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Mass attitudes toward financial crisis and economic reform in Korea

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and Economic Reform in Korea**

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Mass Attitudes Toward Financial Crisis and Economic Reform in Korea

Abstract

This paper gives an account of the financial crisis that took place in Korea from the point of view of the Korean population using survey data collected in 1998 and 1999. Although both, internal and external factors were blamed as causes, domestic factors were considered to be of greater importance. After identifying respondents as supporting either market-based or state-based reform strategies using factor analysis, various determinants of these alternative views are being analyzed within the framework of regression models. A particularly interesting result is that, contrary to theoretical assumptions and empirical evidence on other regions, it is political ideology and not individual economic determinants that helps to explain the respondents' attitudes towards reform strategies in Korea.

Keywords : South Korea, financial crisis, public opinion, economic reform strategies

JEL: O5, F3

1. Introduction

One of the major recent events on the international policy agenda has been the financial and economic crisis in Asia. Many economists and other social scientists have been searching for satisfactory explanations of the economic crises that appeared to pose a serious threat to the economic and political future especially of new democracies (Goldstein, 1998; Henderson, 1999; Jomo, 1998; Pempel, 1999). Equally, as well, many scholars and policy makers have been analyzing the dynamics of these crises cross-nationally and cross-regionally to discover and prescribe effective recovery strategies (Goldstein and Sachs, 1998; Haggard, 2000; Summers, 1998; World Bank, 1998). These experts have always treated economic crises as a macro-level phenomenon, which takes place at the level of a nation's economic and political systems. Preoccupied with the failings of economic and political institutions, they have rarely considered how economic crises unravel at the level of individual citizens. Thus, these economic and political analyses offer little knowledge about how individuals conceive of and deal with economic crises (Duch, 1993; Przeworski, 1996; Stokes, 1996).

Ordinary citizens rarely have a clear understanding of the relevant economic theory and policy that is involved (see Hayo and Shin, 2002; Kim and Shin, 2004). As consumers or producers of economic goods and services, nevertheless, they are all directly involved in the dynamics of any given economic crisis on a daily basis. Their perceptions and understanding of the crisis itself and ongoing reactions to it constitute the psychological and behavioural factors that powerfully affect its contours, dynamics, as well as its remedies (McGregor, 1989; Przeworski, 1993). With only objective measures of economic conditions, such as the GDP and unemployment data available, the complex process of the economic crisis cannot be fully understood. A balanced and comprehensive account of the crisis can be mapped only when the objective conditions of the nation's economy are considered together with subjective assessments of those conditions made by individual economic agents and their self-perceptions of economic life (Stokes, 2001; Strumpel, 1976).

This paper concentrates on the subjective dimension of the Korean economic crisis and thereby seeks to complement a variety of expert accounts based on objective economic measures. The portrait of the crisis from the point of view of ordinary Koreans is compared with the mainstream economic view. Our analysis is based on two sets of survey data collected in South Korea (hereinafter Korea) during the autumn of 1998 and 1999 as a representative sample of its adult population.¹ We find that in many respects the views of respondents are remarkably similar to expert accounts.

Moreover, we analyze public attitudes towards different economic reform strategies. Possible strategies for restructuring a crisis-ridden economy lie between the extremes of full-market orientation and strong government guidance of economic reforms (Drazen, 2000). Using factor analysis on a range of question on attitudes towards specific reform measures, we classify the survey respondents according to these two categories, state-based and market-based economic reforms. While the theoretical literature as well as some parts of the empirical literature on mass attitudes towards economic reforms point towards the importance of the individual economic situation of the respondent as a major explanatory factor, we find little evidence for this relationship in the case of Korea. Instead, attitudes towards reform strategies are significantly influenced by the political ideology of the respondent.

This paper is organized into eight sections. In the section immediately following this introduction, we examine how the financial crisis was seen through the eyes of the Korean population. Section 3 considers causes of the crisis and Section 4 deals with agencies of reform. In the succeeding section, we discuss the Korean people's assessment of internal versus external factors responsible for the financial crisis. Section 6 isolates two domestic reform strategies

¹ The study is based on a representative samples of the adult population in Korea (20 years and over) collected by a combination of stratified and random sampling. The fieldwork was done by Gallup Korea using face-to-face interviews after a pre-test phase. About 1000 successful interviews were finally conducted. The Korea Barometer 1998 was sampled in October 1998 and the Korea Barometer 1999 in November 1999. See Shin and Rose (1998, 1999) for a more detailed description of the database.

using factor analysis. In Section 7 we explain public support for the reform strategies with the help of regression models. Finally, we summarize our results and conclude.

2. The Evolution of the Crisis

We start off by describing the perception of the crisis by the Korean population. The top section of Table 1 contains responses regarding the economic condition in Korea in 1998 and 1999. While people thought that the situation was either bad or very bad in 1998, the situation was perceived as much improved in the course of only one year. This reflects the macroeconomic impression that the crisis itself was more of a severe temporary break in the positive growth trend than a profound change in Korea's economic potential. Figure 1 plots real GDP growth and the unemployment rate over the period 1995 to 2003. In 1998, real GDP fell at a rate of about 10% but already one year later most of this decrease has been recovered. Since then Korea grows steadily at a minimum rate of 3% per annum. The unemployment rate reacts with a correspondingly strong increase in 1998 but it shows more persistence in the recovery period. However, in 2002, it is only about one percentage point higher than it was in 1996.

How has the perception of the crisis changed in retrospect? The bottom part of Table 1 provides the public view about the financial crisis in 1997 from the perspective of the calendar year 1999. Most respondents still believed that it was a crisis. However, more than 40% considered it as only a serious incident rather than a crisis. In 1999, when real GDP increased by almost 10% again, did people have the impression that the Korean economy was already booming again? This was not really the case. Most people agreed that it was not a boom, although again about 40% conceded an increase in prosperity.

