

Hayo, Bernd; Shin, Doh Chull

**Working Paper**

## Popular reaction to the intervention by the IMF in the Korean economic crisis

Diskussionsbeitrag, No. 121

**Provided in Cooperation with:**

University of Duisburg-Essen, Institute of Business and Economic Studie (IBES)

*Suggested Citation:* Hayo, Bernd; Shin, Doh Chull (2002) : Popular reaction to the intervention by the IMF in the Korean economic crisis, Diskussionsbeitrag, No. 121, Universität-Gesamthochschule Essen, Fachbereich Wirtschaftswissenschaften, Essen

This Version is available at:

<https://hdl.handle.net/10419/40945>

**Standard-Nutzungsbedingungen:**

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

**Terms of use:**

*Documents in EconStor may be saved and copied for your personal and scholarly purposes.*

*You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.*

*If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.*

DISKUSSIONSBEITRÄGE  
AUS DEM  
FACHBEREICH  
WIRTSCHAFTSWISSENSCHAFTEN  
DER UNIVERSITÄT ESSEN

Nr. 121  
April 2002

**Popular Reaction to the Intervention by the IMF  
in the Korean Economic Crisis**

Bernd Hayo  
Doh Chull Shin

# **Popular Reaction to the Intervention by the IMF in the Korean Economic Crisis**

Bernd Hayo

Essen University, Georgetown University, and ZEI, University of Bonn

and

Doh Chull Shin

University of Missouri, Columbia, Missouri

## **Abstract**

The International Monetary Fund (IMF) has played an important role in restructuring the Korean economy over the past three years. Relying upon survey data collected in 1998 and 1999, this paper explores the role of the IMF in Korea, as perceived by its citizens. In the eyes of the Korean people, the IMF helped their economy to recover from the crisis. However, those Koreans who experience a decline in their income, are critical of the IMF intervention in their economy. Finally, our analysis of the public attitude data reveals that the pro-IMF orientations among the Korean people have little to do with their support for a market-oriented reform program.

**Keywords:** IMF, Korea, policy reform, financial crisis, public opinion

**JEL:** O5, F3

Bernd Hayo  
University of Essen  
Department of Economics (FB 5)  
Universitaetsstr. 12  
D-45117 Essen  
Tel. +49-201-183-3010  
Fax +49-201-183-3974  
Email: bhayo@vwl.uni-essen.de

Doh C. Shin  
Dept. of Political Science  
University of Missouri  
309 Professional Bldg.  
Columbia, Missouri 65211-6030  
Tel. 573-882-7873  
Fax 573-884-5131  
Email: ShinD@missouri.edu

## I. Introduction

The outbreak of the Asian financial crisis in 1997 has served to highlight the fact that the IMF can play a far more critical role in dealing with an economic exigency than any other international organization. Evaluations of its role in managing economic crises to date have been done on three separate levels: by professional economists, the news media, and ordinary citizens. Jeffrey Sachs, and many other economists, have generated a large and ever increasing body of literature on the IMF intervention in the Asian economic crisis (see Blecker 1999 and Naim 2000 for reviews of the relevant literature). *The Financial Times*, *The New York Times*, *The Wall Street Journal*, and many other news media, covered the unfolding of the crisis for an extended period of time. Average citizens in the many Asian countries have been shown on TV protesting against the IMF. Such protests, however, cannot be viewed as wholly reflecting what the general population feels about the IMF. Thus far no systematic research has been undertaken to analyze public attitudes regarding the role of the IMF in the Asian financial crisis.

Systematic research on public perceptions of the IMF intervention, however, is essential to its effort to rescue any national economic system in a state of crisis. As recent research on economic reforms has indicated (Stokes 2001, Williamson 1994), such perceptions constitute a powerful force, which can determine the success of a given economic restructuring program. Without the proper understanding and support of the people, who experience its painful consequences on a daily basis, any one or more of the many parts of the program cannot be implemented effectively for any extended period. From the perspective of policymakers managing the crisis, therefore, it is important to discern how the IMF is perceived as an agency in a position to demand economic reform.

There is an ongoing public debate about the proper role the IMF should play in managing economic crises. Critics argue that the IMF is not really suited to the task of fostering structural economic reforms, and that it is constantly over-stepping its mandate (see, for instance, Jeffrey Sachs *Financial Times* December 11 1997, Katz 1998, and Naim 1995). Supporters of IMF policies, on the other hand, point out that it has been a positive influence in the recovery of many economies in need of fundamental restructuring (see, for instance, Michael Camdessus *The Washington Post* November 10 1998, Fischer 1998, Krueger 1997, and Summers 1998). What is entirely missing from this debate, are the perceptions of the IMF held by ordinary people directly involved in the process of economic restructuring.

