Time Factors in Policy Performance: The Korean Government's Economic Crisis Management in 2008*

Tobin Im and Wonhyuk Cho*****

Abstract: This paper assesses the Korean government's management of the recent economic crisis by focusing on time factors. The events that occurred from March 2008 to October 2009 and the government's corrective actions are interpreted through a "time lens" that accounts for the temporal constraints in terms of objective time as well as perceptive time. These two time domains have significant effects on the management of public policies, especially economic policies that require government interventions that affect the complex interactions of economic factors from both the fiscal policy and market perspectives. In order to illustrate the importance of long-term strategy, this study reviews the evolution of the economic situation following the onset of the financial crisis. Our retrospective analysis does not find that the Lee Myung-Bak government deployed strategies relevant for the long term, but rather that President Lee's authoritarian attitude itself may help him fuel the economy for a long time. Regardless of the causes, this case emphasizes the need for consistency in policy making, especially when the policy area's particularities require it.

Keywords: time factors, global financial crisis, economic policy, policy performance

WHY TIME MATTERS IN POLICY PROCESSES

With the onset in 2008 of a global financial crisis that was reportedly of a magnitude previously unseen, governments around the world scrambled to draft and imple-

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** Tobin Im is a professor at the Graduate School of Public Administration, Seoul National University. His teaching and research focus is on organizations, performance, development, and comparative administration. He is currently researching the implications of time in these areas. E-mail: tobin@snu.ac.kr.

*** Wonhyuk Cho is a PhD candidate in the Graduate School of Public Administration, Seoul National University. His research interests are social policy, development, and performance management. E-mail: wonhyukcho@gmail.com.

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ment new regulations and stimulus plans. This course of action resulted in a much more active role for governments in financial markets and also represents a firm break with the recent trends of deregulation inspired by the Hayek school of thought, indicating that governments are no longer passive regulators.

In this changing landscape, informed and timely government policy making is becoming an increasingly important prerequisite for the stability of financial markets. As the role of the government expands, people's expectations of the role of the government have also increased, and the government is now seen as the front line, rather than a last-resort option, for managing the financial markets. This dramatic paradigm shift forces governments to find ways to manage public expectations, and at the same time to ensure the efficient and cost-effective use of economic policy tools. In addition to the enhanced government role in domestic markets, there has also been an expansion of the role of governments in international markets, which is based on the G-20 summit proposal that cites the increased need for more globalized governance of financial markets.

With regards to the timeliness requirement in policy making, the economic conjuncture, which is an event or group of events that evolve rapidly and affect the economic climate in a fundamental way, is the major factor determining the outcome of the new economic policies. Thus, as policies are drafted to account for the new economic environment, governments must be mindful of the fact that the society is complex and multifaceted, meaning that the success of reforms is based not only on the economic features of the society but on countless other features as well. In light of such interconnectedness, the economic subsystem of a society should complement its political, social welfare, educational, and other subsystems. These have evolved based upon their own logic over time, which means that even an excellent policy will not bring about the expected result if it is improperly timed by failing to account for other societal features. Thus, tying economic reform to the other features of society, and addressing it from the perspective of time, may create a more effective form of policy making.

This paper aims to assess the Korean government's management of the recent economic crisis by focusing on time-related factors, interpreting the events that occurred and the government's actions during this time through a "time lens," which will not only lead to some interesting insights, but will also be helpful for discovering unique explanations for why the Korean economy recovered in the way it did. Based on the findings of this paper, important lessons can be learned regarding how to more effectively manage public policies and public administration. This paper does not directly deal with or evaluate the success of economic policies, nor does it attribute the causes of the policy consistency. Instead, it reviews what the government did following the onset of the financial crisis, based on news articles from major Korean media organizations between March 2008 and October 2009.

THEORETICAL PERSPECTIVES

The Time Lens

Time dimensions represent a vital, pervasive, but often neglected dimension in policy making and public management (Pollitt 2009). If one ignores the importance of the temporal context in policy, one is likely to produce inaccurate, enormously exaggerated, or at least superficial policy prescriptions (Im 2007; Pollitt 2009). Chung et al. (2002) suggested using a time variable, in particular the time lag in the policy process, in order to better understand how the government works under various circumstances and eventually to improve government performance. Im (2007) suggested that time (in a larger sense than that referred to by Chung) is an extraordinarily useful concept that can create a deeper understanding of the public policy realm, and proposed that temporal dimensions such as speed, time lag, deadline, timeliness, and long-term horizons must be emphasized in future research in order to enhance the effectiveness and success of policy making and implementation.

Ancona et al. (2001) suggested that we can start to think not only of processes and practices, but also of how fast policies move through the implementation process (Eisenhardt 1989; Huy 2001) and suggested analyzing the issue through a “temporal lens.” Ancona et al. (2001) also suggested that decision makers must take the trajectories of policies over time into consideration when drafting new policy (Albert 1995; Lawrence, Winn, and Jennings 2001), in order to ensure that policy cycles are aligned with (Gersick 1994; McGrath and Rotchford 1983) the historical positions they take on the continuum of time (Blount and Janicik 2001; Clark 1985). The need exists to consider not only the individual policy maker’s personality, but also the individual’s time urgency and time perspective (Conte, Landy, and Mathieu 1995; Perlow 1999; Waller et al. 2001; Ancona et al. 2001), and we should also analyze whether a person is driven by the past, the present, or the future (Zimbardo and Boyd 1999; Ancona et al. 2001).

For example, time can serve as a major constraining factor in public management and decision making in two important ways (Ring and Perry 1985, 279). The first is associated with public officials’ length of employment with an agency (Heclo 1977; Malek 1972). The second involves time constraints that are imposed by the legislature, the court, or the exigencies of an elected political office (Allison 1983; Bower 1977).

Thus, time constraints on public policy tend to be generated by legislatures, funding exigencies, or the employment length of public officials. Cleveland (1979, 25) succinctly described the situation as "tackling 20-year problems with five-year plans staffed with two-year personnel funded by one-year appropriations." In sum, it appears that public policy makers do face time constraints that, although artificial, must be taken into consideration.

Next, each public policy sector has its own embedded temporal factors. For example, the political arena operates on a different set of time constraints than the economic arena. As Smith (1989) discussed, there is a difference in time preferences between politically motivated and economically motivated individuals: economically driven decision makers incorporate long-term time perspectives to protect their accumulated wealth over time, while politicians try to meet the immediate demands of citizens, in hopes of maintaining their positions, thereby placing a preference upon meeting the short-term demands of the public in order to obtain a long-term stay in office. Timely responsiveness is an important requisite for the politician. According to Simon (1989), the "growing politicization of problems traditionally thought to be non-political can only shorten time horizons." This populism is harmful in the sense that people as human beings want to meet immediate physiological needs, which will go against a country's long-term development strategy. Socialist countries, especially in Latin America, are good examples. The Korean economy after the 1960s is an excellent example of keeping to a long-term strategy. The economic sector-composed of producers, consumers, intermediaries, financial institutions, international entities, and others—runs on its own particular time dimension.

