

The 1st Symposium on Public Governance

Corporations and Political Funds

“What is the Solution?”

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Hills Governance Center

Yonsei Center for Global Studies



“Corporations and Political Funds.... What is the Solution?”

As sources of political funds in the 2002 presidential election were unveiled, a consensus to reform and eliminate political corruption is spreading. Complete prohibition of donations from corporations to politicians has been suggested as one possible solution to eliminate the connection between the two parties. In addition, the allowance of election campaigns of civil or social organizations and interest groups, which have been prohibited until now, is under consideration so that corporations can actively participate in campaigns.

The Korean National Assembly is deliberating on the political reforms narrated above and perceives the current political crisis as an opportunity for historic systematic reforms that can guarantee corporations to rightfully participate in politics and construct transparent relationships between corporations and politicians.

We expect this symposium, hosted by the Hills Governance Center at Yonsei University and sponsored by Dong-A Ilbo, will offer new perspectives and blueprints for the realization of a transparent relationship between government and private corporations.

Young-Sun Lee, Dean, Yonsei GSIS
Joongi Kim, Executive Director, Hills Governance Center

PROGRAM SCHEDULE

OPENING ADDRESS

Joongi Kim, Executive Director, Hills Governance Center at Yonsei University

GREETINGS

Young Sun Lee, Dean, Yonsei GSIS

PANEL 1 The Political Fund Donation of Corporations and the Relationship between the Government and Corporations

Chair	Young Sun Lee, Dean, Yonsei GSIS
Presentation	Jongryn Mo, Professor, Yonsei University
Discussants	Jong Hee Park, Congressman, Grand National Party Kim, Bum-Sik, Chief of Political Fund Dept., National Election Commission Seung-Chul Lee, Chief of Economic Research, the Federation of Korean Industries Jung-Bae Chun, Congressman, Uri Party Seung-Hee Hahm, Congressman, United Liberal Democratic Party Euysung Kim, Professor, Yonsei GSIS

PANEL 2 Election Campaign of Corporations and Private Organizations & Responsible Politics

Chair	Young Rae Kim, Professor of Politics and Diplomatic Relations, Aju University
Presentation	Yong Joo Jeon, Professor of Politics and Diplomatic Relations, Dongguk University
Discussants	Suk Keun Yoon, Chief of Law and Operation National Election Commission Seung-Chul Lee, Chief of Economic Research The Federation of Korean Industries Hoon Jang, Professor of Politics, Chung-Ang University Chung-Ha Jin, Chief of Political Affairs Dept. Federation of Korean Trade Unions Sang Young Rhyu, Professor, Yonsei GSIS

PANEL 1

**Political Fund Donation of Corporations &
the Relationship between the Government and Corporations**

<PRESENTATION>

Corporate political donations and the Relationship between the Government and Corporations

Jongryn Mo, Professor, Yonsei GSIS

1. The current political fund-raising system in Korea

- The current Korean system regarding political funds is different from that of the United States and Japan in the following two respects.
 - First, direct donation, whereby a company gives money directly to a politician, is allowed in Korea while it is not in the United States and Japan.
 - Second, the supporters' association does not have to report the fund-raising list to the election commission nor does it have to open the list to the public in Korea. By contrast, in Japan and the United States, all fundraising information beyond a certain amount must be disclosed and made public, thereby significantly enhancing transparency of political funds.

2. The problems with the current fund-raising system

- We need to correct the current fund-raising system that allows direct company donations.
 - Even in developed countries, where the problem arising from the close relationship between business and politics is not severe, direct company donations are prohibited. The prohibition is designed to prevent an overflow of political funds, to discourage political corruption, and to keep the supply principle of political funds.
 - In a democratic political system, the individual is the basic unit of political participation. As such, use of corporate funds for politics violates the principal of democracy since corporations are not specific individuals and therefore should not have a say in politics through donating political funds.
 - In Korea, special consideration must be given to the prohibition of direct donations since there is a history of close relations between business and politics as well as the fact that Korean businesses usually have opaque corporate management.
- In the current system, the company and organization are regulated at the same level.

