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The Duality of Self-Employed Business Debt and its Increase after the Asian Financial Crisis

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Abstract

This paper aims to explain the increase of self-employment debt after the Asian financial crisis in South Korea by focusing on its duality. With household debt already exceeding 100 billion won, self-employed business debt is also estimated to reach 45 billion won. But despite the seriousness of this problem, the issue of self-employed business debt has received little attention. Most previous studies have only regarded self-employed business debt as being a subcategory of household debt while emphasizing that the difference between wage earner household debt and self-employed business debt results from employment status. In contrast, this paper focuses on the fact that self-employment debt possesses the qualities of both household debt and corporate debt and analyzes how changes in the finance market and labor market since the financial crisis have resulted in the increase of self-employed business debt. The conclusions of this paper are as follows. As with household debt, self-employed business debt has rapidly increased as a result of the expansion of consumer finance since the financial crisis. But whereas the increase of household debt is largely related to the housing issue, the increase of self-employed business debt is closely linked to intensifying competition in the self-employed sector and the rise of business costs. In other words, the government's active support for opening a business as a kind of unemployment relief measure resulted in the intensification of business competition and subsequently the increase of business expenses and self-employed business debt. In conclusion, this paper argues that, while supporting and fostering self-employment may have been very effective at absorbing the shock of mass unemployment and delaying the economic crisis, that process has brought about a new crisis, namely the increase in self-employed business debt.

Keywords

Household debt, self-employed business debt, consumer finance, self-employment support as a labor market policy, delayed crisis, Korea

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Introduction

There was a time when opening self-employed businesses was regarded as the panacea for severe unemployment—when the unemployment rate was soaring immediately after the Asian financial crisis in 1997. The comprehensive unemployment measures churned out by the government invariably contained subsidies for small business owners and entrepreneurship training for unemployed individuals in their forties and fifties. The press kept pace with these government policies by setting the mood for starting a business, running series of articles about "promising self-employed businesses to open in the IMF age."[1] The situation was such that even the Citizens' Coalition for Economic Justice (CCEJ), South Korea's leading civic group, lamented the fact that public work programs were being ignored by the unemployed: "We should be more proactive about helping the unemployed start their own business, since small-scale self-employed businesses are very effective both at creating jobs and at making society more productive. Toward this end, we need to greatly relax regulations on starting and running businesses" (The Hankyoreh Daily, 1998.04.08.).

But 15 years later, the *Wall Street Journal* ran an article expressing concerns about South Korea's "fried chicken bubble." The article said that a variety of franchise businesses (including fried chicken restaurants, hamburger joints, pizzerias, bakeries, cafés, and *gimbap*[2] restaurants) had been springing up all over South Korea over the past decade and that this was now having a negative impact on the overall economy as falling profitability drove up self-employed business owners' delinquency (Wall Street Journal, 2013).

To be sure, the "fried chicken bubble" by itself is not enough to bring down South Korea's financial and economic system. Even so, it seems clear that self-employed businesses—which had looked like the solution to the problem of unemployment following the financial crisis—are gradually becoming more of a problem themselves. Indeed, self-employed businesses found themselves in trouble after consumption contracted during the "credit card crisis" of the early 2000s, which led to the "rice cooker protest."[3] It is common to hear about retiring baby boomers

[1] At the time, fried chicken restaurants were identified as one of the most promising types of self-employed businesses to open.

[2] *Gimbap* is a Korean rice roll that is similar to a California roll. Before the Asian financial crisis, *gimbap* was Koreans' picnic food of choice, but afterward, it became the country's most popular fast food. As large numbers of homemakers filled in for their husbands, who had lost their jobs during the crisis, by entering the low-paid labor market, the number of franchise *gimbap* restaurants grew rapidly. These restaurants typically had two or three shifts and were often open 24 hours a day. Thus, *gimbap* restaurants spread rapidly through a combination of the economic crisis and the poor condition of the women's labor market, allowing customers to eat *gimbap* for the low price of 1,500 won ($1.25, assuming $1=1,200 won).

[3] South Korea greatly relaxed credit card regulations in order to stimulate the sluggish economy after the Asian financial crisis. This resulted in the excessive issuance of credit cards to people without the ability to repay, including the unemployed and middle and high school students, and led to serious social problems such as a higher credit card delinquency rate and a greater number of people with bad credit. Thus, the series of incidents triggered by the relaxation of credit card regulations in the early 2000s are known as the credit card crisis. Eventually, policymakers tightened credit card regulations again, but this time consumption contracted, hurting the sales of the self-employed owners of restaurants and retail outlets. The name "rice cooker protest" was coined when self-employed business

who start up a business only to lose their severance money when their business goes under, leading to divorce or the breakup of their family.

At the center of this self-employed business crisis is the issue of severe self-employed business debt. While the more than 1,200 trillion won in household debt as of September 2016 is regarded as a ticking time bomb for the South Korean economy, self-employed business debt is estimated to exceed 450 trillion won (Bank of Korea, 2016: 31). Furthermore, the households of self-employed business owners not only have twice as much debt as the households of wage earners, but their instable income causes the interest rates on their loans to be higher than in wage earner households, too. Because of the size of the debt and fluctuations in income, self-employed business owner households have a greater risk of defaulting (Bank of Korea, 2012b: 45; Bank of Korea, 2012c: 48; Bank of Korea, 2013b: 26).

But despite the severity of this issue, self-employed business debt has received little attention thus far. The focus has only been on its characteristics as a type of household debt resulting from employment status. In contrast, this paper will examine the cause of the increase in self-employed business debt after the financial crisis by focusing on the duality of that debt, or in other words its household component and its corporate component. The paper will also examine how the expansion of consumer finance and support for starting a business were used as unemployment relief measures, which caused self-employed business debt to increase. It will also make use of panel studies such as the *Korean Labor and Income Panel Study* and the *Survey of Household Finances and Welfare*; various statistical data; and the *Financial Stability Report*, which is published by the Bank of Korea.

South Korea is generally regarded as an unusual example of success in expanding public welfare amid an economic crisis and despite globalization (Song Hokeun and Hong, Kyungzoon, 2006; Kim Yeon Myung, 2002a; Kim Yeon Myung, 2002b; Mishra, R. 2004; Peng, Ito. 2004). But we must not overlook the fact that, along with welfare expansion, support for starting self-employed businesses was used as a kind of unemployment policy. With restructuring pushed through, despite an inadequate social safety net and with social dangers such as mass unemployment and mass resignations increasing with unusual speed, starting a self-employed business was treated as a substitute for welfare. This paper will show that, while such support for starting a self-employed business may have been very effective at absorbing the shock to the economy and delaying the crisis in the short term, this process precipitated the unexpected crisis of an increase in self-employed business debt.

This paper is organized as follows. First, it will explain that self-employed business debt simultaneously exhibits the qualities of household debt and corporate debt and address the fact that the existing literature has overlooked its duality. Second, in regard to the commonalities between household debt and self-employed business debt, it will focus on the fact that the recent major increase in self-employed business debt has occurred at the same time as the increase in household debt and will examine the structural and institutional factors that have increased both kinds of debt. Third, in regard to the differences between household debt and self-employed business debt, it will focus on the fact that self-employed business debt, differently

owners whose living was jeopardized by their reduced sales organized a protest using the cooking implements from their restaurants while asking the government to take action.

from general household debt, is closely related to conditions in the labor market, and will examine how self-employed business debt is rapidly increasing in line with the government's support for starting a business and intensifying competition in the self-employed business sector.

Literature Review and Analytical Strategy

The Duality of Self-Employed Business Debt

Previous studies have generally treated self-employed business debt as a subcategory of household debt and have focused on changes resulting from employment status. As a typical example, the *Self-Employed Business Labor Market Study (I)* (2009) by the Korea Labor Institute, which provides a very comprehensive treatment of issues related to self-employment, illustrates the qualities of self-employed business debt through a comparison with wage earner households. Research reports published by the Bank of Korea have also generally treated self-employed business debt as a type of household debt.[4] The *Household Debt White Paper* (2013), published by the Korea Institute of Finance, also illustrated the qualities of self-employed business debt through a comparison based on employment status.

The argument of this paper, however, is that previous studies are limited in the sense that they have not paid adequate attention to the duality of self-employed business debt. In fact, self-employed business debt simultaneously exhibits the qualities both of household debt and of corporate debt. If a self-employed business owner borrows money for business expenses it is corporate debt, while if he or she borrows money for living expenses it is household debt. This is fundamentally connected to the fact that a self-employed business owner is "one who operates a business or who independently performs professional work, accountable to oneself, either alone or with unpaid family workers" (Seung-Yeol Yee, 2009: 10). Since enterprises generally take the form of a corporation in capitalism today, the responsibility of an enterprise that is a corporation and the responsibility of natural persons (regardless of whether they are employers or workers) are clearly distinguished. But in the case of self-employed businesses, the natural person who is a self-employed business owner and the business that he or she is running are not clearly distinguished on a legal level. Therefore, the debt of self-employed business owners is not clearly distinguished on a legal level, either, and that debt is categorized sometimes as household debt and sometimes as corporate debt, depending on the purpose of the loan (Bank of Korea, 2012b: 44; Bank of Korea, 2013b: 149).