This paper represents a first endeavor to analyze public perceptions of the IMF role in restructuring an economy during and after a crisis. For this analysis, South Korea (hereinafter

Korea) was selected for two reasons. Korea is a country that the IMF had to bail out with the largest loan package ever, requiring the fundamental restructuring of all major sectors of its economy. It is also a country that rapidly and successfully recovered from the Asian financial crisis. The survey data assembled for the present analysis came from the Korea Barometer surveys that were conducted in 1998 and 1999, the two successive years following the IMF bailout in December 1997. These two surveys asked several questions concerning the role of the IMF in managing the Korean economic crisis.

This paper is organized into six sections. In the section immediately following, we examine briefly the evolution of the economic crisis in Korea, and we highlight the role of the IMF in reforming its economy. With univariate analysis of the Korean survey data, Section Three examines whether the Korean people perceived the specified conditions of the IMF bailout as having been contributing factors in the worsening of their economic problems. It also examines whether they perceived the program to have helped bring about the subsequent recovery of their country's economy. With an ordered logit regression model, Section Four examines which segments of the Korean population are relatively favorably oriented towards the IMF. Section Five looks critically at the policy issues that are closely linked with the positive assessment of the IMF role in the economic recovery. Finally, we summarize our results and conclude.

## **II. A Brief Account of the Role of the IMF in Restructuring the Korean Economy**

The Korean economic crisis, which lowered its GNP per capita by one-third, from \$10,000 to \$6,600 in a single year, was to a large extent a home-grown crisis (Chang 1999, Chang et al. 1998, Haggard et al. 1999, S.H. Kim 2000, S. Kim 2000, Lee 1998, Mo and Moon 1999a, 1999b, Moon 1999, I. Shin 2000). It resulted from ill-conceived liberalization, weak financial regulation, and poor systems of corporate governance (Mo and Moon 1999a). Under the IMF bailout program, much needed financial reforms were instituted along with changes in the operations of the *chaebols*, the most powerful economic institutions in Korea which became overburden with high debt ratios and extremely vulnerable to the rapidly changing conditions of the international financial markets. The policies chosen to restructure the ailing economy were a mix between the economic policy preferences of the Korean government, and conditions imposed by the IMF. In general, it is difficult to measure the influence of IMF reforms on the economic performance of a country (see Haque and Kahn 1998 for a recent assessment). In the case of Korea, however, it may be even more difficult because the IMF changed its conditions for economic reform significantly during the course of the first program year (IMF 1999, Lee 1998).

The IMF agreed to provide Korea with financial assistance on November 21, 1997. In this regard, it accepted the first “letter of intent” from the Korean government that contained the typical IMF conditions in terms of financial sector restructuring, fiscal tightening, capital account and trade liberalization, and labor market reforms. It should be noted, however, that a dramatic course of events greatly influenced the contents of that program, as evidenced by the quickly shifting recommendations to deal with the fiscal deficit. The first “letter of intent” recommended a government surplus of 2 percent. The third “letter of intent,” issued on February 7, 1998, proposed a fiscal deficit of 1 percent. In the fourth “letter,” on May 2nd, the targeted deficit was raised to 2 percent, and in the fifth “letter,” on July 24th, it was raised to 5 percent. It is debatable now whether these rate changes show the flexibility of the IMF in adjusting to rapidly shifting economic situations, or whether it reflects its inability to estimate accurately the severity of the Korean crisis (Katz 1999).

Most economists would agree that the provision of liquidity by the IMF was beneficial, as the Korean government had almost no foreign reserves left, while other parts of the reform package find less support. In hindsight it is easy to argue that the IMF conditions regarding fiscal policy were not appropriate at the beginning of the crisis. It is less clear, however, whether this caused any significant damage to the Korean economy. In any case, given the importance of liquidity at that time, a fair assessment would probably be that the overall impact of the IMF intervention in the Korean economic crisis was positive.

