

**Origin of the Different Consequences of the Economic Crisis:
Gramsci's 'Civil Society' in the Authoritarian Developmental State
vs Polanyi's 'Active Society' in the European Periphery
Case Study between Republic of Korea and Greece**

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Abstract

This research analyzes how the different path dependencies of prior capitalist models shaped the different countermovements against the economic crisis forcing the drastic ‘fictitious commodification’ under the structural adjustment program imposed by IMF and Troika by a comparison of the South Korean and Greek cases. The study applies Michael Burawoy’s theories and concepts converging Antonio Gramsci and Karl Polanyi for his sociological Marxism.¹ He theorizes two different types of societies, ‘civil society’ and ‘active society’, with their particular interrelationship with state and market respectively. Applying this theoretical approach, this research analyzes how the path dependencies of South Korean export-oriented manufactured-centered authoritarian developmental model subsumed its civil society in terms of Gramsci’s emphasis on the hegemonic relationship between state and its ‘civil society’. Also this research analyzes how the path dependency of Greek domestic-oriented financial-centered peripheral model culminated into the ‘active society’ in terms of Polanyi’s focus on the dialectic double movement between market and society. Analyzing the sustainability of accumulation systems, transformation of historical blocs, and coevolution between capitalist models and societies, the case study proved that path dependencies of each capitalist models exert a great influence on the different sociopolitical consequences or countermovements in the economic crises.

¹ Michael Burawoy, “For a Sociological Marxism: The Complementary Convergence of Antonio Gramsci and Karl Polanyi” *POLITICS & SOCIETY*, Vol.31 No. 2, (2003): 197-200.

Table of contents

Abstract	i
Table of Contents	ii
Introduction	1
<i>Research Background and Research Question</i>	1
<i>Scope and Limitations of Research</i>	5
<i>Theoretical Background</i>	7
<i>Significance of Study</i>	10
<i>Literature Review</i>	14
Chapter 1 - Origin and Path Shaping of Different Capitalist Political Economic Model	18
<i>1.1 Postwar Keynesian Embedded Liberalism</i>	18
<i>1.2 South Korean Case</i>	19
<i>1.3 Greek Case</i>	24
Chapter 2 - Path Dependency of the Model before and after Economic Crisis	29
<i>2.1 Surge of Neoliberalism and Dollar-Wall Street Regime</i>	29
<i>2.2 South Korean Case</i>	32
<i>2.3 Greek Case</i>	40
Chapter 3 - Different Path Dependencies and Different Countermovements	49
<i>3.1 South Korean Case</i>	49
<i>3.2 Greek Case</i>	58
Conclusion	65
Bibliography	69

Introduction

Research Background and Research Question

In 2011, there was controversial debate about the welfare policy especially ‘free school lunch policy’ in South Korea.² The fault line was drawn between the liberal progressive pursuing the universal welfare and right-wing conservative sticking to the selective welfare. The main case supporting the right-wing conservative argument was Greece sovereign debt crisis. The South Korean conservative right-wing groups blamed the Greek government’s reckless welfare system as a culprit for the economic turmoil.³ Coincidentally, mainstream influential international presses introduced South Korea as a good example which overcame the economic crisis in comparison with European countries especially so called ‘PIIGGS’ countries.⁴ After the Syriza won the election in 2015, major right-wing journals in South Korea reported it like a ‘defeat of democracy and reform’ with the same logic and reason. They tried to frame the issue in terms of nationalistic morality play, comparing reckless selfish Greeks rejecting all promises with the Troika and the diligent self-giving South Koreans who donated their gold to pay the debts to the IMF.⁵ Without considering any historical and sociopolitical reasons, they insisted that lax management of government budget with excessive welfare culminated in the defeat of democracy and surge of populism in Greece.

² New York Times, “In First, South Korea Votes on Social Policy”, Oct 11, 2011. Accessed May 3, 2018. <https://www.nytimes.com/2011/08/25/world/asia/25korea.html>.

³ DongAIlbo, “The welfare states are moving from universal welfare to the selective welfare” January 25, 2011. Accessed May 3, 2018. <http://news.donga.com/3/all/20110125/34354053/1>.

⁴ Lucy Williamson, “What Eurozone countries can learn from South Korea” BBC News, July 9, 2012. Accessed May, 2018. <http://www.bbc.com/news/business-18719079>.

⁵ JoongAngIlbo, “Why Greece doesn’t have gold gathering movement?” February 1, 2015. Accessed May 3, 2018. <http://news.joins.com/article/17067282>.

It is true that both countries have similar historical backgrounds like development after civil wars and growth of cronyism under the authoritarian government. In addition, both economic crises have some similarities in terms of devastated sociopolitical impacts like numerous corporate failures, mass dismissal, mass unemployment, and deterioration of essential social indicators by the neoliberal structural reform forced by the outside international financial organizations like IMF and Troika. However, these simple enumerations of fragmented facts and figures could not explain the different sociopolitical culminations between Greece and South Korea. Although there were some intense massive opposition movements against neoliberal reform, there was no mushrooming of radical populisms in the mainstream political arena in South Korea while there is surge of populisms like Syriza and Golden Dawn in the mainstream political arena in Greece since 2012 election.⁶ Then, why did different countries, transformed by the economic crisis with subsequent neoliberal structural adjustment programs, result in completely different political situations?

Definitely, there are explicit differences between them. According to the different titles of these crises between ‘South Korean foreign exchange crisis’ and ‘Greek sovereign debt crisis’, the directive causes of the crises were different. The main cause of South Korean case was lack of foreign exchange triggered by the investors seeking to withdraw their capital while the main reason of Greek case was government debt crisis originated from the government mismanagement of their budget. Besides, these national crises were under the different bigger international crises. As the crisis of South Korea was part of so called ‘1997 Asian crisis.’ South Korea could export their manufactured products to the other intact parts of the world especially US and Europe. However,

⁶ Asia Economy, “Surge of Syriza and Golden Dawn” October 22, 2012. Accessed May 3, 2018.
<http://www.asiae.co.kr/news/econo/virtualMoney/view.htm?sec=trend&idxno=2012102205533970168>.

as the Greek crisis was part of so called ‘2008 global financial crisis’ the impact and depth of the crisis was more severe and devastated. However, the explanation focusing only on the different characteristics of crises themselves makes it hard to go beyond the phenomenon. Therefore, structural origins, shaped by the sociopolitical powers and historical contingencies and conjunctures under the interactions between domestic factors and international factors for these different consequences, should be analyzed.

This study considers that different sociopolitical results were originated from different path-dependencies of political economic models and its interaction with each society. First, this study will briefly analyze the different path shaping process of capitalist political economic models of each country. In this part, the study will examine not only the evolution of the economy or industry but also the different impacts and interactions between state, international environment, and society in terms of establishment of different historical hegemonic blocs and accumulation system. In South Korean case, the major focal point will be the export-oriented and manufacturing-centered authoritarian developmental state and ‘civil society’ while the light will be shed on the domestic-oriented financial-centered European peripheral state and ‘active society’ in the case of Greece. Second, this study will analyze the different path dependencies and transformation of these models before and after economic crisis. In this part, the study will focus on whether these different prior political economic models succeeded in harnessing the crises and countermovements of each society according to the establishing newly stabilized accumulation system based on different allies of historical blocs. Finally, this study will explain how these different historical trajectories of different political economic models and interactions with each society culminated in the

different sociopolitical consequences, no mushrooming of populisms in South Korea and election of a populist party in the mainstream politics in Greece. Briefly speaking, path dependencies of South Korean export-oriented manufactured-centered authoritarian developmental model subsumed its civil society and prevented civil society's radicalization in terms of Gramsci's focus on the relationship between state and its 'civil society' even after the economic crisis in 1997. However, Greek domestic-oriented financial-centered European peripheral model's weakness culminated into the radicalization of 'active society' in terms of Polanyi's focus on the relationship between market and society.

Scope and Limitation of Research

This study focuses on the different historical trajectories and path dependencies of capitalist political economic models after the Korean War and Greek civil war in 1950s. In the part of capitalist economic model of this research, the whole history of two countries will be divided into the two parts, a path shaping part and a path dependency part before and after crisis. In the path shaping section, the focal point of each country is comparison of evolutionary processes between prolonged South Korean export-oriented manufactured-centered authoritarian developmental model and short-lived weak developmental Greek model with its transformation into the domestic-oriented financial-centered model. In this section, each characteristic and transformation of capitalist political economic model will be analyzed with interaction between domestic factors and international environment in terms of hegemonic historical blocs and accumulation system under the Bretton Wood system. In the path dependency section, the spotlight will be given how the different prior capitalist political economic models evolved under the neoliberal ‘Dollar-Wall Street Regime’ and reacted to the economic crises. Then, the sustainability and hegemony of newly established accumulation systems and historical blocs, shaped by the path dependencies of models, will be discussed. In the section of interaction between each capitalist political economic model and their societies, this study will focus mainly on the period after both countries were democratized from the military dictatorships and established procedural democracy.

This study briefly considers some of the structural transformation in the international environment like demise of the postwar Keynesian ‘Embedded Liberalism’ and surge of neoliberal ‘Dollar-Wall Street Regime’. Also this study shortly analyzes the different impact of regional capitalist projects like Japanese regional production network so called flying geese and European

Single Market project, based on four freedoms. As these international structural factors both shape the path of capitalist model and change the accumulation system with historical bloc, this must be analyzed with the reaction of each society. However, this study does not analyze the impact of certain international relations surrounded South Korea and Greece to their own ‘civil society’ and ‘active society’. The tension between Japan, North Korea, China, Russia, and US is hard to be reduced as a single exogenous variable for South Korea capitalist political economy and society. Because the solidified confrontation between capitalist trilateral alliance and communist inverted trilateral allies since the cold war era, endlessly instilled anti-communism and nationalism, important buffer preventing the radicalization of the ‘civil society’. In case of Greece, the impact of wars in the Middle East and subsequent refugee issues should not be reduced as a simple exogenous variable. Because inflows of the different culture could be easily targeted by the right-wing conservative populists compared to the relatively isolated South Korea. The less attention to the international relations could be only allowed for the narrowed focal point of this research.

Theoretical Background

This study frames the different sociopolitical consequences after financial crises and subsequent neoliberal reform through the cases of South Korea and Greece by applying the Karl Polanyi's major concept of 'double movement' in Polanyi's work, 'The Great Transformation'.⁷ Double movement is dialectic or pendulum movement between disembedded marketization through fictitious commodification of human, nature, and money and social protective countermovement against it. Although countermovement could be easily misunderstood as a term only designating democratic progressive social movement like New Deal, Chartist movement, and labor movement, the term actually covers diverse sociopolitical movements from right-wing fascism to the left-wing communism. Therefore, both different sociopolitical reactions to the economic crises could be framed into the Polanyi's countermovement.

To explain the reason of the different countermovements between South Korea and Greece, this study relies on the Michael Burawoy's analysis classifying two different types of societies, 'civil society' and 'active society', with their particular interrelationship with state and market.⁸ First, 'civil society' is always understood in its contradictory connection to the state, especially not in the backward countries or colonies but in the modern states or advanced capitalism. 'On the one hand, civil society collaborates with the state to contain class struggle, and on the other hand, its autonomy from the state can promote class struggle.'⁹ Because 'state is entire complex of practical and theoretical activities with which the ruling class not only justifies and maintains its dominance,

⁷ Karl Polanyi, "The Great Transformation, the political and economic origins of our time" Boston Beacon Press (2001)

⁸ Michael Burawoy, 197-200.

⁹ Ibid., 198.

but manages to win the active consent of those over whom it rules.’¹⁰ ‘The legacies of passive revolution were not only a weak civil society but also a limited socialist movement. They faced a reactionary power bloc.’¹¹ In summary, modern advanced capitalism subsumed the ‘civil society’ by preventing the radicalization and deepening the established hegemonic historical bloc through ‘passive revolution’. Second, ‘active society’ is always understood in its contradictory tension with market, not only in the local levels but also in the national and global levels. ‘On the one hand, the market tends to destroy society, but, on the other hand, society reacts to defend itself and to subordinate the market.’¹² ‘For Polanyi, this “active society” had an autonomy of its own: from saving the market from its destructive tendencies, it would become a fetter on the market, threatening to transcend and subordinate it.’¹³ ‘Without an independent state, argues Polanyi, colonial society could not protect itself against ravaging international trade and imperialism.’¹⁴ To sum up, ‘active society’ under the backward or dependent capitalism which could not protect itself from devastating impact of international marketization, thwart the fictitious commodification.

