

**Central control and local government performance
in the context of fiscal crises
: the South Korean experience**

Submitted by Suhee Kim to the University of Exeter as a thesis for the degree of
Doctor of Philosophy in Politics
In October 2015

This thesis is available for Library use on the understanding that it is copyright
material and that no quotation from the thesis may be published without proper
acknowledgement.

I certify that all material in this thesis which is not my own work has been
identified and that no material has previously been submitted and approved for
the award of a degree by this or any other University.

(signature)

Abstract

Rescued from Japanese colonization after 36 years, Korea resumed independence as The Republic of Korea in 1948 grounded on liberal democracy. The democratic institution promised a system of separation of power, democratic rights and freedom for all people. In this context, local autonomy was experimented with but soon ceased due to internal instability and local government was suspended until the 1990s.

Institutionally Korean central government undertook a steady shift toward decentralization over the past two decades or so, but that shift has more recently been tempered by the exercise of stronger central controls facing fiscal crises. This thesis argues that centralism is still a predominant ideology in intergovernmental relations despite the implementation of local autonomy. Central controls exhibited democratic change in some cases but the core nature of controlling local government has survived through institutional change appearing in different modes since the introduction of local autonomy. The democratic change in central control is declared to increase local autonomy. From this viewpoint, the democratic change in central control is assumed to improve the performance of local government based on the theory that the growth of local autonomy motivates local government to improve its performance. Financial crises were used to justify the revival of pervasive central controls. So this thesis is concerned with the relationship between central control and local performance in the context of fiscal crisis, whose focus is driven by the experience of fiscal crises over recent years in Korea. An extensive statistical analysis, drawing on a unique data base, reveals that, despite the local autonomy rhetoric, overall current central controls have a negative link with local government performance. Democratic change of central controls has not significantly improved the performance of local government. This evidence supports the view that even after the revival of local autonomy in Korea; central control plays a role of regulator rather than a role of constructive engagement with local government and emphasises institutional stability. Thus central government has not yet developed the creative potential of democratic local government and should more positively make an effort to establish democratic central-local government relations.

List of Contents

Abstract	1
-----------------------	---

Chapter 1. Analysing Korean central-local relations

1. The growing importance of local government	11
2. Central-local relations in Korea	13
2.1. The Constitutional Status of local government	13
2.2. Central-local relation in Korea	16
3. Research questions, theories and hypotheses	22
4. Methodology and research design	29
5. Structure of the thesis	33

Chapter 2. Central controls and local government in Korea

1. Why central controls?	35
2. The history of centralism in Korea.....	37
2.1. Pre-war period (A.D. 10thC- 20thC).....	37
2.2. Japanese Colonial Rule (1910-1945)	38
2.3. The foundation of the republic (1946 – 1960)	40
2.4. The military regime (1961- 1992).....	41
2.5. The 6 th Republic to present day (1992-)	43
3. Characteristics of local autonomy in Korea	47
3.1. The rationale of local autonomy	47
3.2. The legislative power of local government.....	49
3.3. Fiscal dependence on the centre.....	50
3.4. The functional base of local government	52
4. Local governments in Korea	54
4.1. External and internal structure	54
4.2. Elected local politicians.....	57
4.3. Party politics in local government	60
4.4. Understanding regional governments	62
5. Conclusion: the institutional context of local autonomy in Korea	65

Chapter 3. Fiscal crises: the context and the Korean experience

1. The context, responses and approaches	68
--	----

1.1. The various dimensions of fiscal crises	68
1.2. To whom is there fiscal accountability?	70
1.3. Responding to fiscal crises.....	72
1.4. Analysis from the perspective of historical institutionalism	74
2. Financial crises in Korea.....	76
2.1. Legacy of the past	76
2.2. Political debates	79
2.3. Institutional changes.....	81
2.4. The effect on local government	83
3. Fiscal crisis of local government in Korea.....	84
3.1. Legacy of the past	84
3.2. Political debate	88
3.3. Policy responses	89
4. Conclusion.....	92

Chapter 4. The evolution of performance management and its impact on central-local relations in Korea

1. Introduction.....	94
2. Managing performance in the public sector	96
2.1. Evolution of managing performance in many countries.....	96
2.2. The reasons for introducing performance management	98
2.3. Some critical qualifications	100
2.4. What values are measured?.....	102
3. Performance management in Korea.....	105
3.1. Development of policy evaluation.....	105
3.2. GAA as performance management	107
3.3. The Korean model of Performance Management.....	110
4. A profile of local government performance management in Korea	114
4.1. The integration of performance instruments	114
4.2. Joint Performance Assessment	117
4.3. The self-assessment system of local government	123
5. Conclusion: Korea's effective performance management regime	126

Chapter 5. Fiscal Institutions of local government

1. Drivers of fiscal reform.....	128
1.1. The lesson from the financial crisis	128
1.2. The NPM paradigm	129
1.3. Political democracy	131

2. NPM inspired fiscal reforms	132
2.1. Accrual based accounting.....	133
2.2. Introducing programme budgeting	135
2.3. Normative controls and cooperative relations	138
3. Emergency Spending.....	141
3.1. Escaping global economic crisis	141
3.2. Coercive controls and threat of sanction.....	143
4. The reform of local tax	144
4.1. The acquisition tax cut.....	145
4.2. The increase of local shared tax.....	146
4.3. Introduction of local income tax and local consumption tax.....	148
5. Conclusion: greater fiscal autonomy?	149

Chapter 6. Links between controls, crises and performance

1. Introduction: assessing the performance of local government	152
1.1. The values and performance of local government	152
1.2. The determinants of performance.....	156
1.3. The Models for analysing performance.....	159
2. Central government control.....	161
2.1. Does control matter?	161
2.2. Taxonomy of control	164
2.3. Control and performance	167
3. Fiscal Crises	170
3.1. The window of opportunity for reform	170
3.2. Taxonomy of crises.....	171
3.3. Crises and performance	173
3.4. The combined effect of controls and crises on performance	175
4. Conclusion	177

Chapter 7. Central controls and local performance: a statistical case study

1. Introduction	179
2. Models and methodology	182
2.1. The individual model for central controls	182
2.2. The individual model for fiscal crises	184
2.3. The combined model	185
2.4. Fixed effect panel data method	186
3. Definition of variables and sources	188
3.1. Dependent variables.....	188

3.2. Explanatory variables	194
3.3. Control variables	197
4. Conclusion.....	200

Chapter 8. Empirical results and the pattern of findings

1. Introduction.....	202
1.1. Data description	202
1.2. Correlation analysis.....	204
2. Regression analysis.....	205
2.1. The strength of fixed effect models	205
2.2. The Individual Model for central controls	207
2.3. The Individual Model for fiscal crises.....	211
2.4. The Combined Model with NFC	213
2.5. The Combined Model with LFC	216
3. Findings.....	217
3.1. Patterns at a glance	217
3.2. Constrained constitutional status of local government.....	220
3.3. The impact of fiscal crises	222
4. Conclusion.....	223

Chapter 9. Institutional change and the effect of central controls

1. Introduction.....	225
2. Revisiting research questions.....	228
2.1. Did central controls affect local government performance?	228
2.2. Did the different mode of central controls impact differentially?	229
2.3. What was the impact of financial crises?	233
3. The institutional changes in central-local relations.....	234
3.1. Dynamism of central controls	234
3.2. Unfulfilled normative and cognitive changes	236
3.3. More fiscal power to local government	240
3.4. The resort to coercive controls	242
4. Conclusion.....	244

Chapter 10. Conclusion: nurturing local democracy in Korea

1. The incongruent changes and retarded performance	247
2. Distinctive contribution to knowledge and review of the research.....	252

2.1. Contribution	252
2.2. Limitation of the research	256
3. Suggestions for government policy and future research	258
3.1. Recent developments and suggestions	258
3.2. Suggestions for future research.....	262
Appendices	265
References	271

List of Tables

Table 2-1 Functions of local government.....	52
Table 2-2. Overview of Korean regional government (MOPAS, 2013)	64
Table 3-3 Diagnosed groups as fiscal distress (MOPAS, 2011c).....	85
Table 3- 4 Local government’s fiscal indicators.....	86
Table.3- 5 Local fiscal crises calculated by the debt to budget of 40%	86
Table 4-6. Four ideal types of managing performance	111
Table 4-7. The sectors of assessment in the 2008 JPA	118
Table 4-8. Results of the 2008 JPA	120
Table 4-9 JPA performance FY2012 and results of 2014 election.....	122
Table 4-10. Type of self-assessment.....	124
Table 7-11. JPA development and sectoral focus by year	191
Table 8-12. Descriptive Analysis	204
Table 8-13. Influence of Normative Controls on Local Performance	207
Table 8-14. Influence of Remunerative Control on Local Performance	208
Table 8-15. Influence of Coercive Controls on Local Performance	210
Table 8-16. Coercive Controls on Local governments with lowest performance	210
Table 8-17. Influence of National Financial Crises on Local Performance.....	211
Table 8-18. Influence of Local Fiscal Crises on Local Performance.....	212
Table 8-19. Normative Controls Interacting with NFC on Local Performance ...	214
Table 8-20. Remunerative Controls Interacting with NFC on Local Performance... ..	215
Table 8-21. Coercive Controls Interacting with NFC on Local Performance	215
Table 8-22. Normative Controls Interacting with LFiC on Local Performance ...	216
Table 8-23. Remunerative Controls Interacting with LFC on Local Performance.....	217
Table 8-24. Summary of empirical findings	218

List of Figures

Figure 2-1. Path of governments and parties in Korea	46
Figure 2-2. Two-tier structure of the Korean local government.....	55
Figure 2-3. Organization Chart of Seoul Metropolitan City	56
Figure 2-4. Political map of Korea	65
Figure 4-5. The structure of government activity assessment	108
Figure 7-6. Framework of the research	181

Acknowledgement

I would like to express my deep appreciation to my supervisor, Professor Stephen Wilks for his precious support and encouragement. He has great knowledge about Korea and led me to find out why local government is important and why I want to study local government, which will remain in my mind and influence my life in the Korean government. I also appreciate his wife Philippa who always welcomed me and my family.

Without my great friends, I could not have endured the study and life in Exeter. Jan spiritually supported me when I was in trouble. Rosemary and Simon loved and cared for my children like a family. Rosemary Anderson gave helpful advices and plenty of suggestions for improving my English.

Most of all, I acknowledge the assistance of my Government in providing an overseas scholarship. Also I gratefully have to acknowledge the support of my husband, Seungwon Yu, and the joyful encouragement of my children, Chanwoo and Jiwu.

List of Abbreviations

BAI	Board of Audit and Inspection of Korea
BOK	Bank of Korea
BSC	Balanced Scorecard
CGA	Committee for Government Activity Assessment
GAA	Government Activities Assessments
GPE	Government Performance Evaluation
JPA	Joint performance Assessment
KSO	Korea Statistical Office
LFS	Local Fiscal Crises
MPO	Management of Performance Objectives
MOGAHA	Ministry of Government Administration and Home Affairs (1998-2007, 2014-)
MOPAS	Ministry of Public Administration and Security (2008-2013)
MOFE	Ministry of Finance and the Economy (1998-2007)
MPB	Ministry of Planning and Budget (1999-2007)
MPF	Ministry of Planning and Finance (2008-)
NEC	National Election Committee
NFC	National Financial Crises
NPM	New Public Management
PCGID	Presidential Committee on Government Innovation and Decentralization
PCLA	Presidential Committee for the Local Autonomy development

Chapter 1. Analysing Korean central-local relations

1. The growing importance of local government

Over the last decade from 2001 to 2010, expenditure undertaken by local governments increased by 0.4%, whereas central government expenditure was reduced by 0.8% in terms of general government expenditure in Organization for Economic Co-operation and Development (OECD) countries (OECD, 2013). The level of fiscal decentralization varies considerably across countries but it is difficult to deny that total spending by local governments is gradually increasing as shown by the longitudinal statistics. This could also mean that, at the moment, local government is much more closely involved with our lives. However, has performance of local governments improved in line with its increased size and importance? Emphasis on government performance has been on the rise across many countries and this phenomenon appears likely to continue after the global economic crisis of 2007-8 (Talbot, 2010). Thus, literature on performance management and measurement in the public sectors has been thriving in recent years. Some commentators deal with the theory and method of performance management (Bouckaert G. and Halligan J., 2008; Talbot, 2010), others with performance determinants of local government (Andrews et al., 2012; Boyne and Enticott, 2004; Boyne et al, 2011; Walker and Andrews, 2015). There are comparative studies of policy of performance management and its development across the different countries (Pollitt, 2006; Christensen et al., 2003). Nevertheless these studies downplay the widely accepted reality that local performance might be affected by the dynamics of central-local government relations.

The issue of central-local government relations can be rechristened as decentralization. Decentralization policy has been directly connected with the increase in local autonomy, which has been chosen as a favourite reform agenda over the last twenty years in Korea. Why has decentralization policy been so attractive to national politicians? Now why has local government become so important in Korea? As outlined in chapter 2, originally local autonomy was legally based on the Korean constitution but it could not be properly implemented

due to the Korean War and the unstable domestic situation. Then Korean local autonomy ceased again when, on the 16th May 1961, a military coup took place. Until the Local Autonomy Act was amended in 1988 local councils were legally prohibited and, even after 1988 the organizing of local councils was not seriously implemented. At the end of the 1980s however, Korea embarked on the path to full liberal democracy and democratic local government was seen as a vital component of those enlightened political reforms. It can be said that Korean local autonomy was partly resurrected in 1991 by election of local councillors and completely resurrected in 1995 by the direct election of top local government officials. Since then the consolidation of local democracy has been a consistently high priority goal for successive Korean governments.

Local government is a multi-purpose institution which assumes responsibility for a broad range of functions such as articulation of political priorities, consumer of public finance, service provider and enterpriser. Colin Copus (2014) focuses on the political and service provision roles of local government in England and explores how the governing role links to service provisions which enable local politicians to make decisions that reflect their political preferences. The political role as an elected government has been frequently downplayed due to the embedded centralism. The implementation of local autonomy in Korea, thus, means to fulfil 'political democracy' to the public. Compared to the economic development, the level of political democracy deserves to lose the trust of people. In the mid-1990s determined pursuit of local autonomy could have heralded the change of power between central government and local government. But the initial measures to organize local councils by direct election and to elect the head of local government were perfunctory, undertaken without sufficient preparation. In fact, the choice of local autonomy has a determinate influence over central-local government relations and demands a deeper discussion about democratic decentralization.

In reality, local governments are at the forefront of delivering and providing the core public services on which citizens rely in their everyday life. Local governments lead the development and implementation of innovative solutions to new and pressing social problems (Walker and Andrews, 2015: 101). The volume of activity of local governments, as measured by their expenditure, is becoming

huge. In terms of the 2012 budget, Korean local governments spent 129 billion dollars, whereas central government spent 130 billion dollars (MOPAS, 2012). As revealed by the OECD Factbook 2013, from 2001 to 2010, whereas Korean central government expenditure decreased by 2.6%, Korean local government expenditure increased by 0.8%. If it is taken into consideration that a significant amount of social welfare activities are transferred to local governments in response to an aging society, expenditure of local government will continue to grow in volume. This trend in financial decentralization presumably reflects the expansion and complexity of local government roles. Thus it is timely and important to explore central-local government relations from selected cases in Korea in order to enhance the performance of Korean local government.

Perhaps due to the historical retardation of local government in Korea there is a very sparse literature dealing with even the basics of the system and how it operates. There is almost nothing available in English language which provides a good scholarly review of Korean local government, and only a scattering of comparative studies which include Korea. This thesis therefore draws mainly on a Korean literature which is itself relatively modest. As the system of local autonomy has developed and matured over the past twenty years this absence of secondary literature has become an unfortunate gap in understanding comparative local government. It is unfortunate both for Korean reformers who wish to compare domestic developments with other national models, and it is unfortunate for scholars of local government who might wish to draw on the Korean experience. The rapid and admirable democratisation of Korea can hardly be fully understood without consideration of the growth of local autonomy which, together with Korea's rapid and remarkable recent economic growth, makes it an important comparative model. This thesis therefore provides information and analytical insights which contribute to filling a research vacuum.

2. Central-local relations in Korea

2.1. The Constitutional Status of local government

In terms of engagement with the theory of central local relations, it is necessary to understand the constitutional status of local government. The major structural

question is whether local governments possess general competence powers to do what is deemed necessary for the well-being of their community or they only undertake specific functions according to powers given them by central government (Goldsmith and Page, 2010: 34). The available typologies of local government systems are not comprehensive or fully satisfactory (Swianiewicz, 2014: 292). Nevertheless, the most well-known typology is based on those of Page and Goldsmith (1987) and Hesse and Sharp (1991). In the Franco or Napoleonic group referring to Southern Europe, local government is highly protected in the constitution but local governments are restricted to those function that central government explicitly grants to local governments (Denters and Rose, 2005: 10). In contrast the Anglo model refers to the UK and Ireland in which local governments are unprotected by the constitution but are similarly restricted to those functions that central government explicitly grants to local government (ibid: 10). The local governments of the Middle European group such as German and Switzerland have more formal constitutional status. They are protected in the constitution and possess a general functional competence. In federal systems usually the state level of regional government has the constitutional responsibility for overseeing local government, while in unitary systems central government occupies the commanding position (Goldsmith and Page, 2010: 34).

Korean local government belongs to the unitary system. The Korean constitution grants local autonomy to local government. The Korean local autonomy system is generally considered to be influenced by German local autonomy reflecting norms developed during the Japanese colonial time (Im, S.B., 2008: 62). Hierarchical upper and lower tiers of local governments are established under the constitution of the Sixth Republic and granted legal personality, which is the typical appearance of German local government system. The German local governments do not have complete freedom in performing their tasks because 'mandatory functions' are assigned to local government by state legislation (Denters and Rose, 2005: 122). In this context, the Korean local governments deals with some mandatory affairs delegated from the central government in addition to voluntary local affairs. The sovereignty of a unitary state is indivisible so the devolution of sovereignty over to the local government cannot be conceded (Kim, C.S.,1998: 91). The people who argued for the introduction of organization autonomy in the early days of local autonomy in

Korea were mostly scholars who had studied the experiences of German or Japanese law. They had an opinion that the state is superior to local governments. These scholars' opinions are reflected in the 6th Republic Constitution and the Act of Local Autonomy (Im, S.B., 2008: 63). Korean local government remains constitutionally protected from the political ideologies, policies and priorities of the state. Article 117 of the constitution stipulates that local governments must deal with what is deemed necessary for the well-being of their community and the protection of their property. Thus the existence of local government and local councils is protected by the Constitution but the state legislation can assign limitations on local government functions (see section 3.2 of chapter 2). The Constitution permits the legislative autonomy of local government not 'within the range that does not violate the laws' but 'within the limits set by the laws'. Functions of local governments can be limited by the authority of central government and the National Assembly. Despite the regulation of the constitution, thus, in practice Korean local government has always been subordinate to central control.

Local political leadership is been a key element in efforts to achieve political democracy or to modernize local government. Types and effectiveness of political leadership differ according to decision-making structures and the loci of political power (Bochel and Bochel, 2010: 723). Leadership is also affected by policies and practices transferred through the NPM paradigm, by the quality of elected politicians and senior officials and by the emergence of 'governance' which has tended to spread responsibility and has influenced the change of government relations. To classify the different government relations and the quality of leadership, commentators have defined different forms of local democracy; specifically representative, consensus, network and market forms (Sweeting and Copus, 2012; Bekkers et al., 2007). The nature of local democracy explicitly assumes a combination of political and administrative leadership in order to make autonomous choices but local democracies vary in their ability to digest the quality of leadership equally well (Rhodes and t' Hart, 2014: 47).

The legal position about local autonomy of Korea tends to concentrate power in the hands of the head of local government compared to consensus democracy

which tries to share, disperse, and restrain power in a variety of ways. The Korean local democracy can be said 'pendulum democracy' in that the winner of the last election takes all. This electoral system of Korea fosters competition between a few political parties (see chapter 2). The Constitution acknowledges the existence of local government and their local council equally, but the Act of Local Autonomy attaches the stronger power to the elected executive mayor and governor rather than local council. In order to strengthen accountability of elected politicians, the market democracy model emphasizes efficiency (Bekkers et al., 2007; 300). The market model suggests that the preferences of citizens as clients of government services should be more efficiently channelled to increase responsiveness of local government in the market democracy. Here the local council identifies preferences and wishes of residents and exercises legal controls over the executive mayor. The local council is the representative body and plays the important roles of legislation and audit. Its power is dispersed across all council members. In a complementary sense, to strengthen the ways of working together with local communities, co-governance has been developed and is essential for a healthy local democracy in Korea (Somerville and Haines, 2008: 61). We come back to the constitutional standing of local government when considering the formal legal restrictions of the Korean local government in chapter 2, before going on to research the other aspects of institutions that operate the Korean local autonomy. Conclusions on findings about the strengthening constitutional position of local government are presented in the last part of the thesis.

2.2. Central-local relation in Korea

In accordance with the local autonomy revival in Korea from the mid-1990s, studies about local autonomy have come to quantitatively pile up and qualitatively deepen. Examination of new approaches to implementing decentralization stressed the alternatives such as restructuring into a federal state or differentiated decentralization according to the willingness and capacity of individual local government (Yu, J.H., 2002; Lee, G.W., 2002). Some studies introduced the reform of local autonomy in Japan or the UK: for example, the

moderating mechanism in central-local government relationship of focusing on the role of political parties in the UK(Goh, S.H., 2000); assessment of the process and contents of centring on abolition of delegated activities in Japan (So, S.C., 2002); newly formed central-local government relationships after the decentralization reform in Japan (Jung, D.J., 2003); comparative studies of local autonomy across countries (Kim, S.E, 2001; 2004). The drawback with these studies, however, is that since Korean local autonomy implementation has been in process for twenty years, the questions which identify how central-local government relations are best arranged are not clear to answer. There is no unique theory, ideal model or clear example which can simply be transposed to the Korean context.

The arguments about central-local relations from forerunner countries can give a picture to help understand Korean central-local relations. In Britain, discussions of central-local relations based on the distinction between the agent and the partnership model until the 1960s was dominated by the myth of financial dependence and detailed control, and the parable of local autonomy (Rhodes, 1980; 270). However, there have been a number of dimensions in the study of central-local relations such as the central government's dilemma in controlling local expenditure (Hepworth, 1977); the asymmetric power underpinning both central intervention and local discretion (Marsh, et al., 2003); power-dependence (Thompson, 1967:30-31; Rhodes 1999; 72); the weak centre or 'hollow government' through the influence of political and professional factors like policy networks (Rhodes, 1996; 667). The power-dependence model sees power, in relative terms, hinging on a process of bargaining and exchange. From this perspective, the central-local relationship certainly isn't evenly balanced, but local governments do have significant assets of their own that they can exploit: local knowledge and professional expertise, their networking, and above all their position as the elected representatives of their communities (Wilson and Game, 2006: 186).

Similarly, Muramatsu noted that Japanese central-local government relations changed from vertical control to a horizontal competition model. The vertical administrative control model refers to the central-local relations of Japan during the early post war period (Muramatsu, 1997:28). He suggests characteristic

elements of the vertical control model; first, the agents of delegated powers were governors (or mayors) alone. Initially even though local councils could debate the conditions of the implementation of delegated tasks, the legal structure made it impossible for them to participate in decision making regarding these tasks. Second, local governments' vulnerable financial status depending on the central government's subsidies created a position of superiority for the centre over localities; although many operations in central public policies were delegated to local authorities, their independent financial power was eroded by central government. Third, the system whereby administrative officials were dispatched from the centre to work for regional governments made it easy to enforce, on the local level, administrative standards established at the national level. He also suggests a more recent model of "horizontal political competition" to interpret the central-local relationship in the age of regional development and in the period of citizens' movements and leftist local government. This perspective emphasizes the central government's control over a local area in the implementation of industrial policy, but also analyses political processes at the parochial level that combine the power of business and labour (Muramatsu, 1997:35)

For a considerable period since the beginning of local autonomy, central-local relations in Korea can be seen through the agent model in which local authorities implement national policies under the supervision of central government, rather than the partnership model in which local authorities have considerable discretion in designing and implementing their own policies. In addition, the unique history of being ruled by Japan for 36 years and the centralized bureaucracy tradition make Muramatsu's model more appropriate for understanding Korean central-local relations. During Japanese occupation of Korea from 1910 to 1945, Japan changed the many political and administrative systems of Korea under centralism to the same as those of Japan (Nam, C.W., 2010; 213). As a result, the Japanese model of vertical control affected the Korean central-local relations on the basis of a similar legal and political paradigm.

However, the vertical central-local government relationship has faced the demand for change since the central government was confronted by politically

autonomous localities in the mid-1990s. The Kim Dae-jung government (1998-2003) adopted decentralization as a preferential policy to improve political democracy in Korea. The Roh Mu-hyun government (2003-2008) labelled as 'the Participatory government' conspicuously paid attention to the establishing of new central-local government relations. These presidents were so pro-local government because they were those who had led the democratic movement and replaced the authoritarian regimes (see section 2.5 in chapter 2). The Committee on Innovation and Decentralization (CID) was in charge of the government reform (CID, 2007). The road map for decentralization of CID was "from government to governance, from government to civil power, from centre to locality, from alienation to participation". In particular the vision for "the government being with residents together and constantly self-innovative where creativity and diversity of local communities are respected and the society is based on discretion and responsibility (CID, 2007)" suggested the new central-local relationship. Therefore affairs concerning resident services such as education, police, welfare, and facilities management of social infrastructure were planned to gradually transfer to local governments. Along with this, the redesign of fiscal institutions like the local tax arrangements was discussed to improve fiscal autonomy. New partnership relations between central and local government were proposed to alleviate pervasive central controls as an ideal relationship model in many government reports (MOPAS, 2004; Kim, S.E., 2004). It was agreed that central-local relations must not be simple superior-subordinate relations any more.

The trend of the reforms is that the central government gives more discretion and power to the local government and avoids direct central intervention in local autonomy. Nonetheless, the imperative to secure greater efficiency remains in place and central government began to replace direct central control with indirect controls through an emphasis on 'performance'. Specifically, Joint Performance Assessment (JPA, see chapter 4) was produced by the dual pressures of giving more local autonomy and increasing indirect central controls. It has been known to contribute to improving central-local government relations by focusing on performance rather than direct controls and by reducing internal regulations. Central government regulates inefficiency or a waste of budget using the traditional tools such as audit and inspection to find out the cost of services

provided by a local government. Before JPA, local government struggled to respond to more than 70 kinds of individual assessments carried out by multiple central departments as well as audit and inspection by BAI. Although Michael Power (2005), and O'Neill (2002) criticise evaluation-obsessed trends which they find gives expression to low trust phenomenon which exerts control over once self-governing professionals. This is justified by the argument that the government bodies must be responsible for their performance to the public because they are publicly owned and receive public funding by nature (James, 2000: 329).

With the public area's focus on performance, more permissive regulatory initiatives are demanded in order to achieve the goal of decentralization. This change can be examined through the changes of Korean local governments' fiscal institution which was motivated by the experience of the Korean financial crises in 1997-8 (see chapter 3). Korean central government introduced the new financial frameworks of program budgeting and an accrual accounting system but also reformed the local tax system and undertook the major step of introducing local income tax for the purpose of increasing local autonomy (see chapter 5). That was the ground-breaking change in the government sector in the half century since Korea gained independence in 1945. This reform definitely entails a change in the way public officials make policy decisions. The new financial framework was stated to enhance accountability and transparency of local governments' performance.

This thesis endorses a theoretical perspective that maintains that democratic change of central-local government relations is conducive to improved local performance. This positive relationship develops because democratic controls exercised by central government induce an increase in local autonomy. In turn increased local democracy allows flexibility and diversity of policies appropriate for the different conditions of a local government. Since there is the positive relationship between the level of democracy and the efficiency of the public sector across countries (Adam, A. et al, 2011), increased local democracy has the potential to be more accountable to voters than in an authoritarian regime. This mechanism induces the democratic politicians to produce the public good in a more efficient way both by responding to locally articulated preferences and by

meeting those preferences with a sensitivity to local conditions. They are motivated to achieve greater efficiency in order to remain in power (Adam, A. et al, 2011). The empirical studies suggest negativity bias in the impact of performance on electoral support for incumbents (Boyne et al., 2009; James and John, 2007). They found that incumbents in local authorities in the “poor” performance experienced a substantial reduction in aggregate vote share at the election following publication, but there was no equivalent political support for the high performers (Boyne et al., 2009: 567).

The evolutionary central-local government relations since extending local autonomy are supposed to impact the performance which local governments seek to achieve. This study pays attention to the central controls in the transitional period of the central-local government relations and their effect on local government. The issue of the effect of central control on local government also opens up the possibility for reform and the development of policy either between sectors or between countries. The overall purpose is to contribute to the debate about productive reform in regard to central-local relations and performance and we accordingly come back to this debate in the concluding chapter.

3. Research questions, theories and hypotheses

It is widely accepted that the Korean central-local government relations have been changing and continue to do so. We remain, however, uncertain about what it is changing into. The purpose of this present research is to examine how central government exercises control over local authorities and how specific central-local relationships impact a local government's performance, considering the sustained Korean policy direction toward decentralization stated by central government. The pervasive centralism in the hierarchical central-local relationship in Korea is analysed from the perspective of history against a background of political developments which moved only recently in the direction of major democratic reforms which are gradually becoming embedded in political culture and institutions (see chapter 2). In fact, Korea has maintained rapid economic growth with a centralized government system. The government has been highly interventionist in almost every field of policy. According to many empirical studies (Wade, 1990; Cotton, 1992) the economic success of Korea benefited from the centralized government control during the whole period of the development era. In this respect Korea presents a classic model of a successful 'developmental state'.

Ironically, over the last twenty years of local autonomy in Korea, central government has been continuously pressured to transfer power to local government. The central power appeared to be mitigated as multiple controlling mechanisms were gradually reduced in the policy process. By the chance of the financial crises (see chapter 3), the NPM style reform was imported in the effort for decentralization and thus central controls changed towards indirect ways of performance assessment or policy monitoring (see chapter 4). This study will argue that the new fiscal framework of local government appeared to increase local autonomy and local responsibility but at the same time it contained the alternative mechanism by which central government exerts a deep influence on local government (see chapter 5). During the recent global financial crises, however, Korean local government experienced a substantially reduced level of autonomy because the central government exerted hard control over local government spending, pushing local government to use up more budgets by the second quarter for the purpose of balanced stimulation of the economy over the

year. The Keynesian styled-expanding fiscal policy seriously reduced local fiscal autonomy because the local governments were required to comply with the central government regardless of the local fiscal conditions. Facing troubled economic conditions, Korea also enforced policies at the national level with a thorough consistent argument and resorted to coercive controls of local government despite the changed central-local relation in the era of local autonomy. The issues of central-local relations can be reinvented in the ironic situation in which central controls contrive a survival despite the political demand for local autonomy. This thesis seeks to explore the relationship between evolving central controls and local autonomy which is expressed by local performance. It is assumed that there is a positive relationship so that a reduction in central control will create an improvement in the performance of local government although, of course, we have to take care in defining 'performance'. This assumed relationship can be explored and perhaps confirmed by statistical testing of available data. This thesis can draw on officially derived data sets dealing with the performance of Korean local government. The following chapters explore various aspects of central-local relations and the economic and political environment in order to hypothesise relationships and directions of causation. Those relationships are then subject to statistical testing in chapters 7 and 8 which provide important and original quantitative evidence.

In building up to the quantitative chapters the possible relationships between central controls, crises, and the performance of local government will be linked in chapter 6. Assuming that the change for less control and greater local democracy since the extending local autonomy in 1995 was challenged by the financial crises, central controls may not in those circumstances support or increase local performance. With knowledge about the relations between central control and local government performance, we are better equipped to judge the effect and traits of government controls in policy making and the enforcement process. The statistical case study is based on the institutional achievements of the performance assessment system of Korean local government which is noted in chapter 4 and the fiscal reform of the Korean local government which is discussed in chapter 5. Thus we can estimate the degree and nature of local autonomy and how Korea's fledgling democracy has evolved. Also the generic conclusion of this thesis will contribute to providing a theory and establishing a

desirable policy model for central-local relations and performance in developing countries where centralism dominates the overall public sector or there is a need to design new central-local relations.

Although the performance benefits of all the different aspects of strategic management for local government have been examined (Andrews et al., 2012; Walker and Andrews, 2015), there is not so much literature that examines the relations between central controls and the performance of local government. Federico Revelli (2010) proposes interesting literature on the relation between government spending and public service outcomes using a performance measure of CPA (Comprehensive Performance Assessment) and panel data (2002-7) of the UK. His empirical evidence suggests that local public expenditure in excess of centrally set spending standards has a detrimental effect on performance. In this study, the performance assessment is yielded by combination of assessment of the level and the cost of services. The mandatory level of services forces inefficient governments to spend more than a performance-maximizing strategy would imply, and to reveal themselves as bad performers (Revelli, 2010: 193). Walker and Andrews (2015) found by meta-analysis evidence of strong positive performance effects resulting from local government management such as staff quality, personnel stability, and planning. Their finding suggests networking with other actors in the external environment of local government is also important to find a route for higher levels of local government performance. Prior studies, however, overlooked the well-perceived phenomenon that central controls in central-local government relations also can affect local government performance. In this sense, this study raises the question how the change of central controlling modes impacts local government performance.

During the last two decades change of central controls over local government in Korea showed distinct patterns: the trend of increasing local democracy since the local election in 1995 ceased as a result of an increase in central controls again due to the financial crisis in 2008-9. Thus this study is also interested in how financial crises had an impact on the effect of central controls on local performance. Central controls can be classified into various modes in order to investigate whether the different modes lead to different effects on local

government performance. Drawing on well-regarded existing theories, modes of central control can be classified into three components which are employed to make the subjects comply: coercive, normative and remunerative controls (Etzioni, 1975). Coercive controls are measures undertaken by central government to influence local government by means of formulated rules and directives which mandate the local government to act in accordance with what is ordered and conceive the threat of sanction (Vedung, 2003: 31). Coercive controls are not any more preferred policy instruments because they might impair the policy effort of central government in the era of local autonomy. The Korean local government, however, has again recently experienced coercive controls due to financial crises. Reappearance of coercive controls can be said to be a return to centralism against local autonomy. Second, remunerative controls mean in this study that central government controls the amount of local income by the means of local tax policy. Remunerative controls are related to limited local fiscal power and are traditionally popularly used as policy instruments. Third, normative controls of the current study refer to more democratic modes of central control in the changing central-local government relations. Normative controls theoretically mean 'moral persuasion' or 'exhortation' and divert attentions from the strong means of government (Vedung, 2003: 114), and thus it can be said to relate to 'democratic' central controls. They cover attempts at influencing people through the transfer of knowledge; the communication of reasoned argument; and the dispensing of advice (Vedung, 2003: 32). Each mode of controls exercised by central government is supposed to allow different levels of autonomy of local government, which impact local performance. The increase in local autonomy may improve local government performance because, as we mentioned above, the democratic politicians tend to produce the public good in a more efficient way, in order to remain in power (Adam, A. et al, 2011). Positive benefits from normative and remunerative controls are expected for local government, while coercive controls are expected to have a negative effect. Also this thesis takes into account the moderating effect of financial crises which might change the original effect of central controls on local government performance. The fundamental arguments of the research are presented in the following propositions.

1. The central government's controls over local government will impact the performance of local government

2. The effect of central controls on the performance of local government will vary with the different modes of central control. Normative controls and Remunerative controls are likely to enhance the performance of local government and on the other hand Coercive controls are likely to reduce the performance of local government.

3. The financial crises effect is likely to negatively affect the effects of each mode of central controls on local government performance.

The first proposition is more connected with theories of institutionalism (North, 1990) and central-local relations (Rhodes, 1999; Muramatsu, 1997), along with broader public management (Walker and Andrews, 2015; O'Toole and Meier, 1999). The core function of central controls is stipulating rules to which local government is subjected (North, 1990: 4). Due to unbalanced power distribution between central and local government thus unilateral controls exercised by central government are almost certain to affect the performance of local government. This argument is consistent with the seminal concept of 'the bureaucratic phenomenon' of central-local relations (Crozier, 1964), the degree of the power of central government and the discretion of local government inevitably influence the performance local government. Crozier (1964: 108) concluded that centralization has caused the power of decision-making to be located at a level where personal influence is difficult to exercise, because of the number of people involved and the lack of immediate reliable information. Therefore there are mismatches between central decisions and local conditions for policy implementation which might cause inefficiency. It is less able to coordinate services and adapt central dictates to varying local conditions. The centralized paradigm embedded in central-local relations can affect local governments' decision making as a systematic impediment. As a result of this, local government performance is likely to be undermined by central controls.

The second proposition is related to theories about policy instruments or policy strategies (Etzioni, 1975; Vedung, 2003), along with theories of central-local government relations. Policy instruments are the set of techniques by which

central government wields the power in attempting to ensure support and effect or prevent social change (Vedung, 2003: 21). The common theme of the literature on classification of policy instruments is a voluntary-mandatory principle underlying the scheme: how policy processes are regulated by government authority, and how they are left up to the voluntary actor. The effect of different modes of central controls on local government may be varied according to the degree of coercion exercised by central government. Coercive methods may sacrifice the value and interest of local government therefore we can imagine they would have negative effects on local performance. On the other hand, remunerative and normative methods may allow more choices and more appropriate strategies for local conditions when they understand the local needs better and are exerted as a supporter.

Broadly the variation of local performance by different modes of central controls can be reviewed from the perspective of strategic management, when we assume 'power-dependent relations' between central and local government. Within the strategic management frame of local government, it is difficult to explain the effect of central controls because different modes of central controls are passively given by central government. Nevertheless Walker and Andrews (2015) suggest 'networking' with other actors in the external environment of local government is also important to find a route for higher levels of local government performance. The mode of central controls can be one of the objectives of the negotiation between central and local governments from the perspective of power-dependent relations.

Turning to the third proposition, the moderating effect of financial crises is associated with public management theory. Parallel to O'Toole and Meier's (1999) well-known model, local government performance is influenced by buffering the organization from environmental influence and by exploiting opportunities in the environment. In this sense, financial crises distort administrative goals and processes and finally affect the cost of services provisions. A local authority's ability to avoid fiscal crisis directly affects its ability to sustain its current level of services (Honadle et al., 2004). It is possible not only by the operation of administrative aspects but also by the crisis itself which creates a falloff in performance.

In response to the central controls, local government may take the form of compliance or disobedience according to their different political and economic strategies. However, this study anticipates high levels of local government compliance and limited exercise of disobedience based on a few premises. First, central government designs effective central controls to encourage compliance of local government. To do this, the centre can employ a variety of policy instruments to put local governments under controls. There are instruments of internal policies which aim at local government's conduct as the administrative actors in the public sector such as budget policies, and organizational reform. Second, in general, local governments in Korea are not expected to disobey central controls because of centralized political culture, financial dependence on central government and lack of legal means for local governments to exercise. Third, the role of party in local politics is not developed to the extent that the party exercises important initiatives for disobedience over central government policies. In particular, due to the regionalism the same party frequently occupies both local council and local executive, which is likely to hamper the council's effective scrutiny over the local executive. For these reasons, Korean local politics has been criticized as being 'non-political' and just exists as a vehicle of administration (Goh, S.H., 2000: 269).

The scope of this study is restricted to South Korea. It deals with the Korean central-local relations featured in the area of fiscal institutions and the performance of local authorities. The control modes exerted by central government are observed through the local authorities' fiscal institutions such as budget, spending and tax in which, usually, central government directly or indirectly exercises its intervention. The main argument that this research would like to explore concerns the impact of institutional transformation in modes of central control over the last decade after implementing local autonomy and how the change of central control impacts local authorities' performance. Also, this study employs a longitudinal research design by using panel data from 1998 to 2010 to identify the determinants of performance. This time frame is appropriate not only to acquire some considerable amount of statistical data regarding local government performance but also to get meaningful explanations. During this sampled period a variety of policies were introduced and changed for the purpose of government financial reform in accordance with the New Public

Management paradigm, which we will explore in chapter 5. The quantitative research is centred on the performance of the regional governments in Korea. These governments share the key characteristics of local government as outlined in chapter 2 but the choice also reflects the more pragmatic availability of data because the JPA applies at the regional government level. The detailed data collection of JPA is explained in Appendix 3. The JPA measure of performance that is analysed here has a number of attractive features. It is a very peculiar performance measurement tool because central government directly assesses the performance of local government, which annually reports on its findings and categorizes Korean local authorities in a 'consistent, comparable and transparent' way like the previous case of CPA in the UK (Lee, D. O., 2009). JPA combines information on public service level and quality with a three performance category scale (poor to excellent). As discussed below, the conclusions that can be drawn from the analysis of relations between central government and regional government are robust and can be plausibly employed to characterise broader relations between the centre and all Korean local governments.

4. Methodology and research design

This research employs two major methodologies to make arguments and to generate and substantiate hypotheses. Historical institutionalism theoretically underpins the arguments of the stability of central government controls (chapter 2); the Korean financial crisis was influenced by the previous liberalization policy in the 1980s (chapter 3) and influenced the financial reform in the 2000s (chapter 5). Historical institutionalism similarly informs the synthetic interpretation of statistical findings and theoretic analyses (chapter 9). At the same time, a quantitative method, especially the fixed effect panel data model, will be used to prove a string of hypotheses on the effect of central controls of local government (chapter 7).

The basis of historical institutionalism is that 'the policy choice made when an institution is being formed, or when a policy is initiated, will have continuing and largely determinate influence over the policy far into the future' (Peters, 2012: 70). The logic of historical institutionalism has evolved as the concept of path

dependence emerged to explain the change of institutions. Path dependency is a trajectory that is likely to be followed in the absence of other pressures such as crises or major changes in policies and institutions. Institutions range from the rules of a constitutional order or the standard operating procedures of a bureaucracy to the conventions governing behaviour or relations of organizations. Thelen and Steinmo (1992) indicate the meaning of institution by using instances from formal government structures such as legislatures through legal institutions such as electoral laws to more amorphous social institutions such as social class. Scott (2014) provides a broad definition of institution: 'institution consists of cognitive, normative and regulative structures and activities that provide stability and meaning to social behaviour'. From these definitions, institutions are understood as not only structural components of society but also in terms of the cognitive features that they use to explain political phenomena.

Guy Peters (2012: 74) notices that although there is some discussion of formal structures and of procedure within institutions, the concept of the influence of 'idea' stands out in the historical institutionalism literature. For example, Peter Hall (1989) turns from more structural explanations of economic policy to focus on the influence which ideas have on policies; in this case the impact of Keynesianism and monetarism on policy. In this sense, the idea which has influenced central-local government relations in Korea is the impact of enduring centralism and nascent local democracy on policies. There are several factors strengthening centralism and chapter 2 will explore the origin and history of centralism of Korea. Facing the demand for increasing local autonomy, central government did not in practice reduce its domination over local governments but instead changed the mode of central controls to a more democratic way. The new 'idea' of local autonomy was the motive for a string of reforms and was embodied through institutions. Chapter 5 will investigate the changes of the central controls by looking at the fiscal institution. In this context, historical institutionalism is a very appropriate tool to explain Korean central-local relations. Its analytical framework, premised upon the enduring effects of institutional and policy choices made at the initiation of a structure, is suited to explain the persistence and the evolution of patterns of central controls in Korea.

The second major methodology is a quantitative analysis which is employed

to seek answers to the arguments specified above through a statistical case study. Quantitative research was often conceptualized as the polar opposite of qualitative research which emphasizes the need to understand society as social actors perceive and interpret it for the purpose of discovering underlying meanings and patterns of relationships (Johnson and Christensen, 2008). Qualitative and quantitative researches have philosophical roots in the naturalistic and the positivistic philosophies (Newman and Benz, 1998:2). Quantitative research employs cause and effect thinking, reduction to specific variables and hypotheses, use of measurement and observation, and the test of theories to develop correlations and hypotheses pertaining to social phenomena (Creswell, 2003:18). In particular, measurement is the critical process for the quantitative method because it provides the fundamental linking of concepts and ideas to empirical observation and facts. Therefore measurement validity must be ensured, which is achieved when numeric categories or scores meaningfully capture the idea contained in the corresponding concept (Adcock and Collier, 2001). The quantitative method is better suited for this empirical research because it uses performance data which has been created by a great zest for performance measures in Korea.

Specifically, the fixed effect panel data model is employed in a statistical analysis (see chapter 7). In panel data we can control a certain type of omitted variables called unobserved heterogeneity. The benefit of a fixed effect model is to correct unobserved heterogeneity and to establish causation using a regression coefficient. The unobserved individual heterogeneity is treated as if it is non-random and maybe correlated with observed individual heterogeneity. The problem of fixed effect is that time-invariant independent variables are left off in the analysis, but the current thesis is free from this drawback. The fixed effect of explanatory variables is the average effects in the entire population or organization, expressed by the regression coefficient. The fixed-effects components of this research incorporate year dummy and local government dummy to control the year difference and jurisdiction specific effects. The fixed effect estimator will always give consistent estimates but they may not be the most efficient (Cameron and Trivedi, 2005: 699). Therefore, the fixed effect panel data model is the most appropriate method for the statistical model of this thesis.

The statistical data do not always provide, in and of themselves, precise answers to the research inquiries but if the research employs well-controlled and meaningful variables for the objective explanation to test the hypothesis, empirically valuable solutions can be taken. For this work the most appropriate variables are incorporated in this research (see chapter 7). First, dependent variables in this research are the performance of local governments assessed by the Korean central government through JPA. They use the performance score of sixteen regional governments from 1999 to 2012 JPA (see Appendix 4). Second, the explanatory variables in order to verify the three hypotheses employ the different modes of central government controls along with the financial crises. For operationalization of central controls as explanatory variables, a nominal quantity is allocated to each specific mode of normative, remunerative and coercive controls in the area of fiscal institutions. Financial crises are measured by the economic growth rate. The regulations and statistical data of both financial policies and a financial crisis come from MOPAS and Local finance open system (lofin.mopas.go.kr). Third, control variables include the external and internal factors that possibly influence local government performance such as per capita GRDP, the political party in control of the region, and tenure of the governor or mayor.

From these variables, two statistical models, the individual effect model and the combined effect model are established. The first model examines the individual effect of each mode of central control on local government performance. The second model examines the interacting effect of each central control mode with the financial crises. Data used in control variables were collected from the Korean Statistical Information Service (<http://kosis.kr>), the local administration information system of MOPAS (www.laiis.go.kr) and the internet websites. The statistical methods will be specified in greater detail in chapter 7.

Consequently, two major methodologies are in complementary relation in developing the logic and arguments of this research. The historical institutionalism provides the understanding about central controls, financial crises, and the conclusive application of empirical findings, whilst the fixed effect panel data model allows us to test hypotheses and prove whether the current central-local government relations militate in favour of local government.

5. Structure of the thesis

This thesis consists of nine chapters. Chapter 1 introduces the background, purpose, questions, theoretical basis, scope and the methodologies of the research. The key question is how central controls have influenced local government performance since the transition toward local autonomy, with the moderating effect of financial crises.

Chapter 2 mainly deals with central government's control and local autonomy in Korea. Regarding local autonomy in Korea, the history and the institutional background are researched. At the same time, the following points related to central control by the Korea government are examined; what are the political cultural sources of central control; how it is exerted; how much opposition it generates; whether it is productive or destructive; and what direction future reform should take. Therefore Korean central-local relations which were historically formed will be understood in the process of local autonomy introduction and enforcement.

Chapter 3 is dedicated to the understanding of fiscal crises. To analyse the concept, traits and theory of crisis, the well established literature on crisis is investigated. This helps in understanding different kinds of crises such as a state's economic crisis and local government's fiscal distress. Studies of crises such as the Korean financial crisis of 1997-8 and the global economic crisis of 2007-8 will examine how these crises affected the financial policies and institutions of central and local governments in Korea.

Chapter 4 concerns performance measurement of Korean local government. Following the review of the recent trend for performance management in some fore-runner countries, the introduction and development of performance management systems in Korea are examined. A profile of performance in Korean local government explains the comparison of performance management of local authorities with that of central government, and then Joint Performance Assessment, which is used as performance data in the statistical analysis of this study, is researched.

Chapter 5 describes the fiscal policy and institutions of Korean local government. Following the investigation of the motivation for fiscal institutional

reform, a string of fiscal institutions such as program budgeting, accrual basis accounting, shared tax, and local income and consumption tax are explained. In particular local financial policies are looked into focusing on how central government keeps exercising its control and how local autonomy is increased and decreased in a specific fiscal policy.

Chapter 6 explores conceptual links between central control, crisis and local performance in order to provide a theoretical framework for the research hypotheses. First, theoretical grounds about the relationship between central government control and local government performance are examined. Then a series of hypotheses are established to prove the effect of each mode of controls exercised by central government on local government performance, taking into account financial crises which are assumed to have a modulating effect.

Chapter 7 establishes the research models and defines the variables of the models in order to undertake robust statistical analysis with sufficient theoretical and practical possibilities for the empirical verification of the arguments. After conducting the statistical simulation, chapter 8 enumerates empirical results and explores the pattern of findings regarding the relations between central controls, fiscal crises, and local performance.

Chapter 9 expands the arguments reflected in the empirical results by revisiting the research questions and deploying insight drawn from historical institutionalism. With up-to-date institutional changes this chapter explores the policy implications of this study: what direction future reform should be in, how effective control can be as a way of enhancing the performance of local governments, and what a desired path could be for central-local government relations.

The final chapter summarizes this research, emphasizing all important findings and suggesting lessons for the development of central-local relations. It also outlines the distinctive contributions made by this thesis whilst taking account of the difficulties of this research with some implications for further research.

Chapter 2. Central controls and local government in Korea

1. Why central controls?

The argument of this thesis is that since local autonomy was introduced in the mid-1990s, the democratic change in central controls can be expected to have positively influenced local government but, due to the recent financial crises, this link might be attenuated. In this context, this chapter investigates the institutional origin of central controls and its impact on the formation of local autonomy in Korea. Central control is used in this research is a synonym for central government's regulating and steering of local government in central-local government relations. Controls can be defined, in abstract parlance, as whatever keeps the state of any given system within some desired subset of all its possible states (Hood et al, 2004: 5). This can be properly applied to the relations of central and local government. Central government exerts control over local governments in order to ensure equity between local governments, to strengthen their accountability, and to ensure their compliance with national policy. The central government makes institutions and policies resulting in central government being involved in the personnel, organization and finance of local government in formal or informal ways.

However, controversy has existed regarding whether central controls have a constructive or damaging effect on local government. Localism believes that central government distrusts local government; the centralist approach could aggravate policy problems because central government is remote from the actual issues being faced locally (Jones and Stewart, 2012). Hepworth (1977:11) indicated the centrally operated controls which would be designed to influence local spending would lead to a shift of power to central government and would reduce efficiency. Michael Power (2005) criticized the UK's audit explosion in that it provided only a precarious reassurance while potentially undermining an ethos of professional self-regulation. On the other hand, centralists believe that the large number of regulations and directives, detailed prescription and guidance are necessary ways to effectively control local government. The Local Autonomy

Act of Korea, as well as the Localism Act of the UK, contains many examples of ministerial powers to issue orders and regulation (Jones and Stewart, 2012). The World Bank seems to incorporate those positivist views. It observed that regimes with formal oversight of the public sector were one of the critical success factors for the public service reform efforts which the World Bank sponsored over the 1990s (World Bank, 1999).

It seems clear that recently central controls have gradually evolved to new modes, confronting the changed policy environment, although the coercive aspect in central controls came through strongly in the past. There has been a pronounced shift toward an increase in autonomy and performance of local government with a simultaneous attempt to increase centralized controls over management and strategy. Chapter 5 will look at this trend in the fiscal institutional changes. During the most recent period there has been a substantial development of performance assessment as central controls move toward indirect not formal and external control. In particular, the NPM styled reform in early the 2000s was based on the assumption that in the absence of coercive controls, local compliance to the new system is best achieved by developing shared norms and commitment rather than through passive accommodation.

This research focuses on central controls in the context of the central-local government relationship. The tendency of central controls may be traced from the recursive history of centralism and decentralism. Central controls have been persistent since the kingdoms which for centuries governed the Korean peninsula. The tradition of state ordered rule over local government had been anticipated to change, since the Korean local autonomy system for the first time was institutionalized in 1949 after the foundation of the Republic of Korea. As noted in chapter 1, however, without any substantial fruit, local autonomy had ceased to exist by 1991 because of a military coup; and at last was resurrected in 1995. Considering this transition, the questions cannot be avoided regarding what has happened to central control in each historical stage; and what opposition the persistence of central control has caused. This part focuses on the historical legacy of centralism on the local autonomy in Korea. In studies of historical institutionalism the period division is formed according to standards based on empirical data or putative breakpoints to track the path of an institution (Thelen,

2006). The general approach to division of the period is to follow the exogenous shocks along the path and evolution of an institution. The origin of centralized path dependence is the period of the Goryeo (918-1392) because since then the factors of central control have been seen, though it was piecemeal and intermittent during that period. In the Chosun Dynasty (1392-1910), however, centralism dominated public areas and reached all parts of the localities.

2. The history of centralism in Korea

2.1. Pre-war period (A.D. 10thC- 20thC)

The Chosun Dynasty was a highly centralized authoritarian regime influenced by Confucianism as the ruling principle. The central government exercised absolute power in every sphere (An, B.M., 1997:316). The control over local government by the centre had no legal limits and was based on the monistic order view of Confucianism. This perspective emphasises monolithic and centralized ruling as a rational system. Chosun employed the province to control local agencies. The provinces were intermediate bodies, standing between the state and the municipalities, which were directly controlled by central government and at the same time had control of interpretations of the law and exerted judicial power in the municipalities. The provinces of the Chosun Dynasty were called 'Do' which are the basis of today's provinces, namely the upper local government level. The central government dispatched state bureaucrats to the province (*Do*) and the municipalities (*Gun* and *Hyun*) which were established under *Do*, therefore local administration of the Chosun period was operated by powerful state bureaucrats and actually central control reached all over the country. The origin of the 'Do' provinces and the dispatched bureaucrats can be seen in some regions but not every region even in the Goryeo Dynasty (Han, Y.W., 2004:199).

In Korea's highly Confucian society, centralism is supported by the special ideology of Confucianism as well as by the local administrative system. Confucianism is based on the direct, obedient confrontation between ruled and ruler. 'Obedience was deeply ingrained: the government – an encompassing

control mechanism built into the home, extending to clan, academy, or family – organized administration and education so that no large group could exercise right and responsibility (Henderson, 1968: 25)'. Government and administration entwined with religious precept and thus innovation and change were fettered and lack of alternative careers whetted political concern (ibid: 26).

Confucian principles were intensified as social values through strong doctrine and impressive texts, rites and ceremonies, which were complex and demanding. As for the common people it was costly to participate in the dominant value system. Confucianism aggravated the problem of insufficient general participation in the political, ethical, and religious system (Henderson, 1968: 25).

The political ethics based on Confucianism, however, could be applied to allow traditional local autonomy principles, according to Korean studies (An, C.S. and Kim, M.H., 1994: 14; Park, D.S., 1979: 321): for example, the local agencies called *Yuhyangso*, *Hangyak* and *Hyangchung* were advisory agencies for local officials dispatched from the centre; these agencies were not as part of national bureaucracy but as an expression of the autonomy of the local community. However, these were not representative agencies of residents but monopolised by a few powerful families to protect their status and prestige from local officials rather than to promote all residents' interests and welfare. Therefore, it is difficult to call it an 'autonomy system' which in today's language means that ordinary people participate in governing their community under their own intentions and responsibilities.

In summary, the persistence of highly centralized government control and local government structures was found in the pre-war Goryeo and Chosun Dynasties over very long stretches of time. Particularly in Chosun, the religio-political combination served to knot society together into an obedient whole, which while it did work for enormous centralization, it fettered the autonomous systems.

2.2. Japanese Colonial Rule (1910-1945)

The Japanese invasion can be considered as an exogenous shock which

affected Korean socio-political institutions. Chosun lost full sovereign status in 1910 and was under colonial rule for 36 years, falling under the direct rule of the monolithic administrative institution of the centre. Changes in the socioeconomic context and political balance of power resulting from the Japanese rule produced the institutional dynamism in which central control, as the old institution, was put to a different end. As a new actor, Japan pursued its goal, militaristic colonial rule, by changing existing political administrative structures. In 1914, as a preliminary preparation for the major change, Japan began to reorganize Korean local areas into 13 *Do*(regions), 12 *Bu*(cities), 220 *Gun*(counties) and 2521 *Myeon* (towns) in order to effectively control the nation (Choi, B.G., 1990). During the first decade of annexation, Koreans were denied all access to political power (Henderson, 1968: 101). In the early 1930s, evolutionary changes occurred in central-local government relations; a full local institutional reform was carried out by the colonialists, which followed Japanese state-directed local autonomy and implemented bureaucratic control over the localities after the Japanese model which originated from Germany. The local organization, '*Do*' as the upper local government, and '*Bu*' and '*Eup*' as the lower local governments were established and entitled to be corporate entities divided into an executive government and a legislative body(Choi, B.G., 1990). The executive mayor was appointed by the Japanese government and held the position of a chairman for the council as well. However, under the Japanese colonial rule its centralism and sternness dominated society rather than allowing local autonomy (Park, D.S., 1979: 321; An, B.M., 1997:317).

The power of legislation too was restricted by the law; the head of the executive body could also be the president of the legislative body and thus could constrain the power of legislation; most of all, the right of the people to vote was too limited (Choi, B.G., 1990). For example, in the election system, an equal number of candidates to the number of representatives was recommended by authorities and automatically elected regardless of the vote. The fundamental feature of Japanese rule was militarism so the path of centralism was continued. The bureaucracy as a symbol of public power reigned over the different political and social forces, and was undemocratic and authoritarian toward people. Even after a major institutional change in local government systems, there was sufficient force for the tendency of central controls to be sustained for a

considerable period. Critically in theory it said there was institutional change but in practice central control and changed institutions intrinsically constrained political participation by the people.

2.3. The foundation of the republic (1946 – 1960)

In the aftermath of independence from Japan, Korea was, for three years, under the direction of the U.S military government. The US military authority chose to retain Japanese colonial agencies for a while rather than destroy them because the US army had not made any preparations and measures for governing Korea. The Republic of Korea grounded on liberal democracy was resumed on 15th August in 1948. The Korean legislators created a western constitutional democracy with American advice. The constitution was an uneasy mixture of democracy and autocracy (Henderson, 1968:158). It provided a system of checks and balances, separation of power and gave people democratic rights and freedom. Local autonomy was stipulated as one of the democratic institutions (An, C.S. et al., 1994: 274). However, there were discomfoting signs that power converged on a strong president. In the same year, the central government regulated the succession of the prior administrative districts based on the Japanese colonial era's province system (Choi, B.G., 1990), and the establishment of state bureaucrats in all local organizations (NA, 2013). The idea of a constitution for democratization was too ambitious for the actual political and administrative condition of Korea. America's attempt in Korea to build new cohesion around democratic institutions had, in an unplanned setting and with prevailing centralism, been overwhelmed by autocracy (Henderson, 1968).

Finally the Local Autonomy Act stipulating the first modern local institutions ever in Korea was enacted on 4th July 1949. However local councils could not be formed right after the Act was passed due to continuing disturbances in public security. Local elections at first were scheduled to be carried out at the end of 1950, but, after once more being postponed by the Korean War, finally became operative in 1952.

The Local Autonomy Act was exploited for the political manipulations which formed the ground work for the Liberal Party's long term seizure of power (see

below Figure 2-1). The law was revised to appoint the executive mayor and governor by central government, and for the chief executive to get central government's approval regarding matters which previously needed the vote of local councils. President Syngman Rhee was widely known for trying to expand his rule by exploiting the local autonomy system. The prospect for Rhee's re-election in 1952 through the National Assembly was bleak because at that time the National Assembly was dominated by the opposition, Democratic National party¹. By contrast, the President held strong popular support outside the National Assembly. The President attempted to mobilize local politicians who were favourable to his government, and tried to go further in order to revise the Constitution for direct presidential election (Lee, D.G. 1996). His attempt to shape the Constitution in favour of a system of direct presidential election was an eventual failure.

The 1st Republic came to an end through the April revolution which was a popular uprising in April 1960 led by labour and student groups (see *below* Figure 2-1). The overturn of the Rhee autocracy brought to the helm a democratic regime. The 2nd Constitution stipulated that the method of election for the head of local government should be regulated by law and residents should directly elect at least the head of municipalities. However, the peaceful regime was overthrown by a military coup in 1961. After the establishment of a military government, for more than thirty years the Republic of Korea was ruled by dictatorship and a military government with high centralized government control.