But because of this duality, self-employed business debt acquires some unique qualities that are distinct from household debt and corporate debt. First, since the individual is completely responsible for self-employed business debt in the majority

[4] The Bank of Korea's *Financial Stability Report*, however, stands apart from other reports by treating the issue of self-employed business debt separately. An excellent example of such treatment can be found in the October 2013 issue.

of cases, it is more similar to household debt than regular corporate debt. Because the final responsibility for repaying self-employed business debt belongs to the individual (which is not the case with corporate debt), the fact is that, in terms of debt repayment, the household debt-related quality is stronger than the corporate debt-related quality (Bank of Korea, 2012b: 44).

But since self-employed business debt includes business-related debt, it also exhibits sensitivity to business fluctuations and market conditions and is larger than household debt. In other words, even though self-employed business debt exhibits qualities similar to household debt, it is similar to corporate debt in the sense that it is generally larger than household debt and more liable to a default resulting from business fluctuations. Furthermore, because of this duality, the burden that must be shouldered by self-employed business owners will inevitably be greater than household debt or corporate debt. For such reasons, regarding self-employed business debt as simply being a subcategory of household debt is problematic in several respects.

Even setting aside the inadequacy of previous studies about self-employed business debt, the fact is that consistent statistics that would permit the systematic determination and comparison of the amount of debt do not even exist. This is because self-employed business debt simultaneously exhibits the qualities of household debt and corporate debt and because the two are not clearly distinguished. The financial authorities only categorize money borrowed by self-employed business owners for living and housing expenses as household debt and money borrowed for business expenses as corporate debt (Bank of Korea, 2013b: 149). This ambiguity of the boundaries of self-employed business debt is probably one of the main reasons there has been little research on the topic.[5]

This paper defines “employers” (self-employed business owners with employees), “independent contractors” (self-employed business owners without employees) and “unpaid family workers” (someone who works at least one-third of the working hours of a full-time worker without being paid) (Seo, Jae-man, 2011:3) as either being self-employed business owners or non-wage earners, according to the distinctions of employment status in the *Economically Active Population Survey*. Furthermore, this analysis will divide self-employed business owners by their income level into small-scale self-employed businesses (first and second income quintiles), middle-income self-employed businesses (third and fourth income quintiles), and high-income self-employed businesses (fifth income quintile).[6]

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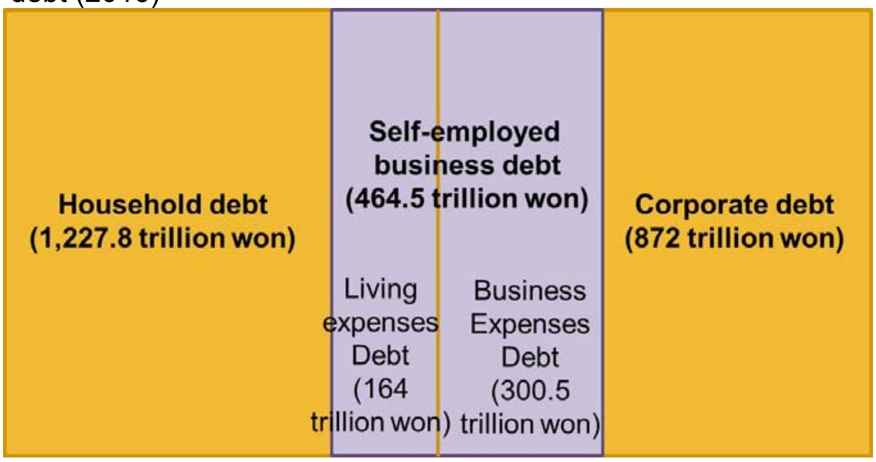
[5] Since self-employed business owners are in fact able to borrow money for personal reasons and use it on business expenses or borrow money for business purposes and use it on living expenses, this distinction cannot be strictly applied. Some of the self-employed business owners who racked up debt until they ruined their credit ratings landed themselves in that predicament because they haphazardly borrowed operating funds when their businesses were in trouble (Kim, Soon-young, 2011: 116-123). In such circumstances, distinguishing debts for living expenses from debts for business expenses is no easy task.

[6] Small-scale self-employed businesses are generally defined as having fewer than five employees and less than 48 million won in sales. The Small and Medium Business Administration and other organizations, for example, have used the number of employees as the standard, defining "small business owners" as those having fewer than five or 10 employees. But strictly speaking, small business owners and self-employed business owners are separate categories. Most of the time, the number of employees or the amount of sales is used to determine the smallness of scale because this is more convenient from a policy perspective. When it comes to determining whether a business should be

Research Questions and Analytical Strategy

Self-employed business debt (which exhibits both the qualities of household debt and corporate debt) is estimated to be around 464.5 trillion won as of the present (the end of September 2016). Figure 1 shows the scale of self-employed business debt in comparison to the scale of household debt and corporate debt. As of the present (the end of September 2016), household debt amounted to 1,227.8 trillion won, while corporate debt amounted to 872 trillion won. But 164 trillion won of the 1,227.8 trillion won of household debt represents money that self-employed business owner households borrowed to cover their living expenses. Furthermore, about 300.5 trillion won of the 872 trillion won in corporate debt represents money that was borrowed by self-employed business owner households to cover their business expenses. Combining the 164 trillion won in debt for living expenses and the 300.5 trillion won in debt for business expenses yields 464.5 trillion won, which can be called the total scale of self-employed business debt (Bank of Korea, 2016: 31).

Figure 1. A comparison of household debt, corporate debt, and self-employed business debt (2016)



Source: Bank of Korea[7]

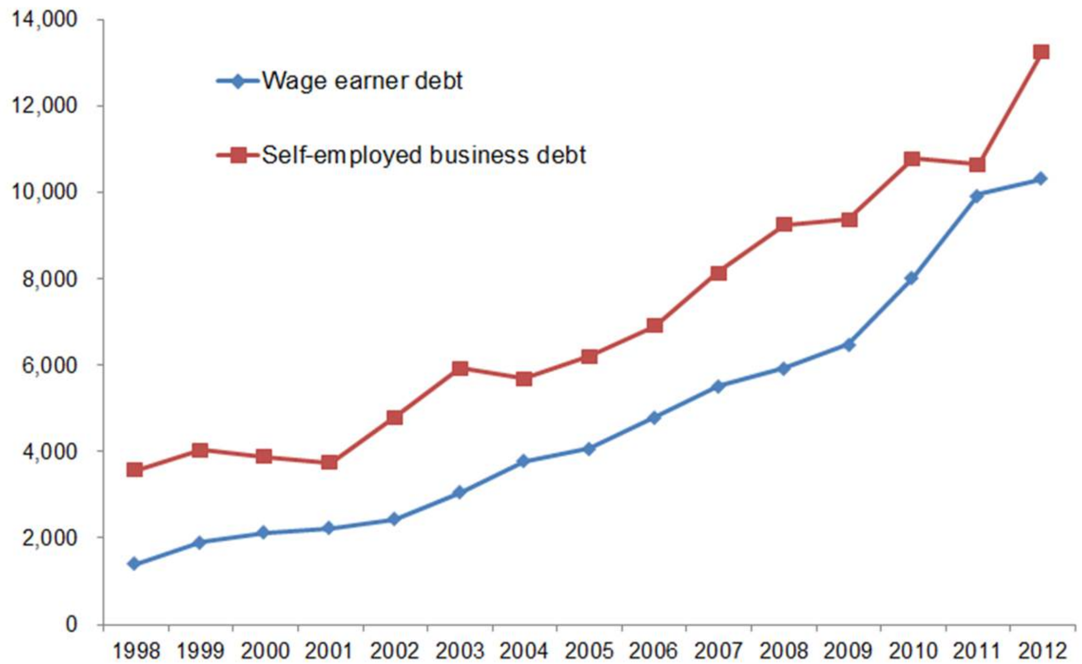
Through what process, then, did self-employed business debt increase to 464.5 trillion won? Considering that South Korea's share of self-employed business-owners is quite large compared to other OECD member countries (Jae Ho Keum et al., 2009), it can be inferred that self-employed business debt has remained at a

labeled as "small-scale," income is a more important standard than employees or sales (Seung-Yeol Yee, 2009). In light of these facts, this paper has used income level as the standard for determining whether or not self-employed businesses are small-scale.