With Burawoy’s theoretical classification, this study assumes that different path dependencies and interactions between capitalist models and societies, South Korean export-oriented manufactured-centered authoritarian developmental model with ‘civil society’ and Greek domestic-oriented financial-centered European peripheral model with ‘active society’ resulted in different countermovements, ‘passive revolutions’ and election of Syriza. In this analysis, not only

¹⁰ Ibid., 216.

¹¹ Ibid., 217.

¹² Ibid., 198.

¹³ Ibid., 206.

¹⁴ Ibid., 219.

the path dependencies of different capitalistic models but also transformations of different hegemonic historical blocs and sustainability of the accumulation systems are analyzed. In this part, this study relies on the Gramsci's concept of 'hegemony' and 'historical blocs'.¹⁵ 'Hegemony' is the types of dominance, based on the combination of the material oppressive power and voluntary consensus of the subjects. Both state and ruling capitalist class developed hegemonic culture for the ideological voluntary consent of the subjects. Then, 'historical blocs' is political economic alliance which tries to establish 'hegemony' with the help of the 'organic intellectuals' helping to change the subjects' common sense to good sense. Finally, historical bloc based on hegemony creates sustainable and stabilized accumulation system to seize or maintain the power. Therefore, this study tries to capture the creation and evolution of different historical blocs created by the interaction of domestic and international factors in this period. Also this research tries to analyze how the different components of this historical blocs and sustainability of their accumulation systems trigger the reactions of the societies, which culminate in the different sociopolitical consequences between South Korea and Greece.

¹⁵ Antonio Gramsci, "Selections from the Prison Notebooks" Translated by Q. Hoare and G. N. Smith. London: Lawrence and Wishart. (1971).

Significance of Study

This research might contribute to the several established academic flows and traditions. First, nowadays many intellectuals from the diverse social disciplines apply the Polanyi's theory of 'double movements' for analysis of the 2008 global economic crisis¹⁶ and backlash such as Grexit, Brexit, election of Donald Trump, and mushrooming of xenophobic nationalistic Eurosceptic populism. In this academic flow, the main contribution of this research is verifying that the different kinds of countermovements partially determined by the path dependencies of prior capitalist political economic models and its intermingled relationship with their own societies. With the institutional based path dependency perspective, this research also analyzes how the different historical blocs established both hegemony and stabilized accumulation system, which culminated in different sociopolitical consequences. Therefore, I hope that my thesis will contribute to the different development of the double movements in the countries which have different political economic models, especially for the East Asian developmental state and Southern Europe peripheral state.

Second, this thesis partially contributes to the research of varieties of capitalism (VoC). As the most important work, Hall and Soskice lay the theoretical foundation of varieties of capitalism with plenty of examples of different countries.¹⁷ Emphasizing the institutional complementarities between different institutions, they distinguished their examples according to a Liberal Market Economies (LMEs) and a Coordinated Market Economies (CMEs). Their work challenges to the

¹⁶ Fred L. Block, "A Neo-Polanyian Theory of Economic Crises" *American Journal of Economics and Sociology*, Vol.74, No. 2 (2015): 361-362.

¹⁷ Peter A. Hall, David Soskice, "Varieties of Capitalism. The Institutional Foundations of Comparative Advantage" OXFORD UNIVERSITY PRESS (2001).

neoliberal obsession with superiority of market-oriented Anglo-Saxon model by showing that institutional environments and arrangements provide incentive structures for the behavior of firms, households, and policymakers. Many scholars developed the VoC issues into the diverse ways.¹⁸ Their arguments that different types of capitalism, based not only on the market but also on the different types of complementary institutions, is not only possible but also more competitive, could become a milestone. However, there are some limitations. Unfortunately, their arguments are confined to the narrowed meaning of economy including the production organizations. As Polanyi points out that the economy is always embedded in the society, capitalist production system should not be considered without interaction with society. In addition, VoC analysis does not fully consider the different impacts of structural transformation of the whole system in the international and the regional levels. Although VoC explanations could analyze the process of mutual strengthening of certain institutions and certain behavior of firms, finally, these are static theory which could hardly reflect the origination of different institutions and historical blocs which culminated in the ensemble. Analyzing the historical interaction between capitalist models and societies, therefore, this comparative research might remind the importance of coevolutionary process between capitalist model and society. Also this case study might raise the awareness of the importance of role and status of each capitalist model in the bigger system. Analyzing the different evolutions of capitalist models with its hegemonic historical blocs, finally, this research might remind the significance of certain hegemonic historical blocs wielding its power on path shaping process and neoliberal structural reform.

¹⁸ Óscar Molina and Martin Rhodes, "The Political Economy of Adjustment in Mixed Market Economies: A Study of Spain and Italy" In: Hancké, B., Rhodes, M., Thatcher, M. (Eds.), *Beyond Varieties of Capitalism: Conflict, Contradictions and Complementarities in the European Economy*, Oxford (2008).

Third, this thesis partly contributes to the research related to the civil society. Although it could trace back to the original social contract theorists like Hobbes, Locke, and Rousseau, the studies on the relationship between state and civil society has been progressed in terms of both Marxian tradition, underlining hegemonic class feature of civil society, and Tocquevillian tradition, emphasizing the importance of civilian voluntary associations.¹⁹ Influenced by both Gramsci, focusing on the hegemonic conflict between different historical blocs in terms of culture, and Habermas, emphasizing the civil society in comparison between system and lifeworld, the studies were divided into the two groups. In the first group, Keane analyzes civil society as a place having two different characteristic between voluntary associative liberalism and conflicting unequal Marxism, which considers world in terms of binary analysis between state and civil society without giving independent status to the market.²⁰ On the other hand, Cohen and Arato classified state, market, and civil society in terms of their own principles, dominance, exchange, solidarity, which focuses on the colonization of civil society by the overdevelopment of state and market.²¹ In addition, there are historical sociological approach, considering civil society as a by-product of development of capitalism and focusing on the growth of labor class and middle class as counterhegemonic group.²² In this academic tradition, this research is based on the Cohen and Arato's typology classifying state, civil society, and market. Then, this study analyzes the coevolution between capitalist model and society following the historical sociological academic flow. As these researches put less weight on the transformation moment of the capitalist model and difference between different models with their societies, this thesis might suggest the

¹⁹ John Ehrenberg, "Civil Society: The Critical History of an Idea" New York: New York University Press (1999).

²⁰ John Keane, "Democracy and Civil Society" London: Verso (1988).

²¹ Jean Cohen and Andrew Arato, "Civil Society and Political Theory" Cambridge: The MIT Press(1994).

²² Dietrich Rueschemeyer, Evelyne Huber Stephens and John. D Stephens, "Capitalist Development and Democracy" Contemporary Sociology (1992).

importance of the transformation and difference of capitalist political economic model by comparison between South Korea and Greece.

Literature Review

Although there is some research comparing the different social conditions of South Korea and Greece for the welfare policies, there is no directive comparative studies analyzing the historical coevolution between capitalist model and society before and after economic crisis. Therefore, this research inevitably relies on the previous works analyzing each coevolution of sociopolitical economy independently. In this thesis, on the one hand, the works related to the path dependency of political economy are adopting not the narrowed economic view but the political economic perspective considering institutions, hegemonic historical blocs both in the domestic and international levels, and sustainability of the accumulation system. On the other hand, the works related to the ‘civil society’ and ‘active society’ of each country are the works which do not consider the society as ahistorical and politically vacuum but focus on the historical interaction between state, society, market, and different sociopolitical factors both in domestic and international levels.

First, as the basic analysis for the capitalist model for South Korea, the study will rely on the book named ‘Korean Capitalism Model’.²³ For the transformation of South Korean hegemonic historical bloc and its accumulation system, this research will be based on the book named ‘The Origin and Formation of Korean Neoliberalism’²⁴ and the article of Gray.²⁵ Then the research will analyze the political economic model of developmental state of South Korea with its

²³ Byeongcheon Lee, “Korean Capitalism Model“ Bookworld(2014).

²⁴ Juhyeong Ji, “Origin of Korean Neoliberalism” Bookworld(2010).

²⁵ Kevin Gray, “The Social and Geopolitical Origins of State Transformation: The Case of South Korea” New Political Economy Vol. 16, No.3 (2011): 303-319.

transformation after the economic crisis. According to the works of Hundt²⁶ and Park²⁷, developmental state did not lose its power and hegemony in terms of its intervention by policies and collaboration with chaebol and transnational financial capitals. Although there are some limitations of the developmental state model, Hundt²⁸ pointed out this state-oriented model reduces the sphere for the radicalization of the ‘civil society’.

Second, the analysis of evolution of South Korean ‘civil society’ is based on the work of Kim.²⁹ Then the study will focus on the coevolution between South Korean developmental model and its ‘civil society’, especially how ironically developmental state engulfed the civil society by the work of Choi.³⁰ Then the research will explain the transition from the class politics to the citizenship politics and regressed developmental citizenship with increase numbers of the temporary and underpaid jobs in this transition era by the work of Chang.³¹ Then the study will emphasize the divergent conditions of the workers, fragmented into the stable workers and contingent workers and its impacts like deepening inequality, exacerbating poverty, and changing the styles of labor movements by the work of Shin.³²

²⁶ David Hundt, “Economic Crisis in Korea and the Degraded Developmental State” *Australian journal of international affairs* Vol. 68, no.5 (2014): 499-514.

²⁷ Yong-Soo Park, “Revisiting the South Korean developmental state after the 1997 financial crisis” *Australian Journal of International Affairs* Vol 65. No. 5(2011): 590-606.

²⁸ David Hundt, “Neoliberalism, the Developmental State and Civil Society in Korea” *Asian Studies Review*, 2015 Vol39, No. 3 (2014): 466-482.

²⁹ Hogi Kim, “Structure and Transformation of Civil Society, 1987~2000” *한국사회 제 3 집*(2000): 63-87.

³⁰ Jang-Jip Choi, “The Democratic State Engulfing Civil Society: The Ironies of Korean Democracy” *Korean Studies*, Volume 34 University of Hawai’i Press (2010): 1-24.

³¹ Kyung-Sup Chang, “Introduction: South Korea’s condensed transition from class politics to citizenship politics”, *Citizenship Studies* Vol 16, No. 1(2012): 1-12.

³² Kwang-Yeong Shin, “Economic Crisis, Neoliberal Reforms and the Rise of Precarious Work in South Korea” *American Behavioral Scientist* SAGE Publications (2013)335-353.

Third, the Greece political economic part will rely on the book named ‘Economy Greece’s New Political Economy State, Finance, and Growth from Postwar to EMU’³³ as the fundamental analysis of the capitalist model of Greece. In this book, the research will explain how the weak developmental model was transformed into the domestic-oriented financial-centered peripheral model. Then, this research will explain how the current account deficit and accumulation of foreign debt culminated into economic crisis by the work of Pagoulatos.³⁴ Finally, the research will analyze that Greece neoliberal financialization started before the economic crisis and it deepened the burden of the ordinary people, the fundamental structure, and path dependency of the political economic model by the work of Lambiri.³⁵

Fourth, the interaction between the capitalist model and the society part will be based on the milestone work named ‘Civil Society and Citizenship in Post-War Greece’.³⁶ Then the thesis will analyze the different social impact of the exacerbated neoliberal market economic disembeddedness after the financial crisis in Greece. Then this research will analyze how the crisis deteriorated the already precarious conditions of the working class by the work of Kretsos.³⁷ The research will analyze both the variety and the peculiar characteristic of Greek ‘active society’ by

³³ George Pagoulatos, “Greece’s New Political Economy State, Finance, and Growth from Postwar to EMU” Basingstoke and New York: Palgrave Macmillan (2003).

³⁴ George Pagoulatos, “The European Union and the Political Economy of Greek State” Paper presented at the Joint Hellenic Observatory, LSE and British School at Athens Conference ‘Changing Conceptions of “Europe” Conceptions in ModernGreece: Identities, Meanings, and Legitimation’(2011):1-17.

³⁵ Apostolos Agnantopoulos, Dionysia Lambiri “Variegated capitalism, the Greek crisis and SYRIZA’s counter-neoliberalisation challenge” *Geoforum* 63 (2015): 5-8.

³⁶ Nicos Mouzelis and George Pagoulatos, “Civil Society and Citizenship in Postwar Greece” ResearchGate, <https://www.researchgate.net/publication/254344258> (2002): 1-17.

³⁷ Lefteris Kretsos, “GREECE’S NEOLIBERAL EXPERIMENT AND WORKING CLASS RESISTANCE”, *Working USA: The Journal of Labour and Society* Volume 15 (2012): 517-527.

the work of both Sotiropoulos³⁸ and Simiti³⁹. Finally, the study will explain how the Greek ‘active society’ not only replaced the collapsed welfare state but also reconstructed cultural imaginaries in terms of Polanyi’s countermovement via the work of Kentikelenis.⁴⁰

³⁸ Dimitri A. Sotiropoulos, “CIVIL SOCIETY IN GREECE IN THE WAKE OF THE ECONOMIC CRISIS”, Report: Konrad Adenauer Stiftung, Athens (2014).