To summarize, the view of Koreans on the financial crisis in 1997 has softened over time. It was considered as a serious incident in Korean economic history, and most people believed that, in spite of rapid the recovery, the economy was not booming again at the end of 1999.

3. Causes of the Crisis

Next, we study whether people perceived the impact of democratic institutions and the incompetence of politicians as possible *political* causes of the crisis. The middle section of Table 1 displays the responses for both 1998 and 1999. Democratic institutions were not blamed very much for being “solely responsible” for the crisis. On the other hand, the alleged incompetence of politicians was seen as a much more important cause of the crisis. In 1999, a combination of democratic institutions and incompetent politicians was regarded as the main political cause of the crisis by a majority of respondents (see also Diamond and Shin, 2000). Koreans felt that democracy does not prevent incompetent politicians from mismanaging their economy. The first steps towards the deregulation of financial markets took place only after a democratic political system was established. Moreover, starting in the mid 1990s, elected government officials encouraged Korean banks to borrow money internationally at short-term rates, while lending long-term to domestic investors. This constellation proved to be extremely vulnerable to foreign speculators (Chang, 1999; Chang, Park, and Yoo, 1998; Mo and Moon, 1998).

Thus, mainstream economic analysis makes both, domestic and international factors responsible for the Korean crisis. For instance, a recent simulation study by Robert (2005) suggests that one shock alone would have been insufficient to cause the crisis. The 1998 survey explored whether Koreans blamed domestic or foreign factors more by asking respondents to choose from a list of three pairs the two things that they believed “contributed most” to their society’s economic problems as well as the two things “contributed least” to them. The first pair focused on Korea itself and the nature of two domestic institutions, the second pair centered on Korea’s Asian neighbours, and the third pair deals with two Western factors.

Of these six factors reported in Table 2, the Korean people mentioned the cozy relationship between government and the chaebols *most frequently* as one of the two factors that *contributed most* to the economic problems facing the country. In contrast, a relatively smaller group made other factors responsible. When they were asked to identify the two factors that they believed

had *contributed least* to the economic problems, a bare majority chose the democratic transition from military rule. What is most notable about these figures is that the Korean people tended to dissociate democratic regime change from the outbreak of the economic crisis while simultaneously refusing to dissociate institutional corruption from it. However, as was shown in Table 1, this assessment changed somewhat in 1999.

In the last column of Table 2, the “most important” and “least important” ratings are combined into an aggregate percentage index by subtracting the latter from the former in order to offer a condensed account of each individual factor. Positive scores of this index indicate that more Koreans rated a given factor as “most important” rather than “least important” and vice versa. The following two factors were seen as mainly responsible: the crony capitalism featuring corrupt government-business relations and the American government’s pressure to open the market. This account is in line with the typical economist’s assessment of the situation. The financial strategy of Korean banks, encouraged if not pressured by the Korean government, namely borrowing short- and lending long-term, led to a precarious imbalance of their financial situation. The abolishment of barriers to international capital movements in Korea, strongly encouraged by the “Washington consensus”, provided the spark that would lead to the dramatic breakdown of the system (Chang, 1999; Chang, Park, and Yoo, 1998; Mo and Moon, 1998).

Of three separate pairs, one domestic and two international, which pair do the Korean people blamed most and least? We calculate the percentage of the Koreans choosing factors comprising each pair as one of the two most and two least contributing factors to the economic downturn in the lower part of Table 2. Of these three pairs, the domestic pair was most frequently named as contributing most to Korea’s economic problems. Between the two international pairs, the Western pair was mentioned more often than the Asian pair.

4. Agencies of Recovery

Before we come to any assessment of reform measures, we need to consider the capacity of domestic and foreign institutions to promote the recovery of the economy in a crisis situation. Table 3 lists evaluations of democratic institutions, the IMF, and the Kim Dae Jung government based on the 1999 Korea Barometer survey. Among these three alternatives, the IMF received the best evaluation as an agency fostering recovery from the crisis (see Hayo and Shin (2002) for a detailed analysis of attitudes towards the IMF). More than 70% of the respondents thought that the IMF made a positive contribution, although less than 15% believed that the IMF had a big influence on the economic recovery. Turning to democratic institutions, 42% answered that they have made a positive contribution, while almost one half (48%) of the population had the impression that basically it had no effect. Finally, the Kim Dae Jung government was credited by 44% of Koreans for being a positive reform agency. However, it was also assigned blame for making things worse by 15% of the respondents, which is the highest percentage among these three alternatives.

In the view of the Korean people, how long would the government need to overcome the economic problems? In the lower section of Table 3, we compare their responses to this question for 1998 and 1999. In the light of the discussion above, the results are somewhat surprising. Although people perceived the significance of the financial crisis as much less in 1999, their evaluation of the time needed to overcome the economic problems remained almost unchanged. A majority of respondents believed that it will take 3-5 years to fully overcome the crisis, and another quarter of the population thought that it may even take longer, 6-10 years. This assessment makes it clear that although the problem may not be as severe as feared in the aftermath of the crisis, Koreans did not think that it is possible to return to the pre-crisis economic situation in the near future. This raises the question of how the Korean economy should be reformed with the aim to successfully overcome its problems.

5. Reform Strategies: Domestic versus International

Reflecting the choices discussed above, three types of economic recovery strategies are conceivable. The first is the one seeking to fix domestic institutions and their practices only. The second is to concentrate on international organizations and foreign trade. The third strategy involves the mixing of the two strategies. To ascertain popular preferences for an effective strategy, the 1998 survey first asked respondents to examine a total of six measures – three domestic and three international – and choose the two they would consider to be most and least effective in dealing with the economic problems facing the Korean society.

