth. The initial growth phase was inaugurated in the midst of a political crisis. Student and popular protests against a putative democratic state that was widely seen as corrupt and ineffective crippled the capital. General Chung Hee Park chose to restore order through a military takeover. He soon put his experience with industrializing Manchuria as an officer in the Japanese military into action developing his own country (Clifford 1998; Kohli 1999). He was assisted by the United States' post-Korean War geostrategic interest in establishing a front line against communism by building a strong, stable, capitalist South Korea to counter socialist North Korea. Korea was able to use this support to piggy back on the growing Japanese export trade to the US (Levinson 2006). At first, production was mainly limited to textiles, but rather than rest on the supposed comparative advantage in labour costs, Park's authoritarian government embarked on a highly interventionist strategy (known as 'the developmental state') of supporting heavy industrialization through tariffs, favorable interest rates for successful exporters, and picking industrial sector winners, thereby creating 'dynamic advantage' (Amsden 1989; Clifford 1998; Evans 1995; Pempel 1999; Rodrik 2004). As a result, Korea's industrial activities during this phase of *authoritarian industrialization* rapidly climbed the ladder from textiles, through heavy and chemical industries, to cutting edge electronics.

However, the developmental state's rapid growth also relied on the suppression of both democratic decision making and wages. Koreans were exhorted—and forced—to sacrifice higher wages for greater long term national gains with an implicit promise of lifetime employment, a practice that transferred capital from workers to owners, generating enormous wealth and power among the largest conglomerates. Wage suppression triggered a strong, militant labour movement in favor of democratization and economic redistribution that was violently repressed during the 1970s and into the 1980s. This tense and violent impasse held until the quickly emerging middle class joined the democratization movement out of frustration with its inability to influence decision making, pushing this political crisis to the breaking point and forcing Park's military successors to announce elections in 1987 (Choi 1993; Koo 1991). Though the generals held onto power for the next five years, the course toward democratic decision making was set and the *democratic transition phase* of industrialization began, expanding the combined capabilities of the working and middle classes.

This period also laid the foundation for economic transition as well by introducing a raft of neoliberal policies. Though Kim (1999) suggests that the generals moved away from the development state through an alliance with neoliberal economists and bureaucrats from the early 1980s, most researchers identify the rapid move toward neoliberalism with the post-democratization administrations, particularly that of Young-Sam Kim (1992–1997). Under the rubric of "globalization" (*seggyehwa*), Kim's administration abandoned coordinated investment (Chang 1998) and substantially reduced regulation of domestic financial markets and cross-border money flows (Crotty and

Lee 2005). Short-term capital flows in particular were aggressively deregulated. Chang and Evans (2005) argue that by 1995 the suite of developmental state technologies had been effectively dismantled and neoliberal strategies dominated.

Kim's ambition to join the OECD, which was attained in 1996, probably drove the administration to adopt neoliberal policies too quickly and too poorly (Chang 1998). As a result, no sooner had industrialization ushered Korea into the OECD than the 1997 Asian Financial Crisis (AFC) shattered business as usual in Korea. The crisis initiated the *economic transition phase*, a major economic transformation into a postindustrial economy. Triggered primarily by international capital's sudden change in perception from sound fundamentals as reported by the IMF just months before to Korean firms' overexposure to short-term debt (Crotty and Lee 2005; Radelet et al. 1998; Stiglitz 2003a; Wade and Veneroso 1998), the 'IMF Crisis' (as Koreans called it) crowned the 'roll-out' phase of neoliberalism in Korea (Choi 2012; Peck and Tickell 2002). As part of its Structural Adjustment Program, the IMF insisted on a raft of further neoliberal policy reforms, which Wade and Veneroso (1998) argue were unnecessary for the resolution of a short-term debt crisis. Austerity demands led the government to force civil servants to accept a ten percent wage cut. The IMF insisted on capital account liberalization as well as trade liberalization, especially the reduction of prohibitively high import tariffs that had supported Korea's infant industries (Chang 2002). These tariffs had also insulated domestic wages from competition with lower wage countries by allowing domestic consumption to cross-subsidize exports. The opening of trade reintroduced Korean manufacturing workers to global wage competition. Firms responded by offshoring production, especially to Southeast Asia, and the government responded by shifting the workforce into tertiary services under the rubric of the 'knowledge economy'.