- To regulate an organization's political fund-raising and donation and intermediation activity in the same way as a company is regulated is to undermine a citizen's actions like voluntarily forming an organization or participating in the election process through an existing organization.

3. Recommendations

- The first recommendation is to enhance transparency by opening the donation lists to the public, unifying banking accounts for political funds, and encouraging the use of check or credit cards for spending political funds.
- The second recommendation is to ban direct donations and at the same time encourage the company to participate in election campaigns through organizations and donate indirectly.
- In summary, the government should ban direct donation and encourage political participation through indirect contributions through various organizations.

WRITTEN DISCUSSION>

Corporate Provisions of Political Funds

Jong-Hee Park, Congressman, Grand National Party

Chair, Subcommittee on Political Fund Law,
Special Committee for Political Reform

The revelation that politicians in both the controlling and opposition parties were involved in illegal political fund-raising has severely deteriorated national confidence in the politics. The Subcommittee on Political Fund Law under the Special Committee for Political Reform is designed to promote and enforce transparent political fund-raising and transparent usage of political funds. The Subcommittee finds this presentation very interesting and we will try to incorporate many of the issues presented today to the extent that they are possible. However, taking reality into consideration, we will come up with a reform plan that will embrace the suggestions in this presentation and also be practical in application.

**Political Funds and
the Relationship between the Government and Corporations**

Beum Sik Kim, Chief of Political Fund Dept., the National Election Commission

With the country confused with political fund-related scandals, our commission believes that it is high time to carry out determined political reforms. This presentation suggests that corporations should not directly provide politicians with political funds, and they should use other entities such as the National Election Commission or economic organizations. Along the same line, our commission already suggested a system whereby a corporation may provide political funds through a third entity for a specific party in 1999 and 2001. There are several things that we must keep in mind before introducing this system. First, there are concerns over how the money can be equally allocated to all parties. Second, we have to come up with a solution that enables stable acquirement of political funds.

Political Fund System Reform

Seung Chul Lee, Chief of Economic Research, the Federation of Korean Industries

Currently, because corporations are permitted to provide political funds directly to politicians, corporations are not free from politics. In addition, illegal political contributions have been made and justified under legality of the direct provision of political funds. In order for corporations to be free from political fund-related scandals and be dedicated to their own business, the link connecting corporations and politics should be eliminated. For this, it is a good idea that third-party entities mobilize political funds from corporations and deliver the funds to the politicians. This will ensure transparency in political fund-raising and also free corporations from political pressure. In addition, in order to successfully put this system into place, fund-providers under this system should be able to see their contributions delivered to the party they like.

VERBAL DISCUSSION AND Q&A>

Hee Ryong Won, Congressman, Grand National Party

Direct corporate donations must be prohibited. In addition, one percent of the corporate tax should be used as political funds, and political donations by companies, whether or not it is under the name of the corporation or an officer, should be banned. If a company which doesn't pay corporate tax or an individual donates political funds, the political party should report it to the election commission within 48 hours, and the election commission must open the list of the donations exceeding one million won to the public.

Euy Sung Kim, Professor, Yonsei GSIS

The concept of intermediated donations is a good idea for ensuring independence and transparency. However, in order to sever the close relationship between business and politics, political funds should be distributed by the third party irrespective of the donating company's intent. The problem that arises then is that no one will donate political funds.

Joongi Kim, Professor, Yonsei GSIS

First, I agree with the idea of banning direct corporate donations. Second, when it comes to indirect donations, the staffs might pay the political funds by force because of the top-to-bottom management in Korean corporations. In other words, it might be another de facto tax for the company. Third, there is a problem with the voters as well. It is important to make the people who do not participate in voting to vote. Imposing fines or adopting Internet voting are some possible options.