In Table 4, three domestic and three international measures are listed. For each of the six reform measures, the table contains the percentages of individual responses denoting “most effective” and “least effective” reform measures. Of those six measures, a majority endorsed only the one involving banks and other financial institutions as one of the two most effective measures. Two-fifths found it equally important for their government to provide subsidies to troubled business. Nearly one-third emphasized the importance of allowing foreigners to own Korean companies. Smaller minorities opted for either forbidding the laying off of unnecessary workers or limiting the sale of foreign goods. Only few respondents were strongly supportive of rejecting the conditions imposed by the IMF in order to repair the economic problems. Thus, there was more disagreement than agreement among Koreans in their refusal to endorse the six reform measures surveyed. Only one of these measures – limiting the sale of foreign goods – was rejected by a large share of the population (47%).

In summary, Koreans disagreed more in opting against than in opting for the reform measures in order to cure the economy. From the point of view of finding a majority for economic reforms, this result suggests that it might be easier to rally support for the implementation of specific reforms than to form a coalition to prevent them.

In the last column of Table 4, the overall level of popular endorsement is computed for each of the six reform measures. On the percentage differential index, only three reform measures

register positive scores. Of these three measures, financial restructuring was endorsed as *an effective reform measure* to the greatest extent, followed by governmental subsidies to ailing businesses and foreign ownership of those businesses. Of the three other measures that Koreans were more disapproving than approving, refusing to implement the conditions of the IMF bailout ranks first as an *ineffective reform measure*, followed by boycotting foreign goods, and forbidding lay-offs. From this finding, it is evident that ordinary Koreans wanted their government leaders to address the economic problems primarily by restructuring the financial system, accepting the IMF bailout, and globalizing their marketplace. At the same time, there was support for the use of subsidies to avoid a situation where many firms go out of business. However, there is also a tension between the former reform approaches and the latter policy, which already hints at the market-based versus state-based reform strategies that will be analyzed below.

Regarding the geographic origin of reform strategies a large group favoured a mixed type by choosing measures of a domestic and international nature. A slightly smaller group supported the domestic strategy by choosing domestic measures exclusively, and a tiny group supported the international strategy. These findings suggest that domestic economic factors weighted much more heavily than international ones when ordinary Koreans were searching for a solution to the ongoing economic difficulties.

6. Domestic Reform Strategies

Given that domestic factors were regarded as particularly important by Koreans, what should be the main thrust of such a reform? Based on data from the 1999 survey, the first line of Table 5 shows that a large majority of Koreans believed that the economic system needs fundamental changes. The specific direction those changes should take, though, are not quite clear. Although there is a majority for every one of these reform measures, Koreans agree much less on specific reform measures than on the fundamental need to reform the economic system.

Conceptually, relevant strategies for restructuring a crisis-ridden economy lie between the extremes of full-market orientation and strong government guidance of economic reforms (Drazen, 2000). The market-oriented reform strategy is the one that is typically being advised by Western experts, even if the original 'Washington Consensus' has lost a lot of support over the last years. However, a number of researchers argue that the active role of the state sector is an important factor in a theory trying to explain the outstanding economic development of Korea and the other Asian 'tiger' countries before the crisis (Gilpin, 2001). In the light of its own economic history, granting the Korean state an active role in the reform process appears as a credible alternative.

Reflecting these considerations, the answers displayed in Table 5 suggest there are indeed two fundamentally different approaches to reforming the economic system. One relies on the state as the main agency of reform, increasing control over the economy to prevent another crisis in the future. The other is based on a market-oriented view about reform, leaving only a limited role for state intervention. Applying a principle factors analysis to five of the variables listed in Table 5, two factors can be extracted based on the usual eigenvalue criterion of one. These factors explain 58% of the variance in the underlying variables.²

² The results of the factor analysis for the five variables are (communalities, loadings factor 1 (eigenvalue 1.86), loadings factor 2 (eigenvalue 1.05)): Lay off unnecessary workers in the private sector (0.56, 0.60, 0.44), Lay off unnecessary workers in the public sector (0.65, 0.78, 0.20), Privatize state corporations (0.53, 0.71, - 0.18), Make the

The first factor can be interpreted as reflecting a market-based economic reform concept. It is characterized by laying-off both private and government sector workers, privatizing state corporations, and reducing the government budget. Laying-off workers is a core adjustment mechanism in a market-oriented reform concept, as it allows for a more efficient re-allocation of labour to new jobs. State-owned firms are not regarded as efficient under a market-based view, as they are typically not as profit-oriented as private firms and, moreover, they may not face hard budget constraints since the government may bail them out. For the same reasons, reducing the overall influence of the state on the economy is one of the main concerns of a market-oriented reform.

In contrast, the second factor reflects a reform based on the strong influence of the government by choosing not to privatize state-owned enterprises, not to cut budgets, and instead to institute more government control over chaebols, banks and state enterprises. Thus, respondents are supporting instead of less rather more influence of the state sector on the economy. In a state-based view, a large state sector would offer the possibility, at least in principle, to reallocate workers within the economy without the need to send them through a phase of unemployment. Thus, the hope underlying this strategy is that the state is able to overcome problems of coordination in the effort to restructure the Korean economy.

The proposal of breaking-up chaebols cannot clearly be allocated to one of the two factors, and thus has not been included in the above analysis. Why does this issue receive support from both types of reform groups? On the one hand, consistency requires pro-market supporters to be in favour of such a move, as it would improve competition. On the other hand, state-based reformers may view chaebols as becoming too powerful as independent actors that develop their own interests, thus undermining the government's attempt to coordinate the restructuring of the

national economy. This conjecture would also be in line with the importance supporters of state-based reforms attach to giving the government more control over the chaebols.