The neoliberal technologies deployed to address the IMF Crisis triggered massive layoffs, wage cuts, and labour flexibility, thereby dismantling the social contract. Similar to Japan (Allison 2013), Korean firms had previously guaranteed lifetime employment to their workers in exchange for their acceptance of low wages and long hours, as mentioned previously. Unprecedentedly high levels of unemployment then revealed the limits of an inadequate welfare system that had been ignored while economic growth and familial bonds were strong. The government response, however, supports claims that neoliberalism is implemented through a set of technologies selected on a path-dependent basis (Choi 2012; Ong 2007) and that cutting social programs is not the only means of addressing financial crises. Given the clear inadequacy of the welfare system, rather than cutting spending on social welfare, the Korean government in fact vastly expanded the social protection budget. This decision was not based in the logic of Keynesian stimulus spending. Rather, it was taken under pressure from labor unions and other civil society organizations to compensate for reduced job security (Kwon 2011). While neoliberal approaches to crisis management have dominated over the last few decades, Keynesian interventions have also been promoted. The Keynesian approach argues that stimulus spending that gets money into the hands of middle and lower income households that will spend it will "prime the pump" and revive the engine of economic growth. For Keynesians, stimulus spending can be in any field but is often focused on infrastructure (cf. Stiglitz 2003b). However, during the IMF Crisis, the government budget's rate of growth slows significantly, so this reflects a politically driven proportional shift toward social spending rather than stimulus spending. Some of the additional expenditure, of course, was due to immediate need and disbursement in accordance with existing legislation, but as seen in Figure 1, the crisis served as an inflection point that set social protection on a steeper upward trajectory. So, while ca-

pabilities were being constrained through job loss and insecurity, they were also being bolstered by increased social protections and health expenditures.

The Korean economy rapidly returned to growth after the IMF Crisis, albeit at a progressively lower rate. While state coordinated investment was oriented to long term growth, deregulation led to a flood of foreign stock ownership, especially in financial institutions, that focused on quick returns, thereby leading to “*structurally-lowered economic growth*” (Lim and Jang 2006, emphasis in original). The cutback in global demand brought about by the 2008 Global Financial Crisis (GFC) has dampened growth further and begun an era of relative *postindustrial stagnation*. The neoliberal technologies that have been steadily introduced to Korea have failed to deliver more favorable long term outcomes and are reaching a fruition of sorts. Slumping global demand combined with acute competition from Japan on the high end and a rising China on the low end have reduced growth rates to two to three percent and placed them in line with the wealthiest countries. Though still a respectable growth rate, it is much lower than the seven plus percent to which Korea was accustomed, and it means that the economic pie is no longer growing rapidly enough to boost both wages and profits. As a result of slowing growth, weakening labour protections, and offshoring of low wage manufacturing jobs, income polarization is rapidly increasing, demonstrating that neoliberal growth is increasing rather than decreasing poverty as supporters predict. Youth unemployment, which had never completely recovered from the IMF Crisis, has risen approximately three percentage points to well over ten percent. Again, though this figure may be enviable in Southern Europe, a level of despair has set in among Korean youth, leading many to describe their country as ‘Hell Chosun’ (after Korea’s feudal era name) and to describe themselves as the ‘n-po’ generation. ‘Po’ means to give up, and the mathematical ‘n’ implies that they must give up all hopes of a traditional life trajectory, including jobs, marriage, and home ownership. This despair is most tragically expressed in Korea’s suicide rate, which has surpassed that of Japan as the highest in the OECD and is most pronounced among the young and the elderly. Clearly, many youth (and elderly) believe that despite increased social spending and high levels of internal capability, current circumstances are limiting their combined capabilities to live a fulfilling life.

The evidence suggests two arguments. First, austerity is not a natural or singular response to fiscal crisis. As implied in the brief history above and evident in Figure 1, the Korean government has responded to each of the political and economic crises identified above with a proportionate increase in social spending, rather than the cuts typically demanded by austerity. And though GDP growth has been on a steady decline since the 1980s, it has rebounded after each crisis to resume its trajectory, suggesting that increased social spending has not threatened economic growth. Second, global and local structural transformation as Korea has converged on developed country income and adopted neoliberal technologies are fundamentally tied to growing polarization and a decline in combined capabilities. This latter observation implies that though economic growth has led to an increase in capabilities, these increases are more associated with the industrial, developmental state period of Korea’s development and that a loss of capabilities is associated with the postindustrial, neoliberal period.

5. Crises and housing

The previous sections have shown that development proceeds in the opposite direction of austerity and that neoliberal technologies other than austerity also decrease capa-

bilities. This section provides additional support for these claims and highlights the necessity of social movements for countering the impacts of neoliberal restructuring. It does so through the specific example of housing policy in Korea, arguing that housing enhances combined capabilities and that democratic pressures around housing have ensured that the government has consistently worked to improve housing.