From a macroeconomic point of view, the Korean crisis can be regarded as a temporary break in its overall performance (Lee and Rhee 2000). While growth rates were negative in all quarters of 1998, they became positive in 1999 and thereafter. The same is true of the inflation rate, which rose to over 15 percent in the first quarter of 1998, and then steadily declined. The only indicator that has not improved much over the past three years is the unemployment rate, which stayed above its pre-crisis level. Lee and Rhee (2000) attributed the quicker recovery in Korea, as compared with the other Asian countries, to the high degree of openness and private sector orientation of the Korean economy, conditions upon which the IMF insisted.

### **III. Public Attitudes Toward the IMF**

If it is difficult for economists to assess the role of the IMF in managing the Korean economic crisis, how can Koreans perceive and evaluate what it has done for their country's economy? This is an important policy issue that has not received adequate attention in the study of the Asian economic crisis. The 1998 and 1999 Korea Barometer surveys asked a number of relevant questions that provide a basis for analyzing this issue. Each of these two surveys

interviewed about 1,000 voters (20 years old and older) face-to-face, representing the adult population in Korea. The sampling and fieldwork procedures employed in these two surveys are described in detail in Shin and Rose (1998, 2000).

Do the Korean people perceive the IMF bailout conditions as one factor that contributed most or least to the worsening of the economic problem facing their country? To explore this question, respondents to the 1998 Korea Barometer survey were first asked to choose the most and second most important factors in all of this, from a list containing the IMF, along with five other factors. From the same list, they were asked to name the least and second least important factor as well. Table 1 reports the percentages of their responses falling in each of these four different response categories, ranging from the most important one to the least important.

Of the six factors, Koreans perceived the economic troubles of their neighboring countries as the most important cause of their economic problems; nearly one-third (30%), the greatest proportion, blamed their neighboring countries. This other-nation factor was followed, respectively, by American pressure to open their market (28%), and the cozy relationship between government and the *chaebols* (21%). In stark contrast to these factors, the IMF was not mentioned at all as the most important cause of the economic downturn, although a substantial number (22%) of people viewed it as the second most important cause.

In the third column (Sum A) of Table 1, we added the percentages referring to the most and second most important factors for a summary figure. According to the figures in this column, Koreans blamed the cozy relationships between government and the *chaebols* more than anything else. While more than three-quarters (78%) cited this aspect of crony capitalism as one of two important factors, one-third or less saw other factors in the same light. In the case of the IMF, a little over one-fifth (22%) saw it as an important cause of their economic problems. It ranks fourth, right after the American pressure to open their market, and the trouble of the neighboring countries.

What factors contributed least to Korea's economic problems? In response to this question, the Korean people cited democratic regime change most frequently, and government-business relationships, least frequently. This finding is quite reassuring for the stability of Korean democracy. In the case of the IMF, one-quarter (26%) mentioned it as one of the two least contributing influences to the economic problems. As it does on the scale measuring the two most important factors of those problems, the IMF ranks fourth on the scale measuring the two least important factors. In the last column of Table 1, we estimated the overall level of net support for each policy measure by subtracting the sum of "contribute least" ratings (Column 6), from that of "contribute most" ratings (Column 3). From this finding it is apparent that the

Korean people rank the IMF neither as the most important nor the least important influence on their economic problems.

The 1998 Korea Barometer Survey asked its respondents to choose the two reform measures they think would help to overcome the crisis most effectively from a list containing six measures, and to also choose the two measures they think would be the least effective. For each of these measures, Table 2 provides individual and aggregate percentage ratings. Among ordinary Koreans there is a general agreement that the shutting down of indebted banks and firms would be the most effective in dealing with the worsening economic situation. In sharp contrast, the other five measures were each endorsed by a minority of the Korean people. While 40 percent cited the provision of governmental subsidies to troubled businesses as one of two effective measures, for example, only 5 percent mentioned refusing to implement the conditions of the IMF bailout as one of the measures.

When asked to choose the single least effective of the six measures surveyed, 44 percent of the Korean people mentioned the ban on the sales of foreign goods most frequently. When asked to choose the two least effective measures, 47 percent also mentioned the same one most frequently, and 38 percent the IMF bailout conditions. When these rankings are compared across all six reform measures, it is apparent that the Korean people are less supportive of rejecting the IMF bailout conditions, than most of the other measures proposed for the tackling of the Korean economic crisis. Looking at the net effect of the most and least effective measure, Koreans perceive the shutting down of debt-ridden banks and other financial institutions as the most effective way of tackling the country's economic crisis. By contrast, the refusal to honor the IMF bailout conditions was perceived as the least effective crisis management strategy.