With the help of the two factors reflecting contrasting views on economic reform, we analyze the determinants that drive support for these conceptually different strategies. In the theoretical literature on economic reforms, surveyed by Rodrik (1996), Drazen (2000) and Roland (2002), two variables play a dominant role in forming individual preferences towards market-oriented reforms: income per capita and unemployment. In a large-scale empirical analysis of determinants for market-based economic reforms in Eastern Europe, Hayo (2004) finds a number of additional variables to be relevant. Concentrating on those variables that are also available in the present data set on Korea, East Europeans who are more in favour of creating a market economy tend to be younger, male, and fully employed. They are better educated, live in larger settlements, regularly practice their religion, earn relatively higher incomes, and have more wealth. It is instructive to see whether these relationships found for Eastern Europe hold up under the different circumstances of the economics crisis in Korea.

The economic success of the Asian Tiger countries is also often associated with the notion of separating reforms of the economic and political systems. The “Asian way” stands for sequencing reforms by creating a market economy first and only after sufficient progress has been made in the economic field more political freedom is introduced (Gilpin, 2001). In the present context, this raises the interesting question of whether it is the economic or the political environment that influences the respondents’ attitudes towards economic reform more. If the separation of the economic and the political systems were still relevant, we would expect that preferences for *economic* reform strategies should be heavily influenced by *economic* variables and much less by political factors.³

³ Note that in the transition countries of Eastern Europe economic and political reforms are very much intertwined (Duch, 1993; Hayo, 2001).

To test this hypothesis, we formulate a number of *economic indicators* on the basis of responses to survey items. We employ quartiles of respondents' absolute and relative incomes as indicators of financial wealth. As proxies for real wealth we use the answers to the question of whether they own a house or apartment, and if yes, with or without mortgage. To tap their attitudes toward the labour market, we consider their own experience of unemployment and their fear of losing their jobs. We also consider the experience of unemployment among their family as additional indicators of economic hardships. This information allows us to differentiate the extent to which the Korean people feel hurt by the economic crisis.

The alternative hypothesis is that political variables are more important than economic ones. As *indicators of political factors* that may drive them toward or away from the market-based economic reform, we consider respondents' political ideology and party attachment.

Besides these economic and political factors, we consider the extent to which the Koreans feel they would be burdened by the proposed economic reforms and to which they are willing to bear the burden placed on them. It is known that people are reluctant to support economic reforms if they judge their burden to be "too high" (e.g. Rodrik, 1996). What characterizes these people who express their willingness to personally take on part of the reform burden? To answer this question, we apply a logit model with the dummy variable willingness to bear part of the reform burden as the dependent variable and the explanatory variables given in Table 6 as regressors (detailed results available upon request). Removing insignificant variables in a consistent testing-down process, we end up with a model where willingness to bear part of the burden is associated positively and significantly at a 5% level with having a college degree or more and supporting the National Congress for New Politics, and is negatively associated with being out of the labour force and living in cities (excluding Seoul). However, the pseudo- R^2 of the regression is 0.03, which implies that we do not understand the willingness to bear part of the reform burden very well.

Finally, the degree of information about the specific subject matter may affect people's attitudes toward economic reform projects. For instance, those respondents who were better informed tended to be more in favour of creating the European Monetary Union (Hayo, 1999). Here, we measure news exposure through the consumption of newspapers and news on radio and television. Whether more media exposure will rather influence people toward market-based or state-based reforms is not clear a priori. However, international commentators, particularly the IMF, tend to emphasize the superiority of market-based reforms. Thus, we would expect that those respondents who are more exposed to news will be relatively stronger supporters of market-based reforms.

These hypotheses are reflected in Table 6, where we group the potential determinants of the two reform strategies into five categories: socio-demographic variables (age, gender, education, marital status, size of community), cultural variables (religion, importance of religion in life), economic variables (income, real wealth, labour market experience), political variables (left-right placement, support for specific parties), and other factors (new interest, prepared to bear burden of reform).

7. Explaining Support for Market-based versus State-based Reform Strategies

We analyze the hypotheses about the determinants of support for market-based reform strategies and state-based reform strategies within the framework of two multivariate regression models, with the two factors, market- and government-based reforms, as dependent variables and the determinants discussed in the previous section as regressors. In Table 6, our empirical modelling approach is general-to-specific (Hendry, 1993), and we concentrate the interpretation of the results on the simple model. All insignificant variables are removed in accordance with a consistent testing-down process at a 5% nominal significance level. To ensure the validity of the reduction process, we evaluate the statistical properties of the model using diagnostic tests for normality, heteroscedasticity, and misspecification. The regression coefficients in the table are

standardized so that the relative importance of each variable in explaining the respective reform approach can be assessed more easily.

Model 1 in Table 6 contains the results for the factor *market-based reform* as a dependent variable. The statistical properties of this model are fine and the reduction process leads to Model 2.⁴ Since the reduced model experiences heteroscedastic disturbances, we employ consistent standard errors based on jack-knifing. The other diagnostic tests indicate no problem and the coefficient of determination is reasonably large for this type of data.

In line with our conjecture above, we find that news interest has a positive effect on support for market-based reforms. We also detect a significantly positive influence of being prepared to personally take part of the burden on support for market-based reforms.

The impact of political factors on support for market-based reforms is highly significant. Those respondents who consider themselves closer to the politically right are also more supportive of market-based reforms. On the other hand, sympathizers of the National Congress for New Politics are significantly more negative about market-based reforms than all other respondents. The National Congress was Kim Dae Jung's party, who became the first non-conservative president of the Republic of Korea in 1998.⁵

We detect a significant humped-shaped influence of age. Support for market-based reforms increases with age until it reaches a maximum at 41 years. Then it declines again and it even becomes negative from 83 years onwards. Respondents with the highest level of education tend to be supportive of market-based reforms. Note that this effect occurs over and above the impact of news interest, and thus cannot be explained by the positive association between level of education and news interest.⁶ Thus, market-based reform strategies are supported by highly-educated and news-interested respondents.