[7] The scale of self-employed business debt can generally be confirmed in the Bank of Korea's Financial Stability Report. Since no consistent statistic approach exists for self-employed business debt, every study estimates that debt differently. Estimating self-employed business debt based on Statistics Korea's *Survey of Household Finances and Living Conditions* returns 320 trillion won as if 2012 (150-180 trillion won for business expenses and 140-170 trillion won for living expenses) and 370 trillion won as of 2013 (198 trillion won for business expenses and 178 trillion won for living expenses) (Lee, Kyoo-bok, 2012; Park Jooyoung, 2013). This paper adopts the estimates of the Bank of Korea, which are based on microdata from the banks and data from credit rating agencies.

substantial level for a long time. But as Figure 2 indicates, focus should be placed on the fact that self-employed business debt has rapidly increased since the financial crisis just like household debt. Figure 2 illustrates the trends in increasing debt per household over the past 15 years in wage earner households and self-employed business owner households. Here we see that the household debt for wage earner households increased from 14 million won in 1998 to 103 million won in 2012 while the debt for self-employed business owner households increased from 36 million won in 1998 to 133 million won in 2012.[8] Debt in wage earner households increased by a factor of nine, and debt in self-employed business owner households increased by a factor of three. What is noteworth here is that the debt of self-employed business owner households has increased very rapidly since the financial crisis, albeit more slowly than the debt of working wage households (Jae Ho Keum et al., 2009: 133).

Figure 2. Changing trends in wage earner household debt and self-employed business owner household debt (1998-2012) (Unit: 10,000 won)



Source: Korean Labor and Income Panel Study

[8] It is usually assumed that the debt of self-employed business owner households amounts to about twice that of wage earner households. Given such considerations, one characteristic of the Korean Labor and Income Panel Study is that the amount of wage earner household debt is estimated as being rather high. But since the Labor Panel's data is the only data that allows us to examine long-term time series changes, this paper uses the Labor Panel's data when it is necessary to determine time series changes.

This paper will explain the increase of self-employed business debt after the financial crisis vis-à-vis the duality of self-employed business debt and changes in related policies. First, it is important to note that, just as with household debt, it also became easier for self-employed business owners to take out loans using their houses or commercial real estate as collateral following the financial crisis. Prior to the crisis, constraints on consumer credit made it difficult to secure a loan in the banking world with real estate as collateral (Kyeongwon Yoo and Cho Euna, 2006; Korea Institute of Finance, 2013). In such a situation, it was inevitable that self-employed business owners would have a relatively low level of dependence on financial institutions. But as household debt practices changed after the financial crisis, self-employed business loans became easier to obtain as well. This is the context in which this paper will undertake a more in-depth examination of the structural and institutional causes for the changes in consumer finance practices following the crisis.

Second, this paper will contend that support for starting self-employed businesses was used as a kind of unemployment policy after the financial crisis and that the intensified competition in subsistence-type self-employed businesses such as restaurants and accommodations was the cause of increased self-employed business debt. While changes in household debt practices are a necessary condition for causing an increase in self-employed business debt, they cannot be regarded as a sufficient condition. Therefore, it is necessary to identify a more direct cause of self-employed business owners taking on debt. In connection with this, this paper will explain the increase in self-employed business debt as a result of restructuring and intensifying competition between self-employed businesses. In other words, it will examine a process in which the entrance of new self-employed businesses to an already saturated self-employed business sector intensified competition, and the intensified competition increased the cost of business, resulting in an increase in self-employed business debt.

Finally, this paper will examine what differences can be seen between income brackets in regard to the intensification of self-employed business competition and the increase of debt. Along with observing that the increase in self-employed business debt has generally been led in recent years by high-income self-employed business owners, it will take note of differences in the purpose of loans for each income bracket. Emphasis will be placed on the fact that, though the small-scale self-employed business owners who have been forced out of self-employment business competition generally have a large amount of debt for living expenses, the middle- and high-income self-employed who have survived that competition have a larger share of debt for business expenses. Furthermore, the paper will note that the ability to repay debt is gradually decreasing not only among small-scale self-employed business owners but also among the high-income bracket of self-employed business owners.

The Expansion of Consumer Credit and the Increase of Household Debt and Self-Employed Business Debt

The Failure of Keynesianism and the Increase of Household Debt

If the increase in self-employed business debt is closely connected with the increase in self-employed business debt, it will first be necessary to assess why household debt increased. The first thing that must be addressed here is that the increase in household debt is not a phenomenon that is limited to South Korea. According to OECD data, the average ratio of household debt to net disposable income in OECD member countries is 136.5%, and that ratio exceeds 100% in the majority of those countries. The ratio in South Korea is about 163.7%, which is the seventh highest among OECD member countries. That is lower than in the European welfare states such as Denmark, the Netherlands, and Sweden, but it is higher than in the United States, Japan, Greece, and Spain (Dong-Jin Shin, 2013:4-5).

In a nod to Keynesian economics, Colin Crouch (Crouch 2011) refers to the recent phenomenon of increasing household debt as "privatized Keynesianism." Under traditional Keynesianism, the government guaranteed labor income (complete employment) and welfare payments (redistribution), even if that meant going into debt. But under "privatized Keynesianism," Crouch says, it is household debt, and not public debt, that serves as a key policy measure for maintaining households' purchasing power. In this situation, the government can simply encourage household debt and relax regulations to expand consumer credit, and households are obliged to rely on household debt to make their own preparations for social risks, including unemployment and retirement.

However, no one expected that, after the failure of Keynesianism, household debt would take the place of public debt (Streeck, W., 2014). It is well-known that in the 1970s the social contract by which governments in advanced economies in the West had promised to look after their subjects "from the cradle to the grave" began to falter and that the Keynesian prescriptions that had propped up this contract had started to lose their persuasiveness. As full employment became more difficult and real wages stagnated, the retrenchment of the welfare state become inevitable as well. But even so, unilaterally undoing the postwar social contract was, politically speaking, very dangerous, if not impossible. During the 1980s, Ronald Reagan and Margaret Thatcher attempted to trim the welfare state, but the political pushback was so fierce that they eventually had to abandon such attempts. Instead, social insurance expenditures continued to increase, causing public debt to grow even larger (Pierson, P., 1994; Krippner, G. R., 2011; Streeck, W., 2014).

Thus, in a situation in which real wages are stagnant and welfare payments are being reduced while public debt is increasing, household debt has been used as a way to simultaneously avoid the legitimacy crisis and the overaccumulation crisis (Streeck, W., 2014). Most importantly of all, the development of financial techniques has enabled financial institutions to provide massive loans to households, which has made it possible to use household debt (instead of labor income or welfare payments) to prop up households' purchasing power (Crouch, C., 2009; Krippner, G. R., 2011). With the financial market propping up households' purchasing power, the state is relieved to a certain extent of its responsibility to provide a social safety net (Streeck, W., 2014). In other words, it has been possible to sustain the postwar social contract by having households go into debt instead of the state and by having the financial market substitute for the welfare state.

The Demise of Developmentalism and the Increase of Household Debt

In the case of South Korea, household debt has rapidly increased in scale since the Asian financial crisis. The ratio of household debt to net disposable income more than doubled in 15 years, from 65.5% in 1997 to 153.4% in 2016.

What is the reason, then, that household debt increased so rapidly after the financial crisis? What is distinctive about the increase of household debt in South Korea compared to the West? Prior to the industrialization period, the government used its control of the finance industry to funnel massive amounts of resources to the chaebols (family-owned corporations), which gave the chaebols a basis for leading economic growth (Young-Chul Cho, 2003; Lee Byeong cheon, 2003). This sort of government-controlled and planned finance was supported by a high household saving rate. The government used the National Savings Promotion Committee to run a savings campaign and actively worked to promote household saving by providing a variety of incentives with programs including "worker asset formation savings" and "farmer nest egg creation savings" (Kim, Dokyun, 2013).

But following the complete reversal of this situation after the financial crisis, the government implemented policies of actively promoting not household saving but household debt (Kyeongwon Yoo and Cho Euna, 2006). Most importantly, the restructuring demanded by the IMF made it impossible to further maintain a developmentalist economic system. The IMF restructuring program demanded that banks maintain a capital adequacy ratio of 8% or higher and that corporations lower their debt ratio to 200% or below. These measures were adopted to eliminate the government-led finance and the debt-based management that were regarded as the main culprit of the Asian financial crisis. And as a result of restructuring, the previous developmentalist system was rapidly dismantled: banks' capital adequacy ratio increased from 7.0% in 1997 to 12.99% in 2007, and corporations' debt ratio dropped from 424.6% in 1997 to 105.3% in 2006 (Chamyeo jeongbu gukjeong beuriping teukbyeol gihoektim, 2009: 14).