In an attempt to evaluate the overall effect of the IMF intervention more directly, the 1998 and 1999 Korea Barometer surveys asked respondents a straightforward question: "Do you think the IMF bailout has helped or hurt our economic recovery?" Table 3 provides, for each survey year, the distribution of their responses across five response categories ranging from the most positive to the most negative. In 1998, the first year after the outbreak of the economic crisis, less than a majority (45%) rated the IMF role in a positive light. In striking contrast, only a small minority (11%) rated its role either very negatively or somewhat negatively. Even during the period when the economic crisis was deepening, the Korean people as a whole were feeling more positively than negatively about the IMF.

In 1999, the Korean economy's downturn stopped, and it began to grow again, registering an impressive rate of a 10 percent GNP growth, and a 9 percent growth in 2000. As their national economy began to improve, the Korean people began to feel more positive about the role of the



IMF in the recovery process. A large majority rated the IMF role positively (71%). A very small minority rated it negatively (7%). Evidently, the improving condition of the national economy motivated many Koreans to shift their views on the IMF to ones more favorable. In summary, Koreans do not seem to hold the view that the IMF intervention was counter-productive, as Taylor (1998), for instance, has argued.

#### **IV. Explaining the Assessment of the IMF Intervention**

Which segments of the Korean population evaluated the IMF intervention favorably and unfavorably? Why do some Koreans believe that the IMF intervention has helped the economic recovery, while others do not? These questions will now be addressed with the results of a regression analysis. The dependent variable is the question that taps the impact of the IMF bailout on the economic recovery (see Table 3). The explanatory variables in the ordered logit model comprise the various characteristics of individual respondents. These include: socio-demographics, economic standing, degree of information, political party identification, and willingness to bear the financial burden of economic reforms.

These blocks of variables have been chosen due to data availability and theoretical interest. First, socio-demographic variables reflect other influences on the dependent variable, and they can affect the dependent variable directly. For instance, the level of educational attainment can influence attitudes on the IMF, as many of its conditions and their economic consequences can be understood only with higher levels of knowledge and information.

Second, the economic resources and position individual respondents command can shape such attitudes, because IMF policies have distributional consequences. In particular, the poor may have to suffer most, at least over the short-run. Moreover, there might be relative income effects. In addition to absolute and relative levels of income, changes in the income level over time can also affect respondents' judgments about the impact of the IMF intervention. In addition to these income variables, the status of employment is considered because the unemployment rate rose from 2 to 7 percent, in the wake of the economic crisis, and did not return to the pre-crisis level.

Third, as exposure to the relevant information and party identification are known in prior research to affect attitudes towards economic reforms (Hayo 1999), these variables are included in our analysis as explanatory variables. The willingness to bear the burden of economic restructuring, the core of the IMF program, is also included as a regressor because it can orient people toward the program itself. Most of these explanatory variables were included only in the 1998 survey, not in the 1999 one. Therefore, we performed ordered logit regression analysis on

the 1998 Korea Barometer survey data. Results of this analysis are reported in Table 4. In addition to normal standard errors, we also report robust standard errors (White 1980) to ensure that our results are insensitive to deviations from the homoscedasticity assumption. All significant coefficients remain significant when applying robust standard errors.

As estimated coefficients and corresponding standard errors in the table indicate, only a few explanatory variables in the regression equation are significantly associated with the dependent variable evaluating the perceived impact of the IMF on the economic recovery. In the first set of demographic variables, none is found statistically significant. In the second set of economic variables, it is not the level – absolute or relative – of income that significantly affects the evaluation of the overall impact of the IMF intervention on the economic recovery. What really matters is its growth, which was computed based on the reported income in 1997 and 1998. Regardless of the amount of income they were earning, Koreans, who were able to increase their income during the crisis period, felt significantly more positive about the IMF role than those who were not.

By contrast, the Koreans who have a mortgage to pay for a house or apartment felt significantly more critical about the IMF than those who did not. The IMF austerity program brought about interest rate hikes, which, in turn, increased the burden of a mortgage payment (the corporate bond yield of 3 years maturity rose from 13.4% in 1997 to 15.4% in 1998). While the interest rate rise was not large in absolute terms, it took place within an environment where the collateral value of housing had decreased dramatically, making the borrowing situation for many Korean house owners extremely difficult.