⁴ The outcome of the reduction test is $\text{Chi}^2(31) = 36.7$.

⁵ Kim Dae Jung later founded the Millenium Democratic Party (Minjoo Dang) in 2000.

⁶ The Pearson correlation coefficient between news interest and an education level of high school and more is 0.10.

It is of interest to compare the absolute importance of these determinants of support for market-based reforms. However, the use of a synthetic factor as the dependent variable does not allow for a useful comparison of absolute effects. Given that the coefficients in the table are standardized, we can at least compare the relative importance of variables within the respective model. The most important determinant is the age of the respondent. The second largest effect is due to the variable measuring the willingness to bear part of the burden, while the smallest effect is measured for the education variable.

The general model for *state-based reforms* is given in Model 3 of Table 6. This time we detect problems with normality, the consequences of which will be analyzed below. Because of evidence of heteroscedasticity, we again employ robust standard errors based on jack-knifing. Reducing the number of variables leads to Model 4.⁷ The impact of age on support for state-based reforms is U-shaped, with a maximal negative effect occurring at an age of 36 and a sign change at 73 years. Figure 2 plots the impact of age on support for both types of reform strategies over the range 18 to 98 years. The curves are almost inverted mirror images of each other, although the absolute impact of age is larger in the case of market-based reforms.

State-based reforms are supported by the upper-middle class. Information on the workplace of respondents from this income category may give us an indication of why they are in favour of state-based reforms. Upper-middle income correlates positively with jobs in the area of sales and services and administration.⁸ These groups may be affected particularly negative by a reduction of state sector activity in the economy.

Those respondents who sympathize with the National Congress for New Politics are supporters of state-based economic reforms. This is in line with the political ideology associated with this party. As in the case of age, this variable helps to separate well between proponents of the two economic strategies. Finally, we find that those who are prepared to personally take on

⁷ The outcome of the reduction test is $\text{Chi}^2(33) = 37.9$.

part of the reform burden are also supportive of the state-based reforms. Given a similar effect in the regression explaining market-based reforms, this variable reflects a willingness to support economic reforms in general rather than any particular reform strategy.⁹

In terms of the relative importance of variables in Model 4, we find that age has the largest impact by comparing the standardized regression coefficients given in Table 11, while the income variable has the smallest. As indicated above, the models for state-based reforms are plagued by non-normality. To ensure that our statistical inference is valid nevertheless, we re-estimate Model 4 after including 22 dummy variables that remove the most important outliers and ensure that the residuals are distributed approximately normal. It can be shown (results available upon request) that not much changes. Statistically, we cannot reject the hypothesis that the coefficients from the model including the dummies and Model 4 are equal at any reasonable level of significance.

So far, we have employed all available observations in our sample. There is information on those respondents who believe that the Korean economic system needs fundamental changes (see Table 5), which we can use to address two issues: First, by employing all cases in the sample we might get biased estimates due to the inclusion of non-attitudes from those respondents who are against any type of reform (see Converse (1970) for a discussion of non-attitudes). Second, support for particular reform strategies may depend upon the person's attitude towards the question of whether the economic system needs fundamental changes. After re-running Model 1 of market-based reform strategies for this subgroup of respondents, we test again the restrictions leading to Model 2, which are not rejected.¹⁰ In addition, the coefficients of the reduced model with the restricted sample are significantly different from zero at a 1% level but they are not

⁸ The correlation coefficients are 0.10 and 0.09, respectively.

⁹ Using a t-test for two independent samples, we cannot reject the hypothesis that the two coefficients of the influence of being prepared to personally take on part of the burden of reform are equal at any reasonable level of significance (t-test value 0.44).

¹⁰ The outcome of the reduction test is $\text{Chi}^2(31) = 35.1$.

significantly different from those in Model 2. Performing the same analysis for state-based reforms, we proceed from Model 3 to 4. Again, the testing-down restriction is not rejected for the subsample, and the coefficients of the remaining variables are significant but statistically not distinguishable from those given in Model 4.¹¹ To summarize, we find that with respect to specific reform strategies there is no statistical difference between those who believe that reforms are necessary and those who do not. This can be interpreted as evidence that our estimates of preferences towards reform are not biased due to the existence of non-attitudes.

8. Summary and Conclusion

While a great deal of research has been conducted in examining the sources, consequences, and cures of the economic crisis in Asia, little is known about how the phenomenon of an economic crisis unravels at the level of individual citizens who have to deal with it on a daily basis. Even less is known about whether they are willing to support governmental efforts to reform the economic system itself. To fill this void in the existing literature on the Asian economic crisis, this study focused on individual citizens in Korea. Specifically, it first examined how ordinary Koreans perceived and understood the crisis that erupted in November 1997. Then it explored the particular approach they preferred in attempting to reform the malfunctioning economic system.

When asked about the political causes of their economic problems, a majority of Koreans seem to concur with the assessment that the corrupt politicians play a major role. While the democratic system itself is not considered as being responsible for the outbreak of the crisis, it is blamed for being unable to reduce the cosy relationships between firms and government officials (see also Mo and Moon, 1998, 1999). The Korean people tend to be in agreement with the scholarly assessment that the combination of domestic and foreign factors is responsible for the

¹¹ The outcome of the reduction test is $\text{Chi}^2(33) = 32.4$.

outbreak of the crisis (Chang, 1998; Fisher, 1998; Haggard, 2000; Robert, 2005; Wade and Veneroso, 1998). In terms of the particular strategies to be employed for economic recovery, Koreans tend to weigh domestic measures much more heavily than international ones.