Hahm Joon Ho, Professor at Yonsei GSIS

According to the basic concept of economics, price goes up when supply decreases. By the same token, does the return from political funds increase when the supply decreases? Problems with allocation might arise when there is increased demand with decreased supply. In short,

demand must also be decreased at the same time because the decrease in supply can worsen the transparency problem.

Answer, Mo Jong Ryn, Professor at Yonsei GSIS : The political fund market can be divided into corporation funds and private funds. If corporate funds decrease, the supply of private funds will increase. Currently, individuals are not active in donating because they simply use the company's money. By prohibiting the use of direct corporate donations, we can increase private participation.

PANEL 2

**Election Campaign of
Corporations and Private Organizations
& Responsible Politics**

PRESENTATION>

Election Campaign of Corporation and Private Organizations & Responsible Politics: Liberalization of Idea Market in Politics

Yong-Joo Jeon, Professor of Politics and Diplomatic Relations, Dong-Eui University

1. Background

- As illegal election funds from corporations were revealed to the public, the efforts for institutional reforms for transparent and democratic political system to liquidate political corruption that has been blocking development of Korean politics are reinforced.
- The discussions to re-organize and reform regulations regarding election funds to establish transparent relationship between private corporations and politicians have been in rapid progression, and specific reform alternatives are already suggested.
- However, the problem lies with the concentrated attention to a specific subject on reform measure, which is “regulation” of illegal political funds. This subject has received particular attention for its appeal to the mass, but preponderance to such subject alone can cause subsequent problems.
- In order for corporations to freely participate in democratic political system with stable and transparent manner, other legal and democratic ways than provision of political funds must be institutionalized.
- Through an open debate on “Election Campaign of Corporations and Other Economic Entities,” how the relationship between corporation and politics will reasonably resolved from institutionalization of regulations: other than those that are related to political donations.

2. Present Regulations and Actual Application Condition

- The character of present election law is somewhat non-restrictive by allowing direct

donation of political funds. However, as for other types of election campaigns for private organizations, the present law is substantially restrictive.

- According to Public Election Law, Article 87's clause on 'Prohibition against Election Campaigns for Organizations,' "organizations or institutions cannot support or object candidates of particular parties under the name of organizations' representatives, regardless what kinds of organizations the representatives work for.

- However, according to Article 81, the organizations/institutions can hold
 - According to Article 81, however, organizations/institutions can hold an open forum by inviting election candidates in the case of presidential, city or provincial elections.

- On the contrary, for organizations other than corporations and economic entities, the Election Law has been revised to a more non-restrictive fashion.
 - Labor unions can donate political funds through special endowments (Political Fund Control Law, 2nd Clause, Art 12). In addition, they can support or object to particular candidates or parties (The Election Law, Art 87).
 - In the case of social organizations, activities like monitoring election irregularities to promote fairness in election campaign are allowed (The Election Law, Art 10).

- As a result, corporations and other economic organizations' election activities were confined to the form of political donations while other institutions' could exercise election campaigns in various ways.
 - Representatively, "2002 Presidential Election Voters' Federation" and "Council for Fair Election" supported civil interest groups' active voter's movement and presidential candidate, Young-gil Kwon
 - On the other hand, economic entities and organizations like the Federation of Korean Industries did not publicly support specific candidates, but just held forums between the candidates—activities protected by law.

- From the above examples, the problem of present regulation can be pointed out as limitation for legal participation, which was mostly done by political funding, of corporation and economic institutions in politics.

- In addition, with such regulatory limitations, corporations and economic entities participated in politics only through political donation, fearing repercussions like political revenge.