³⁹ Marilena Simiti, “Civil Society and the Economy: Greek Civil Society During the Economic Crisis” *Journal of Civil Society* Vol 13, No.4 (2017): 357-373.

⁴⁰ Alexander E. Kentikelenis, “The social aftermath of economic disaster: Karl Polanyi, countermovmenets in action, and the Greek crisis”, *Socio-Economic Review* Vol.0 (2017): 1-21.

Chapter 1 - Origin and Path Shaping of Different Capitalist Political Economic Model

1.1 Postwar Keynesian Embedded Liberalism

When Korea got independence from Japan in 1945, the new world order named Bretton Woods system was established. As causes of Great Depression and Second World War, some of the factors like deficient effective demand in Fordism production, imposed internal devaluation under the gold standard, protectionist thy beggar policies, and absence of hegemonic country as a lender of last resort were highly criticized.⁴¹ To resolve these problems and revive free trade, Bretton Woods system pursued ‘Embedded Liberalism’⁴² based on autonomous economic management of the nation states, US’s gold exchange standard, and establishment of the international organizations and agreements like IMF, IBRD, and GATT. In this period, Keynesian welfare states controlling the macro economy and pursuing full employment were established in the First World while the developmental states pursuing the industrialization and independence were established in the Third World. Therefore, the relatively autonomous development of the newly independent state like South Korea will be guaranteed.

⁴¹ Charles P. Kindleberger, “Economic Laws and Economic History” Cambridge University Press, Cambridge (1997).

⁴² John Gerard Ruggie, “International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order” *International Organization*, Vol.36 (1982): 379-415.

1.2 South Korean Case

With this ideological and structural transformation in the Bretton Woods era, the cold war between US and USSR was heightened and culminated in Korean War in 1950. Because of geopolitical importance of South Korea as the front line against communism, South Korea could get enormous amount of economic assistance from the US with accessibility to US market. Because US needed to contain the influence of communism in the East Asia and show their ideological superiority to USSR. For example, South Korea received 6 billion dollars, the same amount of aids spent on whole continent of Africa.⁴³ In addition, as South Korea reestablished the diplomatic relations with Japan, South Korea could get not only 800 million dollars as grants and loans but also huge investments with technologies from Japan. With the Japan's aim of relocating less profitable light industries abroad, South Korea could ride on the Japanese regional production network so called flying geese following the product cycle.⁴⁴ Therefore, South Korea could develop its economy with support of allies in the trilateral alliance against communism.

With this favorable international environment, however, South Korea did not immediately develop its economy. Although the land reform and devastating Korean War eliminated both threat of socialist and landowner class, South Korea was subordinate economy depending on US grant. In this period, South Korean government just laid the foundations of capitalism. First, South Korean government privatized Japanese colonial property to the emerging nascent capitalist class under the US pressure.⁴⁵ Second, the government started import substitution industrialization in the processing industry related to the raw cotton, wheat, and sugar. Third, government had corrupt

⁴³Juhyeong Ji, 35.

⁴⁴ Castley, Robert, "Korea's Economic Miracle: The Crucial Role of Japan" London: Macmillan (1997).

⁴⁵ Kevin Gray, 310.

relationship with growing business by introducing high tariffs, import license, and government purchase. However, this was not developmental state but rent seeking crony capitalism because there was no independent bureaucracy planning long term integral development program. With low investment and industrialization, government refused to reincorporation of South Korea into the Japan-centered regional political economy. Therefore, 1950s was not developmental state but period for laying the foundation for the capitalism.

The prototype of export-oriented manufactured-centered authoritarian developmental model was shaped under the military dictatorship of Park Chung-Hee from 1961 to 1979. To overcome lack of democratic legitimacy and inferiority to communist North Korea, Park regime needed to develop economy rapidly. Strongly influenced by the Japanese imperial fascism and the puppet state of Manchukuo,⁴⁶ Park regime promoted strategic industries and export-oriented industrialization through active state intervention into the market. In this authoritarian system, Economic Planning Board, organization of bureaucratic elites who were at a core position in the developmental state system and free from the social pressure made a bold attempt to achieve catch up with industrialized countries within a short period of time through selecting, protecting and promoting national strategic industries.⁴⁷ Under the condition of lack of natural resources and small domestic market, independent bureaucrats pursued complementary double track of industrialization, import substitution and export-oriented industrialization. While replacing import substitution industrialization with the export-oriented industrialization, the regime gradually

⁴⁶ Bruce Cummings, "Colonization and Decolonization: Korea, Taiwan and Vietnam" *Decolonization Rewriting Histories*. London: Routledge (2004): 278-298.

⁴⁷ Yong-Soo Park, 594.

sophisticated industrial structure from the labor intensive light industry in 1960s to the heavy chemical industry like shipbuilding, automobiles, electronics and petrochemicals in 1970s.

To sophisticate the industrial structure and maximize the effectiveness of development, the regime concentrated its financial resources to the small handful of conglomerate named ‘chaebol’ in the certain high valued sectors, under the rule of unbalanced growth by Albert O. Hirschman. As the state nationalized the banking system and controlled interest rate and exchange rate, about 60% of the national investment funds and 42% of the industrial bank credit were poured into the heavy and chemical sectors.⁴⁸ With this developmental rent, state also provided market entry barrier while selecting national champions and forcing chaebols not to satisfy with the short-term profit and to advance to the high valued developed industries.⁴⁹ To protect these infant industries from the severe competitions, foreign companies were not allowed to enter into the domestic market. Instead of inward foreign direct investment and foreign ownership, the regime relied on licensing agreements as primary means of adopting advanced technologies.⁵⁰ Also the regime poured diverse state assistance to the chaebols like export bounty, tax exemption, and bail out. Under the Bretton Woods system, cold war tension, and Japanese production network, therefore, the authoritarian developmental state, seized by autonomous bureaucracy, could independently develop the industrial structure from light industry to the heavy and chemical industry through the active intervention by the state. With the rapid economic growth, South Korean developmental state achieved stabilized accumulation system both guaranteeing the short-term profit and relieving

⁴⁸ Korea Economic Research Institute(KERI) hankook-ui kiopjipdan (1995).

⁴⁹ Byeongcheon Lee, 83.

⁵⁰ Sakong, Il, “Korea in the world economy” Washington. D.C: Institute for International Economics (1993).

the risk of long-term investment of industrial sophistication and diversification of business in alliance with conglomerates, and nationalized bank.

However, there was hidden and unsung parts in this ‘miracle on the Han River’. First, this export-oriented manufactured-centered authoritarian developmental model was based on the repression and exploitation of labor to maintain Korea’s comparative advantage, low-wage and well-disciplined labor force, necessary for mass production.⁵¹ For example, the Korean central Intelligence Agency has always surveilled and tortured anti-government labor leaders and groups. This resulted in not only stagnant growth of domestic market with overreliance on the export but also underdeveloped of labor with overdeveloped state. Second, under the brutal laissez-faire policies, small and medium-sized companies have been marginalized from the policymaking, which culminated in the asymmetric industrial structure. Third, the authoritarian developmental state model, nurturing a handful of conglomerates, brought about collusive relations between politics and business, which culminated in chronic overinvestment and indebtedness of chaebols. With the lack of bank’s ability of auditing and monitoring the mismanagement, this malfunction of bank became the one of the significant trigger for the economic crisis in 1997. Therefore, the rapid growth of export-oriented manufactured-centered authoritarian model is success at the expense of labor, growth of domestic market, balanced industrial structure, and the balance of the power in the society. The historical bloc between authoritarian developmental state, nationalized

⁵¹ Frederic C. Deyo, “State and labor: modes of political exclusion in East Asian development” *Political economy* (1987): 182-202.

bank, and conglomerate solidified both their alliance and accumulation system while marginalizing labor and suffocating civil society.

1.3 Greek Case

As the US needed foreign markets for its exploded productivity in the Second World War and liberal democracy should be safeguarded by prosperous middle class against communism, economic growth became the new universal truth. Before the Second World War, Greek economy had been oscillated between open economy based on exports of primary goods and autarkic protectionist economy emphasizing the import substitution industrialization. Then, the Greek postwar mode of economic development seemed to take off immediately under the Bretton Woods system and Marshall Plan. Passing through the civil wars between 1945 and 1949, however, Greek economy failed. The early Keynesian experiment like strict price controls, heavy taxation, and wage increases triggered business sectors and farmers to decrease production and hoard their gold, which culminated in hyperinflation.⁵² Even worse, the followed counteractive laissez-faire policies caused the financial instability, which resulted in depletion of foreign exchange reserves in central bank. In addition, foreign aid funds and commodities were misappropriated by a handful of oligarchy.

This economic turmoil started to be relieved after the surveillance mechanism was established under the condition of Marshall Plan aid in 1948. As principal objective of Marshall Plan was stimulating exports and decreasing balance-of-payments deficit under the monetary stability, the Greek political economy was influenced by different sorts of economics. This Greek political economic model was mixture of market-oriented macroeconomic disciplined neoclassical economy, Keynesian active government interventionism, and developmentalism, which shaped

⁵² Makinen G.E, "The Greek Hyperinflation and Stabilization of 1943–1946" *Journal of Economic History* (1986): 795-805.

the path of the Greek developmental model.⁵³ Beginning with devaluation of the drachma in 1953, all import and exchange controls became relaxed except for customs duties. Along with monetary stability erected after 1955, trade liberalization caused cheaper imports of raw materials, capital goods, and modern manufacturing equipment. Compared to previous autarkic model, mixture of exports of primary goods and limited import substitution industrialization, the trade liberalization triggered economic transformation to more outward-looking development model based on productive industrial sector and sizeable domestic demand.

Compared to the South Korean export-oriented manufactured-centered authoritarian development model, Greek domestic-oriented financial-centered European peripheral model did not evolve linearly but metamorphosed from relatively weak developmental state pursuing industrialization to the financial-centered peripheral model. The prototype of Greek weak developmental state was based on the synthesis between neoclassical monetary stability and developmental interventionism in finance under the conservative anticommunist regimes. Rather than focusing on the demand side like aggregate demand and full employment like traditional Keynesianism, fiscal policy of government was used for the supply side by expanding the volume of savings and channeling them to industrial investment. Under the Currency Committee, the main government administration of financial intervention which were established in 1946, this investment was used for balance between protectionist policies of import substitution industrialization and outward-looking development, which aimed at nurturing a burgeoning middle class.

⁵³ George Pagoulatos, "Greece's New Political Economy," 29-37.

Although the Greek financial interventionism was strongly influenced by indirect German ordoliberal model of banking engagement in industrial development, Greek financial interventionism was more directive and extensive because of nonexistence of the securities market and developed industrial base.⁵⁴ Composed of ministers of finance, agriculture, commerce, industry, and governor of Bank of Greece, the committee ‘determined the amount of bank credit, the sectors or activities entitled to it, the exact percentages of expenditures entitled to bank finance, the specific interest rates, and the terms and security to be demanded by the banks’.⁵⁵ Similar to the ordinary developmental model manipulating lending rates, the financial interventionism concentrated resources to the favored productive activities like agriculture, manufacturing, exports, and mining while restricting investment on nonproductive activities like housing construction, import trade, and the trade of consumer goods. The committee not only established specialized investment banks, supporting the favored sectors with subsidies and introduction of scientific way, but also encouraged private banks to focus on high valued-added industrial finance with long-term perspective.

However, the Greek developmental state was far from typical strong developmental state which has coherent state apparatus and ‘embedded autonomy’.⁵⁶ First, the power of Bank of Greece was much stronger than the government apparatus. Although the Currency Committee implemented industrial policy, the main focal point of the committee was short-term monetary stability. Because the Bank of Greece, armed with superior capability of economic research and policy formulation

⁵⁴ Ibid., 51-62.

⁵⁵ Halikias D.J, “Money and Credit in a Developing Economy: the Greek Case” New York UP (1978).