What is important to note here is that, as a result of this corporate and financial restructuring, the role of finance shifted from raising funds for industry to supplying credit to consumers. Since the debt-based management of corporations had come to be seen as the main culprit of the financial crisis, banks' corporate loans were reduced drastically, which forced the banks to go looking for new customers. But whereas banks saw loans to small- and medium-sized enterprises as carrying major risks, household loans, including home mortgages to ordinary families, were attractive investments that guaranteed both stability and profitability. Given the changing circumstances, therefore, it may be regarded as only natural that the banks chose household loans as their major business strategy (Bank of Korea, 2012c: 50-51; Korea Institute of Finance, 2013).

Also important was the government's political will to actively use household debt to stimulate the economy and to create jobs. In fact, there was nothing new about economic stimulus, which was a favorite tactic of the government in poor economic conditions. With 100,000 to 200,000 people losing their jobs each month shortly after the financial crisis, it is obvious that economic stimulus and job creation become matters of life and death.

What set apart the South Korean government under President Kim Dae-jung from previous governments was that it used consumer finance to stimulate the economy (Ministry of Finance and Economy, 1999: 82-92). The Kim Dae-jung government strove to set up a social safety net, allocating 10 trillion won of funds in 1998 alone for unemployment relief measures. But such rudimentary efforts to expand welfare were inadequate to deal with social risks such as mass unemployment. At the same time, it was not easy to further increase public debt in order to resolve the unemployment issue when a huge amount of public funds had already been invested in financial restructuring (Kim, Soon-young, 2011). Consumer finance, on the other hand, was a policy prescription that could be mobilized much easier than in the past. In this sense, to be sure, using household debt to stimulate the economy was only the full utilization of the new conditions that were in place after the financial crisis.

The use of household debt to stimulate the economy shows that household debt had begun to be actively used as a method of delaying political and economic crises in South Korea, just as in the advanced countries of the West. To begin with, home mortgages were allowed to rapidly increase in order to stimulate the real estate market. In terms of deposit banks, household debt increased from 322 trillion won in 2003 to 909 trillion won in 2016 while the scale of home mortgages increased from 153 trillion won to 546 trillion won.

Another symbolic incident that illustrates the shift in policy was the drastic increase in credit card loans. The scale of credit card loans (both long-term loans and cash advances) ballooned from 48 trillion won in 1999, shortly after the financial crisis, to 357 trillion won in 2002. Immediately after the crisis, the government was concerned that the credit crunch was causing the economy to lose its growth potential. But it also ought to have ensured that its efforts to stimulate economic vitality and boost domestic demand did not bring about an excessive fiscal deficit (Kim, Soon-young, 2011. Under these circumstances, the government began to actively encourage the use of credit cards as a way of boosting domestic consumption and securing a source of tax revenue. Most significantly, it abolished the limit on short-term credit card loans, which had been capped at 700,000 won[9] per person. It also relaxed the regulations that had been preventing large corporations from entering the credit card industry (Korea Institute of Finance, 2013).

In fact, the reason that household debt in South Korea was so low before the financial crisis was because consumer finance had been deliberately suppressed. Since all available resources had to be devoted to the industrial sector under a developmentalist economic system, there was a massive amount of corporate debt, but household debt was virtually nonexistent (Kim, Dokyun, 2013). Since there consumer finance itself was almost completely nonexistent, the reality before the

9 This amounts to about $583 (assuming $1=1,200 won).

crisis was that it was nearly impossible to buy a house without saving up the money through extreme thrift (Je, Yun-Kyung and Hun Uk Lee, 2012).

However, after the financial crisis, the situation was completely reversed, and now anyone could easily borrow money at very low interest rates. The government did its part to encourage household loans in order to save the economy, and South Koreans came to rely on household loans to buy houses and to cover their living expenses. For example, the government stimulated the real estate market to create jobs and eased regulations on mortgage loans to stimulate the real estate market. It also greatly eased regulations on credit cards to boost consumption and to stimulate the economy. In addition, given the existence of wide gaps in welfare programs, household debt was a very easy and convenient way to fill the gap between income and expenditure for the time being. At the time of the financial crisis, South Korea's developmentalist economic system came to its end, and household debt emerged as a key government tool for overcoming the legitimacy crisis.

The Connection Between Household Debt and Self-Employed Business Debt

How then is the increase in self-employed business debt connected with the increase in household debt? First, the increase in self-employed business debt is closely connected with the fact that it became easier to take out loans with real estate as collateral, which was also true of household debt. Self-employed business debt is one of the areas where financial institutions are reluctant to provide loans, since it is regarded as entailing greater risk than corporate debt or household debt. But as it became easier to take out loans not only with a house (home mortgages), but also with commercial property as collateral (commercial mortgages) after the financial crisis, self-employed business debt increased.

Second, along with the increase in commercial mortgages, there was a major increase in people covering their business expenses through credit card loans and an overdraft line-of-credit. As I have already mentioned, the government at the time had a policy of boosting consumption and reviving domestic demand by easing credit card regulations. But easing regulations on credit cards had the effect of not only boosting consumption but also making it easier for self-employed business owners to cover their business expenses. When the cap on credit card cash advances was abolished, credit card companies competed to raise the limit for their cash advances to 10 million won a month. This made it possible for someone to borrow 10 million won each on 10 credit cards, or 100 million won of loans with no strings attached in a single month (Kim, Soon-young, 2011: 62-63).[10] This meant that credit card loans by themselves could yield enough money to start a business. Indeed, it appears that people frequently used credit card cash advances to fund their business operations, even if not to raise their starting capital (Kim, Soon-young, 2011: 116-123).

The fact that self-employed business debt increased through mortgages and credit card loans shows that self-employed business debt, just like household debt, was closely connected to the dismantling of the developmentalist economic system and to changes in financial practices. Under the previous developmentalist system,

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[10] 10 million won amounts to $8,333 and 100 million won to $83,333 (assuming $1=1,200 won).

raising the money to start a self-employed business meant either saving up the money oneself or borrowing it from family, relatives, or friends. It was very difficult for small-scale self-employed business owners to take out loans from financial institutions. Furthermore, before the financial crisis, providing support for starting self-employed businesses was not a major topic of interest for the government, nor was much support provided through financial programs (Yun, Ji-whan, 2011; Han, Jeong-su, 2015). But as the finance industry's practices in regard to household loans changed after the financial crisis, it became easier to raise funds at financial institutions for starting and operating a business.[11]

Although self-employed business debt has many things in common with household debt, we must bear in mind that it simultaneously exhibits the qualities of corporate debt. The institutional changes that we have examined thus far only show that it became easier for self-employed business owners to take out loans without showing us the sufficient condition that actually increased self-employed business debt. In order to explain the increase in self-employed business debt, therefore, it is necessary to examine in greater depth a number of factors, including changes in the labor market (namely, an increase in employment instability), the use of self-employed businesses as a kind of unemployment relief measure, and the intensifying competition in the self-employed business sector.

Self-Employed Businesses as an Unemployment Relief Measure and the Increase of Self-Employed Business Debt

Unemployment Relief Measures and Self-Employed Business Support Me asures

Faced with mass unemployment soon after the financial crisis, the Kim Dae-jung administration made active use of starting self-employed businesses as a means of dealing with unemployment (Chamyeo jeongbu gukjeong beuriping teukbyeol gihoektim, 2009; Ministry of Labor, 2003: 146-148; Han, Jeong-su, 2015: 39-40). The unemployment relief measures at the time were focused on short-term prescriptions and medium- and long-term job creation. The government believed that job creation was a more productive and fundamental solution than costly short-term fiscal expenditures such as public works projects and support for living expenses (Ministry of Labor, 2003: 137-139). But it was nearly impossible to actively promote labor market policy given the complete lack of preparations. Furthermore, the government was just then in the middle of restructuring the large corporations. For the present, therefore, the easiest and most definite job creation policy was support for starting a self-employed business, which included support for small business owners.

[11] In fact, self-employed business owners' dependence on financial institution for loans (relative to other ways of raising business funds) has continued to rise, from 25.5% in 2008 to 27.8% in 2011 (Bank of Korea, 2012a: 47).