2.4. The military regime (1961- 1992)

The 3rd Republic, created by the 5.16 military coup (see *below* Figure 2-1), carried the banner for national security and economic development, and reinforced the centralization of power. The committee for military revolution abolished all local councils through a national declaration. The military regime criticized the local autonomy system as inefficient, corrupt and conflict-raising on the grounds of the experience of local autonomy in the previous governments.

¹ At that time the president was indirectly elected by national assemblymen (Lee, D.G., 1996)

Efficiency based on centralization and uniformity was believed to be the best principle for modernization.

From the institutional perspective the suspension of local autonomy was perpetuated by the provisions and interpretations of the Constitution and related law. The Constitution of the third Republic stipulated that matters related to the organizations and management of local autonomy should be regulated by a law, however the enactment was postponed so that local autonomy could not be implemented. According to the Constitution of the 4th Republic (*Yushin*² Constitution) local councils should not be formed until the unification has been achieved. The Constitution of the 5th Republic delayed extending local autonomy on the pretext of the weak local financial base.

The dominance of a strong central control in the rapid industrialization process created a path dependency for a distinctive pattern of central-local relationships different from that of the western democracies (Bae and Sellers, 2007). Highly capable Korean bureaucrats controlled finance and resources through national banks (Chang, 1995; see section 2 of chapter 3). ‘Five year economic development plans (Five-Year Plan)’ provided administrative and financial aid to highly competitive industries. Central government selected regions and cities for industrialization. In this process, regional and local developments were dependent upon the central government’s policies (Bae and Sellers, 2007).

As economic conditions improved enough to meet subsistence level, a variety of values began to appear in society. A substantive means for democratization was needed because the centralized authoritarian regime had taken power over a long history (Lee D.G., 1996). Decentralization was one of the alternatives providing potential limits on a centralized system and bureaucracy. People regarded local autonomy as the most effective system for democratization to expel centralized authoritarianism in the areas of politics, economy and society. From the mid-1980s opposition parties and the people insisted on an urgent and strong local autonomy system and suggested, as one of the urgent problems.

² *Yushin* means to change an old system to new one.

In response to the hectic democratization movement, a special declaratory speech was delivered by Roh Tae-woo, the presidential candidate of the ruling Democratic Justice Party, on 29 June 1987. In the declaration, Roh promised significant concessions to opponents of the incumbent authoritarian regime and promised to amend the constitution to provide for the direct election of the president and to strengthen local autonomy. Consequently, by the National Assembly members of the 6th Republic, the Local Autonomy Act was fully revised to extend local autonomy in 1988. In essence, the revision aimed to increase local democracy but also included many examples of ministerial control over local government; for example, the Ministry of Interior could control the establishment of administrative organizations and stipulate the maximum number of local public officials of local governments (Im, S.B., 2008: 65).

The authoritarian military regime emphasized the national economy and security, and suspended local autonomy to strengthen central control. The economic success of the 'developmental state' model which Korea pursued provided a form of legitimisation but also provided a basis for decentralisation and democratisation. Central control had persisted because the local autonomy implementation did not happen despite revisions of the law. This supports the argument that from the perspective of historical institutionalism 'founding political institutions tend to establish or codify a particular distribution of power and authority which tend to reproduce itself' (Ikenberry, 1994:20).

2.5. The 6th Republic to present day (1992-)

The ruling party of the 6th Republic was unfavourable to local autonomy although President Kim Young-sam, elected in 1993, promised full-fledged local autonomy in his campaign and a law was passed in parliament that the election of the head of localities should be carried out in June 1995. Just before the local election date, June 27, 1995 set by the law, several politicians raised their voices to defer the local election once again. However, even politicians could not act against public opinion which felt strongly that local elections and autonomy should not be deferred any more. With the growth of civic political awareness, people believed that an autonomy system was needed to deal with the centralized bureaucracy

and local politics. In 1995 when all kinds of council members' terms terminated, four sorts of elections took place for council members, and the heads of regional and municipal governments (Park, C.W., 2002). These were carried out at the same time in spite of the hesitations of the government party and leading politicians. These integrated elections have been implemented every four year since then.

Four distinct sources of institutional change can be found that possibly encouraged the creation of local autonomy as an alternative to central controls. First, the development of the economy produced a situation in which the previously latent democratization of central-local relations and local autonomy suddenly became salient, thereby laying the groundwork for local autonomy as one of the sources of institutional dynamism, the interaction of institutions and the political process (Thelen and Steinmo, 1992:16). The average economic growth rate of Korea from 1981 to 1990 was 9.1%. As economic conditions greatly exceeded the subsistence level in the 1980s, the 6th Constitution opened the legal possibility for local autonomy. People conceived the idea of democratizing the centralized authoritarian government by a local autonomy system.

Second, the political balance of power experienced 'critical junctures' during which the usual constraints on action were lifted. A radical thrust or drastic reform and revolution arose among disadvantage groups (Lee, J.S., 1996: 61). The unbalanced regional development was attributed to the policy of the authoritative governments. The political roots of social problems were unveiled. For example, a confidential document was opened to the public, which contained the politically sensitive revelation that the National Security Planning Agency (NSP) had investigated the possibility of reorganizing the administrative districts before elections and of postponing the local elections, in February 1995 (Lee, D.G., 1996:134). The opposition party launched a political attack on the undemocratic practices of the NSP operation and the government plot to delay the local election. This laid a political burden on the government and the ruling party. A series of political situations opened up opportunities for the opposition party to alter the trajectory of local autonomy.

Third, political actors adjusted their strategies to accommodate changes in the institutions themselves. A grand coalition among the Democratic Justice Party

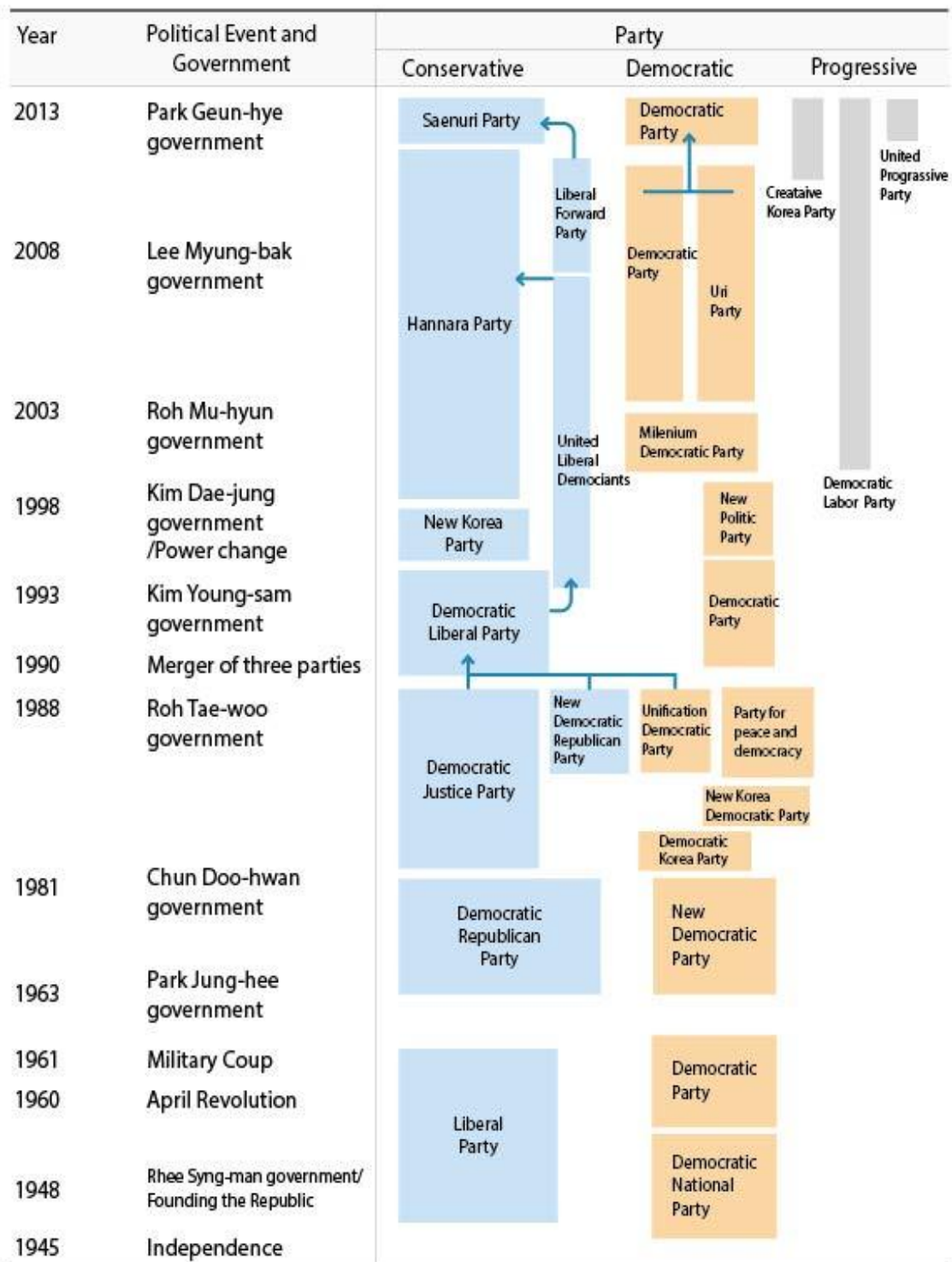
(governing party), the Unification Democratic Party, and the New Democratic Republican Party was achieved in 1990 to create a concentrated ruling party, the Democratic Liberal Party³ (see Figure2-1). Many people considered this coalition as the retreat of democracy. The leading group felt the strong necessity of breaking the political impasse they experienced after the merger of the three political parties, although the majority of assemblymen were not so individually favourable towards having local elections. The opposition leader, Kim Daejung took the initiative in opening up the democratic society by attacking the hesitating government, calling for it to yield to his demand for comprehensive local elections (Lee, D.G. 1996: 139). As a result, the governing party and President Kim Young-sam had no choice but to succumb to the public demand.

Fourth, the power of public ideas was an important factor for the changing of institutions. People strongly asked the government for fully-fledged local autonomy (Lee D.G. 1996: 134) and the issue of local autonomy became suddenly important. Public sentiment against central control on the basis of the social and economic development assisted in encouraging extended local autonomy. In this environment, the staunchly conservative bureaucrats were slowly changing their minds toward local autonomy in the light of public opinion. Also a string of public education campaigns and debates contributed to enabling the ordinary citizen to appreciate the value of local autonomy (An, C.S. et al., 2002: 33)

In conclusion, it can be observed that institutional change was brought about through interactions between politicians and institutions. Enforcement of local autonomy was a challenge for centralism, though various central controls remained effective. Institutional changes were incremental and critical to bring out a major change in the future. In the analysis that follows, we will look at how these centralizing trends impacted Korean local autonomy. Certainly the centrally operated controls which would be designed to influence local government seemed to lead to a shift of power to local government but in reality maintained the control of central government.

³ Kim Young-sam of the Unification Democratic Party was a democratic activist who opposed the military dictatorship under Park Junghee but unexpectedly merged his party with aristocratic military parties (Democratic Justice Party and New Democratic Republican party) to position favourably in the 1992 presidential election.

Figure 2-1. Path of governments and parties in Korea



Source: reorganized from 'The history of party' in Korea JoongAng Daily 15/06/09'

3. Characteristics of local autonomy in Korea

3.1. The rationale of local autonomy

Centralized bureaucracy has been the dominant concern in the history of administrative reform in Korea (Jung, Y.D., 1999: 8) as noted above. In countries with a comparatively short history of modern democracy and uncultured political systems, the matter of local autonomy was mainly discussed in the process of democratization in the 1980s (Kim, M.H., 1994).

The reason for which local autonomy is demanded can be extended to the theoretical groundings of local government. First, local government contributes to bringing about democracy and affording opportunities for political participation (Sharpe, 1970; Ola, 1984). Because local government encourages political activities such as turning out to vote in elections, interest group activities and participation, and provides a forum for the argument and discussion of political issues, it functions as a buttress of democracy (Tocqueville, 1969: 675; Mill, J.S., 1910: 385-390). It promotes equity in the political sense that it provides broad opportunities for citizens to participate in public policy.

Local autonomy of Korea was considerably influenced by the democratic theory. In much of the literature local autonomy came through as a democratic principle based on popular sovereignty in the process of establishing the overall institutions of a modern nation-state (An, C.S. and Kim, M.H., 1994: 275; Lee D.G., 1996; Kim, M.H., 1994). Local autonomy began to be discussed as one of the main issues in Korea in the heat of the pro-democracy movement of the 1980s. Finally the dynamic political interaction over a decade brought about the implementation of local autonomy to increase democracy in Korea.

Second, in the aspect of efficiency, local government is closer to the citizens. When local government is judged by its success in providing services up to a standard measured by a national inspectorate', because of its closeness to an area, it can provide certain services far more efficiently than the central government. Local government can exercise 'authoritative horizontal coordination' – it can achieve effective 'joining up' at the local level which should enhance efficiency (Sharpe, 1970) 168). The advantage of local government over central

government is that it is more likely to know the inimitable characteristics of each locality and adjust the administration of the service accordingly. Sharpe(1970; 166) further put forward that the performance of efficient services is so compelling that, if local government did not already exist, field agencies manned by staff residents would be created in its place.

This efficient perspective of local government was not supported at least in the early stage of introduction of local autonomy in Korea, as the favourable attitude towards a centralized governing system continued over a long history; additionally when implementing local autonomy for the first time in the 1st republic, various inefficiencies were witnessed. As a result people were unlikely to consider local autonomy as an efficient organization (Lee, D.G., 1996). It seems clear that any readjustment in central-local government relationships has been aimed at enhancing efficiency of local public service provision and delivery rather than empowering local democracy or autonomy. Since performance management was introduced in the public sector, national audit and inspection have mainly checked whether local governments meet nationally agreed standards.

Third, in the respect of balanced development, policies and programmes implemented by local government with the support, arrangement and monitoring of central government would decongest monolithic central control and gradually introduce a greater national cooperation through the interaction of local and central government (Ola, 1984: 15). It appears that if local government is well led, it is in a better position than central government to stimulate initiatives, cultivate citizenship and policy learning, and encourage drive and experimentation in the people.

The view of the balanced development is highlighted from the point that a lot of policy experiments are carried out first at the local level by the central government and attempts to reconstruct the infrastructure necessary for improving residents' way of life are successfully enforced. Certain policies such as the public transportation system, the construction of schools, and management of sewage facilities without leaks and clean water systems have developed far better than the respective policies by central government. Local government's leading role in the balanced development incorporates the positive views of the increasing importance of local government.

In conclusion, currently all three perspectives of democracy, efficiency and balanced development are demanded from the role of the Korean local government. In reality, the lack of political power and the controls exercised by central government always hamper local government from exerting their best ability. The next part looks at how the institutions of Korean central-local relations have sustained central controls.

3.2. The legislative power of local government

Korean local government is based on the principle of local autonomy in the constitution. The constitution includes a section for local government. Article 117 stipulates “local governments shall deal with administrative matters pertaining to the welfare of local residents, and may enact their own provisions relating to local autonomy, within the limit of laws and regulations”. The constitution apparently permits the Korean local government to have ‘a power of general competence’ unless laws and regulations specify otherwise. The constitutional status of local government in Korea embodies no formal principal of *ultra vires*. This might mean that the local government has the ability to engage in any activities not expressly prohibited by national laws (Park, C.M., 2003:12). However, the formal institutions do not fully elucidate the actual working of central controls in the central-local government relations (see section 2 in chapter 1). The central government makes use of delegated legislation to control local government through executive and ministerial regulations. For example, central government can regulate the expense of local council member’s activities and monitor the legislation of ordinance of local government by the ministerial regulations according to Article 33 and 33-2 respectively of the Local Autonomy Act. More importantly central government applies a narrow interpretation to the power of general competence of local government. According to Article 15 of the Local Autonomy Act, “local government may enact ordinances within the laws and executive regulations”. When it comes to the rights and the duties of residents, the central government has maintained the view that local government requires clear powers of delegation mandated by national laws (Kim, J.S., 2006: 9). In particular, administrative guidance is the most controversial tool the central

government uses to control the local government's salient decisions. The central government's intervention in the businesses of local government is often not explicitly based on laws made by the National Assembly and hence, local government is vulnerable to politically motivated control of the central government (Park, C.M., 2003:13). The local government is subject to the de facto *ultra vires* rule and lacks meaningful autonomy and discretion in the management of local affairs (Park, C.M., 2003:12). In conclusion, although local governments have their fields of responsibility, they may not exercise general legislative power, or such power is at best limited as in the United Kingdom.

3.3. Fiscal dependence on the centre

Fiscal autonomy is the authority through which the local government can collect the finance needed for dealing with administrative matters pertaining to the welfare of local residents, and independently manages the financial resources that the local government collects. Korean local government raises finance from three sources: independent income (local tax, fees and charges), intergovernmental transfers (local shared tax and grant) and borrowing.

The most important means to mobilize resources is taxation which is the most basic factor in the emergence of the nation state, political institutions and the idea of 'citizen' with obligations as well as rights (Tilly, 1995:227). The taxes which the Korean local government can impose are determined by law, with the rates of local taxes varying only within a limited range. The local council does not have the authority to decide the items taxed or the rate of local tax, but it is through the central government that most standards like taxed items, rate and assessment rules of local tax are regulated in the form of law. Over the past ten years or so, the transferring of tax sources to local government has rarely been done, because Centralists think that local government has inadequate accountability and self-discipline. The distribution ratio of tax revenue sources between central and local government is eight to two, though the size of local government expenditure has grown much faster than that of the central

government⁴.

Much of growth in local government was financed by intergovernmental transfers before the introduction of local income tax (see chapter 5). Transfers include local shared tax, grant and provincial & metropolitan revenue sharing to achieve a national minimum for public services (KRILA, 2011). Especially local shared tax accounted for 12% in 1991 but gradually increased to 19% of total local income in 2014. The bulk of grant grew from 8.1% in 1991 to 21% of total local income in 2014 (LOFIN, 2015). This type of grant is hypothecated to specific services such as construction, sewage disposal facilities and social welfare programmes. Conversely, the matching fund mechanism of grants, meaning that local government must bear a certain portion of the fund as well, sometimes proved to threaten local financial stability. The problem is that the cost of matching fund projects grows faster than own-generated revenue and local government lacks available resources. In particular, decentralization of increasing social welfare programmes put local government in the financially vulnerable condition. A local public finance structure enhanced by intergovernmental transfers has a propensity to lead local government to become dependent on intergovernmental transfers instead of expanding self-financed revenue (Jung, J.F. et al., 2004). The MOGAHA controls of local government access to borrowing for capital purpose, as a result, local government's funding by borrowing is considerably limited.

A majority of Korean local governments experience low levels of financial autonomy. As of 2004, more than half of them depended on the central government for more than 70% of their budgets (Park, C.M., 2003). This proves most local governments in Korea tend to spend far more than what they collect through self-financed revenue. Consequently their financial discretion gets reduced and they have to desperately depend on central government for supplementing their annual expenditure as well as for financing their capital projects. Thus central control of local finance is exceedingly tight, while local discretion to shape spending priorities is slight.

⁴ During recent years, the average ratio of central and local expenditure of overall government budget was about 40% to 60%.

3.4. The functional base of local government

The respective functions of local governments and the central government are not clearly defined and many policy decisions are made at the central level. The Local Autonomy Act lists the functions of the provinces and metropolitan governments and the basic level localities, and those that remain under the prerogative of the central government such as diplomacy, defence, tax and the judicial system. Daily public services that residents rely on are provided by local government from picking up the garbage and cleaning the streets, to care of the elderly and vulnerable. These local government affairs have a degree of central government involvement, although local government is legally stated to be responsible for the residents' social welfare, the development of agriculture, commerce and industry, the improvement of living environment, the promotion of education, culture, the civil defence system and fire service. It is notable that, although the constitution gives local government a general grant of authority, the law excludes police functions from its purview.

Table 2-1 Functions of local government

Function	Expenditure	
	Billion ₩	%
General public service	17,103	9.6
Disaster prevention & Civil defence	3,550	2.0
Education	10,357	5.8
Culture & Tourism	9,399	5.3
Environmental Protection: water, waste management, nature protection	17,664	9.9
Social Welfare: basic livelihood support, marginal class, childcare, senior citizens & juveniles,	38,782	21.9
Health: medical service, food & medicine safety	2,590	1.4
Agriculture, Forest, Fishery	12,712	7.1
Economic affairs: Industrial promotion, Investment attraction	3,890	2.1
Transportation: roads, city railway, public transportation	18,321	10.3
Regional development: water supply, housing, community	14,760	8.3
Science & Technology	777	0.4
Reserved Budget and Others	27,080	15.3
	176,992	100

Source: adapted from Local government Finance Yearbook (MOPAS, 2013)

The local government also has no direct control over the provision of educational services within its geographic boundaries (Park, C.M., 2003:12). Especially in education, there is a large discrepancy between the size of local expenditure and the extent of local autonomy. The central government assumes the primary financial responsibility for education while autonomous educational bodies deliver the educational services, acting as agencies of the central government (KRILA, 2011).

The functional base of Korean local government was substantially weak but recently has been strengthened with decentralization policies (Park, C.M., 2003: 12). Although it is difficult to strictly compare the distribution of activities between central and local government, only one-fourth of state functions were classified as local in 1997 according to a government study (Park, H.J., 2002). Since the political devolution, beginning of local autonomy, in 1991, central government has decentralised the power in different ways and to different degrees. When transferred activities which were transferred in the Roh Mu-hyun government and the Lee Myung-bak government are taken into account, the current function of local government would be estimated as less than one-third of total state functions. Moreover the human resources and finance which should have accompanied the devolution were not properly passed on to local governments. Therefore a variety of issues like the improvement of the professionalism of devolved services, and diverse decentralization methods according to each local government were discussed.

Another notable example of shallow functional base is the presence of single-purpose government appointed agencies not subject to local electoral control but rather under central administrative control (Park, C.M., 2003: 12). These special agencies, whose work is parallel to that of local government, greatly narrow the scope of local government. The original objective was to decentralise certain limited activities that the central government must do and local government cannot undertake because of their specialty. They are Post, Correctional Service, Regional Construction Management Administration, Patriot and Veteran Affairs, Regional Tax Service, Customs, Meteorological Office, Small & Medium Business Corporation and Public Procurement. The scale of them increased enormously during the 1990s and their influence over the local

community are beyond local government authority. Therefore, the proliferation of single-purpose government appointed agencies breaks up the structure of local governance and undermines the existence of any meaningful local autonomy (Park, C.M., 2003: 12). In short, local autonomy was begun with the expectation of increasing democracy, efficiency and balancing regional development. Nevertheless, the current local government system has multi-dimensional issues to be solved. Political rearrangement with emphasis on professional competence is needed to overcome the issues and increase local democracy.

4. Local governments in Korea

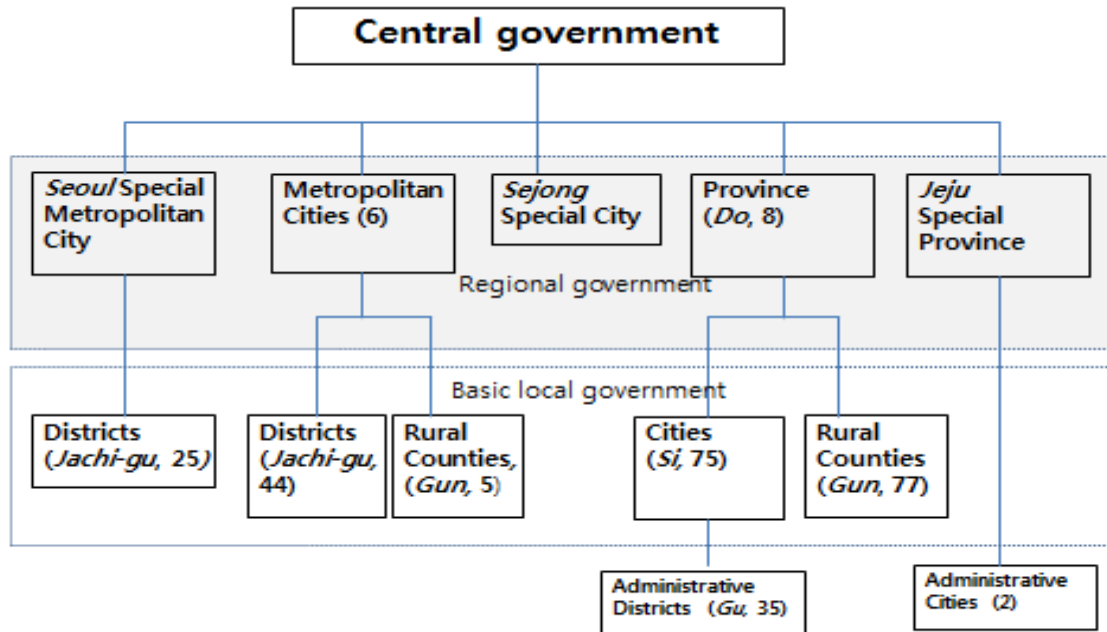
4.1. External and internal structure

Korea is a unitary state like the UK, where governmental power is delegated by the central government to local governments. All the regions are treated alike and all institutions are directly under central control (Rhodes et al., 2003: 6). Korea has a two-tier system. The reorganization of local government has been a political agenda over recent years. Sejong Sepecial Self-governing Metropolitan City was created in 2012 and then Chungju-*Si* and Chungwon-*Gun* were merged in 2014. As a result, South Korea consists of 17 regional governments and 226 basic local governments as of January 2015. The regional government is very large organization and includes the Special Metropolitan City of Seoul, and 6 metropolitan cities (metropolitan *Si*), Sejong Sepecial Self-governing Metropolitan City, 8 provinces (*Do*), and Jeju Special Self-governing Province (see Figure 2-2). The local (municipal) level is composed of municipalities, such as 75 autonomous cities (*Si*), 82 rural districts (*Gun*) and 69 autonomous urban districts (*Gu*) (MOGAHA, 2015a, see Figure 2-2). This two tier structure of local government has been influenced by the Japanese model.

There are currently over 3,692 elected council members and 226 mayors and 17 metropolitan and provincial executive presidents serving on 243 regional and municipal local governments, having on average about 202,000 inhabitants (MOGAHA, 2015b). As of December 2014, there are 278,330 local public officials including regional and municipal local governments (MOGAHA, 2014), which is

half the level of the 615,490 national executive government officials. The number of regional government (metropolitan *Si* and provincial *Do*) officials is 78,896 and municipal local (*Si/Gun/autonomous Gu*) government officials is 199,434 including officials in towns and villages (*Eup/Myeon/Dong*) (MOPAS, 2010).

Figure 2-2. Two-tier structure of the Korean local government



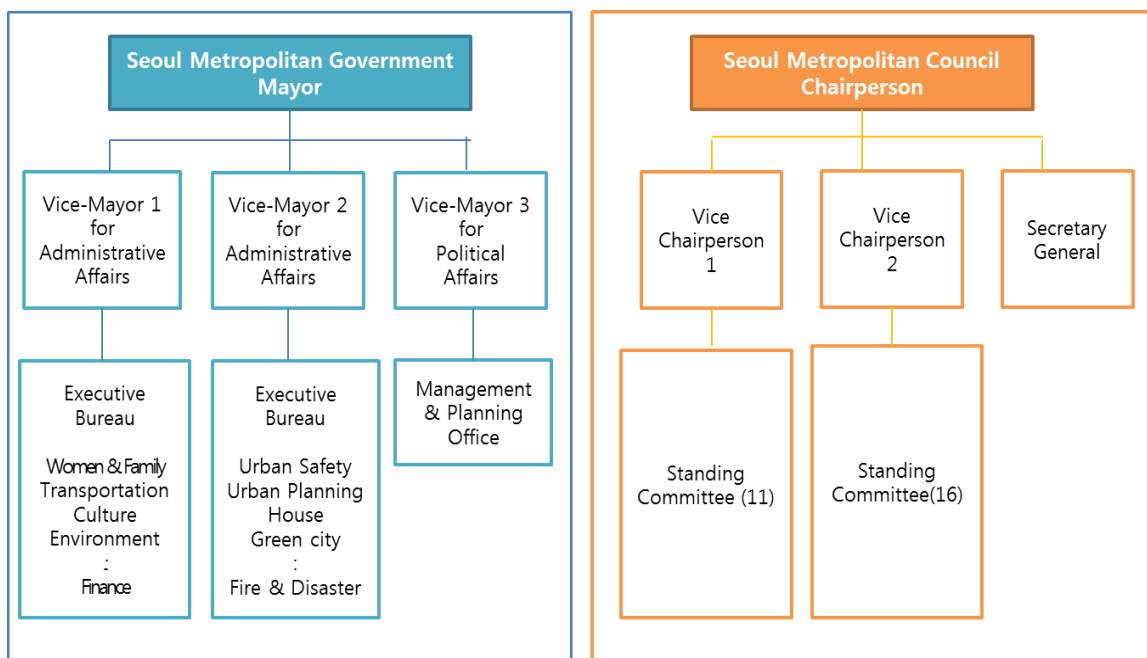
As for internal structure, the form of local government in Korea reflects democratic institutional principles such as a separation of powers, and checks and balances (see Figure 2-3). Executive power belongs to the chief executive, the mayor or governor, while legislative power belongs to the local council⁵. The political management structure of local government is similar to that of the strong mayor- council system in the USA.

A governor or mayor represents the local government and has the responsibility for the staff and resources of all frontline business areas. An

⁵ In the UK, the term of *local authorities* created by and exercising responsibilities conferred by Parliament in the UK, is often used interchangeably with *council* (Wilson and Game, 2006: 93); however, in Korea, the term of *local government* is understood in a limited sense *an executive body* of local authority; in a broad sense both *an executive body* and *a council*.

executive body of local government is endowed with appropriate legal power and independently exercises its power at its own discretion under the range derived from the constitution. The governor administers and enforces affairs delegated to the head by Acts and may delegate part of the affairs under their competence to an auxiliary or administrative organs under their control. The arrangement of local government departments in Korea is similar to that of the council departments in the UK: some provide services direct to the public such as transportation or social services; some provide a servicing role for other departments such as finance or personnel; each department is headed by a chief officer.

Figure 2-3. Organization Chart of Seoul Metropolitan City



Local councils represent citizens' interests and the powers to supervise or scrutinize local administration. Local councils have authority to decide by resolution the following: enactment, revision and abolition of Municipal Ordinances; deliberation and confirmation of a budget; approval of settlement of accounts; imposition and collection of user fee, commission, allotted charges, local tax and entrance fee; establishment and disposal of public facilities; acceptance and resolution of petitions; matters concerning interchange and cooperation with foreign local governments (KRILA, 2011). The local council is composed of standing committees (finance and economy, culture & tourism,

construction, transportation, education, administration, environment and water resources, health and welfare, city planning management, public safety), special committees and council secretariat supporting committees and councillors (see Figure 2-3). The regular session of each local council is held twice each year, in June or July and in November or December. The chairperson can convene the extraordinary session within fifteen days.

The mayor is provided with superior power and authority, greater than that of the local council, in the aspect of legal, administrative and personnel resources (An, C.S. et al., 2002: 24). The mayor and the local council are officially stated to share budgeting, legislation of ordinances and other policy-making functions. However, the power of local government is organized in favour of the mayor over the local council. For instance, the mayor has the authority to appoint local bureaucrats; to submit a budget of expenditures and revenues; and to veto ordinances passed by the local council (Park, C.M., 2003: 19). This practice reflects a path-dependent tendency of the old centralized bureaucracy originating from the tradition of Korean politics. The more direct reason for the executive mayor's strong power is that the Local Autonomy Act and local administrative institution stipulates the authority of the head of local government much more widely than that of the local council (An, C.S. et al., 2002: 21). The power structure focusing on the executive mayor hinders the checks and balances through the distribution of power, and damages the essence of local autonomy from the perspective of democracy.

The governor (or mayor) and the councillors are popularly elected through partisan ballots. Thus government structure primarily embodies the principle of political accountability. In contrast, the rest of local officials are not elected but appointed based on merit. The local bureaucracy, which has long developed professional norms of administration, is the core of local government. Therefore we can say that the structure of local government embodies the principle of administrative efficiency (Park, C.M., 2003: 18).

4.2. Elected local politicians

Popular authorization of local government is a minimum condition for democracy

in the local political sphere. Before 1995, the executive governor and mayor of the local government were appointed by the central government. Since 1995, local government has been subject to popular elections rather than central appointment. Mayors, governors, and councillors are currently chosen in partisan elections. Local councillors had been chosen in a single-member ward system (first past the post) until the local election in May 2006 without any form of proportional representation. Currently, multi-member ward system is in operation with some form of proportional representation. The local governor election is first past the post (NEC, 2013). Despite increasing popular opposition to the politicization of local governance, the influence of national political parties in local elections appears to have increased rather than decreased (Park, C.M., 2003: 15).

Over the past elections, local electoral turnout gradually declined but has recently showed a slight increase. More than two thirds (68.4%) of the electorate cast their ballots in the first local elections for the governors and mayors in 1995 but in the subsequent local elections people showed less interest in the direct participation in politics, however, recently turnout has been improved again with 54.5% in 2010 and 56.8% in 2014. Popular enthusiasm for a grassroots democracy has recently gone up again because of the ease of political participation through a variety of internet technologies, like Chadwick's (2006) discussion.

In the aspect of electoral politics in Korea, four common features can be shown. First, local politics has been subject to central politics. The national parties put forward candidates for local elections in all local authorities. Regional level elections appear to follow a similar pattern to national elections, therefore parties and regions have been critical factors in winning elections (Park, C.W., 2002: 79). Even though elections have been focused on a local area, the issues involving the "politics of daily well-being" have been rarely heard. Instead the parties' participation has taken the local election as an appraisal of the central governing group. Those nationally endorsed candidates in the regional election tend to win. By contrast at the basic level elections, the effect of national parties is a relatively less important factor so the various social backgrounds have an impact on the election (Kim, S.W., 2004).

Second, there has been a propensity of voting based on regionalism. Consequently a certain central political power monopolized the local political elites in certain localities. For example, the election in 2006 split the nation into three politically opposing regions: the Democratic Party occupied the Southwest region, *Honam (Jeonnam, Jeonbuk and Gwangju)*, the *Hannara Party* the Southwest region, *Youngnam (Gyeonnam, Gyeonbuk, Daegu and Busan)* and the United Liberal Democrats the Middle of South Korea (Chungbuk and Chungnam)

Third, progressive groups gradually entered into local politics. Representatives of civil groups and outside organizations ran for the 1991 election as independent candidates but most collapsed. However, from the 1995 election, progressive candidates were occasionally elected and showed the possibility of being elected to local politics. In the 2002 election, the Democratic Labour Party rallied the force of labour and nominated candidates for governor and mayor positions, and received a subsidy: the first time for a national minority party (see Figure 2-1).

The social background of elected persons is one of the important elements in estimating the representativeness, capacity and the power structure of local politics. Regarding their career and experience, the proportion of political elites elected from professional politicians increased as local elections were carried out periodically and a higher re-election of incumbents became prevalent. In particular political elites of the regional government revealed a higher level of professional career than those of the basic local government. This means that the local council is also a kind of power structure and governing elites become hierarchical and ranked according to the level of power (An, C.S. et al, 2002: 295). This reflects the political power structure in which the National Assembly is superior to regional councils which are, in turn, superior to basic local councils.

There were many local councillors with the background of being self-employed entrepreneurs in construction, commerce and agriculture. Thus in each jurisdiction, generally wealthy business owners controlling the community entered into the local politics. In this context, it is difficult to say that local elections brought about a new penetration of political elites previously excluded from the local political power (Park, C.W., 2002). Recently the participants in local

elections have become more diverse. Especially, this trend is evident in that independent politicians have noticeably increased in contrast to those nominated by parties in local districts since 2000 (Park, M.H. et al, 2011). This means that the political competition has started to create a different structure between a candidate from the age-old dominant party and independent candidates in localities, in contrast to the two-party system in the early days of local politics.

4.3. Party politics in local government

Political parties have had a fundamental impact on democratic representation and on the conduct of elected local politicians (Copus, 2004b). Local democracy tends to be based on the bottom-up party politics not on the centre's mobilization. Party plays a role of dispersing the centralized power to the locality and citizens. 'Parties detect demands from civil society, articulate philosophies and policies, and bundle these together and re-present them to the voter at elections. They select candidates for public office and provide voters with competing political platforms and political leaders from which to select' (Copus and Erlingsson, 2012).

Korean local politics has struggled to embed democratic local political mechanism based on the parties system. Parties of Korea could be seen as a two-party system (see above Figure 2-1) although parties have been continuously merged and divided in detail and their names have been changed. In accordance with the interests and strategies of the national parties, there has been controversy and policy change regarding parties' selection of candidates whenever the local elections approached. 'The democratic oriented party' insisted on party participation in local elections for the realization of local democracy and 'the conservative oriented party' opposed it. As a compromise, parties were not allowed to nominate candidates for the council member elections in basic local government before the 2006 election. This skeptical policy stance opposed to parties' participation in local elections, would cause local politics to remain subordinate to central politics, and caused political strife and confusion in the local administration. The expectation that local autonomy should focus on service provision roles rather than a political role, reflects the

authoritative political culture or the underdevelopment of democratic institution in Korea. If local autonomy did not embrace a political function, the rationale of local autonomy would be narrower. According to one analysis (Copus, 2014), the recognition of political roles of local government is achieved through the service provision role in British local politics. This analysis shows how well party politics integrates with services provision in local politics by defining priorities and applying party policies. Without parties it is difficult to ensure the political sustainability and accountability of local government. If the political parties nominate candidates for local district head and councilor, citizens should have a stronger interest and more eagerly participate in Korean politics and parties as well. The candidates nominated by a party could organize the campaign and compete on policies with support from that party so they could be in a better position to win a seat. The point is not the politicization of local government but the constraints of local autonomy which impede the local politics. In this sense, from the election in 2006 to now, nomination by a party has been applied to all local elections. Since then local political democracy in quality rests on the role of parties and the citizens' choice in the process of election.

The party system based on consistent regional support is important to understand party politics of Korea. The advent of party regionalism came in 1988 when Kim Dae-jung mobilized the regional cleavage which had existed only as a potential cleavage until then. As a result, the Democratic Party became a main party in the *Honam* regions (Kang, M.S.,2005). Since the local election in 1995, 'the democratic oriented party' occupied the *Honam* region and 'the conservative oriented party' dominated *Yeungnam* region. The dominance of parties based on regionalism has hampered the local democracy, because the same party dominates the local executive and local council. They preferred to decide policies behind the scenes according to party loyalty and political ideology rather than the legitimacy granted from the citizens. In this case, actually the check and balance between two bodies cannot be expected.

Fortunately, the strong regionalism seems to be gradually weakening. Since the election of 2010, cases of individuals elected by non-regional factors, such as the party's manifesto, have started to show. For example, the mayor and the majority of members of the local councils in *Gangwon* and *Gyeongnam* were

occupied by different parties regardless of the regionalism; as a result the coherent party loyalty and political affiliation was not ensured in the policy process. Most partisan regional governments are gradually being exposed to the possibility for change at any time by the citizen. The mayors and governors evenly came from both parties in the elections of 2010 and 2014. The majority of councillors came from the Democratic Party in 2010 and came from the *Saenuri* party in 2014. As experiences of local autonomy accumulate, participants in the local elections are likely to become more diverse. Especially, politicians from the progressive parties and non-partisan politicians have noticeably increased (Park, M.H. et al, 2011). The political competition forms a different structure between a candidate from the age-old dominant party and independent candidates but previously it was shaped by the two-party system in the early days of local politics. These changes in local politics suggest that the Korean parties need to move from an election oriented party to a policy party which knows what the local concerns are and has policy making capacity, and then forms the day-to-day democratic practices. Political party linkages have the potential to increase local compliance in central local relations. For instance, if an elected mayor was nominated by the party nationally in control, local government which is under direct control by that politician is likely to become more cooperative in implementing policies which the national party supports. Indeed, as chapter 8 demonstrates, there is evidence of an improvement in local government performance due to party linkages.

4.4. Understanding regional governments

Regional governments play a major role in hierarchical central-local government relations in Korea. Regional governments are located in the middle of the hierarchy so they are directly influenced by central controls. They exercise the political leadership to influence basic local governments within their region or to collectively express local demands and initiatives to central government. And it is the level of regional government whose performance is assessed and formally announced through JPA. That is the reason we focus on understanding the regional government. Performance data of regional government will be analysed

in the later statistical study of chapter 7 and 8.

Regional governments are multipurpose authorities that provide social services, regulatory services such as land use planning, waste management, housing, libraries, leisure services and welfare benefits; but education is provided by the other educational entities. They operate within the same broad institutional framework set by central government but a variety of dimensions of the autonomy of local governments has been emphasized since the popular elections and the revival of local autonomy in 1995. As Table 2-2 shows, generally there is a simple classification of special/metropolitan cities and provinces (*Do*). Provinces (*Do*) may be compared with 'eight English regional governments'. Then we have the two massive and influential metropolitan regions of *Seoul* and *Gyeonggi-Do* in which 50% of the population is concentrated around these capital regions: the population of *Seoul* and *Gyeonggi-Do* is respectively 10.2 million and 11.3 million.

The Korean regional government has the strong mayor and weak council system. The executive body consists of an elected governor or mayor, two or three appointed vice-governors or vice-mayors, tens of directors and thousands of officials. A national civil servant is appointed to one of vice-mayor positions by the President and oversees the affairs of the local government and supervises the local officials. The appointed central officials system is a similar to the French prefect system. While the French prefect also acts as coordinator and supervisor of central government field agencies (Hancock et al, 2011: 351), the Korean system is confined to controlling local government. The local council is composed of elected council members and has the structure of chairperson, vice chairperson and standing/special committees, as we noted above. Local public officials enter the local governments through open competitive employment and are paid by local government. Seoul is the largest employer among the local governments: there are 15 thousand local officials and *Gyeonggi-Do* is the second largest local government with 9 thousand local officials; the averagely metropolitan city has 5.6 thousand local officials and provinces (*Do*) 4.0 thousand local officials.

The regional governments' budget is 98 trillion KRW (55 billion GB), 64% of the total local governments' budget of 150 trillion KRW (84 billion GB). The

amount of finance is shown in Table 2-2. There are 8 regional governments whose financial size is under 5 trillion KRW and the average budget of each regional government is 5.1 trillion KRW. When expenditure of regional governments is classified by UN COFOG (Classification of the Functions of Government) standards, social welfare is the largest expenditure by total local governments, accounting for 30 trillion KRW 20% of the whole budget (KRILA, 2011; see Table 2-1). But in the regional level, the largest expenditure is education, followed by logistics and transportation: they account for respectively 23% and 15% of regional government budget; in contrast social welfare is just 7.6% of budget (MOPAS, 2012). This means that a considerable amount of the budget of regional government is being transferred to the autonomous educational bodies.

Table 2-2. Overview of Korean regional government (MOPAS, 2013)

	Regional Government	Population (million)	Area (Km ²)	Budget (billion ₩)	GRDP (billion ₩)	Self-reliance Ratio (%) ⁶
Metro-politan City	Seoul(special)	10.2	605	20499	283651	88.8
	Busan	3.5	768	8358	62691	52.1
	Daegu	2.5	884	5301	37550	48.6
	Incheon	2.8	1032	6229	59294	65.8
	Gwangju	1.5	501	3226	26580	42.0
	Daejeon	1.5	540	2953	27991	51.9
	Ulsan	1.1	1060	2316	69113	62.5
	Sejong	0.1	465	864	-	45.4
Province	Gyeonggi	11.9	10171	14802	243031	60.1
	Gangwon	1.5	16787	3584	30284	21.4
	Chungbuk	1.6	7433	3080	38520	24.1
	Chungnam	2.1	8630	4553	84928	28.3
	Jeonbuk	1.9	8067	4384	38086	18.6
	Jeonnam	1.9	12256	5808	62589	13.5
	Gyeongbuk	2.7	19029	5761	81705	21.4
	Gyeongnam	3.3	10533	6329	86454	35.2
Special Autonomous Do	Jeju	0.6	1849	2840	11129	24.9

⁶(independent local taxes and non-taxes income (A)) / ((A) + dependent income) * 100

Figure 2-4. Political map of Korea



5. Conclusion: the institutional context of local autonomy in Korea

Central controls stem from Korea's long administrative history and survive in every corner of local government affairs. Korean local autonomy has been formed through an unusual trajectory in a different way from western countries. From the perspective of institutions, there are four distinct features behind the creation of Korean local autonomy resulting from the persistent centralizing trend and central controls. First, authoritarian culture is deeply embedded in Korea as a

result of the legacies of long standing centralized rule based on Confucianism and 35 years of Japanese colonialism. Bureaucratic culture has been formed in the early stages of development of the state through the centralized bureaucrats leading growth (Kim, J.S., 2006). Locality is just a subordinate mechanism under the authoritarian administrative state. In this respect, local autonomy is recognized as the autonomy of lower organizations, namely administrative autonomy. An authoritarian administrative state contributed to ensuring the effectiveness and consistency of the public administration and resisted any emphasis on diversity and fostering of democracy.

Second, the financial capacity of local government is weak compared to central government. The expenditure of local government occupies almost 60% of the national budget but the financial size and the taxation structure of local government are overly unbalanced. Due to the insufficient physical resources, local governments have no choice but to depend financially on the central government. In this sense, the introduction of local income tax and local expenditure tax in 2010 is an unprecedented progression in the central-local government relations, which will be discussed in chapter 5.

Third, political regionalism prevails in the fragile local politics. The situation where the central power holds sway over the local community becomes part of the background from which regionalism can be mobilized in central politics. This has intensified regional rivalries because people have noticed the development of a particular region from which a strong political figure has emerged and who has then seized power for a long time; on the other hand, other regions have been excluded in that development and central support. As a result, regional cracks in local elections have become as deep as those in national ones. In all local elections held since 1995, a majority of the electorate voted for parties that were identified with their region of residence, namely their hometown parties. For instance, in the *Youngnam region*, which has been a stronghold of the Grand National Party(GNP), the percentage of elected GNP mayoral candidates was 50% in 1995, 68% in 1998, 87% in 2002, and 86% in 2006(NEC, 2013). Local party politics have been impeded by regionalism and have been constrained by acting as power basis of the central party politics. This has caused regret about the realities of local autonomy and sarcastic indifference over local politics

Fourth, great power is concentrated on the chief executive. Korean local autonomy has been developed in the 'strong mayor and weak council form of government' for a long time. The presidential system emphasizes shared control and balance between the two bodies. But, in practice, the authoritarian political culture and the legal stance which gives the general authority to the mayor but the detailed individual regulation to the council member disturb power distribution. The power structure focusing on the executive may damage the essence of local autonomy from the perspective of democracy.

This chapter has reviewed the hesitant evolution of effective local autonomy in Korea. It has been driven by a national expectation of greater democratisation which has inspired a series of political initiatives to create viable local democracy. There has been a steadily developing confidence in the ability of local governments to operate effectively and there are promising indications of the development of constructive party-political dynamics. But the performance of effective local democracy has evolved in the shadow of pervasive central controls and has been marked by trial and error, by experimentation, and, as we will see in succeeding chapters, by quite contrasting performance in the disparate regions. Nonetheless, there has been a significant move away from autocratic central control towards a central-local relationship marked by dialogue, partnership and softer controls embodying incentives and systematic co-operation. Since 1997, however, the development of local democracy has encountered obstacles created by national economic and fiscal crises. Faced with pressing challenges to economic growth national politicians and officials have reawakened traditional norms and expectations and have reverted to greater central control. Thus this study is also interested in how financial crises had an impact on the effect of central controls on local government performance. In this context, the next chapter looks into the fiscal crises and the Korean experience.

Chapter 3. Fiscal crises: the context and the Korean experience

1. The context, responses and approaches

1.1. The various dimensions of fiscal crises

This thesis seeks to prove the argument that the democratic trend of central-local relations has matured since the popular election of local politicians but the financial crisis in 2008 interrupted this change and thus central government took back its strong mode of controls in Korea. Fiscal and economic crises can be important challenges which deviate institutions from the established path. While the 1997 economic crises constituted a sufficient challenge to bring forth changes, the recent economic crises demonstrated a paradoxical reversal of institutional change, that is, the more democratic ideology that had been guiding central-local relations for a decade seemed to revert to more conventional centralism. In this sense, this chapter focuses on the institutional dimension and on the effects of fiscal and economic crises. The Korean crises will be differentiated between the financial crises at the national level and local government's fiscal crises. This division of fiscal crises will be applied in the later chapters' statistical analysis.

'Financial crisis' is a problem in financial markets like the 1997 Korean financial crisis or the 2008 global economic crisis. Financial crisis is perceived when a booming financial market, being full of speculative investments and cheap foreign loans, begins to deflate; euphoria morphs into despondency and then there is a pause in the increase in asset price, and expectations over mounting loss further reduce confidence and cause financial markets to shrink fresh loans to the extent where new loans are not available (Kindleberger and Robert, 2005: 84).

A key dimension of fiscal crisis is the response of the financial markets and of the government. In practice governments borrow to bridge financial shortfalls. The reason why the fiscal deficit of each country deteriorates is the large scale of fiscal policy. A fiscal crisis only really emerges nowadays when the government debt becomes so substantial that lenders are no longer willing to lend due to the

increasing debt of the country or uncertainty of the market. The market's loss of confidence deteriorated the financial conditions of the Asian governments in 1997 (Krugman, 2008: 94). Therefore fiscal crisis can be caused by the judgement of the financial markets or by the fragility of the financial markets themselves – lenders may stop lending even though the deficit has not changed. This is important because it introduces a dimension of external perceptions and it leads to change in political leadership and encourages central government to remove the political leadership – which gives an incentive to avoid fiscal crisis.

Also there are cyclical and structural dimensions of fiscal crises. The former is short term and corresponds with the swing of the business cycle; the latter is long term and reflects the changes in the economy which are beyond the control of government (PLMD, 2006: 185). In general if viewed from the perspective of economic cycles that markets are allowed to find their own level, cyclical fiscal crisis is the price for the surplus expenditure that that people became accustomed to in a prosperous economy. Cuts in public expenditure are not tolerable or popular in the era of electoral politics. For example, in the 1970s and 1980s local fiscal crises happened due to the increase of transferred activities to local government and the cut in subsidies by the fiscal deficit of federal government in the USA (ACIR, 1985: 1). The latter structural fiscal crisis springs from the embedded fiscal deficit, which means the chronic imbalance of revenue and expenditure of government. The volume and composition of government expenditure under the constant and given government revenue are not determined by rationality but rather are structurally determined by social and economic conflicts and hence government expenditure tends to expand beyond its revenue. Korean local government's fiscal crises in the late 1990s resulted from cyclical fiscal stress that happens in a conjunctural recession (Gwak, C.G., 1998: 330). However the Korean local governments are now gradually being exposed to structural fiscal pressures due to the increase of transferred activities to local government and constrained local revenues. Elected mayors tend to be reluctant to increase elastic local tax, with which they can adjust the tax rate within the legally permitted range, in order to gain re-election. We will further investigate the local government fiscal crises of Korea in the last part of this chapter.

1.2. To whom is there fiscal accountability?

Fiscal crises have become a widespread global issue since the 2008 global crisis. In particular, the main challenges such as economic depression, an aging society and unemployment disturb governments' attempts at successfully putting the brakes on public spending. As a result, high accumulated sovereign debt has risen to the level of fiscal emergency. The Debt to GDP ratio had already exceeded 107% in OECD countries in 2012 (OECD, Economic Outlook no 95).

Fiscal crises provoke the issue of fiscal responsibility which is concerned with annual budgeting, long term financial planning and management of acceptable levels of debt. When things go seriously wrong the public tends to look for leadership and responsibility from presidents and politicians (Peters, 2011:77). President Kim Young-sam was blamed for the 1997 economic crisis because of the forced globalization policy and lack of supervision of the financial market. Finally the 1997 economic crisis caused a power change for the first time in the following presidential election in 1998. The financial inquiry commission investigated whether to hold the ministers of MOFE and senior politicians of the Presidential Office responsible for the policy failure.

If a local leader wrongly managed the finances and did not meet the national priorities, that local leader should be fiscally accountable to central government from the current centralist approach of MOGAHA and MPB which are in control of local financial management, taxation and borrowing. Local governments which were diagnosed to have fiscally stressed conditions were monitored to implement the financial austerity plan by MOGAHA. Once the central government recognizes a possibility of fiscal crisis, it is likely to exert more intensity of control, with the necessity of regulating, intervening and coordinating something unfit and unregulated. In this context, the commentators refer to crises as a moment of decisive intervention (Hay, C.,1999: 323).

The responses to the global financial crises tend to strengthen regulations about government expenditure and benefits of social welfare. The centralist approach considers it important to tighten management of local fiscal policy lest local government should waste tax money on unnecessary and improper things. Financial and fiscal crises, thus, impact the modes of central controls on local governments. The change of control modes can affect the productivity, efficiency

and democratization of controlled subordinate organizations, that is local governments. The experience of the 1997-8 Korean economic crises demonstrated the voluntary compliance to central controls and acceptance of accountability for the national crisis. At that time local government was still preoccupied with the old centralism. The short experience of local autonomy had failed to change local political culture, which seemed to make local government internalize the accountability of the national economic crisis, although the policy response over financial crises deferred decentralization and sacrificed the value of autonomy and democracy. Here we can see local governments in Korea admitted the vision and the detailed plan of, and positively cooperated with central government, which resulted from the centralised political culture and the unitary and homogeneous structure of the state. On the other hand, during the recent fiscal crises in 2008-9, local government showed slightly different behaviour. Local politicians were dubious about the nature of the crisis and opposed coercive central controls, which meant local government tried not to take responsibility for the national crises. With more lessons and experience of local autonomy, local government and politicians perceived the political reality and rejected local responsibility.

When it comes to local fiscal crises, the more democratic model argued that local politicians should be made accountable to the local electorate. Devolved authority allows local politicians to raise taxes locally and they are responsible for spending and managing the finance. If the state needed financial aid as a result of their changing economic position such as structural (i.e. 'the influx of high need residents' or 'loss of high income business') or social and economic problems (i.e. recession), local government units should be allowed to go bankrupt and the local population would only have themselves to blame for electing an incompetent leader (Musgrave, 1980: 568-9).

Neo-Marxists consider the fiscal crisis of the state as arising from the structural imbalance of income and expenditure of the state in the process of the public finance's expansion (O'Conner, 2002). They put the fiscal accountability on the interdependence between the monopoly capital and the fiscal state (Pinch, 1985). Monopoly capital dependent upon state expenditure continues to insist on growth in public spending to allow further capital accumulation of monopoly

capitalists and serves only to expand production beyond the level of demand; social capital is expenditure required for profitable private accumulation, in contrast, social expense is socialized for the legitimating function (O'Conner, 2002: 6-7) and thus there is a structural disjunction of spending and income of the state, creating a fiscal crisis of the state. The interdependence between monopoly capital and the state results in unemployment, welfare expenditure and further pressures upon the state to increase social capital expenditure which finally creates a fiscal crises of the state (Pinch, 1985).

Crises make us concentrate on how governments have grappled with fiscal crises and what are the best ways of responding to them as well as the implication of the effect of fiscal crises in the political area, particularly in central and local governmental relations. As local autonomy develops in Korea, in principle local government should be accountable to their citizens, because the important legitimacy of local government comes from the democratic electoral process. It is citizens' votes that prevent local government from being an administrative arm of central government and endows local government with political power (Copus, 2010: 431). In practice, due to the embedded centralism and hesitant evolution of local democracy, however, local government has been accountable to central officials. When local government is faced with fiscal crises, policy decisions generally tend to migrate upwards to central government. As we reviewed in chapter 2, the local autonomy system constrained by central regulations supports this view of the reality.

1.3. Responding to fiscal crises

One of the main issues emerging from recent fiscal crises has been the different policy responses about how best to respond and resolve fiscal crises. Governments have political choices in the sense that there are always policy alternatives available, and the choice of alternatives reflects policy priorities. The priority of government after the great economic depression was to ensure that the financial system worked properly. A series of government interventions redesigned the system so that governments avoided big disasters: the banks were placed under tight regulation and international movements of capital were

also limited (Krugman, 2008: 189). What government needed in the financial crises that started in 2007 was to stabilize financial markets. To do this, government had to show commitment to dealing with the crisis of confidence. The rules were changed to strictly regulate the market. People were expected to participate in sharing the difficulties and in the governmental reform. Therefore the high level of performance wages for bail-out bank workers was considerably criticized. Cognitive understanding accepted the signal of the market instead of the account of government officials.

Political institutions and culture shape the experience of financial crisis; in turn the financial crisis can repair a perceived weakness of government and reshape politics (Richardson and Copus, 2011: 17). It is productive to note that different policy responses emerged from the UK, USA and Korea in the financial crises. In the UK the financial crisis had a major impact on public finances with debt to GDP ratios increasing from 47% of GDP in 2007 to 101% of GDP in 2012 (OECD, 2012). The Conservative-Liberal Democrat coalition agreement planned for cuts including £ 6 billion efficiency saving in 2010 (Richardson and Copus, 2011: 9). The government bail-out of the banks and guarantees on loans and deteriorating tax revenue have contributed to increasing debt. However there had been limited debate on the financial crisis, with little attempt to analyse and explore the failing of the regulatory system; instead the focus of discussion shifted to a concern about public expenditure (Mullard, 2011: 25). In seeking to repair public finances, the response of the coalition governments has been to seek reductions in public expenditure on pensions, social security and health provision.

By contrast, in the USA, the Financial Crisis Inquiry Commission (FCIC) was established to explore the role of the regulatory system since January 2010 and they published their final report in 2011 (Mullard, 2011: 25). The Obama government reformed the financial regulation, abolished Quangos and regional planning bodies and operated Emergency budget with rapid cuts and in tax increases (Richardson and Copus, 2011: 9).

In Korea, the reform after the 1997 crisis started from the perception of the structural vulnerabilities originating from the condensed economic growth over the last half century. The financial inquiry commission was operated by the

National Assembly to take testimony and investigate responsibilities. The central government prepared the proper regulatory framework. Four sectional reforms were undertaken in finance, business, labour and the public sector, in the aftermath of the crisis (MOFE, 1999). The Korean government provided rescue funding of 14% of GDP of the year of 1998 for the purchase of toxic assets, the take-over of banks and the protection of depositors. In seeking to repair the budget, the government maintained the austerity policy and announced job cuts and mergers in some services. However, debt to GDP increased from 12% in 1997 to 35% in 2012 (NBO, 2014; OECD, 2012).

Seen from the experiences over the past fiscal crises, government provided the necessary funding to stabilize the financial sector, while the spill over to the real economy resulted in a major increase in unemployment as well as deterioration of social welfare. The finances needed to bail out the financial sector have resulted in policies of austerity toward public provision and the OECD has argued that more reforms are needed to address the scars from the crisis and boost growth (OECD, 2012).

1.4. Analysis from the perspective of historical institutionalism

Coping with crises can be understood from the lens of historical institutionalism. With regard to the causes of institutional change, this approach highlights the factors such as institutional dynamism, institutional restriction and ideas. In this context, crisis is usually one of the exogenous shocks or endogenous sources which can disturb for the time being the 'institutional equilibrium' which enables the ruling group to maintain its hegemonic positions (Thelen, 1999:392; Collier & Collier, 1991: 759). From more gradual approaches to change (Thelen and Steinmo, 1992), fiscal crises can be endogenous sources. In this aspect, fiscal and economic crises may constitute a sufficient challenge to the established pattern to produce movement toward a new institution through incremental adjustment rather than the more radical departures from the *status quo* (Peters, 2011: 76)

Fiscal and economic crises might be capable of creating a 'punctuated equilibrium' which recognises the discontinuity of institutions and the enduring

likelihood that institutional change tends to return to institutional equilibrium. 'Historical juncture' or 'critical juncture' is the moment when social relations and institutions are newly installed and transformed in response to the political or economic crisis. From the critical juncture perspective Colin Hay (1999: 329-330) points out that crisis provides a critical moment which facilitates transformative change. He demonstrates a model of transformation of the institution in response to crisis, 'building on the distinction between conjunctural and structural crises' and demonstrates how the reproduction of institutions is secured through periodic state intervention or a new trajectory being imposed upon the enduring features of an institution. Therefore the temporality of crisis emerges as a critical and strategic moment in the transformation of the institution. This perspective has an obvious affinity to the 'punctuated equilibrium' model of institutional change and the model of gradual versus revolutionary institutional change.