⁵⁶ Peter Evans, “Predatory, Developmental and Other Apparatuses: a Comparative Political Economy Perspective on the Third World State” Sociological Forum. Vol.4 (1989): 561-587.

than the government, always tried to control the government interventions through its representative in the committee. Second, there was no official government agency for detailed and long-term industrial planning. Also there was not enough number of meritocratic self-consciousness bureaucratic elite who could overcome any external political pressure and set the consistent industrial plan. Although the government tried to play the autonomous role in the industrial planning by establishing the Center of Planning and Economic Research in 1964, the plan was never implemented because of the intense political controversy, lack of intragovernmental policy coordination, and clientelism in the government. Therefore, Greece offered a case of developmental policies without a developmental state.⁵⁷

The weakness of autonomous developmental bureaucracy and relatively strong influence of the bank reflected in the ineffective economic policies and lagged economic results of developmental era. Although there was increase of manufacturing credit after 1959, there was not equivalent increase of private capital formation in big industry but increase of consumption and real estate.⁵⁸ This was consequence of big private sector's reluctance to undertake industrial investment because of absence of strong autonomous developmental bureaucracy who lowers the risks of long-term industrial investment and monitors the unreasonable investment on consumption and housing. As commercial banks tried to avoid unpredictable long-term investment and promote short-term profits, the big industrial firms did not focus on the sophistication of industry but on the extension of term of the short-term loan. Along with this negative mechanism triggered by the weak developmental state, the reform of the existing economic structure, composed of domestic-oriented

⁵⁷ George Pagoulatos, "Greece's New Political Economy" 56-62.

⁵⁸ Ibid., 62-67.

small and medium-sized low productive enterprises, was not accomplished. Therefore, although the Greek economy propped up until the 1960s, the export-oriented growth became stagnant because of the failure in sophistication of its industry and reform of its structure.

The historical blocs between relatively weak developmental state, banks, and domestic-oriented unproductive corporations paved the path for the accumulation system based on ineffective domestic-oriented industry and financial-centered hegemony. As big industrial firms relied on the short-term loan without sophistication of their manufacturing capabilities, the influence of the banks increased with accumulated corporate debt and clientelistic networks, which culminated to less competitive oligopolistic structure under the financial vulnerability. In addition, this vulnerable accumulation system, based on the historical blocs between relatively weak developmental state, banks, and inefficient corporations, succeeded in the suppressing the society. Also this relatively weak state corporatism could dismiss the labor demands through the political repression of radical labor unions and appointment of regime-friendly union leaders, which resulted in clientelism and lack of welfare social security.⁵⁹ Therefore, the Greek domestic-oriented financial-centered model was shaped by the relatively weak developmental state which failed in both creating sustainable accumulation system and democratically solidifying solidarity in the society.

⁵⁹ Schmitter P., "Organized Interests and Democratic Consolidation in Southern Europe" in R. Gunther, P. Nikiforos Diamandouros and H-J Puhle, *The Politics of Democratic Consolidation: Southern Europe in Comparative Perspective*, Baltimore and London: The Johns Hopkins University Press (1995): 284-314.

Chapter 2 - Path Dependency of the Model before and after Economic Crisis

2.1 Surge of Neoliberalism and Dollar-Wall Street Regime

There was a global great transformation from the postwar ‘Keynesian Embedded Liberalism’ to the neoliberalism. After oil crisis and stagflation in 1970s, there was a significant paradigm shift from the new classical synthesis, mixture of Keynesian macroeconomics and neoclassical microeconomics, to the neoliberalism, mixture of Chicago monetary school and Austrian school of economics. The main idea of the neoliberalism is minimizing the economic intervention of the state and maximizing the efficient allocation of resource through market mechanism. According to Ludwig von Mises’ priority of market prices in Socialist calculation debate and Hayek’s aversion to planned economy in ‘The Road to Serfdom’, state intervention should be minimized like a night-watchman state protecting the holy private right from the aggression, theft, breach of contract, and fraud. As Milton Friedman pointed out, state should only focus on the taming inflation. Also neoliberalism is not just an economic school but a sociopolitical philosophy influencing enormously to the reality like Pinochet’s neoliberal reform in Chile, Thatcherism in Britain, and Reaganomics in the US. Ironically, however, neoliberalism could be implemented not by the retreat of the state but by the active intervention of the state establishing the new laws, institutions, and rules related to austerity, privatization, deregulation, labor market flexibility, regressive tax system, and opening of capital market.⁶⁰ Therefore, it was recovery of the capitalist power, confined in the postwar welfare state, by the ‘accumulation by dispossession’ through privatization, commodification, and financialization.⁶¹

Also there was structural systemic transformation. Because of the twin deficits of the US and

⁶⁰ Leo Panitch and Martin Konings, “Myths of Neoliberal Deregulation” *New Left Review* 57 (2009).

⁶¹ David Harvey, “A Brief History of Neoliberalism” Oxford University Press. (2005).

outflows of the private capitals to the Eurodollar market in London, Richard Nixon declared the cancellation of direct international convertibility of US dollar to gold in 1971. It was both the death knell of the Bretton Woods system and starting point of freely floating fiat currency. Because of the lack of compromise between different countries, globalization of production process of multinational corporations, and increase of the oil dollars from the OPEC countries after oil crisis, capital movement was liberalized again while former organizations of Bretton Woods system like IMF and IBRD changed their role from the international liquidation and development to the neoliberal structural reform. With the paradigm shift to the neoliberalism, liberalized capital movement could cripple any fiscal, monetary, and labor regulations of the welfare states and developmental states, which was creation of the new historical bloc and accumulation system. Along with decline of Fordism and globalization of production process by the transnational corporations, on the one hand, labor has been forced to be flexible and precarious under the threat of automation and outsourcing. On the other hand, capital could maximize their profits and power thanks to the portfolio investment and financial arbitrage in the liberalized market. However, the transformation from the ‘organized capitalism’⁶² between state, capital, and labor to the ‘casino capitalism’⁶³ obsessed with financial short-term profit created systemic instability and risk. This systemic instability could not be controlled by the individual capitals or market but by the global hegemony and new historical bloc, named ‘the Dollar-Wall Street Regime’⁶⁴ and ‘the Washington Consensus’.⁶⁵

⁶² Claus Offe, “Disorganized Capitalism: Contemporary Transformation of Work and Politics” Cambridge, MA: The MIT Press (1985).

⁶³ Susan Strange, “Casino Capitalism” Manchester University Press (1986).

⁶⁴ Peter Gowan, “Global Gamble: Washington’s Bid for World Dominance” London Verso (1999).

⁶⁵ John Williams, “What Washington Means by Policy Reform” In John Williamson, ed., Latin American Adjustment: How Much Has Happened? Washington, D.C.: Institute for International Economics (1990).

In this Dollar-Wall Street regime based on US and financial capitals controlling the neoliberal world political economy, the core of the system is Wall Street-IMF-Treasury Complex.⁶⁶ The US government and international organizations put top priority on the interest of the transnational capitals in the Wall Street while preventing the contagion of regional economic crisis to the whole system and controlling the instability of the system simultaneously as a lender of last resort.⁶⁷ Then, international organizations like IMF and World Bank provide bailout loan to the deficit countries not for relief of troubled countries but for salvage of the invested transnational capitals. With the imposed structural adjustment programs like austerity, deregulation, privatization, tax reform, labor market flexibility, and opening of capital market, Washington Consensus succeed in establishing new neoliberal accumulation system in the bailout countries. This newly established accumulation system triggers double movement between the disembeddedness of the market through the commodification of the fictitious commodities and countermovements. This rapid neoliberal counterattack since late 1970s resulted in dismantlement of postwar Keynesian ‘Embedded Liberalism’ of Bretton Woods system, unstable economy with consecutive economic crises, erection of Dollar-Wall Street Regime, enforcement of neoliberal structural reform by the ‘Washington Consensus’, and double movement between commodification of fictitious commodities and countermovement in the bailout countries, which is the most important and common origin of the economic crises of South Korea and Greece.

⁶⁶ Robert Wade and Frank Veneroso, “The Asian Crisis: The High Debt Model Versus the Wall-Street-Treasury-IMF Complex” *New Left Review* 228 (1998): 3-23.

⁶⁷ Juhyeong Ji, 53-107.

2.2 South Korean Case

With this global surge of neoliberalism, the international environment of the South Korea, relationship with US and Japan started to change since 1980s. The newly established ‘Dollar-Wall Street Regime’ in US changed their policy related to the newly industrialized countries in the East Asia. US not only asked these countries to open their domestic market but also could not allow other countries to take this developmental state model as an alternative to the neoliberal Anglo-Saxon model.⁶⁸ As hegemonic power in the ‘Dollar-Wall Street Regime’, US forced these developmental states to participate in the dollar cycling mechanism by imposing the voluntary export restraints (VERs) and the Super 301 trade act. After the cold war ended with the collapse of the USSR in 1991, the US trade and economic policies became more aggressive. Finally, US succeeded in liberalization of South Korean market by allowing the enrollment of WTO and OECD. Also Japan actively enlarged their production network to the South East Asian countries after Plaza Accord in 1985 and subsequent burst of asset bubbles in late 1980s. With the decreased trade surplus and ultra-cheap money policies, Japan integrated many South East Asian countries who have cheap labors to the flying geese.⁶⁹ In 1990, Japan also rejected to handover advanced technology because of potential threat of South Korea as export market competitor. Therefore, cozy environment for the South Korean export-oriented manufactured-centered developmental model changed because of newly established neoliberal ‘Dollar-Wall Street Regime’ and increased competition between states of Japanese flying geese.

⁶⁸ Walden Bello, “어두운 승리 : 신자유주의, 그 파국의 드라마” 이윤경 옮김. 삼인 (1998).

⁶⁹ Robert Brenner, “The Room and the bubble” New Left Review II (2000): 5-43.

There was also gradual change in both South Korean society, government, and conglomerate, which triggered simultaneous dual transition, democratization and neoliberalization. First, anti-dictatorial movement started to challenge to the authoritarian state since the mid-1980s and finally succeeded in crippling down the military dictatorship in 1987. However in this democratization process, the working class did not play an important role in this democratization struggle compared to the West.⁷⁰ Although there were increase of the wildcat strikes and independent union movement called the ‘democratic union movement’, the government prohibited independent unions and its political activities through its permission system. Also government refused the revision of existed exploitative labor laws in 1988. Therefore, anti-dictatorial movement was led not by the labor movement but by the civic movement. Second, the government was fueled with the neo-liberal monetary economists who got their degree in the US Since late 1970s.⁷¹ These people shared strong belief that market liberalization policies like financial liberalization, abolishment of price control, and liberalization of imports will promote the political democratization. Although they could not occupy the key post in the Park’s regime because of his strong statism, their power in the government increased gradually in the successive regimes, which reached peak in the first democratically elected Kim Young-Sam government. In this government, neoliberal economists actively pursued the liberalization under the name of the globalization. Also Kim used it as political rhetoric to mobilize mass support to the new government rather than a scientific concept to understand social change at the global level.⁷² Third, South Korean conglomerate started to challenge the hegemony of the developmental state. For example, the

⁷⁰ Kwang-Yeong Shin, “Globalization and the Working Class in South Korea: Contestation, Fragmentation and Renewal” *Journal of Contemporary Asia* Vol. 40 (2010): 211-229.

⁷¹ Yun-Tae Kim, “Chaebol and Power” Korean. Seoul: the People of Fresh Mind (2000).

⁷² Kwang-Yeong Shin, “Globalization and Social Inequality in South Korea” *New millennium South Korea* New York: Routledge (2010): 11–28.

owner of the Hyundai Group, Chung Joo-Young declared the candidacy of president election in 1992. In addition, when the Kim's government gave an impression of revision of labor laws, the chaebol reduced new investment, which caused the economic downturn. Therefore, South Korean export-oriented manufactured-centered authoritarian developmental model based on historical bloc between state, nationalized bank, and chaebol started to be destabilized because of dual transitions and growth of sub-groups.

After South Korea became the member of OECD in 1996, South Korea's credit ranking in the international market was upgraded. The Japan Bond Research Institute(JBRI) assigned AA+ to Korea, which was almost same as that of Denmark.⁷³ However, this upgrading triggered high debt ratio of chaebols who were accustomed to the soft-budget constraints and excessive business diversification under the collusive relationship with authoritarian developmental state. The average debt-to-equity ratio of top 30 conglomerates increased from 347.5% in 1995 to 386.7% in 1996.⁷⁴ Without any reform of practice and structure, chaebols borrowed huge amounts of short-term loans from international financial organizations and invested to the saturated market unreasonably. Although these chaebols faced bankruptcy, South Korean state could not bail out them because of the membership of the OECD. With the government clumsy and rapid liberalization of domestic markets, the economic crisis was a result of the high debt ratio of foreign loans by chaebol and their incapacity to repay as foreign banks did not extend period of repayment because of Asian crisis in 1997. As some of chaebols went into bankruptcy in the first half of 1997, international credit rating agencies downgraded credit rate of South Korean banks, which made more difficult

⁷³ Korean Times "European Agency Positive to Korea's Economy" (19. 12. 1996).