Furthermore, white collar workers who were unemployed or retired preferred starting a self-employed business to joining public works projects or receiving support for living expenses. Many of these people jumped at the chance to start a self-employed business, which they regarded as an alternative way of supporting themselves. As a result, from soon after the financial crisis until the early 2000s, self-employed businesses opened at a brisk pace (around 500,000 every year) and closed very frequently as well (around 400,000 each year) (Chamyeo jeongbu gukjeong beuriping teukbyeol gihoektim, 2009). Considering that South Korea's 30 largest conglomerates were creating around 850,000 jobs, the businesses being opened at this time were equivalent to several large conglomerates appearing every year. The number of self-employed business owners increased from over 5,616,000 people in 1999 to over 6,110,000 people in 2004 (Jae Ho Keum et al., 2009: 12; Chamyeo jeongbu gukjeong beuriping teukbyeol gihoektim, 2009). The number of self-employed business owners had increased by around 100,000 people each year.

But using self-employed business support as a kind of unemployment relief measure caused problems, lowering the productivity of the self-employed business sector and intensifying competition therein. The entrance of new self-employed business owners into already saturated business sectors (such as restaurants, accommodations, retailers, and wholesalers, referred to here as "mom-and-pop stores") was causing productivity to decrease.[12] In general, the productivity of self-employed businesses is strongly influenced by the ratio of businesses to population and by the commercial structure of the area the businesses are entering (Chulsik Kim, 2015: 181). This tendency is even stronger in mom-and-pop stores such as restaurants, accommodations, retailers, and wholesalers. Using self-employed businesses as a kind of unemployment relief measure brought mom-and-pop stores to the point of saturation, and this exacerbated the financial difficulties and the decline in productivity in the self-employed business sector.

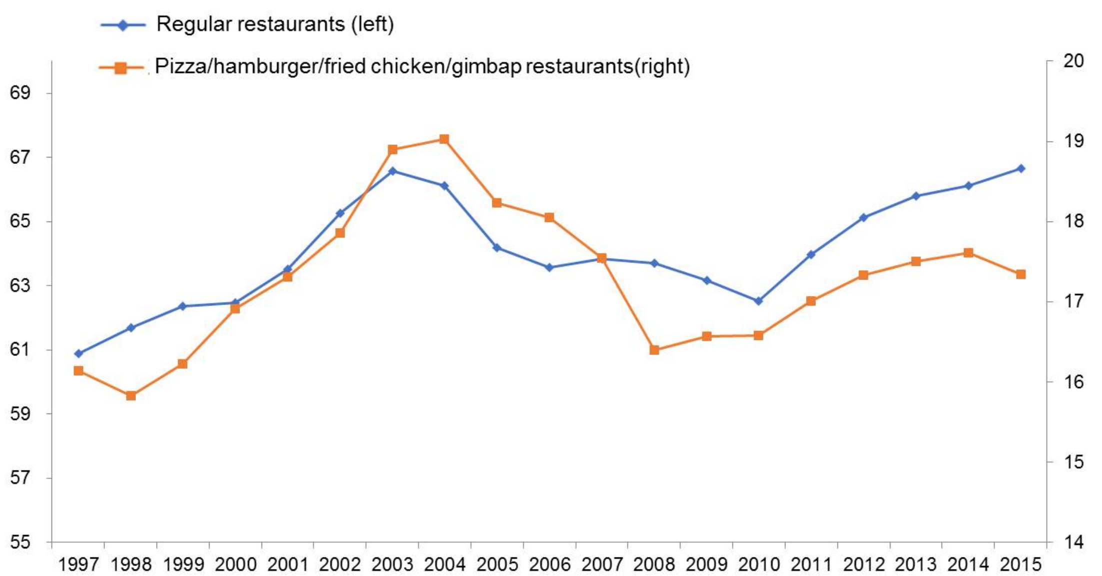
When the self-employed business sector reached the point of saturation and productivity began to fall, the government approached the self-employed business issue from the perspective of restructuring, too. A decisive incident was when the credit card crisis in 2003 caused consumption to shrink. Domestic demand had been maintained by the supply of credit through credit cards, and once that demand collapsed, self-employed businesses' financial difficulties became more severe, leading to a sharp increase in business closures. This drove the Roh Moo-hyun administration to conclude in 2005 that the self-employed business sector could not be left to market forces any longer, and it enacted measures for small-scale self-employed business owners and began to encourage people to refrain from starting new businesses (Chamyeo jeongbu gukjeong beuriping teukbyeol gihoektim, 2009; Seo, Jae-man, 2011).

Despite the government's policy of restructuring self-employed businesses in the mid-2000s, the percentage of mom-and-pop stores did not decrease. Instead, the number of mom-and-pop stores started to increase again toward the end of the 2000s. Figure 3 shows how the number of branches in the categories of ordinary restaurants and "pizza/hamburger/fried chicken/*gimbap* restaurants" (which can be described

[12] After the Small Enterprise Development Agency was established in 1999, the agency mostly provided consulting for business areas in which it is easy to start a business, such as restaurants, accommodations, retailers, and wholesalers (Ministry of Labor, 2003: 146-148).

as some of the representative kinds of mom-and-pop stores in South Korea) per 10,000 members of the population has changed over the past 20 years. Ordinary restaurants and pizza/hamburger/fried chicken/*gimbap* restaurants are not only sensitive to business conditions, but they are also the categories of mom-and-pop stores that were most central to the discussion about South Korea's self-employed businesses in the 2000s. These business sectors, therefore, serve as a significant barometer that can help us to understand fluctuations in South Korea's self-employed business sector. But in this figure we see that regular restaurants and pizza/hamburger/fried chicken/*gimbap* restaurants both increased through the early 2000s, started to decline in 2003 and 2004, and began to increase once more around 2010. In the case of regular restaurants, the number of branches per 10,000 people increased from 60.9 in 1997 to 66.6 in 2003, fell to 62.5 in 2010, and increased again to 66.7 in 2015. In the case of pizza/hamburger/fried chicken/*gimbap* restaurants, the number of branches per 10,000 people increased from 16.1 in 1997 to 19 in 2004, fell to 16.4 in 2008, and increased again to 17.3 in 2015. This shows that self-employed businesses (and mom-and-pop stores in particular) have continued to increase despite the efforts to restructure self-employed businesses in the mid-2000s.

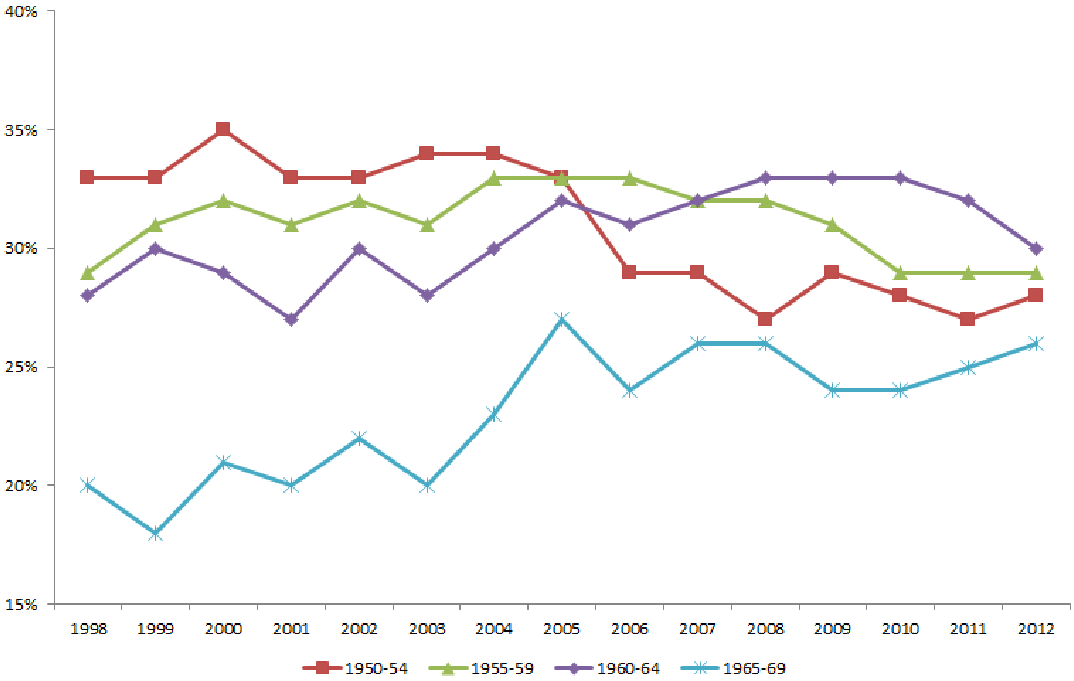
Figure 3. Number of business branches per 10,000 members of the population