Fiscal and economic crises might have potentially contradictory effects on existing policy-making arrangements from the perspective of historical institutionalism. The political system would revert to its more conventional pattern of governance after some deviations from its more established path at the time of crises (Peters, 2011: 76). Alternatively, fiscal and economic crises may provide the pressure required to disrupt an existing political arrangement and produce new patterns of governance. The reactions to these crises may be different across countries because they perceive differently the nature of fiscal and economic crises under their various political, economic and cultural backgrounds. History matters for understanding political dynamism because history provides experience and experience can change the beliefs and preferences of citizens and their elites (Steinmo, 2014: 2). Korea responded differently to the past two financial crises. The 1997 economic crises played a role of changing existing political power and producing the new fundamentals and NPM styled governance. However the financial crises in 2008-9 made Korea revert to a traditional mode of centralism, as a paradoxical reversal of historical institutionalist explanations which fall back on the external shock when they explain the institutional change. This revert to centralism since the financial crisis supports the well-known proposition that during a crisis decision-making tends to be centralised, which is found in crisis management literature and from decision-making analysis in the public sector, as was also suggested by Guy Peters (2011: 76).

Chapter 2 observed centralism and governmental relationships from the historical institutionalism perspective; accordingly this chapter identifies what past decisions influenced the economic crisis and local fiscal crises and how they moulded the institutional changes after these crises. First we will make the point that the Korean economic crisis was related to government reform and discuss how it affected local government. Then we will explore the experiences of local fiscal crises and policy responses. In chapters 7 and 8, how financial and fiscal crises at the national and local level, as independent variables, respectively influence the performance of local government will be researched. This issue is related to the effect of policy responses over the different crises. In particular, we will employ the analysis of Scott (2014) and investigate the three pillars of institutional changes: regulatory, normative and the cognitive aspect of institution.

2. Financial crises in Korea

2.1. Legacy of the past

The stunningly rapid advance of the Korean economy marked a substantial deviation from historic stagnation. Korea in 1997 was not far short of being a developed nation, with per capita income comparable to that of southern European countries (Krugman, 2008: 96). However, the Korean economy became vulnerable and unstable because it was at fault by allowing market irregularities and moral hazards as a result of the institutional vestige of the past.

Historical institutionalism is concerned with contingency and the unintended consequences of policy decisions previously made and with a focus on the path dependence of institutional stability (Pierson and Skocpol, 2002; Hay and Wincott, 1998; Peters, 2012). According to this approach, a process of liberalization by the Economic Planning Board in the 1980s took Korea down long pathways that are difficult to reverse. Parallel to the Japanese economic success (Johnson, 1982: 8), Korea has been based on 'the developmental state model' in which the Economic Planning Board played a role in establishing state-lead economic development strategies and the system of putting business management under

the state. The state's role in the economy was shared with the private sector in order to effectively achieve economic goals; in contrast, these specific political economic structures consequently caused the misallocation of resources, collusion between business and political elites, unproductive rent-seeking behaviours and moral hazard. In particular, the Korean government controlled the entire internal and, especially, cross-border financial flow very tightly (Chang, 1998: 736). In the 1980s financial liberalization policies were 'cautious and slow in terms of order and speed' (Park, 1996: 252) and therefore the financial market was still under the control of the state.

Then, the subsequent institutional changes of the Korean government during the 1990s relaxed its control over the financial sector and varied the policies of financial liberalization: reform included foreign exchange liberalization; capital markets opening to foreign investors; interest rate deregulation; more managerial autonomy for the banks and lower entry barriers to financial activities (Chang, 1998: 737). It can be argued that by means of a series of self-inflicted wounds of financial liberalization, the Korean government loosened virtually all control over financial institutions. The lack of or insufficient regulation is often advanced as an alternative or contributing factor to the financial crisis (Bernanke, 2010). The huge scale of liberalized financial policies created novel and complicated problems between the state and the private sector, especially in relation to the banking sector and the hugely leveraged corporate sector. This was because the state was hamstrung between a highly effective bureaucracy that sought to regulate the corporate sector and a political ruling group that, relying on the financial support of *chaebol*: big business, ended up circumventing the best efforts of the bureaucrats (Woo-Cumings, 1999: 117). At last, in the very vulnerable year of 1997, the government failed to monitor properly the foreign borrowing activities of the inexperienced private sector and consequently, by precipitating financial vulnerability, generated an unintended financial crisis.

Chang (1998: 739) argues that various liberalization measures announced in 1993 and the post-1993 financial liberalization in Korea were critical in generating the crisis. In particular, 'the decision of the Kim Young-sam government in 1993 to apply for membership of the OECD also subjected Korea to further external demand for financial market liberalisation' (ibid: 739). Those liberalization

measures instituted very substantial capital account liberalization and the result was 'a mushrooming of foreign debt'. For long-term foreign borrowing, detailed information and permission from the Ministry of Finance and the Economy (MOFE) were required, which led the borrower to contract short-term loans and allowed poor asset-liability management to go unchecked. The 1997 Korean crisis was not the result of excessive government intervention that encouraged 'moral hazard', but the uncoordinated and excessive investment by the private sector, financed by imprudent amounts of short-term foreign debt (Chang, 1998: 739). Krugman (2008: 97) also agreed that the Asian economies were more vulnerable at that time partly because they opened up their financial markets and took advantage of international lenders in order to run up their substantial debts. Consequently the financial liberalization policies of the Korean government precipitated a major vulnerability of cross-border financial flow.

In addition, the Korean critical junctures can be identified in industrial and economic development from the 1960s to the 1990s. At this period, the government developed favoured industries and controlled very directly the allocation of investment. This was possible because in Korea all banks were nationalized in 1961 with the advent of the government of Park Jung-hee (Chang, 1995: 153); even though banks were privatised in the 1980s, the government maintained its control. The Korean government controlled finances and industry from the 1960s to 1980s; liberalized the financial system in the 1990s; eventually after the 1997 economic crisis Korea had to enforce the drastic reforms of opening its domestic market and of ending the feeding of favoured business at the trough of the state, paying the price for the bail out money from the IMF. The Korean government had to go through a financial emergency by re-establishing the basic organization logic in conformity with global standards and undergoing structural change at that critical moment. The IMF demanded that Korea allow foreign ownership of corporations, and an opening of domestic financial markets to foreign banks and an end to government encouragement of loans to favoured industries (Pempel, 1999: 236)

In conclusion, from the perspective of historical institutionalism, the financial liberalization of Korea over the past twenty years has given rise to a new pattern of financial institutions. Specifically the rules were changed to liberalise and

internationalise capital flows; the norms were changed to give credence and authority to market signals; and the cognitive framework evolved to accept judgements and prescriptions emerging from financial markets and institutions rather than from the officials and ministers of central government. This institutional transformation led to unintended results in the shape of gradually intensifying financial vulnerability and eventually the 1997 financial crisis. The 1997 crisis came from the institutional changes which created the 'critical junctures' of institutional developments and variations of finance. But the financial crisis reinforced the influence of markets and of financial liberalisation which made it important to appreciate the dangers, as well as the benefits, of market friendly financial institutions.

2.2. Political debates

The Korean crisis was caused much more by under-regulation than by corruption or any other side effects of an overly close relationship between business and the government. However, there was a debate surrounding the internal causes of the Korean financial crisis including: unnecessary government intervention and policy failure, confused and belated crises decision-making, and the development of big conglomerates with governmental support and their unlimited business expansion. The first issue was about policy failure. Although the economic team of the government depleted the foreign reserves by \$ 26 billion under the snowballing current-account deficit, it failed to defend the foreign exchange rates and which finally led to the exchange market crisis in 1997 (Lee, W.J., 1999). This means the excessive government intervention brought about the disaster. In addition, the president delayed the bankruptcy of a big conglomerate, KIA, for fear of triggering a large chain of enterprise bankruptcy. The enterprises' failure caused a chain of bank and financial company bankruptcies, another pillar of the 1997 financial crises. This reminds us of the importance of the highest level of decision making by the president, prime minister and central government.

Also the crisis reporting system was criticized as not properly working within the government. The economy team of the government did not give prior notice about the seriousness of the exchange market to the president and the necessity

for IMF involvement was reported to President Kim on 14 November 1997, only six days before the Korean government requested IMF bailout on 22 November 1997 (Lee, W.J., 1999). It was revealed in the economic hearing after the crisis that due to the disorder and delay of reporting and decision-making by the government, Korea had no choice but to accept more demanding conditions for the bailout.

Most of all, the fundamental source of the financial crisis was rooted in the state's developmental strategies of the past. Throughout the 1960s and 1970s, the Korean government compulsorily pushed many private sector firms into the required new industries with carrot and stick approaches such as subsidies and threats to cut off loans from the state owned banks (Chang, 2010: 128). These selected firms became the big conglomerates, the *chaebol*. The growth of *chaebol* relied on 'informal networks between government officials and business elites'. *Chaebol* enjoyed fame for a long time in expanding a variety of businesses with comparably easy loans from the bank and protection from the government, which caused the poor management of enterprises and banks. There was industrial polarization: during the period that *chaebol* were prosperous, other medium and small sized enterprises, which had been ruled out of this special relationship, experienced recession in spite of an economic boom (Song, I.J., 2012: 23). These discriminatory developmental strategies led to excessive unfairness and corruption. Most of all, the government could not control the evils of reckless management by the big conglomerates, *chaebol*. Therefore, many politicians made use of the financial crisis to attack the pro-business governmental policies and required restructuring throughout all economic and social systems.

As soon as the 1997 financial crisis swooped down on Korea, the internal reforms for 'economic' democratization foundered. The IMF assistance had come with a host of conditions including the requirement of structural changes in the Korean financial system and in public governance (Pempel, 1999: 226). Korea faced the situation where the liberalising economic reforms that had previously been debated, but never implemented, had now to be carried out following the external pressure of the IMF. Newly elected President Kim Dae-jung opportunistically made use of the IMF conditions as they were congruent with his

own reform agenda which included re-established financial institutions.

2.3. Institutional changes

From the perspective of historical institutionalism, the 1997 economic crisis had an influence on the 'three pillars of institutions' (Scott's, 2014: 60), rules, norms and cognitive frameworks, the three defining components of an institution. First, regulatory rules were changed to restructure the systems and reduce the economic uncertainty of the market. The government implemented the structural reform over the four sectors: finance, corporate, government, and labour, to cure structural problems germinated in the process of a fast growing economy. Through the restructuring of the finance sector, most of the improper conventions of the corporate financial sector were eliminated and the capital adequacy ratio of Korean banking institutions was enhanced. The financial supervisory system was changed to match the global standard. The subsequent bankruptcy of conglomerates and accompanying credit crunch required emergency restructuring of the corporate sector. The central government established the standard for restructuring but stood back from the direct implementation of restructuring. If the government had initiated and intervened in restructuring the corporate business sector, it would have caused inefficiency as well as a controversial debate about preferential choices between the revitalized and excluded enterprises (Park, Y.C., et al., 2000: 55). Therefore the bank that provided credit loans was assigned to adjust restructuring as a creditor through autonomous negotiation (MOFE, 1999: 129). Considering the level of the sector-wide insolvency and the aftermath of financial restructuring on the economy and financial markets, the restructuring was conducted in the order of comprehensive financial companies, banks, securities firms and credit agencies. For encouraging the flexible labour market, the Korean government chose employment coordination which enables the enterprise to dismiss their workforce due to their business managerial needs. The Korean Tripartite Commission of labour, management and government was established in order to arrange the process of discussion and understanding between parties over the reform agenda (MOFE, 1999). The government sector restructured itself through cutting the workforce,

reorganizing and privatizing the central and local government, executive agencies and state owned enterprises, which all changed the structure and framework of the government sector.

Second, in the normative pillar, people were expected to participate in overcoming national financial crises. Therefore values such as efficiency and saving were preferred at the level of individuals as well as organizations. Norms were changed to accept downsizing or reduction of almost all work fields in order to enhance efficiency and to be normalized. Most of Korea seemed to accept the blood shedding from the reconstruction of every part of systems. In order to relieve the anxiety of people and in order to exhibit the government's endeavour in overcoming the crisis at the same time, the government drastically cut down the staff and organization of the public sector. Even the merging and selling of Korean companies to foreigners was considered as a necessary solution to avoid closure and for company to survive in the recession. Moreover in both the public and the private sectors operating systems were reinvented to stress performance criteria. This encouraged the new organizations to work well and enhanced the accountability of government agencies, and raised the profile of performance in the process of work. Therefore, according to the performance they achieve, companies and agencies became conscious of the shame or honour on the basis of their performance and a new norm of improved performance was established.

Third, the cultural-cognitive pillar took the change of the established systems and the self-improvement for granted. Entire communities, mobilised partly by a sense of national sacrifice and patriotism, reached the conclusion that without change they could not survive and could go on to confront another crisis. The Korean government acknowledged the structural vulnerability of the financial sector and injected an astronomical amount of public funds built on a national consensus, and conducted the forceful restructuring of banking institutions, which contributed to restoring the creditworthiness of the country (MOFE, 1999: 115). The self-improvement culture began to nest in the corner of public and private organization standing on the base of the reformed structure and system. In conclusion, institutional changes in response to the financial crises extensively occurred to the extent which gave a chance to diagnose the problems of the regulatory system of Korea and resulted in changing the norm and cognitive

perception of people.

2.4. The effect on local government

The financial crises have held back the trend of expanding decentralization and local autonomy. Central government could not endure what it saw as local governments' reckless management. The scale of local government debt increased by 12.5% in 1996 and by average 10% or so for the several years before 2000s (MOGAHA, 2001: 233). First, in the regulatory aspect, the experience of financial crisis engendered more efficient auditing and continuous monitoring of local government. In this sense, the performance assessment such as JPA was emphasized and BAI continued to recruiting officials for the inspection and audit of local government. This meant central government did not trust local government after confronting critical crises even though formally central government was on the way to transfer part of their authority and responsibilities to local government. Centralists believe that local governments are congenitally so irresponsible that they need to be regulated. Particularly the digitally integrated financial system has been connected between central and local governments in order to monitor local government's fiscal condition as well as to enhance the central government's capacity to collect information about local government's spending.

Second, from the normative aspect, local government was not expected to take responsibilities and to achieve performance corresponding to the politically self-governing bodies. Distrust over local government did not allow some generosity within which local government could experiment and fail with a variety of policy implementations. People considered autonomy at the local level to be too early for the inexperienced local administration.

Third, partly some began to accept diversity and democratization emerging from local government and encouraged the sharing of best practices across the sectors, however cognitive culture, in the form of a sense of national crisis and patriotic fervour, did not allow the desired extension of local autonomy to become embedded. If local government failed to manage its finance, local government was accountable to the central government and to the elected legislature

therefore centralism prevailed over the public sector.

In conclusion, the experience of financial crisis at the national level negatively influenced institutional changes. Central government produced more regulations to prevent fiscal crises at the local level. These regulatory changes produced a negative normative perception over the extension of local government and local autonomy. As a result, cognitive understanding reverted to the historically grounded assumptions where centralism prevailed in the entire governmental relations.

3. Fiscal crisis of local government in Korea

3.1. Legacy of the past

Local finance management constituted a matter of central and acute concern within the larger issue of public finances. Local expenditure has risen steadily but revenue has not kept the same pace. The equilibrium of sustained centralism has been punctuated by way of a series of local autonomy reforms. The drastic change to popular local elections forced local government to meet the citizens' legal demands, on the one hand and to enhance the competency of the locality on the other hand under the competitive milieu, as we noted in chapter 1. The immature local electoral politics, without sufficient learning and training in self-governing over the history of Korea, has led to a kind of pork-barrel politics of mayors and thus expansion of financial demands. Korean local governments started to experience fiscal distress due to the economic depression and reduced tax income after the 1997 economic crisis. In the late 1990s and the early 2000s, the number of local governments that could not afford to pay remuneration by self-financed revenues increased from 28 in 2000 to 32 in 2004 (Kim, C.S., 2005).

Nevertheless, the Korean local governments seem to be less accountable to local fiscal crises due to the central government's institutional control of local finance. Most resources and legal and administrative authority remain under the control of central government. The fiscal regulations, such as budget compilation guidelines, the multi-year financial management plan and the local finance diagnosis and analysis, prevent local government from facing fiscal crises. For

example, as a result of local financial diagnosis and analysis, if a local government was revealed to be potentially under fiscal distress, it would be designated as ‘a diagnosed group’ to be under the intervention of MOGAHA. Actually, most diagnosed groups were basic local governments but four cases were regional governments: Jeju in 1999, Busan and Daegu in 2001, and Gwangju in 2002 (see Table 3-3). These diagnosed groups had to receive financial consultations from the centre and implement the financial austerity plan.

Table3-3 Diagnosed groups in fiscal distress (MOPAS, 2011c)

FY	Regional government	Basic local governments
1998		Yangsan, Seochun, Daegu Junggu
1999	Jeju	Donduchun, Uiryeong , Daegu Namgu
2001	Busan, Daegue	Busan Gangseogu, Daegue Seogu, Incheon Namgu
2002	Gwangju,	Gymje, Dangjin, Hampyeong, Namjeju
2003		Seogwipo, Ulreung, Yechun, Incheon Yeonsugu
2004		Osan, Gurye, Chulwon, Busan Donggu
2005		Gangreung, Bonghwa
2008		Siheung, Chilgok, Busan Donggu
2009		Gyeongsan, Muan, Daejeon Yusunggu
2010		Donhae, Youngduk, Incheon Namgu

Since the 2008 global economic crisis, concern with local government fiscal crisis has come to the fore again. The Lee Myung-bak government had an overarching priority for vitalizing the economy and this priority tended to drive the response to the global economic crisis. It involved an increase in public expenditure through draining their local rainy day funds and issuing government bonds. As a result, as Table 3-4 shows, the financial indicators demonstrate how the financial consolidation of Korean local government deteriorated in 2009: the consolidated local government balance was in deficit for two years; the increased rate of local debt payment means that local government finances stiffened.

Table 3- 4 Local government's fiscal indicators

	2007	2008	2009	2010	2011
Consolidated balance ¹		0.02	-9.89	-1.40	1.84
Local debt payment rate ²	2.83	2.49	2.53	2.96	3.06
Independent income growth			-0.53	5.85	6.90

¹ (total income-expense & loan) / (consolidated fund) * 100

² debt repayment/ settled general revenue

Source: The analysis of local government finance FY 2011 by MOPAS

The concern with local government's fiscal crises gave rise to changes in the fiscal institutions of local government. The early-warning system was introduced in 2011 in order to monitor the financial condition and detect problematic issues of local government (MOPAS, 2010). The legal standards on which central government is able to warn of a fiscal crisis and intervene in a local government's financial management are established in the Law of Local Government Finance (see chapter 7). For example, when the amount of debt burden exceeds more than 40% of the total amount of aggregate budget, the central government can consider it as a local fiscal crisis and intervene in their financial management. Based on this standard, the regional governments whose debt to budget figure is over 40% from 1999 to 2012 are in the following Table 3-5. The new regulations seem to play a precautionary role of preventing local fiscal crises, because there has been no case included in the 40% rule since the effective regulations.

Table.3-5 Local fiscal crises calculated by the debt to budget of 40%

Year	Regional government with fiscal crisis
2000	Gwangju (56%), Daejeon (54%), Ulsan (43%), Jeju (54%)
2001	Busan(53%), Daegu(55%), Gwangju(48%), Daejeon(47%), Ulsan(43%), Jeju(43%)
2002	Busan (45%), Daegu (70%), Gwangju (44%), Daejeon (41%), Jeju(40%)
2003	Busan (42%), Daegu (66%), Gwangju (43%)
2004	Daegu (67%), Gwangju (41%)
2005	Daegu (65%)
2006	Daegu (44%)
2007	Daegu (41%)

Source: debt/ budget*100 calculated from the financial data (lofin.mohaga.go.kr)

The institutional factors which influenced the financial conditions triggering the fiscal crisis can be said to be an extension of local autonomy. The implementation of local autonomy suddenly increased the financial demands but under the constraint of local finance local government was easily led astray into debt. Local authorities overspent because they thought they would be bailed out by the central government. The contour of local fiscal imprudence seems to be controlled to some degree in the sense that from tables 3.3 and 3.5 the level of debt and overspend was falling over the period before the recent global crisis. This phenomenon may be connected with the intensified controlling tools such as performance measures or local finance diagnosis and analysis through which local governments have track record of local responsibility.

According to a poll of 16 regional governors conducted by a Korean newspaper in 2005, governors responded that the financial independence of local government was one of most pressing requirements for development of local autonomy (Yoon, H.I., 2005). They asserted that the central government should decentralize finance and extend the local tax base. As the demand for more and better public services provided by local government has grown more than proportionally, local governments have been caught by the two pressures of financial stress and demand for better services. Under the pervasive centralized governmental relations, the conflict between rising public expectation and the limited capacity of local government gave rise to the improper management of some local governments such as incurring excessive debt and irresponsible expenditure.

The local autonomy of Korea over the past twenty years has given rise to a new pattern of the institutions of local government. Specifically the rules were changed to give the right to choose the local leader to the local population. Thus theoretically local government should be responsible to the local population but due to pervasive central controls local leaders hold fiscal accountability not to the electorate but to central government. The norms were changed to give financial and administrative discretions to local governments. Local governments were expected to take responsibility for local problems and to spend the budget under the necessary and proper demand of the local population. But sometimes, local leaders surrendered to moral hazard in allocating resources and showed the

behaviours of crony capitalism. The cognitive framework evolved to accept autonomous judgements and behaviour emerging from local governments rather than from the authorities of central government. This institutional transformation, extending local democracy, led to unintended results in the shape of gradually intensifying the fiscal burden of some local governments.

3.2. Political debate

The increasing debt of local government began to attract political attention by centralists and national politicians who criticized the 'moral hazard' and qualities of the heads of local governments (Jin, J.H., 2000). The sudden change of the local politics milieu since the popular election of mayors led to a demand for a considerable amount of investment and thus a considerable amount of the local government budgets were funded by issuing bonds. This is supported by the argument of Clark and Ferguson (1983) that the heads of local government, due to political reasons, tend to 'spend now and pay later' which can cause a fiscal crisis of local government. The scale of local government debt increased annually by 10% or so for the several years since the time when the early elected mayors were inaugurated after popular elections (MOGAHA 2001). In the same context, *Korea Daily* reported that the financial self-reliance ratio decreased in basic local governments after the popular elections for mayors (*Korea Daily*, 29 June 1998); this suggested that mayors were likely to implement popular policies in order to gain re-election and thus to increase the likelihood of lax financial management (Sa, D.H., 1999: 418).

On the other hand there was another voice that the debt of local governments in Korea was not serious to the extent that it raised concerns about the possibility of a fiscal crisis or bankruptcy and instead it just resulted from cyclical fiscal stress that happens in the conjunctural recession (Gwak, C.G., 1998: 330). Whereas the USA and Japan operate a programme of fiscal reestablishment and bankruptcy law for local government, Korean local finance management is based on the structural dependency on central government through the general component of local shared tax and the limitation of bond issuing and taxation by local government. Therefore on one hand it is difficult for

local government to go bankrupt under this institutional mechanism; on the other hand it can provide an incentive for local governments' moral hazard.

Moreover, there was an argument criticising the tendency for central government to retain the finance and authority. The commentators against centralism argued that regardless of the endeavour of local governments, the current central-local power structure has a tendency to produce deterioration in the financial conditions of local government (Park, H.J., 2010). In contrast, the scholars and civil groups argue that more positive devolution can enable the local government to exercise creative and autonomous management. From the same perspective, regional governors responded that the central government was stingy in transferring authority and finance, and straightforwardly disbelieved local government (Yoon, H.I, 2005).

More fundamentally the debate mentioned above seems to be generated from 'the inability of local government to limit its range of responsibilities' as Sharpe (1981: 7) noted. Local government in Korea is positioned under the double pressures of increased demand from citizens and control by the centre. Therefore local government lacks the perception and control over 'either the supply or the demand side of its role as a general government' (Sharpe, 1981: 7). The argument of Sharpe is so appropriate that the Korean local government, which easily falls into the temptation of omnipotence and gives rise to fiscal emergencies, deserves to consider it.

3.3. Policy responses

Unlike the cases of American municipalities, European local governments' fiscal stress did not precipitate fiscal bankruptcy. Under the comparatively strong power of central government in Europe, the centre's timely and proper fiscal control seems apposite over local government (Sa, D.H., 1999: 430). This point is consistent with the path dependent arguments of Ikenberry with regard to European statism. He noted that many European polities constructed centralized administrative systems which preceded the spread of basic democratic institutions; this served to strengthen the role of bureaucracy, and provided government with the capacities to actively engage in the subsequent round of

state-formation, and was later expanded upon during periods of economic crisis (Ikenberry, 1994: 15). The same argument could clearly be applied to Korea.

The Korean government has considered institutional countermeasures preventing the fiscal crisis of local government under the conditions of economic depression since the 1997 economic crisis. First, the most important policy orientation of local governments was fiscal austerity (MOGAHA, 1998). According to *Korea Economy*, the central government wanted to enforce fiscal austerity in local government by raising the possibility of local fiscal crises (*Korea Economy* 23 April 1998). Central government was obliged to promptly support subsidies and local shared taxes in the fiscally stressed local governments, and urged them to adjourn new financial projects. Due to both the reductions of central government revenue transfers such as subsidies and of local government's self-financed revenues like local tax, many on-going projects had to be discontinued as well as limitations placed on new businesses. The fiscal austerity of local government was the corollary of the central government's policies after the IMF bailout: the central government, for fiscal consolidation, lowered the increasing rate of government expenditure budget by 3 percentage points less than the economic growth rates and significantly reduced government bond issuance in order to lower the deficit (MOFE 1999: 222). Likewise, in streamlining the public sector, local government reduced its workforce by around 35,000: 12% of the total local public officials in 1998, and again cut about 21,000 local officials from 1999 to 2001 (MOGAHA, 2001; 2002).

Second, the financial analysis and diagnosis covering local government was implemented to identify the financial condition of all local governments from 1998 (MOGAHA, 2000a). This was a measure in response to the need for fiscal consolidation, increasing demand for public services and popularly elected mayors' reckless management. As for those local governments judged to be improperly managing their finances, they entered a financial diagnosis process in order to identify the factors of their fiscal distress, and they were encouraged to enforce a plan of financial consolidation on their own. In this diagnosis process there was a committee for financial diagnosis which comprised financial experts from private institutions, a circle of scholars and the working groups of experienced public officials who were all involved in practically analysing the

condition of local government. As a result, up to the present date, 36 cases of local governments since 2000 were diagnosed through this institutional scheme for the consolidation of local finance (see above Table 3-3).

Third, accrual accounting was enforced for the purpose of introducing the concept of business management and ensuring consolidation and effectiveness of local public financial management (MOGAHA, 2001). In addition, transparency of budget and accounting was needed to obtain appreciation and understanding of financial management by citizens. Under this financial environment, MOGAHA designated two local governments as project agencies, organized the task force team in 1999 and ordered the development of the standards and a digital programme of accrual accounting to the consortium of an accounting firm, IT corporation and KRILA in the same year. Through a good deal of public hearings and workshops these standards and the digital system of accrual accounting was checked and applied to the project agencies.

MOGAHA more carefully examined local bond issuance, local financial investments and loans of local government. According to a survey of budget officials in local governments, the most effective mechanisms for preventing a fiscal crisis are (in order of significance): financial analysis and diagnosis, the examination of local bond issuance, and the evaluation of financial investments and loans (Cho & Shin, 2008:18). Local government can issue bonds for capital projects and the emergent restoration after a disaster within limitations. The bond limit issued is within 10% of the previous year's budget considering the total amount of debt and its payment plan. This needs the confirmation of MOPAS when it relates to projects of local government development. On the other hand, the analysis of local financial investments and loans is carried out to analyse all kinds of factors relating to the project and the conditions possible in the future in order to evaluate the appropriateness and priority of the financial project.

Last but not least, after the global economic crisis impact on local government's fiscal conditions, the early-warning system and the central government's fiscal intervention in the fiscally emergent local government were established in 2011, as we noted above. These systems are to monitor the financial condition, to detect problematic issues and to prevent fiscal crises of local government (MOPAS, 2010). In this way, after financial crises central

government devised a variety of policy instruments so that central government can indirectly control local government.

4. Conclusion

This chapter focused on the experience of fiscal crises at the national level and the implication for local accountability in the policy context of Korea. The Korean financial crises in 1998 came from the lack of government controls of the market due to a series of internal liberalization policies and external globalization like a runaway horse. The policy of globalization and liberalization previously taken by the Korean government created a changed set of financial institutional arrangements which precipitated the unexpected fiscal crises in 1997-8. The financial crisis at the national level had broader and serious consequences. The changed rules for the globalization of Korea transcended the imaginable boundary within which the government worked, and thus provoked the issue of fiscal accountability at every level of government. With hindsight central government was premature in granting discretion and responsibility to newly autonomous sectors of the state. Accountability of local government, in this context, was questioned because local autonomy was believed to be more inefficient and irresponsible than central government. Local government appeared to waste its budget which was dysfunctional in completing local democracy. Therefore in order to regulate local government, the new rules were established to monitor the fiscal condition and the progress of activities of local government (see chapter 5). In the centralist approach, local government cannot be trusted. Due to the experience of the financial crisis, the little professional discretion which local government had exercised until then was exposed to and over-ruled by the centre to ensure financial transparency and responsibility of local government. There are tight central controls of finance, limitation of local powers of taxation and borrowing and strong modes of central audit. Under this interpretation local government is subordinate to the central government. The institutional change to increase central control on local government dynamically affects the perception of local politicians and professional officials who are regarded with distrust by central government. Dynamics of historical

institutionalism warns that policy responses to the financial crisis could divert the path of democratic central-local relations after local election. Increased central controls inevitably influence the performance of local government by reducing self-satisfaction and enhancing audit fatigue.

Fiscal crisis at the local and national levels therefore revealed flaws in the operation of local autonomy but also revealed the dominance of the centralising tendencies within the state. That revelation provides a useful perspective and in practical terms illustrates the need for more determined reform if local democracy is ever successfully to be embedded.

Therefore we need a more democratic approach. Based on localism, elected local politicians should be made accountable to the local electorate. It is necessary to establish trust in central-local government relations and to do this central government should concede corresponding policy authority and discretion to local government. This would allow them to raise taxes locally but make it clear to local people that the local politicians are responsible for managing the finance and spending the budget. Even if local government units faced fiscal crises, they should be allowed to go bankrupt and the local population would only have themselves to blame for electing incompetent or unrealistic leaders. Considering the practical possibility of working in the current centralist model in Korea, the policy instruments of transferring more authority and responsibilities to local government should be continuously pursued to cure the corrosive effect of distrust in the system resulting from policy responses to the national fiscal crises.

The thesis returns to the effect of fiscal crises in chapter 6 in which the negative effects of intensified central controls are explored in greater depth. That chapter goes on to establish some hypotheses about the effect of fiscal crisis on local performance. Those hypotheses are tested in chapters 7 and 8 and the thesis presents an assessment of crisis effects in the concluding chapter. But first we go on to analyse issues of performance in chapter 4 and outline the dynamics of Korean fiscal institutions in chapter 5.

Chapter 4. The evolution of performance management and its impact on central-local relations in Korea

1. Introduction

This thesis elucidates the impact of critical moments in the central control of local governments, where the central government began to give more power to local government in the name of local autonomy but this trend seemed to be interrupted by financial crises and a step back to traditional centralism, as shown in chapter 3. The questions of the earlier chapters, thus, are how the evolving central controls have influenced local governments over the last decade and how financial crises affected the mode or the effect of the central controls. So we explored the theoretical and empirical context of Korean local autonomy and financial crises in chapter 2 and 3. In particular, the impact of central controls on local government will be measured and interpreted through the lens of the performance of local government. Much expanded local autonomy is supposed to positively relate with the performance of local government. This is grounded on the theoretical and empirical evidence regarding the relation between political democracy and performance in the public sector (see chapter 1). The spread of performance management in the public sector brought an abundance of empirical studies using performance information. This chapter focuses on what brought Korea to manage performance in the public sector and how performance management affected central and local government relations. This issue of performance management links with the statistical analysis in the later chapters, because we will investigate what the effect of central control is on the variation of local government performance in chapters 7 and 8.

There have been continuous efforts to create well-performing government throughout history. The scope of control of bureaucracies and government has been reformed in similar ways even among different countries. The classic bureaucracy was preoccupied with rules, hierarchy and inputs. At this stage, it is relatively important to measure input and specifically, input can be regulated in terms of policy requirements. But the new public management seeks to

transcend bureaucracy with an emphasis on outputs and results. The focus of the control of government has been changed toward enhancing accountability of government in accordance with the change of the public sector paradigm. Managing performance in the public sector is based on the principle that if performance is rigorously monitored, accountability can be promoted to enhance the quality of public policy (Heywood, 2000: 117), by providing sufficient access to information to make critical and informed judgments and applying appropriate sanctions in the event of blunders or under-performance.

The key concepts of performance management popularly used in countries' models cover measuring performance, performance information, performance monitoring, assessment and performance reporting. According to an OECD study, managing performance is a process in which objectives are determined, managers have flexibility to achieve them, actual performance is measured and reported and this information feeds into decisions about programme funding, operation and reward or penalty (Curristine, 2005). Korea drew on other developed countries' reforms and adopted a variety of performance management systems in the 2000s. As a result, performance assessment has grown out of policy evaluation over the last two decades. Individual and multiple policy evaluation and assessment were integrated into the present structure of the Government Activities Assessments (GAA). The result of GAA generates incentives and penalties for an organization and individual staff. The nature of this assessment is said to emphasize both of the aspects of policy evaluation and performance assessment at the same time, unlike other countries' cases such as the capacity review of the UK, the management accountability of Canada or the policy evaluation of France (MPF 2013). Thus the evaluations of policy and programmes, in which the central controls of local government were formally expressed, are naturally linked to local government performance through the GAA scheme. As we will explore in much greater detail below, the local government performance assessments in the GAA will be used in the statistical analysis in the later chapters. It is better known as the Joint Performance Assessment (JPA) which enjoys consistency grounded on the institutional stability of the performance assessment system of Korea. The data of JPA is collected objectively and justly by the government operated assessment committee and the final result is opened to the public annually.

To understand the broad context of performance management in the public sector, this study will explore the recent policy direction and general concepts about performance management. Then we go on to examine the reform of local government performance management and its impact on central-local government relations in Korea.

2. Managing performance in the public sector

2.1. Evolution of managing performance in many countries

The performance-oriented paradigm has been popular in developed as well as developing countries since the 1990s. Many commentators from different countries examined the performance-oriented paradigm. Bouckaert and Halligan (2008: 49) confirm that 'the penetration (by performance measurement) was significant by the mid-1990s'. A UK specialist, Talbot (2005), saw the rise and rise of performance as an issue in public sector theory and practice. To some extent there seemed to be an agreement that the new paradigm could play a role as a driver for the competitiveness of government. Many governments have spent more resource and time on performance measurement or performance management compared to the past (Pollitt and Bouckaert, 2004: 91). Performance measurement assists managers and other stakeholders to evaluate the organizations' achievements and progress. The performance measured is used in devolving the power to managers through competition and decentralized decision making.

In response to the fiscal conservatism over recent years, performance management has been restructured or used in reducing government expenditures in order to reduce the fiscal deficit and improve the efficiency of government. These trends can be found in many countries. The UK initially highlighted performance as a method to improve public services; these were top-down performance management, emphasizing competition in service provision and citizen's choice (Bouckaert and Halligan 2008: 135~7). However the fever of performance management appears to have dampened down due to the fiscal

deficit. The Public Service Agreements were abandoned before the 2010 election (Timmins and Gash, 2014) and with the abolition of the Audit Commission, the Comprehensive Area Assessment ended in 2010. Instead the National Audit Office helps public service managers improve performance and service delivery. The Civil Service Reform Plan in June 2012, following the 2011 Open Public Services White Paper, which called for a smaller, more strategic civil service, highlighted the need to change the way services are delivered and for a more radical approach to reducing the government's cost base (NAO, 2013). The Local Audit and Accountability Act 2014 provided the C&AG (Comptroller and Auditor General) of the National Audit Office with powers to conduct Value for Money examinations of local authorities for specified purposes.

In the USA, the tandem structure of the Government Performance and Result Act (GPRA) and the Performance Assessment Rating Tool (PART) linked strategic objectives to outputs and resources (Bouckaert and Halligan 2008: 136). However the Obama government abandoned PART and introduced High Priority Performance Goals. This is a new form of performance management to choose and concentrate on priority goals. Departments and agencies are asked to name specific goals as the most important in the budget along with strategic plans and then the Office of Management and Budget (OMB) conducts quarterly reviews of the agencies' progress on all Priority Goals to find opportunities for improvement and make sure agencies are addressing them (OMB, 2011).

Canadian performance managing was initiated by the 'Program Review (1994) which examined all government programmes to bring about the most effective and cost efficient way of delivering services. In order to reduce the deficit, Budget 2011 launched the comprehensive, one-year Strategic and Operating Review across all of the government in the fiscal year 2011–12, with an aim to support the return to a balanced federal budget by 2014–15. The objective of the Strategic and Operating Review was to examine direct programme spending and identify proposals for reductions in operating grants and contribution, and capital expenditures, while maintaining the integrity of essential services (TBS, 2012). Canada has been seen as an exemplary case of success in managing fiscal retrenchment (Wilks, 2010: 99).

The Korean public sector reform faced a watershed moment with the 1997

economic crisis which resulted in the creation of the infrastructure for performance-based management in the public sector. The government became interested in the economic, effective and efficient use of limited resources. In this context the Basic Act for Evaluation of Government Activities (Evaluation Act) was legislated in 2001 and improved by the Government Activities Assessment Act (Assessment Act) in 2006 in order to examine and assess the programmes and services of central and local governments. The traditional financial system was fundamentally changed to the programme budget and accrual basis accounting in 2008 to establish the ground for performance management. Since then, in Korea the performance assessment has enjoyed continuity and has not experienced conspicuous change in response to the recent financial conservatism as seen in the countries' cases mentioned above.

2.2. The reasons for introducing performance management

According to the purpose of measuring performance, performance improvement can be differently interpreted. The studies draw attention to the multiple purposes of performance measures and how the measures chosen must be appropriate for particular purposes (Behn, 2003: 587; Hatry, 1999: 158). If the purpose is to control, then measures of input are needed as these can specifically be regulated in terms of whether policy requirements have been adhered to and often lie within the responsibility of managers to commission or provide (Clarkson et al., 2009). On the other hand, if organizational learning and developments are the true intentions behind measuring performance then a wider set of measures are needed to provide detailed information about various aspects of various operations (Behn, 2003: 596). However, the purposes behind measuring performance are rarely stated explicitly and multiple purposes are often hidden behind a single set of measures (Clarkson et al., 2009).

Rashid enumerates in detail the usefulness of performance management as follows. It provides 'clarity about who is responsible and accountable for ensuring objectives are achieved and with whom, by when and what the expected outcomes are; focuses the organization on priorities, harnessing the organization's energy to those ends; provides a balanced approach to monitoring

and evaluating performance, learning and feeding back issues to bridge performance gaps; clarifies what is expected of individuals, teams and other organizations who are contributing to delivering shared priorities; allows feedback to individuals and teams and to citizens and stakeholders; creates more openness and honesty about what can and cannot be achieved; demonstrates to interested parties that best value is being achieved; supports the leveraging in of resources to maximize the Council's overall performance; enables effective use of limited resources; identifies performance gaps that need to be remedied; encourages learning from the causes of mistakes and success; improves communication inside and outside the organization' (Rashid, 1999: 25).

These various points on the usefulness and objectives of performance management above can be summarized into three categories. Performance management in the public sector contributes to ensuring effective resources allocation, enhancing performance in respect to public service provision, and improving accountability in generic terms (Bouckaert and Halligan, 2006: 455).

First, performance management ultimately aims at efficient allocation of resource. The common purpose of OECD countries applying performance information in their budget process and decision making is for allocating resources (Curristine 2005: 95; Bouckaert and Halligan, 2008: 148).

Second, performance management is basically enforced to help organizations achieve their objectives and improve performance in terms of measurement or reporting (Atkinson et al., 1997). Performance measurement is needed for setting goals and objectives, planning programmes, monitoring and evaluating the results to determine if they are making progress in achieving the established goals and objectives, and modifying programme plans to enhance performance.

Third, public accountability provides a framework for legitimising the exercise of public power. John Stewart (1994: 75) notes that 'public accountability rests both on giving an account and on being held to account'. Performance measures can provide useful information to various stakeholders, managers, politicians and the public and thus results in increasing the accountability of public organizations. The accountability of government had been discussed with legality or purposefulness in the past, but recently has been developed toward emphasizing

effects or results. The accountability for effects or results, catching sight of the intended impact of programmes, considers result-based management which can enhance the efficiency of management and surely improves political control of administration focusing on the performance of government activities.

These three purposes might not be seen as separate but, rather, connected to each other. In other words, the more pressure placed on efficient resources allocation, the more likely the performance will be enhanced. The improved performance can be considered to have as much accountability as is required. As performance is 'not a unitary concept' in the public sector where there are a range of dimensions and contexts, its usefulness and purpose may be differently defined and measured according to each organization's defined goals.

2.3. Some critical qualifications

The performance measurement systems may fail to help public organizations investigate or improve performance because their activities or services are sometimes ambiguous and intangible, and therefore it is difficult to measure their immediate outputs. In some jobs what is meaningful is not measurable and what is measurable is not meaningful. The greater the emphasis placed on measurement and quantification, the more likely the subtle, non-measurable elements of the task will be sacrificed (Levinson, 2003).

The wide range of stakeholders and their diverse interests can be an impediment in measuring performance in the public sector. Their different interests and aims may demand different organizational devotion and finally different performance. For example, the Ministry of Finance tends to focus on financial performance; whereas Parliament may be more interested in the effectiveness of policy; while consumers are anxious about the quality of service delivery (Carter, 1991: 90). This is also prone to make it difficult to answer questions about all the different dimensions of performance and to design the performance measures.

Another problematic issue is the asymmetrical cost and benefit of performance management (Bouckaert and Halligan, 2008: 27). While costs of

performance measurement systems are unconditional and immediate, their benefits are conditional and scheduled for the future. Benefits depend on the use of performance information for the purpose of improved results, and are transferred into their outcomes through interaction with different service users. Costs include all costs and time for developing systems, collecting and processing data, completing reports and analysing information. In addition, there might be invisible costs such as transaction costs for staff training; employee's compliance cost; and perverse effects resulting from performance measurement (Talbot, 2005). Thus it is likely that reformers fail to give new systems enough time to deliver results.

Despite performance measurement systems being applied to the public sector, it is frequently alleged that performance information seems not to be commonly used in policy debates and has little impact on resource allocation. Curristine (2005: 12) similarly notes that politicians do not generally make use of performance information provided by performance measurement systems in their decision making. There is also a tendency for politicians to avoid the publication of performance assessment, especially when it includes negative information (Hailstones, 1994: 195). A UK Parliamentary committee (Public Administration Select Committee, 2003) indicates that both Government and the Legislature did not sufficiently use performance information in debates about policies (Talbot, 2005:512). The core reason for this problem may be the low validity or complexity of such performance indicators.

The increasing competition among public organizations also can have a counterproductive effect on performance management in respect of transparency because competitive pressure can lead to information isolation of organizations due to the partial interests of the competitors. (Hepworth, 1994: 141) On the other hand there are increasing concerns about the danger of information overload, even though the increase in the quantity provides decision makers with more information. (Curristine, 2005: 102). It makes it difficult to distinguish what is meaningful and important.

In summary, it is necessary to acknowledge the limitations of measuring performance because public sector organization does not correspond to the majority of the criteria employed for private sector decision making, and there are

difficulties in reaching an agreement on the criteria used to assess performance. The important factors revealed by the OECD survey in developing high quality performance measures are the strong leadership support of managers in charge of government programmes; the types of goods and services; and political pressure to improve performance (Curristine, 2005: 97).

2.4. What values are measured?

A wide range of values, such as the common good, exists in the public sector where there are different stakeholders, and where there are a variety of managing dimensions. In practice, more instrumental or extrinsic values which are possible to measure have been the focus for improving the managerial competency of government. Many governments have a common interest in making savings in public expenditure, improving the quality of public services, making the operations of government more efficient, and increasing the chances that the policies which are chosen and implemented will be effective (Pollitt and Bouckaert, 2004: 7). The ascendancy of the 'three Es': economy, efficiency, and effectiveness has been intended to increase central control over service delivery as well as cutting costs (Carter, 1991).

First, economy primarily has something to do with input and is thus defined as acquiring resource in appropriate quantity or at least cost (e.g. cost per case, cost per service type, number of staff involved). Input refers to resources needed to produce output. Such measures based on derivatives of economy are given importance by the dominance of the government budget process: for example, as expressed in terms of cost, staffing totals and quantities comparisons are made across similar types of organization (Boland and Fowler, 2000: 149; Flynn, 2007: 122). Accounting for how money has been spent can give information about financial performance from the perspective of economy.

Second, efficiency concerns not only input but also output. Output refers to the amount measured in quantifiable terms (e.g., patients treated, crimes solved, the miles of road repaired). For most services it is possible to devise a measure of volume: local government can measure the distance of repairing a road, the number of customers the social worker provides a service for, and the weight of

refuse disposal. All that remains to produce a measure of efficiency is to find out how much each one costs to produce, and then make comparisons, either with other local governments, or over time (Flynn, 2007: 123). Efficiency is thus defined as maximizing output for a given set of input, or minimizing input for a required output (e.g. cost per patient, repair cost per mile, staff-student ratios).

Finally effectiveness involves the degree to which outputs meet organizational needs and requirements: 'outcomes'. Outcomes refer to the final impact of service that is outside the activity or programme (e.g. healthier individual, a safer society). Output means what a programme produces, such as immediate products or services, while outcomes are the ultimate effects it delivers. Therefore, for customers and the public, outcome is a measure of policy success and will be considered more seriously.

Economy and efficiency are compatible with the concept of financial accountability and so comparatively convenient to collect because they are usually measured by quantitative terms and data such as costs, volume of service and productivity (Palmer, 1993). Accounting systems have been long employed for performance measurement because they conceive of reliable and consistent features (Atkinson et al., 1997). Contrary to economy and efficiency, effectiveness is much more difficult to measure due to such problems as the inability to measure outcomes accurately; the difficulty in separating the effect of services from other factors; and conflicting interpretations of results (Hansenfeld, 1983). Therefore, effectiveness may be partly measured in terms of 'quality of service', 'customer satisfaction' and 'achievement of goal'. According to studies, effectiveness indicators may appear less often than efficiency indicators (Palmer, 1993; Carter, 1991: 90).

Performance management is based on the logic that assessment through measurement can lead to enhancing the performance and the responsibility of public organizations. There is a lack of agreement on how to measure performance and how to manage performance. In the private sector, there is a consensus that performance ultimately can be measured by profits. Then, the public sector analogy for the profits of the private sector should be 'the outcome for society of the public sector intervention' (Smith 1996: viii). In the management of public resources, performance could refer to outcome, the impact on society of

a particular public sector activity.

The purpose of measuring outcomes is to assess the valuation placed on public sector activity (Smith 1996). Recent studies like the OECD (2005) survey and Bouckaert and Halligan(2008: 11) with regard to performance measurement have in mind not just output but 'outcomes' of government policy. Curristine (2005: 89) agrees with this, indicating that concentrating only on output can 'give rise to goal displacement as agencies risk losing sight of the intended impact of their programs'. However, outcome or effectiveness indicators were extremely rare and mostly not very informative earlier. Putnam *et al.*(1994: 66) opposed including outcomes in the measures because outcomes were influenced by various factors besides government activities. They demonstrated that government must not be given credit or blame for matters beyond their control.

The majority of the countries that have developed performance measures produce a combination of outputs and outcomes according to the OECD survey by Curristine (2005: 89) because of the difficulty in following an approach converging solely on either outputs or outcomes. In Korea in the composition of indicators, the checking and comparison of efficiency and effectiveness started to be important, each organization preferring to use outputs data with quantitative indicators (Park, N.W. et al, 2008). According to the analysis of self-assessment of the Korean central government in 2011, the ratio of the performance indicators of outputs versus outcomes were found to be 3 to 1 (KIPA, 2011). In the UK, the USA, Canada and Australia, which have developed performance management, performance information mixed with outputs and outcomes are collected and utilized in the work process, to a higher degree than average practice (Bouckaert and Halligan, 2008: 149).

To sum up, in order to improve managerial competency, governments have intended to measure economy, efficiency and effectiveness across their public services and government operations. Despite some controversy, the majority of the countries that developed performance measures have produced combined performance information of outputs and outcomes.

3. Performance management in Korea

3.1. Development of policy evaluation

Performance management in Korea has grown out of processes of policy evaluation initiatives. When policy evaluation was introduced in the early 1960s, Korea was one of the poorest countries at that time, however, Korea has grown into the 15th largest country based on Gross Domestic Product in 2012 (World Bank, 2013). Behind this economic development there has been policy evaluation. If we can say that the engine of the Korean economic growth was the Five-Year Plan for development, the supportive institution behind the successful implementation of this plan was policy evaluation (MPF, 2013). Policy evaluation has therefore become a cherished principle in Korean public life, an institutional norm which commands wide support. In improving the effectiveness of policy evaluation central government has experienced three phases of paradigm change which affected the development of policy evaluation in local government.

The first stage, 'Review and Evaluation of Government Policies' was introduced in 1961 to assess the Five-Year Plan. It was influenced by contemporary policy science (Lee, D.O., 2009: 199). Obviously, however, the important impetus for its introduction was the need to check the progress of economic development policies which President Park Jung-hee prioritised and thus was a national ideology. The purpose of this evaluation was to conduct a continuing appraisal of progress and effectiveness of the Five-Year Plan, and of gaps between production and investment targets on the one hand, and accomplishments on the other. Following Wolf (1961)'s suggestion that for a more objective evaluation it should be implemented by a different organization other than the executive, the Office of the Prime Minister took charge of the Review and Evaluation. However, it was criticized as only a waste of resources since the function of the review and evaluation of government policies was separated from budget offices and the results did not properly feedback to planning organization (Moon, Y.S., 1996). In this stage, the policy evaluation at the local level was in line with Review and Evaluation exercised by central government because local autonomy was not implemented until the 1990s.

In the second stage, in order to improve feedback and connect with

planning and budget organization, 'Examination and Evaluation of Government Policies' was conducted by the Economic Planning Board which evaluated or monitored several of the main policies and programmes. From the Roh Tae-woo government (1987-1993) it was conducted for nearly 20 years before the Roh Mu-hyun government introduced the Government Activities Assessments (GAA) in 2006. Since the external organization evaluated the salient policies of central government departments, it was called a corporate assessment (MPF, 2013). However there was criticism that it hardly assessed the performance of government precisely and comprehensively but just monitored the implementation of certain policies (Lee, D.O., 2009: 199). The examination and evaluation of local government policies was conducted in some local governments from 1995, according to local ordinances (Park, H.J., 2005). The effort to introduce NPM-type reformative methods was made in the Korean public sector around then. A series of initiatives aimed at increasing economic efficiency and effectiveness of government was accelerated by the external catalyst of the 1997 economic crises. Various performance measurement tools such as Measurement of Objectives, Performance Contract, Performance-related Payment, Performance audit, and Evaluation of Agencies, were experimented with and introduced in the second stage.

These endeavours sought to introduce a more comprehensive assessment of government activities. 'Government Performance Evaluation (GPE)' was introduced in central government in 1998 and tried to assess government performance systemically rather than simply monitor it. Central government departments for the first time had to compete with each other in the new scheme because the results of GPE had been published to the public by the office of the prime minister in the form of league tables (Lee, D.O., 2009). In accordance with the introduction of GPE, Joint Performance Assessment (JPA) for local government was introduced as a pilot assessment of regional governments in 1999 in order to assess the performance of local government comprehensively. But some local governments expressed refusal to be assessed with the reason that there was no legal base to assess local government. In this context, the Basic Act for Evaluation of Government Activities (the Evaluation Act) was enacted to evaluate performance of government in 2001 when JPA was formally launched under this law. The purpose of performance management extrapolated

in the Evaluation Act is to enhance achievement of government activities by measuring outputs and outcomes of government interventions in respect to the economic feasibility, the effectiveness and the efficiency. However, many problems were noticed because the law became effective without arranging a range of evaluations to be separately implemented by the various ministries at that time (Lee Y. S. et al, 2005): in practice there was extensive paperwork, overlapping and a top-down approach; in theory there needed to be a change in the direction of evaluation toward performance management. Following these criticisms, there was a change of paradigm to get rid of overlapping evaluations, to enforce the performance evaluations, and to give discretionary evaluation.

In the third stage, the new Basic Act for Government Activities Assessment (the Assessment Act) was enacted in 2006. The Roh Mu-hyun government conceived of the importance of performance management, and took and emphasized performance assessment as an instrument of government innovation. Early in 2005 at the cabinet meeting for operational planning checks, President Roh affirmed that “performance management is the essential task every ministry should enforce” (Shin, H. C., 2008). President Roh’s government reformed the institutional base to connect assessment with performance management, and incorporated a variety of individual assessments into the GAA to reduce the burden on local government. During this period policy evaluation incorporated a self-assessment framework into the GAA. Both central and local governments should conduct a self-assessment. The assessment results and performance information are utilized for making decisions for policies and reward or penalty of organizations and individuals. In particular, the scope of complex and redundant assessments implemented by central department assessments over local government activities was adjusted and all the individual assessment was integrated into the JPA. Thus, self-assessment and JPA are the current performance assessment systems from the perspective of the Korean local government.

3.2. GAA as performance management

With the Assessment Act, performance management and evaluation came to be

strengthened. The aim of assessment of government activities is not ‘evaluation’ itself but performance management. Performance management plays a comprehensive role helping in the decision making of organizations, and here, the instrument of assessment is utilized for promoting performance management (Kaplan & Norton, 1992). The core of the Assessment Act is to enforce assessment grounded on performance management in public organizations; and at the same time, to adopt self-assessment as a basic tool for performance measurement; to integrate and connect all kinds of evaluation systems which were separate and complicated; and to avoid overlapping evaluations across the government (Lee, D.O., 2009). In addition, an exclusive budget allocation for enforcing performance evaluation was provided to ensure the quality of results of the evaluation, differing from the past, and the results of performance evaluation were encouraged to be reflected in the budget, the management of the organization and personnel policy.

GAA are divided into the two parts of self-assessment and corporate evaluation according to who is the assessor, as shown in Figure 4-5. As for the former, by default, central and local government should evaluate their own policies and activities of their organization. The latter is that the external organization evaluates the salient policies of each central and local government and public enterprises.

Figure 4-5. The structure of Government Activity Assessment (GAA)

The Committee for Government Activity Assessment (CGA)		
Central government	Local government	Public Enterprise
GPE	JPA	Pubic Enterprise Management assessment
Assessor: the CGA	Assessor: MOGAHA	Assessor: MPF
Self-Assessment	Self-Assessment	

GPE is used by for the prime minister to evaluate the prioritized policies needed to integrate the national management targets for the central government. Public

enterprises management assessment⁷ is managed by MPF. The Committee for Government Activities Assessment chaired by the prime minister is the formal evaluator which supervises self-assessment and evaluates GPE. This committee allows MOGAHA to do JPA and MPF to do public enterprise assessment and then reports these results from MOGAHA and MPF

JPA evaluates the devolved policies and activities of local government. Before the implementation of JPA in 1999, local governments suffered a heavy burden of evaluation because there were a variety of individual evaluations by central governments which focused on input or process rather than outputs or outcomes. In the process of introducing JPA, there was policy conflict between ministries regarding who would have responsibility for it (Lee, D.O., 2009). The office of the prime minister wanted to retain the power to conduct JPA in the name of incorporating GPE and JPA, while MOGAHA and other central government departments sought to retain their power to regulate local government. As a result, a compromise led to a 'joint' assessment of previously-existed individual evaluations rather than a completely new comprehensive assessment (Lee, D.O., 2009). Individual local government assessments consisting of JPA were united with the evaluating process centring on MOPAS in 2008, in order not to continuously interfere in local autonomy. The measurement experts began to participate in the process of JPA which were intended to evaluate performance or outcomes of local governments in a rounded picture in order to improve the achievement of national priorities and to increase their accountability.

Self-assessment means that members of the organization assess their performance for themselves and thus it is the process of learning by evaluation because they come to know their merits and weak points through evaluating their activities. The performance indicators are recommended by CGA to ensure the objectiveness of evaluation. Each central government department employed and fine-tuned these self-assessment indicators according to specific characteristics of organization. The self-assessment targets the three areas of fiscal

⁷ The process, standard and methods used to evaluate public agencies are legislated in The Law of Public Enterprise Management (MPF, 2012). MPF takes charge of evaluating state-owned enterprises, public agencies and funds management, and reports the results of the evaluation to the Committee of Government Activities Assessment.

performance, organizational capacity and policy management.

Fiscal performance has been emphasized, given the idea that, without analysis of the costs and benefits of government activities, the expected effect of performance management cannot be achieved. To establish the foundation for fiscal performance management, a series of institutional systems were introduced: for example, they include the Medium-Term Expenditure Framework, Top-down budget, and Programme budget with Accrual basis accounting (MPF, 2013). The Medium-Term Expenditure Framework provides government organizations with the broad picture concerning future budget allocation and the conditions under which programmes operate, and is able to manage performance of multi-year periods. It is essential that the Medium-Term Expenditure Framework should be consistent and continuous year by year. A top-down budget allows managers of programmes to have more autonomy in planning and spending the budget and thus can build the foundation for result-based performance management. Lastly Programme budget and Accrual basis accounting contribute to improving the quality of performance information as part of the infrastructure of performance management (Park, N.W. et al, 2008; 29).

In conclusion, the Korean government has developed performance management systems suitable for the Korean public sector. Currently the scheme of GAA is located in the centre of performance management. This system aims to integrate performance management systems and incorporate the results of performance information in organizational design, personnel management and budgeting. If we compare the extent to which Korean performance management has been developed in line with broadly accepted theory, it helps to understand the system of managing performance in Korea. It also helps give a certain level of trust to the performance data from the Korean government analysed in chapter 7. For this reason, the next part delves into the institutional features to find out to which stage performance management has been developed in the Korean government, based on the discussion of Bouckaert and Halligan (2008).

3.3. The Korean model of Performance Management

The approach of Bouckaert and Halligan (2008) is useful in discussing the development of performance management. They constructed four ideal types

based on the logical sequence of performance management: measurement, incorporation and use of performance (see Table 4-6). First, the 'measuring' stage is collecting performance data from the policy implementation process and converting it into policy information. The next stage is incorporating performance information into documents, procedures and stakeholder discourses. Then, performance information is widely accepted and utilized in a strategy of improving decision making, results and accountability. The way in which measured performance data is employed can be analysed through four ideal types: 'performance administration', 'management of performance', 'performance management', and 'performance governance' (see Bouckaert and Halligan 2008 and Table 4-6).

Table 4-6. Four ideal types of managing performance

	Performance Administration	Management of Performance	Performance Management	Performance Governance
Measuring	Input & Process	Specialised / Organizationally determined 3E	Hierarchical / Organization and Policy based 3E	Consolidated/ Full span
Span				
Incorporating	Some	Within Different function	Systemically Internal integration	Systemically Internal & external Integration
Using	Internal Reporting	Disconnected	Coherent Comprehensive	Societal use
Limitations	Ad hoc	Incoherence	Complex, not sustainable as a stable system	Uncontrollable

Source: Bouckaert and Halligan (2008)

The Korean model approximates the features of *Performance Management*, the third ideal type of Bouckaert and Halligan (2008). In comparison to the previous ideal type, *managements of performance*, there is a functional and hierarchical integration of measurement, incorporation and use of performance (ibid: 100). Korea has sustained an intensive commitment to a performance approach and achieved the institutional development over the last decade. The characteristics of *performance management* of the Korean government are as follows.