⁷⁴ Korean Herald (12. 5. 1997).

for chaebols to borrow money from the international financial market. It created a chain of bankruptcy of companies, which caused the default of financial organizations including large banks.⁷⁵ As the exchange rate of South Korean currency plummeted, the government recklessly tried to protect its currency value without noticing the fact that the South Korea changed their foreign currency exchange system from fixed exchange rate system to the floating exchange rate system after the enrollment of OECD. After foreign exchange reserves was drained, the South Korean government demanded the rescue from the IMF and World Bank, which was the starting point of rapid commodification of fictitious commodities. Therefore, the inertial practices of chaebols and rapid liberalization of South Korean state were the root causes of the economic crisis.

As IMF and World Bank demanded neoliberal structural reforms like opening of financial sector, privatization of the public sector, the corporate governance reform, and enhancement of the labor flexibility, it is true that former export-oriented manufactured-centered authoritarian developmental model changed in terms of historical bloc and accumulation system. First, the influence of transnational financial capitals increased dramatically. ‘The foreign share in the total value of Korea’s stock market jumped from 15% in 1997 to about 44% (approximately 150 trillion won) by late 2004, and the average share of foreign stocks in the nine largest chaebol exceeded 50%.⁷⁶ Because of this change, chaebol decreased the ratio of long-term investment while prioritizing shareholder’s profit. Second, the successive governments after the economic crisis asked banks to restructure balance sheets and diversify their assets. This reform forced banks to

⁷⁵ Kwang-Yeong Shin, “Globalization and Social Inequality,” 70.

⁷⁶ Yoon-Jong Wang, “The Threat of the hostile M&As and countermeasures” , in C. K. Lee et al., *Hankook kyeongajega sarajinda* (2005): 99-180.

focus not on the long-term industrial investment but on the short-term asset markets, which waned the export-oriented manufactured-centered developmental model. Third, state does not pick up champions through active industrial intervention and subsidization, which reflects in the low growth rate. Therefore, it is partly true that newly stabilized neoliberal financial-centered accumulation system based on the new historical bloc between transnational financial capital, state, and chaebol has been established, compared to the former developmental manufacture-centered accumulation system based on the historical bloc between authoritarian developmental state, nationalized bank, and chaebol.

However, this does not mean the demise of the export-oriented manufactured-centered authoritarian developmental state model, which still shows the path dependency. First, the export-oriented manufactured-centered authoritarian model contributed to the relatively early graduation of the IMF. Thanks to the devaluation of Korean currency and subsequent increase of exportation, South Korea has recorded current account surplus from 1998 to 2000, which culminated in 40 billion-dollar in 2010. Although this developmental model aggravated excessive economic concentration of chaebol because of ‘Big Deal’ and stagnant growth of small and medium-sized corporations and domestic market, it overcame the economic crisis ostensibly by strengthening the foreign exchange reserves. Second, the protagonist of neoliberal structural reform was not IMF but South Korean state, especially bureaucracy in the Ministry of Finance and Economy. The demands of IMF were not very different from what former neoliberal bureaucracy pursued since 1980s. Also the state succeeded in framing the chaebol as a symbol of cronyism and cartels which should be dismantled. After the state recovered legitimacy through the implementation of the

Korea Tripartite Commission and residual welfare system, third, state wield its power for structural reform. After the state established the Financial Supervisory Service by integrating four supervisory bodies, the Office of Bank Supervision, the Securities Supervisory Board, the Insurance Supervisory Board and Non-Bank Supervisory Authority, the state asked balance sheet improvement to the banking and financial industry. With this financial industry reform, Korean Fair Trade Commission became the spearhead of so called ‘Big Deal’(asset swaps) to prevent chaebols from diversifying their business and force them to specialize. The state sanctioned illegal internal transactions, inter-subsidiary debt guarantees, and cross-shareholding of chaebols both for political legitimacy and economic efficiency. However, survived chaebol in this ‘Big Deal’ could maximize their profit under the more monopolized markets thanks to the specialization ironically. Therefore, authoritarian developmental state not only contributed to the early graduation of IMF but also strengthened both state’s hegemony and economic concentration of chaebol as a dominant player in the neoliberal structural reform.

Also the path dependency of export-oriented manufactured-centered authoritarian developmental model still resonates after the economic crisis. Although state intervention is not very proactive and pronounced nationwide, it is possible to recognize variation. First, the state still ’has a number of very large-scale, state-led public construction works under way, such as the Saemankeum and the four-river restoration projects, despite strong nationwide opposition, which suggests the government’s strong inclination toward input-based growth, a completely outdated strategy favored by the military regime in the past.⁷⁷ Second, the state still relies on the exporting chaebols

⁷⁷ Yong-Soo Park, 601.

as a heart of the economic growth and encourages creation of employment and redistribution of wealth through the trickle-down effect of pro-chaebol policies, which was the essence of traditional developmental state model. Also the state continued to use government procurement as a means to promote small and medium-sized enterprises and regional development after the crisis.⁷⁸ Third, the state also nurtures new industries such as information technology, bio-technology, and cultural industry, which is similar to what authoritarian developmental state did between 1960s and 1980s. Industrial policies have survived and evolved depending on the different sectors of economy. Therefore, the traditional authoritarian developmental model casts the shadow in this neoliberal era.

To summarize, in the middle of ideological and structural great transformation from ‘Keynesian Embedded Liberalism’ of Bretton Wood system to the neoliberal ‘Dollar-Wall Street Regime’, the sustainability of South Korean export-oriented manufactured-centered authoritarian developmental model started to be questioned. As cozy environment for this model were aggravated because of US’s growing aggressive unilateralism after collapse of Soviet Union and increased competition in the Japanese ‘flying geese’ production network, the South Korean authoritarian developmental model was pressured to open its domestic market to the US and abolish state intervention. In addition to this change in the international environment, the Korean authoritarian developmental model felt some burden of transformation domestically by the surge of marginalized groups in anti-dictatorship democratic transition since 1980s. After South Korea rapidly liberalized their market without any structural reform of inertial practices of authoritarian

⁷⁸ APEC Report of the individual action plan(IAP) peer review of Korea, Document (2007).

developmental model, South Korea suffered from the economic crisis and subsequent impact of neoliberal structural adjustment programs since 1997. It is true that former developmental manufactured accumulation system, based on historical bloc between developmental state, nationalized bank, and chaebol, has been replaced by more neoliberal financialized accumulation system, based on historical bloc between transnational financial capital, state, and chaebol. As the strong state has an autonomous role not only in the neoliberal reform in the crisis moment but also after the crisis, however, the path-dependency of export-oriented manufactured-centered authoritarian development model still highly influence to its ‘civil society’, which prevents any radicalizations or surge of populism.

2.3 Greek Case

With the demise of the postwar Bretton Woods system and ‘Keynesian Embedded Liberalism’, the favorable international environment for the development started to wane. In response to the global massive capital mobility, interdependent EC economies introduced collective currency pegs. ‘From the failed European Snake of the 1970s, attempting to maintain the 2.25 % fluctuation bands of the Smithsonian Agreement, to the 1979-created European Monetary Systems until the 1990s, widening of the fluctuation bands from 2.25% to 15% in 1993, the course was laden with obstacles.’⁷⁹ In addition to the European single market program, the withdrawal of capital controls in 1980s made EMS difficult to be sustained, which paved the way for the final full monetary union. Because not only the corporations could circumvent the capital regulations by manipulating the account books, but also individual citizens could bypass the capital or foreign exchange controls because of the freedom of movement in the EC area. As this capital mobility both confined the states’ monetary policy autonomy and domestic banking regulation, the hegemony of the finance became dominated.

With the change of international environment like mass capital mobility, oil crisis, and stagflations in the 1970s, the reaction of Greek weak developmental state was inflationary policies by ostensibly autonomous monetary policy. The reason of this inevitable choice was originated from path dependency of relatively weak developmental state and democratic transition. Because of the lack of industrial sophistication and structural reform, first, the uncompetitive nontrade-sector corporations like banking, construction and public enterprises passed on the rising wage

⁷⁹ George Pagoulatos, “Greece’s New Political Economy,” 80-85.

cost to consumers through higher prices. The entrenched power of clientelistic financial credit recipients was strong enough to ask more credits while increasing inflation and vulnerability. Second, companies in the trade sector like manufacturing, tourism, and transport industry sought to offset their loss of competitiveness through currency devaluation. Then as government tried to offset the deteriorated competitiveness through devaluation, it triggered a new circle of wage increases. Third, most of the manufacturing industry, not only the capital-intensive heavy industry like shipbuilding but also the labor-intensive light industry like textile, lost its competitiveness because of the increased cost-push factors and competition with low-cost East Asian producers. Fourth, the transition of Greece from military dictatorship to the procedural democracy meant that the state could not effectively suppress the labor and society. Not only power of labor and society increased the real unit labor costs by about one-third between 1975 and 1985.⁸⁰ But also the public support in the procedural democracy expanded protectionism at the expense of macroeconomic reform. Fifth, the increased affluence could not prevent social willingness for consumption, which resulted in declining rates of capital accumulation, slower rates of economic growth, increased public debt, and higher inflation.⁸¹ Therefore, questions were raised for the sustainability of the weak developmental accumulation system based on the historical bloc between weak developmental state, bank, and corporation.

This vicious cycle of deficits and inflation could not be resolved both in the New Democracy(ND) Party government and Panhellenic Socialist Movement(PASOK) Party government until the late

⁸⁰ Alogoskoufis G., "The Two Faces of Janus: Institutions, Policy Regimes and Macroeconomic Performance in Greece" *Economic Policy* (1995): 149–92.

⁸¹ Goldthorpe J.H., "The Current Inflation: Towards a Sociological Account" in F. Hirsch and J. Goldthorpe (eds) *The Political Economy of Inflation*, London: Martin Robertson (1978).

1980s. The ND's Karamanlis government tried to appeal to the progressive social strata by nationalizing large companies without reform of the lax budget practices based on clientelism between reckless banking industry and uncompetitive business. By 1980s, public consumption had risen by nearly 40% from 1974 while public investment remained unchanged. Then PASOK's Papandreou government also sought to have support from the unprivileged social strata by upgrading welfare system to the Western European level. The Papandreou government delayed the reform and pursued supply-side strategy of state financial intervention, planning, and socialization at the expense of monetary stability. As the government encouraged state-controlled banks to take over ailing corporations to save jobs and prevent bankruptcy, heavily indebted enterprises burdened the public debt without sophistication of industry and industrial structural reform. This supply-side shocks had negative impact on industrial productivity because firms had to spend massive amounts of finance on labor and capital maintenance costs rather than introducing of new technologies or capital goods.⁸² Also during 1979-90, average annual increase in fixed capital formation was -0.8% while the labor productivity increased by an annual average of 0.5% compared to annual 3% of Greece's trading partners. In 1970s about a fifth of the manufacturing sector went into bankruptcy with decreasing net profit rate in manufacturing from 15% in 1970 to 8% in 1979.⁸³ With the decreasing share of industry and manufacturing in GDP, the weak developmental state faded away. Therefore, the Greek accumulation system based on weak developmental state and suppression of labor and society could not be continued because of vicious circle of inflation and deficit and gradual growth of labor and society. Also the weak developmental model based on inefficient manufacturing model sounded the knell while the

⁸² Dimeli S., T. Kollintzas, and N. Christodoulakis, "Economic Fluctuations and Growth in Greece and Europe" Athens: IMOP (1997).

⁸³ OECD "Economic Surveys: Greece 1986/87" Paris: OECD (1987).

hegemonic geography in the historical bloc between weak developmental state, banks, and corporations started to be changed because of the European integration project.

After Greece opened their economy at the immature stage with the entry into the EC in 1981, the Greece had to internalize the European disinflationary regime in their institutional design and policy making. The major objective of this regime is credit liberalization without state credit expansion, which transformed the developmental state into a disinflationary state. As European integration project was initial reaction against erosion of international competitiveness and economic instability in the liberalized global market, the EC tried to enhance economic competitiveness by abolishing postwar regulatory structures of the member states. This EC momentum of marketization, liberalization, and privatization forced member states to stimulate liberalization of interest rates, eliminating domestic obstacles, abolishing direct lending controls and investment requirements, and establishing independent financial institutions. This EC's enforcement enhanced the hegemonic power of the internationalized financial sector and central bankers.⁸⁴ In addition, creed for sound budget satisfied the inflation-averse European Bankers. However, it not only eroded the sovereignty of member states but also exposed immature national firms to the international competition directly by disallowing industrial subsidies.