Source: *National Enterprise Survey*, registered resident population

So why did mom-and-pop stores begin to increase again in the latter half of the 2000s despite the restructuring of self-employed businesses? The primary reason is that baby boomers have been entering mom-and-pop stores after their retirement (Kim, Bok-sun, 2011; Kim, Bok-sun, 2013; Jin Hee Park, Park, Se Jeong and Jeong Hye Yoon, 2012). Figure 4 shows us how the percentage of self-employed business owners has changed over the past 15 years in each birth cohort. It can be inferred from this data that the 1950s birth cohort took the lead in opening new self-employed businesses in the early 2000s. But as we move into the latter half of the decade, this cohort's share of self-employed businesses rapidly decreased, while the cohort of the baby boomer generation (from 1955 to 1964) was very vigorously entering the self-employed business sector. More recently, the late-1960s cohort has been rapidly entering the self-employed business sector as well.[13]

Figure 4. The percentage of self-employed businesses per cohort (excluding agricultural workers)



Source: *Korean Labor and Income Panel Study*

In addition to these demographic factors, the reorientation of self-employed business policy in the second half of the 2000s was another important cause. First of all, one can say that the global financial crisis in 2008 had a major impact on the shift in self-employed business policy. Fundamentally, small-scale self-employed businesses and small business owners can be described as not only being the most sensitive to the economy but also as being the key economic actors in local economies. But when the economy slowed down and unemployment increased because of the 2008 financial crisis, the government once again expanded support for self-employed business owners. It goes without saying that support for self-employed businesses was also a key measure for stimulating local economies (Han, Jeong-su, 2015). In 2009, the administration of Lee Myung-bak went beyond supporting ordinary self-employed businesses by promoting the invigoration of the franchise industry in order to make self-employed businesses more competitive. This shows that the government was not only supporting the establishment of self-

[13] It is possible to refer to changes with age as well as changes with birth cohort. As many scholars have pointed out, a very large number of people in their fifties and sixties have been entering the self-employed business sector recently. In contrast, the share of the self-employed business sector represented by people in their thirties and forties continues to decrease. The decline has been particularly rapid for those in their thirties (Keum, Jae Ho et al., 2009).

employed businesses but had also adopted the policy of using the franchise industry to create economies of scale and enhance competitiveness in the self-employed business sector. These government policies are probably also related to the increase in pizza/hamburger/fried chicken/*gimbap* restaurants, a sector that many franchise companies entered after 2008.

Self-employment has served as an important safety net in South Korean society amid widespread unemployment and retirement resulting from the economic crisis and the aging of society. Self-employment was an important way to stave off a crisis as large numbers of people were losing their jobs and retiring as a result of the Asian financial crisis in 1997 and the global financial crisis in 2008 and as the retirement of the baby boomers was beginning in earnest. The government has also regarded support for self-employed businesses as a kind of unemployment relief measure. Even though the Roh Moo-hyun administration recognized the need to restructure the self-employed business sector and pushed for such restructuring in the mid-2000s, the Lee Myung-bak administration reverted to a policy of supporting self-employed businesses in the late 2000s.

Economies of Scale and the Increase in Self-Employed Business Debt

We have already examined the cycle of increases and decreases in mom-and-pop stores after the Asian financial crisis. This leads to the question of what connection there might be between these fluctuations in self-employed businesses, the increase in franchise branches, and the increase in self-employed business debt.

The point that requires the greatest emphasis is that the cost of starting a business rose because of the intensifying competition in the self-employed business sector. We have previously confirmed that the increase in self-employed businesses in the late 2000s was a phenomenon that was generally observed in the mom-and-pop sector. In mom-and-pop stores (such as restaurants, accommodations, wholesalers, and retailers), the location and size of the store have a huge impact on sales. Therefore, when there is fierce competition to open businesses, it is inevitable that real estate costs, including rent, will sharply increase for stores of a decent size and in a good location. The problem is that, in order to cover the real estate cost, sales must increase proportionally, which in turn requires a commensurate increase in the size of the store.[14] In other words, intensifying competition among self-employed businesses causes economies of scale to take effect, which leads to an increase in the overall cost of starting a business (Kang, Dohyun, 2012).

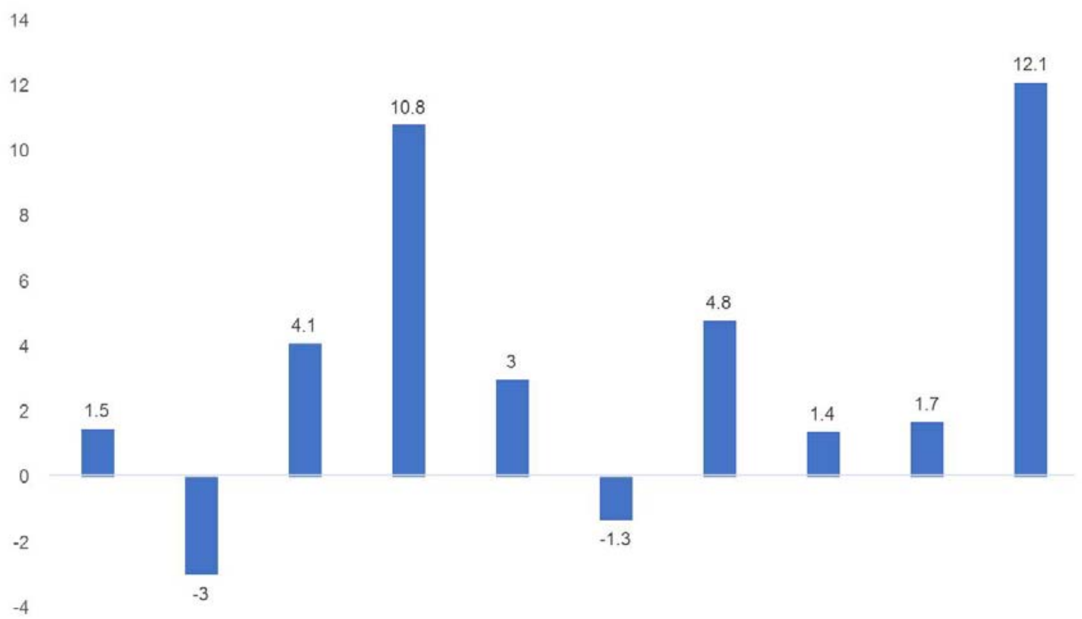
Along with this, it is also likely that the expansion of franchises since the 2000s has increased business costs. Amid the abrupt expansion of franchises in the restaurant, accommodation, retail, and wholesale sectors in the 2000s, for example, a significant number of self-employed business owners became franchise owners, and this transition is likely to have increased the cost of opening a business. It is also expected that the requests by franchise main offices for ongoing investment and for

[14] A simple common-sense comparison of one restaurant with five tables and another with 20 tables (presuming that the two restaurants provide an equivalent level of service) suggests that sales at the restaurant with 20 tables will be about four times greater than the restaurant with five tables.

periodic renovations also increased the business costs for self-employed business owners.[15]

Figure 5 shows how much the cost of starting a self-employed business has increased or decreased over the past 10 or so years. The striking feature here is the very rapid increase in the cost of starting a business in the recently problematic areas of restaurants/accommodations and individual services (generally such businesses as hair salons and laundromats). Whereas the rate of increase for the cost of starting a business has been less than 5% in manufacturing, business services, and educational services, this rate has reached 10.8% in restaurants/accommodations and 12.1% in individual services. For example, while it cost an average of 56 million won to open a restaurant in 2007, it cost 92 million won in 2013. This shows that the cost of starting a business has increased amid intensifying competition, especially in the mom-and-pop sector.

Figure 5. The annual rate of increase in the cost of starting a self-employed business (unit: %)



Source: *National Fact-Finding Study of Small Business Owners*[16]