We can assume that governments now must start considering political factors when formulating and implementing policies. The policy maker who wants to maintain his or her position should be both an economy-oriented person who pursues sustainable policies, and a political person who addresses the immediate demands of the people. In addition to the necessity of considering the time factors embedded in the economic sector, policy makers must be aware of people's perceptions of the economic situation, which lead the overall public opinion. Each individual has a different perception of time and time-orientation, and these time perspectives affect individuals' behavior. Selective attention, selective comprehension, encoding, storage, retention, and information retrieval influence individuals' perceptions (Waller, Huber, and Glick 1995; Waller et al. 2001), and individuals' perceptions often affect their subsequent decisions and actions (Hambrick and Mason 1984; Thomas, Clark, and Gioia 1993). This means that we need to be cautious in understanding public opinion.

Differences in time perceptions among individuals could stem from their different time perspectives and the different temporal frameworks used by each individual

(Zimbardo and Boyd 1999; Im 2009). In a similar situation and context, one person may be impatient, but the next person may not be. Individuals' time perspectives can vary from past to present to future orientations (Kluckhohn and Strodtbeck 1961; Zimbardo and Boyd 1999; Hofstede and Bond 1988); deferred satisfaction is a psychological concept that can be observed in a person who is highly motivated to achieve future success. These different time perspectives, whether past, present, or future, can all have an impact on decision making in the present (Bird 1988, 1992; Das 1987; West and Meyer 1998). Zimbardo and Boyd (1999) suggested that individuals with a present time perspective are oriented toward temporary pleasure and tend to consider planning for the future as somewhat futile. Accordingly, they take more risks, act more impulsively, and significantly lose track of time to a greater degree than individuals with future time perspectives. Das (1987) revealed that individuals with present orientations tended to make plans with shorter time horizons, and Bird (1992) and West and Meyer (1998) argued that individuals with a more present-oriented time perspective tend to focus less on future-oriented strategic thinking than others.

Temporal Implications of Political Business Cycle Models

Politicians, especially those who aim to be re-elected, are bounded by the electoral cycle. Recently, there has been an outburst of theoretical and empirical work on political business cycles, with the emphasis on political determinants of macroeconomic cycles and politically induced economic cycles in particular. Entrepreneurial policy makers tend to intervene in the economic cycle in order to show their policy performance.

Following empirical studies by Kramer (1971), Tufte (1975, 1978), and Fair (1978), Nordhaus (1975) pioneered a formal model of the political business cycle, which is now referred to as the opportunistic model. Although similar ideas related to the political nature of economic fluctuations were also presented by Kalecki (1943), Schumpeter (1939), Lindbeck (1976), and McRae (1977), Nordhaus (1975)'s opportunistic model differentiates itself by suggesting that an opportunistic incumbent would find it preferable to induce an inflation-unemployment cycle corresponding to the length of his or her term, with a boom timed to occur just before an election and a recession afterward. This study assumes that voting behavior is based on recent economic performance, as well as that expectations of inflation were backward-looking. Soon after Nordhaus revealed his ideas, a partisan model was presented by Hibbs (1977), who insisted that policy makers have different macroeconomic goals and that these partisan differences represent the driving force behind such cycles.

Subsequent to these models, theoretical approaches have concentrated on making both opportunistic and partisan models consistent with voters' rational behavior

(Drazen 2000). In the work of Rogoff (1990) and Rogoff and Sibert (1988), opportunistic pre-election manipulation was rationalized by assuming that imperfect information exists regarding an incumbent's competence and thus tried to identify indicators which could be correlated to competence. Based on findings by Alesina (1987, 1988), an expansionary policy that was initiated before an election was seen as an indicator of high competence, while a partisan post-electoral cycle was argued to be consistent with rational expectations. In spite of the extensive research that has been conducted on political business cycles, there are many conceptual critiques and mixed empirical findings. For example, we can question the central role which these cycles have assigned to moving along the Phillips curve in order to reduce unemployment via inflation surprises (Drazen 2000).

FRAMEWORK OF ANALYSIS AND METHODS

Political business cycle models assume that an incumbent's time perspective is based on election cycles. However, other concerns are also likely to be considered when drafting government policies, such as reports by the media and public opinion, thus further complicating the actions of the state. To obtain a better understanding of the state's behavior during an economic crisis, certain characteristics must be considered.

The temporal implications of political business cycles, which we used in this study, are concerned with the general public's backward-looking, retrospective, and myopic time perspective in assessing government performance, which could in turn be used as a source of manipulation by the incumbent, with highly detrimental consequences for the macroeconomy. These consequences would of course stem from the new economic cycle being driven entirely by political determinants, thus denying the market economy its natural cycles and indicating artificial manipulation. If the incumbent is narrow-minded and opportunistic, he or she can distort natural economic cycles by applying a political time dimension, based on election cycles, to the economy, thus placing it in a suboptimal state. The source of this political determinant of macroeconomic cycles is, of course, the public's myopic time perspective.

First of all, the role of the mass media and the transparency of government policy making are frequently cited as major characteristics of public management (Bernstein 1958; Bower 1977; Heclo 1977; Rainey, Backoff, and Levine 1976; Rourke 1976). The term "fishbowl" serves as a metaphor for the characteristics of government management (Malek 1972; Rumsfeld 1979); it signifies that media coverage is so intense that policy has a tendency to be exposed to public scrutiny very easily and can be dissected thoroughly. In this line of thought, Blumenthal (1979) argued that individuals as well as groups have learned how to play the Washington news media in order to halt policy initiatives that an executive might be contemplating. Examples abound, and as a consequence of the high degree of openness, it is very easy to see the constraints imposed on government managers. Clearly, the media and other institutions also impede the thorough discussion of issues and cause policy makers to become concerned with how the policy will look in addition to how it will work (Ring and Perry 1985, 279).

A second characteristic to be assessed is the fact that public sector executives and top managers must pay attention to the demands of a diverse public. Rainey, Backoff, and Levine (1976) highlighted the rich variety of competing internal and external interests that are encountered by public sector organizations. Warwick (1975) observed the existence of a wide variety of "controllers," "higher authorities," and "monitors" in the external environment, all of whom constrained the actions of State Department officials. Allison (1983) identified this diversity of external attention-getters as a major difference between the two sectors. Blumenthal (1979), taking a slightly different approach, argued that his efforts to develop policy within the Treasury Department were constrained by the belief—held by many of his own subordinates, especially career civil servants—that they had the right to be involved in the decision-making process.