The 'span of performance' covered by the GAA includes organizational and policy based economy, efficiency, and effectiveness. At the highest level, the

performance of prioritized policies sometimes crossed many central governments departmental lines. According to a study researching the measures of self-assessment across the central government in 2011, the performance indicators of effectiveness were found to be 24% of self-assessment indicators and that of output to be 75% (KIPA, 2011). Looking at effectiveness and outcomes broadens the scope beyond the organizational border line of performance. There is an interactive measurement process which provides a good understanding of the operation of performance measurement. For example, central government departments participate in setting the performance indicators of GPE; JPA also has an interactive participation process from internal stakeholders such as local public officials and external stakeholder such as public service customers. As a result, performance measurements become dynamic and develop interactively in GAA, 'taking trade-offs and paradoxes into account'. As for the 'depth of performance' stressed by Bouckaert and Halligan (2008: 21), the system of GAA is organized at the individual level but also at the level of policy field. For example, GPE evaluates cross cutting policies in which multi-ministerial departments cooperate to achieve the same goal such as administrative information disclosure, government innovation and job creation.

In order to control the quality of performance, the Board of Audit and Inspection of Korea came up with the guidelines for performance audit in 2005 and extensively carried out performance auditing while helping maintain legitimacy of the measures between public administration and political accountability (BAI, 2005)⁸. Creating ownership by administrative stakeholders is another way to establish the legitimacy of performance information. Self-assessments of the Korean central and local governments employ evaluation of customer satisfaction in order to communicate with stakeholder and society. The result of assessment can be acceptable to a range of stakeholders including civil society and politicians.

A more developed quality model was applied across different ministries and levels of government. The Balanced Scorecard (BSC) was introduced in order to systematically conduct the self-assessment in the central ministries after the

⁸ Performance auditing is defined as examination, analysis, and performance assessment of economy, efficiency and effectiveness of policy, activity and corporate management in the manual of the Korean performance auditing (BAI, 2005).

CEO of KOTRA (Korea Trade-Investment Promotion Agency), which achieved successful innovation by the BSC, was inaugurated as the minister of MOGAHA in 2005. The balanced performance management means it is not solely a financial evaluation but includes a non-financial evaluation; not solely short term performance but also long term performance. The BSC was also spread to the local governments after being completely disseminated to all the ministries and agencies of the central governments in 2006.

Performance information about nationally prioritized projects is incorporated in the policy cycle. The result of self-assessment, where every activity related with those projects in all departments is assessed, is the base for allocating performance-related payment for the individual, and is reflected on the personnel and organizational management (KIPA, 2011).

In particular, the integrated financial system seeks to incorporate performance information across functions. The Management of Performance Objectives (MPO) and the Programme Self-Assessment Tool connect performance management with allocating financial resources. The Programme Self-Assessment Tool involves the reviewing of budget programmes on the basis of a checklist and is being used as information in the decision-making and budget preparation process. MPF suggests items and the guidelines for the self-assessment in advance, and then each ministry assesses their programme according to the guideline. This self-assessment result is submitted to review with evidence and confirmed by the responsible reviewer of MPF in budget preparation and improvement of the institution. MPO sets the objectives which are connected to the goals of the organization and are measurable indicators; evaluates the indicators as to whether the organization achieves the objectives; and utilizes the result of the evaluation to manage government finance (Park, N.W. et al, 2008). The Act of National Finance stipulates that the planning of performance and the report of performance should be attached to the budget. Recently the utilization of cost accounting is gradually developing in both central and local government to improve the value-for-money of the policy. The cost accounting system produces a net cost of the activity or business which the organization operates. The cost accounting aims to calculate the operating costs of the organization and their activities in order to use them in performance

management

In conclusion, the incorporated framework of GAA which is an institutional foundation for performance assessment can give important evidence that the performance model of Korea has entered the relatively advanced stage of performance management. According to survey research studying GAA, current performance assessments were revealed to contribute to integrating performance management tools within the organization and improving efficiency and effectiveness of programmes or activities (OPM, 2012). The process of objective and authoritative performance management happens across the levels of government. The Korean government's integrated financial system where budgets turn into performance budgets, accounting systems shift to cost accounting, and audits transform to performance audits in a coherent and systematic way, contributes to a sustainable and functional incorporation. The whole performance management framework has been accepted by politicians, administrators and citizens who are using performance information in a transparent way as partners in a policy cycle. The results of performance assessment are widely published and they are regarded as an indicator of success or failure of each organization.

4. A profile of local government performance management in Korea

4.1. The integration of performance instruments

There has been a range of instruments for performance management which have assisted Korean local government to operate with good performance and accountability after the Asian financial crisis in the late 1990s. Review and Evaluation of Government Policies before 2002 was disconnected with the policy and management cycle: evaluation departments simply collected performance reports from each implementing department and the results were not reflected in the allocation of finance. Influenced by the NPM-type reform in the early 2000s, the multiple performance management models such as Performance-related Pay

Systems, MPO and a Public Service Charter were introduced in local government. The performance annual salary system applies for upper managers through a performance evaluation by management of objectives, and a performance bonus for the subordinate workers through an efficiency rating system (MOPAS, 2011b). The performance-related pay system seems to be embedded in each organization in that the scale of the budget for performance-related pay has expanded to nearly 1trillion KRW in 2012 from 290 billion KRW in 2005, and the gap of pay between grades continues to broaden (Park and Jang, 2012). Since the Government Activity Assessment Act was enacted in 2006, managing performance of local governments has consisted of the two components of the Joint Performance Assessment (JPA) and the Self-assessment.

In accordance with the introduction of BSC, the previous management tools were incorporated in self-assessment and used in the policy cycle. For example in Seoul Metropolitan City, MPO of individual staff and corporate evaluation are unified in the performance plan and assessed by the performance indicators of BSC and then the results are reflected in the Performance related Payment and incentives or penalty for the organization (Seoul, 2013). In this way, BSC has been popularly used for the self-assessment tool in the local government. But the motive for the introduction of BSC seemed not to come from the willingness or need of local government but from the initiative of the central government according to the government report (MOGAHA, 2007a). The central government set up a taskforce team to support building the foundation of the balanced scorecard system in the local governments in 2005, and in order to promote the geographical spread of performance management, several public hearings and briefing sessions were held on the balanced scorecard introduction for local governments. As a consequence in 2006, twelve local governments introduced the balanced scorecard as a pilot system. However, there were some criticisms regarding the spread of BSC. The application of the balanced scorecard in the public sector was prone to produce a limited effect, different from that in the private sector, because even the head of local government does not have the overall authority to establish the strategy of the organization and cannot always fundamentally restructure the organization (Park, H.Y., 2010). Despite concerns, BSC survives as a tool for the self-assessment system in many local governments up to now: 82 local governments out of 244 operate BSC to do self-

assessment (OPM, 2012).

There have been efforts to shift the financial system of local government to cost accounting and performance budgets which are in the experimental stage in 2015. In practice accrual base accounting, programme budget (performance budget⁹) and medium-term expenditure are operated to integrate financial performance. The accrual accounting system was experimentally introduced from 1999 in two local governments and then five years later, programme budgets started to be piloted in nine local governments and their territory was gradually broadened to all local governments in 2007 (see chapter 5). Currently the financial information of local government is so systemized that managers or external stakeholders could review its performance on each programme from budget to actual accounting outcomes at a glance.

Lastly, the financial analysis of local government started to be implemented in 1998, right after the financial crisis, to meet the demand for the local government's fiscal health and effectiveness. The financial analysis of local government focused on the ten stock indicators but in 2005 these expanded to 30 indicators in order to ensure the accountability and the autonomy of local government. It developed the indicators to measure performance oriented concepts like residents' satisfaction (MOPAS, 2009c)

In conclusion, over a comparatively short term, Korean local government experienced many institutional management changes centred on performance and competition. Performance management of local government can be seen to be passively induced by the policy of central governments, rather than spontaneously and voluntary by local government, in that most performance management tools were introduced by guidelines of central government. For this reason, in the early stage of innovation it took much time and effort for practitioners in local government to adapt to the new performance management institutions. They sometimes had the feeling of 'reform fatigue' and many people wondered if the new management systems would be helpful in enhancing the performance of local government. During the stage of development of performance management, local governments struggled to adapt the self-

⁹ In 2015, the Korean local governments produce the performance budget in the pilot version.

assessment system for their organization and positively participate in the national performance management scheme of JPA. The next part will investigate further the main axes of managing performance, which would justify why this thesis uses JPA for the later statistical analysis.

4.2. Joint Performance Assessment

The first and most influential tool of local government performance management is JPA. It is important to analyse the evolution of JPA because the data it has generated is used in the statistical analysis in chapters 7 and 8.

MOGAHA¹⁰ was endowed with the power to develop and conduct JPA. In consultation with other ministries and cooperation with the office of the prime minister, MOGAHA assesses how efficiently local governments are implementing policies and programmes delegated or funded by central government, and how well they are providing public services (Article 21 of the Assessment Act). The CGA under the control of the office of the prime minister deliberates and decides the master plan of JPA as noted above. The office of prime minister reviews and passes the preferential policies for evaluation proposed by each central government department on to MOGAHA through the deliberation of CGA. Then MOGAHA establishes the specific plans of evaluation; devises performance indicators with public officials from central and local government and external specialists in the policies or programmes to be evaluated; and organizes the task force team in order to carry out JPA directly. An online evaluation system called VPS (Virtual Policy Studio) has been established since 2008 to ensure the fairness and objectivity of the evaluation. JPA has been told to systematically construct the overall processes from the planning, through the practical assessment, to the final feedback, the commission of assessment, the working groups and the supervising organization (AIR, 2006; 546-548)

JPA is an unprecedented evaluating system in that it can be seen as a product of the changed central-local government relationships which resulted from the local elections in the 1990s (see chapter 2). Since local governments

¹⁰ The government reshuffle changed MOPAS to MOGAHA in December 2014

were no longer regarded as the executive branches of central government, but rather as autonomous political bodies, the control system by the centre had to be changed. In this context a more effective tool to ensure the achievement of national priorities without excessive intervention in local government was needed. JPA is an indirect vehicle to control local government and to ensure the accountability of local government (Lee D.O., 2009). This thesis is primarily concerned with, how central controls of local government have impacted the performance of local government over the last decade of changing the central-local governmental relationship, the use of JPA therefore fits neatly into the structure of this thesis. JPA produced objective and consistent performance information at the level of local government for the first time. The performance information measured by JPA meets the stability and the coverage of the variable criteria for the statistical analysis (see chapter 7). The performance information encompasses all the important functions of local government because JPA is a comprehensive performance assessment. Enough longitudinal data can be traced because JPA started in 1999 despite being initially a pilot-test. It is not too much to say that JPA has developed in parallel with Korean local autonomy.

Since the 2004 JPA there have been nine assessment sections which generally cover most functions or services of local government though it had a few structural changes (see chapter 7). In the 2008 JPA, for example, as shown in Table 4-7, the nine sections were: the assessment of local administration, service innovation, social welfare, health and sanitation, environment management, local economy, regional development, culture and tourism and security for life and property.

Table 4-7. The sectors of assessment in the 2008 JPA

Sector	Theme (74 themes)	Competent Departments ¹¹
Local Administration	Real-name policy Customer service Information disclosure Non-profit organization support Volunteer work e-government	MOPAS

¹¹MPVA is the Ministry of the Patriots and Veterans Affairs; MHW is the Ministry of Health and Welfare; MOL is the Ministry of Labour; MW is the Ministry of Women; MAF is the Ministry of Agriculture and Foods; KFDA is the Korean Food and Drug Administration; CFT is the Committee of Fair Trade; MOE is the Ministry of Environment; KIPO is the Korean Intellectual Property Office; MLTM is the Ministry of Land, Transport and Maritime Affairs; NEMA is the National Emergency Management Agency

	Personnel reshuffle Policy on female public officials Official records management	
Social Welfare	Benefits for patriots and veterans Welfare policy Multi-culture family support Measures for low birth & aging society Employment rate of disabled public workers Preventing prostitution Women resource development Preventing violence in family Gender impact analysis	MPVA MHW MHW MHW MOL MW MW MW MW
Health & Sanitation	Communicable disease control Public health management Preventing infectious disease Food safety management Herbal medicine distribution management	MAF MHW MHW KFDA KFDA
Environment management	Environment management Water quality control Nature conservation programme Air pollution management Waste disposal Forest administration	MOE
Local Economy	Vitalization of local economy Pro-market local tax policy Emergency spending Preservation of the local consumer National asset management Fair trade administration Employment promotion Cooperation between labour, business and government Procurement from small and medium industry	MOPAS CFT MPF KIPO MOL SMBA
Regional development	Rural development policy Construction administration Public rental house construction House improvement in rural areas Rationalization of individual land price	MOPAS MLTM
Culture & Tourism	Improvement of living space Promoting local culture and art Local library policy Promoting tourist destinations Signboard regulation	MOPAS MCT MOPAS
Security	Civil defence Fire security Safety education Disaster management Local disaster response system Risk management	NEMA MOPAS
Service Innovation	Internal organizational-management Regulation reform Establishing law and order Energy saving Price control Budget management	MOPAS MOL MOPAS

Source: adapted from the disclosure of JPA results (MOPAS, 2009b)

Each of these assessments comprised five to six themes that were closely related to central government policies and programmes and totalled 74 themes in the 2008 JPA. The most important theme was 'emergency spending' under the sector of 'Local Economy', which was required to promptly respond to the 2008 global financial crisis.

Table 4-8. Results of the 2008 JPA

	Metropolitan Cities			Province		
	GA (Best)	NA (Fair)	DA (Worst)	GA (Best)	NA (Fair)	DA (Worst)
Local administration	Busan Kwangju	Daegu Daejon Ulsan	Seoul Incheon	Chungbuk Gyengnam Jeju	Chungnam Jeonbuk Jeonnam	Gyeonggi Gangwon Gyengbuk
Social Welfare	Daegu Daejon	Busan Kwangju Ulsan	Seoul Incheon	Chungbuk Gyengnam Jeju	Gangwon Jeonbuk Jeonnam	Gyeonggi Chungnam Gyengbuk
Health & Sanitation	Daegu Incheon	Busan Kwangju Daejon	Seoul Ulsan	Chungbuk Jeonbuk Gyengnam	Gangwon Chungnam Jeonnam	Gyeonggi Gyengbuk Jeju
Environment management	Kwangju Daejon	Seoul Incheon Ulsan	Busan Daegu	Gangwon Chungnam Gyengnam	Chungbuk Jeonnam Gyengbuk	Gyeonggi Jeonbuk Jeju
Local Economy	Busan Daejon	Daegu Incheon Ulsan	Seoul Kwangju	Chungbuk Jeonnam Gyengnam	Gangwon Gyengbuk Jeju	Gyeonggi Chungnam Jeonbuk
Regional development	Seoul Ulsan	Daegu Incheon Kwangju	Busan Daejon	Gangwon Jeonbuk Jeonnam	Gyengbuk Gyengnam Jeju	Gyeonggi Chungbuk Chungnam
Culture & Tourism	Kwangju Daejon	Busan Daegu Incheon	Seoul Ulsan	Gyeonggi Gangwon Jeju	Jeonbuk Jeonnam Gyengnam	Chungbuk Chungnam Gyengbuk
Security	Busan Kwangju	Seoul Daejon Ulsan	Daegu Incheon	Chungbuk Jeonbuk Gyengnam	Gangwon Jeonnam Jeju	Gyeonggi Chungnam Gyengbuk
Service Innovation	Busan Ulsan	Incheon Kwangju Daejon	Seoul Daegu	Gangwon Jeonbuk Gyengbuk	Chungnam Gyengnam Jeju	Gyeonggi Chungbuk Jeonnam

Source: adapted from the disclosure of JPA results (MOPAS, 2009b) The reports of JPA can be accessed through the Local Administration Integrated Information System (www.laiis.go.kr)

In order to help understand the nine sections to be assessed and the grade assessed by JPA, the result of the year of 2008 is shown in Table 4.8. Drawing the line between Metropolitan cities and Provinces, JPA evaluates their activities and

achievements based on performance indicators; gives them one of three categorical results, *GA* (best), *NA* (fair), and *DA* (weak). The result of JPA in respect of sectors (not themes) is published in the form of a press report by MOGAHA and can be accessed through the Local Administration Integrated Information System (www.laiis.go.kr). In 2008 among the metropolitan cities, Busan, Gwangju and Daejeon, and among the provinces, Gyengnam and Chungbuk had done well. Seoul and Gyeonggi, by contrast, were revealed to have achieved badly.

The rankings in Table 4-8 affect levels of funding or control the central government. The well performing local government of each sector ('*GA*' group) obtains the special local shared tax. This financial incentive has been known to motivate local government to comply with the comprehensive assessment. Local governments with the worst results ('*DA*' group) can experience central governments' greater intervention through the policy consultation. MOGAHA is able to intervene in local policies in order to identify the problem and improve policy conditions (see KIPA, 2012). If a local government is the best performer, by contrast, there is no notable reduction in direct central controls and instead it is named by sharing its best practices across levels of governments. For the feedback the JPA report is distributed to local and central government departments, but the communication of JPA results to people to share and ponder upon the results has been neglected (KIPA, 2011).

Performance information which is published provides citizens with the potential to better judge the incumbent's performance and influences their voting (James and John, 2007). However, the JPA publication does not appear to feed into elections for the head of local government, although we cannot say the exact causation effect of the JPA on the electoral support due to the lack of studies¹². For example, Table 4-9 demonstrates the number of JPA grades that each regional government achieved in FY 2012 and the result of 2014 election¹³. Both the worst performers (S, CN, JN) and the best performers (B, CB) succeeded in re-election. Regardless of JPA performance, the electoral support tends to be based on regionalism (see chapter2).

¹² There is one article explaining the influence of the heads of local government on fiscal performance around their political cooperation, entrepreneurial careers and incumbency (see Yu and Jo, 2015) but the impact of performance on electoral support has not been researched yet in Korea.

¹³ The 2013 performance of local government was published in September 2014 and the local election was held in June 2014

In particular, the poor performance of CN was openly attacked by the opposing candidate in the process of the electoral competition and frequently reported by the press (*Yonhap News*, 19 May 2014), but it did not change the electoral support for the incumbent.

Table 4-9 JPA performance FY2012 and results of 2014 election

Regional government		S	B	DG	I	G	DJ	U	GG	GW	CB	CN	JB	JN	GB	GN	J
J P A	Best (Ga)	1	4	2	4	2	4	1	3	3	6	1	4	1	4	1	4
	Fair (Na)	1	5	4	2	6	4	5	4	5	3	2	3	-	4	2	4
	Worst (Da)	7	-	3	3	1	1	3	2	1	-	6	2	8	1	6	1
re-election		◎	◎	○	X	○	○	○	○	◎	○	◎	○	○	◎	◎	X

◎ : support the incumbent party & personality, ○ : the incumbent party, X : changed party

The operation of JPA over a decade has generated some criticisms as well. First, the purpose of JPA is not clear. If JPA is considered just as an evaluation to achieve central government's policy demands, it can be used as a control or supervision system. In this case, central intervention may conflict with local autonomy. Nevertheless a study revealed that local governments have responded promptly to the results of JPA and been involved positively to obtain the better results (KIPA, 2012). Second, there is a gap between the intention of central government and local government's perception. Sometimes top-down devised performance indicators were not connected with the front-line tasks and thus the technical terms of JPA are ambiguous to local public officials. Third, there are limitations in enhancing the professionalism of evaluation due to frequent job rotation of either central or local government staff. Although the task of performance evaluation requires professional and experienced public workers, the personnel system hampers the accumulation of experience and knowledge. Lastly, the performance indicator system focuses on relatively tangible services (e.g. refuse collection) being measured first but needs to proceed to more individual and less concrete services. Performance assessment fails if it does not meet the demand of performance information and loses the functional and legitimate aspect of measuring performance. In order to create a living performance management system of local government, measuring performance should be opened in a policy cycle from the rank and file of the organization to the citizen and politicians.

Evidence shows that acceptance of JPA from internal stakeholders such as central and local government seems to gradually have grown. The objectivity and the consistency of JPA have grown by expanding experts' involvement and enforcing the verification of performance in the entire process. The number of objections from local government about the results of JPA in 2011 had reduced by half compared to that of the year of 2008 (OPM, 2012). Considering the long-standing implementation of JPA, there have been little material benefits from good results of JPA (Ryoo, Y.A., 2010: 244). The system of reducing the level of control for 'good' JPA seems not to apply to local government. Nevertheless the relations between central and local governments have improved more compared to before the implementation of JPA. Local governments do not have to struggle with 'the fatigue of assessment' with over 75 individual assessments anymore and instead the performance assessment occurs just once for a certain time period per year. Budget, time and effort could be saved across the levels of government and the dispute over the performance assessment of local government by central government was considerably reduced after JPA. Further improvements are possible in order to enhance the performance of national policies through JPA. For instance, performance objects should be clearly linked with performance indicators; the process of JPA should be more integrated with the other performance tools such as the function of personnel or organization of local government; and the result of JPA should feed into subsequent development of policy.

4.3. The self-assessment system of local government

The second tool of managing performance in the local government is the self-assessment system. As Wildavsky argues (1972: 509) it is desirable for organizations to evaluate their activities for themselves but after considering the requirements for evaluation. This process can be connected with learning-by-doing because they can identify their weak and strong points. At the micro level self-assessment is concentrated on the validity or efficiency of the programmes or policy but on the macro level, it provides the performance measurement of policies or programmes, and feeds back useful information to the tax payers,

interest groups and the general public.

According to the Assessment Act Article 18, the head of local government should enforce self-assessment including the policy and programme of subordinate organizations within its jurisdiction. The head of local government should establish the planning of self-assessment yearly in order to enhance the performance of policies and programmes of the jurisdiction. Each local government implements the various models for self-assessment suitable for their features. For example, according to the study of Gyeonggi Research Institute (GRI, 2008), the self-assessment system has been operated in a mixed form with a variety of evaluation systems such as BSC (Balanced Score Card) or MBO (Management by Objectives) across the local governments within the jurisdiction of Gyeonggi Province. Nationally, the majority of local government uses performance indicators and BSC and the remaining local governments qualitatively assess their work without performance (OPM, 2012) as Table 4-5 shows. As for the assessor, local governments establish a committee for self-assessment, or use out-sourcing or an external advisory organ.

Most local governments set a plan for self-assessment early in the year but some in the middle of the year have a relatively short period of evaluation. The law legislates that all local governments should enforce the self-assessment more than once per year. Many local governments regularly investigate customer satisfaction about public services provision internally or through out-sourcing.

Table 4-10. Type of self-assessment

Total number of local governments	Methods			Assessor
	Qualitative assessment	Performance Indicators	BSC	
244	31 (13%)	131 (53%)	82 (34%)	Self (internal department) : 232 Outsourcing: 12

Source: OPM, 2012

With respect to the scope of self-assessment, most local governments

evaluate their own business and centrally preferred policies, and some local governments delegated the work as well. Most local governments employ all-around performance indicators of input, output, and outcome measures but some local governments emphasize a special indicator of input or output.

The result of self-assessment is usually publicised internally or externally but some do not reveal them (GRI, 2008). However, only the upper category of results is made public and the evaluation indicators and process are still closed. The result can reflect on personal performance payment, employee performance reviews and allocation of programme budgeting.

The self-assessment of Korean local government faces some problems. According to the Act, all local government should implement self-assessment every year but sometimes the purpose and usefulness of this evaluation can be forgotten because the result of the evaluation is difficult to reflect in subsequent policy or activities. Since the focus of the evaluation is mainly on organization, it is unclear who is responsible for the results of self-assessment. The results are sometimes full of ambiguous and abstract judgements so it might not be useful for changing or improving performance of the organization. In addition, there is not sufficient consideration of the environment of evaluation to design the model of evaluation or interpret its result.

In line with the evidence of Boyne et al (2004) in which the number of organizational elements attempting evaluation is negatively related to the extent which local government engage in evaluation, the number of activities to be assessed needs to be incrementally considered. The current self-assessment is apt to require constant revolution in all functions of the organization. Therefore self-assessment is likely to be considered merely as red-tape if local government simultaneously reviews a high number of activities.

5. Conclusion: Korea's effective performance management regime

The emphasis of performance in the public sector is to ensure the accountability of devolved government. In this sense, performance management can be another controlling mechanism for central government to manipulate local government. In many countries, various institutions and techniques of performance management adapted for the public sector have been developed over the decades. Despite some critical views of performance management in the government, the performance of local government includes diverse meanings such as efficiency, accountability and local democracy. The argument of this thesis is that an increase in local democracy may improve local government performance because the democratically elected politicians tend to produce the public services in a more efficient way, in order to remain in power (Adam, A. et al, 2011). So the performance of local government can be used to judge how well local autonomy has worked through reducing the effect of central controls on local government.

In this sense, JPA has bedded in a new mechanism of ensuring the accountability of local government and has grown more sophisticated toward increasing objectivity and consistency over time. It meets the broad characteristics of the Bouckaert and Halligan's ideal-type of relatively advanced 'performance management' as discussed earlier in this chapter. At the same time, JPA contributes to forming more democratic relationships between local and central government by reducing the burden of assessments and increasing intergovernmental communications. JPA integrates nicely into the structure and the argument of this thesis by showing how central controls have impacted the performance of local government over the last decade during which Korean central-local government relations confronted change. The institutional stability, the consistency of the performance assessment and the feature of the new intergovernmental relations of JPA support using the results of JPA as the source of local government performance in the statistical analysis in later chapters. Chapter 7 will delve into the structure of JPA to better understand the performance indicators of JPA and chapter 8 will more specifically discuss the structure of the fiscal performance data of JPA. However, to begin with, in order

to analyse the fiscal relations between central and local governments in detail, chapter 5 will investigate the characteristics of fiscal controls exercised by central government. This elucidates the context of institutional change, the tension between local autonomy and central controls and the evolving nature of central controls over the last decade. Based on researched evidence and theories, chapter 6 will establish the concrete hypotheses regarding how the controls exercised by central government impacted local government performance. Therefore the discussion of the performance of local government in this chapter is a cardinal element not only to obtain practical performance data of local government but also to understand the context of the overall performance management system in the Korean public sector.

Chapter 5. Fiscal Institutions of local government

1. Drivers of fiscal reform

1.1. The lesson from the financial crisis

As chapter 3 noted, the experience of fiscal crises may become a catalyst to unleash a series of reforms. The occasion of the 1997-8 economic crisis made the vulnerabilities of every single system of Korea come to the fore. By power change the newly inaugurated President Kim Dae-jung (1998-2003) made use of the national fiscal crisis in order to re-define institutions. The increasing attention of scholars and civil groups and the IMF's encouragement raised the voice to change the fundamental system of finance. The Korean government put considerable care into taking the best practices of forerunner countries to suit the idiosyncrasies of new and changing environments.

The challenges of government reform against an uncertain environment became motives for the fiscal reform in the Korea public sector and included the following. First, long-term strategic planning and monitoring systems needed to take fiscal uncertainties into consideration (Poister, 2003). Strategic planning approaches are emphasized to identify the most fundamental issues facing an organization in the long run, and to develop strategies and gain needed information to resolve those issues effectively, as Bryson (2011) noted. This is the reason why the planning minister was in charge of the fiscal reform of Korea after the Asian economic crises rather than the finance minister. Second, government makes an effort to demonstrate accountability for results. A major impetus for the implementation of performance systems in public organizations is the need to improve accountability. It is necessary to remember that accountability of top managers or elected mayors is just the same as the role of the bottom line in the private sector. Further, public service needs to be provided in a more customer-oriented way in order to enhance government efficacy. Customer-oriented strategies create accountability to key stakeholders by inducing competition for customers and emphasizing service quality (Bryson, 2011: 256). Even financial reports such as budget and accounting need to be

easily explained for external users such as councillors, academics and citizens. Government needs to be carefully responsive to citizens' favourable and unfavourable attitudes. To do this, performance measures and taking feeding back from the public can be useful ways to communicate with citizens and understand their needs. Fourth, efficient processes based on electronic governments need to be prepositioned to enhance quality of work and performance. Government function analysis reduces unnecessary work and streamlines the work process. The exact recognition of the changed situation through an external shock gave a chance for the Korean government to execute structural reform in the public sector. At the same time, the impact of the isomorphism from NPM reform in many other countries encouraged the extensive reform in Korea.

1.2. The NPM paradigm

Another external factor shaping reform is the change of paradigm of the public sector, which contributed to an isomorphic institutional reform process. The private sector emphasized 'performance management' rather early and experienced substantial developments in management theory and practice during the 1990s (Talbot, 1999). Meanwhile, the public sector endured scepticism about the legitimacy of the Welfare State and the competence of the administrative state (Lane and Ersson, 1994:7-8). Therefore a variety of changes were undertaken to compensate for bulky and inefficient government. In particular government reforms based on NPM have been carried out in order to reduce the inefficiency and enhance the quality of service provision in many OECD countries since the 1980s. Although NPM has been variously described by different commentators, there is a good deal of overlap among the different accounts of what NPM at this time entailed: a shift in emphasis from policy making to management skills; from a stress on process to a stress on output; from orderly hierarchies to a competitive and performance base (Hood, 1995: 95). Sanderson (1996) clearly points out the logic of NPM: one thing is cutting the size of the public sector and another is increasing the efficiency of what is left. As a result, the direction of reform across OECD countries involved developing performance

management, introducing more competition to the public sector and offering quality and choice to citizen (Pollitt and Bouckaert, 2011: 9)

A strand of literature sees managing performance as the central element of NPM (Bouckaert and Halligan, 2008: 13; Pollitt: 2006). The best practices distilled from forerunner countries have been applied to other countries including Korea. The United States began a full-fledged reform by way of 'Reinventing Government' in the 1990s and the enactment of GPRA. In the UK since the 1980s there has been an increasing pressure for government reform with a leading example of the NPM project seen in the Next Steps programme. Central to NPM in modes of public management was a shift toward more explicit and measurable standards of performance for public sector organizations (Pollitt and Bouckaert, 2011: 10). Emphasis on performance in the UK was made explicit in the Comprehensive Spending Review and the Public Service Agreements, though they are not available any more (see section 2.1 chapter 4).

Influenced by such considerations, the incoming Roh Administration in 2003 initiated a series of public sector reforms and proposed the direction of government reform involving the establishment of a Korean performance management system; constant and systematic function analysis; rearrangement of government organizations; and redesign of work procedure. In particular, budget and accounting reforms were considered as integral parts of the public sector reform. President Roh emphasized in the 2005 beginning-of-the-year business briefing that "performance management is the essential task to be executed by all departments of the government" (Shin, H.C., 2008: 20). To oversee the reform, the Presidential Committee on Government Innovation and Decentralization (PCGID) was set up as a government-civic advisory body reporting directly to the president. As can be deduced from the title of PCGID, there were two specific major projects of government innovation and local autonomy. With regard to the former, the central government recognized the importance of performance management for the implementation of government innovation. It commenced performance evaluation by taking BSC to the public as the cardinal mechanism for government innovation (see chapter 4), and also by the revolution of government financial systems through ushering in programme budgets and accrual basis accounting based on highlighting performance and

accountability.

1.3. Political democracy

On the other hand, endogenous factors also motivated Korea to put in place a more democratic society. The extension of local autonomy in the mid-1990s gradually led to institutional transformation to increase local autonomy. As Mahoney and Thelen emphasized (2010), processes endogenous to institutions generated incremental change and agents disadvantaged by centralism sought to revise and supplement the rules of centralism in Korea. Kim Dae-jung led the democratization campaign in the Democratic (oriented) Party (see Figure 2-1) in opposition for a long time. Since the Kim Dae-jung government embarked on this power change, local democracy and decentralization has been stressed as a direction for reform. The Roh Mu-hyun government, from the same party, emphasized decentralization as a preferential national policy agenda (MOGAHA, 2004). In order to enforce local autonomy and strengthen the fiscal capacity of local government, a variety of policies were carried out. For example, local shared tax was reinforced a few times by increasing the tax rate thus MOFE needed to transfer a great portion of national tax income to local government via MOPAS (MOPAS, 2011a). Local government participated and reflected their concern in designing Programme budget and Accrual accounting with central government. Further, the official budget compilation guideline was abolished in 2003 because it may constrain the fiscal autonomy of local government. One of the visible achievements for financial independence of local government was enacting the Law on Contract of Local Government, which separated local government's transactions from the national law, in 2006. This legal development expresses the independence of the local government's legitimacy from the perspective of the centralists of MPB.

The following Lee Myung-bak administration which originated from the Conservative Party put more value on pragmatism, as recognized in the 'pragmatic government' a name deriving from Lee's campaign slogan, although broadly it implemented decentralization policy as well. The Lee government carried out notorious improvised policies to fit with the changing environment rather than those consistent under long-term planning and strategies (Kim, J.G.,

2008; Shin, J.S., 2010; Min, K.G., 2009). First, local tax cuts weakened local financial capacity which weakened the decentralization policy. Local governments' lack of legal control over their tax affairs allowed MPB to manipulate local tax to suit national policy. Another example is the earlier budget spending so called 'emergency spending' which provide an explicit instance of central government's control over local government expenditure. Emergency spending was a kind of Keynesian deficit spending prescription and was unavoidably employed to overcome national economic depression. It is difficult to deny that emergency spending negatively influenced local fiscal autonomy. In contrast, however, a major achievement of the Lee administration was the introduction for the first time of a local consumption tax and local income tax. These taxes, introduced in 2010, had undeniable worth as a means to increase local autonomy. This is the first case when part of the national tax was transformed to the local tax in Korea.

The next part will discuss local government's fiscal institutions which were newly introduced or transformed according to the exogenous or endogenous factors of reforms. This thesis contends that the fiscal institutional transformation towards greater local autonomy has been in progress but central controls also have survived. Therefore the focus is on how local autonomy expands, but also on how central controls are sustained through the institutional changes.

2. NPM inspired fiscal reforms

The Roh government's preferred policy emphasis was government innovation. President Roh Mu-hyun decided to establish a financial information system for the public sector in March 2004 (BARO, 2006). To do this he undertook comprehensive fiscal institutional reform from budget to accounting for the first time since the creation of the Republic. MPB took the responsibility for organizing a taskforce team, recruiting experts, researching and decision making for accrual based accounting and programme budget. As a result the Budget and Accounting Reinvention Office (BARO) was established in May 2004, which consisted of professional civil servants from MPB, MOGAHA, MOFE and BAI, accountants and academic scholars. This government office successively opened a comprehensive financial system called the 'D-brain system' in January 2007. D-

brain means a 'digital brain' which conducted all the fiscal processes. It was a comprehensively integrated financial system processing and producing financial information from programme budget to accrual accounting, from central government to local government. The following section will outline the institutional change, context and central controlling mechanism regarding this reform.

2.1. Accrual based accounting

After the election of local government mayors, the introduction of accrual accounting was propounded by academia, civil society and some local governments. Since the IMF bailout, there have been demands to improve the transparency and reliability of Korean financial statistics. Thus the Kim Dae-jung government adopted the enforcement of accrual accounting. The budget and accounting reforms were considered as integral parts of this public sector reform. MOGAHA planned a basic roadmap and undertook the enforcement of accounting reform of local government in 1999. In the Roh Mu-hyun government accrual accounting became a main agenda of PCGID and in January 2004 was adopted as the national reform task by President Roh with the power of enforcement (MOGAHA, 2004).

Conventionally budgeting and planning were paramount rather than effective accounting. However the outcome-oriented paradigm and the increasing need to consider fiscal uncertainty have made government put corresponding value on accounting. In the public sector, the multiple objectives of accounting are to inform the stakeholders about the financial situation of the government; to provide possible investors with information about creditworthiness; to aid management decision making; to identify assets and liabilities; and to facilitate democratic transparency (Hepworth, 2003).

According to an OECD publication, accrual accounting has several implications for dealing with long-term budget horizons (Matheson, 2002: 44). First, revenues are recognized only when services are rendered not when cash is received. Expenses are recognized when economic resources are used, rather than when they are paid in cash. After a government has received services, the related obligations are also reported as expenses for the current period and as liabilities on the balance sheet. Second, all economic resources are considered

as assets in the balance sheet. For example, Korean local governments recognize their local roads and other infrastructure as assets, and record their depreciation as an expense as well. Third, all government obligations for services received or commitments made are reported as liabilities in the balance sheet, even if they have not been funded in the budgetary process. Therefore the accrual based accounting system is essential to ensure the financial soundness of local government. It helps to determine the financial capacity of local government in the long term; operate performance management by providing cost and revenue information when resources are used or services occur; comprehensive information about assets, liabilities, revenue and expense are recognized and connected with budget information. Ultimately it aims to establish a cost management mind-set in public officials and to improve the efficiency and the effectiveness of public service. The local financial report written in an accrual basis in Korea is published after not only the review of professional accountants who have completed the required educational courses over public finance but also after the audit of the local council.

The cash based accounting system had been used for more than half a century since the Republic began in 1945. It does book-keeping based on changes of cash over budget implementation; when the cash inflow income is recognized and when the cash outflow expenditure is recognized. This accounting method is a record of those transactions and the classification is simple and has the advantage of being an easy way to control the budget, but there are limits to recording and recognizing accurately the changes in the flow of economic resources. For instance, even if local governments engage in multi-year transactions approved of the council it is not recognized as debt. Also the depreciation costs of the resources are usually ignored so the general cost of local government tends to be under recorded.

Unlike the way programme budget system replaced line item budgeting, the accrual based system complements the cash based accounting because cash-based programme budgeting still needs cash-based accounting information. Therefore two ways of accounting coexist in Korean local government. All local governments have formally submitted financial reports by accrual accounts as well as cash based written reports on their final accounts to local councils since

2007.

However, the accrual based accounting system faced huge criticisms, as Hepworth (2002: 135-7) noted. First, in fact top managers of local government have no real understanding of the meaning of accrual accounting. They are unwilling to accept the management implication of the information produced, or they otherwise ignore the financial report without any chance to read it. Second, there is pressure from politicians to state results in a manner that suits them. For example they would stick to accrued expenses which are recognized unlike cash accounts at the micro level to attack the executive without comprehensive understanding of the financial report. Third, officials from budgeting, cash accounting and other departments are unwilling to accept accrual accounting and its implications because there is no link between accrual accounts and the cash based budget they are accustomed to (KRILA, 2002: 3). Institutionally, the contents of accrual accounting are very difficult for general public officials to understand. Fourth, the nature of public administration is different from that of the private sector. There are performance objectives or results other than things measurable by price such as equity or fairness. In practice accrual based accounting is just complementary to the current cash based accounting and it appears that local public officials do not feel the necessity of accrual accounting because cash based accounting is easier and more appropriate for operating the current cash based local finance system. Therefore enforcement of accruals was controversial. Much of the controversy arose from the government administration itself. A significant amount of time needed to be invested in educating and consulting with government managers and other interested groups like local councils (Matheson, 2002: 44).

2.2. Introducing programme budgeting

Osborn and Gaebler note in their influential *Reinventing government* that 'the traditional line-item budget system incorporates rules that encourage managers to waste money. We need a government that measures the results of what an agency does, and ties incentives to achieving those results' (Osborne and Gaebler, 1992: 353). The most traditional use of performance measures in

government is the monitoring and reporting of programme activities and agency operations (Poister, 2003).

Managing a unit of policy or programme other than controlling cost items is considered a better way for improving performance in the era of NPM. The Korean government made a performance based financial reform in both central and local government areas, which would seek to improve the accessibility and user-friendliness of the budget in order to easily monitor government finance. The Presidential Secretariat and MOGAHA discussed the introduction of 'the performance based budgeting system' in the long term. To do this, at first the conversion to programme budgeting system gained momentum as one of the major government projects in 2004. Local governments piloted programme budgeting, which broadly speaking is a performance based form of budgeting, from 2004 and formally began to submit a programme budget bill to the local council in 2008.

On the cusp of performance ushering in a full-fledged programme budgeting system in Korea, it appeared that the very concept of programme budgeting was understood differently even among those who had participated extensively in the new system's inception (Kim, John M., 2005: 17) and there was a struggle to even define the concept. Budget officials viewed programme budgeting primarily as a framework that streamlines resource allocation decisions, while other officials and scholars, oriented toward public administration or accounting, seemed to regard it mainly as a vehicle for making performance management operational in the public sector (Kim, John M., 2005: 17). The manual for programme budgeting of local government defines it as a budgeting method constituting the process and structure of budget planning, budget allocation and budget spending for a programme and activity, and the connected evaluation of the programme. This emphasis on policy programmes provides the most productive approach and is the main aim of the budgeting reforms (MOGAHA, 2006).

The traditional line item based budgeting system has been employed for more than a half century. The line item budget focuses predominantly on input and spending at the micro level. While the value of monitoring and ensuring spending compliance should not be underestimated, this arrangement limits the

ability of government to analyse spending vis-a-vis their objectives (Kim, D.Y., 2005). It contains only financial information to meet requirements for monitoring inputs. As a result, it is insufficient for resource allocation decision-making and performance oriented management, and the identification of both autonomy and accountability of managers.

In contrast, programme budgeting alleviates the disadvantages of line budgeting by creating a systematic planning, allocation, spending, and evaluation of budgets. It is centred on programmes such as policies, projects and activities in order to systematically reflect the policies of government in budgets and maximize the financial performance. Programmes are the units by which performance is to be defined and measured. Programme budgeting is the building block for linking resources and results. In short, as the unit of a programme budget is the project or activity, it is possible to operate output and performance oriented budgeting (Kim D.Y., 2005). The annual budget contains financial data and gives adequate consideration to results or progress in achieving policy objectives. A programme budget provides the efficient control of those policies chosen and conducted by local government. This point is also emphasized in the Chartered Institute of Public Finance and Accountancy in the UK (cited by Johns and Pendlebury, 1996: 71)

Programme budgeting is primarily a system associated with corporate management which identifies alternative policies, presents the implications of their adoption and provides for the efficient control of those policies chosen. It embraces several established concepts and analytical techniques within the framework of a systematic approach to decision making, planning, management and control.

Consequently programme budgeting can improve the financial performance of government and the quality of public services (MOGAHA, 2006) and the way in which it has been developed and implemented within local government shows a key aspect of fiscal reform. These new techniques had potential to empower local council members and elected mayors to exactly monitor the local finance and to healthily manage local government.

2.3. Normative controls and cooperative relations

MOGAHA intended to instil the key ideas of NPM in local government through fiscal reform. Normative understandings seemed to amount to a strengthening local government through shared experience of responding to the NPM reform. By contrast, in practice the normative controls also comprised a strengthening of central control by disguised means. So we can say that the normative controls were implemented with a centralist's bias. The reforming initiative and the legal basis of central government allowed the central government to install the controlling tools in operating the programme budget and accounting process of local government. Article 5 in the Law of Local Government Finance (LLGF) stipulates that 'MOGAHA can notify about matters needed for performance centred financial management to the top officials of local government'. MOGAHA informs local governments of the established budgeting and accounting manuals which guide how to compile a programme budget, how to record government accounting and practical standards of government expenditure (MOGAHA, 2007b). This provides the formal requirements and methods by which local performance budgets are created and, in terms of enforcement, on the grounds of this manual the audit office makes a decision when investigating the cases of budget operation and expenditure, and when deciding whether or not the cases are legal and proper. Central government insists that this fiscal reform contributes to giving more fiscal autonomy to local government by permitting strategic management. However, as long as the budget and accounting standards of local government are specified by MOGAHA, MOGAHA takes de facto control of local government finance.

In addition, the fiscal transparency which is achieved by the NPM fiscal reform is a convenient vehicle for central controls. Programme budgeting and accrual accounting made it possible for the multiple stakeholders to easily access local finance data. These systems thus improve fiscal democracy and transparency. They systematically show the cost information about each programme in accordance with department or function and thus it is not difficult to catch up with the financial issues compared to the case of reading each line-item cost without programmes. This allows central government to accurately monitor the expenditure of local government in real-time due to the digitalized information

technology. Therefore MPB and other central government departments are able to check the progress of a subsidy programme implemented by local government regularly or in real-time.

The system connection is an important factor for central government to indirectly control local governments. MOGAHA did not allow an individual local government based finance system but developed a commonly available local finance operating system and spread it to all local governments. From this common electronic system, all local government financial information is collected to *e-hojo* which is an integrated financial information system for the budgeting and accounting of local governments.

Before this financial information system, MOGAHA pushed for a proper IT based accrual accounting system. The greatest challenge to introducing accruals was its professional nature; in the private sector accountants were exclusively able to do accrual accounting. MOGAHA confronted the complexity and unfamiliarity of accrual accounting standards which were beyond the understanding of local officials in charge of general public services. A well-designed automatic journalizing system, however, was believed to relieve the burden of technical expertise for the local officials. Therefore MOPAS concentrated on the invention of an automatic journalizing system: Local government Accounting by Double-entry book-keeping Information system (LADI). LADI enables officials to automatically journalize a transaction into debit and credit entries if they simply input some information about an economic activity. That pilot test of the accrual accounting system was gradually extended to two local governments in 1999, nine in 2003, 63 in 2004, and 246 (all local governments) in 2005 (MOGAHA, 2007b). The initial investigation into the state of assets and liabilities of each local government was promoted in 2006 and at last all local governments legally began to write financial reports by accrual based accounting in 2007.

In a pattern different from the usual reform trajectory, the policy community played an important role in spreading and sharing the idea of NPM fiscal reform. Accrual basis accounting was unfamiliar even in central government thus both central and local government needed to learn together and make their own accounting well-tailored to the public sector. While the policy community of

programme budget consisted of central and local government officials, that of accrual accounting consisted of scholars originating from accounting, management and public administration; professional accountants of private sectors; local government accounting professionals; technicians who transformed the results discussed in the policy community into LADI. This is consistent with the concept on epistemic community drawing from 'a network of professionals with recognized expertise and competence in a particular domain and an authoritative claim to policy relevant knowledge (Haas, 1992: 3)', resting on shared knowledge of professional accountants and public finance. It can be said that the accrual based accounting system was designed, not by public professionals, but by this epistemic community or policy community which was tightly integrated because of either consensus, or because there was a powerful dominant interest (Rhodes, 1999:144). They seemed to share the sense of duty and they wrote the history of local government finance management. The policy community was formed when the pilot test of the accrual accounting system started in two basic local governments in 1999 by a collaboration of the mayors' intention and central government's persuasion for the fiscal institutional change. Then the sphere of the policy community got to extend as the number of pilot local governments increased as mention above.

In summary, programme budgeting and accrual accounting systems are the cornerstones of NPM styled reform which have changed the dynamics of the institution of central-local relations and central control. The rules have changed as have the norms and the cognitive framework which now encompasses financial expectations and a new vocabulary of accounting concepts. This gives a certain fiscal discretion and responsibility to local government; however, it also conceives new ways of controlling local government. It leads to normatively share the common idea of performance in the public sector and enables the government finance to be monitored by more stakeholders. Control over knowledge and information based on IT system is an important dimension of central and local government relations at the point that new ideas and information can lead to new patterns of behaviour and prove to be an important determinant of performance of local government. The normative aspect of budget and accounting reform will be revisited in chapter 6 to classify modes of central government's control of local government. Under the increasing local autonomy

trend, central government could not help resorting to cooperative and normative modes for the fiscal reform of local government.

3. Emergency Spending

3.1. Escaping global economic crisis

In response to the global financial crisis in 2008, Korean economic policymakers embarked on a full scale Keynesian counter-recessionary spending programme using the public sector as the spearhead of fiscal policy (Kim and Hur, 2013: 74). In practice, mostly it was the front line of local government that undertook the fiscal implementation of government spending. President Lee Myung-bak stressed in December of 2008 “It is such an impending moment to the extent that each ministry should spend their budget from the next day after the budget approval by the National Assembly” (Cabinet meeting 2/12/08) and continuously the president ordered departments not to wait until next year to embark on enterprises and to immediately execute possible business (Expanded economy ministers meeting 4/12/08) (MOPAS, 2008).

According to the broad consensus of the literature, decentralization of expenditure responsibility can entail substantial gains in terms of efficiency and welfare, by promoting a closer correspondence of expenditure priorities with the preferences of affected citizens (Ter-Minassian, 1997). A converse example has been witnessed in Korea. In principle, each local government in Korea has expenditure responsibility according to the Local Finance Act but in practice considerable control by the centre exists, as noted in chapter 2. Particularly under emergency situations such as an economic crisis, central government wants to oversee the whole spending of both the centre and locality. Faced with global economic crisis in 2008, central government pushed all public sector organizations to increase their spending goals and asked them regularly to report how much they were spending, in order to inter-temporally relocate government expenditure and to adjust the cyclical downturn caused by the global crisis. Local government had to achieve the objective of spending 60% of their budget by the second quarter of the year. It was a harsh objective compared to the fact that

local government usually could spend, at best, less than 30% of their budget over this period. Their financial dependence on central government was a main obstacle to physically achieve this goal. In other words, local governments' real budgets can be outlined after March or April when departments of central government start to decide or allocate the amount of subsidies to each local government. According to the internal report of MOPAS (2008), local governments 'have to spend the budget in accordance with a wartime behavioural prescription'. Therefore the term of 'emergency spending' expresses the spending pressure exerted on local governments by central government in 2008.

For the emergency spending of the local governments, central governments carried out a combination of exceptional deregulator policies like the following: to solve the lack of funds, MPB and MOGAHA allowed local governments to issue far more bonds than in an ordinary year, and encouraged them at the same time to increase their capital spending to offset weak private spending; MOGAHA greatly simplified local government contracts and accounting procedures in order to speed up spending: for instance, MOGAHA mandated local government to reduce public bid notification period from 60 days to 10 days and to expand the size of pre-payment, using exceptional legal articles of the law (MOPAS, 2008).

Consequently, to prepare for and support the emergency spending of local government, three laws and statutory instruments were revised and more than twenty activity units such as bid notification, bills for price and payments of bills were improved with the view to simplifying financial procedures. The emergency spending goal was successfully achieved through the endeavour of almost all local governments. However there were some damaging side effects of this speedy spending: disordering of accounting standards, lack of equity over the expenditure and deterioration of public services. Nevertheless, the OECD evaluated Korea as one of the few OECD member countries which recovered rapidly from the recent global financial crisis due to sustaining spending and demand: that is to say, 'by prompt and effective policy responses' such as 'implementing the largest stimulus package among OECD countries, amounting to 6.1% of GDP' (OECD, 2010: 3). This episode illustrates the ability of central government to appeal to national political priorities to strengthen control over the

localities.

3.2. Coercive controls and threat of sanction

The forceful initiative by the president worked as the most important motive encouraging emergency spending in the public sector. President Lee Myung-bak ordered ministers and governors or mayors in the annual business briefing on 22nd December 2008 to “Immediately execute the measures for early execution of budget in order to respond economic fluctuations (MOPAS, 2008)”. On listening to the president’s address, but within a framework of undue centralisation, the government began to plan and execute the early budget spending which the government called ‘emergency spending’ through all possible policy tools.

Central control over local government’s policy formulation and implementation should be exercised within laws, regulations and guide lines that give rise to predictability for local government concerning the continuity of control. In this context, central mandates for emergency spending involved unexpected coercive controls. If not compliant, local government could anticipate the loss of benefit from or cooperation with the centre. The pattern of control was not totally predictable and made use of a variety of improvised policy instruments. It conceived multiple factors to ensure local government’s compliance such as application of threat and naming and shaming. The central government’s persuasion stimulated awareness of local government’s role as an important consuming body in the public sector. The spending performance of each local government was supervised and announced by central government. This played a significant role in a programme of compulsion leading to the compliance of local government. The government promoted the performance of spending progress in the media such as through newspapers and websites and gave special rewards (*Jeonbuk Residents Times*, 13 Jan 2009; *Gangwon Times*, 06 December 2008).

MOPAS exerts considerable influence on local government expenditure through a combination of mandates and administrative instruction as well as legal instruments. The daily spending progress by all local governments was monitored by the centre: whether they made use of the recommended simple spending instruments; which phase of work local government delayed spending in. Moreover, central government civil servants were regularly dispatched to local

governments in order to investigate their expenditure documents and spending fields in detail. To do this, MOPAS made use of all personnel in the department which is in charge of local government within the ministry.

In conclusion, the policy of emergency spending constituted a step back for local democracy. In particular, the controlling mechanisms exercised by central government rested on coercive controls to induce immediate policy effect during the financially critical moment. The central government mobilized as many policy instruments for controlling local government emergency spending as possible. As a result it achieved the spending goal and contributed to stimulating the internal economy in the late 2000s (OECD 2010). The coercive feature of emergency spending will be revisited in chapter 6 to classify modes of central government's control of local government.

4. The reform of local tax

The nature of local autonomy provides for citizens and their representatives to exercise discretion and responsibility to maximize the efficiency of resource distribution that allows residents to decide public service provision according to their preferences, whilst at the same time, it lets them take responsibility for their choices. Decentralized service provision allows local government to provide levels of public services and goods that are responsive to the preferences, costs and other circumstances peculiar to the local area. At this point, the link is obscure between the benefit of public expenditure and their price if revenue-raising responsibility is assigned to central government (Ter-Minassian, 1997). In Korea, the tax base and tax rates cannot be determined by the independent initiative of local government but are proposed by the central government and passed in Parliament. The central government has 80% of the total tax revenue sources. The arrangement that assigns taxation power to the central government enables it to use the tax policy in managing the national economy and handling the market. Over the last decade local taxes have been monopolized by policy instruments employed by the central government for macroeconomic management and redistribution. However the recent introduction of local income tax and local consumption tax provides no shortage of examples to demonstrate the growing local autonomy. This section focuses on a few predominant

examples of local tax policies which are regulated by central government.

4.1. The acquisition tax cut

Acquisition tax is levied on the behaviour of acquiring land, houses, buildings, tangible business asset, machinery, vehicles and membership. The acquisition tax is the predominant means for raising revenue at the local government level in Korea; it generates a significant proportion, around 10%, of local government revenue. However, since taxes on the transfer of property discourage the development and formulation of the land market (Bird and Slack, 2002: 33), a higher property tax and lower transfer tax on property is considered desirable by central government. The Korean central government intended to cut the acquisition tax for the purpose of anchoring the real estate transaction reporting system which was a new system in the sense that tax cutting usually encourages estate transactions during the period of economic prosperity. Originally the rate was 4% of the acquisition price but the central government changed the rates to 1.5% in January 2006 and to 1% in September in the same year (KILF, 2012). Consequently, local government lost revenue of about 3trillion KRW (£1.7 billion, 2% of the total local government budget) roughly the same as the amount which was cut in 2006 through the transfer tax. This is not only controlling the behaviour of people in the market but also indirectly controlling local government by means of deprivation of material resource (Vedung, 2003: 30). The central government's tax rate manipulations explicitly showed the financial dependence of local government. Central government did not have any procedural obligation to seek the consent of local governments, though local government was the most vulnerable victim of the tax reductions. In response to the abrupt statement of central government, local governments had no policy instruments by which to influence the forming of tax policy: at best they declared they were against the tax reduction but many local governments offered little substantial resistance and eventually all bodies had to accept the policy. Although the acquisition tax rates are regulated by the law, the central government frequently changed these rates within a considerably short period which harmed the stability of public administration and central-local government relations. It is hardly surprising therefore that such centralised direction is enough to cause the disobedience of

local governments. According to the press in Korea (*Naeil News*, 19 July 2006) 2006), nearly 30% of the 16 regional governments presented a statement which opposed the acquisition tax cut in 2006.

It can be concluded that the unilateral reduction of the acquisition tax rate can be said to have damaged the fiscal autonomy of local governments (KILF, 2012: 165). Tax authority is held by the central government but the revenue cut of the acquisition tax, ordered by the centre, shifted the loss to the local government revenue. Therefore, the decision to make the tax cut without preliminary consent breaches a basic principle of cooperative government which is due consultation.

4.2. The increase of local shared tax

Local shared tax is of great importance in local governments' revenue: it accounts for half of dependent revenues and looks like a prerequisite essential for the local government management. Regardless of its financial strength, each local government is required to provide statutory public services at a constant level. Local shared tax allows it to achieve horizontal equity and a national minimum for public services. The local shared tax is considered fundamentally as a local tax, essentially local governments' own revenue (Ter-Minassian, 1997). But the central government retains a large discretionary authority with regard to the regulation of the local shared tax. MPF transfers the allocated tax to MOPAS after collecting the national tax to alleviate vertical imbalance as regulated by the law. Then MOPAS plays an important role in distributing the tax to the each local government based on the specific calculation scheme. In terms of central government's policy instruments, it plays a role of ensuring compliance of local government with national policy.

The local shared tax fund is used for the distribution of general purpose transfers to the local governments. Thus, when the rate of local allocation increased, there was rhetoric that it would enhance local financial autonomy, as it expanded the fiscal capacity of local government. In 2000 the Kim Dae-jung government increased the shared tax rate from 13.27% to 15% and again to 19.13% in 2005 under the Roh Mu-hyun government. In the national political debate, the increased rate meant the improved power of local government and

corresponded to the national policy direction of decentralization. Currently the total amount of the fund corresponds to 29 trillion KRW, 19.24% of total internal tax revenues (earmarked taxes, such as the transportation tax, energy tax, environment tax, and education tax, are not included in these revenues), and accounts for 24% of general account revenue of local governments. It has occupied the issue of the fiscal debate between central and local government to strengthen local finance.

Instead, in part it might deter developing independent local revenue and enhancing fiscal accountability of local government. In practice whether the increase of local shared tax contributed to more fiscal autonomy for local government is controversial. Behind the formula¹⁴ to decide distribution is the central government's intention to control the spending of local government. Most of all, the formula has an 'incentive scheme' to reflect central government's policy preference and to control local government's spending above the socioeconomic indicators which are used to measure the basic fiscal need and the basic financial revenue. Changes in the composition of expenditure can affect the aggregate amount of local shared tax that local government can obtain. This may be the case if the composition of local governments' expenditure shifts in favour of an item or direction that the central government included in the formula as an incentive scheme. Since incentive schemes can be changed according to the policy direction or economic conditions, local government tends to be aware of them and reflect them in their financial decisions. For example in the year 2010, the central government considered how local government tried to reduce operating costs by judging the number of officials and the size of local government office buildings or how local government made efforts to collect local tax (MOPAS, 2011a). If they proved to waste resources or were lazy in increasing local revenue, the amount of local shared tax was reduced. By rule of thumb, local governments have no choice but to follow the central intention in order to

¹⁴ The general component comprising 10/11 of the total transfer is distributed according to a complex formula which takes into account the basic financial needs and the revenue capacity of each jurisdiction. When MOPAS distributes the local shared tax to fiscally deficient local governments based on the difference between the basic financial needs and the basic financial revenue, the difference is not subsidized entirely, but pro-rated within the range of the total local shared tax (KLIRA, 2011). The index of fiscal capacity and the amount of the equalization payment depends on the ratio of 'basic financial needs' to 'basic financial revenue'

get as much revenue as possible. Consequently, the increase in local shared tax is supposed to improve fiscal autonomy of local government; however conversely, central controls are sustained through the 'incentive scheme' in the calculation formula for local shared tax.

In the policy debate, the local shared tax has been a panacea to solve vertical financial gaps and to fund increasing local service demands. As a result, local governments lost motivation to voluntarily and positively enhance their fiscal soundness and fiscal responsibility. In reality, policy experiments such as local income tax and local consumption tax did not become effective until 2010; instead local shared tax was expanded to meet the demand for local fiscal autonomy. In this way, the local shared tax system has controlled *ex post* spending of the local resource and deterred developing independent local revenue with dominating the national tax debate. It is a prerequisite essential for the local income but its nature is controlling local government. The control of local government revenue through local shared tax will be revisited in chapter 6 where we classify modes of central government controls.

4.3. Introduction of local income tax and local consumption tax

MOPAS presented a plan for the funding of local finance in the Presidential Committee of Local Development in September 2009, in which the government would introduce local income tax and local consumption tax from 2010 (MOPAS, 2009a). MPF intended to cut the rate of local shared tax, which could have resulted in no overall increase of the local resource, but it failed. Finally local consumption tax was established by switching 5% of value-added tax to local consumption tax and this has been increased to 11% of value-added tax since 2014 (KIPF, 2015). This is the first case where part of national tax has been changed to a local tax (MOPAS, 2009a). Local income tax started by temporarily switching the income percentage of resident tax to local income tax for the first three years. Then local income tax was finally created as an independent taxation system which has different tax rates in accordance with different income bands (KIPF, 2015).

The introduction of local consumption tax was the long-cherished task that local government had continuously requested after local autonomy. Both local

income tax and local consumption tax reflect a huge development in decentralization policy in Korea. Local governments are equipped to get away from the conventional practice of clinging onto intergovernmental transfers. This change assigns a degree of revenue-raising responsibility to local government and thus local government will make an effort to raise local taxes. This will reduce the unbalanced responsibilities between expenditure and income of local government. The development and the expansion of local income tax and local consumption tax are expected to enhance the accountability of local government (see section 3.3 of chapter 9).