Cognitively, three separate indicators are employed to measure the degree of being informed about current events. Of these items, Table 4 shows that those who feel informed about the reforms are significantly more in favor of the IMF. Judging from the fact that the size of coefficients fluctuates across the three different levels of being informed the relationship between these two variables appears to be non-linear. These differences in the size of the coefficients, however, are not statistically significant at a 5 percent level. Thus, one has to distinguish only two groups: those without any subjective knowledge about the IMF being relatively more skeptical of IMF achievements, and those who reported possessing at least a minimum amount of information.

Politically, party identification matters significantly and uniquely in evaluating the IMF role. Identifiers with the Grand National Party (hereinafter the GN Party) rated the IMF reforms more favorably than all other Koreans with or without a partisan attachment. The GN Party was the party in power, when the IMF was called upon to rescue the Korean economy from insolvency.

Believing their party was responsible for the IMF intervention, GN Party supporters appear to remain favorably oriented to the IMF role in the economic recovery. This finding can be easily understood in the context of cognitive consistency. Since they voted for that party, they are partially responsible for inviting the IMF, and they rationalize this choice by viewing the outcome positively.

Psychologically, ordinary Koreans are not all equally committed to the restructuring of their economy. To differentiate their commitment to this task, the 1998 Korea Barometer survey asked its respondents whether they thought economic reforms have to be pursued even if it means significant hardship for them. Those who were willing to bear the burden of economic restructuring evaluated the IMF involvement more positively than those who were not.

## **V. Understanding the Implications of IMF Conditions**

The logit analysis of the survey data makes it clear that the willingness to bear the burden of economic restructuring, and one's own sense of being informed about the IMF-initiated reforms, have a positive effect on the assessment of the role the IMF played in the economic recovery. A crucial issue, however, is whether those in favor of the IMF role actually knew what it stands for and represents. As the paragon of the free market economy, the IMF advocates a variety of market-based reforms, including those of privatization, deregulation, and liberalization. If the IMF reform policy position shapes the assessment of the IMF role, it is reasonable to expect that such an assessment is seen as significantly correlated with the views on specific market-oriented reform measures.

The 1999 Korea Barometer survey asked a set of six questions that can help to map out different views about how to reform the economy. To analyze this issue, a factor analysis is performed on the item assessing the IMF role together with the items tapping support for the specific reform measures. Based on the usual eigenvalue criterion, two factors can be extracted. The first three variables reported in Table 5 – the laying off of unnecessary workers in the private and public sector, and privatization – are easily allocated to Factor 1. Reducing the government budget, however, does not load quite as high. Since it gets a negative sign when associated with Factor 2, we can also include it into Factor 1. Breaking up the *chaebols* receives a high enough loading on Factor 1, but it also has a relatively high loading on Factor 2. On the whole, Factor 1 could be interpreted as “market-oriented” economic reforms. More government control over the *chaebols*, banks and state enterprises is associated with Factor 2. In our view, this Factor can be termed “government-oriented” economic reforms.

The most notable of these findings is that the IMF assessment loads on Factor 2, the government-oriented reform approach. In other words, those who think the IMF has made a positive contribution to Korea's recovery tend to support governmental intervention in the economy, not the reform policies that comprise the backbone of the IMF market-based reform program. In our view, this finding has important policy implications that we explore further in the final section.

## **VI. Summary and Conclusions**

This paper seeks to make a unique contribution to the literature on the Asian economic crises by analyzing how ordinary people in Korea perceive and evaluate the IMF role during the process of their country's economic recovery. The analysis of the Korea Barometer survey data collected in 1998 and 1999 has revealed that ordinary Koreans do not put much blame on the IMF bailout conditions for the worsening of the economic crisis. Nor do they tend to endorse the refusal to implement those conditions as the most effective method of dealing with their economic problems. Instead, these Koreans blame their own system of crony capitalism to the greatest extent, and they endorse the fixing of the malfunctioning system as the most effective solution to their economic problem.

On the whole, the Korean people remain oriented more favorably than unfavorably toward the IMF intervention to manage the economic crisis. With improvement in the economy over the years, they have increasingly approved of the IMF's role as a manager of the crisis. In evaluating the role of the IMF, it would be interesting to distinguish between its role as an international liquidity provider and a champion of structural reforms, which is not really possible given the questions asked in the survey. Arguably, the liquidity provision has very much contributed to the quick macroeconomic recovery of the Korean economy, and is reflected in the positive public assessment of the IMF.