The research question this study raised is whether the economic policy was consistent and if so, whether this can be taken for granted. The president must face two opposing forces: public opinion, even though it is likely to be erroneous, and the opinion of the experts in the subject matter. The following formula summarizes the research question:

president's policy decision = *f* (public opinion, expert advice)

In terms of methodology, this study relied on content analysis of news articles. Although content analysis has a long and varied history in social science (Rosenberg, Schnurr, and Oxman 1990), in more recent years, it has been defined as "any technique for making inferences by objectively and systematically identifying specified characteristics of messages" (Holsti 1969), "an observational research method that is used to systematically evaluate the symbolic content of all forms of recorded communication" (Kolbe and Burnett 1991), or "a research technique for the objective, systematic, and quantitative description of the manifest content of communication" (Berelson 1952). While content analysis can be applied to any message, it has been extensively used in research on mass media communication (Lombard, Snyder-duch, and Bracken 2002).

On the other hand, how to measure changes in public opinion was the most difficult task for testing the research question. Because this study required information about the past, there was no other way to gauge, even approximately, what we experienced. Newspapers play two roles regarding public opinion: to be a mirror of the society, and to lead and educate a public that is often poorly informed. Information regarding the effects, time frames, and areas of economic policies was collected and reviewed, with a focus on public opinion regarding the new economic policies and subsequent government reactions.

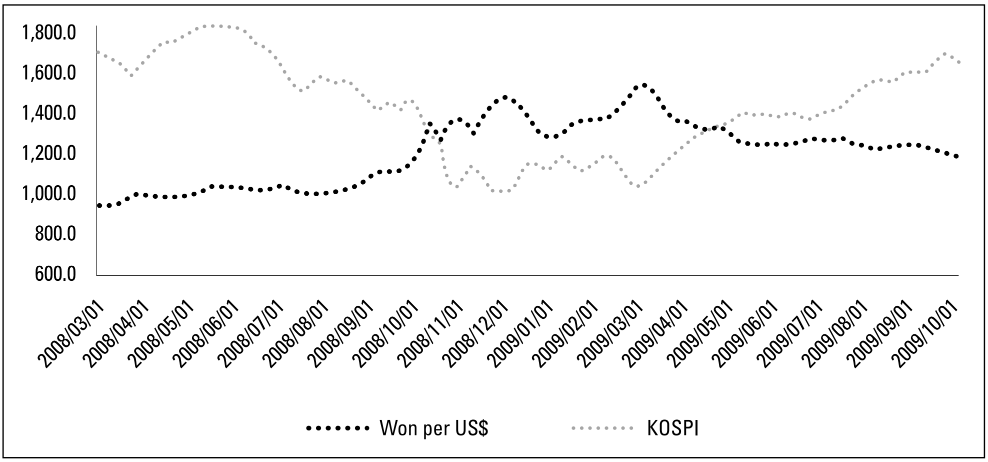
In order to measure the evolution of public opinion over time, relevant news articles were gathered using the Korea Integrated News Database System, which is the most frequently used media database in Korea and is provided by the Korean Press Foundation. This database includes 64 major newspapers in Korea and 17,744,912 articles. It covers national and local newspapers, major Internet newspapers, daily and weekly newspapers, and conservative and progressive newspapers. The news articles used in this analysis were written from March 2008, when President Lee's administration first took office, to October 2009, when the economic crisis in Korea was seen as beginning to stabilize, and had in the title the name of the former finance minister, Kang Man-Soo. This search uncovered 2,009 news articles, of which 88 were excluded as irrelevant, so the number of news articles used in the analysis was 1,921.

Special attention has been paid to the Korean press's attitude toward Finance Minister Kang, because he was commonly perceived as being at the core of controversies surrounding Korean economic policy during this period, because of his "weak won" policy (keeping the won's value low to strengthen exports). In addition, he was the actual control tower of financial and economic policy decisions in Korea and received a great deal of trust from the president. News articles containing the finance minister's name, dated from March 2008 to October 2009, were gathered and categorized into three groups: critical, supportive, and neutral. In such a process, reliable coding is essential (Singletary 1993), but there is no agreement on the acceptable level of coding reliability. In order to ensure the reliability of coding in this study, the four coders who participated in the process met regularly.

THE ECONOMIC SITUATION IN KOREA FROM 2008 TO 2009

As demonstrated by the figures in this paper, the Korean economic situation fluctuated a great deal during the global economic crisis that lasted approximately from 2008 to 2009. The Korea Composite Stock Price Index (KOSPI) stood at 1,711.62 on February 29, 2008, but fluctuated to below 900, even dipping as far as 892.16 on October 14, 2008. This was the first time since January 14, 2005, that the KOSPI dropped below the 900 mark. In addition to the rapidly falling stock values, currency exchange rates stood at 937.3 Korean won per US dollar on February 29, 2008, but rose to 1,414.3 on October 24, an increase of nearly 150 percent in only eight months. While the rapid downturn of the stock market and the simultaneous dramatic appreciation of the US dollar were caused by external factors such as escalating oil prices, a global financial crisis brought on by the US subprime mortgage loan breakdown, and subsequent foreclosures and bankruptcies, the events nonetheless had serious repercussions for the Korean economy.

Figure 1. Stock Prices and Foreign Currency Exchange Rates in Korea, March 2008 to October 2009



However, as shown in figure 1, indications of a rapid recovery were followed by subsequent economic downturns, at least in terms of macroeconomic indexes. Under such unstable economic conditions, the Korean population exhibited a great deal of concern and paid much attention to government policies related to the stabilization of the Korean economy. Korean people were also reminded of the not-too-distant Asian economic crisis of 1997, which resulted in a great deal of hardship; and, because the 1997 crisis was in large part caused by government oversight problems, such as a shortage of foreign currency reserves, many people were concerned over the possibility of such a terrible event occurring again.