5. Conclusion: greater fiscal autonomy?

An essential requirement of good public sector management is that the manager has a comprehensive responsibility in the development and use of financial information (Hepworth, 2002: 117). The central ministry and the national politicians continue to control finance because they want to oversee all activities of government and manipulate policies in a monolithic way for the national goals whilst establishing some flexibility in response to popular approval for greater democratisation. Nevertheless, there has been evidence that the top-down central-local government relationship began to change and establish a new partnership model reflected in the fiscal institution and policy.

The fiscal reforms pursued over the 2000s were intended to heal the fiscal weakness, encourage fiscal accountability and finally establish fiscal autonomy. The main initiative of these fiscal reforms has been economic, with the expansion of government area by more public services and investment being difficult to finance, especially in the fiscal distress conditions after the 1998 economic crisis. The NPM-styled budget and accounting system can be depicted as a dramatic reconfiguration arising from a large-scale shift of exogenous conditions. There were new normative understandings which seemed to strengthen the autonomy and responsibility of local government through shared experience of responding to the NPM reform. By contrast, the normative controls comprise a strengthening of central control by new means so we can say that the normative controls were implemented with a centralist's bias. On the other hand, at the same time, the

institutional transformations to introduce independent local taxes may be incrementally generated by processes endogenous to the institution towards local autonomy. Political pressures with the election of mayors by popular vote have incurred incremental shifts in local fiscal policies to increase local autonomy. The general inclination to move in the direction of NPM and decentralization seems to have a substantial impact on improving local accountability and local democracy but evaluation is complex. These substantial reforms have established new dynamics in central-local relations which are still in flux and this study identifies tensions which require careful analysis.

Despite statements of democratic decentralization, we can witness central controls surviving in the process of fiscal institutional transformation in the 2000s. These reforms are briefly explained in this chapter with a focus on how central government's control over local government has been affected in the creation and transition of financial institutions. The changing nature of the fiscal relations between central and local governments is giving more authority to local government while preserving subtle institutional controls of local government. Therefore different views exist about the institutional changes. Some observers (Park, J.M., 2008: 146) comment on the partly positive characteristics because the fiscal autonomy has been enhanced through reduced central intervention over budget compilation or local expenditure. Others (Shin, B.G., 2011; Kim, M.H., 2011: 396) criticize the return to centralism because central government remains empowered to monitor local government through the integrated financial system, which presents a gloomy prospects for local autonomy.

In conclusion, the fiscal institutional changes examined in this chapter explain the change in central controls to increase local autonomy, but, at the same time central controls survive indirectly in different modes in local fiscal institutions. Thus the potential relationship between central controls and local government is likely to vary across the local policies and the contrasting effect of control and autonomy may be cancelled out at the aggregate level. Therefore we need to test our argument by the robustly established statistical method. The great interest in whether these fiscal institutions have contributed to increasing local autonomy will be revisited through the links between central controls and local performance in chapter 6. The next chapters are dedicated to proving the

arguments presented in chapter one about the effect of change in central controls on local government.

Chapter 6. Links between controls, crises and performance

1. Introduction: assessing the performance of local government

As argued in chapter two, one of the distinctive features of Korean central-local government relations is a traditional centralism. This trend started to change after local autonomy resumed in the mid-1990s. The experience of financial crises accelerated NPM-style institutional reform which emphasizes monitoring and assessment of government organizations (see chapter 3). Since then measuring performance of local government has been an institutional priority of new public management focusing on 'autonomy and responsibility', which is, at the same time, exercised as another version of central controls. Chapter 5 argued how central government intended to control local government through the examination of the fiscal institution of local government despite the demand for institutional transformation toward the increase in local democracy. The argument this thesis will contend is that central controls of local government impact the performance of local government. Chapter 4 outlined the profile of performance management of local government and thus recognized the local performance from JPA which will be used in the statistical analysis. In this chapter, we investigate how to define and analyse the performance of Korean local government and explore its relationships to the concepts of control and crises. The objective is to outline a series of hypotheses about those relationships and to define those hypotheses with sufficient precision to undertake statistical analysis of causation in the light of available data. This chapter therefore sets the scene for the more quantitative analysis provided in chapter 7.

1.1. The values and performance of local government

Recent fiscal austerity policies originating from the global economic crisis have required every level of government in almost all countries to achieve more efficient public administration. In the government sector ensuring efficiency is of paramount importance not only because government is usually under budget

constraints but also because bureaucrats tend to pursue objectives that are not in the interest of the citizen-voter as claimed by Niskanen (1975). Nonetheless admittedly it is difficult to measure government's performance or efficiency.

Local government has faced increasing expenditure and exponential demand for service provision with the change of social and economic conditions. Severe financial dependence on central government brings all local governments into disrepute by attaching the tag of squandering national resources. An English scholar indicates that the problems that local government confronts are directly derived from its ambiguous role 'as an elected, tax-raising government but which it has great difficulty in moderating or resolving because the power to do so [rests] solely with the central government' (Sharpe, 1981:5). Dwindling fiscal resource, inefficiency of executives, and immature party politics may undermine the effectiveness of local government (see chapter 2).

In spite of this disrepute, local governments have unique values (see chapter 2). It is argued that local accountability contributes to a better match between public services and the needs or preferences of a diverse citizenry and achieves a greater potential effectiveness of the public sector. Sharpe (1970: 168) also emphasized that local government can exercise 'authoritative horizontal coordination'- it can achieve effective 'joining up' at the local level so local government has practical advantage in providing public services. Local government is likely to have a skilled local workforce and know specifically the distinctive features of each locality and, hence, can adjust service provision accordingly. Another important value of local government is liberty. Hayek stated that local government generally offers 'the next best solution where private initiative cannot be relied upon to provide certain services and where some sort of collective action is therefore needed; many of the advantages of private enterprise and few of the dangers of coercive action of government (Hayek, 1960: 263; cited in Sharpe, 1970 :157-8)'. In addition, local government civilizes the public through the medium of self-government as a training ground for democracy. Sometimes local government is a laboratory of policies and thus makes an attempt to experiment with various policies before central government considers them. When combined, the core value of local government is that the democratically organized political unit effectively provides public services in

accordance with proper procedures, the preference and the demands of citizens. Thus, the era of fiscal austerity is not just a matter of less government but should also be evaluated in relation to issues of better and more responsive governance.

This evaluation should start with measuring performance. A good performance management system is a strategic tool to achieve desired results. Performance measurement can be seen as 'a tangible operationalization of results' because it approximately estimates results (Bouckaert and Halligan, 2008: 14). This operationalization has four dimensions from the perspective of different stakeholders: (1) public resources have been acquired as agreed and in accordance with rules and procedures, which involves stakeholders such as the finance department, and line managers within the organization; (2) that resources have been used efficiently, which mainly gains attention from outsider stakeholders such as supervisory institutions including central government or the audit office, taxpayers and politicians; (3) that resources have been used to achieve the intended results, which top managers or politicians have an interest in; (4) results respond to the legitimate demands of citizens within its jurisdiction.

Thus performance can be defined according to these dimensions. Firstly, as local governments should be accountable for acquiring resources, performance can be defined as acquiring resources in appropriate quantity or with least cost within budget rules. This looks at how much money was used up by the local government over a period (Flynn, 2007: 122). This definition concerns the resources required to produce output, such as providing physical equipment, human resources and finance, and thus at its simplest measures economy (see chapter 4). There are established proper legal procedures such as reporting and monitoring systems and thus public officials are expected to observe those rules and procedures, and to be regularly inspected in order to ensure or monitor the performance of local government. Second, local government performance can be defined as using resources efficiently. How efficiently government consumes its resources is related to a measure of that government's overall efficiency. Efficiency is important in transferring resource from central government departments to local government. Central government usually supervises whether local government efficiently spends grants, and transfers appropriate quantity of resource grounded on the efficient spending of taxes. Third, local

government performance can be defined as assessing whether public spending achieves what it was supposed to. This definition is interpreted to measure effectiveness by which outputs meet, and to what extent, the organizational needs and requirement (see chapter 4). Outcomes are usually beyond the local sphere and even are affected by the changing policy environment. Fourth, performance of local government can be defined as responding to the proper and legitimate demands made by citizens. Responsiveness is more than meeting the needs of immediate service users and extends to the related people of those who receive public services (Walkers et al., 2015). This performance can be shown through satisfaction assessment of a certain policy or service, or aggregately through political support in elections (see Boyne et al., 2009).

In fact, local government performance becomes a product of a dynamic process, involving identifying the demands of citizens, blending and directing of available human and physical resources, and assessing the results or outputs in order to achieve public objectives. This concept of performance suggests a melding of the management objectives of efficiency and effectiveness as well as the degree of citizen satisfaction.

The customer-focused performance definition, namely responsiveness, can be obtained through survey or interview regarding the outputs or results of services. However, survey-based performance measures are susceptible to verification bias (Andrews et al., 2012: 36). The linear relationships between quantity and quality of outputs and customer satisfaction are not always guaranteed because citizens as customers perceive these outputs within levels of expectation. The confrontation of outputs with individual perception levels results in a level of satisfaction (Bouckaert and Halligan, 2008: 20). Survey measures on satisfaction often suffer from methodological biases, of which common-method bias is believed to be most serious (Wall et al., 2004). In addition, reliance upon recall, together with uncertainty about informants' knowledge of actual performance, may problematize the use of survey based performance data (Golden, 1992). Research demonstrates that there is not always a good correlation between 'objective' and 'subjective' types of outcome or between the producer-defined increase in quality of a service and satisfaction change (Brown and Coulter, 1983; cited in Bouckaert and Halligan, 2008: 20)

The best measures of public sector performance are often thought to be drawn directly from government sources (Andrews et al., 2012). Data and information from those sources are often taken to be an apposite standard because it is believed to reflect the real world more accurately and to collect the data more objectively minimizing the discretion of researchers (Meier and Brudney, 2002: 19). Performance data should be impartial, independent and objective. Data from government sources meet these criteria because they are based on the precise assessment of a dimension of performance and an external process to verify its accuracy. Therefore, considering not only the feasibility of data collection but also the validity of data, the current research employs performance definitions focusing on efficient resource usage from government source. This performance definition is exactly consistent with the concept of fiscal performance from JPA. We will further explore the fiscal performance of JPA as dependent variables in chapter 7.

Local government is expected to provide better quality and greater quantity of public service. However, in practice, this is not always the case and public choice theory is far more sceptical. Thus, Milton Friedman's contention that the behaviour of government servants is assumed to respond to self-interest not to public interest (Friedman, 1986) has an obvious affinity to Niskanen's argument. This perspective, then, provides a corrective and directs critical attention to the full range of factors that appear to act in favour of good performance.

1.2. The determinants of performance

Potential influence on performance of local government can be categorized into the external environment and internal organizational characteristics. Local government is accountable to a range of stakeholders and depends on a higher level of government for political and financial resources (Andrews et al., 2012: 7). The external environment constitutes the institution and socioeconomic conditions. The first component, the institutional environment, is set by external stakeholders such as parliament and central government in which local government exists and operates. The institution includes not only the legal and constitutional context but also operating procedures, the conventions and culture. According to Scott (2014) institutions consists of cognitive, normative and

regulative aspects that provide stability and meaning to social behaviour. The cognitive aspect concentrates on the capacity of institutions to process information and to reach the appropriate conclusions from the information; the normative approach considers the capacity of an institution to inculcate its values into members; the regulative approach concerns controlling the behaviour of participants by rules or incentives.

The different interaction between these three elements of an institution will influence the outcomes of institutional change. For example, Roland discussed that political institutions can change quickly but normative and cognitive aspects of institutions move slowly and thus the different interaction of fast-moving and slow-moving institutions influence the economic growth (Roland, 2004). This differential pace of change may mean that the legal changes may lack the cultural basis needed to support them and make them successful (Peters, 2012: 183). In this sense, the institutional transplantation of 'best practice' often failed to produce expected performance in other countries.

Different type of institution may influence performance differently. Lijphart (1999) argues that the pattern of democracy influences the performance of government. The pattern of democracy in his study is two-dimensional on the basis of the contrasts between the 'Westminster model' and the 'Consensus model' which simplifies the enormous variety of formal and informal rules and institutions. Whereas the Westminster model tends to concentrate power in the hands of the majority, the Consensus model in Switzerland and Belgium tries to share, disperse, and restrain power in a variety of ways but the overall performance record of consensus democracies is clearly superior to that of Westminster democracy (Lijphart, 1999).

The second component of the external environment that influences local government performance is the variety of socioeconomic conditions of the local community that local governments take charge of through their service provisions. Andrews and his colleagues labelled this as the 'technical' environment which includes the level of services needed, scarcity or abundance of financial resources for operational activities, and the proportion of socially vulnerable in the population (Andrews et al., 2012). Drawing on their study, three dimensions can be identified of the organizational environment that influences the

performance of local government: munificence which means the resource capacity of an organization; complexity or dispersion of service targets; and dynamism which means environmental stability-instability or turbulence. For example, measures such as the standard population-weighted measures of deprivation, age diversity, ethnic diversity and social class diversity found in the UK national census have been employed in performance studies (Andrews et al., 2012: 39).

The internal environmental attributes that have been included in studies of performance in the public sector include strategy, structures, culture and leadership of organizations (Boyne, 2004, Walker and Andrews, 2015). In management approaches the variety of policies must, at bottom, be relevant to the purpose of the local government and the community in which local government exists. Based on this basic determination, the performance of local government depends largely on organizational cultures that affect how public officials influence each other in solving problems and making decisions; how they handle disagreements; and how they seek out facts, share information and communicate with one another. Moreover the dynamic management style with which the appropriateness of an approach must be criticized at each stage of the problem-solving and decision-making process contributes to enhancing the efficiency and performance of local government.

From these theoretical and empirical studies we can say that not only the external environment, including institutional and socio-economical technical aspects, but also internal organizational factors, have an influence on performance of local government. The central question of this thesis concerns the survival of central controls and the effect of central controls on local government performance in Korea, therefore the institutional environment identified by central controls as well as the technical environment will be included to explain performance variation of local government. In summary, central government controls is identified as one of the important determinants influencing a local government's performance as a major component of the external environment. Then we need an appropriate model to investigate the relations between central controls and local government performance.

1.3. The Models for analysing performance

There has been a variety of performance models developed since governments began to attempt to apply cost-effectiveness and systems analysis to their programmes and services in the late 1960s. There are 'academic' models of performance which link determinants to outcomes. Hatry presented the continuum of relevant factors in a performance measurement system using the term 'logic model' - one that links inputs, activities, outputs and outcomes - and describes the relationships among these different types of performance information (Hatry, 1999: 34). He presented some instances concerning performance measurement and getting results concerning local governments of the US. Notwithstanding, his performance measurements are narrowly defined (Bouckaert and Halligan, 2008: 35), and his simple model does not control contextual or environmental factors.

In contrast to the standard approach, Bouckaert and Halligan (2008) specify procedural components of managing performance and establish the ideal types according to their relationship. As we noted in chapter 4, the usual process of managing performance is first, measuring performance by observing and registering performance related issues and processing performance data into information; second, incorporating it into documents, procedures and stakeholder discourses by the anchoring instrument to institutionalise the performance information; and third, using it in a strategy of improving decision making, results and accountability (Bouckaert and Halligan, 2008: 28). Their four ideal types are Performance Administration, Management of Performance, Performance Management and Performance Governance (see chapter 4). This model sheds light on the systematic and comprehensive comparisons across the cases of different countries managing the performance in their governments. In particular, this contributed to understanding the stage of performance management of the Korean local government in chapter 4. Nevertheless, it has methodological limitations in investigating the causal relations between central controls and local performance which this study supposes.

Mead's performance studies, however, involve statistical modelling to associate programme features with performance outcomes. He stresses that performance analyses are a strategy that aims 'to relate the practices of program

to measures of performance' (Mead, 2003: 108). Whether the programmes have the ties to outcomes depends on the connection with which both the programmes and performance are jointly the product of a policy environment. A regression model can be built in which all the main influences on performance are accounted for and which explains the variation across the unit of observations. Then environmental variables such as demographics, economic conditions and other contextual factors are controlled in order to be surer of independent influence (Mead, 2003: 115). This approach takes a step further in organizing the framework for performance analysis advanced by former commentators (Heinreich, 2012: 43). In particular, it includes a series of environmental variables as well as the explainers which the research mainly wants to elaborate. For example, a local government tends to have lower performance if it has heavy caseloads and higher performance if it had high population density. This regression model sheds light on the methodology most appropriate for this thesis in the sense that it can include multiple factors, such as central control which possibly explain variation in the performance indicators across the unit of observation. Chapter 7 will develop the research model of this thesis by using aspects of this statistical method.

In order to establish correlations and construct hypotheses we need a measure of performance of local government. This study is interested in performance assessment models which are devised and implemented by government. The government models are a gold standard for performance studies because they are regarded to be objectively focused on the performance of an organization. In Korea, operating within a national system of public services reflecting both its unitary structure of government and the ambition of central government, elaborate performance assessment systems have been developed for steering public management, and controlling priorities and the performance of regional and local government (see chapter 4). For example, based on the shared priorities between national policy objectives and local priorities agreed by CGA and MOGAHA on behalf of central and local government respectively, JPA included a range of aspects or concepts of 'performance' in local government. JPA measures how well local governments are implementing policies and programmes and thus delivering better services for local people and communities. JPA has some similar features with the previous CPA of the UK: for instance, it is

carried out by the central government over the local government; there are published league tables of comparative performance information and central government interventions for bad performers. JPA is relatively sophisticated, consistent and publicly available. If used with discrimination it can be used to test the hypotheses developed at the end of this chapter.

In order to interpret the data and identify external factors, 'explanatory information' is needed along with their performance data – from qualitative assessments to in-depth programme evaluations that produce satisfactory reliable information (Hatry, 1999:138). In this aspect, JPA has limitation. JPA employs a variety of performance indicators which measure its different aspects from input and output to outcome, and are generally assessed in terms of statistical data; however, it has no qualitative measures (Choi, C.S., 2003; Lee, D.O., 2009: 270). Therefore quality and outcomes of local government services are unlikely to be sufficiently assessed in the JPA framework although a bit of explanatory information can be obtained in the process of field research by JPA assessors.

As for this study, testing hypotheses about the relations between central control, which is represented by the fiscal institution, and performance of local government requires a statistical model in which the main influences on performance are accounted for. The following section analyses the modes of control and examines the potential relationship with performance in order to establish the hypotheses to test those relations through statistical modelling.

2. Central government control

2.1. Does control matter?

This study focuses on the external impact of central government's control over local government performance, unlike the literature on local government management and performance most of which is theoretically based on economic theories of service production, contingency theories of organizational design and resource based argument about distinctive production capabilities (see Walker and Andrews, 2015). Controls dealt with in this study mean central government's

regulating policies, steering local government in central- local government relations as mentioned in chapter 2. Local government is subjected to central controls which circumscribe its activities in line with nationally set goals. The way in which such controls are established tends to embody some doctrines which underline them. It has been known that the particular NPM-inspired controls over bureaucracy are often associated with a politically clearer performance control as well as a greater managerial autonomy with regards to responsibility (Boin et al., 2006), while traditional central controls over local finance focused on legitimate spending or decreasing fiscal discretion.

Controls are needed not only to supervise the wishes of the central government but also to facilitate administrative coordination (Ball and Peters, 2005: 241). There is a plethora of different regulators pursuing different values or goals. The political category of controls includes supervision by a political organ like parliament and the Board of Audit and Inspection of Korea in addition to citizens' power to elect the top of public servants and councillors. Legal controls are procedures for dealing with corruption and misuse of administrative authority through the ordinary legal channels (Ball and Peters, 2005: 241). The administrative controls are internal regulation within governmental relations. Administrative controls constitute central government departments' personnel, financial and organizational regulation of local government. For example, MOGAHA in Korea is able to set tax rates, to control local government access to borrowing for capital purpose, to set limits to current expenditure level and plays a role through inspectorates looking at the fitness and the legality of the operations of local governments. This thesis focuses on the intergovernmental control mechanisms by which central government regulates local governments' legislation, oversight, guidance and especially finance but not to the exclusion of political control because after all, local government is defined by its political independence and democratic credentials and central government should recognize legitimate local discretion. This focus can give a more definite picture of the role of central controls and local government's discretion in central-local relations.

These controls have conventionally been associated with accountability requirements in the public sector (Andrews et al., 2012). Actually, local

governments as part of the public sector are being pressured to become more results-oriented and more concerned with performance rather than to resort to traditional forms of accountability about their activities (Bouckaert and Pollitt, 1996). Change in the nature of government is linked to the trends of central controls of local government. The conventional features of government are bureaucracy, legislation, financial control, regulation and enforcement (Richards and Smith, 2002: 279; Heywood, 2000:19). The deployment of so-called 'command-and-control' regulatory policy instruments is the quintessence of government (Pierre, 2000: 242). The central state's power over local government provides effective instruments to reform the financial system and enhance the efficiency of government. However, the concept of 'governance' gradually occupies the discussion about government. It captures such developments as contracting out, public-private partnership and multi-level links between different levels of governments (Rhodes, 1999: 54). Even a host of new public management reforms lead to a critical view that government has been 'hollowed out'.

Nevertheless, central controls through the instrument of audit and inspection have expanded and shifted in a new direction of promoting service improvement especially in local government. The deployment of command and control seems to survive under the changed intergovernmental relations. Despite increasing local autonomy in Korea, central controls flourishes in many areas of local government. In particular, the issue of central controls are important because Korea is in the transitional period during which the central-local relations are expected to be more democratic through institutional changes (see chapter 1). According to the British experience, 'hands-off' control, representing a steering by use of incentives and sanctions and the setting of meta-level rules, can be effective and probably much more powerful than 'hands-on' regulation and direction (Hoggett, 1996: 25). Understanding the nature of central controls in the paradoxical phenomenon will contribute to diagnosing and establishing more successful central-local government relations in Korea.

2.2. Taxonomy of control

The control exercised by central government is expressed in the form of an institution which seeks to implement certain policies and operates a variety of methods of control. Modes of control can be classified in a variety of different ways. It is necessary to select an appropriate set of concepts in order to differentiate types of control and to distinguish the positive and negative aspects of each type. These modes of control influence the resource allocation for and management of local government; consequently it is also possible for these to affect performance of local government. In this sense we need to draw a line between categories of government control.

Hoggett (1996: 12) argued that three distinctive but inter-locking strategies of control existed in the 1990s within the UK public sector's restructuring, contradicting the idea of a single movement toward some presumed post-bureaucratic regime. First, he identified 'the introduction of managed competition as a means of coordinating the activities of a decentralized unit; second, the attempt to decentralize operations whilst centralizing strategic command; third, the extended development of performance management techniques'. He observed that in some parts of public services, such as education, all three control strategies have been implemented simultaneously; in other areas such as the civil service the diffusion of competition has been confined to producers rather than the consumer market (ibid: 24).

From a wider perspective, Hood et al. (2004) analysed control in modern government by comparing the situation across various countries using a three-dimensional case of prisons, higher education and higher civil servants. They designated four types of controlling government: oversight; competition, mutuality and randomness (ibid, 2004: 18-9); the first two of these are the currently popular ways and the latter two are past ways to control governments, but in practice governments prefer to mix the current and past types rather than to discard old ways or to insist on only new controlling styles (ibid, 2004: 18).

An important threefold typology of control was noted by Amitai Etzioni in his influential work *A Comparative Analysis of Complex Organizations*. He mainly uses the concept of 'power' but also maintains that 'power' is synonymous with 'control'. Control falls into three kinds of power, referred to as coercive,

remunerative and normative according to the means employed to make the subjects comply:

Coercive power rests on the application, or the threat of application, of physical sanctions such as infliction of pain, deformity, or death; generation of frustration through restriction of movement; or controlling through force the satisfaction of needs such as those for food, sex, comfort, and the like.

Remunerative power is based on control over material resources and rewards through allocation of salaries and wage, commissions and contributions, “fringe benefit”, services and commodities.

Normative power rests on the allocation and manipulation of symbolic rewards and deprivations through employment of leaders, manipulation of mass media, allocation of esteem and prestige symbols, administration of ritual, and influence over the distribution of “acceptance” and “positive response”. [Etzioni, 1975: 13]

Etzioni’s arrangement is chosen as a point of departure for this thesis and directs attention to an attempt to probe policy instruments by Evert Vedung. He labels three classifications of ‘regulations’, ‘economic means’, and ‘information’ (Vedung, 2003) but this research rechristens them as ‘coercive controls’, ‘remunerative control’, and ‘normative controls’ to highlight the types of central controls over local government. While the two cases of Etzioni and Vedung are aimed at the relationships between government and people, they provide a theoretical basis for the properties of power in intergovernmental relations.

First, coercive controls are measures undertaken by central government to influence local government by means of formulated rules and directives which mandate the local government to act in accordance with what is ordered (Vedung, 2003: 31) and are supported by ‘the threat of sanctions (Stone, 1982:10)’. This definition deviates to an extent from the conceptualization of ‘regulation’ which conceives an authoritative relationship. In general ‘regulation’ means governmental intervention, covering all forms of political control like Meier’s definition that ‘regulation is any attempt by the government to control the behaviour of citizens, corporations or sub-governments’ (Meier, 1985:1). However, unlike a comprehensive regulation, coercive control is regarded as just one of the means that governments have at their disposal to exert control over local

government.

Second, remunerative control involves either the giving out or the taking away of resources, be they non-monetary such as approval of local government access to borrowing for capital purposes, or monetary such as grants. Resource controls have been considered as effective policy instruments to achieve centrally set goals. The policy impact of them, however, is sometimes difficult to anticipate when they are mediated by the market; for example, a tax levied on an item of personal preference like tobacco makes the indulgence of people more expensive and thus the final response of customers impacts the policy effect of the expansion of local income. It ought to be stressed that remunerative controls are not always mandatorily applied across the regions, a fact that makes remunerative controls different from coercive controls (Vedung, 2003: 32). Local governments may not to make use of grants because the strings attached to them are not worthwhile in their own interest. On the other hand, since there is no reason to deny intergovernmental transfers without stings such as shared tax, local governments tend to be competitive to get more of the common pool resource.

Third, normative controls, referred to as moral persuasion or exhortation, covers attempts at influencing local government through the transfer of knowledge, the communication of reasoned argument, and the dispensing of advice (Vedung, 2003: 32). It would embrace appeals to political loyalty and party-political goals shared across national and local government. The transfer of information is offered to influence local government to do what the central government regards as desirable. It covers not only objective and correct knowledge, but also judgments about which phenomena and measures are good or bad, and recommends about how citizens should act and behave. In Korea there is a historic norm that the locality should defer to the centre. However the local autonomy revival after the mid-1990s unleashed some questions over this normative power that had ruled the central-local relationship for a long time.

This three-fold scheme can provide clear delineations of the properties of central government control over local government. In evaluating the effectiveness of control, fiscal policy is one of the most important issues in the classical approach and remains central in recent studies (Perotti, 2004). However,

research mainly focuses on the policy process and not on the effects and thus it is worthwhile to investigate empirically the effect of central government's controlling of local government over a specified time period.

2.3. Control and performance

In earlier days, some commentator suggested that performance management in the context of the new public management was primarily top-down with a dominant concern for enhancing control let alone informing organizational change and service improvement (Sanderson, 2001: 297; McKevitt and Lawton, 1996). The control of local government is indispensable for the centre to supervise local government but there is not much empirical research about how different control types influence performance of local government. Moreover, the central government tends to control and command even under the changed environment characterised by looser, often market, relationships operating through policy networks and governance (Sanderson, 2001; Hoggett, 1996).

The central question posed by this thesis is how each type of controls influences the promoting of local government performance. Therefore the discussion seeks to extend previous work on the relationship between controls and performance and then establishes some hypotheses about three different control types.

First of all, as for the relation of normative controls with improving performance far less research has examined this point. To identify published studies which analyse the impact of the normative controls requires the adaptation of research terms. As the previous section reviewed, normative controls means moral persuasion, or exhortation, and attempts at influencing people through the transfer of knowledge, the communication of reasoned argument and advice, and thus the case of sharing of norms such as innovation, goals and strategy were used together. The empirical study on strategy and organizational performance undertaken by Andrews et al (2006) in English local governments reveals the positive association between a prospective strategy and performance. This evidence indicates that there is reward to be found for local governments which pursue a strategy that includes identifying new priorities, searching out new opportunities for, and where there is willingness to, change

public service quality. Walker and Brewer (2009) demonstrate that a strategy of prospector can offset the detrimental impact of red tape and increase performance. This finding suggests that local government can pursue the normative controls that are associated with innovation – that is developing new service delivery mechanisms - and thereby achieve higher performance (Andrews et al., 2012: 65). Due to co-operation and creative exploration of novel options, normative controls may produce better performance of an organization. This argument leads to the following hypothesis.

H1: Normative controls exercised by central government are positively related to improved local government performance

Second, remunerative control might be expected to have complex relations with local government performance according to its types and strings of resources. Where there is a presence of positive remunerative control which means central government enables local government to expand its resource availability through taxes or monetary incentives, local government has more discretion and capacity to spend and thus improve its performance. However a negative remunerative control to reduce financial availability for or discretion of local government may have a negative relation to the performance of local government. This is supported by some authors. Balaguer-Coll et al (2007: 448) revealed that self-generated revenue, grants, deficit financing and a high governing party share of the votes¹⁵ have a negative impact on performance on a local scale. More precisely the empirical evidence was quite persuasive in the case of overall cost efficiency for unconditional grants received from the higher layers of government, which coincides with the studies that suggest that grants may not only encourage local service provision but also stimulate inefficiency (Moesen and Cauwenberge, 2000). By contrast, funding by earmarked subsidies allows central governments to specify its intentions about the spending of local government and make local government take responsibility for central government goals. This strict overseeing of spending subsidies will enhance

¹⁵ Municipalities managed by governments with a higher percentage of votes, which are more unlikely to face monitoring by other parties, have fewer incentives to efficiently manage and improve performance. (Balaguer-Coll et al., 2007: 443).

efficiency of local government (Geys and Moesen, 2009). The difference of results may come from the way performance is defined or measured, and controlling environmental variables. In order to clearly discuss the relation between remunerative control and performance this research assumes the positive direction of remunerative control to enhance the availability of resource and then, given the evidence which has been presented thus far, the following relationship is anticipated

H2: Remunerative controls exercised by central government are positively related to improved local government performance.

Third, there is a potentially more complex relationship in respect of how coercive controls might affect local government performance. The previous studies on the effect of coercive controls or regulation on performance have been varied in the results. A range of research from the education sector, especially on the relationship between the inspection system and English secondary school pupils' examination results measured by GCSE (General Certificates in Secondary Education), discovers a negative relationship over a relatively long time period (Rosenthal, 2004). The intervention from the upper organization will constrain the management so that performance can be expected to be lower. Thus it can be assumed there is a negative relationship between coercive control and local government performance. However, considering the English local government performance measure system reinforced by the Local Public Service Agreement and CPA, central controls are supposed to raise the local government performance where the local authorities failed to manage financial soundness or deliver good quality (Andrews et al., 2005; Lowndes 2003: 140). Those identified as poor were subject to an increased level of central government intervention in order to increase their performance. Thus a case could be made for an exception where prior performance of the local government is very bad. Since generally control exercised by central government has a damaging effect on the independence and initiative of local government (Rhodes, 1980:271), coercive controls are likely to negatively influence the performance of local government. However, some exceptional cases can reveal coercive controls are effective in improving performance of a local government with previously bad outcomes. The

third hypotheses on the impact of coercive controls are then:

H3-1: Coercive controls exercised by central government are negatively related to improved local government performance

H3-2: Coercive controls exercised by central government may raise performance of the local government where prior performance is very bad

This research assumes that different control types are associated with different effects on enhancing the performance of local government, drawing on previous research and common knowledge. As explored in earlier chapters, this thesis is also concerned with the relationship between control and performance in the environmental context of fiscal crisis. This focus is driven by the experience of economic and fiscal crises over recent years in Korea, and we can adapt the hypotheses outlined above to apply in relation to crises, which allow them to be tested against data which emerge from Korean fiscal crises over the past twenty years.

3. Fiscal Crises

3.1. The window of opportunity for reform

Fiscal crises cause an undesirable and unexpected problematic situation that makes the local government deviate from and disrupt the ordinary public service provision driven by economic imperatives (see chapter 3). Crises are episodic breakdowns of familiar symbolic frameworks that legitimated the pre-existing socio-political order ('t Hart, 1993; Boin et al., 2008: 3). The effects of crises on public policies and institutions are variously treated in the literature. In academic discourse, a crisis marks a phase of disorder in the seemingly normal development of a system: for instance an economic crisis refers to an interval of decline in a long period of steady growth and development (Boin et al., 2008: 2). Crises do not always negatively influence organizational existence but also may positively work in practice if they are objectively diagnosed and carefully treated. For example, as a result of the restructuring following the 1997 crisis, Korea

could rapidly recover from the economic crisis beginning in 2008 due to the reduced vulnerability of the financial and corporate sectors (Il SaKong and Youngsun Koh, 2010: 71). They provide 'punctuations' which allow necessary change in the institutional process of 'punctuated equilibrium'.

Crises, either as external or internal variables, tend to have considerable influence on local governments. If they are an internal variable such as in the case of local fiscal crises, local government pays back financial support from the upper level government and reforms the organization for efficiency management to deal with its impact (Boin et al., 2008: 4). Even if they are external global economic crises, from the perspective of local government, they influence the whole of local government operations and activities by changing transaction or production costs of services (North, 1990). Sometimes local government is required to make sacrifices in order to achieve national recovery and the central government takes advantage of the strengthening nationalism, caused by the crisis situation.

Confronted with a crisis, politicians and public officials urgently have to deal with the immediate threat or damage inflicted, but more importantly they also have to come to terms with the vulnerabilities revealed and the public disaffection this may evoke (Boin et al., 2008: 4). By and large, most local governments or municipalities that have endured fiscal or financial crisis are accompanied by investigation and proclamation of reform aimed at improving their institutions and systems that have proven vulnerable under pressure. Therefore crises do have dynamic potential to prompt institutional change. By destabilizing the veracity and legitimacy of existing policies, goals and institutions, as well as threatening the security obtained by relevant actors and stakeholders, they provide "windows of opportunity" for reform (Birkland, 2006; Boin et al., 2008: 10)

3.2. Taxonomy of crises

There are a variety of problems that trigger crises from natural forces to deliberate acts by an enemy inside or outside that society (Boin et al., 2008: 3) but we concentrate especially on the fiscal or financial crises. Despite the concepts of crises established in economic theory, our study will use operational definitions of crises. We draw the line between local government fiscal crises and

national economic crises in analysing the relations between crises and local performance to reflect the Korean experience.

Fiscal crisis involves the budget deficit being too large in the government sector. A major reason why the fiscal deficit of each country deteriorates is that a large scale fiscal expansion has been carried out in order to meet impending social demands. In the past, fiscal crisis was more frequently observed at the local government level than but over recent years the state has been no exception like the Greek crisis. Meanwhile economic crisis creates problems in financial markets and spreads them to all economic sectors. Economic crisis is observed in the regional and global area, a much wider space than local fiscal crisis, because financial markets are opened globally. During financial crises, the macro-economy goes into a downturn which means significantly reduced government tax income. Governments across the world have announced and carried out budget cutbacks in core public service provisions and have dramatically scaled back on 'non-essential' public subsidies (McCann, 2013: 6). Financial crises can be diversely defined but this study intends to employ a simple operationalization based on the economic measure. Korea has had relatively high average economic growth rates of about 9% in the 1980s, 6% in the 1990s, and 5% in the 2000s (BOK, 2013). These growth rates, however, sank below the one percent, -6.9% in 1998 and 0.3% in 2009 when Korea experienced financial crises resulting from the 1997 Asian economic crises and the recent global economic crisis in 2008. Therefore financial crises can be operationally defined as when Korea experienced negative GDP growth rates during the year (see Il SaKong and Young sun Koh, 2010: 70-75).

The term, 'fiscal crisis' has been used and sometimes abused to describe the state of local finance. What are the criteria used to determine whether a local government is fiscally distressed? In general local fiscal crisis is a condition in which a fiscal deficit has accumulated and thus local government cannot fulfil their fiscal obligations any more. In a technical sense, if local governments are able to meet their monthly salary and wage bills; they continue to provide basic public services, and almost all the less basic ones as well (Newton, 1981: 222-223), there is no hint of fiscal crisis. A guideline, therefore, is needed to check the fiscal condition. The Advisory Commission on Intergovernmental Relations (ACIR,

1973: 7) in the USA recommended that states should establish by statute a set of guidelines to determine whether a city's financial condition necessitates state intervention. In this sense, the Local Finance Act of Korea stipulated central government's monitoring of and intervention in the fiscal condition of local government in 2011. This study uses one of the criteria provided by the law in order to operationally define a fiscal crisis of local government. To sum up, crises in this thesis are classified into local fiscal crises and national financial crises and in chapter 7 they are operationally defined and treated as independent variables which respectively influence the performance of local government. They are thus incorporated into the hypotheses defined below.

3.3. Crises and performance

There may be both direct and indirect impacts that fiscal or financial crises have on local government performance. The direct effect of crises is generated from uncertainty which interferes with the executive ability and decision making of local government. Episodically, the crisis situation sometimes strengthens nationalism and encourages people to fully exert their positive potential. The crisis situation creates opportunities for breakthroughs that in normal times are simply unthinkable or politically unfeasible (Boin et al., 2006: 122) and they make possible the revision of policies and the redesigning of institutions. Even unilateral top-down policies by central government are tolerated in order to effectively manage the critical situation at the national level (OECD 2010; MOFE 1999). However, in the majority of cases, fiscal crises are expected to negatively impact local government. They create a resort to short term expedients and make it more difficult to pursue longer term value for money. The economic plight forces the local government to cut back, more or less extensively, which can affect quality and quantity of local public services and, furthermore, the performance of local government.

On the other hand, both fiscal and financial crises indirectly have an impact on local performance through central controls because a critical contingent situation influences the power and institutional capacity of government. Central ministries serve as 'super-ordinate' organs when central programmes are being implemented to overcome financial crises. The core executives are expected to

concentrate on the larger institutional, political and social ramifications of the crises and tend to respond to the problematic situation at the national level. Chapter 3 showed the historical experiences that the bureaucratic capabilities of states were expanded during economic turmoil (Ikenberry, 1994: 19; Tilly, 1975: 610). Like in the US, Japan and Korea, when a local fiscal condition reaches a certain level of seriousness, central government is scheduled to intervene in the local fiscal policy by the law. In the central-local relationship, central government finds it easy to use command and control methods during crises. By means of only the centre's control, without any discussion about the search for strategies for public service production and delivery through shared responsibilities, however, local government is unable to resolve all the tasks and demands placed upon it. When a local government did not achieve expected performance due to the fiscal crisis, central government may want to control that local government. In this way, the intervention from central government and its impact on local policy implementation will influence efficiency and the performance of local government.

In addition, financial crises tend to reduce the size of subsidies and transfers to the local government (Pierre, 2000: 4), which may negatively affect the quality and quantity of public services delivered by local government and eventually can result in the lowered performance of local governments. Financial crises cause resource procurement costs, and thus local government needs to change the quantity and quality of service, and there will be a further transaction costs in changing these services or policies. Given the discussion presented thus far, both national financial and local fiscal crises are expected to directly or indirectly have a negative influence on the performance of local government.

H4.1: National financial crises are negatively related to improved local government performance

H4.2: Local fiscal crises are negatively related to improved local government performance

3.4. The combined effect of controls and crises on performance

So far in this chapter, the relations of each of the controls and crises types to the performance of local government have been presented when these causative variables are considered separately from the other. Now this analysis advances a stage further by considering whether different control types interacting with crises make a difference to local government performance.

During national financial crises, each control type is anticipated to influence differently the performance of local government. Positive controls can be expected to support local government by instilling strengthened nationalism to overcome financial crises. Negative controls can be expected to hamper the service provision of local government by reducing intergovernmental transfers and regulating local spending. Thus the potential relationship between central controls and local performance is complex and the positive and negative effects may be cancelled out at the aggregate level. Therefore a null hypothesis is that controls operated by central government during financial crises have no significant effect on the performance of local government.

Although the impact of the broader control exercised by central government in itself is difficult to call, the effect of the specific mode of central controls may be more predictable in the combined effect of controls and crises on performance. The effect of the two causative variables (controls and crises) cannot be separated; that is the effect of central controls on local performance depends on the level of financial crisis and vice versa (Harrell, 2001:14). Stochastically, the interacting effect of normative controls with national financial crises depends on the reciprocal impact of two causative variables. Korea has been known to be resilient to crises. And local government tends to comply with central government's authority. Therefore, central government's normative controls during the financial crises are expected to strengthen nationalism and encourage local government to efficiently manage the organization. The hypothesis on the impact of normative controls interacting with economic crises is then:

H5: Normative controls operated by central government during financial crises are positively related to improved performance of local government

During national fiscal crises, central government tends to reduce the size of subsidies and financial transfers toward the local government (Pierre, 2000: 4) taking into account reduced national income. In the same context intergovernmental transfers are reduced at financial crises, which may negatively affect the quality and quantity of public services delivered by local government. The Korean central government, however, enforced the expansion policy of local income in order to precipitate the domestic consumption by stimulating the local government expenditure (MOPAS, 2011a). This fiscal expansion may help the management of local government. In this sense, during financial crises, the remunerative controls expanding local income may contribute to providing the public services of local government. So this thesis expects that:

H6: Remunerative controls operated by central government during financial crises are positively related to improved performance of local government

Third, coercive controls interacting with national financial crises are expected to have less complicated effects than we mentioned in hypotheses 3-1 and 3-2. The two causative variables, coercive controls and national economic crises, both negatively work on local performance in the separate model. The combined effect of coercive control with the financial crisis can be expected to be negatively related for the entire local government sampled. Interacting with the national financial crisis, local governments feel constrained to heed coercive controls which usually urge them to share the responsibility and burden of financial crises and ignore various impending local conditions, regardless of whether they are a normal local government or a badly performing local government. Therefore the interaction of coercive controls and financial crises may tend to reduce performance of local government. Thus far the discussion leads us to following hypotheses.

H7: Coercive controls operated by central government during national economic crises are negatively related to improved performance of local government

Similarly, the combined effect of central controls with local fiscal crises on local performance depends on the different impacts of local fiscal crises. Most of

all, the individual effects of local fiscal crises are expected to negatively influence the performance of local governments as noted above. Individually normative and remunerative controls are expected to have some positive relation with the performance of local government. Thus the interactive effect of either normative control or remunerative control with local fiscal crises is anticipated to be negative, when the combined effect of two causative variables depends on the local fiscal crises effect. The analysis of coercive controls interacting with local fiscal crises is excluded because there is no observed case to meet both the constraints of local fiscal crises and coercive controls at the same time. Therefore, the following hypotheses are suggested.

H8: Normative controls operated by central government during local fiscal crises are negatively related to improved performance of local government

H9: Remunerative controls operated by central government during local fiscal crises are negatively related to improved performance of local government

4. Conclusion

Central controls have been reformed to facilitate more effective local democracy and we have seen significant changes in the central-local government relationship since the extension of local autonomy in the mid-1990s (see chapter 1), even though Korea has a path-dependence of centralism (see chapter 2). The experience of financial crises and the impact of NPM style reform have unleashed a new range of regulation and inspection in the public sector, so local governments have been subject to more intensive controls from the central government. As we looked at the financial institution of local government in chapter 5, this thesis witnesses the paradoxical phenomenon that the central controls increase to ensure performance while local democracies are needed to increase. In order to evaluate the conflicting influence of central government on local government at the aggregate level, this study is moving from a general discussion of change in central-local government relations to empirical application of hypothesis as extended case studies. The emphasis on performance measures in the public sector enables this study to analyse the relation of central controls and performance of local government.

By linking concepts with performance, this chapter built a series of hypotheses with sufficient precision to undertake statistical analysis. Following previous literature, there is a distinction to be drawn between control types (normative, remunerative, and coercive), which is an appropriate typology to examine whether each control type influences differently the performance of local government. In addition, the factor of crises could not be ignored in examining the central controls and local performance because the effect of central controls may be modulated by crises effects. Crises are divided into national financial crises and local fiscal crises to investigate the interactive effect of three kinds of central control on local government performance. The hypotheses are used to examine whether central controls, in the transitional period of the Korean local democracy, have a positive or negative impact on local government and to find robust causal relations in the light of available data.

The next chapters will focus on explaining the variables and method for more quantitative analysis and present the pattern of findings about how change in central controls has been empirically related to improved local government performance. More democratic and normative modes of central controls are expected to be important to ensure the increase in motivation and responsibility of local government and thus they are expected to have a positive relation with local performance. If we do not find a positive relationship then explanations for why democratic change in central-local relations has not been connected with improved performance of local government in Korea will be suggested in the concluding chapters.

Chapter 7. Central controls and local performance: a statistical case study

1. Introduction

Chapter 6 investigated how to define and analyse the performance of Korean local government and explored the theoretical relationship between local government performance and central control. It expanded the argument to consider another question in the environmental context of fiscal crises: how on-going fiscal crises will affect the relations between central control and local performance. In this chapter, we establish the research model based on the conceptual links of chapter 6 and explore the appropriate methodology to test the model and justify them for our study in depth. Then, we define variables through extrapolating from established theories or exploring previous studies; and disclose the sources of data collection. This chapter seeks to undertake technically robust statistical analysis about a series of hypotheses with sufficient theoretical and practical possibilities for the statistical verification of our arguments. This section continues reviewing our argument and research questions which we have explored so far, before doing these tests.

The question posed in this study is whether the central controls influence local government performance and how the different types of control influence local government performance; additionally when a financial crisis is given, how are the relationship between central control and local performance changed.

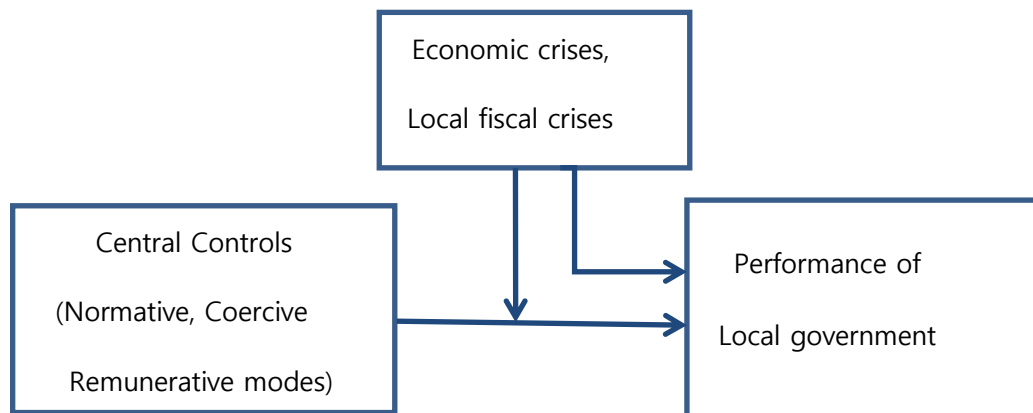
Central government utilizes multiple controlling mechanisms such as setting of policy guidelines for public service delivery; a transfer of resources to the local government to equalize their capacity; and the ex post control of the use of the transfers and of the level and quality of services (Ter-Minassian, 1997). Central controls can influence the decentralized delivery of public goods and services and ensure accountability of local government. As discussed in chapter 4, many countries have emphasized performance management in the context of New Public Management. This trend brought up multiple isomorphic institutional changes which attempted to cure managerial inefficiency and improve government performance in the OECD countries (Curristine, 2005; Chan, J. et al.,

2002). In the Korean institutional context, NPM inspired reforms were motivated by the harsh experiences of the Korean financial crises in the late 1990s (MOFE,1999: 210; MOGAHA, 2001: 228) as explored in chapter 3. The characteristics of those institutional reforms encompassed by NPM share elements for enhancing executive political control of local governments through reinvigorating executive oversight and the introduction of market based administration (Boin et al., 2006). In practice a more plausible way of portraying the controls operating over many Korea local bureaucracies is a mix of the NPM style control and the traditional way of control. In this sense, chapter 5 noted the archetypal examples of fiscal institutional changes. Chapter 6 collectively termed these NPM inspired or traditional interventions of central government as controls of local governments and classified them into normative, remunerative and coercive modes to analyse possible different effects of controls. The spread of NPM inspired ideas to introduce programme budgeting and accrual base accounting are treated as normative controls; traditional shared tax policy is incorporated as a way of remunerative control; and excessive intervention in local spending discretion facing economic crises is seen as a mode of coercive control. It has been known that there is the “crisis effect”, namely, a propensity to give fewer discretionary powers to local government in countries where there is a continuing threat (Bahl and Johannes, 1994). Importantly we examine the combined effect of central controls with crises to highlight unexpected and unintentional policy impact.

Performance measurement comprises centralized targets, public reporting of data and the use of reward and penalties. Performance improvement is the substance of a performance measurement framework (Bouckaert and Halligan, 2008: 14). The Korean central government has enforced performance management to hold organizations to account for their performance and regulate their behaviours. The official performance measure system is GAA, as discussed in chapter 4, which includes the assessment of local government, the Joint Performance Assessment (see Figure 4-5). JPA presents the level of local government performance regarding public services of nine sectors which are provided by local governments. The performance data is collected from this source for the statistical analysis in this thesis. It covers consistently fiscal performance for 13 years across the 16 regional governments (see Appendix 3

and 4).

Figure 7-6. Framework of the research



Accordingly, the framework for this study accounts for how central controls and fiscal crises influence performance of local government, as Figure 7-6 summarizes. The unit of analysis is the individual regional government. In chapter 6 we basically anticipated that Normative and Remunerative controls are expected to be positively related to local government performance. Coercive controls of poorly performing local government are expected to have positive relations with local government. On the other hand, the general case of Coercive controls, National Financial Crises (NFC) and Local Fiscal Crises (LFC) are negatively related to local government performance. During the crises, each type of central controls can be expected to impact negatively or positively local government performance in accordance with the magnitude of the crises effect. Therefore two models will be established in this chapter: one is to test both the individual effect of central controls and the individual effect of crises on the performance of local government; the other is to test the combined effects of central controls with crises on the performance of local government. These analyses look at the longitudinal and the cross sectional aspects. This study will contribute to the literature regarding performance in the public sector, especially considering there has been little empirical research about outcomes of the NPM reform and democratic change in central-local relations. This research uses the panel data fixed effect model so we can establish the causal relations between central controls and local performance, which is continued in the next section.

2. Models and methodology

2.1. The individual model for central controls

The first model is at a non-crisis time to examine how each explanatory variable individually has an impact on local performance. Central government controls, and crises are separately connected to local performance because the latter is the joint product of a public administrative environment. Every programme implicitly has a set of hypotheses about what actions will produce which results (Hatry, 1999: 48). Each fiscal policy has goals intended by central government. Normative controls, sharing ideas of NPM in the process of introducing programme budget and accrual base accounting, intended to give more managerial autonomy and implant enhanced accountability in the sphere of local government. Remunerative control seen from the recent reform aimed to increase fiscal capacity of local government against the explosive demand of public service provision. These two modes of central controls give managerial autonomy and political performance controls to lower agencies (Boin et al., 2006). On the other hand, coercive control depends on hierarchical power and threatening thus constrains managerial autonomy and diversity of local government; however, such a coercive control has been identified as central to successful implementation through the centralized technique in areas such as action plans and monitoring in the group of local governments where prior performance is very bad (Andrews et al., 2005; Lowndes 2003: 140) or in organizations that emphasize improving current services (Andrews et al., 2011: 647).

This study supposes a continuous relationship between central controls and local government performance. The sets of central control variables discussed so far thus are entered linearly into the following models. One is to examine the short term effect of central controls and another is to test the long term effect of central controls on local government performance.

$$\text{performance}_{i,t+1} = \beta_1 f(\text{controls})_{i,t} + \text{other factors} + \text{random shocks}$$

$$\text{performance}_{i,t+2} = \beta_2 f(\text{controls})_{i,t} + \text{other factors} + \text{random shocks}$$

This equation consists of dependent variable (performance), explanatory variables (controls), controlling variable (other factors), and error terms (random shocks). The coefficients β express the magnitude and the direction of the effect of central control on performance. The performance of local government is explained as a function of central government as well as other observed and unobserved factors and random shocks. The subscript i stands for the local government and the subscript t stands for the year, where $t+1$ indicates a one-year lag and $t+2$ indicates a two-year lag. We assume that central controls might have an impact on local government performance with a time lag and the policy effect is sustained until $t+2$. For this reason, this model uses a one-year lag of performance variables to examine the short term effect of central controls and a two-year lag for the long term effect of central controls. The individual Model is to test the individual effect of each control mode on performance of local government. The mode of central control entering the equation inside a linear function $f()$ is unspecified, which means that it is 'normative control', or 'coercive controls', or 'remunerative control'. The core hypothesis of this thesis is that β is not zero. In other words, central control matters in some way for how local government performs its official duties.

This model tests H1 to H3: Normative control exercised by central government is positively related to local government performance (H1); Remunerative control of exercised by central government is positively related to local government performance (H2); Coercive control exercised by central government is negatively related to local government performance but may raise performance of the local government where prior performance is very bad (H3-1/3-2). A considerable amount of literature proves that the increase of central controls in the performance management of the UK was eventually rewarded by improvements in actual performance (Boyne and Enticott 2004; Bouckart and Holligan, 2008: 368). Even though these comments did not specify different control modes, we can postulate that central controls may have an impact on performance of local government. Thus it is necessary to prove, in the Korean context, which types of central controls contributed to improvement of local performance.

2.2. The individual model for fiscal crises

Before moving to combined models, where we estimate the interacting effect of central controls with crises, the individual effect of crises on local government performance is preliminarily measured in this equation.

$$\begin{aligned} \text{performance}_{i,t+1} &= \beta_3 f(\text{crises})_{it} + \text{other factors} + \text{random shocks} \\ \text{performance}_{i,t+2} &= \beta_4 f(\text{crises})_{it} + \text{other factors} + \text{random shocks} \end{aligned}$$

The impact of crises on local performance is examined in both short and long terms. The modes of crises unspecified in the equation are national financial crises (NFC) and local fiscal crises (LFC). Chapter 6 expected NFC are negatively related to local government performance (H4.1) and LFC are negatively related to local government performance (H4.2). Economic and financial crises in most cases are known to have an adverse effect on performance of public administration (Zafra-Gomez et al., 2013: 64). Policy makers and politicians advocate greater control of public deficits to prevent their economies from being penalized. Empirical research proves that during the economic crisis some NPM-style public service provision, such as externalization of service, does not achieve better performance in terms of the service cost due to high service monitoring costs and a lack of competition (Zafra-Gomez et al. 2013: 64). However more generally, crises are marked by pervasive uncertainty and risk, and this implies that the impact of crises depends not only on their objective features but also on how they are perceived by policy-makers, politicians, and the public (Di Mascio et al., 2013 :18). Economic or financial crises can be opportunities for change or a threat to the existing institutional order but it involves a cost as well. Consequently the uncertain and risky characteristics a financial crisis creates will increase the cost of transactions; therefore, the effect of a financial or fiscal crisis on organizational performance may be negative. In this way, the Individual Model tests each effect of NFC and LFC on the performance of local government and it provides a foundation for later analysis of interaction effects.

2.3. The combined model

The second model is to examine interacting effects between central controls and crises in the Individual Model. What impact did central control variables have on local performance while interacting with crises effect? Since the effect of financial crises on public administration has been mainly reflected via a stricter control of budgets and deficits (Di Mascio et al., 2013), we expect that local government performance may be influenced by the effect of both central controls and crises at the same time. Hence, the second models have the combined explanatory variables, controls and financial crises, and that the effect of the two explanatory variables (controls and crises) cannot be separated. In other words we assume that there is interaction between controls and crises. At the national level, the financial crises will cause a reduction in the size of financial transfers to local governments as well as stricter spending controls exercised by central government. In this situation, we did not expect that local governments achieve better performance in chapter 6. Local governments are exposed to the inefficiency in allotting resources and the reduced discretion in making decisions. By confronting the lack of information during crises to make decisions and stronger central controls, local governments need to pay much more cost in decision making and services provision.

At a much narrower focus, the local government's fiscal crises will directly reduce the available finance and even lead to reduce the coverage of current public service. The fiscal autonomy of local government may be further constrained by the intervention of upper governments for the fiscal normalization. The member of fiscally distressed local government will behave as a defender rather a prospector, which was revealed to have a negative relation with improved performance (Walker and Brewer, 2009). In consequence, that inefficient administrative process tends to produce higher costs or lower qualities of providing public services during local fiscal crises.

At this point, it is necessary to take into account how the performance of local government varies with measures of crises in order to describe the full effect of central controls. Therefore in the second model during the crisis how central controls impacted performance of local government, crisis played the role of mediating variable. The assumed models in the short and long term are

$$\text{performance}_{i,t+1} = \beta_5 f(\text{controls} * \text{crises})_{i,t} + \text{other factors} + \text{random shock}$$

$$\text{performance}_{i,t+2} = \beta_6 f(\text{controls} * \text{crises})_{i,t} + \text{other factors} + \text{random shock}$$

The Combined Model tests the interacting effect of each mode of controls with each type of crises on local government performance. Here the unspecified modes of controls are Normative, Remunerative and Coercive controls and the impacts of crises will be inspected by differentiation between NFC and LFC. Then the following hypotheses will be examined. During NFC, how each type of central controls is likely to influence performance of local government (H5, H6, and H7); during LFC, how each type of central controls is likely to influence performance of local government (H8, H9). Importantly in measuring the effect of different types of central controls on the performance of local government, the influence of crises as well as central controls, on performance can be differentiated in this interacting model.

2.4. Fixed effect panel data method

This case study employs the fixed effect panel data method in order to make valid inferences about the underlying relationships between central controls and local performance. A panel data set follows the same individuals over time, which is different from a set of pooled cross sections obtained by sampling randomly from a large population at different time points (Cameron and Trivedi, 2005). Panel data can always see individual dimensions as well as the time dimension and thus is more systematic to trace individual information. Our panel data are observed in the period of 1998 to 2010 for sixteen individual regional governments of Korea (see Table 2-2 of chapter 2), so dependent variables and explanatory variables are indexed by both individual regional government and time.

In panel data we can control a certain type of omitted variables called unobserved heterogeneity. Many variables that reflect an individual local government, such as per capita GRDP, demographic factors and financial condition, are directly observed and hence can be controlled for. In contrast, differences in compliance, motivation, capacity and so forth of local government,

which might influence local government performance, are either not observed or, at best, imperfectly observed. One approach for handling unobserved heterogeneity is to treat it as a fixed effect and to estimate it as a coefficient of individual specific 0/1 dummy variables (Cameron and Trivedi, 2005: 9). For example, in a cross-section regression, each unit regional government has a different intercept term and the same slope parameters. We differentiate the error between the persistent component (α_i) and the periodical component (u_{it}) in the equation. Here α_i means unobserved individual heterogeneity.

$$y_{it} = \alpha_i + x_{it} \beta + u_{it}$$

where u is uncorrelated with x and α is correlated with x . We can recover the individual specific effects after estimation as:

$$\hat{\alpha}_i = \bar{y}_i - x_i \hat{\beta}$$

Here the individual specific effects are the leftover variation in the dependent variable 'local performance' that cannot be explained as the explanatory variable 'central controls'. The availability of multiple observations per individual unit in the form of panel data makes it possible to eliminate the fixed effect of unobserved individual heterogeneity by differencing, permitting consistent estimation of β (Cameron and Trivedi, 2005: 10). What fixed effect requires for consistency is that the explanatory variables of central controls be uncorrelated with deviation of u_{it} from the average over the time period (Wooldridge, 2002: 278). So a central control variable can be systematically related to the persistent component (α_i) in the error. It is for this reason that fixed effect is often superior to pooled OLS or random effects for applications where the explanatory variable 'central control' is determined by local government attributes that also affect y_{it} (Wooldridge, 2002: 279).