Under the influence of EC's disinflationary liberalizing regime, economic convergence was started after the reelection of PASOK in 1985. In response to the high inflation and balance-of-

⁸⁴ Dyson K, K. Featherstone and G. Michalopoulos, "Strapped to the Mast: EC Central Bankers between Global Financial Markets and Regional Integration" *Journal of European Public Policy* (1995): 465-87.

payment crisis, Papandreou government turned to the EC for both political and economic support.⁸⁵ As the Greece received the balance-of-payment support loan from the EC, the state adopted structural reform, which not only framed the path dependency of financial-oriented peripheral characteristic of Greek model but also solidified the hegemony of the financial capital both in the domestic and European level. As the structural reform did not allow state to have a capability to manage interest rate, foreign exchange rate, and budget deficit under the monetarism, government was forced to offset public debt by generating budget surplus through elimination of industrial subsidies and privatization of indebted public enterprises. Because privatization necessitates developed capital market, it reinforced the need for financial liberalization and power of financial sector. While signing on the Maastricht Treaty, prohibiting financing of government deficit, and European System of Central Banks, guaranteeing the complete institutional independence, the Bank of Greece emerged as protagonist who has incomparable technocratic skill, policy expertise, and continuity.

As the Bank of Greece wielded power over the whole stages of structural reform in collaboration with EC, private banking sector became the main beneficiary of financial liberalization. Furthermore, the ‘hard drachma’ policy in the liberalization process encouraged both domestic and international investors to invest in drachma-denominated financial assets, which culminated in the rapid growth of banking and financial industry. For example, ‘average profitability ratios of Greek large commercial banks rose, with pretax profits over assets climbing from 0.3 in 1987 to 0.7 in 1990 to 1% in 1992⁸⁶ ‘Further, between 1987 and 1993 commercial banks’ funds approximately

⁸⁵ George Pagoulatos, “Greece’s New Political Economy,” 112-114.

⁸⁶ OECD, “Economic Surveys: Greece” Paris: OECD (1995).

quintupled, and productivity rose by 163%, due to extensive investment in new technology'.⁸⁷ Also the 'equity capitalization in GDP grew from 6.75% in 1980 to 15% at the end of 1993, while total capitalization growth was more dramatic, from 8.75% in 1980 to 58% in 1993'.⁸⁸ However, this structural reform like liberalization of interest rates, the abolition of credit controls, the establishment of a capital market, the termination of subsidy of the commercial banks not only dismantled the postwar financial interventionism but also deepened both the domestic-oriented economic structure and deindustrialization. As the importers and domestic small and medium-sized enterprises remained as advocates of liberalization thanks to the hard drachma, vulnerability and low efficiency of the system could not be improved. The credit to manufacturing as a share of total credit to private sector declined under the hard drachma policy.⁸⁹ Therefore, although the chronic negative economic conditions started to be reserved in the mid-1990s because of the growing stock market, decreased inflation and interest rates, and EU structural funds, the path of Greek domestic-oriented financial-centered European peripheral model deepened.

This structural problem originated with the path dependency of the Greek model was overshadowed by the membership of EMU. There are some advantages to adopt the single currency. It is true that the introduction of euro provided monetary stability against exchange rate risk and inflation thanks to the world currency status of the euro. Also the euro-denomination of public debt and elimination of exchange rate premium with the inflation premium allows member states to borrow at moderate interest costs. In addition, EMU eliminates the very rapid capital

⁸⁷ Kostopoulos I., "The Contribution of Commercial Banks to the Liberalization of the Financial System" HBA Bulletin (1994).

⁸⁸ OECD, "Economic Surveys: Greece" (1995).

⁸⁹ George Pagoulatos, "Greece's New Political Economy," 142-167.

movements by creating a common monetary policy, which results in long-term financial markets in theory. However, the euro aggravated structural problems of the Greek model. The integration with efficient manufactured-centered northern European countries forced Greece to specialize in primary sector and low productive domestic-oriented service sectors without any structural reform. Because of the nonexistence of an EU-level fiscal policy, current account deficit gradually increased. With the growth of market-based financial system and the integrated capital and money market in Eurozone, the current account surplus of the northern European countries flowed into the Greece, which deteriorated the dependency. For example, the negative net foreign asset position as proportion of GDP increased from 3% in 1997 to 86% in 2009.⁹⁰ Also integration of the money market based on financial liberalization increased the speculative bubbles and vulnerability because of the preference of short-term shareholder value rather than long-term stakeholder value. For example, the net current and capital transfers in the balance-of-payments accounts dropped from the 3.6% of GDP in 1995 to the 0.3% in 2009.⁹¹ As the euro switched off the alarm system due to the money illusion without threat of devaluation, this hidden structural problems exploded in terms of sovereign debt crisis when Greek prime minister George Papandreou delivered speech of debt in 2010.

When looking at the figures, public spending increased to 52% of GDP by 2009 and public deficit increased to 15.4% of GDP.⁹² With this statistics, right-wing politicians blamed the inflexible labor market and reckless welfare as major culprits of the crisis. However, the real income of wage-

⁹⁰ George Pagoulatos, "The European Union," 7.

⁹¹ Ibid., 7.

⁹² Ibid., 4.

earners decreased gradually from 1985 to the first half of the 1990s. In addition, collective bargaining had been liberalized with the decrease of unionization of private sector employees. ‘Since the mid-1990s Greece has taken significant steps towards labor market liberalization, including the introduction of less strict limits for dismissals, the annualization of working hours, the establishment of temporary employment agencies and the institutionalization of part-time and fixed-term contracts.’⁹³ Also it is arguable that Greek model has characteristic of clientelism based on the ‘disjointed corporatism’ because of the lack of state power without continuous autonomous bureaucracy and strong hegemony of two parties ND and PASOK.⁹⁴ However, ‘Greek public expenditure(around 45% of GDP) and public employment (around 20% of total employment) fluctuated around EU averages and that the persistent government budget deficits were caused by a market shortages in public revenues rather than an idiosyncratic propensity for profligacy.’⁹⁵ After entry in the EMU, Greece reduced its corporate tax rates from 40% to 25%, which resulted in decreased ratio of corporate taxation to total income tax, from 46% in 2000 to 28.7% in 2008.⁹⁶ Therefore, the Greek collapse in the economic crisis was not caused simply by the reckless welfare system but originated from the vulnerability and unsustainability of domestic-oriented financial-centered European peripheral accumulation system based on historical bloc between peripheral weak state, strong financial sectors, and inefficient corporations. Because of these path dependency and unsustainability of accumulation system, Greek state could not but accepted bailout loan, 110 billion euro, with neoliberal structural reform from Troika. However, society started to protest

⁹³ Apostolos Agnantopoulos, Dionysia Lambiri “Variegated capitalism,” 6.

⁹⁴ Lavdas K., “The Europeanization of Greece” London: Macmillan” (1997).

⁹⁵ See note 93 above.

⁹⁶ Ioannidis Y., “The political economy of the distributional character of the Greek taxation system (1995-2008)” *Southe.Eur. Black Sea Stud* (2015): 77-96.

actively against the hegemonic foreign financial capitals and weak state which lack of legitimacy and resources.

To summarize, the sustainability of Greek relatively weak developmental model, based on historical bloc between weak developmental state, banks, and domestic-oriented inefficient corporations, started to be questioned after the demise of the postwar Keynesian ‘Embedded Liberalism’ and surge of neoliberal ‘Dollar-Wall Street Regime. As the Greek model stagnated under the pressure of stagflation and democratic transition, the hegemonic financial group relied on the European integration project to reform the political economic structure and solidify their hegemony. Implementing neoliberal structural reform like capital market liberalization, deregulation, labor market flexibility, privatization, and sound budget, the reform enhanced the path dependency of Greek domestic-oriented financial-centered European peripheral model. As the deindustrialization and financialization proceeded, the vulnerable financial-centered accumulation system, based on newly established historical bloc between peripheral weak state, hegemonic transnational financial capitals, and domestic-oriented inefficient corporations, was solidified. The vulnerability and unsustainability of this model was exposed in the global financial crisis in 2008 and sovereign debt crisis in 2010. Because of the path dependency of this model, Greece could neither devalue its own currency nor increase the amount of exports. With the burst of asset bubble and sovereign debt, the Greek weak state not only accept the bailout loan from the Troika but also lost its power and legitimacy for having a leading role in neoliberal structural reform.

Chapter 3 - Different Path Dependencies and Different Countermovements

3.1 South Korean Case

Because of devaluation of currency and increase of exportation, South Korean export-oriented manufactured-centered authoritarian developmental model contributed to the ostensible early graduation of IMF by repaying all the bailout loan in 2001. With both unprecedented the massive layoffs and unemployment, 127000 layoffs and 1500000 unemployed,⁹⁷ however, the neoliberal structural reform enormously devastated the society. First, the poverty rate continuously increased since the 1997 economic crisis. For example, the ratio of household under the poverty line increased more than twice from 3.9% to 9.4% between 1997 and 1999. It decreased from 9.4% in 1999 to 5.2% in 2002 and increased again up to 6.0% in 2004.⁹⁸ Second, the income gap between the rich and the poor increased after the neoliberal reform. For example, the Gini index for ‘disposable income’ increased from 0.298 in 1996 to 0.358 in 2000, which means that South Korea had the third worst rating of OECD member countries.⁹⁹ Also the ‘relative poverty ratio’ of households, which indicates the proportion of the households whose disposable income amounts to less than 40% of the medium income of all households, also increased from 7.7% in 1996 to 11.5% in 2000, the highest relative poverty ratio among OECD countries.¹⁰⁰ Third, index related to the labor conditions deteriorated as well. For example, the real wage of workers steadily decreased in the five years after 1997. With the real-wage level of 1997 at 100, that of 2001 was 98.1 while the labor productivity increased by 45.4% during the same period, which culminated in the longest weekly labor hours among OECD.¹⁰¹

⁹⁷ HuffpostKorea “The seven amazing situations of Korea after IMF crisis” November 21.

2017. Accessed May 15 2018. https://www.huffingtonpost.kr/2017/11/21/story_n_18608198.html

⁹⁸ Kwang-Yeong Shin “Globalization and Social Inequality,” 79.

⁹⁹ Yoo-Kyung Joon, “The Direction of Welfare Policy based on the International Comparison of Income Distributions” KDI Policy Forum No.167 (2003).

¹⁰⁰ Ibid.

¹⁰¹ Seong-Hee Kim, “Distorted Institutionalization and Expanded Flexibility: An Evaluation on Labor Policy during

Although there is some influential social protective countermovements against this neoliberal commodification of fictitious commodities, like campaign against FTA in 2007, anti-American beef candlelight protests in 2008, and protests for half-priced tuitions in 2011, there was no mushrooming of populism in the mainstream political arena. Right-wing politicians emphasized the fulfillment of a neoliberal reform promise with IMF while some of nationalists preached that donation of gold for repayment by the ordinary citizens as key factors preventing populist surge. However, this sociopolitical consequence should be analyzed from the different perspective, Antonio Gramsci. 'For Gramsci, society is 'civil society', which is always understood in its contradictory connection to the state. On the one hand, 'civil society' collaborates with the state to contain class struggle, and on the other hand, its autonomy from the state can promote class struggle'.¹⁰² Gramsci tried to prove how 'civil society' orchestrates the coordination of interests between capital and labor and how 'civil society' deepens bourgeois democracy's power to domesticate revolutionary tendencies. Therefore, he analyzed national trajectories as configurations of state and 'civil society'. Then, the core reason is path dependency of South Korean capitalist model, especially relationship between authoritarian developmental state and its 'civil society'. Since the 1960s, this authoritarian developmental model succeeded in establishing stabilized accumulation system which got profit from the export while concentrating its resources to a handful of chaebols and sophisticating industry from the light industry to heavy and chemical industry. Based on the historical bloc between authoritarian developmental state, nationalized bank, and chaebol, this accumulation system highly relied on the exploitation of cheap labor for the price competitiveness in the export market and suppression of other groups in the 'civil society'. Also

the Kim Dae-Jung Government" in Jeon Chang-Whan and Kim Jin-Bang (eds), *Korean Capitalism after the 1997 Crisis*, Seoul: Pulbit(2004).

¹⁰² Michael Burawoy, 198.

the authoritarian developmental state brutally suppressed the labor and marginalized other civic groups from the political decision making. Although the power of these subalterns in the ‘civil society’ especially labor and middle class grew gradually in the sophistication of developmental stages, they were underdeveloped because of the path-dependency of export-oriented manufactured-centered authoritarian developmental model. Therefore, the spotlight should be given to the how the South Korean authoritarian state played active role in dealing with the crisis for its hegemony while preventing radicalization of ‘civil society’ systematically.