In *Legitimation Crisis*, Habermas (1975) argues that as the state takes responsibility for market-replacing and market supplementing tasks (as in the welfare state or developmental state), it becomes the locus of class conflict, which thereby displaces economic crises from the market onto the state. That is, when economic production fails to ‘deliver the goods’, states experience Habermas’s eponymous legitimation crisis, as disadvantaged groups question the state’s ability to govern.

Each of the political and economic crises described above have threatened the legitimacy of the Korean state. The military takeover of a democratic government has obvious legitimation issues, which were addressed through a mixture of military repression and successful strategies for rapid economic growth that ‘delivered the goods’ and measurably improved lives. However, the uneven distribution of the benefits of growth led ultimately to democratization in 1987, which in turn further amplified the former military rulers’ need for legitimacy to stay in power. One legitimation strategy was a rapid increase in social spending after democratization. And with the breakdown of the social contract as neoliberalism rolled out after the IMF Crisis, the state was barely able to contain labour unrest through compromises on social welfare spending.

Housing was employed as a major tool of legitimacy throughout the periods described above. Housing functions as a material support for capabilities (cf. Basta 2017; Rudolf and Potter 2015). Housing promotes health as it protects inhabitants from the elements and enhances security as it protects them from dangerous individuals. Housing serves as a site for associating with others. And for many, housing serves as a vehicle for accumulating wealth. Therefore, for governments, housing policy represents an important avenue for enabling combined capabilities. Meanwhile, for citizens, the centrality of housing as a guarantor of capabilities positions housing policy outcomes as a core popular measure of a regime’s political legitimacy.

During the period of authoritarian industrialization, housing served primarily as an adjunct to industrial development. New industrial centers were developed (mainly) in the southeastern corner of the country, for example Ulsan, and new town housing was constructed with the intention of bringing workers to the factories rather than as commodities in and of themselves (Choi 2012; Lee 2012). In dense urban areas like Seoul, the Park regime relied heavily for some time on slum clearance to clear sites for real estate accumulation. Some resistance to clearance, such as in Gwangju (now Seongnam City), was met with police force (Park 2015), which threatened the regime’s legitimacy and eventually led the regime to redirect new development to green fields south of the Han River.

The democratic transition period beginning in 1987 offers perhaps the clearest example of how housing has been used to legitimize the state. In prior decades, the redirection of resources from urban housing to industrial production had produced a major housing shortage and attendant speculation (Yoon 1994). With an average of only 2.2 rooms per household in 1980 (compared to 3.7 in 2010) (Kim and Park 2016), overcrowding was the norm. The national housing supply ratio dropped from an already low 74.4 percent in 1975 to 69.7 percent in 1985 and 67.4 percent in 1987. In urban areas crowding was even more severe: Seoul’s housing supply ratio was less than 60 percent in 1987 (Kim 1992). Many lower income families lived in a single room and shared a courtyard, cooking facilities, and toilets with several other families

in what would have been single family homes earlier (Sohn 2003). Frustration with these conditions was one motivation for the middle class to participate in the democratization movement. Thus, within months of taking office, the former military leader announced the incredibly ambitious Two Million Houses Plan. This plan proposed to build two million housing units within five years. . . and was completed in four. While this plan served economic goals as well, the timing of this solution to a long enduring social problem indicates that legitimation was a major motivation. In the first place, it created jobs for construction workers returning from the Middle East where construction projects were drying up as oil revenues declined. With unemployment rates rising during the early and mid-1980s, this major social spending package helped avoid potential unrest from additional unemployed workers and legitimized the government as a job creator. Second, it directly addressed the middle class's demands for new housing, thereby detaching them from the labour movement and weakening the opposition (Koo 1991). The particular form of housing provided through this plan makes the point well. Under the Two Million Houses Plan, high-rise apartment complexes were built mainly in five new towns that were priced for occupation by the relatively well off. New units were for the middle class, and lower income groups were to benefit through trickle down.

Understanding the role of housing as a tool of legitimation in the post-industrial period relies on understanding Korea's unique form of housing tenure: *jeonse*. *Jeonse* is a form of tenure that is functionally between home ownership and monthly rental. The term *jeonse* itself refers to the massive deposit given to the home owner in lieu of rent for the duration of a two-year contract, which can easily reach fifty percent and sometimes as much as ninety percent of the unit's market value. The landlord would then profit by using the *jeonse* deposit to purchase new property or invest in savings. Meanwhile, the renter was able to save income and eventually purchase their own home. This system works remarkably well when housing prices are rising and interest rates are high, both of which were the case through most of Korea's development.

The IMF Crisis broke this rental system. Prior to 1997, interest rates were in the double digits and at times as high as 20 percent. However, with the opening of capital markets, the rate plunged to roughly five percent, more than halving returns on *jeonse* (and other) savings deposits. As *jeonse* deposits increased to compensate, more households were driven to other forms of tenure. This shift became more pronounced after 2000, when housing was deregulated and prices inflated overnight.