In spite of this, critics of the IMF argue that the bailout of countries with large scale credits will undermine local incentives to avoid such a crisis, or in other words, that it will create a moral hazard. Given the high costs associated with the crisis, it appears unlikely that the incentive to avoid such a crisis is low in general. Further, at least in the case of Korea, there is another aspect that warrants attention, namely culture restraints. One question of the 1999 survey asked respondents whether they feel personally ashamed by the economic crisis affecting their country. More than 75 percent answered that they feel ashamed, which makes it unlikely that political leaders will not do everything that is in their power to avoid a crisis, as the loss in voter confidence is likely going to be very large.

Yet a substantial minority still disapprove of what the IMF has done in their country. Arguably, this has more to do with specific micro- and macroeconomic conditions of the bailout package than its role as liquidity provider. These Koreans are not low-income people in either absolute or relative perspective. They comprise those that have experienced a substantial decline in their income in the aftermath of the November 1997 financial crisis. Those who have a home mortgage to pay tend to be negative about the IMF intervention. People with a higher degree of subjective information about the IMF, on the other hand, are positive in their assessment. Supporters of the ruling party, that had to call for the IMF intervention in 1997, also remain positive. Understandably, those Koreans who are willing to endure personal hardship for the cause of economic restructuring are also among those who give greater credit to the IMF.

What is especially noteworthy is the finding that Koreans' approval of the IMF intervention is not based on an acceptance of the core principles of market-based economic restructuring as advocated by the IMF. This is quite a different concern than the typical critique of the inappropriateness of the "Washington consensus" in economic reform (Taylor 1997). In Korea, the IMF intervention is seen as most positive by those who believe in the powerful intervention of the government in the economy. This finding raises serious concerns for IMF officials and domestic policymakers for two reasons.

First, the IMF has obviously not succeeded in clarifying and publicizing its stance on economic reforms very well. This might even be an intentional strategy, as the IMF may seek to avoid any policy controversy with unclear messages. Nonetheless, such a strategy is not likely to work well as often as is expected. When the situation becomes difficult, for example, people can attribute all failures to the IMF because it has refused to specify its policy mandates clearly to the general public. Second, in the case of Korea, support for the IMF seems to come from the "wrong" group of people. Their misunderstanding will inevitably lead to a clash with true believers in the free market economy over the proper goals and means of economic reform. This might eventually aggravate the reform process itself.

Finally, it should be noted that popular support for the IMF conditions is apparently driven by the shifting condition of the national economy rather than the specific outcome of the particular reform measures that it has pushed. It is not inappropriate for the IMF to receive credit for what it has not done. What is problematic for the IMF, though, is that it may be blamed when it is not really responsible, particularly at a time when it needs popular support most.

In conclusion, the IMF has not had to contend with the average citizen in Korea. In the future, especially when their economy sours again, there is a possibility for this institution to be at odds with those people who misunderstand the true nature of its reform program. To avoid

such a conflict, it is highly desirable for the IMF to promote a better understanding of its program among ordinary Koreans on its own or in collaboration with the Korean government. Koreans should be helped in understanding the IMF intervention in view of the true nature of its policies, and not in response to a blurred image.

### **\* Acknowledgments**

For their valuable comments, we thank Robert Blecker, Sharmini Coorey, Graciela Kaminsky, Holger Wolf, Jeromin Zettelmeyer, an anonymous referee and participants of research seminars at American University, the International Monetary Fund, George Washington University, and WHU Koblenz. Bernd Hayo gratefully acknowledges financial support from the Volkswagen Foundation. Doh Chull Shin wishes to recognize the U. S. National Science Foundation (NSF SES-9909037) for its financial support of survey research.