Compared to the common sense that neoliberal structural reform is usually implemented by the debtor countries under the guidance of the international financial organizations like IMF, World Bank, and ECB, South Korean state played a leading role in implementation of neoliberal structural reform. Passing through simultaneous dual transitions, democratization and neoliberalization, state hegemony started to wane compared to rising power of labor, civic groups, and chaebols. Then economic crisis and neoliberal structural reform could be golden opportunity to solidify its hegemony. Under the government of Kim Dae-Jung, the most well-known anti-dictatorial figure, the state recovered legitimacy from labor and civic groups by dispersing the belief that chaebol’s soft-budget constraints and excessive business diversification were the major triggers of economic crisis. In this process, first, the state proposed the first social pact between labor, government, and business through the Korean Tripartite Commission in 1998. In this commission, state not only allowed the participation of obedient state-supported Federation of Korean Trade Unions(FKTU) but also allowed participation of militant progressive Korean Confederation of Trade Unions(KCTU) as well. ‘The inclusion of the KCTU fulfilled the

aspirations of union leaders to alter their status as outsiders to the established political system'.¹⁰³ While union leaders proposed restructuring of chaebol, they accepted job sharing and wage freezes because of their naïve beliefs of improvement of its status. However, when chaebol cut jobs and unions threatened to strike, the state did not allow them to use any extra-parliamentary action. Then the state immediately suppressed strikes and arrested union leaders. Therefore, the state succeeded in burnishing its image as sincere agent of neoliberal reform while suppressing the labor brutally.

Second, the government recruited the most representative NGOs like Citizens' Coalition for Economic Justice(CCEJ) and People's Solidarity for Participatory Democracy(PSPD) to support neoliberal structural reform.¹⁰⁴ In the case of CCEJ, it consisted of liberal economists who had strong belief of sanctity of establishing competitive fairness in the market. Based on this creed, it pursued separation between chaebol ownership and management, more equitable relationship between big business and small and medium-sized enterprises, and anti-collusion between government and big business. As some of the leading members of the organization took the positions in the government, it became the spearhead of the state neoliberal structural reform, which lost its autonomy and promoted neoliberalization in the society. In the case of PSPD, the organization consisted of professionals who were well equipped with policy proposals in diverse areas.¹⁰⁵ Focusing on the middle class, the organization kept with its reformist path. For example, the most famous movement named 'minority shareholder activism' challenged chaebol-owner

¹⁰³ David Hundt, "Neoliberalism," 470.

¹⁰⁴ Ibid., 472.

¹⁰⁵ Sunhuk Kim, "Politics of Democratization in Korea: the Role of Civil Society" University of Pittsburgh Press (2001).

families' exclusive corporate control, the main goal of state neoliberal reform. Both CCEJ and PSPD did not raise any questions about speculative transnational finance and its devastating social impacts. Also they cooperated with labor movement very limitedly because of extreme image of labor movement. Although the number of NGOs increased gradually, more and more NGOs heavily relied on the state subsidies.¹⁰⁶ Then as government changed from liberal government to the conservative government, the exclusion of NGOs from the decision making increased, which means that state marginalized civil society and solidify its hegemony. Therefore, state exploited the liberal NGOs to adopt neoliberal structural reform without causing serious countermovements in crisis and engulfed autonomy and radical character of civic groups in the hegemonic realm of state.

Third, state used its own policies to restore the legitimacy after the economic crisis and to embrace the middle class as a group sharing a common destiny with its state. On the one hand, state could portray itself as the 'guardian of public welfare' by implementation of welfare system.¹⁰⁷ Because of the traditional gap between workers in chaebols and workers in other sectors in terms of salary, working conditions, and provision for health insurance, state could build a universal and inclusionary safety net for all citizens in 1998, which not only restored legitimacy but also replaced class issues with citizenship issues. Compared to the fully-developed Scandinavian welfare system, however, this was residual and minimal welfare system reducing social conflicts and discontents against neoliberal reform. 'It only functions as a political safety

¹⁰⁶ Chaeyeol Yang and Chisung Park, "Political Economy of Government Grants to NGOs: A Game Theory Approach to Government and NGO Moral Hazards" 서울대학교 한국행정연구소 행정논총 48 권(2010).

¹⁰⁷ Ho-Keun Song, "The birth of a welfare state in Korea: The unfinished symphony of democratization and globalization" Journal of East Asian Studies3 (2003): 405-32.

valve to prevent a massive social challenge against the neo-liberal reform rather than as social citizenship to guarantee social welfare rights to the people'.¹⁰⁸ On the other hand, as conservative government relied more on the real estate business by deregulations, there was increase of household debt and numbers of house-poor.¹⁰⁹ The influences of developmental state's inertia of input-based growth, neoliberal deregulation, and banking industries' pursuit of short-term profit, encouraged middle class to participate in the real estate market aggressively, which made the middle class as a supporters of the neoliberal structural reform. Therefore, state not only succeeded in solidifying its hegemony but also subsumed middle class as its strong protector.

After the strong South Korean state strengthened its hegemony through the neoliberal structural reform and established more financial-oriented accumulation system based on the new historical bloc between state, chaebol, and transnational financial capitals, the politics in the 'civil society' moved from the class politics to citizenship politics.¹¹⁰ As the democratic transition begun in the late 1980s, comradeship between social movement organizations and labor unions gradually dwindled. For example, slogan of the major social protective countermovements like anti-American beef candlelight protests and protests for half-priced tuitions was not overthrowing neoliberal capitalism but requiring non-class issues like human rights, consumer rights, housing issues, social welfare, and tax justice to the state. It is true that civic rights groups sometimes cooperated with labor movements like in campaign against FTA in 2007. However, 'the class-based organizations like labor unions and peasant organizations were not welcome guests'.¹¹¹ They

¹⁰⁸ Kwang-Yeong Shin "Globalization and Social Inequality," 72.

¹⁰⁹ Juhyeong Ji, 21-23.

¹¹⁰ Kyung-Sup Chang, 1-10.

¹¹¹ Ibid., 1.

were regarded as self-serving groups disregarding broader sociopolitical issues. Although it could be interpreted as maturing of citizenship in the modern democracy, this trend ironically reflects the increased marginalization of working class. Also it shows the internal division of labor and rupture of integrity of labor movements, which prevents radicalization.

As the main accumulation system of export-oriented manufactured-centered authoritarian developmental model relied on the exploitation of cheap labor for the price competitiveness in the export market, both state and survived chaebol exploited the conflicts and divisions of the labor force. First, after the KCTU left the Tripartite Commission and relied on strikes, the power of labor started to be divided into obedient state-supported FKTU and militant progressive KCTU, which culminated to the opposing political affiliations. While the KCTU created the Democratic Labor Party(DLP) in 2000, the FKTU formed the Green Social Democratic Party(GSDP) in 2004. This divergence meant loss of effective leadership and loss of momentum of labor movements. Second, unions in South Korea traditionally have been organized as big corporation unions compared to the Scandinavian labor unions by industry. Also they rely heavily on the subsidy and systematic support of the corporations.¹¹² These unions did not have much interest about the issues beyond the factory gates. After the economic crisis, the low rate of unionization, 10%, and defensive stance in terms of wage and job security became general.¹¹³ This dependent relationship forced these unions not only to take a step backward to the radicalization but also not to pursue solidarity with other subalterns especially noregular workers. Third, both the number and the different forms of

¹¹² Jeonghan Kim, "The Structural Limitation of Company Union" Labor Review (2005): 24-37

¹¹³ Kwang-Yeong Shin, "Globalization and the Working Class," 213.

nonregular worker increased rapidly after the crisis. According to the definition of Korea Labor & Society Institute, the proportion of nonregular workers sharply increased from 2002 to 2004 then decreased slightly and stabilized. There was an increase of 1.55 million nonregular workers over 2 years equivalent to 9.6% of total employees, which culminated in 55.7% of the nonregular workers.¹¹⁴ ‘There was steady increase of different types of nonregular workers like part-time workers, daily workers, subcontract workers, and dispatched workers’.¹¹⁵ This surge of nonregular workers resulted in deterioration of wage disparity not only between regular workers and nonregular workers but also among the nonregular workers. Although new labor law, codifying that employers should change the employment status of nonregular workers to regular workers after 2 years, was enacted in 2006, it failed to protect the nonregular workers because many employers dismissed nonregular workers prior to the term of 2 years or utilized indirect employment through employment service firms or outsourcing.¹¹⁶ This surge of nonregular workers internally split the power of labor. In addition, the increasing numbers of precarious self-employed and foreign workers also prevent unity and radicalization of labor. Under this anti-labor environment, South Korean state could solidify its hegemony while chaebols maximized their profits and become transnational corporations like Samsung Electronics, Hyundai Automobile, and LG Electronics.¹¹⁷

¹¹⁴ Y-S. Kim, “The size of non-regular workers and their reality” Labor Society (2010): 64-103.

¹¹⁵ Kwang-Yeong Shin, “Economic Crisis,” 338-339.

¹¹⁶ Ibid., 349.

¹¹⁷ Kyeong-Won Kim, “Three Years after the IMF Bailout: A Review of the Korean Economy’s Transformation since 1998” Sam-Sung Research Economic Institution (2001).

To summarize, after the economic crisis and neoliberal structural reform, state did not retreat. As Gramsci pointed out that ‘civil society’ collaborates with the state to contain class struggle and bourgeois democracy is the norm for advanced capitalism with its ‘proper balance’ between state and ‘civil society’, South Korean export-oriented manufactured-centered authoritarian developmental state succeeded in engulfing the ‘civil society’ and preventing its radicalization for the continuation of accumulation system based on state’s hegemony and exploitation of cheap labor for the price competitiveness in the export market. In the process of neoliberal structural reform, South Korean state played an important role. Blaming the chaebols’ soft budget constraints and reckless business diversification as culprits of the economic crisis, state tried to restore its legitimacy from the labor and other subalterns. Thanks to the establishment of Tripartite Commission and residual welfare system and supporting different civic movements and NGOs, state could not only prevent radicalization of ‘civil society’ but also solidify its hegemony. Based on this hegemony of the state, the politics in the ‘civil society’ moved from the class politics to the citizenship politics. Division and conflicts between civic movement and labor movement eliminated the possibility to become alternative hegemonic historical bloc. Furthermore, the divisions and conflicts in the labor power impeded the radicalization, which made it possible to continue the accumulation system based on exploitation of cheap labor. Therefore, path dependency of the South Korean capitalist model subsumed its ‘civil society’ while preventing its radicalization or surge of populisms in the mainstream political arena.

3.2 Greek Case

The Greek economy could not escape from the economic crisis because of its domestic-oriented financial-centered European peripheral model. There is no way to improve the current balance and government deficit. Because of the path dependency of inefficient domestic-oriented industrial structure, there was no things to export. Then, as this capitalist model has relied on financial asset bubbles with the inflows of foreign cheap credit, the Greece was directly hit by the impact of global financial crisis in 2008. In addition, Greece could not devalue its own currency or implement active fiscal policy because of the euro and the Stability and Growth Pact imposed by EU. Because of this constraints, Greece unavoidably applied bailout loan to the Troika. As this bailout loan was unprecedented level, the first 110billion euro in 2010 and second 130billion euro in October 2011, the imposed neoliberal reform and internal devaluation devastated Greek society. As the GDP decreased by 26% cumulatively, 30% of the working population lost their jobs.¹¹⁸ Unemployment rate increased from 7.7% to 27.3% between 2008 and 2013.¹¹⁹ Youth unemployment rate rose almost 60.5% in February 2013.¹²⁰ The minimum wage plummeted by 14% from 2008 to 2017.¹²¹ The share of persons at risk of poverty or social exclusion increased from 28.1% to 35.7%¹²²

As the neoliberal internal devaluation and the negative social impacts were unprecedented, there was surge of numerous and diverse countermovements against this neoliberal reform. Not only the

¹¹⁸ Petmesidou. M., & Guillen. A, “Economic crisis and austerity in Southern Europe: Threat or opportunity for a sustainable welfare state” European Social Observatory (2015).

¹¹⁹ IMF, “World Economic Outlook Database” (2014).

¹²⁰ Trading Economics, “Greece Youth Unemployment Rate 1998-2015” (2015).

¹²¹ Salourou. R “Salourou,R. Ελλάδα,ημόνηχώραστηνΕ.Ε.πουπροχώρησεσεμείωσητουκατώτατουμισθού από το” <http://www.kathimerini.gr/895915/article/oikonomia/ellhnikh-oikonomia/ellada-h-monh-xwra-sthn-ee-poy-proxwrhse-se-meiwsh-toykatwtatoy-mis8oy-apo-to-2008> (2017).