While a majority of people agree on the need for fundamental economic reforms, there is no consensus about the best reform strategy. Using factor analysis, we can isolate two conceptually different reform strategies that we interpret as market-based and state-based. To explain public support for these strategies, we consider determinants suggested by the theoretical literature (Rodrik, 1996; Drazen, 2000) and the empirical literature of analyzing attitudes toward market-based reforms in Eastern Europe (Hayo, 2004). Supporters of domestic state- and market-based reform strategies are divided along the lines of age, education, and news interest. Moreover, we find that political variables, in particular the degree of support for the National Congress for New Politics and left-right placement help to explain attitudes toward reform strategies. Economic variables are much less important as explanatory factors, only upper-middle income quartiles show some significance in explaining support for state-based reforms. Moreover, we do not find any evidence that the real wealth position or uncertainty about job security affects a person's preferences for particular economic reform strategies. Thus, the two main explanatory variables put forward in the theoretical literature on economic reforms – income or wealth and labour market situation – have very limited explanatory power in the present context. Finally, being prepared to personally bear a part of the burden of reform helps to predict the willingness to implement economic reforms but this variable does not help to explain individual support for a particular type of reform strategy.

Table 7 summarizes the core results from the present study. It also compares the results for Korea with those variables that help to explain attitudes towards introducing a market economy in Eastern Europe (Hayo, 2004). The only variable that has the same qualitative impact on market-based reforms in Korea and the creation of a market economy in Eastern Europe is the level of education. Thus, the factors influencing attitudes towards market-based reforms are quite

different and conclusions based on the experience of transition in Eastern Europe may yield only limited or even misleading insights into economic policy reform in other parts of the world and vice versa. Our results underline the need for a broader analysis of public support for economic reforms, as the particular local circumstances appear to play an important role. Arguably, policy makers hoping to generate support for a particular economic reform strategy should not rely too much on this strand of the literature. At least in the present case, neither the variables put forward by the theoretical literature nor empirical results from other countries can be regarded as useful predictors of attitudes towards economic reforms.

The strongest finding of our study of attitudes toward restructuring the Korean economy after the financial crisis is that individual political beliefs and not individual economic circumstances determine a respondent's support for a particular reform strategy. We cannot rule out, however, that the attitudes for or against a specific political party or ideology are themselves subject to considerations related to the type of economic system that should be established in the country. Still, the literature on economic reform emphasizes the individual economic situation of the agents, while our findings suggest that it does not play any role in the explanation of attitudes toward particular reform strategies. Interpreting this outcome with the help of concepts developed in the literature on voting (Nannestad and Paldam, 1994), we do not find evidence that with respect to the economic factors Koreans behave egotropic, while we cannot rule out sociotropic behaviour. It is also noteworthy that these results are the same for both, the respondents who approve of the idea that the economic system in Korea needs fundamental change as well as all respondents.

The choice of particular reform strategies may be affected much more by political considerations than is typically allowed for in the economic literature on reform policies. When restricted to the context of Korea, our analysis provides some guidance about the types of social groups that are likely to support either a state- or a market-oriented reform program. This should be considered as important, the reason being that a strong consensus with respect to the chosen

reform package is likely to improve the chances of its success (Williamson, 1994; Rodrik 1996). It would therefore appear prudent for the government to discern the nature of popular support for the particular reform measures it seeks to undertake (Kaufman and Zuckermann, 1998; Stiglitz, 1998).

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Tables

Tab. 1: Perceived impact of financial crisis (answers in %)

	1998	1999	
How would you rate the overall economic condition of our country today?			
Very bad	60.3	11.7	
Bad	38.1	71.7	
Good	1.4	16.3	
Very good	0.1	0.6	
Democratic institutions and incompetence of politicians as a cause of crisis?			
Failing of democratic institutions	4.3	0.9	
Incompetence of politicians	64.8	41.4	
Both democratic institutions and politicians	28.5	53.1	
Neither democratic institutions and politicians	2.3	4.6	
View of crisis and boom in 1999			
Looking back, would you say that the economy was really in a crisis?	Do you believe that the Korean economy is really booming?		
Not a crisis	4.3	Not a boom	58.9
Very serious, although not a crisis	38.3	Increase in prosperity, but not a boom	38.8
Really was a crisis	57.4	Really is a boom	2.3

Source: 1998 and 1999 Korea Barometer Surveys.

Tab. 2: Perception of factors that potentially contributed to the outbreak of the crisis (in %)

Factors	Most Important	Least Important	Balance
	(A)	(B)	(A-B)
Cozy business-government relations	78	5	+75
Democratic regime replacing military rule	10	52	-42
Asian neighbors' economic troubles	30	34	-4
Japanese banks' reckless lending	8	31	-23
American government pressure to open our market	35	22	+13
IMF's imposition of conditions as part of its bailout	22	26	-4
<i>(No answer)</i>	<i>6</i>	<i>11</i>	<i>n.a.</i>
Geographic origins of these factors			
Korea	82	54	+29
Asia	37	59	-22
West	54	44	+10

Source: 1998 Korea Barometer Survey.

Tab. 3: Perceptions of economic recovery (in %)

Agencies of economic recovery (1999 Korea Barometer Surveys)							
	Lot worse	Somewhat worse	Little effect	Somewhat better	Lot better		
How do you think the current system of democratic government has affected the recovery of our economy?	2	8	48	37	5		
How do you think the IMF has affected the overcoming of the economic crisis?	1	6	22	57	14		
How do you think economic reforms under Kim Dae Jung government have affected the economic situation?	2	13	41	37	7		
How long will it take the government to solve the economic problems?							
	Solved	1-2 years	3-5 years	6-10 years	>10 years	Never	Don't know
1998	-	8	53	27	3	3	5
1999	-	8	53	24	4	8	3

Source: 1998 and 1999 Korea Barometer Surveys.