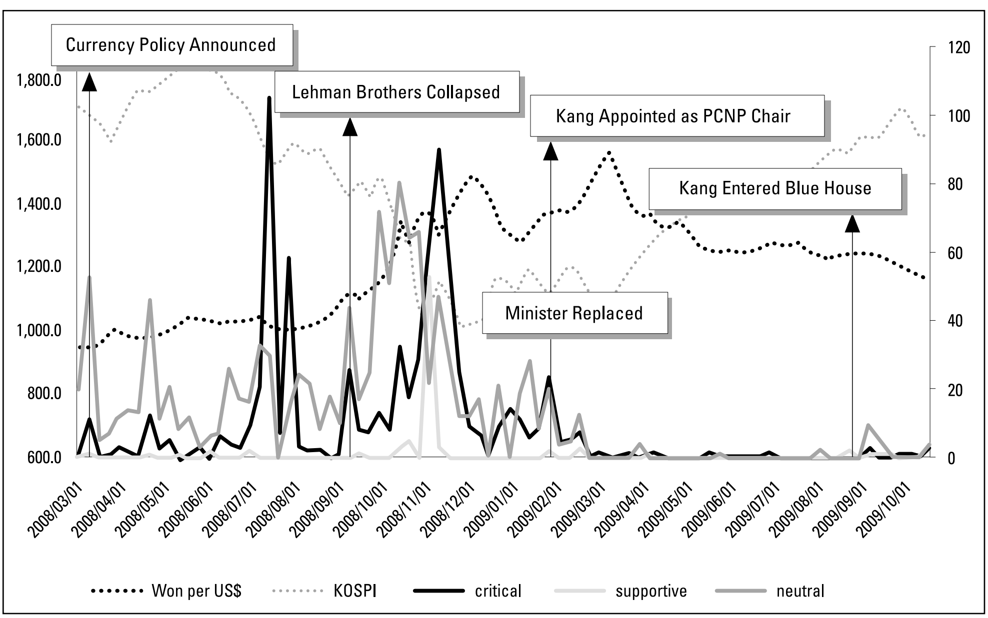
Since government policy is very easily exposed to the public, and since the media frequently impede the thorough, in-depth discussion of policy issues, policy makers are likely to be concerned not only with how a policy will work, but also how it will look (Ring and Perry 1985, 279). The Korean economic policy created during this crisis period was no exception.

INTERPRETATIONS

Backward-Looking, Retrospective, and Myopic: The Public's Time Perspective

Figure 2 shows a timeline of major events and the number of news articles related to Minister Kang, categorized by tone. As we can see from the figure, as the country's top economic policy maker, Kang was severely criticized by the media throughout the economic crisis, with criticisms peaking as the US dollar exchange rate and the condition of the KOSPI deteriorated. Finally, he and his economic team were replaced in January 2009. However, instead of being moved entirely out of the government, Kang was installed as the chairman of the Presidential Council on National Competitiveness (PCNC) just after he resigned as finance minister. Although he remained influential in the government's economic policy making, there was little public criticism because he was no longer as visible to the public. Even more interestingly, there was no major public opposition when he entered the Blue House as a special advisor for economic affairs (SAEA) on August 31, which implied that he had resumed a role among the top financial policy makers in the nation. At this point one must wonder how such a rapid descent and equally rapid subsequent ascent were possible.

Figure 2. Media Attitudes toward Finance Minister Kang Man-soo, March 2008 to October 2009



Intense Criticism Begins: Inflation Due to High Oil Prices

President Lee Myung-Bak's government has exhibited a strong growth-oriented ideology from the very first stages of its term, and growth-oriented governance was used as one of the campaign slogans during the presidential election campaign. The majority of the Korean public supported such ideas, with 48.7 percent of voters supporting Lee Myung-Bak in the presidential election. Thus, it is safe to assume that the government's priority seemed to be on growth rather than on preventing inflation. For this reason, President Lee appointed Kang in 2008 as his administration's first finance minister. During a speech on March 25, which made reference to an earlier speech by the president regarding price stabilization, the finance minister asserted that accusations that the president was giving priority to prices over growth were not true. He then reasserted that economic growth was a higher priority than price stabilization for the current administration.

As the media were reporting on the issue of growth versus price stabilization, in a speech made on March 26, 2008, the Blue House asserted that President Lee and Finance Minister Kang were not in discordance, and added that growth and price stabilization are not mutually exclusive considerations, and that the current goal was to achieve 7 percent growth[1] in the long run, while concentrating on stabilizing prices at current levels.

Also, the Blue House said that, as surging prices—due to strong oil and raw material prices and unfavorable foreign exchange rates—had become a serious problem, the president had ordered that greater attention should be given to price stabilization in order to secure people's livelihoods. However, these actions are not indicative of growth or price stabilization having a higher priority, and the statements made by the Blue House do not necessarily mean that the issues of growth and price stabilization do not actually have differing levels of priority. Instead, as the "fishbowl" metaphor implies, the government's policy is open to public criticism, which means that the government must consider not only how the policy will work but also how it will look. Consequently, the president's statement regarding the government having to pay more attention to lowering inflation is likely to have been made in order to appease the public: there were few tangible actions which were made related to lowering inflation,

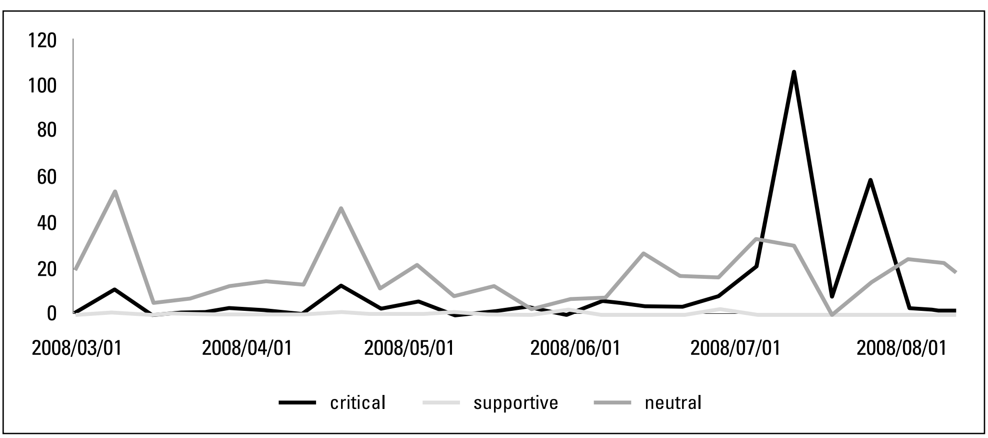
1. The goal of 7 percent growth was part of the 747 pledge made by President Lee during his presidential election campaign. The first 7 stood for 7 percent growth, 4 stood for $40,000 GDP per capita, and the final 7 stood for Korea becoming the seventh strongest nation in terms of economic competitiveness in the world. This kind of growth-oriented economic policy has been called MB-nomics (Myung-Bak economics).

while policies aimed at promoting growth, such as the weak won policy, were gaining momentum.