Another alternative approach to modelling unobserved heterogeneity is through a random effects model. This model assumes unobserved heterogeneity effects are distributed independently of the explanatory variable. Its benefit is to enable the telling of more time-invariant independent variables. But the assumption of the random effect in which the explanatory variable and the error term, unobserved heterogeneity, has no correlation, is too strong considering our model. The unobserved differences are treated as random variables with a specified probability distribution which is unhelpful in non-experimental settings

(Allison, 2009: 2) and sometimes lead to inconsistent parameter estimates if in fact unobserved differences are correlated with the observed variables. For example, the explanatory variable 'central control' can be correlated with unobserved heterogeneity, motivation or compliance of local government. We measure 'central control' in dummy variables 0/1 whether each local government accepted central government's control, thus 'central control' is likely to be affected by their unobserved heterogeneity, motivation, compliance, ability of local government. In this reason fixed effect is often superior for the current statistical model.

The fixed effect estimator will always give consistent estimates but they may not be the most efficient, while the random effect estimation is sometimes inconsistent (Cameron and Trivedi, 2005: 699). The Hausman test is well known to check whether there is a significant difference between the fixed and random effects estimators (Cameron and Trivedi, 2005), although we cannot test this due to the need for instrument variables. Nevertheless, the fixed effect estimation may be the most appropriate method to correct unobserved heterogeneity which would induce bias if not removed. The current study is free from the drawbacks of the fixed effect estimator which means time-invariant variables are dropped from the model and their coefficients are not identified because of our interest on only the time-varying explanatory variable (Wooldridge, 2002: 266). The assumption of strict exogeneity between the explanatory variable and the error term in the random effect is too strong for the current model. Thus considering these benefits, all models are estimated using two-way fixed effects. By controlling for idiosyncratic shocks in each sampled year, as for instance the possible effect of the 2007 South Korea oil spill on *Chungnam* province, the two way effects model removes an unobserved source of bias (Boyne et al., 2009).

3. Definition of variables and sources

3.1. Dependent variables

The dependent variable is the fiscal performance of local government. The availability of performance data of local government has a scholastic ramification because the previous literature mainly dealt with fiscal decentralization and

spending growth by using expenditure and other resource data which are not strictly measures of policy outcomes (Boyne et al., 2011: 643). This study uses two measures of fiscal performance of local governments. The first indicator is a one-year lagged fiscal performance score to examine the short-term effect of central controls. The second one is a two-year lagged fiscal performance score for the long-term effect of central controls. The scale of fiscal performance of local government (see Appendix 4) theoretically ranges from 0(worst) to 100(best). The Durbin-Watson Statistics are used to test for the presence of serial correlation among the residuals¹⁶. The Arellano-Bond lagged dependent variable coefficient estimates are recommended for a control for unobserved heterogeneity while eliminating any bias that correction for unobserved heterogeneity might have caused on the lagged dependent variable (Arellano and Bond, 1991; cited in Boyne et al., 2011: 652). However, Arellano-Bond estimates are not necessary here because the current statistical model is not related with the dynamic panel data model which includes lagged dependent variables as explanatory variable.

As noted in chapter 4, JPA was launched in 1999 when corporate assessment was expanded to cover regional government. The initial design of measures tends to affect how performance is judged (Clarkson et al., 2009: 404). JPA theoretically intends to improve the performance of local government in terms of helping local government implement policies and programmes more efficiently, and improve the delivery of quality services more effectively to local people and communities by checking and correcting problems and obstacles (Lee, D.O., 2009). We have seen that JPA was centrally designed and implemented as a strategic oversight tool, informed by common ideas of NPM. MOGAHA conducts JPA on the functions and powers delegated to local government; the implementation of policies and programmes funded by central government; and some important own local government tasks (Lee, D. O., 2009: 215). JPA ensures integration of the government affairs by evaluating and feeding back those results to the local government and the public and thus it seeks to hold the local public administration accountable. The assessments are

¹⁶ The value of the Durbin-Watson statistic ranges from 0 to 4. As a general rule of thumb, when residuals are uncorrelated the Durbin-Watson statistic is approximately 2. A value close to 0 indicates strong positive correlation, while a value of 4 indicates strong negative correlation.

based on hundreds of performance indicators and the judgments of inspectors who examined the nine functions. Through the outcome of this massive measurement process the level of performance of each regional government is classified into one of three groups: 'Ga'(best), 'Na'(fair), 'Da'(worst) in accordance to the nine service functions (see Table 4-8 of chapter 4). This assessment is concerned with the important services and programmes of the whole field of local government provision, national priorities can be stably achieved over the country and thus people can be served with improved qualities of services (Lee, D.O., 2009: 206).

The framework of JPA is annually decided in terms of a JPA primary plan which is made by the Committee for JPA and MOGAHA and approved by CGA. The evolution of JPA is presented in Table 7-11 which demonstrates the assessed sectors and the location of Finance of local government. Here the 'sector of assessment' means the assessed service functions which were originally, in 1999, the three functions of innovation, regional economy, and information technology; but these were changed to nine functions from 2004, and 'Citizen Satisfaction' is the assessment with which the professional agency surveys the satisfaction of residents with respect to major national policies provided by the local government. Despite the evolution of JPA framework, the fiscal performance was consistently included in JPA.

In stage I, the fiscal performance of local government, denoted as 'Finance' in Table 7-11, was assessed as part of Capacity from 1999 to 2001 (MOGAHA, 2000b), among assessments of Activity & Achievement, and Capacity. In stage II, the fiscal performance assessment was included as one of the nine sectors of Activities and Achievement. The previous part of Capacity assessment was incorporated into the part of Activities & Achievement because it was hardly distinctive in evaluating methodology from assessment of Activities and Achievement and not clearly stipulated by the Evaluation Act (Park, H.Y., 2010). In addition, in order to reduce local government's administrative burden, many individual evaluations of local authorities by central government disappeared or were merged into the JPA framework which consisted of nine assessments (Lee, D.O., 2009: 203).

Table 7-11. JPA development and sectoral focus by year

Stage	Year	Sector of assessment (No. of Sectors)	CS*	Individual Assessment
I	1999	Activity & Achievement	Capacity	
		Innovation, Regional economy , Informational technology (3)	Finance Information	- -
	2000	Innovation, Regional economy , Informational technology, Health · welfare, Environment (5)	General Public Services	0 -
		2001	Innovation, Regional economy , Informational technology, Health · welfare, Environment Security of residents (6)	0
II	2002	General Public Services, Finance , e-government, Security of residents, Welfare, Woman, Regional economy, Regional development, and Environment (9)	0	-
III	2003	General Public Service, Welfare, Women, Regional economy, and Environment (6)	0	Finance NA*
	2004	Internal Innovation, Service Innovation,	0	Finance , NA e-government,
	2005	Welfare, Women, Environment, Regional economy,	0	ID*, Energy, Price ,
	2006	Regional development,	0	Agriculture,
	2007	Culture and tourism, and Security	0	Tourism, Disaster Preventi
	2008	(9)	0	
IV	2009	General public service (including Finance), Welfare,	0	
	2010	Public health, Environment, Regional economy,	0	
	2011	Regional development , Culture and tourism, Security, National projects (9)	0	

* CS: Citizen Satisfaction, NA: National Assets management, ID: Information Disclosure.
Source: MOGAHA 2000 to 2007; MOPAS, 2008 to 2010; Park, H.Y.(2010)

In stage III, 'Finance' assessment moved to the part of Individual Assessment of JPA. The number of Activity & Achievement sectors was reduced to soothe the resistance of the public officials union (Park, H.Y., 2010). The

results of individual assessments that were separately undertaken until then by central government departments were integrated into JPA results in order to show their performance more comprehensively from the 2004 JPA. Consequently, fiscal performance was assessed in the form of Individual Assessments from 2003 to 2008 JPA. In stage IV from the 2009 JPA, Local Finance Assessment has been included in the sector of Public Administration.

Therefore, the consistency of fiscal performance data across these years depends on the extent that performance indicators change over the four changing phases of the JPA (Bouckaert and Halligan, 2008). In 1999, Local Finance was assessed through 22 performance indicators¹⁷ in terms of financial independence, stability, endeavour to secure income and debt management. These performance indicators in 2001 were reduced to thirteen indicators according to the criticism that previous indicators did not consider the disadvantages of local governments that have low fiscal capacity or a low self-reliance ratio (Park, H.Y., 2010).

In the 2002 JPA, the key performance indicators concerning Local Finance were sustained in terms of endeavour to secure income, saving costs, financial stability and debt management as the same as those¹⁸ of the 2001 JPA.

From 2003 to 2008, the assessment of Finance of local government was included as one of the Individual assessments (see Table 7-11). The Finance assessment of local government made use of the result of Fiscal Diagnosis of Local Government in which MOGAHA and the Korea Research Institute for Local Administration (KRILA), an independent research institute, assessed and analysed local government finance in terms of securing income, reducing expenditure, debt management, long-term finance management, and

¹⁷ In detail they are: the fiscal capacity index; fiscal self-reliance ratio; balance of current account, income and expenditure ratio; programme budget ratio over the financial plan; self-financed income ratio; curtailment ratio of current account; investment evaluation before budget compilation; implemented unqualified programmes; implemented qualified programme after investment evaluation; fulfilment of terms and conditions regarding bond floatation; debt-service ratio; tax collecting rate; collected overdue bills; gains on investments; and selling rate of public-managed business.

¹⁸ They are: increased self-financed income rate, collected overdue tax rate, capital costs rate, curtailed operating cost rate, curtailed personnel cost rate, payment rate for matching fund projects, fund raising rate, evaluated investment rate before budget compilation, investment rate compiled to budget, debt service ratio, per capita obligated balance, current account balance, and available asset rate.

implementation of nationally prioritized policies (MOGHA, 2007). The indicators,¹⁹ for the first time, included local government' endeavour to measure sharing best practices and conformity to national policies other than fiscal conservation.

Since 2009, Local Finance has been assessed in terms of savings budget, reinvestment, securing income, electronic payment rates of local tax and reduction of mistaken local taxation. During this period, performance indicators were intended to measure fiscal conservation, the extent of endeavours to increase local income, and implementation of national policies. From the evidence noted so far, we can witness that the consistency of fiscal performance indicators has been sustained to some extent over the sampled years.

Although the law stipulates opening up the results of performance assessment for public scrutiny (Article 26 of the Assessment Act), in practice only the final grades for each of the nine service sectors are published (see Appendix 2) with none of the detailed performance scores. In order to obtain the detailed score of performance this researcher directly contacted the departments MOGAHA and each regional government. The partial JPA data before 2007 came from KRILA which had been involved in designing and conducting JPA in its early stage. At last, the overall fiscal performance scores of local government from the fiscal year of 1999 to 2011 were tracked by the help of public servants and oral permission of the director of the Local Administrative Department of MOGAHA (see Appendix 3). Most notably, this disaggregate fiscal performance of local government from JPA is original unpublished. Since we used lagged performance data, for example using data from 1999 as a measure of 1998, this thesis has a complete data set covering 13 years from the fiscal year of 1998 to 2010 (see Appendix 4).

In conclusion, the dependent variable employs the fiscal performance of

¹⁹ The detailed performance indicators are the stability of local income; collecting local tax; collecting overdue local tax; mistaken payment ratio of local tax; the stability of constant non-tax revenue; collecting overdue non-tax revenue; mistaken payment of non-tax revenue; saving operating cost; personnel cost; spending for events; transfers to the private sector; fulfilment of long term financial plans; capital costs reflected on the budget; debt management; the timeliness of financial information; the transparency of budget; the endeavour of setting up the programme budget and accrual accounting; and the citizen satisfaction about fiscal expenditure which investigates citizens' preference over local festivals through surveys as they can feel the direct effect of the spent resources.

JPA. The fiscal performance indicators of the annual JPA have common characteristics to measure fiscal conservation and stability, capacity, and conformity with national policies, even though JPA experienced a few episodes of structural change during the given periods. Therefore the dependent variable is sufficiently robust to be used for the statistical analysis.

3.2. Explanatory variables

The first explanatory variable is central government's controls on local fiscal institutions which are usually exerted through statutory regulations, policy guidelines, resources transfers, monitoring and audit. This study identified and measured central controls of local government, as analysed in chapter 6.

More specifically chapter 6 differentiated types of control: normative, remunerative, and coercive control in order to distinguish the positive and negative aspects of each type of central control. This is based on a classification of policy instruments to make local government comply with central government, following Etzioni (1975) or Evert Vedung (2003). First, coercive controls are measures undertaken by central government to influence local government by means of formulated regulations. They are referred to as rule, orders, directives and statutory provisions of an obligatory nature, supported by threat of sanctions (Stone, 1982:10). Coercive controls in this study were gauged by central government's directives to local governments to spend more and quicker, called Emergency Spending in Korea. The Korean central government devised and implemented extensive Emergency Spending to adjust the cyclical downturn caused by the global crisis and to stimulate the national economy from 2009 to 2011. Emergency Spending as a policy instrument conceives authoritative relations, since all local governments have to use up their budget to the extent of more than 60% during the first half of the year. Despite its confliction with local spending policies, local government must follow the central government's mandate in order not to be sanctioned in the central-local relations (see chapter 5). Given the fact that at usual times the rate at which local government spends the budget reaches less than 30%, rather spending at a faster rate impeded due process of spending and reduced local fiscal autonomy. It also could hamper economic recovery in the second half of the year due to lack of available budget.

Therefore, the Emergency Spending policy has been criticized as a non-expedient measure (NABO, 2012). The coercive control of Emergency Spending was dealt with using dummy variables. If the year is from 2009 to 2011 in which Emergency Spending was implemented, this research identifies there are Coercive controls in all regional governments. As chapter 6 noticed, coercive controls may have a complicated influence on local government thus we will examine the two cases of the sub-group where prior performance is in the lower quarter as well as the entire group of local government.

Second, remunerative controls involve either the giving out or the taking away of resources. Remunerative control in this study focuses on expanding material resources through local shared tax (see chapter 5). In general, economic instruments such as subsidies make it cheaper or more expensive in terms of money, time, effort and other resources to pursue certain actions (Vedung, 2003: 32). The increase of local shared tax makes local governments quantitatively expand or qualitatively improve public services at their discretion because it is distributed for the general purpose and does not have strings attached to spending. It thus can show a spending responsibility of local government and a definite effect of remunerative control on the performance of local government. During the periods this study deals with, from 1998 to 2010, there were three instances when the rate of local shared tax was formally raised, and no instances of reductions. Considering the times when there was an actual noteworthy increase in shared tax inflow into local government, after calculating internal revenues from the previous year in the lagged year, there were seven periods of increases in local shared tax rates in 2000-1, 2005, 2007-8, 2010 and 2012²⁰ (MOPAS, 2011a). Therefore, the remunerative controls are considered to occur in these years in all regional governments.

Third, normative control, referred to as moral persuasion or exhortation, covers attempts at influencing local government through the transfer of knowledge and the communication of reasoned argument and advice (Vedung, 2003: 32). The transfer of information is offered to influence local government to do what the central government regards as desirable. It covers not only objective and correct knowledge; but also judgments about which phenomena and

²⁰ The fiscal year runs from 1 January to 31 December in the Korean government

measures are good or bad; and information implies recommendations about how local government should act and behave. In this sense, this study pays attention to the NPM inspired reform where central government exercised normative controls to share the norms of performance and accountability that NPM emphasize. Notably the process of introducing Programme Budgeting and Accrual Accounting to local governments entailed a revolutionary information transfer to the local level from various methods of information sessions, open hearings, workshops and educational training by the centre (MOGAHA, 2006). Local governments had a choice as to whether they took up the normative controls. Some were involved in the experiments of programme budgeting and accrual accounting early on, others later. Normative controls through them incurred a change of information and procedure rather than a change in financial allocations. It is difficult to differentiate the strength or frequency of central controls as they affect different local governments because usually central government exercises power equally over each local government in the unitary central-local relations. This analysis posits the normative controls when local government was involved in the experiment of the new financial framework from 1999 till 2007 or the formal implementation of the new financial framework after 2008, by examining reports by central government (MOGAHA 2006; MOGAHA 2007a).

The second set of explanatory variables arises from fiscal and economic crises, which are timely and useful to reflect contemporary situations. Importantly, the problematic fiscal condition such as the economic crisis beginning in 2008 may also influence the effect of central controls on the performance of local governments. Chapter 6 defined the national financial crises as when Korea experienced negative GDP growth rates. However, this standard produces just one year of national financial crisis (-6.9% of 1998), even though the 2008 and 2009 global crises threw the Korean economy into disarray (see Il SaKong and Youngsun Koh, 2010: 70-75). Therefore, in order to cover the recent financial crisis, the current research needs to add another standard: if there are minus economic growth rates in one of the quarters over the year, we consider that year as a national financial crisis. In detail, the Korean economy recorded minus growth from the fourth quarter of 2008 to the second quarter of 2009: -1.6% in the fourth quarter of 2008 and -1.9% and -1.1% in the first and second quarters

of 2009 (BOK 2013, Il SaKong and Youngsun Koh, 2010: 70). Therefore this study identifies a national financial crisis in 1998, 2008 and 2009. This definition does not sound very far-fetched because Korea has had positive economic growths except four periods of negative growth rates of GDP: -1.3% in 1956, -1.5% in 1980 due to the second oil crisis, -6.9% in 1998 due to the Asian Economic Crisis, and recently 0.3 % in 2008-9 due to the global economic crisis (see Il SaKong and Youngsun Koh, 2010: 70-75).

As for the definition of local government's fiscal crisis, Articles 55 to 56 of the Law of Local Government Finance and its enforcement ordinance stipulate fiscal diagnosis and designation of local government which has the possibility of or experiences of fiscal crisis. There are several standards to decide when a fiscal condition is a crisis or not, as specified in Article 65-2 of the enforcement ordinance of the same law. The standards include: first, when consolidated budget deficit ratio exceeds 30% of income; second, when the amount of debt burden exceeds more than 40% of the total amount of aggregate budget; and third, when quarterly cumulated local tax is a negative value. This study employs the second standard to decide fiscal crisis of local government considering the possibility of data collection. We found 24 cases out of 223 observations fitted the definition of local fiscal crises. In particular there has been no case of local fiscal crisis since 2008 (see Table 3-5) thus the coercive controls, which occurred in 2008-9, interacting with local fiscal crises was excluded in the analysis.

In short, this research observes that National economic crises are the years of 1998, 2008 and 2009 in which the Korean economy marked minus output growth during the year following the previous studies. Local fiscal crises are recognized when local government's debt accounts for more than 40% of its total budget according to the law.

3.3. Control variables

Finally, this research includes a number of controls for factors likely to be an important influence on the fiscal performance of local government. Empirical research to explain public service performance variance in the local public sector pays considerable attention to the impact of political factors (Boyne et al., 2011;

193). Local public bureaucracies might be expected to be under more direct control by politicians, with citizens more justifiably holding politicians to account for their performance (James and John, 2007: 570). From different parties, politicians have distinctive views about the role of government and the value of public service performance (Boyne et al., 2011: 646). It could be argued that local governments should be more strongly affected by the policies of central governments that are controlled by the same political party. The Korean local government system is the strong mayor and weak council system, so in practice the mayor holds the main power rather than the local councillors. When the governor's or mayor's party is a ruling party at the national level, it can be expected that there is a greater positive capacity in local government to implement policies and provide services than when it is not, for example, through more efficient political negotiation and resource mobilization. A preliminary test also checked the cases when majorities of local councillors were held by the same party as the ruling party and when the party of the mayor was the same as the party of the majority of local councillors, and failed to find any interesting influence of the party from those cases. This preliminary test was conducted by the regression analysis where explanatory variables used dummy variables whether or not the party distribution of local government was included in the cases, and dependent variables used the fiscal performance scores. The insignificant results implicate that the effect of the council members' party within and out of local government were not substantial enough to affect the policy implementation of the executive. This can be also explained by the constrained role of the council and the authoritatively centralized political culture in Korea. Therefore this study controls for only the case where the party of elected mayors and governors is a national ruling party by using a set of dummy variables. The detailed historic records about the parties at the national and local levels are examined through the resource centre of the National Election Commission (NEC).

Recent research suggests that local government performance is influenced by external circumstances (Andrews et al., 2005), which are beyond local government's control. Several studies about local government performance have incorporated per capita income for the local economic conditions (Boyne et al., 2011: 652; De Borger and Kerstens, 1996). It is found that low resources

available to local government are associated with worse performance, on the other hand high resources are associated with better performance in a study of English local governments from 2000 to 2002 (Andrews, 2004; Andrews et al., 2005) In this research, per capita GRDP (Gross Regional Domestic Product) is employed to control the economic effect on fiscal performance of local government. The recent data of per capita GRDP came from the online sources of the Korean Statistical Information Service and the data before 2004 came from the published document of Statistics Korea (KNSO, 2005).

As an internal environmental factor, tenure of governor or mayor is considered to affect the performance of local government. Tenure means the governor's or mayor's terms of office. The previous study showed that strategic management influenced performance of public service (Andrews et al., 2012). This variable is a proxy for the management of the chief executive of local government, which is difficult to specifically measure across the entire sample. This study assumes that the longer an executive chief of local government holds the office, the greater and better the knowledge and experience he/she could have to adopt a more appropriate managerial strategy. An English case study found out that re-election was affected not by positive performance but negative performance (see Boyne et al., 2009) and thus tenure in this study can give us roughly the relation between re-election and performance. Tenure was calculated monthly by using the data from NEC.

In addition, this case study included both dummies of individual local government and time, and thus they control for a fixed effect between individual local government and random shocks such as a natural disaster in a certain year which might have forced local government to look more carefully into disaster response, potentially influencing performance across the regions (Boyne et al., 2011).

As theory suggests that organizations operate within the constraints of structure and over the longer haul create new constraints to sustain them (O'Toole 1999: 520), the past performance of an organization might act as a constraint and affect the possibility for performance in the future. This is simply stated as 'organizations are an autoregressive system' by a previous study (Boyne et al., 2011: 651). However, in order to rule out an autoregressive

specification, we will not control for past performance. When it includes a lagged dependent variable as control variable, the current model changes to the dynamic panel model in which both random effect and fixed effect estimators will be biased (Josef Bruderl, 2005), because the strict exogeneity assumption never holds in unobserved models with lagged dependent variables (Wooldridge, 2002: 256). This potential problem can be checked with the Arellano-Bond estimates but the current method of this study cannot test this due to the methodological limitation. So alternatively past performance is excluded from the model.

4. Conclusion

The argument of this thesis, expressed as a research question, is whether or not local government performance has benefited from the change of central controls after the resurrection of local autonomy. There was a policy trend of increasing local democracy after implementing local autonomy after the mid-1990s, but this trend was not continued due to the financial crises. To statistically answer the research question, and prove the argument about the benefits of decentralisation, this chapter explored the fixed effect panel data model as an appropriate methodology. The fixed effect estimator will always give consistent estimates and the current statistical model is free from the drawbacks of the fixed effect model without any time-invariant explanatory variables. The assumptions of a random effect model are too strict for the current study because central controls may correlate with the unobserved heterogeneity such as capacity or compliance of local government. Therefore the fixed effect estimation can be seen as the most appropriate method, even though we cannot check Hausman tests which are well known to suggest whether there is a significant difference between the fixed and random effects estimators (Cameron and Trivedi, 2005).

Assessing the effect of central controls on local government using performance data is a major advance of this study. Here the dependent variable is local government performance. The performance data provided by JPA gives the results of the Korean central government assessments of local government performance from fiscal years 1998 to 2010. For independent variables, the modes of controls exercised by central government are normative, remunerative and coercive controls which were measured by the different financial institutions

of local government. This thesis is also concerned with the relationship between control and performance in the environmental context of crisis. In particular, financial fiscal crises at the national level and fiscal crises at the local level are considered as moderating variables. Finally, a number of controls have been created for factors which may affect performance of local government. They are political party, tenure of the chief executive of local government and per capita GRDP. Of elected mayors and governors, not local councils, the party and the tenure are researched, considering the external environment of the strong mayors and weak council system of local government. However the control for the past performance of local government is excluded in order to rule out the possibility of an autoregressive specification and to obtain more accurate results from fixed effect estimates without bias. So far this chapter has indicated the conceptual and statistical components in order to establish a robust quantitative research model. This study is moving forward the empirical application of the hypotheses of chapter 6 as extended case studies from a general discussion of change in central-local government relations in chapters 1 to 5. The next chapter will look into the empirical results of a series of hypotheses, obtain meaningful findings and explore the patterns of evidence regarding the relations between central controls, financial crises and local performance. Then in the concluding chapter we revisit the on-going arguments and synthesize the theoretical findings with empirical findings, in order to reach a meaningful conclusion about the evolving central-local relations in Korea.

Chapter 8. Empirical results and the pattern of findings

1. Introduction

Chapter 7 established the statistical research models, one is to test the individual effect of controls and crises and the other is for the interacting effect of each mode of controls with fiscal crises. In order to ensure statistical validity, chapter 7 defined the variables and explained the data collection to undertake quantitative analyses of the relations of controls, crises and performance with sufficient theoretical and practical possibilities. After conducting the statistical simulation, this chapter enumerates empirical results of testing a series of hypotheses. The obtained results make us explore the individual effect of central controls and their interacting effects with fiscal crises. This leads to the final patterns of evidence regarding how change in central controls has been empirically related to improved local government performance. To do this, at first through descriptive analyses, we find the distinctive and specific features of the data to judge the appropriateness for the following regression analyses and understand the nature of the data. Next, as a preliminary analysis, correlation between variables will be investigated to review whether or not the explanatory variables are too collinear to do the regression analysis and establish the causation. Then, as the main component of this chapter, the regression analyses explore the statistical possibilities about the hypotheses of the individual and combined models, and according to the empirical results we will expand findings by considering previous studies and theories.

1.1. Data description

In Table 8-12, the overall descriptive statistics about the entire variables are displayed. The fiscal performance of local government of a lagged year, denoted as Short-term Performance, reveals a nearly normal distribution because its mean and median are very close, 81.42 and 81.68 respectively; there are no outliers in that the minimum 58.33 and maximum 96.46 lie within the three standard deviations of the mean in a normal distribution. In the same way,

Long-term Performance is a normal distribution and has no outliers.

The number of observations ($N \times T = 16 \times 15$) is usually 240, as we investigate 16 regional governments for 13 years from 1998 to 2010 ; however observations of the dependent variables are less than 240 due to one missing data set and the method of measuring dependent variables: Short-term Performance is measured with one-year lagged data and the measure of Daegu Metropolitan city of the year 1999 is missing and thus has 223 observations ($N \times (T-1) - 1$); on the other hand, Long-term Performance is 207 coming from the t+2 performance ($N \times (T-2) - 1$). The Long-term Performance of 2010 is the score of the fiscal performance of 2012, and the two years from 2011 to 2012 do not have their Long-term Performance measured and are excluded from the number of observations.

Explanatory variables are gauged by a dummy term if there is central government's control through the NPM-style fiscal institutional changes or traditional intervention in fiscal autonomy, and if there is a national economic crisis or local fiscal crises of any local government in any of the given years (see chapter 7).

Among the control variables, the descriptive statistics of Ruling party_Governor show between 0 and 1 because it is measured by dummy variables when the governor's (or mayor's) party is a ruling party at the national level. Per capita GRDP and Tenure variables use natural logarithms to make the calculation less complicated.

Tenure, meaning the governor's or mayor's terms of office measured from January 1998 to December 2012, shows a large variation by local governments. It is the highest in Gangwon Province because electorates consecutively chose the same governor from the second election in 1998 to the fourth election in 2006. On the other hand, the mayor tenure of Seoul Special Metropolitan City in 2010 is the lowest as mayor *Oh Sehoon* resigned only two months after inauguration due to the policy conflict about the free school meals with the local council, and a new mayor was elected through a by-election in 2011 (NEC 2013). While the nature of explanatory variables is nominal, dependent variables and control variables use measurable variables. After data description, we need to know the association between the variables, particularly between explanatory variables to establish a robust regression model.

Table 8-12. Descriptive Analysis

	N	Mean	Median	St.Dev	Min	Max
Dependent variables						
Short-term Perform	223	81.42	81.68	8.11	58.33	96.46
Long-term Performance	207	81.85	82.3	8.29	58.33	96.46
Explanatory variables						
Normative control	240	.52	1	.50	0	1
Coercive control	240	.27	0	.44	0	1
Remunerative control	240	.47	0	.50	0	1
National Financial Crises(NFC)	240	.20	0	.40	0	1
Local Fiscal Crises(LFC)	240	.10	0	.30	0	1
Normative control X NFC	240	.13	0	.34	0	1
Coercive control X NFC	240	.07	0	.25	0	1
Remunerative control X NFC	240	.07	0	.25	0	1
Normative control X LFC	240	.01	0	.11	0	1
Remunerative control X LFC	240	.05	0	.23	0	1
Control variables						
Ruling Party, Governor	240	.41	0	.49	0	1
Percapita GRDP	240	16.62	16.59	0.44	15.59	17.96
Tenure	240	40.14	30.00	27.57	2	138

1.2. Correlation analysis

Bivariate correlations are used for a large number of variables to preliminarily test the correlations among those variables of interest. The important purpose of correlation analysis is to check multicollinearity between independent variables. Appendix 5 reports Pearson correlations analysis. Multicollinearity is a potential problem for the regression analysis. Multicollinearity has been assumed in political science if the correlation coefficients exceeds 0.7(see Mainwaring and Zoco, 2007) between explanatory variables, though in other natural sciences it is assumed if the coefficient exceeds 0.4 (Kries et al., 2002). As Appendix 5 shows, there are some correlation coefficients that gain doubtful attention but most of them can be logically explained by interacting terms' attributes.

Specifically the correlation coefficients between NFC and Normative controls interacting with NFC are rather high (0.78**), which can be explained by a constituent part of the interaction terms. In other words, these two variables have a shared factor of NFC. There exists the similar reason why there is high correlation (.71**) between LFC and Remunerative controls interacting with LFC, that is, they also share the term of LFC. Nevertheless, the correlations among independent variables do not indicate a major problem in proceeding with regression analysis.

2. Regression analysis

2.1. The strength of fixed effect models

Regression models are used for most notably casual inference by studying the relationship between dependent variable y and a set of independent variables x (Cameron and Trivedi, 2005: 66). Specifically, this case study uses the panel data fixed effect model as we noted in chapter 7. The attraction of panel data is the possibility of consistent estimation of the fixed effects model, which allows for unobserved individual heterogeneity that may be correlated with observed variables (Cameron and Trivedi, 2005: 697). Fixed effect models make it possible to control unobserved effects of individual local governments which are assumed to correlate with the explanatory variables of central controls as time-invariant variables when we examine the effects of central control on local government performance. Another benefit of the fixed effects model is allowing us to use panel data to establish causation under weaker assumptions than those needed to establish causation with cross-section data or with panel data without fixed effects (Cameron and Trivedi, 2005: 715). Chapter 7 assumed that unobserved variables such as motivation or ability of local government are correlated with the observed variables of central controls because existence of central controls in a certain local government is affected by the unobserved characteristics of local government. Nevertheless, there are also practical drawbacks of the fixed effects approach. First, estimation of the coefficient of any time-invariant variables, such as attributes of metropolitan-cities or provinces is not possible as it is absorbed into the individual-specific effect (Cameron and Trivedi, 2005: 715). The variables

we examine in this thesis are all time-variant. Second, fixed effects estimates may have substantially larger standard errors than random effects estimates because the fixed effects estimates use only within-individual differences, essentially discarding any information about differences between individuals (Allison, 2009: 3). This point is to get rid of contaminated variations and use only the variations that produce approximately unbiased estimates of the parameters. If most of the variation in a predictor varies across individuals, but has little variation over time for each individual, then fixed effects estimates will be very imprecise (Cameron and Trivedi, 2005: 715). However, our panel data are not included in this case, since the variation of observed variables occurred across individuals as well as over time for each individual.

Chapter 7 provided two sets of models to examine the relations between central controls, crises and local government performance. The Individual Model examines the individual effect of an explanatory variable on dependent variables. How each control type has an influence on the performance of local government and how each type of crises, NFC and LFC, on performance are tested here (see chapter 7). The Normative Control is measured through the variation of sharing NPM ideas among Korean local governments through introducing programme budget and accrual accounting in a top-down manner. Remunerative Control is perceived to exist in the statistical model when the influx of local shared taxes increases. These are levied and collected by the central government and automatically transferred to the local government according to the rate set in the law, and affected the fiscal policies of local government. Lastly Coercive Control is measured by the direct spending intervention so called Emergency Spending which has been implemented by central governments since 2009 as a 'Keynesian countercyclical fiscal policy prescription'.

The Combined Model draws on the idea suggesting that crises have dynamic potential to affect the preference of government policies and sometimes may incur institutional changes, and thus, investigates how central control affects, by interacting with crises' effects, local government (see chapter 7). Crises can cause changes in an established system, the cost of exchange and production (North 1990) and, by doing that, they can affect the performance of local government. The Combined Model establishes two sets of interaction models,

one for interaction with NFC and the other for LFC to reflect the various facets between different crises on the performance of local governments.

2.2. The Individual Model for central controls

The results obtained for the control types and local performances in the Individual Model are presented in Table 8-13 to Table 8-16. The question posed in this study is whether the central controls influenced local government performance and how the different control types influenced local government performance. Individual Model focuses on the individual effect of controls and crises on local performance. According to Tables 8-13 to 8-16, adjusted R^2 is from .587 to .605 indicating this model has the explaining power of nearly 60%. The F test shows that a null hypothesis of “The model explains nothing” is rejected in each case ($p < .0001$). The value of Durbin-Watson is at around 1.9, approximately equal to 2, indicating no serial correlation. The number of samples is 223 in the short term and 207 in the long term because one lagged year performance ($t+1$) and a two-year period lag ($t+2$) are used in measuring dependent variables and the missing data results in eliminating one observation from the number of samples of the dependent variable. In this model, whilst the Coercive Control and Remunerative Control variables explain the variation of Performance of Local government variations, the Normative Control variable does not have a significant relation with Performance of Local Government.

Table 8-13. Influence of Normative Controls on Local Government Performance

Model1 : Individual Effect		
	Short term Performance	Long term Performance
Normative Control	.592	-.640
Ruling Party, Governor	1.682*	1.636
per capita GRDP	18.691***	20.414**
Tenure	.028*	-.010
Constant	-230.521**	-243.314*
N	223	207
Adjusted R^2	.603	.587
Durbin-Watson	1.927	1.845
F test	$p < .0001$	$p < .0001$

The positive expectation of H1 in which Normative Controls would improve local government performance has no statistical significance in the analysis as reported in Table 8-13.

H2 that the Remunerative Controls are positively associated with Performance of Local government was not statistically supported in Individual Model (see Table 8-14). Instead the Remunerative Controls proved to be negatively related with performance, which is statistically significant in the short and long term. Theoretical and empirical studies in public economics view intergovernmental transfer and own-source local revenue through different lenses (Rodden, 2002). Intergovernmental transfers create the appearance that local public spending is funded by a common pool of resources. Therefore, frequently recipient governments have *ex ante* endeavour to secure more transfers but are likely to neglect *ex post* responsibility. Fiscal capacity equalization through intergovernmental transfer has been criticized regarding efficiency because equalization grants induce strategic behaviour by local government, or gaming against the distribution formula. (Swan and Gravy, 1991; Martinez-Vazquez et al., 2007). Further intergovernmental transfers incur transfer dependency making local government reluctant to pursue economic development objectives (Martinez-Vazquez. et al., 2007), and growing transfer dependency is known to be connected with the growing total deficits of local government (Rodden, 2002).

Table 8-14. Influence of Remunerative Control on Local Performance

Individual Effect		
	Short term Performance	Long term Performance
Remunerative Control	-12.922**	-18.464***
Ruling Party, Governor	1.697*	1.614*
per capita GRDP	18.810***	20.327**
Tenure	.029*	-.010
Constant	-232.438**	-241.897*
N	223	207
Adjusted R ²	.605	.589
Durbin-Watson	1.927	1.846
F test	p<.0001	p<.0001

Our empirical result proved that Remunerative Controls gauged by Shared tax has a negative relation with Fiscal Performance of local government. This evidence may be connected with the efficiency of financial resources. For example, according to the study investigating the effect of different funding of US public libraries, government-run libraries are more inefficient than private not-for-profits, and greater reliance on local taxation is linked to less inefficiency (Vitaliano, 1997: 640). Therefore we can infer that intergovernmental transfer has a link with lower fiscal performance than own source revenue. This also implies that remunerative controls should be exercised toward expanding own-source local revenue rather than intergovernmental transfer.

The Coercive Control has rather complicated effects according to the prior studies and the practical cases of CPA in the UK (see chapter 6) so two hypotheses are examined: it is negatively related to local government performance (H3-1) and it may raise performance of local government where past performance is very bad (H3-2). As for H3-1, the Coercive Control demonstrates a significant, negative coefficient for both terms of Performance of Local Government (see Table 8-15). In the long term the negative effect of the Coercive Control on Performance is much stronger with a high significance ($<.01$). This suggests that strict spending controls by the centre are associated with lower fiscal performance of local government and this negative effect deteriorates in the long term. This finding contrasts with earlier studies (Poterba and von Hagen, 1999: 30; Borge, L.E. et al., 2008) where strict budgetary rules can be understood as a means of imposing a hard budget constraint that reduces the influence of service producing agencies and, thereby, contributes to higher efficiency. There is a possible reason why our result is not consistent with earlier findings. In general stricter budget control means that the central government puts more spending process constraints on local government. Unlike this convention, Korean central government reduced multiple institutional and procedural constraints, to encourage localities to spend more and quicker for the purpose of expanding government expenditures within a relatively short period of time (MOPAS, 2009). The Emergency Spending expedited local government spending. But its obligatory nature obstructed local democracy. Thus, in this study, Coercive Control negatively influenced Performance of Local government was supported.

Table 8-15. Influence of Coercive Controls on Local Government Performance

Individual Effect		
	Short term Performance	Long term Performance
Coercive Control	-18.117***	-28.530***
Ruling Party, Governor	1.697*	1.614*
per capita GRDP	18.810***	20.327**
Tenure	.029*	-.010
Constant	-232.438**	-241.897*
N	223	207
Adjusted R ²	.605	.589
Durbin-Watson	1.927	1.846
F test	p<.0001	p<.0001

As for the group where local government performance is located in the bottom quarter (see Table 8-16), coercive controls is revealed to have no positive effect on raising performance but rather leads to serious deterioration in the performance. This result is different from the case of English local government where central controls are prescriptive instructions for each local government (Andrews et al., 2005). Coercive controls imposed by the Korean central government aimed at increasing local government expenditure not for disciplining individual local government. Thus the Korean local governments where the poor past performance occurred are much more susceptible to this coercive spending controls due to managerial limitation of poor performers.

Table 8-16. Coercive Controls on Local governments with lowest performance

Individual Effect		
	Short term Performance	Long term Performance
Coercive Control_ lowest performance groups	-53.750***	-3.341
Ruling Party, Governor	-.522	-5.851
per capita GRDP	58.567***	5.528
Tenure	.096**	-.223***
Constant	-874.498***	-.475
N	66	48
Adjusted R ²	.599	.623
Durbin-Watson	2.110	1.859
F test	p<.0001	p<.0001

2.3. The Individual Model for fiscal crises

The impacts of NFC and LFC on performance are also tested in Individual Model (see chapter 7 section 2.2.). Surprisingly NFC has a statistically significant positive influence on the Long-term of performances (see Table 8-17). But the effects of LFC on the Short-term and Long-term Performance are not significant (see Table 8-18).

Table 8-17. Influence of NFC on Local Government Performance

Individual Effect		
	Short term Performance	Long term Performance
National Financial Crises	3.727	26.804***
Ruling Party, Governor	1.697*	1.614*
per capita GRDP	18.810***	20.327**
Tenure	.029*	-.010
Constant	-236.166**	-268.701**
N	223	207
Adjusted R ²	.605	.589
Durbin-Watson	1.927	1.846
F test	p<.0001	p<.0001

Stability at a non-crisis time in no way guarantees that the institutions relied upon are efficient (North 1990: 84). Many commentators (Krugman, 2008; Kindleberger and Robert, 2005) insist that crises have a negative relation with improving performance (i.e., economic growth or efficiency), by destabilizing the legitimacy of existing policies, goals and institutions as well as threatening the security obtained by relevant actors and stakeholders. In crises each level finds it is more costly to achieve the goals of local government at the same time. Conversely, the response to crises sometimes produces effective emergency measures. The norm driven by crises emphasizes responsibility and inspires an intangible power to concentrate all effort to ameliorate the emergent situation. The evidence supports the finding that confidence in the government to manage the crisis was stronger in Korea compared to other crisis countries (Kalinowski, 2008) and the economic crises per se are positively related with the performance

of local government. The positive effect of crises seems to not be an accidental coincidence but a historic and cultural phenomenon which puts the country before individuals.

Table 8-18. Influence of LFC on Local Government Performance

Individual Effect		
	Short term Performance	Long term Performance
Local Fiscal Crises	.956	.797
Ruling Party, Governor	1.722*	1.622
per capita GRDP	18.220***	19.750**
Tenure	.029*	-.010
Constant	-222.956**	-232.606*
N	223	207
Adjusted R ²	.604	.587
Durbin-Watson	1.931	1.853
F test	p<.0001	p<.0001

The factors identified as positively influencing the performance of local government are control variables, per capita GRDP, and Tenure (see Table 8-13 to 8-18). The most common factor is per capita GRDP whose magnitude of the coefficient is significant in both terms. This means that fiscal performance scores of JPA are significantly influenced by the economic prosperity of the local population, like the English local government performance measure (Andrews et al., 2005). The effect of political party is revealed to be meaningful to local government. Local governments where an executive governor comes from the ruling party show better performance than local governments with a governor of the opposition party or with no party. However, the party of the governor does not matter in the group where local government performance is located in the bottom quarter (see Table 8-16). This implicates that badly performing localities may have complications such as the management strategy or leadership of the governor. Tenure is significant for Short-term Performance. It means that the longer the governor or mayor holds office, the better performance is in the short term. Tenure has no effect on two-year lagged performance. Further research is needed to identify if Short-term Performance may feed forward Tenure or re-

election in the Korean context, drawing on the English case study where re-election was affected, not by positive performance, but negative performance (see Boyne et al., 2009).

2.4. The Combined Model with NFC

2.4.1. Interaction of Normative control with NFC

The Combined Model tests the interacting effect of each control mode with crises on local performance (see chapter 7). Over the sample period of the current research chapter 7 posited there were two financial crises, the Korean financial crisis in 1998 and the economic recession of 2008-9, through measuring economic growth rate. These national financial crises are expected to affect local government's ability to manage performance.

The Combined Model examines during NFC the influence of each control type on performance of local government. If two variables of interest interact, denoted as (NFC) x (Normative Control) in Table 8-19, the relationship between each of the interacting variables and dependent variable relies on the value of the other interacting variable. Table 8-19 shows that this model has a considerable explanatory power seen from adjusted R^2 which is from .589 to .605 and the hypothesis can be acceptable from the F test ($p < .0001$). The Durbin-Watson value is at around 2.0 so the presence of autocorrelation is not found. The coefficient of Normative Control measured by local government's involvement in the NPM styled financial reform is negative through interaction with NFC. It demonstrated the view that when NFC is given, the influence of Normative Controls significantly decreases the Short-term Performance and more seriously reduces Long-term Performance of local government. Therefore, H5 that Normative Controls interacting with NFC would have a positive relation to performance of local government was not statistically supported in these cases. Considering the individual effects of Normative Controls and NFC in Individual Model which are positive regardless of statistical significance, the interaction of both variables produces the unexpectedly negative consequence to local government. This evidence supports that during crises the democratic mode of central controls, expressed as normative controls, has no impact on achieving better performance of local government.

Several control variables are proved to have explanatory power on performance. Local government where the governor or mayor has longer tenure show better Short-term Performance. Per capita GRDP and Ruling party are influential in improving performance of local government in both terms as shown in Individual Model.

Table 8-19. Normative Controls Interacting with NFC on Local Performance

Interacting effect with the National Financial Crises		
	Short term Performance	Long term Performance
(Normative Control) X(NFC)	-6.332	-31.812***
Ruling Party, Governor	1.697*	1.614*
per capita GRDP	18.810***	20.327**
Tenure	.029*	-.010
Constant	-232.438**	-241.897*
N	223	207
Adjusted R ²	.605	.589
Durbin-Watson	1.927	1.846
F test	p<.0001	p<.0001

2.4.2. Interaction of Remunerative control with National Financial Crises

Table 8-20 demonstrates the result of the interaction of Remunerative Control with NFC. The Remunerative control mode reveals the precisely negative effect that it reduces local government performance when NFC is given. Therefore H6 that the interaction effect of Remunerative Control with NFC would have a positive relation with improved performance of local government is not statistically supported. Instead the effect of NFC intensifies the magnitude of Remunerative control's negative effect in the long term with statistical significance. This suggests the fiscal expansion through intergovernmental transfer by central government during NFC does not contribute to improving the performance of local government.

Table 8-20. Remunerative Controls Interacting with NFC on Local Performance

Interacting effect with the National Financial Crises		
	Short term Performance	Long term Performance
(Remunerative Control) X(NFC)	-6.332	-31.812***
Ruling Party, Governor	1.697*	1.614*
per capita GRDP	18.810***	20.327**
Tenure	.029*	-.010
Constant	-232.438**	-241.897*
N	223	207
Adjusted R ²	.605	.589
Durbin-Watson	1.927	1.846
F test	p<.0001	p<.0001

2.4.3. Interaction of Coercive Control with NFC

Coercive Controls when NFC takes place have negative coefficients as shown in Table 8-21. Taking consideration of observing the significantly negative effect of Coercive Control on Short-term Performance and Long-term Performance in the Individual Model, we can witness that the same coefficient came to be intensified with the interacting NFC. This suggests the negative variable Coercive Controls seriously determined the interaction effect between Coercive Control and NFC. H7 that the effect of Coercive Control with NFC would be negative is supported statistically.

Table 8-21. Coercive Controls Interacting with NFC on Local Performance

Interacting effect with the National Financial Crises		
	Short term Performance	Long term Performance
(Coercive Control) X(NFC)	-18.117***	-28.530***
Ruling Party, Governor	1.697*	1.614*
per capita GRDP	18.810***	20.327**
Tenure	.029	-.010
Constant	-232.438**	-241.897*
N	223	207
Adjusted R ²	.605	.589
Durbin-Watson	1.927	1.846
F test	p<.0001	p<.0001

2.5. The Combined Model with LFC

2.5.1. Interaction of Normative Controls with LFC

Fiscal problems facing local governments may come from outside or from the inside local government. The fiscal crisis effect at the upper level is sometimes spread to the lower level of local government (Wright, 2002). One of the salient strategies followed by upper level governments in balancing the budget was to reduce funding of public education and unconditional fiscal support for local government. Thus the lower level of local government generally has a limited ability to find ways to escape fiscal crises and to maintain the existing level of public service. Another fiscal crisis of local government comes from wrong decision making and financial management inside the organization. This is related with the failure to cope with the financial emergency in the short term and changes of environment in the long term. In either of the two cases where local fiscal crises come from, it is difficult to expect a positive relation with local performance.

Hypothesis 8 that Normative controls during local fiscal crises have a negative relation with performance of local government is not supported by the statistical analysis. Table 8-22 shows that the impact of Normative Controls through interaction with LFC seems positive but is not statistically significant. Considering the effect of Individual Model, in which LFC has no significant influence on Performance of Local Government, the interacting effect of Normative Controls with LFC is not a contrasting result.

Table 8-22. Normative Controls Interacting with LFC on Local Performance

Interacting effect with the Local Fiscal Crises		
	Short term Performance	Long term Performance
(Normative Control) X(LFC)	-.608	-1.337
Ruling Party, Governor	1.704*	1.631*
per capita GRDP	18.799***	20.260**
Tenure	.029*	-.011
Constant	-232.266**	-240.813*
N	223	207
Adjusted R ²	.603	.587
Durbin-Watson	1.926	1.848
F test	p<.0001	p<.0001

2.5.2. Interaction of Remunerative control with LFC

There is no statistical significance in the relations of local performances and Remunerative Controls imposed by central government when LFC takes place (see Table 8-23). In Individual Model, Remunerative Control was revealed to significantly decrease Short-term and Long-term Performance of local government. And LFC has no meaningful relations with performance. Considering each individual effect, in Combined Model, what the interacting effect of LFC with Remunerative controls reveals, is that it is insignificant as most parts seem to be determined by LFC. We can assume in the fiscally emergent situation central government's positive remunerative controls sometimes have no policy impact in enhancing fiscal performance of local government. Conclusively, LFC does not influence the performance of local government and the interacting controls with them also have no impact on the performance of local government.

Table 8-23. Remunerative Controls Interacting with LFC on Local Performance

Interacting effect with the Local Fiscal Crises		
	Short term Performance	Long term Performance
(Remunerative Control) x (LFC)	1.540	1.182
Ruling Party, Governor	1.705*	1.607
per capita GRDP	18.238***	19.751**
Tenure	.030*	-.009
Constant	-223.258**	-232.641*
N	223	207
Adjusted R ²	.604	.587
Durbin-Watson	1.917	1.856
F test	p<.0001	p<.0001

3. Findings

3.1. Patterns at a glance

Research into fiscal aspects in central-local government relations allows us to explicitly observe how central controls are exerted through fiscal policies over

local governments. In this chapter the empirical findings on the relations between central controls, crises and local performance are presented based on the statistical models we established in chapter 7. The performance of local government that we are handling here is the composite of fiscal condition, capacity for development, and of each local government assessed through JPA. Therefore our findings can give us a logical picture about the relations between central fiscal controls and the fiscal performance of local government. Table 8-19 summarizes the hypotheses of chapter 6, the models of chapter 7 and the statistical findings of the current chapter at one glance.

Table 8-24. Summary of empirical findings

	The effect on Fiscal Performance	expectation	Finding *	Model
H1	Normative Control (NC)	Positive	Neutral	
H2	Remunerative Control (RC)	Positive	Negative	
H3-1	Coercive Control (CC)	Negative	Negative	Individual
H3-2	Coercive Control (CC _{lower}) against the lower performance group	Positive	Negative/Neutral	Model
H4-1	National Financial Crises (NFC)	Negative	Neutral/Positive	
H4-2	Local Fiscal Crises (LFC)	Negative	Neutral	
H5	NC x NFC	Positive	Neutral/Negative	
H6	RC x NFC	Positive	Neutral/Negative	Combined
H7	CC x NFC	Negative	Negative	model
H8	NC x LFC	Negative	Neutral	
H9	RC x LFC	Negative	Neutral	

* Marked with short-term and long-term effects

In the Individual Model, the statistical results disclose that only Coercive Controls support the proposition that central coercive control negatively influences local government fiscal performance. Unlike our expectation, Remunerative Controls is revealed to have a negative effect on local performance. Normative Controls measured by new public management does not give significant empirical results, which seems to be connected with the fact that the characteristics of Normative Controls are relatively democratic, autonomous and not self-enforcing. Further theoretical grounds about the inefficacy of normative change in controls will be discussed in chapter 9.

On the other hand, we include control variables that might influence local

government performance other than the explanatory variable of central control. The party, per capita GRDP and the tenure of the chief executive are tested as political, economic environments and internal factors respectively. First, following the expectation, when a governor or mayor comes from a ruling party, the performance of local government slightly increases in almost all cases. The coefficient of 'Ruling Party, Governor' variable is at around 1.7, which means that when the governor comes from the ruling party the performance of local government tends to increase 1.7 times. This result indicates that to some extent political affiliation and policy cooperation occurred between local and central politics through the political channel based on the same ruling party. This result also supports the view that Korean local politics is nationalized and the power of local government is centred on the head of local government. In the preliminary test (see section 3.3 of chapter 7), by contrast, the party of the majority of councillors has an insignificant impact on the performance of local government. The difference of the party effect between a governor and majority councillors can be explained by the council's weak role and limited tools for intervening in the policy implementation of local government. Next, the exogenous economic factor, per capita GRDP, is revealed to be the most influential; it significantly increased local government performance in the short and long terms. Third, the tenure of chief executive also has a positive effect on the performance of local government. So this means the longer the head of local government remains in office, the better the performance the local government tends to achieve.

Financial crises as the strong external shocks influence government behaviour, policies and determination (see chapter 3). Thus in Combined Model we examine how central controls have an impact on local performance while interacting with a financial crises. All the types of central controls interacting with NFC negatively influence local government with statistical significance. Normative control's interacting effect with NFC proves to significantly decrease performance of local government in the long-term, although the central government's Normative Controls is not influential enough to affect local government performance and NFC is positively associated with local government performance in Individual Model. This means that during economic crises local government tends to be adversely affected even by a more democratic mode of central controls. The interaction between Normative Controls and NFC is not

determined so much by the effect of each interacting variable but co-produces the unexpected result. This phenomenon occurs across the cases of NFC. Thus Remunerative controls as well as Coercive controls interacting with NFC prove to significantly decrease the performance of local government. These negative effects of central controls reverse the positive effect of financial crisis, which is revealed in the Individual Model, in the negative way.

By contrast, in the Combined Model with LFC, Normative Control and Remunerative Control are neutral in influencing local government performance. In particular, the effect of Remunerative Control, which has a negative coefficient in Individual Model, changes to have an insignificant influence on performance while interacting with LFC. This means that during the local fiscal crises central government's policy to expand local resource works inefficiently for the performance of local government. The test of Coercive Control is excluded in Combined Model, because there is no case to meet both the constraints of LFC and Coercive Controls at the same time in the observations.

3.2. Constrained constitutional status of local government

Now the focus is on the impact of the central controls on local government that have been emphasized in every Korean central government since the extending of local autonomy in the 1990s. . As we explored in chapter 1, Korean local government is protected by the Constitution but at the same time the Constitution permits the state law to control the local government. Therefore the constitutional status of local government has been subjected to the state law and central government power. The limits set by the law have evolved since the revision for the implementation of local autonomy. As a result, democratization of central control has developed as an integral component of central local relations. The empirical evidence we found in the statistical analysis, however, shed light on how the constitutional autonomy of local government has been affected by central controls. Central control or the state law has not been good at developing and expanding local democracy. In a nutshell, two out of three modes of central control which is regulated by the state law impact negatively on local government.

First, the normative control appears to promote an increase of democracy in the central-local relations after the 2000s but statistical research reveals that in

practice there has been no significant impact on local democracy. As local democracy grows, local policy modes become more democratized than ever before. The central controls evolved from 'command and control' and many institutional changes in the area of local policy aimed at enhancing local performance. Therefore in chapter 6 we expected that the new mode of central controls would work positively for local government. The evidence does not support this proposition. The normative control reveals no significant influence on local government performance, however this phenomenon was seen to change in the National Financial Crises. Normative Controls changed to negatively influence local government performance through interacting with National Financial Crises. The empirical analysis suggests inadequate normative controls operated by the Kim Dae-jung and Roh Mu-hyun governments which lacked executive instruments to enhance local performance as much as expected. This might be related to the argument that normative controls had 'hidden' new modes of central control as argued in chapter 5.

Second, the coercive control has been the quintessential mode of traditional government policy with no effect to increase local accountability and further more local democracy. As democracy progresses, the coercive modes tend to weaken. The example of Korea showed that under the recent economic crises out-of-date coercive controls were revived through Emergency Spending. Apart from the economic effect of fiscal policy, coercive controls have a negative influence on local government performance across the models in this study. This negative effect is not different even in the group where local governments have a comparatively lower level of performance. By contrast with the English examples (Andrews et al., 2005; Lowndes 2003: 140), we can say that coercive controls in the Korean central local government relations has a consistently negatively impact on local government.

Third, the remunerative control is the most preferred mode of central control but is revealed to have a negative effect to increase local accountability and further more local democracy. Central government has expanded local resource through tax reform for the purpose of increasing local fiscal autonomy or responding to increasing policy demand. Strengthening fiscal autonomy is expected to enhance local fiscal performance as well. But remunerative control

reveals a decrease in local government performance according to the empirical analysis. This result is related to the different spending responsibility for different resources. In other words, by expanding intergovernmental transfers remunerative controls did not make recipient local governments become more responsible for their spending from the perspective of fiscal performance.

In conclusion, most central controls have no success in increasing local democracy which is measured by local performance, and they therefore fail to achieve the basic constitutional value of local democracy and the consensus about local democracy. This result suggests that the present central controls need to change to the direction of enhancing the value of local government and local democracy.

3.3. The impact of fiscal crises

The interesting finding is that the economic crises individually have a positive influence on local government performance. It empirically proves that Korea is resilient against crises. There may be several reasons to explain this. Most of all, centralism over the history of Korea produced the initial respect for the state and the social stability to concentrate on the recovery. Also the experience of a successful developmental state gave citizens trust in their government to manage the crisis; through the process of democratization, each individual and organization felt responsible for their own country (Kalinowski, 2008). In cognitive terms this draws on the deep-seated patriotism of South Koreans who are also constantly aware of the threats posed by life in a divided nation. Therefore the impact of financial crises on government encourages more popular compliance and may produce more accountable behaviour and more progressive thinking in performing service provisions and duties of local government. Again the suggestion that the experience of fiscal crises is able to provide “windows of opportunity” to reshape the public sector is supported here (see chapter 6 section 3.1.). This chance should be used in seeking a more balanced approach of benefit for all to substitute the current market-oriented paradigm (Richardson and Copus, 2011).

Nevertheless the empirical result shows that the impact of financial crises interacting with central controls converts to a negative direction for the

performance of local government. Taking into consideration each individual effect of the two variables, it is not financial crises but central controls that perversely change the direction of the combined effect. In other words, the negative effect of central controls is more problematic than the context of financial crises, because the negative influences of Remunerative Controls and Coercive Controls are accentuated during the period of financial crises. The finding confirms that central government needs to be careful in exercising its controls over local government when faced by financial crises, there is a clear risk that it is possible to create unexpected results out of government control.

4. Conclusion

This statistical analysis has very substantial implications for central-local government relations and local policy making and therefore deserves close attention. Not longer is the justification for central government intervention in local government the aim of improving the accountability of local government. For decades the centralists believed that central government plays an important role of supporting local governments so they can achieve its objectives of improved performance as well as. However the almighty centre is a sort of dangerous thought. The current quantitative analyses indicate that central controls have restrained local government over the last decade. Unlike the experience in which Korea achieved noticeable development led by central government controls in the era of industrialisation, most central controls have not worked for the improvement of local performance. This dismal finding is beyond our expectation because we know that democratic changes in central-local relations could have achieved an inevitable corollary: increased local democracy and enhanced local performance. Why was the institutional change in central control towards a more democratic way not connected to corresponding improved performance? Further theoretical background and interpretation are presented in chapter 9.

In addition, although national financial crises were revealed to influence local performance positively, their combined effect with central controls seriously damaged local government performance. In short, central controls undermined

performance of local government more than financial crises did. The financial crisis is an external shock beyond the management of government. It may function per se as a positive opportunity to reshape the system or produce positive nationalism to mitigate the financial crises effect. Therefore the more distinctive emphasis should be on the surviving centralism and its negative effect on local autonomy.

Rather, better performance of local government rested on the political and economic circumstances. Experienced elected mayors and governors in local government play a constructive role in improving performance of local government. The longer elected politicians hold office, the better performance is in the short term. Mayors or governors of the ruling party were positively connected with improved local government performance. This means that the ruling party at the national level dominated the local politics as well. Out of the external economic factors, per capita GRDP, was the most influential and thus it significantly increased local government performance in the short and long terms

This chapter has derived important lessons about the nature of evolving central controls and their damaging effect, working from the empirical application of hypotheses as extended case studies. All that remains is to generate policy implications and to reach conclusions so as to synthesize the theoretical discussion and the empirical findings together like a jigsaw puzzle. Chapter 9, therefore revisits the main argument of the thesis on the basis of these empirical results and, in particular, it explores institutional transformation and features of central controls from the perspective of the historical institutionalism. Lastly, chapter 10 is a shorter concluding chapter which will outline the importance of the key findings, review the distinctive contributions made by this research, and speculate on the implications of this thesis for future research and policies.

Chapter 9. Institutional change and the effect of central controls

1. Introduction

So far, the first half of this thesis has discussed the conceptual elements and policy contexts including local autonomy, Korean experience of financial crises, performance management and fiscal institutions of local government; the latter part presented the statistical case study to establish the effect of central controls on local government. This chapter advances the theoretical and practical arguments drawing on the foundation of the empirical findings and seeks to explore the institutional change in central-local government relations. The early material presented the argument that the trend of pervasive central controls has been sustained by a path dependency drawing on the legacy of centralism. Nevertheless, there has been an incremental shift of central controls to a more democratic direction since the extension of local autonomy in the mid-1990s. This thesis contends that in the context of changing central-local relations the mode of central controls would influence the performance of local government. It might be expected that local government would benefit from an institutional change of controls in the pursuit of greater local autonomy and better performance. The financial crises considered in this study created periods of contingency during which the new institutional frame was imported in the 1998 Korean economic crisis and the logic of centralism was re-emphasized in order to mobilise against the recent global crisis. The empirical results showed that the different modes of central controls, which are asserted to represent incremental transformation of central controls, still have a negative impact on local government performance.