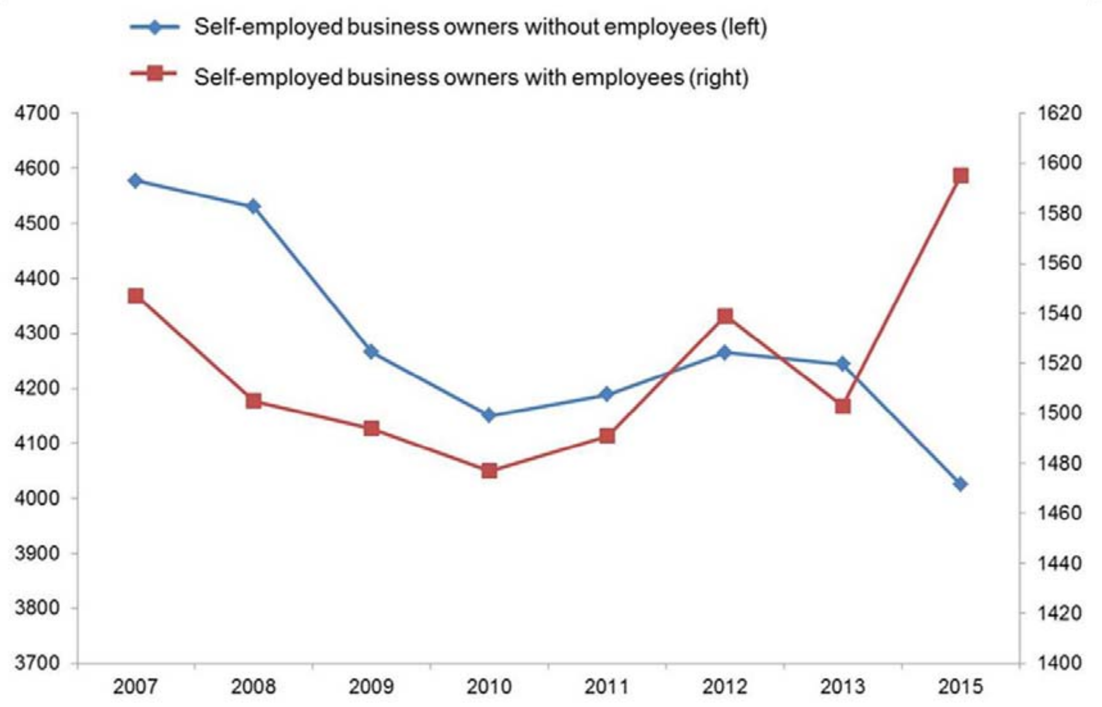
The fact that economies of scale are operating in the self-employed sector can also be confirmed in Figure 6, which examines trends in self-employed businesses since the second half of the 2000s by dividing self-employed business owners into those without employees (that is, independent contractors) and those with employees (that is, employers). What can be confirmed from this is that the number of self-employed business owners without employees is undergoing a declining

15 Figures from Statistics Korea indicate that the percentage of "mom-and-pops" that have converted into convenience stores reached 8.1% in 2010 and 9.8% in 2011 (Chulsik Kim, 2015: 180). I am grateful to the anonymous reviewer who drew my attention to the correlation between the spread of franchises and the increase in business costs.

16 The 2007 figures for restaurants/accommodations only reflect restaurants.

trend while the number of self-employed business owners with employees has actually increased. Considering that having fewer employees correlates strongly with a business being small-scale, this shows that small-scale self-employed businesses are decreasing, while self-employed businesses with some degree of scale are increasing (Jeong Hye Yoon, 2015).

Figure 6. Trends related to the increase of self-employed business owners according to whether or not they have employees (unit: 1,000 people)



Source: *Economically Active Population Survey*, additional survey of non-wage earners

In what manner, then, has the rise in economies of scale and the cost of starting a business in the self-employed business sector caused self-employed business debt to increase? The point that we will focus on here is that the effect that the rise in the cost of starting a business has had on self-employed business debt varies with income bracket. Table 1 uses the data from the *Survey of Household Finances and Welfare* from 2012 to 2014 to show how the debt usage of self-employed business owners has changed in each income bracket. What can be confirmed here is that more than 60% of high-income self-employed business owners have taken out a loan for business purposes, while that percentage is hovering around 40% for small-scale self-employed businesses and middle-income self-employed businesses. It can furthermore be deduced that loans for business expenses in small-scale self-employed businesses have continued to decline, from 46.7% in 2012 to 37.4% in 2014.

Along with this, it should be noted that the share of debts related to living expenses varies significantly between income brackets. It can be inferred that the share of debt for small-scale self-employed businesses that is related to living expenses has continued to increase, from 15.6% in 2012 to 17.4% in 2014. This contrasts with high-income self-employed businesses, for which the share of debt for living expenses remains at a marginal level, despite an increase from 1.6% in 2012 to 2.8% in 2014. The share for middle-income self-employed businesses hovers around 6%. The implication is that, among small-scale self-employed business owners, loans related to business expenses are decreasing and loans related to living expenses are increasing, while among high-income self-employed business owners, loans are generally related to business purposes.[17]

Table 1. A comparison of loan usage for each income bracket of self-employed businesses (unit: %)

Income bracket for self-employed businesses	Year	Business funds	Real estate -related	Living expenses	Debt repaid
Small-scale	2012	46.7	33.9	15.6	2.4
	2013	43.5	31.2	17.4	6.4
	2014	37.4	37.1	17.4	2.8
Middle-income	2012	44.9	44.1	6.0	2.6
	2013	46.7	39.2	9.2	3.0
	2014	39.3	48.6	6.3	3.2
High-income	2012	63.4	32.9	1.6	0.9
	2013	62.1	32.8	1.1	2.9
	2014	64.4	29.2	2.8	2.6

Source: *Survey of Household Finances and Welfare*

The aforementioned facts show that self-employed business debt has generally increased because of two factors and that these factors have a different effect on small-scale self-employed business owners on the one hand and on middle- and high-income self-employed business owners on the other. First, self-employed business debt has primarily increased because of the rise in the cost of starting a business, as a result of intensifying competition, and middle- and high-income self-employed business owners have generally led the increase in business-related debt. But secondly, it must be emphasized that self-employed business debt is related to the increase in debt for living expenses. As small-scale self-employed business owners have been pushed out of competition, they have gone out of business, and their descent into poverty has ultimately caused them to rely upon debt for their living expenses.

[17] Real estate-related loans accounted for about a 40% debt share for middle-income self-employed business owners but about a 30% share for high-income self-employed business owners, which was even lower than for small-scale self-employed business owners. But it is necessary to bear in mind that real estate-related loans share the qualities of business-related loans since they include purchases not only of houses but also of commercial real estate. As we have already pointed out, debt taken out to cover the rent and foregift (premium) ought to be regarded as loans for business expenses. In regard to debt repayment, no clear differences can be seen between the three groups, which generally maintain a level of around 3%.

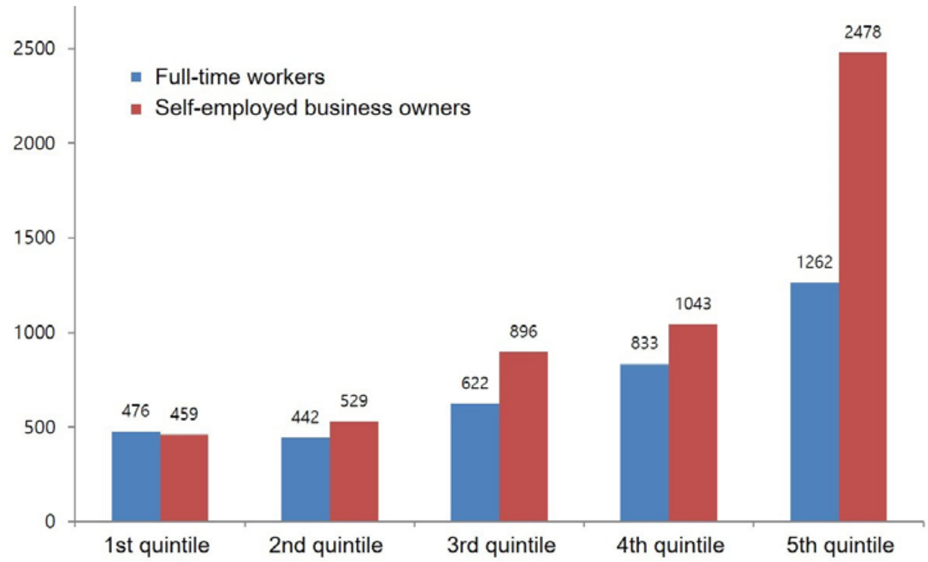
Decrease in Self-Employed Business Owners' Ability to Repay Their Debt

As we have seen thus far, self-employed business debt has increased over the past 15 years to cover business costs or living expenses as income has stagnated. The total scale of self-employed business debt has continued to increase, from 367 trillion won in 2010 to 464.5 trillion won in 2016. Over the past few years, the rate of increase in loans has been higher among baby boomer self-employed business owners than any other category of self-employed business owner (Bank of Korea, 2013b: 156-159; Bank of Korea, 2016: 31).

The problem is that, while the scale of debt among self-employed business owners has continually increased, their income conditions have continually worsened. Since small-scale self-employed businesses have a large amount of debt relative to their income, their financial solvency is especially vulnerable, with a high risk of defaulting on their debts and being caught in the trap of borrowing from multiple creditors. In short, it is fair to say that while small-scale self-employed businesses may technically have a small amount of debt, that debt is of substantially poor quality (Bank of Korea, 2012b; Hyundai Research Institute, 2014b).

The problem, however, is that the ability to repay is continuing to decline even for middle- and high-income self-employed business owners. As this paper has previously mentioned, to some extent middle- and high-income self-employed business owners have led the way in self-employed business debt, and they generally incurred debt for business purposes. But as a result, the principle and interest repayment burden on high-income self-employed business owners has apparently undergone a dramatic increase. Figure 7 shows the amount of principle and interest repaid each year by different income brackets according to their employment status in 2012.