The weak won policy was one of Finance Minister Kang's growth strategies. Kang said the government would tolerate the depreciation of the won against the dollar and might intervene in the foreign currency market, if necessary, to keep the won's value low. His logic was that the weaker currency was necessary to boost exports and to improve the country's current account balance, which had recently posted deficits. For example, on February 29, 2008, Kang publicly stated that the foreign exchange rate should not be based solely on market mechanisms. On March 4, 2008, he said that the central bank's (Bank of Korea's) stance on maintaining strong won trends was due to the government's interest in stabilizing prices; however, this statement ran contrary to the government's weak won policy. He also said that the Finance Ministry (and not the central bank) should have the authority to control foreign currency markets, just as the Treasury Department does in the United States.

As figure 3 shows, the number of news articles about the finance minister in March was moderate due to the minister's growth orientation and weak won policy, which were viewed by the public as controversial. Accordingly, many news articles addressed criticisms made by the finance research center and academic groups, which insisted that the foreign exchange rate intervention had the potential to create chaos in the national financial markets. Still, at that time, the critical tone of the news articles was not very strong, and there were more news articles with a neutral tone.

Figure 3. Media Attitudes toward the Finance Minister, March to August 2008

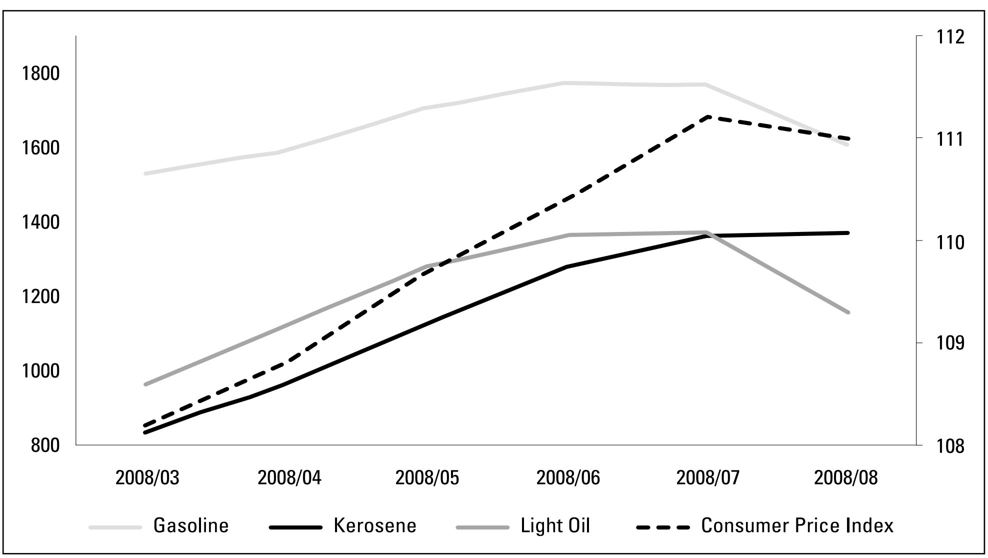


In April 2008, some news articles evaluated the finance minister's performance based on his first month in office, saying that the value of exchange rate of Won to US dollar was becoming lower and consequently consumer prices were also increasing, which translated into an increased financial burden on the majority of average Korean households. Import prices soared 31.3 percent in April 2008, when compared to the previous year, representing the biggest monthly increase in 10 years—since May 1998, when prices surged 31.9 percent due to skyrocketing oil prices and a sliding won. The media reported that on top of rising international prices for raw materials, the falling won was the main culprit behind the increasing inflationary pressure. The media also predicted that if the won depreciated by 1 percent, domestic consumer prices would climb 0.08 percent.

Kang responded on April 14, "Though the media has unfavorably portrayed the exchange rate policy, my stance is firm," and added, "As the won-dollar exchange rates were lowered below the 1,000 won per dollar level, services accounts have been increasing." Thus, all in all, Kang appeared to be quite optimistic about the rise of the won-dollar exchange rates. In addition, he pointed out the positive effects of the revaluation of the won, which had risen threefold in the last five years when compared with the yen. He said that the exchange rate affected not only the exportation of goods but also the services accounts, and added that stabilizing the current account balance would be a top priority. He also said that the Korean government "will support the tourism industry as much as we did the manufacturing industry."

Figure 3 shows how the number of news articles criticizing Kang's policy grew rapidly and reached critical levels in July, and it reflects people's concerns over the

Figure 4. Oil Prices and the Consumer Price Index, March to August 2008



continuously surging price index, which was caused by escalating oil prices. As figure 4 shows, the price of oil increased more dramatically than the minister had anticipated, and as a result his weak won policy faced tremendous opposition.

Based on this highly critical environment, Kang's weak won policy started losing its rationale and came under increased public scrutiny as the devalued Korean currency served to increase the already high prices of imported commodities, thereby putting a heavier financial burden on businesses and households. Analysts cited in the various news articles said that even though the falling won helped increase outbound shipments by making Korean-made products more price-competitive overseas, it increased consumer prices, reduced private consumption, aggravated business performance, and dampened job creation: the weakened won forced importers to pay more for oil and other commodities, raising costs of goods and services and worsening household balance sheets.

On July 22, 2008, newspapers reported that 118 economics and management professors called for the finance minister to be replaced. Economics and management scholars nationwide held a press conference to announce a joint statement that strongly advocated a reshuffling in the Ministry of Finance. The academic group claimed at the press conference that "by artificially holding up the foreign exchange rate to boost exports, the prices of imports and domestic products rose rapidly and triggered the current economic hardships." The group of professors also said, "The current economic crisis resulted from the government's failure in responding to the deteriorating external environments, such as soaring raw materials prices and the stagnating world economy. Minister Kang who had unsuccessfully led Korea's economic policies should be held responsible for the current economic trouble." The statement further stressed that "if the President truly intends to surmount the economic crisis by reestablishing credibility among the government and the public, Minister Kang should be replaced immediately."

Criticism Peaks: The Global Financial Crisis and the Surging Dollar

With the onset of the global financial crisis and its intensification by the collapse of Lehman Brothers in September 2008, Kang was again severely criticized by members of the media. Even with the Bank of Korea's Monetary Policy Committee having slashed the base rate by 0.75 percentage points and the government promising additional economic stabilization measures, the domestic financial market was gripped by extreme fear.

For example, on October 14, the KOSPI's 900-point threshold was breached and the value of won plunged despite what the government claimed were its best efforts. The KOSDAQ (Korea Securities Dealers Automated Quotations) index plunged 15.49

points from the previous day's trading to close at 261.19, replacing the earlier record low close of 276.68 points. The media argued that these drops reflected the utter failure of the government's financial policies.