3. Theoretical Debates for Regulatory Reform

- To solve the indicated problems and suggest reasonable directions for regulatory reforms, normative discussions about elections under democratic regimes are required.
- Inclusive and competitive representation for socio-political benefits must be guaranteed in the elections of democratic regimes.
 - At this point, the groups of voters can express their opinions for their benefits, largely through donating political money and participating in political communications, notably political debates.
- Formation of a free political marketplace with diverse political ideas and perspectives is important. This is because when voters with full information of specific policies make the right choices, meaningful election results are possible.
 - When competitive and conflicting messages from political groups are presented to the voters, they lead voters to make judgments in political circumstances, since through such information, voters come to make ‘right decisions’ from analyzing all the displayed perspectives.
- In order for “Quantitative Expansion” and “Qualitative Advancement” of the issues to be accomplished, progress in free “political marketplace” of political ideas is essential.
- Since the need for institutional protection of various political opinions for various political benefits in election is justified from above, this must be the standpoint for future regulatory reforms for election related laws.

4. Examples from the United States and Korea

- In case of the U.S., political fund control has been strengthened whereas political communication has become more of a non-restrictive quality since it is approached with a pluralistic perspective.
- For “freedom of expression” and “public’s right to hear”, political communication is non-regulatory, but three regulatory standards can be implied to control political communication.
 - First, the contents of the political message

- Second, the subject to which the messages are relayed
 - Third, the method in which the messages are presented
- With the above standards, corporations and economic entities can exercise the following political activities:
 - Express advocacy: if the messages either support or object particular candidates, the subjects of such messages are limited to the officers and shareholders of corporations and economic institutions, and the messages cannot be broadcast. However, theoretically, the messages can be distributed through other mediums such as internet.
 - Issue advocacy: if a specific candidate is not mentioned and only support for a specific policy is presented within the political message, such message can be broadcast to the public.
 - Candidate endorsement: if a corporation supports specific candidates, supporting messages can be sent to executive level officers and managers, their family members, and to the shareholders, but they cannot be sent to regular company employees.
 - Invitation of candidates by corporations: specific candidates can be invited for forums and debates that are held by the corporation, but participants of such gatherings are limited to executive level managers, shareholders, and their family members.
 - Support for non-partisan debates: corporations can fund debates for at least two election candidates that are supported by nonpartisan groups.
 - Voter guide: guides on election pledges of at least two candidates can be distributed to the employees of the corporation, but the contents within the guide shall not contain any support or favorable ratings for any particular candidate.
 - Candidate voting records: brochures that contain information about at least one candidate's political tendencies in terms of policies can be distributed to the public, but they cannot carry any support or objection to a particular candidate.
 - In case of Korea, political communication is tightly regulated, but regulations are ambiguous. For example,
 - According to the Election Law, Art 93, from 180 days prior to election, no one can air commercials or try other forms of media to support or object any candidates or parties in order to influence the election results.
 - For instance, because of the above article, critical commercials related to the 'separation of dispensary from medical practice and medical unification' on major newspapers by the Federation of Korean Trade Unions, Korean Federation of Social Service Workers' Union, and the National Health Insurance Corporation's Union were

eliminated by the national election commission.

- The above action by the election commission to eliminate a commercial that did not contain the name of a particular party or candidate was deemed as an overreaction to Art 93.
- Therefore, the ability for Korean corporations and other economic entities' to participate in political expression is severely limited, which leaves political funding as the primary means of political participation.

5. Direction for Regulatory Reform

- Major suggestion: promote transparent political activities by corporation and economic institutions through political funding through rational regulatory measures. In cases of political communication, induce 'market place for political ideas' with non-regulatory reform measures.
 - Liberal evaluation of candidates' or parties' policy pledges and the relaying of such evaluations to the vast range of voters through various mediums should be encouraged.
 - However, when the messages are presented, the subject who is responsible for such messages must be stated so that the voters can clearly perceive for whom and for what particular political agenda the messengers are representing.
- Since existing parties are monopolizing policy debates during elections despite their insufficiency in policy development, expansion of the marketplace for political ideas is necessary to incite policy competition between the parties.
- Additionally, political satisfaction of diverse groups of voters, which include those affiliated with corporations and economic entities, can be enhanced through regulatory reform and by opening more channels for them to express their concerns.
- However, considering the "representation" and "responsibility" of the subject who relays opinion on a particular policy, discussion on the relaying entity's qualifications may be necessary.
 - For example, the subject that presents a political message should be an economic entity or labor union that represents a particular industrial group of minimum scale rather than a small individual private firm.
 - Or the subject should be a public interest group with a minimum of number of designated members.