Figure 7. Amount of principle and interest repaid by employment status and income bracket (2012) (unit: 10,000 won)

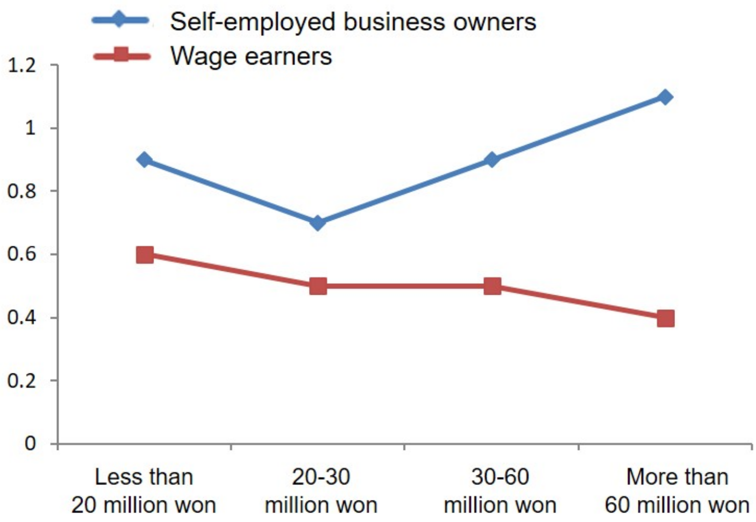


Source: *Survey of Household Finances and Welfare*

Here we can see that self-employed business owners in the first income quintile repaid 4.59 million won over the year in principle and interest, while self-employed business owners in the fifth income quintile repaid 24.78 million won. That was nearly twice as much as full-time workers in the fifth income quintile repaid in principle and interest over the year.

Given the very scale of the amount of principle and interest repayment, the loan delinquency rate is actually found to be increasing among the high-income bracket of self-employed business owners. As Figure 8 shows, the household loan delinquency rate decreases in wage earner households as their income level rises. In self-employed business households, however, the delinquency rate initially decreases before rising as their income level rises. The delinquency rate is highest, at 1.1%, for the bracket with income at 60 million won and above. This fact shows that the risk of self-employed business owners defaulting on their debt is no longer limited to small-scale self-employed businesses (Bank of Korea, 2012c: 49).

Figure 8. Loan delinquency rate for self-employed business owners and wage earners for each income bracket



Source: Requoted from Bank of Korea (2012b: 47)

In conclusion, the reality of South Korean society today is that both middle- and high-income self-employed business owners and small-scale self-employed business owners are stuck in the debt trap and are bound to struggle with the burden of debt repayment. An increasing number of middle- and high-income self-employed business owners are unable to handle the burden of their debt and are falling behind on their payments, either because their income level has not improved or because of the sheer size of the interest and principle they must repay, even if their income level has improved. On the other hand, it is fair to say that the majority of small-scale self-employed business owners have been forced to take on debt because the rising cost of starting a business has left them unable to compete and because their business has failed. While the debt held by small-scale self-employed business owners is not large per se, this is an even more severe problem since debt for living expenses is gradually increasing.

Conclusion

This paper examined how self-employed business debt has increased since the Asian financial crisis from a structural and institutional perspective. Previous studies have generally explained wage earner debt and self-employed business household debt in terms of the differences resulting from their employment status. In contrast, this paper emphasized that self-employed business debt simultaneously exhibits the qualities of household debt and corporate debt and that this duality of self-employed business debt is a factor that is necessary to explain the increase in self-employed business debt.

More specifically, this paper first observed that self-employed business debt has rapidly increased, just like household debt, since it became easier to take out loans using houses or real estate as collateral following the financial crisis. If the role of finance had not shifted from industrial finance to commercial finance after the financial crisis, self-employed business debt probably would not have increased rapidly either.

Second, this paper observed that, whereas household debt is generally connected to the real estate market, self-employed business debt is closely connected to the labor market. The argument of this paper is that self-employed business debt has increased as a result of the government actively supporting the opening of self-employed businesses as a kind of unemployment relief measure after the financial crisis and as a result of the financial sector accommodating this government policy by giving out loans whenever collateral was available. Additionally, this paper showed, intensifying competition in the self-employed business sector has caused business costs to rapidly increase, and as a result, middle- and high-income self-employed business owners have seen their business-related debt increase while the small-scale self-employed business owners who have dropped out of the competition have seen an increase of debt for living expenses.

This paper enabled us to confirm that the issues of self-employed businesses and self-employed business debt are closely related to changes in the finance market and the labor market since the financial crisis. Considering the decreasing trend in the share of the economically active population that is composed of self-employed business owners, it is also possible to predict that self-employed business debt will slowly decline as well. But despite the overall trend of decline in self-employed businesses, it is necessary to emphasize that mom-and-pop stores have responded sensitively to conditions in the economy and the labor market during the Asian financial crisis in 1997 and the global financial crisis in 2008 and that self-employed business debt has also rapidly increased during that period.

Furthermore, with baby boomer retirement beginning in earnest, it is very likely that this trend will not stop. Even in Japan, where the share of self-employed businesses is much lower than in South Korea, the self-employed population among people in their fifties and sixties has steadily increased as the society has aged (Bank of Korea, 2013b: 159). Considering that South Korea’s public pension system is even more paltry, the prediction that the self-employed population will decrease among South Koreans in their fifties and sixties hardly seems logical. In the end, it is likely that a significant number of new business owners will crowd into mom-and-pop stores such as restaurants and accommodations, causing productivity to drop even further and for the debt repayment burden to keep increasing. The fact that there are more fried chicken restaurants in South Korea than there are McDonalds branches in the entire world testifies to South Korea's current predicament.

The fact is that in South Korea, a country in which being fired is regarded as tantamount to murder, self-employment has faithfully served as a social safety net. During the economic crisis, self-employment clearly played an outstanding role as a buffer zone that absorbed the economic and social shock. If it had not been for self-employment, South Korean society might not have been able to endure the shock of the economic crisis. Viewed from this perspective, self-employed business debt may have been a cost that South Korea could not help paying if it was to survive and to escape the crisis.

But the problem is that the likelihood that self-employed business people will survive competition is lower than 25% (Kim, Il-gwang and Yu, Jungwan, 2012; Kang, Dohyun, 2012) and that the ability of self-employed business owners to repay their debts is gradually decreasing. The loan delinquency rate continues to increase, even if it is not yet at a serious level, and the problem of people being indebted to multiple creditors, which had faded for a while, is now resurfacing. The percentage of people with low income and poor credit who are borrowing money at high interest rates from non-bank financial institutions and private lenders is increasing as well (Bank of Korea, 2013a: 25-29, Bank of Korea, 2013b: 153).

So what alternative is there? In general, this paper provides the grounds for making two observations. First, it is necessary to correct our habit of regarding self-employed business support as an unemployment relief measure and to change the structural factors that leave those who find themselves unemployed or retired with no choice but to open a self-employed business. There is a particular need for active labor market policies to help small-scale self-employed business owners who are facing severe financial difficulties to receive job training and to go back to work. It is also necessary to be more generous about unemployment benefits and pension payments so that people can support themselves without relying on the labor market. Otherwise, as the aging of society is gradually accelerating, an increase in the surplus of self-employed businesses and self-employed debt—and consequently in defaulting on debt and bankruptcy—will lead to an increase in the poor population or even to widespread econocide, that is, to people resorting to the desperate measure of suicide.

Second, it is necessary to build a self-employed business ecosystem to prevent middle- and high-income self-employed business owners from falling into the trap of excessive debt. The measures for small-scale self-employed business owners that were pursued in 2005 proposed increasing the size and professionalism of self-employed businesses as a way to overcome the small scale of self-employed businesses and to enhance their productivity (Chamyeo jeongbu gukjeong beuriping teukbyeol gihoektim, 2009). But increasing the size of self-employed businesses runs the risk of weakening the ability of self-employed business owners to repay their debt and thus produces people indebted to multiple creditors, which would only serve the interests of conglomerates and other large-scale business operators (Seo, Jae-man, 2011: 24). Therefore, since it is inevitable that a certain number of middle-aged and elderly individuals will be entering the self-employed business sector, rather than trying to remedy the small scale of self-employed businesses, it would seem more important to create sustainability for self-employed businesses by improving the system to guarantee that they receive an appropriate level of income.

For more than a decade, self-employment has played an important role as a social safety net. But even after for than a decade, the present is almost the same as the past, except for the fact that we are facing the new problem of self-employed business debt. In this sense, it would seem to be more appropriate to conclude that South Korean society has only delayed the economic crisis, rather than overcoming it.

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