### **References**

- Blecker, R. (1999), *Taming Global Finance: A Better Architecture for Economic Growth and Equity*, Washington, D.C.: Economic Policy Institute.
- Chang, H.-J. (1999), "Korea: The Misunderstood Crisis," *World Development* 26, 1555-1561.
- Chang, H.-J., H.-J. Park and C. G. Yoo (1998), "Interpreting the Korean Crisis: Financial Liberalization, Industrial Policy and Corporate Governance," *Cambridge Journal of Economics* 23, 735-746.
- Fischer, S. (1998), *The Asian Crisis: A View from the IMF*. Washington, D.C.: World Bank.
- Haggard, S., D. Pinkston, and J. Seo (1995), "Reforming Korea Inc.: The Politics of Structural Adjustment under the Kim Dae Jung Government," *Asian Perspective* 23, 201-235.
- Haque, N.U. and M.S. Kahn (1998), "Do IMF-Supported Programs Work?" IMF Working Paper WP/98/169.
- Hayo, B. (1999), "Knowledge and Attitude Towards European Monetary Union," *Journal of Policy Modeling* 21, 641-651.
- International Monetary Fund (1999), *The IMF's Response to the Asian Crisis. A Factsheet*. External Relations Department of the IMF, Washington, D.C., January 17.
- Katz, S.S. (1998), "The Asian Crisis, the IMF and the Critics", *Eastern Economic Journal* 25, 421-439.
- Kim, S., ed. (2000), *Korea's Globalization*, Cambridge: Cambridge University Press.
- Kim, S.H. (2000), "The Political Origins of South Korea's Economic Crisis: Is Democratization to Blame?," *Democratization* 7, 81-103.

- Krueger, A.O. (1997), "Wither the World Bank and the IMF?", National Bureau of Economic Research, Working Paper 6327.
- Lee, S.-H. (1998), "Crisis in Korea and the IMF Control", in E.M. Kim, ed., *The Four Asian Tigers*, San Diego: Academic Press.
- Lee, J.-W. and C. Rhee (2000), "Macroeconomic Impacts of the Korean Financial Crisis," Rochester Center for Economic Research Working Paper 471, May.
- Mo, J. and C.-i. Moon (1999a), "Korea After the Crash," *Journal of Democracy* 10, 150-64.
- Mo, J. and C.-i. Moon, eds. (1999b), *Democracy and the Korean Economy*, Stanford: Hoover Institution Press.
- Moon, W.-S. (1999), "The Three Causes of the Korean Currency Crisis and Policy Mistakes Reexamined", mimeo, Seoul National University, July.
- Naim, M. (1995), *Latin America's Journey to the Market: From Economic Shocks to Institutional Therapy*, San Francisco: International Center for Economic Growth.
- Naim, M. (2000), "Washington Consensus or Washington Confusion?", *Foreign Policy* 118, 87-103.
- Shin, D.C. and R. Rose (1998), "Responding to Economic Crisis: The 1998 New Korea Barometer Survey", *Studies in Public Policy* 311, Glasgow: Center for the Study of Public Policy (CSPP), University of Strathclyde.
- Shin, D.C. and R. Rose (2000), "1999 New Korea Barometer Survey", *Studies in Public Policy* 327, Glasgow: CSPP, University of Strathclyde.
- Shin, I., ed. (2000), *The Korean Crisis: Before and After*, Seoul: Korea Development Institute.
- Stokes, S. (2001), *Support for Economic Reform in New Democracies*, Princeton: Princeton University Press.
- Summers, L. (1998), "Opportunities out of Crisis: Lessons from Asia", *Treasury News* (March 19).
- Taylor, L. (1997), "The Revival of the Liberal Creed: The IMF and the World Bank in a Globalized Economy", *World Development* 25, 145-52.
- Taylor, L. (1998), "Capital Market Crises: Liberalization, Fixed Exchange Rates and Market-Driven Destabilization", *Cambridge Journal of Economics* 22, 663-76.
- White, H. (1980), "A Heteroscedasticity-consistent Covariance Matrix Estimator and a Direct Test for Heteroscedasticity", *Econometrica* 48, 817-838.
- Williamson, J. ed. (1994), *The Political Economy of Policy Reform*, Washington, DC: Institute for International Economics.

## Tables

Table 1. Perceptions of the Most and Least Contributing Factors to Economic Problems (in %)

Contributing Factors	Contribute most			Contribute least			Net effect
	First	Second	Sum A	First	Second	Sum B	A – B
Cozy relationship between government and the <i>chaebols</i>	21	57	78	1	3	4	74
The American pressure to open up our market	28	6	34	5	17	22	12
Conditions imposed on Korea as part of the IMF bailout	0	22	22	1	25	26	-4
Economic troubles of neighboring Asian countries	30	0	30	34	0	34	-4
Japanese banks loaned too much to our banks and enterprises	7	1	8	10	21	31	-23
Replacement of military rule by elected governments	8	1	9	38	13	51	-42
Don't know	6	12	18	11	20	31	n.a.

*Source:* 1998 Korea Barometer Survey.