How can we explain the persistent effect of central controls, which are saddled with a disadvantageous reputation, even in the era of local autonomy? Historical institutionalism is employed to elucidate the gap between our expectation and the empirical result. Historical institutionalism has commonly organized path dependence around explaining the persistence of a particular institutional pattern, we used the approach in chapters 2 and 3 in order to explain Korean centralism and the institutional factor of the Korean financial crises. The

positive feedback mechanism makes a certain course through which rules generate consequences that enhance the power resource of their advocates and broaden support. The literature on the centralism of Korea would strongly suggest a path dependent account of fiscal controls exercised by central government based on norms of central regulation.

Consistent with the argument advanced throughout this thesis, the central controls of Korea have incrementally changed and thus central-local government relations have evolved from the superior-subordinator relationship to more democratic partnerships. Institutional change has been theorized in a functional way by the dynamic adaptation to the exogenous environment in sociological institutionalism (Peters G., 2012: 140). Historical institutionalism has a limited scope of explanation over the major change of an institution. By contrast, Mahoney and Thelen have developed a more gradual approach to change within historical institutionalism. They mention that institutions often change in subtle and gradual ways over time as agents, who are disadvantaged by current arrangements, routinely seek to revise and supplement the rules. The stability of institutions is not automatic or self-enforcing but requires on-going mobilization of political support by coalitions (Mahoney and Thelen, 2010: 8-9). In this view, change and stability are inextricably linked. In the face of both exogenous financial crises and endogenous challenges from local governments and central government departments must in turn engage in on-going efforts to maintain their power, at times by strategically modifying the mode of controls.

However, the role of path-dependency has a limited power of explanation over the major change of local democracy. This thesis identifies a positive role played by mayors and governors through the empirical study in chapter 8. Also the major changes such as the financial institution and the recent introduction of local income tax cannot be explained by theories of path-dependence. In chapter 6, we mentioned that institutions often change in subtle and gradual ways over time as agents, who are disadvantaged by current arrangements, routinely seek to revise and supplement the rules. The stability of institutions is not automatic or self-enforcing but requires on-going mobilization of political support by coalitions (Mahoney and Thelen, 2010: 8-9). Even though drawing on this view, we cannot explain the strategic and positive decision making for those reforms in the face of

both exogenous financial crises and endogenous challenges. Thus the prospective of path dependency is not perfect and satisfactory to support the empirical evidence from this thesis. In practice, to some degree, current political and administrative actors are free to choose how to behave and are free to make changes to institutional structure. In this respect central-local relations reflect the major 'punctuation' seen in Korean politics by the historic shift to political democracy seen in the 1987 free and direct elections of the President, the National Assembly and, eventually, local councils. Therefore, this study acknowledges some limitation of the theory of path-dependency in explaining the institutional change but employs that as one of important tools to analyse the Korean policy context.

This chapter focus on three principal arguments, each of which departs in important ways from the standard logic of path dependence in Korean centralism (see chapter 2). First, over the last two decades, central elements of the original scheme have witnessed substantial revision: direct and hierarchical controls were overtaken by indirect and normative controls; coercive controls were narrowly rejected and then partially restored in crises. While central controls have not seen abrupt and sweeping transformation, the cumulative effect of the twenty years since extending local autonomy in the mid-1990s is the financial reform. Out of the path-dependency theory, the positive role of politicians and administrators may contribute to modernizing local governments through the financial reform in Korea.

The second major claim is that the most important changes in central controls have resulted from a dynamic process of exogenous shock as well as endogenous sources. Exogenous shocks include at first the introduction of local autonomy in the founding constitution, later the NPM paradigm in policy areas and finally the financial crises. Due to the endogenous factors, the authoritative politics and the centralized culture, the system of local government was paralysed by central government but the challenges from people and the opposition party gave no choice but to allow the devolution of power distribution by extending local autonomy.

The chapter's third argument is that the changes of central controls occur in

relation to the rules and regulations which characterise the institution of central-local relations, but they have not yet ensured changes in the cognitive frame. This point may be related to the negative or neutral impacts of central controls that the empirical results showed in chapter 8, in spite of the institutional changes in central controls towards greater local autonomy. This point is developed in the next section drawing also on the first argument above.

2. Revisiting research questions

2.1. Did central controls affect local government performance?

In order to echo a major theme of this thesis, the research questions are revisited here (see section 3 of chapter 1). Central control of local government is an institution, as it enforces the behaviour of local government (North, 1990: 4). Institutional regulatory processes in central-local government relations are formally designated and centralized or informally administered and decentralized (Scott, 1994: 64). This means that different enforcing mechanisms are supposed to differently shape the behaviour and interaction of the actors. In this view, the different modes of central controls are expected to have a distinctive impact on local government.

Taking a look at the last sixty years, central controls showed 'path-dependence' as a political legacy of historic centralism as we noted in chapter 2. However, economic prosperity encouraged centralism to make way for local democracy and then central controls exhibit incremental changes towards a democratic mode. Change may result from institutional defenders' strategic modifications or mobilizations of control mechanisms, for example the centre's assessment of local government performance (see chapter 4), otherwise from disadvantaged agents exploiting ambiguity and resources embedded in the institutions themselves: for example the localities emphasised the unfair central-local financial structure in order to introduce a local income tax (see chapter 5). In our approach, the local fiscal institution is the consequence of the competing agents of controlling local government or of giving power to local government. This tension affects the significant assets that central or local government can

exploit in the policy process. The relations between MOGAHA and local governments outlined in chapter 5 witnessed this tension between centralists and localists. The disadvantaged agents gradually expand power and succeeded in making their own regulations appropriate for local government accounting, contracting and tax, independent from the laws for central governments.

How do central controls as the political legacy of historic centralism place constraints on local government performance? The core function of central controls is stipulating rules to which local government is subjected as many scholars emphasize the crucial importance of enforcement mechanism as essential for a viable institution (North, 1990: 4). The impact of central government controls does not depend solely on the political structure. It inevitably involves an analysis of history, belief and culture which provides understanding of institutional change and its impact (Steinmo, 2014). Also central government needed to respond to exogenous shocks such as global economic crises. In the unitary country, local government has been exposed to and is seriously affected by these changes. The priority of regulations in intergovernmental relations comes from central controls, which decide how local governments solve problems, make decisions and handle disagreements. Therefore the fairly basic first question from chapter 1, namely whether central controls impact local government performance, is answered in the affirmative and is theoretically explained and empirically supported in the current case study (see chapter 8).

2.2. Did the different mode of central controls impact differentially?

In order to systematically understand the change of central controls we classified the modes of controls into normative, remunerative and coercive controls in chapter 6. The second research question from chapter 1 is about the different effect of the different mode of central controls. Is the normative control exercised by central government positively related with improved local performance? The noticeable changes of central government controls are 'steering' local governments, empowering them to solve their own problems and driving them by 'missions' rather than rules, as Osborne and Gaebler (1992) suggest in *Reinventing government*. The rules and regulations containing intervention by central government were revised or supplemented with those mitigating controls

or those giving initiatives to localities in the process of the NPM style reform (see chapter 5). As a result, the controlling modes over local government have evolved toward normative and democratic ways. The normative controls concern the main issue of the local political arena or ensure the policy compliance of local government to the national goals. The current central controls over local government can obtain political support and compliance when they are declared to increase local autonomy. The normative mode of controls by managing 'ideas' and seeking 'persuasion', thus might lead to better performing local government. The empirical results, however, did not support this positive expectation (see chapter 8). Far from being sufficiently responsible, normative controls have been implemented with a centralist bias to some extent, as we noted in chapter 5. Presumably the different effect of each mode of central control may partly arise from the different degree of force of constraint that each mode exerts: local governments do have a choice as to whether they take up the normative controls and thus normative controls is much democratized and may differently affect the decision making of each local government, unlike the cases of remunerative and coercive controls. The NPM inspired financial reform of local government had lacked ownership by local government in the aspect of local autonomy. Also the normative change of central government seemed not to be supported by the cultural change. Therefore normative controls may not be so influential in affecting performance of local government.

Remunerative controls' positive relation with improved local performance is anticipated alongside the normative controls in chapter 1. Remunerative controls over the financial resources of local government, have been the key policy instrument for central government to make local government comply with the policy or induce them to act in the centrally desired way, either in the past or present. The common instrument in central-local government relations is intergovernmental transfer. Institutionally, centralists have used intergovernmental transfers as a tool in order to constrain the action of opponents for enhancing fiscal autonomy after extending local autonomy in Korea. Actually, the independent local finance was not activated as much as intergovernmental transfers before the introduction of local income tax and local consumption tax, as explored in chapter 2 (see also section 3.3.). This has resulted from the successful institutional defence of MPB over the last two decades during which

MOGAHA and local government did not mobilize enough resources to compete with MPB's centralism. According to the empirical results, despite being a positive way of increasing local income, remunerative controls were revealed not to improve local performance. This negative relation of remunerative controls with local performance is linked to some extent with the sort of fund measured for remunerative controls (see chapter 6). The Korean experience perhaps reflects a more general syndrome. The problem of intergovernmental transfers is they do not entail a corresponding increase in responsibility of local government. This aspect may impact decreasing local performance. As demand for local democracy grows, falling back on intergovernmental transfer tends to aggravate the fiscal dependence of local government on central government.

The third research question from chapter 1 is how coercive central controls impacted local government. The mode of coercive controls is not considered so much as a persuasive instrument with the advent of local autonomy. Neither the normative nor the cognitive culture considers it 'appropriate' or 'takes it for granted' that central government operates any mechanisms of threat and sanctions when greater local autonomy was in progress. But it is different and feasible when it comes to financial crises. During the period of marked increasing of local autonomy, the trend of central controls was also impacted by the financial crisis. MOGAHA and MPB revived coercive controls to respond to the financial crisis. MOGAHA directly controlled local finance and spending in the name of emergency regardless of legal basis. They may be another deviation from the recent trend of central controls. Some studies warn about the economic effect of emergency spending and politically coercive controls involved the serious loss of local democracy (see chapter 5).

In summary, the different modes of central controls have not improved or have negatively impacted local performance since the popular election of mayor and governor. In particular normative controls showed empirically no significant relation with variation of local performance. In spite of the rule change in fiscal institution, the central control to constrain local government has been in an equilibrium that remains in place where there was insufficient value placed on local autonomy. Caution is needed in making too bold a conclusion but the dismal empirical results might be partly explained by incomplete institutional

change. In other words, central controls in part were changed at the level of regulatory aspect but did not complete the cognitive cultural change. This can be explained by the different pace of change between quickly-moving and slow-moving institutions (see section 1.2 of chapter 6). The political institutions can change quickly but normative and cognitive aspects of institutions move slowly. The change in political institutions may lack the cultural basis needed to make them successful (Peters, 2012: 141). There may be uncertainty and conflicts between the long term legacy of centralism and the more democratic governance. Due to inexperience and lack of understanding about NPM-style financial reform, local government seemed to lack the capacity to process information about the new mode of central controls and to reach an appropriate decision from that information.

The incomplete cultural change was revealed in the disjunction of the expected role and realized role of elected mayors and governors. Setting aside the evidence that the elected mayors and governors are positively related with improved local performance (see chapter 8), they did not exercise the expected strong political leadership during the recent financial crisis in order to reflect prosperous local demands in the national political debate. Thirteen of the elected mayors and governors out of 16 regions came from the same political party, the Grand National Party (GNP), as that of the president and the majority of the members of the National Assembly. They seemed to be constrained by the party discipline of GNP and did not respond to the expected role demand of ensuring local autonomy. Thus they complied with the national mandates during the financial crisis in 2008-9 rather than acting on behalf of the locality, promoting and protecting autonomous interests from the national interest. In addition, 13 local councils were occupied by the same ruling party except *Jeonbuk*, *Jeonnam*, and *Gwangju* in which the Democratic Party held office (see chapter 2). Therefore the elected local politicians, both mayor and local councillors, were influenced by the same political party discipline and policy orientation, which hindered 'the effective scrutiny' over the executive local government by the local council (Leach and Copus, 2004). So to speak, facing the conflict between local autonomy and central control, the elected local politicians failed to alter the conventional dynamics of political decision-making. Instead they preferred to find security in the party based political interaction like 'old wine in new bottle' local

democracy (Copus, 2004a). The ruling power failed to recognize the need to strengthen local democracy, as the role of local government was not fully appreciated by the successive governments (Jones and Stewart, 2012).

2.3. What was the impact of financial crises?

This thesis is also concerned with the relationship between control and performance in the environmental context of fiscal crisis, whose focus is driven by the experience of economic and fiscal crises over past years in Korea. The 1997-8 Korean economic crisis was the unintended consequence of a series of liberalization policies by the Economic Planning Board made in the 1980s (see chapter 3). This crisis was an opportunity to undertake reform and leap out of conventional practices. The public sector in Korea came to implement the unprecedentedly large-scaled institutional reforms including performance assessment, programme budget and accrual base accounting (see chapter 5). Central controls emphasized the responsibility of the NPM reform, and simultaneously the increase in local autonomy. On the other hand, in order to shield the economy from the terrible impact of global economic crisis in 2008, the Korean central government returned to the traditional centralism and started to exercise the direct control over local government finance. At this time, the trend of central control demonstrated a reversal of institutional change, that is, the more democratic ideology that had been guiding central-local policies after the extension of local autonomy seemed to revert to more conventional centralism (see chapter 3). This is a paradoxical reversal of historical institutionalist explanations which fall back on the external shock when they explain institutional change. One research survey which was published in February 2015 by the National Association of Mayors demonstrated how the people appreciated Korean local autonomy after the 2008 financial crisis. The respondents agreed with the positive role of local autonomy, answering that local autonomy contributed more to the distinctive development of the regions (43%) than increasing local democracy (33.8%) (NAM, 2015: 12). Most respondents, however, empathized with the centralism and felt that local autonomy should be marginalised in various fields in society (77%) (ibid: 10). The result of the survey confirms the central government reverts to the traditional centralism after the

financial crisis.

The impact of the financial crisis, returning to centralism, constitutes another piece of evidence to disapprove that there was cognitive change in favour of democratic controls. Without deeper and lasting cognitive cultural change, the trend of central control could easily revert to the past convention. The agents of central government officials, elected local politicians and the electorate have the potential to change the cognitive political culture. Why did the normative and cognitive frameworks remain unchanged despite the change of rules? The next part highlights what institutional transformations and restraints have happened regarding the evolution of central control modes.

3. The institutional changes in central-local relations

3.1. Dynamism of central controls

The introduction of a local autonomy system which was chosen to provide an element of political democratization in the first constitution in 1948 foreshadowed the major change in central-local government relations. The local autonomy system was suspended for over thirty years by the military governments (see chapter 2). As a result, the closed policy decision and undemocratic institutional arrangements yielded negative feedback effects. First, monolithic central controls provoked challenges from groups who were disadvantaged by strong centralism. The abolition of local autonomy excluded citizens from the political process and reinforced the centralization of power. The rank and file participated in a movement for democracy. Responding to people power, regulations started to schedule local autonomy from the end of the 1980s to the early 1990s. Second, the political choice to be a laggard in implementing local elections despite the legal grounds provided its opponents with crucial opportunities to reverse the situation. Opposition parties insisted on an urgent and strong local autonomy system and the reduction of central governmental interventions in local politics. Consequently, the President and central politicians could not maintain the authoritative centralism through emphasizing the national security as a divided nation; they could not necessarily prevent the extension of local autonomy.

Change did not emerge solely from the choices and strategies of institutional opponents. Indeed, central government was an important change agents in the historic development of the trend for more permissive regulation over local government. However, the empirical evidence sheds light on the excessive regulation of central control to the extent that most central controls have no substantial contribution to increasing local democracy, as we explored in chapter 8. Over the last two decades central government has loomed much larger than the basic constitutional value of local democracy and the consensus about local democracy. The intention of the Constitution which limits local government by the law is perhaps to permit central government and the National Assembly to facilitate local government to realize local democracy through the state law. This result suggests that the present central controls need to change to the direction of enhancing the value of local government and local democracy which is pursued by the Constitution.

Historical institutionalists frequently call attention to ‘punctuated equilibrium’ when it comes to explaining major institutional change followed by periods of stability (Krasner, 1984: 242; cited in Peters, 2011: 78). In this view, the point of punctuation was when popular elections of local politicians resumed. Since then a ‘punctuated equilibrium’ of mitigation of central controls has existed in the central-local government relations in Korea. Local government has evolved into the partner of central government in implementing policy and providing services. The contour of central controls was specified in line with the financial regulations and reform in which we can clearly observe substantial changes of the central-local governmental relationship in chapter 5. A series of endogenous processes caused the controls exercised by central government over local government to change. The conflicting values have coexisted in the policy mechanism to increase local democracy on one hand and to increase central controls on the other hand. Toward a more positive and democratic direction central controls were assumed to change with elected local politicians. The dismal touch of financial crises, however, would hamper these from having a fairy tale ending. It is in the nature of crises that they can shock policies and institutions into new paths (Wilks, 2014). Central government was exposed to pressure to enforce drastic controls over local government in order to promptly respond to fiscal crises and achieve the national goals, which caused a reversion to the central

pattern towards a greater local autonomy.

3.2. Unfulfilled normative and cognitive changes

Conventionally central government has authoritative, monolithic compulsory capacity to exert governmental power. In order to prevent the evil of centralization, local government has been considered as an important intermediate authority elected by residents, and has the power to deal with purely local business (Mill, J.S., 1910: 385-390). The term, 'local autonomy', has been perceived on equal terms with democracy in Korea, but it is important to establish who has power to influence and how evolving central controls enhance or impede the operation of effective local autonomy. Presidents and their governments were influential in triggering the change but the organizational characteristics of MOGAHA in the strategic situation did not ensure the full-fledged change.

The political elites who were the leaders of pro-democracy demonstrators and then came to hold political power as President after the military regime contributed to the democratic change of central controls of local government. Due to their prominent leadership and consistent policies for the increase in local democracy, the local autonomy system could be stably institutionalized. The democratizer Kim Young-sam's coalition with the authoritarian dictator's party (see section 2.5 of chapter 2) provoked controversy. However consequently, he became a President and held the election of mayors and governors in 1995. The incoming President Kim Dae-jung was the most respectable democratizer. Based on neo-liberalism he reduced the number of local officials by 20% in order to overcome the Korean economic crisis by aiming for small government. Understandings about the nature of the strategic situation in which they found the role of central government, the characteristics or identities of elected mayors and council members and the common expectations as to how the local autonomy system would evolve, consequently produced strategic government reorganization. The Ministry of Interior which had existed with the creation of the Republic for the supervision of localities was merged with the Ministry of Government Administration into the MOGAHA in February 1998. Of MOGAHA the departments of Local Administration and Local Finance make policies to increase local democracy and protect local government interests from the other

central departments' policies.

While Kim Dae-jung was devoted to overcoming the economic crisis, Roh Mu-hyun diagnosed vulnerabilities which caused the economic crisis and tried to change the fundamentals of Korean political dynamics. He was detached from the established groups and thus rejected political authoritarianism. The NPM styled reform was adopted for his policies by following the advice from the academic circle. The public management reform put weight on outcomes, reduced government and market solutions like the Anglo-Saxon model. That is the reason why the normative controls emphasizing performance and responsibility through the financial reform were introduced in the Korean government. President Roh Mu-hyun and his close staff believed that sharing the ideas of 'outcomes' and 'innovation' in the process of the reform was connected with the way of increasing democracy and enhancing performance. MOGAHA conferred the discretion to local governments regarding whether or not they accept normative controls in order to enhance their responsibility. Perhaps MOGAHA did not have enough information about the NPM reform, thus decision making seemed to pass down the line in the name of participation. MOGAHA proposed and encouraged the NPM inspired reform and then local governments decided to accept it or not by considering their organizational capacity and condition. By resorting to normative mechanisms the central government could transform a direct, compulsory and hierarchical form of controls to an indirect, persuasive and horizontal one. MOGAHA abandoned multiple ministerial regulations of organization, personnel and finance of local government. As the local autonomy system developed and matured, however, the functional base of local policy making of MOGAHA tended to decrease because, in creating local democracy, central government should play an advisory, supportive and monitoring role in respect to local government (Goldsmith, 2003: 115).

In the tradition of classic bureaucratic politics MOGAHA was obliged to defend its influence. The department of local finance of MOGAHA was threatened to be merged with the far-more centralist MPB whenever there was a debate for a government reshuffle. To ensure policy compliance in the central-local relations and to maintain the substantial power of the organization, MOGAHA tend to disguise the controlling mechanisms in the name of normative

and democratic institutional change (see chapter 5). More legal based functions which are authorised by the National Assembly were believed to bring less possibility of MOGAHA being disintegrated. In addition, the static and closed personnel management system rarely gives the chance to change the monolithic policy vision of MOGAHA. Most officials come from the open-competitive exams and receive guaranteed retirement. Thus the department of local finance in MOGAHA has a very conservative policy vision, even though it is only they who represent the interest of local government at the central government level.

The characteristics of changing agents are connected with the reason why the normative and cognitive institutional elements did not change more substantially. The change of norms might be interrupted by public officials' strategic understanding because their minds are not blank slates on which cultural, normative and social information is simply recorded (Steimno 2014: 9). Culturally shared understandings and meanings are crucial to selecting between the possible strategic equilibria. They could not block the legal change because they had concern for political responsibility under the increasing pressure of local democracy. Instead, presumably their shared understandings of normative controls were 'clothes which are unfit on the traditional centralized bureaucracy' in the light of history and experience. Thus the normative control was introduced not as an outright rejection but a process of addition to the centralised culture. As a result, agents of MOGAHA and local officials became faint-hearts who changed the regulation but their mind did not accept the normative changes with the embedded assumptions of a positive state. Actually, normative controls seemed not to change the cognitive culture of central and local governments. This can explain to some extent the unexpected empirical results that the normative controls did not result in improved local government performance.

Nevertheless, there existed real change in local democracy or performance for a while. Elected local politicians came to obtain more authority and power, while central controls tended to be more normative and democratizing in the political arena. Elected politicians in local government were revealed to play a constructive role in improving performance of local government. They strategically managed and occupied local government and also actively participated in the national politics as well. The relations between local officials

and the elected mayors have changed. Local public officials may have been more prone to follow the elected politician rather than to accept central controls where there was a policy conflict. Elected politicians as the chief executive hold full authority in personnel and organizational management of local government, so local public officials are immediately subjected to the elected politician. The statistical study indicated that the more experienced elected politicians are related with more improved performance of local government (see sections 2.2 and 2.3 of chapter 8).

The democratization of central controls has an important implication for local democracy because most local political rules are decided by central government. Two of the key vehicles of local democracy are representation and direct participation by the citizens which have been encouraged by central government. Various direct participation institutions were introduced recently, although the election of representatives was implemented right after establishment of the Republic of Korea. MOGAHA introduced the referendum in 2004, the resident lawsuit in 2006, and the local recalling system in 2007. The local recalling system endows residents with a formal channel to dismiss the head of the local government or councillors by residents' direct voting. The residents could demand the vote by getting signatures from 10% of residents in the jurisdiction in the case of the governor of regional government. In addition, council members were changed from non-paid to pay-awarded in order to vitalize local councils by attracting local elites from 2006 despite the opposition and concern from the public

At first glance, therefore, central-local relations in Korea appeared to become democratized and favourable for local government; however, beyond the local autonomy rhetoric there is no doubt that even normative central controls is not significantly effective in terms of local government performance. This thesis carefully suggests that the normative change of central controls might not be supported by cultural change and might just be regulated by MOGAHA's biased and self-interested inclinations.

3.3. More fiscal power to local government

With the growth in prosperity and the associated expansion of public services which are operated by local government, central government needs to take measures to expand the financial power of local government. One of the priorities in central-local government relations is intergovernmental transfer which frequently addresses vertical and horizontal fiscal imbalance between various levels of government. Korea's Shared tax is based on the entire pool of central government tax revenues with coefficients set in law which provide local government a degree of predictability about the constant level of local revenue. However, this method imparts considerable rigidity to the central government and the fiscal tightening by central government can be diluted as an increase of Shared tax boosts the capacity of local governments to spend (Ter-Minassian, 1997). Many mandatory programmes such as free education or the basic pension are transferred without choice to local government as a form of grants project. Fiscal conflicts between central and local governments have been growing with the increasing scale of grants projects.

It is argued that many countries decentralize expenditure by ramping up intergovernmental transfers rather than building up the local tax base (Rodden, 2002: 684). In many cases, only central government retains the power to determine the type and scope of local taxes and thus a tax system that fairly distributes the resource between central and local government is uncommon, which is one of the most crucial factors in the financial health of local government (Sharpe, 1981: 9). The problem is that an increase in intergovernmental transfers does not entail a corresponding increase in responsibility of local government and this study shows that statistically it is not related with improved performance of local government. In addition, over recent years the government has curtailed economic incentives and benefits due to the limited budget. The nature of fiscal crises legitimates reductions of policy instruments and justifies a retrospective resort to coercive controls.

Nevertheless, the fiscal institutions of local government have witnessed unprecedented changes in less than twenty years of extended local autonomy. A series of tax reforms of local government since 2010 have contributed to intensifying the financial autonomy of local government by introducing local

income tax and local expenditure tax (see chapter 5). Local taxation is a major structural change which deserves to be regarded as politically extending local autonomy in Korea. The statistics show that the ratio of dependent finance to the total revenue of local governments has decreased from 54% in 2002 to 42% in 2013 and the ratio of local tax which is independently raised, has increased from 32% to 34% in the same period (LOFIN, 2015). This trend is optimistic in the light of the theory that democratic decentralization can develop if there are concomitant financial resources (Manor, 1999). As a justification to increase financial power of local government, central government gradually increased the rate of shared tax from 15% of total national income in 2000 up to 19.24% in January 2015. Shared Tax is known as being more conducive to local autonomy in the sense that local government has a say in how the money is spent. The general portion of shared tax is not accompanied with the conditions that constrain spending policies of local government. It requires full spending responsibility of local government. If local government considered shared tax as common pool resource and competed to gain more, it seems reasonable that local government would be less motivated to spend it efficiently and take a corresponding accountability (Plekhanov and Singh, 2007).

Also, the present study showed Remunerative Control through the increase of Shared tax did not have a positive influence on performance of local government (see chapter 8), even though a considerable monetary resource was handed over to the local government. This means that expansion of intergovernmental transfers did not make recipient local governments become responsible for their spending from the perspective of fiscal performance. There are several reasons to believe intergovernmental transfers generate cost and that local government may be more inclined to overspend, undertax and manage poor fiscal performance. These reasons may arise from principal-agent theory, or the common pool problem. Principal-agent literature outlines why politicians and public managers may lack proper incentives to effectively audit and control local spending (Balaguer-Coll et al., 2007: 435): for example, bureaucratic slack (technical inefficiency) increases with the increase of local government income (De borger and Kerstens, 1996: 162). The common pool problem stems from the separation of the costs and benefits of public spending. When a public project benefits predominantly a particular jurisdiction but receives financing through

common pool of tax, local governments pay only a small fraction of costs of a project while enjoying a large share of its benefits. The lack of full responsibility for the costs of a project results in excessive spending and creates a clear incentive for local government to compete for intergovernmental transfers that enable them to finance region-specific projects out of a common pool (Plekhanov and Singh, 2007). In this sense, the introduction of local income tax and local consumption tax in 2010 is a ground-breaking development in the Korean history of local autonomy, as we noted in chapter 5. The local consumption tax, 5% of value-added tax in 2010 has been increased to 11% of value-added tax since 2014 (KIPF, 2015). The local income tax with a single tax rate of 10% that was added to the existing income tax at the moment of introduction was switched to the independent taxation system using differing tax rates in accordance with the income tax base in the recent reform of 2014 (KIPF, 2015). In the future, the financial autonomy will be strengthened through independent taxes rather intergovernmental transfers.

In summary, the increase of local income is not always linked with improving fiscal performance. Even the positive direction of remunerative controls does not increase performance of local government, if it is not linked with responsibility of local government such as in the case of own-tax revenue. In most cases where there is an increase in transfers, a corresponding increase in responsibility of local government does not necessarily ensue. Fortunately it is a huge development in decentralization policy in Korea. The portion of independent tax is growing in the finance of local government. The development and the expansion of local income tax and local consumption tax are expected to enhance spending responsibility of local government.

3.4. The resort to coercive controls

Coercive controls based on the 'command-and-control' regulatory policy instrument are the quintessential mode of control in hierarchical governmental relations. But we frequently witness a form of coercive control by central government, without allowing choice of local government despite the democratic intergovernmental relations. In particular, the recent fiscal conservatism demanded lots of patience from local government. This phenomenon might

support the idea that the institutional path of central controls has been repeatedly modified by exogenous shocks. The expanding government expenditure comes to greater prominence in adjusting the cyclical downturn caused by the global crisis (Kim and Hur, 2013: 21). The response of MOGAHA to the financial crisis to was revert to the traditional assumption that local governments were central government's agencies complying to central mandates. The establishment of local democracy was sidelined to overcome the fiscally troubled conditions. The financial crises induced more direct controls of local government expenditure and more oversight of the functions of local governments (see chapter 5). During this period, the fiscal health of local government deteriorated severely: the deficit of consolidated financial balance of local government increased from a surplus of 3.2 trillion (Won) in the financial year of 2008 to a deficit of 18.5 trillion (Won) in 2009 and the burden to pay local debt increased by around 4% according to the 2010 Local Financial Diagnosis (MOPAS, 2010). Coercive controls exerted on local government were perceived to be the most efficient and influential to achieve the aim intended by central government; however, they are shown to have a malign influence on local government as confirmed in chapter 8. The negative effects of coercive control were accentuated when it was combined with the financial crises according to the statistical results.

Coercive controls exercised by central government are frequently correlated with improved performance of local government where that local government has failed to manage their financial soundness or good performance, which sometimes justifies central government's intervention in local government (Andrews et al., 2005; Lowndes, 2003). However this is not the finding of the present study. Many coercive interventions proved to be ineffective and excessively costly because they addressed situations reasonably well managed by the forces of the marketplace, and those interventions that in principle have an effect up to a point also tended to be pushed beyond a point at which marginal costs exceed marginal benefits (Lemaire, 2003: 59). This finding stressed the optimal degree of central intervention; therefore, there was a marked parallel with the role of central controls in the central - local relations. Coercive controls should be more considerately adopted in policy implementation. For example, JPA can be seen as a coercive control from the point of view that local government should be assessed on its performance by central government without choice, and if not,

local government is threatened with a penalty and legal responsibility. Nevertheless, JPA has contributed to improving central and local government relations by recognizing and solving the problems of the policy evaluation in local government. Before JPA local government struggled to respond to more than 70 kinds of individual assessments carried out by multiple central governments as seen in chapter 4. JPA integrated almost all assessments in one comprehensive performance assessment reducing the assessment burden, time and budget. In spite of the reshuffled government, JPA sustains the role of integrating national policies and improving performance of local government.

We need a wiser approach to devising and exercising coercive controls in intergovernmental relations. Coercion is not desirable and sustainable if it demands the sacrifice of one part in the democratically changing central-local relations. By and large, coercive controls are exercised for the national policy goals. In this study, coercive controls on local spending did not contribute to improving local fiscal performance; instead it did achieve the policy goal centrally set: adjusting the economic cycle and stimulating the economy. Coercive controls can be persuasive when planned together with local interests. In this case, coercive controls chemically change to voluntary co-operation with central government. The preferred example is the introduction of JPA. With definite legal expression and sharing reciprocal interests ensuring local government compliance, coercive controls can be positively exercised in the central-local policy area.

4. Conclusion

In this thesis the central controls subject to the process of financial reform in Korea have assumed a particular trajectory, one to a considerable extent determined by the unique circumstances of the increase of democracy in local politics and of the emergency in the national economic condition. The tone of central controls has been relaxed from the previous hierarchical mandates of unilateral command. More democratic, persuasive and normative modes are perceived as important to ensure the increase in motivation or responsibility of local government, especially given the associated expansion of public services

operated by local government. In particular, MOGAHA's normative controls of local government were introduced in the context of NPM reform under the strong demand for government innovation by President Roh Mu-hyun. Through the review of institutional changes and the statistical analysis in the area of local government finance, this thesis came to the dismal conclusion that the normative institutional change of MOGAHA, like the traditional modes of controls has not been connected with improved performance of local government in Korea. This evidence supports the view that central controls have hampered local government over the past decade or so. Even after the revival of local autonomy in Korea, the majority of controls are still negatively related to improved local government performance. This result may be explained from the perspective of institutional stability and external impact of central controls which central government holds in intergovernmental relations. Or focusing on the process of creating a system of institutional performance, the relaxation of central controls remains only at the level of regulation but do not expand to the norms and the cognitive culture of local government. The change of central controls was not sufficient and thus institutional performance could not be connected to improved performance of local governments (see section 1.2 of chapter 6).

This chapter therefore examined the institutional under-development of the normative and cognitive framework of central-local relations. The change agent, MOGAHA, identified its concern about the vulnerability of organizational sustainability while adjusting to the increase in local autonomy in the strategic policy situation. The closed personnel management system of MOGAHA reinforced culturally shared assumptions of the enduring positive role of the state. So they showed the behaviour of a laggard in climbing aboard the normative and cognitive level of change after the legal change. The legacy of the past was so influential in the public sector that the NPM styled government innovation seemed to conflict with the cultural historical backgrounds. Various historical factors such as the deep-seated patriotism of a divided nation, the state-led economic development and the overcoming of the financial crisis are enough to give the public trust in the central government. As a corollary, the normative control, giving more discretion to local government, could not play a positive role in increasing local performance. Before assigning blame for inadequate reform ideology, which put weight on market solutions so conflicted with the culture, the

extreme trust in and expectation of central government's role needed to be 'changed for change'.

The financial crises have created a great reversal of the decentralizing trend of central controls as seen in chapters 3 and 8. The policy responses revealed democratic progression was partly ignored and centralization in decision making came to the fore at the moment of crises. The restrictive circumstances in financial crises cajoled policy makers to resort to coercive tools. Coercive controls appear attractive methods to efficiently supervise the whole subordinated organizations and to directly solve the problematic conditions. In this way, crises legitimated strong central controls and suspended democracy. It was inevitable that local values and outcomes tend to be damaged from excessive and inappropriate interventions of central governments.

Influenced by the history, central controls exist to ensure that the local governments are themselves subject to central regulations. Central controls should focus on the normative and cultural change for democratic change to give more authority and financial power to local government. This confirms that the institutional change occurs not through a monolithic or unified way but the complex interaction between rules and cultural framework.

Chapter 10. Conclusion: nurturing local democracy in Korea

1. The incongruent changes and retarded performance

Local governments are subject to strong institutional pressures imposed and policed by central government as regulator, auditor and inspector. The nature of local democracy involves the devolution of power and prevention of the evil of centralization by sharing power with the people. Korea embarked on local democracy as an historic, progressive and open-ended change to its political system in the early 1990s. This brought the epoch-making development in central-local relations. As we explored in chapter 1, the Constitution protects the Korean local government and also permits the state law to regulate the local government system. Therefore the existence of local government cannot be denied without the revision of the Constitution. The local government system, however, has been subjected to the central legislation and the control of central government. Since the epoch-making development in central-local relations, the institutional change has been directed toward to creating more effective local democracy. As a result, the Act of Local Autonomy and the Local Finance Act have been reinforced to give more power to local government and to develop more democratic central local government relations.

The hypotheses and expectations outlined in chapter 1 started from reflections on the researcher's experience as a central government official in the local finance department of MOGAHA. This created a belief that the redesign of central controls had encouraged greater local autonomy. Contrary to our expectation, this thesis empirically found that most central government controls are still related to the negative or neutral influence on local government performance despite the formal arrangement of more democratic central local government relations.

This empirical evidence shed light on the current status of local government which is more seriously subjected to the central government controls than is implied by the delegations contained in the Constitution. The systems operating to constrain local autonomy include the external institution such as the law and

internal environments such as the culture. These systems, especially central government controls, did not realize the basic constitutional value of local democracy and the consensus about local democracy.

The interaction between regulative and cognitive institutions in operating the local government system has constrained the operation of local government's tasks. In the aspect of regulative institution, the NPM styled fiscal reform was considered as a 'more democratic' mode of central controls in this thesis but the empirical evidence implicates that the NPM reform was not actually 'democratic change' but just a 'technique' of the new managerial paradigm, at least, in the Korean policy context. The emphasis on performance and autonomy of local government was a slogan of the NPM, apparently seeking to transcend strong centralism. In reality, the way of implementing NPM was not an outright rejection of centralism but perpetuated a centralist's bias. The nature of the central controls over local government has been substantially conservative and resistant to the democratic change. On the other hand, in the aspect of agents of change, central government officials resisted the transfer of power to local government because they feared to lose their enormous power in central-local government relations. The devolution of power was a menace to the MOGAHA and MPB. They, therefore, showed a tendency not to abrogate the traditional role without alternative controlling mechanisms outlined in chapter 5. MPB could not try to incorporate the local finance into the national finance due to the changed political condition of local autonomy. Instead MPB intended to surreptitiously monitor local finance through the connection of the central local financial information system, in order to monopolize the government financial information. MOGAHA intended to vitalize local autonomy at least through the legal change but desperately intended to maintain central government authority over local government. As a result MOGAHA retained the ministerial power to issue orders and regulation in the process of reform.

The cultural adhesion to expectations of central direction outweighed the piecemeal change of central government controls. Thus, local government officials were sharing the cultural historical understanding of the superiority of central government which was accumulated by the long history of Confucianism, the security needs of Korea as a divided nation and the successful experiences of state-led development. The local government leadership thus did not take a

leading part in the process of the reform. The financial reform of local government was led by central government and local government lacked of the available information and the formal channel to participate in the reform. This result suggests that the current central controls need to change in order to enhance the value of local government and local democracy which is enshrined in the Constitution. The democratic changes of central controls remained only in the level of regulatory and normative aspects and were not supported by the cognitive culture in which the interactions between central and local governments process new information and reach appropriate decisions from the reform.

Also what cannot be ignored in interpreting the unexpected empirical evidence of sustained central controls is the application of the theory which is used to support the positive relations between political democracy and government performance in chapter 1 and 6. The normative controls represent the changed mode through which central governments tend to give more discretion to local governments and to suggest the idea of outcome and responsibility rather than to centralize power and to directly control local governments. The normative control, thus, means a 'more democratized' mode than the coercive control. The expectation of its positive effect was based on the literature about the relation between democracy and government performance, in which a positive relationship exists between the level of democracy and the government performance across countries (Adam, A. et al, 2011). The democratic change in controls exercised by central government is assumed to enhance the local democracy. In turn the increase of local democracy is supposed to link with improved performance of local government because the growth of local democracy holds elected local politicians accountable and thus motivates the elected mayors to enhance performance in order to remain in power. However, most of the effective practice of a democracy depends on the existence of a link between the citizens and the public management of local government (James and John, 2007:567). The connection between public management performance and political behaviour fills the gap in the theory which we used for the expectation of normative control. Elected politicians need to improve local service performance of which electors might take more account in local elections where the responsible public bureaucracies are under direct control of elected politicians (Boyne et al, 2009: 1274). In this sense, a gap might

exist between the JPA performance and the citizens' voting. The published JPA performance information did not appear to substantially impact the following election of mayors and governors after the publication of JPA according to the recent electoral outcomes (see 4.4 of chapter 4). The inconsistent empirical result of normative controls with the expectation might be evidence disproving the links between JPA performance and electoral outcome. Thus the theory was not applied to the present thesis. Importantly, further research about the relations between public management performance and political outcomes is required to confirm this speculation.

This thesis also identifies a counter-intuitive effect in the operation of central government control over local governments' financial resource. The remunerative control is employed for central government to expand local resources by intergovernmental transfers and was proved to work negatively for local government performance. The theory of different spending responsibilities for different resources can explain these outcomes. In other words, central government's strict overseeing of spending earmarked subsidies could enhance efficiency of local government (Geys and Moesen, 2009), whilst unconditional grants received from the higher layers of government stimulate inefficient spending by local government (Moesen and Cauwenberge, 2000). Remunerative controls by expanding unconditional intergovernmental transfers did not make recipient local governments become responsible for their spending from the perspective of fiscal performance. We can conclude that MOGAHA and MPB must stop the convention of utilizing the shared tax system (unconditional intergovernmental transfer) in order to conveniently address the political and financial needs of local governments.

Another interesting finding is the connection between political factors and local fiscal performance. Elected politicians in local government were revealed to play a constructive role in improving performance of local government. The longer elected politicians hold office, the better performance is in the short term. They strategically managed and occupied local government and also actively participated in the national politics as well. The ruling party mayors or governors were revealed to have a connection with improved local government performance. This implies that party politics at the local level is nationalized, centralising on the ruling party. Considering the abolition of local party branches in 2004, the

problem of lack of communication between the party and the citizens, and unfair political competition between incumbent and the challenger in local politics might intensify the centralization on mayors with the ruling party.

Moreover, the questions also considered a growing concern about financial or fiscal crises. Unexpectedly, the statistical results demonstrated the complex effects of the financial crises. The positive impact of the financial crises reflects the experiences of Korea which has been resilient against crises, drawing on the deep-seated patriotism of South Koreans. But when interacting with central controls, their combined effects were suddenly changed to be negative. This evidence implies that the financial crisis can be an opportunity to induce responsibility and thus enhance the performance of local government but during the financial crises inadequate central controls may hamper the management of local government.

The simple message of the statistical analysis demonstrates that despite changed political environment overall current central controls have no positive link with local government performance. Central controls seem to evolve into democratic governance after extending local autonomy but institutionally this change has been 'retarded' in Korea. Taking into consideration the stability of centralism (see chapter 2), the democratic change in central-local relations may conflict with hierarchical culture and convention. If the experimentation toward a greater local democracy was supported by the cognitive aspects of institution, it may enhance an increase in local democracy. Therefore central governments need to pay attention to changing the policy culture. The government officials prefer reforming the regulative institution to changing the culture. It takes considerable time to change the cognitive culture and history which inform the operation of the law. It is difficult to capture the subtlety, the importance and the implementation of cultural change. The cultural change, therefore, is easy to be ignored by the policy makers. However this thesis revealed that only the regulative change for local democracy did not produce the expected results of improving the performance of local government. The regulative institution should be supported by the shared culture, in order to achieve the goal of the reform. The Korean government lacks of more democratic, horizontal and creative intergovernmental relations in a policy culture that emphasises trust, equality and creative partnership, in order to nurture local democracy. In this sense, the lesson

of this study promotes awareness of the incongruent reform that focuses mainly on regulative change. The incongruent change cannot nurture local democracy because the systems operating local democracy did not chemically combine with the supporting norms and culture. Now the central government should make an effort to change the cultural aspect to bring the democratic central local relations and to increase local democracy.

2. Distinctive contribution to knowledge and review of the research

2.1. Contribution

This research traced the historical context of central controls and local autonomy and thus allows a deeper understanding of the dynamic transition of central-local government relations in Korea. Also it undertook a statistical analysis to elaborate the effect of central controls on local government over the past decade or so. Therefore it provides the empirical evidence to inform central-local government relations and allows practical applications to the policy of local government. This study contributes insights towards an open-ended reform process that is still evolving.

First of all, this thesis draws on primary data in Korean and the thesis as a whole presents perhaps the first extended discussion in English of democratic local government in Korea. It therefore provides a unique resource for those studying Korea or researching on comparative local government. Korean local government was paralyzed until the 1990s. Even after extending local autonomy with the influence of growing democratization and economic development, the issue of Korean local government has not been actively studied because of language barriers. This study provides important information about the historic context and the current institutions of the Korean local government (chapters 2 to 5). In the light of the development of local autonomy, this study has the potential to offer useful data and valuable lessons informing the development of central and local government relations in the wider field of the public sector.

Second, this thesis contributes to the established body of knowledge as follows. Central controls' varying effects identified in this thesis are consistent with the findings of the growing body of literature about performance, in which supportive central control through inspection by central government has no independent effect on public service performance (Andrews et al, 2011: 45) and over-control by central government has a detrimental effect on local performance (Revelli, 2005). However this is a different result with the orthodox understanding that the supportive regulation, which is considered by regulatee, is more likely to have positive outcomes in public services (Hughes, et al., 1997). In the aspect of policy instruments, the overall results in this thesis are parallel to the accumulated literature where coercive regulations have some devastating side-effects and lack effectiveness in some policy contexts; economic policy instruments such as subsidies and grants are preferred instruments, but their effects vary according to the culture and political structure (Bemelmance-Videc, 2003:10-11).

The need for cultural change inside central government and political parties is highlighted in this thesis for the politics of central-local relations. The accountability to citizens has been frequently neglected by fractional party politics or in responding to a nationally preferred agenda. Central government departments have seen local governments as agencies for the provision of services in accordance with national policies rather than as local governments which are accountable to the needs and aspirations of local communities and citizens (Copus, 2014: 170; Stewart, 2014: 846). Sharing the mind-set of obeying central government and national parties at the local level was a positive cultural background for rapid economic growth but is not any more for the move to greater local autonomy. The Korean experience is being handed down to neighbour countries such as Mongolia, Vietnam and Egypt. They dispatch many officials to benchmark the Korean local government system. Korea is a typical transitional country which has moved from authoritarian government to democratic regime but had atypical 'continuous revolution'. The study of the Korean reform will be an interesting country case for comparative research with other potential country cases.

While the literature of performance management in the public sector has a

lot of information about how the performance principles affected how the public bodies operated, there is not much hard evidence as to what differences in outputs and outcomes all this change has produced (Pollitt and Bouckaret, 2011; Bouckaret and Halligan, 2008). In this sense, the present study provides empirical evidence that the NPM fiscal reforms have no substantial impact, at least on the fiscal performance. This implies that the NPM fiscal reforms encountered, so called, cultural resistance; local governments were just 'regulated' by the central government norm. So this thesis provides a country case-study other than Anglo-Saxon and CEE countries in that Korea has sustained a series of NPM reforms without interruption even after government changes and responses to the recent financial crises.

Third, this thesis undertook the first empirical test focusing on fiscal institution through which central government exercises control over local government. The empirical research discovered a theoretical link in the form of a negative relationship between central controls and local government performance in Korea. It stresses that an increase in the independent finance ensue a corresponding increase in spending responsibility of local government, as opposed to intergovernmental transfers. Thus the benefit of local income tax is linked to improved local responsibility. The previous study has investigated the effect of fiscal decentralizations on a range of characteristics within the public sector, which include the level of corruption, budget size, the level of economic growth and the degree of political stability (Osung Kwon, 2012). This thesis measured controls exercised by central government in the process of reform of the local financial system. It is worth diagnosing the current position of central local government relations of Korea in light of the degree of centralization. This thesis has theoretically analysed varied political and administrative consequences of centralization in the Korean context. This provides important lessons to government practitioners as well as the academic circle about the direction of decentralization. The traditional central controls need to be moderated by the consideration of the impact on local government and also new experimental modes of central controls should consider incentive structures to induce good performance of local government.

For the first time, this thesis obtained deeper data about performance of the

Korean local government and utilized it for an academic and didactic purpose. The performance assessment of the Korean local government (JPA) has been implemented since 1999 and but only the summary grades about each sector of local government has been open to the public. Until recently the detailed score of each sector has not been opened due to political and administrative reasons. If the detailed scores of each sector and performance indicators were made public it may cause excessive competition between local governments and unnecessary debates about the objectivity of assessed results. Further it could affect the support for local policies and re-election of the elected politicians of local government. This study managed to trace and collect the performance data with the support of MOPAS though it is limited to local government finance (see Appendix 3). This data will be so useful for the future study of local government performance of Korea.

Last but not least, this thesis provides a unique case using the perspective of historical institutionalism in explaining the change of central- local relations and the financial crises. Historical institutionalists are giving increasing attention to the “interaction” between institutional structures and agents. This study focused on the interaction of MOGAHA strategies with the extension of local autonomy by looking at the conditions under which MOGAHA needed to take actions promoting institutional change but also the conditions under which they needed to survive the seriously reduced ministerial functions over local government. This study, thus, confirmed that institutions are complexes of rule and culture rather than unified and consistent constraints. This study also paid attention to the previous or initial policy decisions based on a process of liberalization which caused the Korean financial crisis which in turn played a role of the initial impulse for public sector reform from the end of the 1990s to the 2000s. The resilience echoed the persistence of central controls as an institution even after the increased concern of local autonomy. However this study identified the possibility of more democratic change of central control through the institutional evidence such as the introduction of local consumption tax and local income tax. In this way, this research takes the first steps from which future study of intergovernmental relationships is approached by the context of historical institutionalism, since there have been mainly descriptive studies about recent crises and little literature on the relationship between financial crises, government

controls and performance which can be defined as outputs, outcomes, or political success, measured by attitudes and electoral outcomes.

2.2. Limitation of the research

There are limitations of this thesis in respect of methodology, despite distinctive contributions to the knowledge and review of the research about central local government relations and government performance analysis. The first issue is related to the regional level of observation of this study. Due to the panel where the unit of analysis is regional government, this study overlooked findings at the basic local level. The reason for focus on the 'regional' level is that data is not available for smaller units. The other aspect is the difficulty of discussing variations between the experiences of different regions. The JPA data does not directly show that some regions responded better to central control than others. The regions which accepted normative controls are assumed to respond better to central controls because the normative mode is optional for local government and we can compare the units which do experience normative controls with those which do not. As for coercive and remunerative controls, which all units experienced over time, this study argued how those controls influenced annual performance over a given period but do not explain why some comply better and other do not with central controls.

Second, this study could not use the Hausman test to compare a fixed effect model with a random effect model. Nevertheless the features of the current statistical model support the validity and appropriateness of the current fixed-effect model. This study is free from the drawbacks of the fixed effect estimator because the statistical models established in chapter 6 do not include any time-invariant variables (see chapter 7). The fixed effect panel data model could not provide a statistical explanation of the variation of performance when time-invariable explanatory variables are dropped from the model and their coefficients are not identified. This research design takes not only the deviations of actual local governments' financial decisions from centrally set financial standards but also the financial crises as the explanatory variables and they are all time-varying variables. In addition, the fixed effect model always gives consistent estimates but the random effect estimation is sometimes inconsistent.

To do a Hausman-test, an instrumental variable to each explanatory variable is needed and it is beyond the current statistical model.

Third, the intensity of central controls was not measured due to characteristics of public sector and methodological limitation. This might be one of the practical reasons why until recently far less attention has been paid to modelling the direct effects of the quantity and quality of central controls on performance of local government. Central control which is measured as a numerical variable might help to explain the effect of central controls on regional variation in performances with a more robust approach. Generally, however, central control is exercised with the same intensity across the regions because of the operations of the unitary country and the rule of law in governmental relations. Even if we made the checklist with quantitative and qualitative properties of controls to measure the intensity of a mode of control, the intensity checked would definitely be the same across the regions and time-invariant, which may cause another methodological problem because a classic fixed effect approach will not produce any estimates of the effects of variables that do not change over time.

The measures of normative controls are limited to sufficiently reflect the democratic change in central controls. This thesis measured the normative control when and which regional government participated in the reform of the programme budget and accrual based accounting. However after this reform there was revolutionary reform in local fiscal institutions such as the introduction of local consumption tax and local income tax in 2010. If we had included the tax reform in the measures of the normative control, this thesis may have obtained a different result about the impact of the democratic change of central controls. The impact of the new local taxes in 2010 on local government performance actually comes into effect in 2011 which is outside the period covered by this thesis.

Lastly, due to the limitations of the present empirical approach, the focus of the study is on the only dependent variables: fiscal performance of local government. It is difficult to collect detailed performance information about other sectors except the categorical data from the results of the annual JPA. To obtain more productive results, other, alternative dependent variables may be needed. For example, they are the customer satisfaction of local public services, the degree of financial autonomy, or the rate of independence of finance of local

government. Without information published by international or governmental research organizations, data for the performance of local government is difficult to collect for the purpose of a personal based study.

3. Suggestions for government policy and future research

3.1. Recent developments and suggestions

Democratic central-local relations as well as the greater local democracy are in the process of ongoing evolution through continuous institutional change in Korea. This point underlines the contribution this thesis could make. Korea entered into the twentieth year of local autonomy chosen by people in June 2015. The Presidential Committee for the Development of Local autonomy (PCLA) published a comprehensive development plan of local autonomy in December 2014. The new plan raises a question over the foundational structure as well as the contents of local autonomy. This initiative provides a topical and highly policy relevant vehicle for discussing the implications of this study in relation to the current reform debates aimed at establishing the future model of Korean local autonomy. First of all, this study has implications for redesigning local government structure. Currently regarding the plan of PCLA, there is a fierce controversy about abolishing autonomous district councils and changing elected district executives to appoint new ones at the level of metropolitan cities, with the exception of Seoul (see Figure 2-2). The department of local public administration in MOGAHA has a coalition with PCLA to abolish small authorities in the sense that the unnaturally divided districts were widely seen as one of the key problems in the existing structure which cause inefficient public services provision, inconvenience of residents and the high costs of administration. However, the change is in a quandary because the association of elected ward chiefs, civil groups for devolution and many academic experts criticize that this plan as a reverse of local democracy (*Yonhap News*, 28 Jan 2015). The current discussion is another example of the reverting trend of central controls to the past after the recent financial crisis. There is little recognition of increased difficulties

of communication in and between large-scale departmental structures under the same mayor. The policy makers and politicians need to remember that this structural change can undermine existing strengths in the greater potential to increase local democracy based on the close living community, as this thesis has continuously stressed, the centralism's damaging effect on local government.

On the other hand, breaking from convention, the various options of local government models are considered in the policy sphere as alternatives to the currently standardized strong mayor and councillor system (PCLA, 2014). For a while the power of local government monopolized by the chief executive caused sceptical opinions to spread over local autonomy, although the constructive role of the chief executive in local politics is empirically supported by the current study (see chapters 8 and 9). The new models take into account redistributing the strong power of the elected mayor to be more equally shared among the local council and people. In this case, central controls on the constraint of the local governments' structural model are expected to be lifted considerably and, instead, to remain just to provide the proper guidance and models for local government. Institutional change which allows more alternatives and choices for local government will contribute to enhancing the diversity and the freedom of local autonomy.

As for the long-term aims within the plan of PCLA, the status and the role of regional government is planned to exclude the established roles of it as an upper local government and as an agency of central government (PCLA, 2014). The members of PCLA agree with this basic idea but have no detailed discussions. With regards to this, the current study can make known the appropriateness of the reform, because we found that the regional governments have played a major role in the sustained centralism in Korea from the period of the *Goryeo* in chapter 2 and the appointed central officials still control the autonomous local governments. Without the role of central government agencies, the relations between the central and the regional governments, and the regional and the basic local governments would change to horizontal partnerships. For the purpose of preparing the future unification with North Korea, the reform of local governments should facilitate democratic central-local relations and develop local democracy.

The negative impact of central control which is empirically proved from this thesis has implications for the reform of decentralization. Decentralization has been an effective tool for the government reform but more active reorganization and power distribution is required to improve the central and local government relations. This also improves the efficiency of services provision and finally enhances the quality of life of the residents within a much closer distance. Basically, the government affairs should be differentiated between those which local government does better from those which the central government does better. The tendency to preserve the convention and the persistency of the substantial controls with inspection and finance are still witnessed in the behaviour of central government in the process of decentralization. Meanwhile, the transfers of the power and activities of central government were confirmed by committees but many of them are still left under the authority of central government because central government is reluctant to lose the instruments for controlling local governments. On this behaviour of central government, the current study supports more positive implementation of decentralization policies because most controls exercised by central governments are not related with improved local government performance. Central government and politicians thus should not stick to the conventional way of central controls. Instead they should attempt to identify and accommodate new modes of central controls and other contingencies that shape improved local government.

To substantially fulfil the redistribution of affairs, expansion of the financial capacity of local government to support their increased responsibility is also needed. The financial reform should be made to address the more fundamental problem not just expanding transfers but curing the imbalance of financial capacity. A study noted that in developing countries, the increase of fiscal autonomy of local government tends to induce further complicated results because of corruption and the perception of the rule of law (Osung Kwon, 2012). This account is frequently the reason why the central government controls local government. However the evidence of the current study presents the view that central controls are not related with improved performance of local government in Korea. This implies that in a transitional country like Korea the positive effect attained from fiscal autonomy is much greater than local government's malfeasance. In particular, regarding this view, the current study found that

intergovernmental transfers continuously increased and, instead, the independent finance was not activated as much (see chapters 2 and 5). Various modes of local taxation should be reinforced drawing on the experience of the local income tax and local consumption tax. This thesis identifies very clear benefits from independent sources of local income which are far preferable to financial transfers from the centre. Facing increasing numbers of local projects which are funded by grants, central government should establish clear legal standards for the reasonable grant rates according to different projects and local government's capacity. With more independence over their finance, local governments could be reborn in the legal entity to take responding accountability from their electorate not from central government.

Lastly, the current model of managing performance in local government needs to continuously evolve to the more developed stages of performance management and even further to performance governance which are proposed by Boukeart and Halligan (2008). The GAA needs to be a driver of performance based on an integrated managerial framework that relies on performance indicators. For this, performance information should be actively incorporated in the process of policy implementation and used in local service provision in addition to the reward and penalties for public officials as well as the organization. There is a danger that performance management by local government becomes discredited to 'a superficial paper-chase', subject to technical manipulation and tactics, making culture change of the local government even harder. Therefore local government in developing systems of performance measurement needs to integrate them adequately with mainstream budgetary and management processes in order not to ignore the management of performance and to motivate better performance. By doing so, JPA can provide legitimacy within the institutional environment and have the capacity to inform organizational change and service improvement to citizens. The emphasis of performance also reflects the momentum to improve political control of administration. A problem is that motivation for performance management is to control staff, budgets and activities rather than to learn about what is going on and to achieve continuous improvement (Sanderson, 2001: 311). Therefore the development of performance management requires coherent respect for the performance results across the functions of society as well as the consistent and comprehensive use

of performance information within each organization

These ideas might be inserted into the policy process to establish the future Korean local autonomy model which currently involves PCLA and MOGAHA. The researcher is an official within MOGAHA and is therefore located in a position to propose these ideas in the internal debate over local government policy. In addition this thesis will be added to in the research database of the government and can be engaged with by officials of MOGAHA and advisory academics of PCLA.

3.2. Suggestions for future research

Further studies, rather than focusing on the negative effect of central controls, may need to take into account the other modes or features of central controls which are related with better performance of local government as part of incentive schemes for intergovernmental relations. They may need to cover a longer period in order to prove different effects of normative controls in accordance with the time lag of institutional change. This also may make a contribution to the literature on the different rates of institutional change or the evolutionary change of central controls in a new-born democratic country. To obtain a more productive and generous conclusion of incentive schemes, further review of central controls may be needed in other functions such as personnel or organizational policies beyond the boundary of the fiscal institution of local government. If a certain feature or element of controls exercised by central government was discovered to have a positive relation with improved local democracy or local performance, it must be an interesting finding in the central-local government relations.

The impact of different sources of local performance can be considered in further research to compare the effect of central controls. This research used JPA performance data produced by the Korean central government which was independent of local service consumers. However the performance of local government can be identified by customer satisfaction research other than the performance assessment by central government. For the various aspects of performance, the survey method can be used and the research model must be

established to control methodological bias. If the research succeeded in comparing the influence of central control between performance assessed by central government and the degree of satisfaction evaluated by citizens, it may prove to whom local government is more accountable.

Also, local government performance should be empirically examined in a more comprehensive context. Future research can focus on how performance information affected electoral outcomes in Korea as we noted above. The subject may contribute to providing a connection between public management and political outcome (James and John, 2007). The recent study found the major elements of strategic management matter for the effectiveness of public service depending on which aspect of strategy content and process are pursued together, and how these in turn are combined with organizational structure and the technical and institutional environment (Andrews et al., 2011: 160). However comprehensive external and internal circumstances that may influence local government performance are important in the aspect of what circumstances make a difference to public service performance. In this sense, future research may need to consider more managerial elements as well as technical environments of local government performance.