¹²² Eurostat-news release, “The share of persons at risk of poverty or social exclusion in the EU back to its crisis level” Eurostat Press Office (2016).

political spectrum of these countermovements were wide from anti-capitalism left-wing like Antarsya to the xenophobic right-wing like Golden Dawn. But also the different countermovements had kaleidoscopic aims and activities from provision of necessity to the anti-governmental protest movement like Indignant People and Won't Pay Movement. These power of the countermovements were expressed in the growth of populist parties like Syriza and Golden Dawn in the legislative election in 2012 and culminated in the election of Syriza in 2015. This surge of populism was usually interpreted as typical Southern European or national characteristics by the right-wing conservative groups. However, this social phenomenon must be analyzed from the different perspective, Karl Polanyi. 'For Polanyi, society is 'active society', which is always understood in its contradictory tension with market. On the one hand, the market tends to destroy society, but, on the other hand, society reacts to defend itself and to subordinate the market.'¹²³ Against the commodification of fictitious commodities, society reacts very actively for the self-protection. Therefore, he analyzed the sociopolitical transformations in terms of double movement between disembedded marketization and social protective countermovement. As the Greek domestic-oriented financial-centered European peripheral model deepened the degree of marketization in the middle of crisis, the path dependency of Greek model and interaction with its 'active society' must be analyzed.

From the civil war in the 1940s to the democratic transition in the 1974, the relatively weak developmental state suppressed the society under the anticommunism ideology.¹²⁴ As the sociopolitical rights of the citizens were oppressed without welfare system, both the state and party

¹²³ Michael Burawoy, 198,

¹²⁴ Nicos Mouzelis and George Pagoulatos, 3-7.

clientelism colonized the society without structural reform and sophistication of domestic-oriented less-productive industry. After the seven year of dictatorship from 1967 to 1974, both ND and PASOK focused on the improvement of citizen's sociopolitical rights by economic expansionism and redistribution. However, after the collapse of the Bretton woods system and the surge of neoliberal 'Dollar-Wall Street Regime', Greece opened its immature economy to the global competition via European integration project. As financial capital solidified its hegemony in both domestic and international levels with deindustrialization, the relatively weak developmental state gradually waned with unsustainable welfare system. As the former developmental accumulation system, based on historical bloc between weak developmental state, banks, and less-productive corporations, transformed into the domestic-oriented financial-centered European peripheral model, the tension between marketization and social resistance became one of the dominant conflicts.¹²⁵ This coevolutionary process between Greek capitalist political economic model and Greek society paved the way for the rapid and radical reaction of the 'active society' after the economic crisis.

The weak Greek state lost power and legitimacy to take the lead in the neoliberal structural reform. As Greece domestic-oriented financial-centered European peripheral model could not escape from the economic crisis and the accumulation system became unsustainable, on the one hand, the Greece lost power. On the other hand, as democratically-elected Greek government had to accept the neoliberal reform imposed by non-politicized technocracy in international organizations since the beginning of European integration project, the state lost democratic legitimacy. In addition, as

¹²⁵ Ibid., 7-13.

the government reduced welfare budgets like cutting 15% of retirement pensions of public corporations and banking sector, it failed to meet the rising demand for its services, which culminated in the loss of public trust.¹²⁶ Therefore, although the state tried to make a compromise with influential unions like General Confederation of Greek Labor(GSEE) and employer organization like Hellenic Federation of Enterprises(SEV) for the neoliberal reform in the early stage, they rejected the policies related to the labor market flexibility and wage cuts by organizing massive rallies.¹²⁷ In addition, because of the imposed austerity program, the government not only passed a law which does not allow tax exemptions for NGOs in 2010 but also excluded major NGOs from decision making process. Then state finally froze all state funds for the major influential NGOs through a letter sent by the Deputy Minister of Finance to all Ministries in 2012.¹²⁸ These governmental reactions dramatically diminished state's hegemony to have a leading role in the neoliberal structural reform and triggered radical reaction of 'active society'.

The discredited state and unsustainability of accumulation system not only demolished the wall between the hierarchical labor sectors but also led to radicalization. The Greek labor structure had been dual structure, division between well-organized protected public sectors permanent workers and less-organized unprotected private sectors impermanent workers. The protected public sector workers raised their voice via the unions like the GSEE and the Civil Servants' Confederation(ADEDY) while the unprotected private sector workers could not raise their voice

¹²⁶ Hwaran Koo "Socioeconomic Crisis and Resilience in Greece" 국제지역연구 22 권 (2013): 2.

¹²⁷ George Pagoulatos, "2010 년 그리스의 경제위기: 정부와 노사단체의 대응" 국제노동브리프(2010): 35.

¹²⁸ Dimitri A. Sotriopoulos, 16.

enough. As the Greek economy started be trapped in a deep recession with neoliberal structural reform, the impact of economic crisis demolished the wall in the dual structure. ‘The thousands of public sector workers were forced to a “regime of reserve” for one year receiving 60% of their salary and pushed out of employment.’¹²⁹ With this pay cuts and mass dismissal, public sector workers were forced to increase working hours from 37.5 hours to 40 hours. Also, as the Greek government accepted the neoliberal reform like reduction of compensation payments, decentralization of collective bargaining, and relaxation of the dismissal, the precarious conditions of the private sectors deteriorated. Because of this aggravation, more than 45 new unions have been established in the large urban areas between 2008 and 2011.¹³⁰ Then, this radical unions exerts influential impacts to the existing bureaucratic trade unions and its leadership, which resulted in ending the 30 years relationship with PASOK and increasing the affiliation to Syriza.

The destructive impacts of the collapse of the accumulation system and welfare system not only triggered the eruption of the Greek NGOs but also dramatically changed the characteristics and aims of the NGOs. While the influence of informal NGOs increased during the crisis, there was decline of influence of formal government-funded NGOs because of the government austerity. With the collapse of state, market, and family, three pillars of welfare provision.¹³¹ first, the informal volunteering NGOs replaced former welfare system in terms of daily necessities like food, clothes, and health care. For example, there were at least 22 social solidarity groups like Mporoume(We can), Love Cooking, and Desmos(Tie), which distributed daily necessities in 17

¹²⁹ Lefteris Kretsos, “Greece’s Neoliberal Experiment,” 520.

¹³⁰ Lefteris Kretsos, “Grassroots Unionism in the Context of Economic Crisis in Greece” *Labor History* 52 (2011): 265–86.

¹³¹ Esping-Anderson, G, ”The Three Worlds of Welfare Capitalism” Cambridge, Polity (1990).

big cities in 2012. Even the informal group like Atenistas actively participated to the community and educational work.¹³² As these NGOs enlarged the scope of their activities with reintegration of the individuals who have experienced economic and social exclusion, the influence and autonomy of these NGOs gradually increased. Align with a various protest of interest groups like taxi drivers, truck drivers, pharmacists, it reached to the ‘Won’t Pay’ Movement, nationwide disobedience movement against increases of the public transportation cost. Finally, this culminated in the ‘Indignant People’ Movement and ‘Squatters’ Movement rejecting the salary cuts and demanding direct political participation in 2011. There may have been between 5,000 and 150,000 protesters during the demonstration.¹³³ These movements were not the simple reactions of drop in living standards and loss of social status but the active attempt to recreate their symbolic construction of reality.¹³⁴ From the beginning of the crisis, these movements drew a sharp line between the Greek citizens on the one hand and elites of two major parties and financial capitals on the other hand. Then these civic groups focused on the providing alternatives to resolve the sociopolitical predicament under the principle of solidarity, horizontalism, direct democracy, and radical activism.

Therefore, as the Greek domestic-oriented financial-centered European peripheral model and its accumulation system, based on historical bloc between peripheral state, transnational financial capitals, domestic-oriented inefficient corporations, could not be sustained after the crisis, the Greek society not only was directly hit by the economic crisis but also became active. In addition,

¹³² Dimitri A. Sotriopoulos, 19.

¹³³ Ibid., 22-25.

¹³⁴ Alexander E. Kentikelenis, 1-21.

the discredited weak state could not have a leading role in this neoliberal reform. Because of these devastating impacts and political hegemonic vacuum, on the one hand, the labor overcame hierarchical dual structure and became radicalized. On the other hand, the NGOs react actively by both providing daily necessities and gathering protests against the imposed neoliberal reform. By disconnecting themselves with two big parties and financial capitals under the value of solidarity, horizontalism, direct democracy, and radical activism, these civic groups increased their solidarity networks and autonomous political spaces, which paved the way for blossom of populism, election of Syriza in 2015.

Conclusion

Based on Burawoy's theory converging Gramsci and Polanyi, this study tried to find out the different originations of different sociopolitical consequences after the economic crisis and neoliberal structural reform. As Burawoy focused on two different types of societies, 'civil society' and 'active society', and their particular interrelationship with state and market, this study argued that the different path dependencies of different capitalist political economic model caused the different countermovements against neoliberal commodification. Then this study analyzed two different trajectories of capitalist models, South Korea and Greece. Analyzing the different path dependencies, this study focused on the sustainability of accumulation systems, evolution of hegemonic historical blocs, and coevolution between the capitalist models and the societies.

After introducing theoretical background, first, this research tried to analyze the path shaping process of different capitalist models in the postwar Bretton Wood system. On the one hand, the South Korean export-oriented manufactured-centered authoritarian developmental model started to be shaped since the early 1960s. The export-oriented manufactured-centered accumulation system was based on historical bloc between the authoritarian developmental state, nationalized bank, conglomerates. Under the hegemony of independent developmental bureaucracy, the authoritarian state sophisticated its industry rapidly while suppressing the labor and civic groups for the price competitiveness in the export market. On the other hand, the Greek domestic-oriented financial-centered European peripheral model started to be shaped since 1953. The domestic-oriented financial-centered accumulation system was based on historical bloc between the relatively weak developmental state, bank, and domestic-oriented inefficient corporations. Although the weak developmental state succeeded in suppressing labors and civic groups, it faced

both transitions in the international environment and domestic politics without autonomous developmental bureaucracy and productive sophisticated industry.

Then this research tried to analyze the path dependencies of these models before and after economic crisis. Facing the demise of the Bretton Woods system and surge of neoliberal ‘Dollar-Wall Street Regime’, on the one hand, South Korean authoritarian developmental state rapidly liberalized market without reform of inertial practices, which culminated in the economic crisis and neoliberal structural reform. Although the hegemony of the authoritarian developmental state waned with the transformation of nexus in the historical bloc, path dependency of the South Korean export-oriented manufactured-centered authoritarian developmental model resonated influentially. With the devaluated currency and manufacturing industry, South Korean model escaped the crisis quite early. Also strong state had a leading role in the neoliberal structural reform and solidified its hegemony. Facing the stagflations and chronic deficit, on the other hand, Greek domestic-oriented weak developmental state liberalized their economy via the European integration project. As Greece opened their economy at the immature stage without industrial sophistication and reform, the characteristic of domestic-oriented and financial-centered economy were enhanced while the weak developmental state lost its leading role because of the limitations imposed by EU. After the brief heyday and subsequent collapse of economy, Greek model could neither escape from the crisis because of the path dependency of accumulation system nor have leading role in neoliberal structural reform.

Finally, this study analyzed the coevolution between path dependencies of each capitalist models and their societies after the crisis. On the one hand, South Korean strong state had a leading role in introducing neoliberal reform. Implementing residual welfare system and blaming conglomerates as culprits of the crisis, state not only restored the legitimacy but also subsumed the its ‘civil society’ into its hegemonic realm. As the state increased the range and amount of subsidy towards NGOs, the center of the civic movement moved from class politics to the citizenship politics. Also the nexus of strong state and survived conglomerates split the labors into the stable regular workers and the precarious nonregular workers to sustain its accumulation system based on exploitative cheap labor for the price competitiveness in the export market. Therefore, strong state succeeded in preventing the radicalization of both civic groups and labors. On the other hand, Greek weak state could not have a leading role in implementing neoliberal reform. Because of the collapse of both welfare system and market, state not only lost the legitimacy but also could not prevent active radicalization of society. Because of the impact of recession and devastating neoliberal reform, the stable regular workers in the public sector became precarious and radicalized. With the eclipse of government-funded major NGOs, informal NGOs integrated excluded citizens and evolved into the massive protest movements based on solidarity, direct democracy, and radical activism. As the weak state and unsustainable accumulation system could not subsume ‘active society’, the situation culminated in the election of Syriza.

In conclusion, this research aims to analyze the different originations of different countermovements against neoliberal structural reform in terms of different path dependencies of capitalist models, historical blocs, and coevolution between the models and societies. Although

this study focused on the trajectories of the capitalist models and societies, it would be interesting to analyze how the different ideologies like nationalism, anti-communism, and European identity interacted with this evolutionary process. Also it would be interesting to expand the scope of the cases to the other countries which suffered from the economic crisis and subsequent neoliberal reform not only in the Europe but also in the other parts of the globe. This could be a first step towards both understanding the different political consequences of the economic crisis and providing alternatives against neoliberal 'one-size-fits-all' structural reform.

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