The finance minister, of course, was not the only person responsible for all of these financial woes, but the media and the politicians were adamant in their claims that the foreign exchange policy he followed in the initial stages of the crisis had triggered the markets' loss of confidence and subsequent reduced capacity to cope with the global financial shock. Further, critics said that his export- and growth-oriented policies caused damage to the average Korean household at a time when the global recession was deepening. Indicative of the public's negative opinion of the president and minister of finance, the term "Lee-Man Brothers" (derived from the president's family name, Lee, and the finance minister's given name, Man), a flippant reference to the ill-fated Lehman Brothers firm, became commonly used among Korean journalists.

In the annual parliamentary inspection of government offices held in October 2008, lawmakers directly accused Finance Minister Kang of responsibility for the Korean financial crisis. In addition, lawmakers of the Democratic Party, which was the leading opposition party in Korea, claimed that the current volatility in financial markets was caused by policy failures, such as a lack of effective leadership, and not by structural issues, as some economists and politicians said.

Kang faced strong pressure, not only from the opposition party but also from the ruling party, to resign. The Blue House had solidly defended him, but faced increasing difficulties in keeping him on board. Some lawmakers of the ruling Grand National Party joined forces with opposition party members in lashing out at Kang. One congressman of the Grand National Party asserted, "The ministry implemented an inappropriate foreign exchange policy. It also attempted to take over a foreign investment bank at a time when experts were saying investment banks were largely responsible for the global financial crisis."

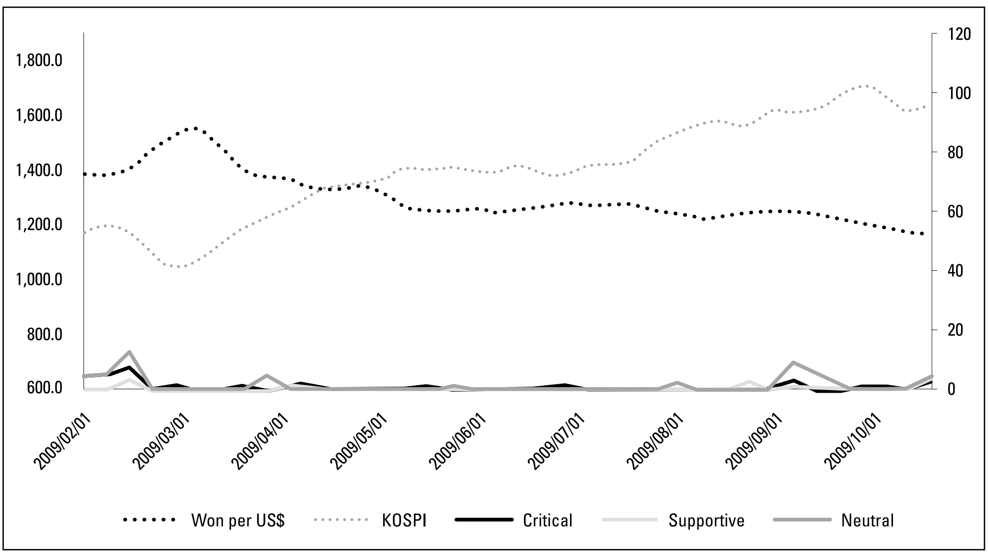
The ruling party lawmakers, who had been silent regarding reshuffling President Lee's economic team, were increasingly turning their back on Kang as well. "The market has lost confidence in the government," Park Geun-Hye, an influential Grand National Party leader, said on October 26, 2008, indicating her desire for President Lee to dismiss Kang. The following day, a member of the Grand National Party's Council said, "The government should dismiss Kang if the market doesn't want him anymore." Criticism of Kang intensified again from September to October 2008. In November 2008, the controversy surrounding Kang and his economic policy intensified, and the aggressive requests for his dismissal increased. In addition, he performed poorly during the annual parliamentary inspection, due to his personal mistakes.[2] People thought Kang's resignation was only a matter of time.

Criticism Subsides: Finance Minister Kang Replaced

After these fierce criticisms from the media and from politicians, a new economic team was formed in January 2009. President Lee replaced Kang and 12 other senior officials in a Cabinet shakeup, which was reputedly intended to revive the sagging economy. Former Financial Supervisory Service Chairman Yoon Jeung-Hyun was tapped to replace Kang as the country's top economic policy maker. The Blue House said, "The focus of the shakeup was reorganizing the country's economic team and speeding up economic recovery," and "we expect the nominee for the minister of finance to help restore trust in the market and help tidy over ongoing economic woes."

As shown in figure 5, critics of Kang and his policy were almost totally appeased by this course of action. There were some criticisms, after Kang's resignation, of his being named chairman of the PCNC, but overall criticisms as well as neutral reporting related to Kang disappeared from the media.

Figure 5. Media Attitudes toward Kang and Economic indicators, February to October 2009



2. Kang stirred up additional controversy in a parliamentary question-and-answer session when he said that he had previously contacted the Constitutional Court of Korea, and made a remark inducing the Constitutional Court to judge that the comprehensive real estate system is unconstitutional, raising doubts over the possible pressure by the government and the ruling party's possible conspiracy on the Constitutional Court.

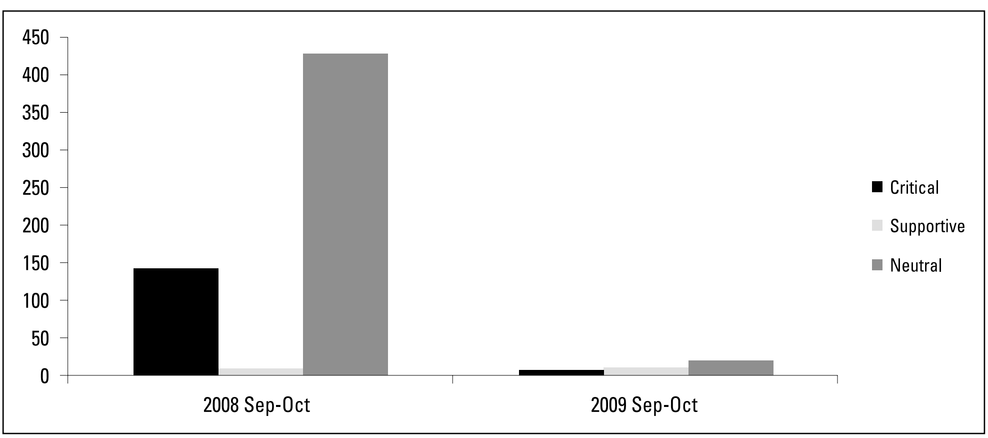
The Return of Minister Kang: Entering the Blue House as a Policy Control Tower

When the president reshuffled his staff on September 1, 2009, he appointed Kang, who was then also the head of the PCNC, as SAEA (special advisor for economic affairs). President Lee claimed that his actions represented a reshuffling of the Blue House staff, but in reality it was a repositioning rather than a reshuffling—it was difficult to find a single new figure among these key posts.