- Or the subject should not be an organization that receives support from the government.
- Finally, regulatory measures of the subject and the messages the subject sends out when corporation or economic entities state its support for particular party or candidate seem to be debated within longer period of time.

WRITTEN DISCUSSION>

Election Campaign of Corporations and Other Organizations

Suk Geun Yoon, Chief of Law and Operation, the National Election Commission

The market for political ideas in Korea does not receive as much protection as it does in other countries. When we look at the revised Election Law of 1994, the number of subjects who can participate in an election has increased, but the methods of campaign are still under the same regulations. Therefore, reforms regarding campaign methods are necessary. The issue of regulatory reform should not be left just to the politicians, but academics should be involved in more active discussion of such issues as well.

The following is an outline of the present regulations for election campaigns of companies and other organizations.

Organizations/institutions

How does the Election Law classify organizations?

- Organizations that promote fair election
- Organizations that may (may not) participate in the election process
- Organizations designed for election campaigns (illegal)

Methods for organizations to participate in elections:

- Organizations cannot do more than the range individuals can participate.
- Expressing an organization's opinion through the Internet, telephone and pamphlet.
- The following are illegal: conferences, picketing, prints, set ups, signature-seeking campaigns

Regulatory reform (the reason why it is not being progressively reformed)

- Election activities of organizations cannot be protected any more than those undertaken by parties or individuals.

Examples from abroad

- Activities by civil organizations are no less limited or no more allowed than individuals according to the law.
- Parties are not considered more superior than civil organizations (except in Japan)
- Completely free: United States, Great Britain, Germany
- Partially limited: prints and posters
- Japan: the same as Korea

Corporations

Election campaigns are not prohibited.

Employees cannot campaign an election by using their position within the company.

Those who are in managerial or executive positions cannot order their employees to participate in the election campaign.

VERVAL DISCUSSION and Q&A>

Chung-Ha Jin, Chief of Political Affairs Dept., Federation of Korean Trade Unions

Taking a look at the current Korean politics, people are accustomed to receiving political money, while feeling unaccustomed to paying money for politics. In other words, people intend to take part in the politics only when they are given government's money. In addition, it is very difficult for new figures to enter the politics. And also, the recent expression, "political funds equal investment" reveals how serious the issue of provision of political funds is in this country.

Hoon Jang, Professor of Politics, Chung-Ang University

The Korean politics currently lies in the asymmetry between a small number of organized people and a huge number of unorganized people. In this juncture, discussions and pressure from the academic world is very important. In addition, election regulations based on distrust and controls should be abolished, while free election campaigns should be encouraged. Provided that, with a free election campaign system, concern will rise over fairness, transparency and financial operation methods of organizations and interest groups taking part in election campaigns. Furthermore, we must take into consideration in advance whether free election campaigns would result in fairness and transparency in the politics. In the end, a real freedom in election campaigns will occur only when there is a change of consciousness.

Seung Chul Lee, Chief of Economic Research, the Federation of Korean Industries

At present, there is no election-related information or, if any, it is very insufficient in the Korean political market. More importantly, it is currently impossible even to create a political market. This is because there is no demand for freedom of political ideas and political information. Under this circumstance, it is the National Election Commission who has to take the lead in creating a political market in this country.

Sang Young Rhyu, Professor, Yonsei GSIS

Political funds and markets for ideas are deeply related to each other, for funds and ideas are deeply related in the first place. The most important thing for us to do is to clarify the relationship between funds and ideas. Parties should set up their own policy lines, while the electorate should be able to vote according their own interests. When it comes to corporate political funds, good corporate governance will be the best solution in that it will clearly separate corporate and individual funds, and eventually, corporations with a good corporate governance will provide political funds in a normal and transparent way.