By the time of the GFC in 2008, interest rates had dropped to less than three percent and *jeonse* deposits had rapidly increased, approaching housing unit values in some neighborhoods. Since 2008 interest rates have dropped further to 1.25 percent (2016). Meanwhile, though there is room for housing quality improvements, rapid construction has saturated the housing market and vacancies in newly constructed apartments have increased outside of Seoul. Since *jeonse* deposits are no longer earning high interest and housing prices are stagnating and threatening to fall, many landlords have shifted away from *jeonse* to monthly rental contracts. Additionally, an aging population is now turning to renting out their housing units to generate retirement income that will supplement small or nonexistent pensions. As a result of these factors, monthly rentals increased from roughly 15 percent in 2006 to 20 percent in 2016, now exceeding *jeonse*, which has dropped from 22.4 percent to 15.5 percent over the same period (Statistics Korea 2018). Monthly rentals and higher *jeonse* deposits make it more difficult for households to save toward ownership, especially as income polarization is now pricing many low income and starting households out of the housing market. Other households are simply taking out larger loans, contributing to higher levels of

consumer debt. These pressures have ensured that housing has remained a hot button issue since democratization, and growing frustration with housing prices has driven the government to initiate several low income housing policies that will bolster its appeal to voters, such as public housing developments like Happy Housing and Silver Housing, affordable housing like ‘New Stay’, and lower real estate transfer taxes (Mun and Choi 2016). Though these policies have worked to keep low income populations relatively quiescent, the government now faces an emerging threat from the middle class, who are also being forced off the home ownership track by rising prices and jeonse deposits and a lack of compensating government support (Ronald and Jin 2015).

This section has shown that housing policy has been at the core of political legitimacy for the Korean state over the last half century. While the adoption of neoliberal technologies in other aspects of Korean society have undermined capabilities, active social movements and the potential threat of social movements have sustained state interest in implementing effective housing policy. The pressure has been sustained, if not amplified, by the expansion of democratic process. Thus, this Polanyian double movement of deregulation in the housing market countered by social pressure to manage housing highlights the essential role of democratic social movements in protecting capabilities in the face of neoliberalism and austerity.

6. Conclusions

Consideration of Korea’s development and its experience with crisis reinforces arguments against deploying austerity programs to overcome the current financial crisis in the North. As Harvey (2005) suggests, neoliberal technologies were initially experimented with and applied in developing countries before they were brought to bear on developed countries. Developing countries’ long experience with neoliberal technologies, including austerity, strongly suggests that austerity diminishes human well being and flourishing.

In fact, this paper has argued that austerity is the reverse of development, that it works in the opposite direction. If one considers development as the realization of its social ideals rather than as a really existing neoliberal practice, then development represents a movement toward the flourishing of every individual’s capabilities and generally entails an expansion of social spending. Neoliberal austerity in practice has moved in the opposite direction: by cutting social spending, it has diminished capabilities through the deterioration of health, education, security, and so forth. The Korean case demonstrates that development in the ideal sense has been achieved, as lifespans have increased dramatically, education levels have risen, and incomes have grown.

Korea’s experience does offer a caveat, however. With the progressive introduction of neoliberal technologies, some capabilities have suffered. Livelihoods are no longer as secure. Stress and despair are driving an unconscionable number of young and elderly citizens to suicide. Meanwhile, high costs are rendering housing unaffordable and generating shelter poverty (Stone 1993). The income and housing polarization that result from these neoliberal practices also undermines a central tenet of the capabilities approach: every individual’s capabilities matter. While some are certainly benefiting from neoliberal practice and are perhaps finding their combined capabilities enhanced, increasing numbers of individuals at the bottom of the economic ladder are finding their capabilities curtailed.

While Korea’s uniquely path dependent course of policy formation and crisis response cannot be translated verbatim to other contexts, it does offer some general

principles that can inform policy makers and social movements in other environments. Korea's experience on the whole indicates that austerity is not the only solution to fiscal crisis. On the contrary, under pressure from social movements, Korean government social spending has accelerated in the wake of both political and economic crises and recovery has soon followed. The conclusion is, of course, that social spending is compatible with crisis rather than an obstacle to recovery and development, and not simply as a Keynesian stimulus. But in the face of neoliberal practice, this spending appears to be sustained only due to the state's concern with legitimacy and maintaining its power. Social movements and democratic representation have placed necessary pressure on political leaders, particularly in select sectors like housing, to maintain the social spending that expands combined capabilities. Surely, social movements are key to pushing today's crisis countries back onto the course of development.

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