In addition to the controversial return of Kang to the government as the SAEA, the Lee administration established the most top-heavy economic team in recent history, which marked a sharp expansion of the president's Blue House staff. By establishing a bigger presidential secretariat, the president dramatically increased the chances for creating conflict with the Cabinet. Along these lines, Kang's appointment as SAEA created the potential for confusion and competition over who was in control of the nation's economic policies.

The media voiced little opposition to Kang's return. As shown in figure 6, the media seemed to forget about him for most of 2009, with only a few articles, which were more positive than negative, surfacing in September and October 2009 when he returned to the government as a top policy maker. This was met with considerably less criticism than in September and October 2008, when he was struggling with the financial crisis as finance minister.

Figure 6. Media Attention to Kang, 2008 and 2009



What caused this marked difference in the media's coverage of Kang? One explanation could be related to the Korean economy showing a rapid recovery in 2009 and quickly reaching pre-crisis levels, thus garnering interest not only from Koreans but from the rest of the world. Not long after interest in the Korean recovery was piqued, the media delivered a series of news articles about the so-called currency effect of the Korean economic recovery. This refers to the explanation that the strong operating profits in 2009 of major Korean companies such as Samsung Electronics and Hyundai Motors, which are referred to as export-driven companies, were mainly due to a weaker exchange rate between the won and the US dollar. The articles also went as far as to explain that "without the currency effect, it might have been impossible for the Korean companies to post record operating profits." Although the media had vilified Kang for masterminding the "currency effect" policy, this attitude quickly changed, with many articles now claiming that such a policy made sense or was not unreasonable.

Hopefully, it is now clear that a weaker won-to-dollar exchange rate helped bigger South Korean export-oriented companies underprice their Japanese rivals in developed markets such as North America and Europe. For the third quarter of 2009, Samsung reported that its operating profit would be between US$3.3 billion and 3.7 billion. This figure marked a sharp increase from profits of US$2.2 billion in the previous quarter and US$1.3 billion a year earlier. South Korea's automaker giant Hyundai Motor beat expectations as well, posting a record-high profit in the third quarter of 2008, with analysts attributing this growth to a weaker won and to strong sales in the United States and China. Net profit for the three months ending September 30 soared to a record 979.1 billion (826.2 million), up sharply from a profit of 264.7 billion won a year earlier, the company said in a regulatory filing issued October 22, 2008. Sales climbed nearly 34 percent within a year to 8.09 trillion won during the same period, while operating profit increased more than five times to 586.8 billion won. In the July-September period, Hyundai Motor's global market share rose to 5.5 percent, up from 5 percent in the first half of the year. Overseas sales rose 33 percent. Hyundai Motors sold 2.2 million vehicles globally until October 2009, and aimed to reach the 3 million mark by year's end. The media reports said that the company was expected to lose its momentum as the Korean currency continued to gain against the US dollar and other major currencies. The won strengthened 8.1 percent against the US dollar in the third quarter alone. In addition to Samsung and Hyundai, LG, which produces air conditioners, handsets, and flat-screen television sets, has also been enjoying the effects of the weaker national currency, which boosted its competitiveness vis-a-vis its Japanese rivals. A top LG executive in September 2009 expressed his "hope the weaker won will continue further. But LG must prepare more composite plans for when the 'currency effect' diminishes."

Kang said that conglomerates such as Samsung Electronics and Hyundai Motor would have performed much worse had there not been a weak won effect, while Yoon said a weak won effect alone could not boost corporate earnings.

Based on the significant shift in the attitudes of the media and public opinions, we can summarize people's evaluations of the weak won policy through the use of time-lines as Table 1 shows.

Table 1. Media Attitudes over Time toward the Weak Won Policy

Time		Evaluation	Circumstances	Perception of policy results
t1	March 2008	Controversial	Lee takes office.	Not known yet
t2	April to August 2008	Bad	Oil prices surge.	Escalating consumer prices
t3	September 2008 to February 2009	Terrible	Investment banks collapse.	Chaos in financial markets
t4	February to October 2009	Good	Economy recovers.	Higher profits for export-driven companies

First, when Lee's government was launched in March 2008 (t1), the public was uncertain of the results of a weak won policy, hence this was a controversial policy. However, as oil prices surged from April to August 2008 (t2), people perceived that escalating consumer prices were caused by the weak won policy, and labeled it a bad policy. When the economic crisis deepened with the collapse of American investment banks from September 2008 to February 2009 (t3), peopled perceived the weak won policy as a major factor that was worsening the chaos in financial markets, criticizing it as a terrible policy. However, when the economy was stabilized and the stock market showed signs of recovery from February to October 2009 (t4), people believed that the export-driven companies' higher profits, which national economic performance, were due to the weak won policy. Consequently, at this point people began showing more favorable attitudes toward the policy.

What we can see is that the public's attitudes and evaluations are very much retrospective and myopic, at least on this issue.

THE GOVERNMENT'S REACTION TO PUBLIC OPINION: A STRATEGY FOR POLICY CONSISTENCY

The government, which by nature has to face public criticism, apparently demonstrated a desire to keep consistency in its policies, especially in its growth-oriented policy directives. However, the Lee government faced aggressive criticism from the media and politicians, as the economy confronted shocks and fluctuations. In response to these negative attitudes from the media, especially toward Finance Minister Kang, the government seemed to react strategically in order to appease public criticisms, but kept its policy directions consistent by keeping Kang on board. For example, in August 2008, the government replaced the vice minister of finance, and announced that this decision was based on his poor job performance in executing major macroeconomic policies. The vice minister was also held responsible for causing huge losses by inadvertently letting the local currency become weaker against the US dollar. President Lee, at that time, was blamed for retaining Minister Kang, who as top economic policy maker was more responsible for the poor economic performance and the weak won policy. The media claimed that the vice minister of finance was made a scapegoat for Kang.

On October 30, 2008, Kang's term as finance minister seemed to be suspended due to the $30 billion swap agreement signed between Korea and the United States. Prior to the swap, Kang had been under extreme pressure to step down because his foreign exchange policy was considered misguided. With the swap agreement, Kang regained some confidence in the eyes of the public. Although this was achieved not only by him, the Finance Ministry leaked embargoed information about the ongoing negotiations with the United States, which seemed to be intended to help Kang retain his position. The Bank of Korea had been in behind-the-scenes negotiations with the US Federal Reserve since September 24, 2008, and agreed to announce the swap agreement at 4 a.m. on October 30, 2009, at the same time as it was announced in the United States. However, the Korean media reported the news of this event on the evening of October 29 after a ranking Finance Ministry official intentionally leaked the information regarding the swap to show off his ministry's role in the agreement.