Table 2. Perceptions of the Most and Least Effective Economic Reform Measures (in %)

Reform Measures	Contribute most			Contribute least			Net effect
	First	Second	Sum A	First	Second	Sum B	A - B
Closing down debt-ridden banks and enterprises	69	0	69	9	0	9	60
Providing governmental subsidies to troubled business	6	34	40	10	10	20	20
Allowing American and other foreign companies to buy Korean companies	7	25	32	12	10	22	10
Forbidding the laying off of unnecessary workers	1	18	19	15	21	36	-17
Limiting the sale of foreign goods in Korea	10	7	17	44	3	47	-30
Refusing to implement the conditions of the IMF bailout	0	5	5	2	36	38	-33
Don't know	6	11	17	9	19	28	n.a.

*Source:* 1998 Korea Barometer Survey.

Table 3. The Perceived Impact of the IMF Intervention on the Economic Recovery (in %)

Response categories	1998	1999
Helped a lot	5	14
Helped somewhat	40	57
Half and half	33	22
Hurt somewhat	11	6
Hurt a lot	1	1
Don't know	10	0

*Source:* 1998 and 1999 Korea Barometer Surveys

Table 4. Explaining the Perceived Impact of the IMF Intervention in the Economic Recovery  
(ordered logit model)

Explanatory Variables	1998 survey			
	Coeff.	Std. Err.	Robust Std. Err.	
<b>Socio-demographics</b>				
Age	0.040	0.049	0.050	
Age squared	-0.0003	0.001	0.001	
Female	-0.029	0.208	0.209	
Marital status				
Single	Reference group			
Married	0.542	0.282	0.315	
Widowed, divorced, separated	0.566	0.669	0.624	
Education				
No schooling	Reference group			
Primary school	-0.432	0.948	0.811	
Middle school	-0.559	0.944	0.783	
High school	-0.516	0.938	0.769	
College and higher	-0.517	0.947	0.770	
<b>Economic position</b>				
Income per adult household member	0.002	0.003	0.003	
Income quartiles				
Lowest income quartile	Reference group			
Lower-middle income quartile	0.099	0.274	0.294	
Upper-middle income quartile	0.470	0.294	0.338	
Highest income quartile	0.026	0.320	0.355	
Income growth 1997-98 in %	0.008	**	0.003	0.003
House ownership				
Owns no house or apartment	Reference group			
Owns house or apartment	-0.088	0.194	0.208	
Owns house or apart. with mortgage	-0.505	*	0.212	0.227

Table 4. continued:

Labor market status				
Out of labor force	Reference group			
Unemployed	-0.094	0.328		0.361
Employed	0.024	0.213		0.208
<b>Degree of information</b>				
Media news interest	0.046	0.040		0.042
Political attitudes leader				
Never asked about politics	Reference group			
Seldom asked about politics	0.606	0.394		0.457
Sometimes asked about politics	0.308	0.281		0.303
Often asked about politics	0.164	0.297		0.323
Subjective information about IMF reforms				
Nothing	Reference group			
A little	1.203 **	0.468		0.528
Some	0.991 *	0.438		0.506
A lot	1.299 **	0.504		0.586
<b>Political party preference</b>				
None	Reference group			
National Congress for New Politics	0.042	0.238		0.203
Grand National Party	0.598 **	0.177		0.262
Others	0.094	0.279		0.187
<b>Prepared to take burden of reform</b>	0.431 *	0.180		0.261
Cases		657		
Log likelihood		-728.4		
Chi <sup>2</sup> -test		Chi <sup>2</sup> (29) = 86.8**		
Pseudo R <sup>2</sup>		0.06		

Notes: \*\*(\*) indicates statistical significance at a 1 (5) percent level. Cut values have been omitted.

Table 5. Factor Analysis of Attitudes toward the IMF Role and Economic Reform Measures

Survey Items		Factor 1	Factor 2
Eigenvalues		2.0	1.3
Explained variance		28%	18%
	Communalities	Loadings	Loadings
Laying off unnecessary workers in the public sector	0.61	<b>0.73</b>	-0.29
Laying off unnecessary workers in the private sector	0.46	<b>0.68</b>	0.03
Privatizing state corporations	0.48	<b>0.58</b>	-0.38
Making the government smaller by reducing its budget	0.32	<b>0.48</b>	-0.29
Break-up chaebols	0.49	<b>0.52</b>	0.46
Increasing government control over chaebols, banks and state enterprises	0.52	0.31	<b>0.65</b>
IMF helped recovery	0.36	0.19	<b>0.57</b>

Source: 1999 Korea Barometer Survey.