Tab. 4: The reform measures that are considered most and least effective in dealing with economic problems (in %)

Reform Measures	Assessments		Balance
	Most effective (A)	Least effective (B)	(A) – (B)
<i>A. Domestic measures</i>			
Closing debt-ridden financial institutions	69	9	+60
Providing governmental subsidies to troubled businesses	40	20	+20
Forbidding the laying off of unnecessary workers	19	37	-18
<i>B. International Measures</i>			
Limiting the sale of foreign goods in Korea	17	47	-30
Allowing foreign companies to buy Korean companies	32	22	+10
Refusing to implement the conditions of the IMF bailout	5	37	-34
(No answer)	6	9	<i>n.a.</i>

Source: 1998 Korea Barometer Survey.

Tab. 5: Evaluating reform measures (in %)

	Strongly disapprove	Somewhat disapprove	Somewhat approve	Strongly approve
Our economic system needs fundamental changes?	0.6	4.2	42.4	52.7
Break up chaebols	5.8	23.2	38.5	32.4
Lay off unnecessary workers in the private sector	11.2	36.3	39.6	12.6
Lay off unnecessary workers in the public sector	5.4	21.9	42.4	30.4
Privatize state corporations	2.4	20.2	44.7	32.7
Make the government smaller by reducing its budget	5.4	23.6	41.7	29.3
More government control over chaebols, banks and state enterprises	8.5	21.1	48.2	22.2

Source: 1999 Korea Barometer Survey.

Tab. 6: Explaining support for market-based and state-based reform strategies (785 cases)

Dependent variables:	Factor market-based reform		Factor government-based reform	
Model:	1	2	3	4
	General model:	Simple model:	General model:	Simple model:
Other factors				
News interest	0.069	0.120**	0.036	
Prepared for burden	0.162**	0.168**	0.166**	0.145**
Political factors				
Left-right placement	0.114**	0.133**	-0.039	
<i>Party sympathy</i>				
None or others	Base	Base	Base	Base
Grand National Party	-0.028		0.032	
National Congress for	-0.095*	-0.105**	0.125**	0.117**
New Politics				
United Liberal	0.003.		-0.005	
Democrats				
Economic factors				
Income (in Won)	0.031		-0.129	
<i>Income quartiles</i>				
Lowest quartile	Base	Base	Base	Base
Lower middle	0.061		0.007	
Upper middle	0.041		0.158*	0.098**
Highest quartile	0.101		0.14	
<i>Real wealth (property)</i>				
Renting	Base	Base	Base	Base
House with mortgage	-0.014		-0.075	
Owns house/apartm.	0.005		-0.037	

Job situation

Job and not worried	Base	Base	Base	Base
Job but very worried	0.045		0.011	
Job but worried	-0.032		-0.005	
Job DK	0.047		0.037	
Formerly unemployed	0.02*		0.012	
unemployed	0.014		-0.056	
Out of labor force	0.04		-0.029	

Cultural factors*Religion*

No religion	Base	Base	Base	Base
Buddhism	-0.019		0.007	
Protestant	0.015		0.046	
Catholic	-0.031		-0.01	
Other	-0.034		0.065	

Religion in life

Not important at all	Base	Base	Base	Base
Not very important	0.068		0.002	
Somewhat important	0.042		-0.057	
Very important	0.076		-0.063	

Socio-demographic factors

Age	0.554	0.784**	-0.264	-0.481*
Age squared	-0.533	-0.802**	0.378	0.557*
Male	0.062		-0.036	

Marital status

Married	Base	Base	Base	Base
Widowed	-0.015		-0.008	
Divorced/Separated	-0.053		0.034	
Single	-0.075		0.04	

<i>Education</i>				
No schooling	Base	Base	Base	Base
Primary school	0.004		-0.033	
Middle school	0.051		0.032	
High school	0.151		-0.029	
College and more	0.196	0.088*	-0.035	
<i>Size of community</i>				
Village	Base	Base	Base	Base
Town	-0.012		-0.08	
City	0.007		0.08	
Seoul	-0.008		0.022	
R^2	$R^2 = 0.14$	$R^2 = 0.11$	$R^2 = 0.10$	$R^2 = 0.06$
Adjusted R^2	$\bar{R}^2 = 0.10$	$\bar{R}^2 = 0.10$	$\bar{R}^2 = 0.06$	$\bar{R}^2 = 0.05$
F-test	$F(38,746) =$ 3.13**	$F(7,777) =$ 13.33**	$F(38,746) =$ 2.22**	$F(5,779) =$ 9.38**
Normality test	$\text{Chi}^2(2) = 5.5$	$\text{Chi}^2(2) = 5.0$	$\text{Chi}^2(2) =$ 14.7**	$\text{Chi}^2(2) =$ 19.9**
Heteroscedasticity test	$F(42,703) = 1.11$	$F(10,766) =$ 2.89**	$F(42,703) =$ 1.86**	$F(6,772) =$ 2.22*
RESET-test	$F(1,745) =$.00004	$F(1,745) =$ 0.23	$F(1,745) =$ 1.38	$F(1,778) =$ 0.001
Reduction test	$\text{Chi}^2(31) = 36.7$		$\text{Chi}^2(33) =$ 37.9	

Notes:

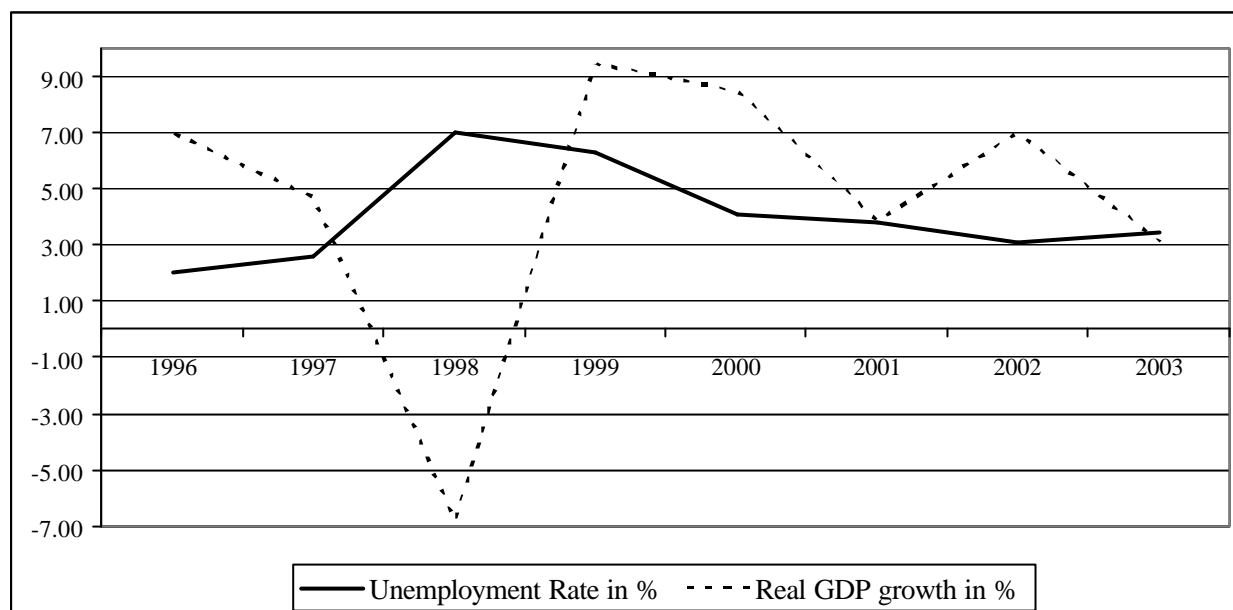
- i) The symbol * (**) indicates significance at a 5% (1%) level using jack-knifed-heteroscedasticity-consistent standard errors.
- ii) A constant term is included in all regressions.
- iii) The regression coefficients are standardized (beta-values).
- iv) The general models include all variables, the simple models only those surviving a consistent statistical reduction process at a 5% significance level.
- v) "Base" indicates the reference category for the dummy variables.
- vi) *Source:* 1999 Korea Barometer Survey

Table 7: Comparing determinants of attitudes to reforms: Korea versus Eastern Europe

	Market-based reform	State-based reform	Market economy in Eastern Europe
Age	+ (Inverted U-shaped)	- (U-shaped)	-
Male	0	0	-
Size of community	0	0	+
Education	+	0	+
Religion	0	0	+
Income	0	+ (upper-middle income)	+
Wealth	0	0	+
Degree of job security	0	0	+
Left-right placement	+	0	n.a.
National Congress for New Politics	-	+	n.a.
Media news interest	+	0	n.a.
Prepared to bear burden of reform	+	+	n.a.

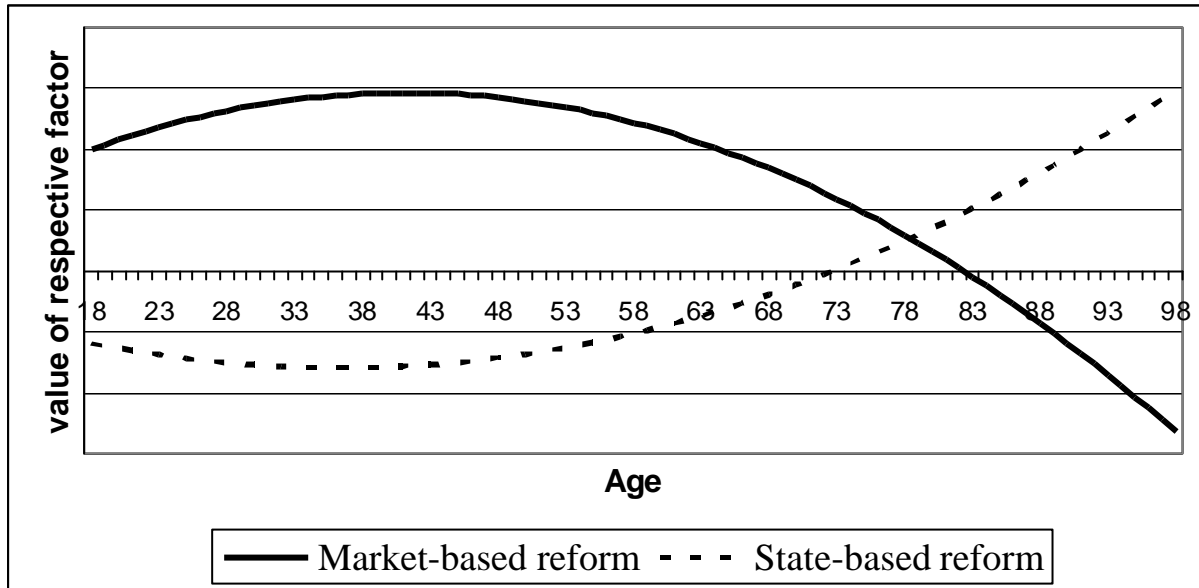
Notes: The symbol + (-) indicates a positive (negative) relationship and 0 no association.

Figure 1: GDP and unemployment growth before and after the economic crisis



Source: Korea National Statistical Office website.

Figure 2: Non-linear effect of age on market-based and state-based reform strategies



Source: Estimates from Table 6 using 1999Korea barometer survey.