The central bank was perplexed over the ministry's move, as it had prepared a media briefing secretly in accordance with the agreed-upon announcement schedule together with the Ministry of Finance, according to a news article. The Finance Ministry said that Kang took the initiative in reaching the agreement and his behind-the-scenes contact with the US Treasury was the critical factor in the US Treasury's decision to change its stance and sign the deal. The Blue House and the president also commented about the swap, giving the impression that the US Treasury and the Finance Ministry of Korea were at the center of the agreement, although the Federal Reserve and the Bank of Korea, the central banks of the two countries, signed the deal.

The governor of the Bank of Korea was angry and commented to the news media, "It could make the Federal Reserve feel uneasy, making it more difficult for the Bank of Korea to extend the swap agreement next year or sign a swap deal with other countries." No matter which organization played the key role in the swap deal, it seemed that the Finance Ministry and President Lee were attempting to save Minister Kang, who had been under strong pressure to step down because of his exchange rate policies, because it appeared that the public uproar had been appeased by the conclusion of the Korea-US currency swap.

The media and the politicians argued that the president's blind confidence in Kang could make the nation's economic situation even worse. However, the reason Lee could not replace Kang as finance minister was that it could mean entirely restructuring "MB-nomics." However, the protests from the media and the public went beyond tolerable levels, thereby forcing Lee to initiate a reshuffling of his Cabinet, which included the replacement of Kang in January 2009. But, as discussed earlier, the president actually kept Kang in the government, as a member of the PCNC.

The PCNC is an advisory body to the president, officially established along with the inauguration of President Lee in February 2008. It has been holding meetings regularly and is working toward the successful implementation of Lee's major policy goals, such as deregulation and creating a business-friendly environment. Thus, Kang remained influential even after his resignation as finance minister. When the cabinet reshuffling was announced, the Blue House also announced, "President Lee has asked Kang to continue to play an important role in forming the country's economic policies" and "Kang has done his best to rescue the troubled economy and we see the main cause of the current economic hardship being external negatives, not his fault." The president's retention of Kang meant there were no major changes in his policies or governing style.

Finally, in the Blue House reshuffle in September 2009, the president appointed Kang, who at this point was already serving as head of the PCNC, as SAEA. This move was made as public criticisms appeared to be appeased by a recovering economy and stabilizing market. Table 2 summarizes the government's countermeasures.

Table 2. The Government's Reaction to Criticism

Economic condition	Strategy	Projected outcome of the strategy
Worrisome (t1)	Replace the vice minister.	Keep the minister on board.
Worsening (t2)	Advertise the swap.	Restore trust in the minister.
Worst (t3)	Replace the minister.	Appease the public.
Stabilizing (early t4)	Appoint Kang to PCNC.	Keep Kang influential in policy making.
Recovering (late t4)	Appoint Kang as SAEA.	Allow Kang's comeback as a top decision maker.

President Lee's administration used different strategies to keep Kang on board in important positions. Thus the government did not immediately follow the public's wishes, but rather tried to appease them in different ways. The Lee administration during this period cannot be seen as purely opportunistic. It cannot be seen as purely partisan either, in that it demonstrated efforts to satisfy the public, such as replacing Kang as finance minister. The important finding is that the Lee administration seems to have had a longer time perspective than the public, because the government tried to keep Kang on board using different methods, and during the same time the public changed its attitude toward the economic policies from negative to positive.

CONCLUDING REMARKS

We have discussed the Korean government's management of the economic crisis during 2008 and 2009, focusing on the public's attitudes toward the weak won policy and former Finance Minister Kang. According to our analysis, in 2008 the media exhibited a very negative tone in its articles about the finance minister's policies, as the economy took fear-inspiring downturns, due to high oil prices in the beginning of the year and due to the global financial market chaos that began with problems related to the US investment banks later in the year.

During this period, Kang's weak won policy was one of the main subjects of criticism. The argument from media and political groups was that the weakened national currency against the US dollar would raise consumer prices to the extent that the average household could not function. In addition to harming the Korean middle class, it was feared that this would make the country increasingly vulnerable to external shocks stemming from the global financial crisis. These criticisms were so severe that the government had to ask Kang to step down in early 2009 after nearly one year as finance minister. After his resignation, criticism of him drastically diminished, although he was shortly thereafter appointed as chair of a very important government decision-making committee, the PCNC.

In 2009, the Korean economy demonstrated signs of a very speedy recovery from the recession, and major macroeconomic indices recovered to pre-crisis levels. In October 2009, Kang returned as one of the top policy makers in the Blue House, but there were few criticisms of him. Rather, his weak won policy was reassessed in light of the quickly recovering economy, and the "currency effect" was perceived as partially responsible for export-driven companies' record-breaking profits in 2009. The media and public's evaluation of Kang's weak won policy varied over time from controversial to bad, terrible, and finally good. We can say that the media's judgments of Kang's currency policy fluctuated as economic conditions fluctuated, which means the media's evaluation of the policy was based on a shorter time frame.

The government, which by its very nature must face public criticism, has managed to maintain consistency, especially in its growth-oriented policy directives. Of course, the Lee government faced aggressive criticism from the media and politicians during the economic downturn. In response to these negative attitudes, especially toward Finance Minister Kang, the government seemed to react somewhat strategically to appease public criticism while keeping its policy directions consistent. For example, the president replaced the vice minister of finance instead of Kang, and advertised the currency swap as having been designed by Kang although it was signed by the two nations' central banks and not by the finance ministry. Even when the president was finally forced to replace Kang, he simply shifted him to another influential position in the government. This type of strategy demonstrates how the government employed longer time perspectives and was willing to wait for the original policy to achieve its effects.

This paper does not judge whether Kang's weak currency policy was a good policy or not; rather, we tried to see in what way the media perceived the policy and how the government reacted to the media. Our findings, although not fully tested and proven, suggest that media and politicians tended to judge the effect of the currency policy using a shorter time perspective, which was based on day-to-day economic contingencies, while the government tended to retain Kang as long as possible, seemingly because they were concerned with maintaining a consistent economic policy and with longer-term calculations. Ultimately, the government performance can be judged on the basis of its long-term effectiveness. It is in this context that keeping a long-term strategy despite severe opposition is an important factor in economic policy.

This study does not suggest that President Lee has actually deployed a long-term economic strategy by keeping Kang in office for such a long time. In other words, it does not intend to praise the personnel of President Lee's administration. Lee is perceived by many to trust only those whom he already knows, which leads to the extraordinary longevity of his collaborators, compared with his predecessors. He might be authoritarian as well as conservative, especially as far as choosing his staff is concerned. Considering this factor, the consistency of economic policy that this study emphasizes could be just a byproduct of his leadership style.

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