There is potential for comparative research on local government across countries, based on the information and resources about Korean local government of the current study. In particular, Japan and China can be good comparison targets because they have some similar historical cultural background with Korea. The comparison about the evolution of central-local relations, the role of political parties in local politics, and citizens' participation in local politics is useful for the formation of future models of local democracy. Considering the prevailing policy context of local government, how financial crises impacted local government service provision in countries worldwide is also an interesting subject. Otherwise, the outcomes of the NPM reforms in the Anglo-Saxon and CEE countries can be compared with the case of Korea, which may highlight how the factors of the culture, history and political system have an impact on the effect of reform.

Research of local government and local democracy is very important because it decentralizes monopolized power and provides opportunities for

citizen participation in government. Wherever the power concentrates, it is likely to be abused and eventually it may threaten the right and freedom of people. So, local government plays the role of a political shield protecting the citizens from a potentially authoritarian centre. The practical addition is that local government is the most effective mediator for the delivery of services to demanding citizens by taking maximum advantage of local experience, familiarity and expertise in an increasingly prosperous society. The democratic local government can be achieved by the provision of sufficient ammunition, further evidence supporting the argument that local decision making is more appropriate and better than decisions emanating from the centre. The accumulation of knowledge, experiments and imagination contribute to the institutional development of local government and local politics. In this sense, the constructive criticism and prudential reflection is very crucial for the health of Korean democracy.

Appendices

Appendix 1. Description of the Variables

Variables	Measurements	Data Source
Dependent variables		
Short-term performance	JPA score T+1	MOGAHA
Long-term performance	JPA score T+2	MOGAHA
Explanatory variables		
Central controls		
Normative Control	Sharing the norm of performance with local government involved in pilot-run or implementation of Program Budget and Accrual base Accounting, 1/0	MOGAHA 2000, MOGAHA 2006
Coercive Control	Direct control measured by Fiscal Emergency Spending applied to all local governments 1/0	MOPAS 2008
Remunerative Control	The increase of the Shared Tax rate 1/0	MOPAS 2013
Crises		
National Economic Crises	Minus Economic growth	BOK
Local Fiscal Crises	If the ratio of debt to budget is 40% 1/0	KSO, MOGAHA
Control variables		
Political Party Effect	When chief executive (governor or mayor) came from the ruling party 1/0	NEC
per capita GRDP	Regional income in nominal term	KSO
Tenure	Periods of chief executive holding office measured in terms of month	NEC

MOPAS: The Ministry of Public Administration and Security (2008-2013)

MOGAHA: The Ministry of Government Administration and Home Affairs(1998-2007, 2014-)

BOK: Bank of Korea

NEC: National Election Committee (http://www.nec.go.kr/engvote_2013/main/main.jsp)

KSO: Korea Statistical Office

Appendix 2. The published result of the 2011 JPA

	Metropolitan Cities (7)			Province (9)		
	GA (Best)	NA (Fair)	DA (Weak)	GA (Best)	NA (Fair)	DA (Weak)
Local administration	Seoul Busan	Daegu Daejon Ulsan	Incheon Kwangju	Chungbuk Gyengnam Jeju	Chungnam Jeonbuk Jeonnam	Gyeonggi Gangwon Gyengbuk
Social Welfare	Daegu Ulsan	Busan Kwangju Daejon	Seoul Incheon	Chungbuk Gyengnam Jeju	Gangwon Jeonbuk Jeonnam	Gyeonggi Chungnam Gyengbuk
Health & Sanitation	Daejon Incheon	Busan Kwangju Daegu	Seoul Ulsan	Chungbuk Jeonbuk Gyengnam	Gangwon Chungnam Jeonnam	Gyeonggi Gyengbuk Jeju
Environment management	Ulsan Daejon	Seoul Incheon Kwangju	Busan Daegu	Gangwon Chungnam Gyengnam	Chungbuk Jeonnam Gyengbuk	Gyeonggi Jeonbuk Jeju
Local Economy	Kwangju Ulsan	Daegu Incheon Ulsan	Seoul Busan Daejon	Chungbuk Jeonnam Gyengnam	Gangwon Gyengbuk Jeju	Gyeonggi Chungnam Jeonbuk
Regional development	Seoul Ulsan	Daegu Incheon Kwangju	Busan Daejon	Gangwon Jeonbuk Jeonnam	Gyengbuk Gyengnam Jeju	Gyeonggi Chungbuk Chungnam
Culture & Tourism	Kwangju Daejon	Busan Daegu Incheon	Seoul Ulsan	Gyeonggi Gangwon Jeju	Jeonbuk Jeonnam Gyengnam	Chungbuk Chungnam Gyengbuk
Security	Busan Kwangju	Seoul Daejon Ulsan	Daegu Incheon	Chungbuk Jeonbuk Gyengnam	Gangwon Jeonnam Jeju	Gyeonggi Chungnam Gyengbuk
Service Innovation	Busan Ulsan	Incheon Kwangju Daejon	Seoul Daegu	Gangwon Jeonbuk Gyengbuk	Chungnam Gyengnam Jeju	Gyeonggi Chungbuk Jeonnam

Source: adapted from the disclosure of the 2011 JPA results (MOPAS, 2012)

Appendix 3. The collection of unpublished JPA scores

The JPA data employed in this thesis, and especially the fiscal performance scores contained in Appendix 4) comprise original unpublished data. Prior to this research no disaggregated JPA data had been revealed to the public in any publication. Thus the collection of unpublished fiscal performance of JPA provides researchers with knowledge that could be used for further analysis and publication.

The researcher has enjoyed privileged access the disaggregated JPA data since she is a serving public official supported by a Korean Government scholarship. She was employed by MOPAS as a deputy director in the local government finance from 2003 to 2011 and currently is on the staff of MOGAHA, which is the new name of MOPAS.

The data collection was conducted by e-mails and telephone interviews with four public officials of MOPAS at Director and Deputy Director level. These serving officials kindly provided data files on the understanding that the material would be employed for academic research and incorporated into scholarly publications

The raw data included the in-depth information of sector, programme, performance indicator, weighted value, score, rank and grade, and means of the group and entire local government.

Appendix 4. Fiscal performance of local governments from JPA

government	N	year	P(T+1)	P (T+2)	N	year	P(T+1)		N	year	P(T+1)	P (T+2)
							1)					
Seoul	1	1998	84.20 ²¹	84.75	81	2003	92.32	81.68	161	2008	88.00	76.33
Busan	2	1998	80.50	84.15	82	2003	92.26	77.48	162	2008	77.00	75.33
Daegue	3	1998	77.90	79.20	83	2003	85.91	81.61	163	2008	79.00	70.00
Incheon	4	1998	81.60	83.45	84	2003	92.57	82.45	164	2008	76.50	58.67
Gwanju	5	1998	74.40	79.45	85	2003	87.83	79.75	165	2008	81.00	78.33
Daejeon	6	1998	82.30	82.50	86	2003	89.70	81.10	166	2008	83.50	62.00
Ulsan	7	1998	79.20	85.50	87	2003	89.15	76.25	167	2008	76.50	58.33
Gyeonggi	8	1998	89.10	83.95	88	2003	96.20	82.32	168	2008	91.75	63.00
Gangwon	9	1998	75.00	81.05	89	2003	84.08	79.86	169	2008	71.50	69.67
Chungbuk	10	1998	76.00	80.45	90	2003	88.33	80.79	170	2008	78.75	72.00
Chungnam	11	1998	76.30	83.70	91	2003	85.63	86.29	171	2008	81.75	80.33
Jeonbuk	12	1998	75.00	84.20	92	2003	85.34	80.23	172	2008	91.00	78.33
Jeonnam	13	1998	74.10	88.10	93	2003	83.25	85.01	173	2008	90.25	89.67
Gyeongbuk	14	1998	65.40	88.00	94	2003	84.97	84.17	174	2008	72.25	68.67
Gyeongnam	15	1998	77.50	90.00	95	2003	88.34	86.25	175	2008	90.75	73.67
Jeju	16	1998	73.90	83.90	96	2003	85.33	83.21	176	2008	82.25	65.67
Seoul	17	1999	84.75	94.42	97	2004	81.68	81.68	177	2009	76.33	82.00
Busan	18	1999	84.15	91.09	98	2004	77.48	77.48	178	2009	75.33	84.00
Daegue	19	1999	79.20	89.90	99	2004	81.61	81.61	179	2009	70.00	89.00
Incheon	20	1999	83.45	90.49	100	2004	82.45	82.45	180	2009	58.67	80.00
Gwanju	21	1999	79.45	88.80	101	2004	79.75	79.75	181	2009	78.33	67.00
Daejeon	22	1999	82.50	88.27	102	2004	81.10	81.10	182	2009	62.00	60.00
Ulsan	23	1999	85.50	92.04	103	2004	76.25	76.25	183	2009	58.33	60.00
Gyeonggi	24	1999	83.95	92.24	104	2004	82.32	82.30	184	2009	63.00	90.00
Gangwon	25	1999	81.05	90.85	105	2004	79.86	79.90	185	2009	69.67	72.00
Chungbuk	26	1999	80.45	92.53	106	2004	80.79	80.80	186	2009	72.00	64.00
Chungnam	27	1999	83.70	92.37	107	2004	86.29	86.30	187	2009	80.33	78.00
Jeonbuk	28	1999	84.20	89.97	108	2004	80.23	80.20	188	2009	78.33	81.00
Jeonnam	29	1999	88.10	93.19	109	2004	85.01	85.00	189	2009	89.67	80.00
Gyeongbuk	30	1999	88.00	90.12	110	2004	84.17	84.20	190	2009	68.67	81.00
Gyeongnam	31	1999	90.00	95.32	111	2004	86.25	86.30	191	2009	73.67	73.00
Jeju	32	1999	83.90	90.29	112	2004	83.21	83.20	192	2009	65.67	59.00
Seoul	33	2000	94.42	92.30	113	2005	81.68	77.26	193	2010	82.00	69.73
Busan	34	2000	91.09	88.61	114	2005	77.48	78.37	194	2010	84.00	77.79
Daegue	35	2000	89.90		115	2005	81.61	76.55	195	2010	89.00	88.76
Incheon	36	2000	90.49	87.48	116	2005	82.45	81.07	196	2010	80.00	78.06
Gwanju	37	2000	88.80	89.76	117	2005	79.75	77.20	197	2010	67.00	80.16
Daejeon	38	2000	88.27	90.89	118	2005	81.10	80.44	198	2010	60.00	64.28
Ulsan	39	2000	92.04	92.09	119	2005	76.25	78.78	199	2010	60.00	77.79
Gyeonggi	40	2000	92.24	93.14	120	2005	82.30	83.01	200	2010	90.00	85.15
Gangwon	41	2000	90.85	92.60	121	2005	79.90	81.10	201	2010	72.00	66.82
Chungbuk	42	2000	92.53	92.74	122	2005	80.80	81.26	202	2010	64.00	76.52
Chungnam	43	2000	92.37	92.99	123	2005	86.30	82.78	203	2010	78.00	92.84
Jeonbuk	44	2000	89.97	94.67	124	2005	80.20	83.24	204	2010	81.00	80.16
Jeonnam	45	2000	93.19	95.35	125	2005	85.00	83.65	205	2010	80.00	81.87

²¹ This score is the lagged fiscal performance which is converted to a percentage and measured by performance indicators of chapter 7. Higher score means better performance.

Gyeongbuk	46	2000	90.12	91.61	126	2005	84.20	83.47	206	2010	81.00	95.12
Gyeongnam	47	2000	95.32	96.46	127	2005	86.30	82.30	207	2010	73.00	81.87
Jeju	48	2000	90.29	93.51	128	2005	83.20	80.69	208	2010	59.00	62.58
Seoul	49	2001	92.30	90.35	129	2006	77.26	69.60	209	2011	69.73	
Busan	50	2001	88.61	85.01	130	2006	78.37	71.00	210	2011	77.79	
Daegue	51	2001		89.46	131	2006	76.55	77.20	211	2011	88.76	
Incheon	52	2001	87.48	90.45	132	2006	81.07	77.80	212	2011	78.06	
Gwanju	53	2001	89.76	83.49	133	2006	77.20	78.60	213	2011	80.16	
Daejeon	54	2001	90.89	89.38	134	2006	80.44	69.60	214	2011	64.28	
Ulsan	55	2001	92.09	90.66	135	2006	78.78	77.00	215	2011	77.79	
Gyeonggi	56	2001	93.14	90.38	136	2006	83.01	68.60	216	2011	85.15	
Gangwon	57	2001	92.60	78.99	137	2006	81.10	70.60	217	2011	66.82	
Chungbuk	58	2001	92.74	82.98	138	2006	81.26	79.60	218	2011	76.52	
Chungnam	59	2001	92.99	80.45	139	2006	82.78	60.80	219	2011	92.84	
Jeonbuk	60	2001	94.67	80.17	140	2006	83.24	82.40	220	2011	80.16	
Jeonnam	61	2001	95.35	78.21	141	2006	83.65	70.00	221	2011	81.87	
Gyeongbuk	62	2001	91.61	79.82	142	2006	83.47	75.40	222	2011	95.12	
Gyeongnam	63	2001	96.46	82.99	143	2006	82.30	76.60	223	2011	81.87	
Jeju	64	2001	93.51	80.16	144	2006	80.69	66.40	224	2011	61.58	
Seoul	65	2002	86.73	92.32	145	2007	69.60	88.00	225	2012		
Busan	66	2002	86.67	92.26	146	2007	71.00	77.00	226	2012		
Daegue	67	2002	80.71	85.91	147	2007	77.20	79.00	227	2012		
Incheon	68	2002	86.97	92.57	148	2007	77.80	76.50	228	2012		
Gwanju	69	2002	82.52	87.83	149	2007	78.60	81.00	229	2012		
Daejeon	70	2002	84.27	89.70	150	2007	69.60	83.50	230	2012		
Ulsan	71	2002	83.75	89.15	151	2007	77.00	76.50	231	2012		
Gyeonggi	72	2002	90.38	96.20	152	2007	68.60	91.75	232	2012		
Gangwon	73	2002	78.99	84.08	153	2007	70.60	71.50	233	2012		
Chungbuk	74	2002	82.98	88.33	154	2007	79.60	78.75	234	2012		
Chungnam	75	2002	80.45	85.63	155	2007	60.80	81.75	235	2012		
Jeonbuk	76	2002	80.17	85.34	156	2007	82.40	91.00	236	2012		
Jeonnam	77	2002	78.21	83.25	157	2007	70.00	90.25	237	2012		
Gyeongbuk	78	2002	79.82	84.97	158	2007	75.40	72.25	238	2012		
Gyeongnam	79	2002	82.99	88.34	159	2007	76.60	90.75	239	2012		
Jeju	80	2002	80.16	85.33	160	2007	66.40	82.25	240	2012		

Appendix 5. Person Correlation

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
P(T+1)	1														
P(T+2)	.40**	1													
Normative Ctrl (NC)	-.46**	-.56**	1												
Coercive Ctrl (CC)	-.41**	-.25**	.57**	1											
Remunerative Ctrl (RC)	.11	-.04	.17**	.04	1										
National Financial Crises (NFC)	-.28**	-.34**	.14*	.07	-.13*	1									
Local Fiscal Crises (LFC)	.20**	.15*	-.26**	-.20**	.05	-.16**	1								
(NC) x (NEC)	-.24**	-.45**	.37**	.20**	.02	.78**	-.13*	1							
(CC) x (NFC)	-.35**	-.24**	.25**	.44**	-.25**	.53**	-.08	.68**	1						
(RC) x (NFC)	.01	-.37**	.25**	-.16*	.28**	.53**	-.08	.68**	-.07	1					
(NC) x (LFC)	-.05	-.04	.10	-.06	-.03	-.05	.33**	-.04	-.03	-.03	1				
(RC) x (LFC)	.21**	.15*	-.21**	-.14*	.25**	-.12	.71**	-.09	-.06	-.06	.13*	1			
Ruling Party	.07	.00	-.03	.07	-.08	.22**	.03	.27**	.18**	.18**	-.01	-.01	1		
per capita GRDP	-.23**	-.35**	.55**	.48**	.18**	-.06	-.27**	.20**	.14*	.12*	-.07	-.18**	.03	1	
Tenure	.12	-.00	.03	.24**	.21**	.02	-.04	.11*	.15**	.08	-.09	-.01	.16*	.06	1

* $p < .05$, ** $p < .01$

References

- AC C, 2006, Key Lines of Enquiry for Use of Resources, 2007 Assessments, Audit Commission, London
- ACIR, 1973, *City Financial Emergencies: The Intergovernmental Dimension*, Advisory Commission on Intergovernmental Relations, Washington, D.C.
- ACIR, 1985, *The State and Distressed Communities: The Final Report*, Advisory Commission on Intergovernmental Relations, Washington, D.C.
- Adam, A., M. D. Delis, P. Kanmmas, 2011, Are democratic governments more efficient?, *European Journal of Political Economy*, 27, 5-86
- Adcock, R. and Collier, D., 2001, Measurement Validity: A Shared Standard for Qualitative and Quantitative Research, *American Political Science Review*, 95(3), 530-46
- Allison, Paul D., 2009, *Fixed Effects Regression Models*, Sage
- Andrews, R, 2004, Analysing deprivation and local authority performance: The implications for CPA, *Public Money and Management*, 24(1), 19-26
- Andrews, R., G.A. Boyne, J. Law and R.M. Walker, 2005, External constraints on local service standards: Thee cases of Comprehensive Performance Assessment in English local government, *Public Administration*, 83, 639-56
- Andrews, R., G.A. Boyne, J. Law and R.M. Walker, 2011, Strategy Implementation and Public Service Performance, *Administration and Society*, 43(6), 643-671
- Andrews, R., G.A. Boyne, J. Law and R.M. Walker, 2012, *Strategic management and public service performance*, New York: Palgrave Macmillan
- Arellano, Manuel and Bond, Stephen, 1991, Some Tests of Specification for Panel Data: Monte Carlo Evidence and an Application to Employment Equations, *Review of Economic Studies*, 58, 277-97
- Atkinson, A. A., Waterhouse, J.H. and Wells, R. B., 1997, A Stakeholder Approach to Strategic Performance Measurement, *Sloan Management Review*, spring, 25-37
- Bae, Yooil and Sellers, Jefferey M., 2007, Globalization, the Developmental State and the Politics of Urban Growth in Korea: A Multilevel Analysis, *International Journal of Urban and Regional Research*, 31(3), 543-60
- Bahl and Johannes, 1994, Fiscal Decentralization and Intergovernmental Transfer in Less Developed Countries, *Publius: The Journal of Federalism*, 24(1), 1-19
- Balaguer-Coll M.T. et al., 2007, On the determinants of local government performance: A two-stage nonparametric approach, *European Economic Review*, 51, 425-451
- Ball, A.R. and Peters, B.G., 2005, *Modern Politics and Government*, 7th ed
- Behn, R.D., 2003, Why Measure Performance? Different Purposes Require Different Measures, *Public Administration Review*, 63(5), 586-606
- Bemelmans-Videc, M., 2003, The Introduction: policy instrument choice and

- evaluation, 1-20, in Bemelmans-Videc, M. et al. (eds), *Carrots, Sticks and Sermons*, Transaction Publishers, New Brunswick and London
- Bekkers, V., G. Dijkstra, A. Edwards and M. Fenger, 2007, Governance and the democratic deficit: An evaluation, in V. Bekkers, G. Dijkstra, A. Edwards and M. Fenger (eds) *Governance and the Democratic Deficit*, Ashgate, Aldershot, 295-312
- Bernanke, Ben S. 2010, Monetary policy and housing bubble, Annual Meeting of the American Economic Association, 3 January, available at: <http://www.federalreserve.gov/newsevents/speech/bernanke20100103a.htm>, accessed 3 June 2013
- Bird, R. M. and E. Slack, 2002, Land and Property Taxation: A Review, World Bank Working Paper
- Birkland, T.A., 2006, *Lessons of disaster: policy change after catastrophic events*, Washington DC, Georgetown University Press
- Bochel, J. and C. Bochel, 2010, Local political leadership and the modernisation of local government, *Local Government Studies*, 36:6, 723-37
- Boin, A., McConnell, A., and 't Hart, P.(eds), 2008, *Governing After Crisis: The Politics of Investigation, Accountability and Learning*, Cambridge University Press
- Boin, A., James, O. and Lodge, M., 2006, The New Public Management 'Revolution' in Political Control of the Public Sector: Promises and Outcomes in Three European Prison Systems, *Public Policy and Administration*, 21(2), 81-100
- Boland and Fowler, 2000, A system perspective of performance management in public sector organizations, *International Journal of Public Sector Management*, 13(5), 417-446
- Borge, L.E. et al., 2008, Public sector efficiency: the roles of political and budgetary institutions, fiscal capacity, and democratic participation, *Public Choice*, 136, 475-495
- Bouckaert, G. and Halligan, J., 2006, Performance and Performance Management, in G. Peters and J.Pierre, *Handbook of Public Policy*, Sage, London.
- Bouckaert, G. and Halligan, J., 2008, *Managing Performance: International comparisons*, Routledge, New York
- Bouckaert, G. and C. Pollitt, 1996, *Quality in European Public Services*, London, Sage
- Boyne, G.A., 2004, Explaining public service performance: Does management matter?, *Public Policy and Administration*, 19(4), 100-17
- Boyne, G.A. and Enticott, G., 2004, Are the 'poor' different? The internal characteristics of local authorities in the five comprehensive performance assessment groups, *Public money and management*, 24(1), 11-18
- Boyne, G.A. et al, 2004, Toward the Self-Evaluating Organization? An Empirical Test of the Wildavsky Model, *Public Administration Review*, 64(4), 463-473
- Boyne, G.A., James, O., John, P. and Petrovsky, N., 2009, Democracy and

- Government Performance: Holding Incumbents Accountable in English Local Governments, *The Journal of Politics*, 7(4), 1273-1284
- Boyne, G.A., James, O., John, P., and Petrovsky N. 2011, Party Control, Party Competition and Public Service Performance, *British Journal of Political Studies*, 42, 641-660
- Brown, K. and Coulter, P., 1983, Subjective and Objective Measures of Police Service Delivery, *Public Administration Review*, 34(1), 50-8
- Bryson, J.M., 2011, *Strategic Planning for Public and Nonprofit Organization: A guide to Strengthening and Sustaining Organizational Achievement*, John Wiley & Sons
- Cameron, A.C. and Trivedi, P.K., 2005, *Microeconometrics: methods and applications*, Cambridge University Press
- Chan, J. and Chen Xiaoyue (eds), 2002, Models of Public Budgeting and Accounting Reform, *OECD Journal on Budgeting* 2(1)
- Carter, N., 1991, Learning to Measure Performance: The Use of Indicators in Organizations, *Public Administration*, 69(1), 85-101
- Chadwick, A., 2006, *Internet politics, States, citizen and new communication technologies*, Oxford, Oxford University Press
- Chang, H.J., 1998, Interpreting the Korean crisis: financial liberalization, industrial policy and corporate governance, *Cambridge Journal of Economics*, 22, 735-746
- Chang, H.J., 2010, *23 Things They Don't Tell You about Capitalism*, London Penguin Books Ltd
- Clarkson et al., 2009, Has social care performance in England improved? An analysis of performance ratings across social services organizations, *Policy Studies*, 30(4), 403-422
- Clark, T. and L.C. Ferguson, 1983, *City Money: Political Process, Fiscal Strain and Retrenchment*, New York: Columbia University Press
- Christensen, T. and Lagreid, P. and Wise, L.R., 2003, Evaluating Public Management Reforms in Central Government: Norway, Sweden and the United States of America, In: H. Wollmann(ed.), *Evaluation in Public Sector Reforms. Concepts and Practice in International Perspective*, Cheltenham: Edward Elgar, 56-79
- Collier R.B. and Collier D., 1991, *Shaping the Political Arena*, Princeton, NJ: Princeton University Press
- Copus, C., 2004a, Directly Elected Mayors: A Tonic for Local Governance or Old wine in New Bottles? *Local Government Studies*, 30(4), 576-588
- Copus, C., 2004b, *Party politics and local government*, Manchester University Press.
- Copus, C., 2010, Local government, 428-454, in Jones, B and Norton, P. (eds), *Politics UK*, 7th edition, Pearson
- Copus, C., 2014, Councillors' perspectives on democratic legitimacy in English local government: politics through provision? *Urban Research & Practice*, 7(2), 169-181

- Copus, C. and Erlingsson, G., 2012, Parties in Local Government: A Review, *Representation*, 48(2), 235-247
- Cotton, J., 1992, Understanding the State in South Korea, *Political Studies*, 37, 244-59
- Creswell, J.W., 2003, *Research Design: Qualitative, Quantitative, and Mixed Methods Approach*, 2nd ed, Sage publications
- Crozier, M., 1964, *The Bureaucratic Phenomenon*, the University of Chicago
- Currstine, T., 2005, Performance Information in the Budget Process: Results of the OECD 2005 Questionnaire, *OECD Journal of Budgeting*, 5(2), 87-131
- De Borger, B., Kerstens, K., 1996, Cost efficiency of Belgian local governments: A comparative analysis of FDH, DEA, and econometric approaches, *Regional Science and Urban Economics*, 26, 145-170
- Denters, B., and L.Rose, 2005, *Comparing Local Governance: Trends and Developments*, Palgrave MacMillan
- Di Mascio et al., 2013, The Ghost of Crises Past: Analysing Reform Sequences to Understand Italy's Response to The Global Crisis, *Public Administration* 91(1), 17-31
- Etzioni A., 1975, *A Comparative Analysis of Complex Organization: Revised and Enlarged Edition*, The Free Press
- Flynn, P., 2007, *Public Sector Management*, 5thedn, London: Sage
- Friedman, M., 1986, Economists and economic policy, *Economic Inquiry* 24(January), 1-10
- Geys, B., Moesen, W., 2009, Exploring Source of Local Government Technical Efficiency: Evidence from Flemish Municipalities, *Public Finance and Management*, 9, 1-29
- Golden, B.R., 1992, Is the past the past – or is it? The use of retrospective accounts as indicators of past strategies, *Academy of Management Journal*, 35(4), 848-60
- Goldsmith, Michael, 2003, Central Control over Local Government-A Western European Comparison, in Carmichael, P. and Midwinter, A. (eds), 2003, *Regulating Local Authorities: Emerging Patterns of Central Control*
- Goldsmith, M., and E. Page, (eds), 2010, *Changing Government Relations in Europe: from Localism to Intergovernmentalism*, Routledge / ECPR
- Hailstones, F., 1994, Performance Measures – a practitioner's perspective, In: E. Buschor, K. Schedler (eds.), *Perspectives on Performance Measurement and Public Sector Accounting*. Bern, Stuttgart, Wien, 259-277
- Hall, P.A., 1989, *The Power of Economic Ideas*, Princeton, NJ, Princeton University Press
- Hancock, M.D. et al, 2011, *Politics in Europe*, 5th ed, CQPress
- Hansenfeld, Y., 1983, *Human Service Organizations*, Prentice-Hall, Englewood Cliffs, NJ
- Harrell, 2001, *Regression Modelling Strategies with Application to Linear Models, Logistic Regression, and Survival Analysis*, Springer
- Haas, Peter M., 1992, Introduction: epistemic communities and international

- policy coordination, *International Organization*, 46(1), 1-35
- Hatry H.P., 1999, *Performance Measurement: Getting Results*, Washington DC: The Urban Institute Press.
- Hay, C., 1999, Crisis and the structural transformation of the state: interrogating the process of change, *The British Journal of Politics & International Relations*, 1(3), 317–344
- Hay, C. and Daniel Wincott, 1998, Structure, Agency and Historical Institutionalism, *Political Studies* XLVI, 951-957
- Hayek, F., 1960, *The constitution of liberty*, University of Chicago
- Heinreich, C.J., 2012, Measuring public sector performance and effectiveness, In Peters, G. and Pierre J. (eds), *SAGE Handbook of Public Administration*, SAGE publication Ltd, London
- Henderson, G., 1968, *Korea: The Politics of Vortex*, Cambridge: Harvard University Press
- Hepworth, N.P., 1977, Local Government and Central Control, *Public Administration*, 55(1), 16
- Hepworth, N.P., 1994, Performance Measurement in Local Government in the United Kingdom, In: E. Buschor, K.Schedler (eds.), *Perspectives on Performance Measurement and Public Sector Accounting*, Bern et al, 137-162
- Hepworth, N.P., 2002, Government budgeting and accounting reform in the United Kingdom, In: Chan, J.L. and Chen Xiaoyue (eds), *Models of Public Budgeting and Accounting Reform*, *OECD Journal on Budgeting*, 2(1)
- Hepworth, N.P., 2003, Accounting in the public sector, Chartered Institute of Public Finance and Accountancy, University of Malta, February 2003
- Hesse, J.J. and Sharpe, L.J., 1991, Local government in international perspective: some comparative observations, in J.J. Hesse, (ed), *Local government and Urban affairs in international perspective*, 603-621
- Heywood, A., 2000, *Key Concepts in Politics*, Basingstoke, Palgrave
- Hoggett, 1996, New modes of control in the public service, *Public Administration*, 74, 9-32
- Honadle, B., Costa, J. and Cigler, B., 2004, *Fiscal Health for Local Government: An Introduction to Concepts, Practical Analysis, and Strategies*, San Diego, CA: Elsevier
- Hood, C., 1991, A Public Management for All Seasons, *Public Administration*, 69(1), 3-19
- Hood, C., 1995, The New Public Management in the 1980s: Variations on a Theme, *Accounting, Organization and Society*, 20, 93-109
- Hood, C., Scott, C., James, O., Jones, G. and Travers, T., 1999, *Regulation inside government*, Oxford University Press
- Hood, C. James, O., Peters, G. and Scott, C., 2004, *Controlling Modern Government: Variety, Commonality and Change*, Edward Elgar
- Hughes, G., Mears, R. and Winch C., 1997, An inspector call? Regulation and accountability in three public services', *Policy and Politics*, 25(3), 299-313

- Il Sakong and YoungsunKoh (eds) 2010, *The Korean Economy: Six Decades of Growth and Development*, The Committee for the Sixty-Year History of the Korean Economy
- Jas, P. and Skelcher, C., 2005, Performance decline and turnaround in public organizations: a theoretical and empirical analysis, *British journal of management*, 16, 195-210
- James, O., 2000, Regulation inside government: Public interest justifications and regulatory failures, *Public Administration*, 78(2), 327-343
- James, O and John, P., 2007, Public Management at the Ballot Box: Performance Information and Electoral Support for Incumbent English Local Governments, *Journal of Public Administration Research and Theory*, 17(4), 567-580
- Johnson, B. and Christensen, L., 2008, *Educational Research: Quantitative, Qualitative, and Mixed Approaches*, Thousands Oakes, CA.: Sage
- Johnson, Chalmers A., 1982, *MITI and the Japanese Miracle: the growth of industrial policy, 1925-1975*, Stanford, Stanford University Press
- Johns, R. and Maurice Pendlebury, 1996, *Public Sector Accounting*, Pitman Publishing
- Jones, G. and Stewart, J., 2012, Local government: the past, the present and the future, *Public Policy and Administration*, 27(4), 346-367
- Josef Bruderl, 2005, Panel Data Analysis, <http://freepdfs.net/panel-data-analysis-josef-bruderl/5f2a7541575ca3b4423c656d605a5f80/>[accessed at 4/06/2015] University of Mannheim,
- Jung, Y.D., 1999, Administrative Reform in Korea: A Historical Institutional Perspective, *Korea Journal*, 39(2), 5-22
- Ikenberry, G.J., 1994, History's heavy hand: institutions and the politics of the state, presented at conf. on The New Institutionalism, University of Maryland, October 1994
- Kaplan, R. and Norton, D., 1992, The Balanced Scorecard: Measures that Drive Performance, *Harvard Business Review*, 70(1), 71-79
- Kalinowski, T., 2008, Korea's Recovery since the 1997/98 Financial Crisis: The Last Stage of the Developmental State, *New Political Economy*, 13(4), 447-462
- Kim, D.Y., 2005, Paths toward Successful Introduction of Program Budgeting in Korea. In: John M. Kim, *From Line-item to Program Budgeting: Global Lessons and the Korea Case*, 2005, Korea Institute of Public Finance and the World Bank
- Kim, John M., 2005, *From Line-item to Program Budgeting: Global Lessons and the Korea Case*, Korea Institute of Public Finance and the World Bank
- Kindleberger, C. and Robert A. 2005, *Manias, Panics and Crashes: A history of Financial Crises*, Palgrave
- Krasner, S., 1984, Approaches to the State: Alternative Conceptions and Historical Dynamics, *Comparative Politics*, 16, 223-46
- Kries et al., 2002, Maternal Smoking during Pregnancy and Childhood Obesity,

- American Journal of Epidemiology*, 156(10), 954-961
- KRILA, 2011, *Local Government in Korea*, The Korea Research Institute for Local Administration
- Krugman, P., 2008, *The Return of Depression Economics and the Crisis of 2008*, Penguin Books
- Lane, J.-E. and Ersson, S.O., 1994, *Politics And Society In Western Europe*, Sage, London
- Leach, S. and Copus, C., 2004, Scrutiny and the political party group in UK local government: new models of behaviour, *Public Administration*, 82(2), 331-354
- Lee, D.G., 1996, Politics of Decentralization: Changing Intergovernmental Relations in Korea *Journal of the Korean association of local government studies*, 8(2) 130-152
- Lee, D.O., 2009, Central Management of Local Performance: A Comparison of England and Korea, the PhD thesis of Exeter University
- Lee, J.S., 1996, The politics of decentralization in Korea, *Local Government Studies*, 22(3), 60-71
- Lemaire, D., 2003, The Stick: Regulation as a Tool of Government, in Bemelmans-Videc, M. et al. (eds), *Carrots, Sticks and Sermons*, Transaction Publishers, New Brunswick and London
- Levinson H., 2003, Management by Whose Objectives? *Harvard Business Review* 81:1, 107-117
- Lijphart, A., 1999, *Pattern of Democracy: Government Forms and Performance in Thirty-Six Countries*, New Haven, Yale University Press
- Lowndes, 2003, Between Rhetoric and Reality: Does the 2001 White Paper Reverse the Centralising Trend in Britain? In: Carmichael, P. (eds) *Regulating Local Authorities: Emerging Patterns of Central Control*, London
- Mahoney, J. and Thelen, K., 2010, *Explaining Institutional Change: Ambiguity, Agency, and Power*, Cambridge University Press
- Mainwaring, S. and E. Zoco, 2007, Political Sequences and the Stabilization of Interparty Competition Electoral Volatility in Old and New Democracies, *Party Politics*, 13(2), 155-178
- Marsh, D., Richards, D. and Smith, M.J., 2003, Unequal plurality: Towards and asymmetrical power model of British politics, *Government and Opposition*, 38(3), 306-32
- Martinez-Vazquez, J. and B Searle (eds), 2007, *Fiscal equalization: Challenges in the design of intergovernmental transfers*, Springer
- Mccann, L., 2013, Reforming public services after the crash: the role of framing and hoping, *Public Administration*, 91(1), 5-16
- McKevitt, D. and A. Lawton, 1996, The manager, the citizen, the politician and performance measures, *Public Money and Management*, 16(3), 49-54
- Manor, J., 1999, *The political economy of democratic decentralization*, World Bank
- Matheson, A., 2002, Better Public Sector Governance: The Rationale for Budgeting and Accounting Reform in Western Nations, In: Chan, J.L. and

- Chen Xiaoyue (eds), Models of Public Budgeting and Accounting Reform, *OECD Journal on budgeting*, 2(1)
- Mead, Lawrence M, 2003, Performance Analysis in Mary Clare Lennon and Thomas Corbett (eds), *Policy Into Action: Implementation Research and Welfare Reform*, Washington DC, Urban Institute Press
- Meier, Kenneth J., 1985, *Regulation: Politics, Bureaucracy, and Economics*, New York, St.Martin's Press
- Meier, Kenneth J. and J. L. Brudney, 2002, *Applied statistics for public administration*, Orlando: Harcourt College
- Midwinter, A. 1994, Developing performance indicators for local government: the Scottish experience, *Public Money and Management*, 14(2), 37-43
- Mill, J.S., 1910, *Utilitarianism, Liberty, and Representative Government*, London, Dent
- Moesen, W., and Cauwenberge,P., 2000, The status of the budget constraint, federalism and the relative size of government: A bureaucracy approach, *Public Choice*, 104, 207-224
- Mullard, M., 2011, *The politics of recession*, Edward Elgar Publishing
- Muramatsu, M. 1997, *Local power in the Japanese state*, University of California Press
- Musgrave, R., 1980, *Public Finance in Theory and Practice*, McGraw-Hill
- NAO, 2013, Memorandum on the 2012 Civil Service Reform Plan, reported by the Comptroller and Auditor General, National Audit Office
- Newman, I. and Benz, C.R., 1998, *Qualitative Quantitative Research Methodology: Exploring the Interactive Continuum*, Southern Illinois University
- Newton, Kenneth (1981) The local financial crisis in Britain: A non-crisis which is neither local nor financial. In: Sharpe, L.J. (ed.) *The Local Fiscal Crisis in Western Europe: Myths and Realities*. Beverly Hills, USA, Sage Publications, 195-226.
- Niskanen, W.A., 1975, Bureaucrats and Politicians, *Journal of law and economics*, 18(3), Dec, 617-643
- North, Douglass C., 1990, *Institution, Institutional Change, and Economic Performance*, Cambridge University Press, Cambridge
- O'Conner, J., 2002, *The Fiscal Crisis of the State*, Transaction Publisher
- OECD, 2005, *Modernizing Government: The way Forward*, Paris: OECD
- OECD, 2010, *Economic Survey for Korea*
- OECD, 2012, OECD outlook no 95
- OECD, 2013, Expenditures across levels of government, in *OECD Factbook 2013: Economic, Environmental and Social Statistics*, OECD Publishing.
- Ola, R.F., 1984, *Local administration in Nigeria*, Kegan Paul International, London
- OMB, 2011, High Priority Performance Goal [accessed in 5/02/15] <https://www.whitehouse.gov/sites/default/files/omb/performance/high-priority-performance-goals.pdf>

- O'Neill, O., 2002, *A Question of Trust*, Cambridge: Cambridge University Press
- Osborne, D. and Ted Gaebler, 1992, *Reinventing government: how the entrepreneurial spirit is transforming the public sector*, Addison-Wesley Publ.Co.
- Osung Kwon, 2013, Fiscal Decentralization: An Effective Tool For Government Reform? *Public Administration* 91(3), 544-560
- Otley, D., 1999, Performance management a framework for management control systems research, *Management Accounting Research*, 10(4), 363-382
- O'Toole, L.J., 1999, Different Public Management? Implications of Structural Context in Hierarchies and Networks, In: Jeffrey L. Brudney, O'Toole L.J., and Hal G. Rainey (eds) *Advancing Public Management: New Development in Theory, Methods, and Practice*, Washington DC : Georgetown University Press
- O'Toole, L.J. and Meier, K., 1999, Modeling the Impact of Public Management: Implications of Structural Context, *Journal of Public Administration Research and Theory*, 9(4), 505-526.
- Pag, E. C. and Goldsmith, M. (eds), 1987, *Central- local government relations: A comparative analysis of West European unitary states*, London
- Park, C.M., 2003, Local Governance and Community Power in Korea, *Korea Journal* 46(4), 9-3
- Palmer, A. J., 1993, Performance Measurement in Local Government, *Public Money and Management* 13(4), Oct-Dec, 31-36
- Park, W-A., 1996, Financial liberalization: the Korean experience, in Ito, T. and Krieger., A. (eds), *Financial Deregulation and Integration in East Asia*, Chicago, University of Chicago Press
- Pempel, T.I., 1999, *The Politics of the Asian Economic Crisis*, Cornell University Press
- Perotti, R., 2004, Estimating the effects of fiscal policy in OECD countries, IGER Working Paper, 276
- Peters, B.G., 2011, Governance responses to the fiscal crisis: comparative perspectives. *Public Money & Management*, 31(1), 75-80
- Peters, B.G., 2012, *Institutional theory in political science: the new institutionalism*, 3rd ed, continuum
- Pierre, J., 2000, Conclusion: Governance beyond State Strength, in J., Pierre (eds), *Debating Governance*, Oxford, Oxford University Press, 241-6
- Pierson, P. and T. Skocpol, 2002, Historical Institutionalism in Contemporary Political Science, In: I. Katznelson and H.V. Milner (eds), *Political Science: State of the Discipline*, New York, Norton
- Pinch, S., 1985, *Cities and Services: The Geography of Collective Consumption*, Routledge & Kegan Paul plc
- Plekhanov and Singh, 2007, How should subnational government borrowing be regulated? Some cross-country empirical evidence, *IMF Staff Papers*, 53(3)
- PLMD, 2006, Municipal Fiscal Distress and Recovery, *Pennsylvania Legislator's Municipal Deskbook*

- Poister, T.H., 2003, *Measuring Performance on Public and Nonprofit Organization*, John Wiley & Sons
- Pollitt, C., 2006, Performance Management in Practice: A comparative Study of Executive Agency, *Journal of Public Administration Research and Theory*, 14, 25-44
- Pollitt, C. and Bouckaert G., 2004, *Public Management Reform: A Comparative Analysis*. Oxford: Oxford University Press
- Pollitt, C. and Bouckaert G., 2011, *Public Management Reform: A Comparative Analysis New Public Management Governance, and the Neo-Weberian State* Oxford: Oxford University Press
- Poterba, J.M. and von Hagen, J., 1999, *Fiscal Institutions and Fiscal Performance*, University of Chicago Press
- Power, M., 2005, The theory of the audit explosion In: Ferlie, Ewan and Lynn, Laurence E and Pollitt, Christopher, (eds.) *The Oxford Handbook of Public Management*. Oxford University Press, UK, 326-344
- Putnam, Robert D. 1993, *Making Democracy Work: Civic Traditions in Modern Italy*, Princeton, NJ, Princeton University Press
- Rashid, N., 1999, *Managing performance in local government*, Kogan Page Publishers
- Revelli, F., 2005, Performance rating and yardstick competition in social service provision, *Journal of Public Economics*, 90, 459-475
- Revelli, F., 2010, Spend more, get more? An inquiry into English local government performance, *Oxford Economic Papers*, 62, 185-207
- Rhodes, R.A.W., 1980, Some Myths in Central-Local Relations, *The Town Planning Review*, 51(3), 270-285
- Rhodes, R.A.W., 1996, The New Governance: governing without Government, *Political Studies*, 44, 652-67
- Rhodes, R.A.W., 1999, *Controls and power in central-local government relations*, Ashgate
- Rhodes, R.A.W., P. Carmichael, J. McMillan and A. Massey, 2003, *Decentralization the Civil Service*, Buckingham: Open University Press
- Richards, D. and Smith, M., 2002, *Governance and Public Policy*, Oxford, Oxford University Press
- Richardson, J. and Copus, C., 2011, Introduction: the scope and challenges of the financial crisis, In: Richardson, J (eds), *From Recession To renewal: the impact of the financial crisis on public services and local government*, The Policy Press
- Rhodes, R and P. t'Hart, 2014, *The Oxford Handbook of Political Leadership*, Oxford
- Rodden, J., 2002, The Dilemma of Fiscal Federalism: Grants and Fiscal Performance around the world, *American Journal of Political science*, 46(3), 670-687
- Roland, G., 2004, Understanding Institutional Change: Fast-Moving and Slow-Moving Institutions, *Studies in International and Comparative Development*,

38, 109-31

- Rosenthal, L., 2004, Do school inspections improve school quality? Ofsted inspections and school examination results in the UK, *Economics of Education Review*, 23(2), 143-51
- Sanderson, I., 1996, Evaluation, learning and effectiveness of public services: Toward a quality of public service model, *International Journal of Public Sector Management*, 9(5/6), 90-108
- Sanderson, I., 2001, Performance Management, Evaluation and Learning in 'Modern' Local Government, *Public Administration*, 79(2), 297-313
- Scott, W. R., 1994, *Institutional environments and organizations: Structural complexity and Individualism*, Sage
- Scott, W. R., 2014, *Institutions And Organizations: Ideas, Interests, and Identities*, Sage
- Sharpe, L.J., 1970, Theories and Values of Local Government, *Political Studies*, XVIII(2), 153-174
- Sharpe, L.J. (ed.), 1981, *The Local Fiscal Crisis in Western Europe*, SAGE Publication
- Smith, P., 1996, *Measuring Outcome in the Public Sector*, Taylor and Francis, London
- Somerville, P. and N. Haines, 2008, Prospects for local co-governance, *Local Government Studies*, 34(1), 61-79
- Stewart, J., 1994, The Rebuilding of Public Accountability. In: N. Flynn(ed.), *Change in the Civil Service*, CIPFA reader, London, 75-79
- Stewart, J., 2014, An Era of Continuing Change: Reflections on Local Government in England 1974–2014, *Local Government Studies*, 40(6), 835-850
- Steinmo, Sven, 2014, Historical Institutionalism: Theory and Methods Revisited, APSA 2014 Annual Meeting Paper. Available at SSRN: <http://ssrn.com/abstract=2455247>
- Stone, Alan, 1982, *Regulation and Its Alternatives*, Washington DC, Congressional Quarterly Press
- Swan, P. and G. Garvey, 1991, The equity and efficiency implications of fiscal equalization, *Mimeograph*, Swan Consultants Pty Ltd
- Sweeting, D. and C. Copus, 2012, Whatever happened to local democracy, *Policy and Politics*, 40(1), 21-38
- Swianiewicz, P., 2014, An Empirical Typology of Local Government System in Eastern Europe, *Local Government Studies*, 40(2), 292
- Talbot, C., 1999, Public Performance: Towards a New Model, *Public Policy and Administration*, 14(3), 15-35
- Talbot, C., 2005, Performance Management, in E. Ferlie, L.E. Jr Lynn and C. Pollitt (eds), *The Oxford Handbook of Public Management*, Oxford: Oxford University Press, 491-520
- Talbot, C., 2010, *Theories of Performance Organizational and Service improvement in the Public Domain*, Oxford University Press

- TBS, 2012, Audit of the Administration of the External Expert Contract for the Strategic and Operating Review, Treasury Board of Canada Secretariat, available at <https://www.tbs-sct.gc.ca/report/orp/2012/aaeecsor-vacesfaee/aaeecsor-vacesfaee03-eng.asp>
- Ter-Minassian, T., 1997, Control of subnational government borrowing In: Ter-Minassian, *Fiscal Federalism in Theory and Practice*, International Monetary Fund
- 't Hart, P., 1993, Symbols, rituals and power: the lost dimension in crisis management, *Journal of Contingencies and Crisis Management* 1(1), 36-50
- Thelen, K., 1999, Historical Institutionalism in Comparative Politics, *Annual Review of Political Science*, 2, 369-404
- Thelen, K. and S. Steinmo, 1992, Historical Institutionalism in Comparative Politics, in S. Steinmo, K. Thelen and F. Longstreth, eds, *Structuring Politics: Historical Institutionalism in Comparative Analysis*, Cambridge, Cambridge University
- Thelen, Kathleen, 2006, Institutional Change: The Evolution of Vocational Training in Germany. In: Shapiro, I. et al. (eds), *Rethinking Political Institutions*, 135-70, New York University Press, New York
- Thompson, J.D., 1967, *Organizations in Action*, New York, McGraw-Hill
- Tilly, C., 1975, *The Formation of National State in Western Europe*, Princeton, New Jersey, Princeton University
- Tilly, C., 1995, The Emergence of Citizenship in France and Elsewhere, in C. Tilly, (eds) *Citizenship, Identity and Social History*, 223-36, Cambridge University Press, Cambridge
- Timmins, Nicholas and Gash, Tom, 2014, *Dying to Improve: The Demise of the Audit Commission and Other Improvement Agencies*, the Institute for Government
- Tocqueville, A., 1969, *Democracy in America*, New York
- Vedung, E., 2003, Policy Instruments: Typologies and Theories, in *Carrots, Sticks and Sermons*, Belmemans-Videc (eds)
- Wade, R., 1990, *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization*, Princeton University Press
- Walker, R. M. and G. A. Brewer, 2009, Can management strategy minimize the impact of red tape on organizational performance? *Administration & Society*, 41(4), 423-48
- Walker, R. M. and R. Andrews, 2015, Local Government Management and Performance: A Review of Evidence, *Journal of Public Administration Research and Theory*, 25, 101-133
- Wall, T. B. et al., 2004, On the validity of subjective measures of company performance, *Personnel Psychology*, 57(1), 95-118
- Wilks, S., 2010, Cutback Management in the United Kingdom: Challenges of Fiscal Consolidation for the Administrative System, *The Korean Journal of Policy Studies*, 25(1). 85-108
- Wilks, S., 2014, Downsizing and the Rise of the Public Service Industry OR

- Austerity and Outsourcing in the New Corporate State, paper for Workshop at McMaster Univ on 'Manufacturing and Framing Austerity', 30 Oct to 1 Nov 2014
- Wildavsky, Aaron, 1972, The Self-Evaluating Organization, *Public Administration Review*, 32(5), 509-20
- Wilson, D. and Game, C., 1998, *Local government in the United Kingdom*, second edition, Macmillan
- Wilson, D. and Game, C., 2006, *Local Government in the United Kingdom*, fourth edition, Palgrave Macmillan
- Wolf, Jr. Charles, 1961, On Aspects of Korea's Five-Year Development Plan, http://pdf.usaid.gov/pdf_docs/PNABW511.pdf.
- World Bank, 2013, Gross domestic product 2012, World Development Indicators database, 17 December 2013
- Woo-Cumings, M., 1999, The State, Democracy, and the Reform of the Corporate Sector in Korea, In: Pempel, T.I.(eds), 1999, *The Politics of the Asian Economic Crisis*, Cornell University Press
- Wooldridge, J.M., 2002, *Econometric Analysis of Cross Section and Panel Data*, The MIT Press
- World Bank, 1999, Civil Service Reform: A Review of World Bank Assistance, Operations Evaluation Department Report no.19599, World Bank, Washington. D.C.
- Wright, M., 2002, *Japan's fiscal crisis: The Ministry of Finance and the Politics of Public Spending 1975-1990*, Oxford University Press
- Vitaliano, D.F., 1997, X-Inefficiency in the Public Sector: The case of Libraries, *Public Finance Review* 25, 629-43
- Zafra-Gomez et al., 2013, Reducing Costs In Times Of Crisis: Delivery Forms in Small And Medium Sized Local Governments' Waste Management Services, *Public Administration*, 91(1), 51-68

References in Korean language (author's translation)

- Yonhap News*, 28 Jan 2015, 'Abolition of autonomous district councils of metropolitan cities', Available at <<http://www.yonhapnews.co.kr>>
- AIR, 2006, Research on the Evaluations in the Public Sector of Korea, Audit and Inspection Research Institute of the Board of Audit and Inspection of Korea
- An, B.M., 1997, *The Korean Government*, Dasan Press, Seoul
- An, C.S. and Kim, M.H., 1994, *Transitional Korean Democracy* Bubmunsa, Seoul
- An, C.S. et al, 2002, *Local autonomy and Democracy in Korea*, Nanam Press, Seoul
- BARO, 2006, *An information leaflet about Digital Budget and Accounting System*, Budget and Accounting Reinventing Office
- BAI, 2009, To Properly Implement Emergency Spending: Institutional changes

- and best practices, Board of Audit and Inspection of Korea
- BAI, 2005, *Performance audit manual*, Board of Audit and Inspection of Korea
- BOK, 2013, Economic statistics of Korea, Available at <<http://ecos.bok.or.kr>>, Bank of Korea [accessed at 12/12/2013]
- Choi, B.G., 1990, Historical experiences and introspection of Korean local Autonomy, *The Journal of Social Sciences*, 19, 33-72
- Choi, C.S., 2003, Issues and improvements of central government's Joint Performance Assessment against regional government, *Local Administration*, 185, 15-21
- Cho, G.H. and Shin, D.S., 2008, *Local Government's Financial Management: Focusing on policy responses of local fiscal crises*, The Korea Research Institute for Local Administration
- CID, 2007, *Innovation and Decentralization of the Participatory Government*, The Committee of Innovation and Decentralization
- Goh, S.H., 2000, The UK's moderating mechanism of central-local government relationship, *The Journal of Korean Politics*, 34(3) 255-273
- GRI, 2008, *A study on the Self-assessment System of Local Government*, Gyeonggi Research Institute
- Gwak, C.G., 1998, The nature of and responses to Korean local fiscal crises, *The Law and Public Administration Review*, 18, 317-349
- Han, Y.W., 2004. *Looking Back to Our History*, Kyungsewon
- Im, S.B., 2008, Formation and Factors of the Korean Local Autonomy Institution, *Journal of the Korean Association for Public Administration*, 42(2), 49-69
- Korea Economy*, 23 April 1998, 'In a crisis of local finance', [online] Available at <<http://www.kinds.or.kr>> [accessed 1 July 2013]
- Jin, J.H., 2000, 'The result of special audit by the Board of Audit and Inspection: the local fiscal crisis by popular projects', *Hankyereh Newspaper* [online] 30 December 2000, Available at <<http://www.kinds.or.kr>> [accessed 1 July 2013]
- Jung, D.J., 2003, Change of Central intervention to Local government in Japan, *Journal of Korean Local Autonomy*, 15(2), 127-144
- Jung, J.F and Choi, B.H., 2004, A Study on the Reform of Aggregate Land tax, *Journal of the Korean association of local government studies*, 8(3), 95-118
- Kang, M.S., 2005, The regionalism and the alignment of the Korean parties structure, *Journal of the Korean Parties*, 4(2), 249-270
- KILF, 2012, *Tax Exemption and Tax Cut*, Korean Institute of Local Finance
- KIPF, 2015, Korea Institute of Public Finance, [accessed at 25 March 2015] Available at <<http://www.kipf.re.kr/TaxFiscalPubInfo/Tax-TaxStructure>>
- KRILA, 2002, *Adjusting of Budgeting and Accounting System in terms of Accrual and Double-Entry Accounting*, The Korea Research Institute for Local Administration
- Kim, C.S., 1998, *The Introduction of Constitutions*, Bakyoungsa, Seoul
- Kim, C.S., 2005, The 2004 budget of local government in Korea: Extremes in local finance, *Korea Economy* [online] 22 May 2005, Available at <<http://www.kinds.or.kr>>, [accessed at 25 June 2013]

- Kim, J.G., 2008, Pragmatism as Policy Stance: focusing on the Lee Myung-bak Administration, *the Journal of Korean Public Administration*, 22(2), 1-28
- Kim, J.S., 2006, New institutionalism approach on Local Autonomy in Korea, *Journal of Chung-Nam University Institute for Social Science Research* , 17, 1-24
- Kim, M.H., 1994, Historical Background of Local Autonomy Logic and Local Politics in Korea, *Trend and Prospect*, Institute for Korean Social Science Research, 24, 7-31
- Kim, S.E., 2004, Government Innovation and Decentralization: A Comparative Study of Korea and Japan, *Journal of the Korean association of local government studies*, 8(1), 151-176
- Kim, S.T. and Hur, S.K., 2013, A Study on the Effectiveness of Inter-temporal Relocation of Fiscal Expenditure in Korea, *KDI Journal of Economic Policy*, 35(2), 71-105
- Kim, S.W., 2004, Politics of Political Recruitment: Determinants of 6.13 local election in Korea, *Journal of Korean Politics*, 38(1), 215-231
- KIPA, 2011, *The acceptability of the results of government activity assessment*, Korea Institute for Public Administration, 2011-08
- KIPA, 2012, *The study for the development of the Joint Performance Assessment*, Korea Institute for Public Administration, 2012
- KNSO, 2005, Gross Regional Domestic Product and Expenditure, 12/23/2005, Report for the press of *Gwangju-JeonNam National Statistics Office*
- Lee, G.W., 2002, Restructuring to Federal State, *Journal of Korean local autonomy*, 14(4), 259-278
- Lee, W.J., 1999, 'Terminated Economic Hearing', *DongA Daily News* 11 Feb 1999 [online] Available at <http://news.donga.com/3/all/19990211/7419407/1>
- LOFIN, 2015, Local government Finance Database Available at [http://lofin.mogaha.go.kr/lofin_stat/budget/gyumo/Gyumo_IncomeBg\(SIDO\)_01.jsp](http://lofin.mogaha.go.kr/lofin_stat/budget/gyumo/Gyumo_IncomeBg(SIDO)_01.jsp) [accessed at 03/07/2015]
- Korea Daily* 29 June 1998 'Mayors spending more', 1998, [online] Available at <http://www.kinds.or.kr> [accessed 8 July 2013]
- Min, K.G., 2009, To Abandon Unidentified Pragmatism, *Monthly Korea Journal*, 232, 60-65
- MOFE, 1999, *The White Paper of Korea Economy*, the Ministry of Finance and Economy
- MOGAHA, 1998, Report of the financial status of local government, President Report by minister of MOGAHA, 11 May 1998, Ministry of Government Administration and Home Affairs
- MOGAHA, 2000a, The financial statistics of local governments in Korea
- MOGAHA, 2000b The manual of Joint Performance Assessment of Korea, The Ministry of Government Administration and Home Affairs
- MOGAHA, 2001; 2002, The White Paper of the Ministry of Government Administration and Home Affairs
- MOGAHA, 2004, The White Paper of Government Administration and Home

Affair

- MOGAHA, 2006, Manual for Programme Budget of Local Government
- MOGAHA, 2007a, Plan for the BSC of local government
- MOGAHA, 2007b, The Progress Report for Programme Budget of Local Government
- MOGAHA, 2014, The number of Korean local government officials
- MOGAHA, 2015a, The structure and population of the Korean local government
- MOGAHA, 2015b, The current Korean local councils,
- Moon, Y.S., 1996, A Systematic Analysis for Developing the Central Evaluation System in the Korean Administration, *The Korean Society and Public Administration Studies*, 12, 181-202
- MOPAS, 2008, The Planning of Emergency Spending of Local Government, Ministry of Public Administration and Security
- MOPAS, 2009a, The press report for the introduction of local consumption tax and local income tax
- MOPAS, 2009b, The paper on the result of 2008 Joint Performance Assessment
- MOPAS, 2009c, Report for Financial Analysis of Local Government
- MOPAS, 2010, Statistical Year Book (2010), the Ministry of Public Administration and Security
- MOPAS, 2011a, The manual of calculating Local Shared Tax
- MOPAS, 2011b, Guidelines of the salary of public workers
- MOPAS, 2011c, The diagnosis and analysis of local government finance FY 2010
- MOPAS, 2012, A Guide to Korean Local Government Finance and tax
- MOPAS, 2013, Local government Finance Yearbook 2013
- MPF, 2012, The Manual of Public Agencies Evaluation, Ministry of Planning and Finance
- MPF, 2013, The system of government performance evaluation and operating experience, Ministry of Planning and Finance
- NA, 2013, Republic of Korea National Archives, Available at <<http://contents.archives.go.kr/next/content/listSubjectDescription.do?id=000548&pageFlag=A>>
- Naeil News, 19 July 2006, 'Oppose Decreasing the Transfer tax without compensating measure' [online] Available at <<http://www.kinds.or.kr>>
- Nam, C.W., 2010, The study for the period of United States Military Administration, *The Journal of Korean Local Administration*, 22(2), 212-226
- NABO, 2012, The analysis of the effect of Earlier spending, National Assembly Budget Office
- NAM, 2015, The survey research about the public opinion about local autonomy published by National Association of Mayors
- NBO, 2014, The financial report of Korea local government after crises http://www.nabo.go.kr/Sub/01Report/04_01_05_Contents.jsp [accessed at 13/6/2014], National Assembly Budget Office
- NEC, 2013, Homepage of Republic of Korea National Election Commission, <Http://www.nec.go.kr/nec_new2009/information/info_sg_gongjik.jsp>

- Gangwon Times, 06 December 2008, 'Operating Emergency Economy Room', [online], Available at <<http://www.kinds.or.kr>>, [accessed at 20/6/2013]
- OPM, 2012, *The performance and the suggestions on operating Government Assessment Activities*, The Office of Prime Minister
- Park and Jang, 2012, 'Performance payment for ten years', *Seoul News*, <http://www.seoul.co.kr/news/new_sView.php?id=20080916008009>
- Park, C.W., 2002, Local election and local political elites in An, C.S. et al, 2002, *Local autonomy and Democracy in Korea*, Nanam Press, Seoul
- Park, D.S., 1979, The consideration of Korean local public administration, *Korean Journal of Public Administration*, the Seoul National University, 17(2)
- Park, H.J., 2002, Devolution and change of central-local functional distribution, *Korean Society and Public Administration Studies*, 13(3), 125-146
- Park, H.J., 2005, The comparative analysis of local government's evaluation system-Focused on Programme Analysis Review and Self Evaluation, *The Korea Institute of Public Affairs*, 42(4), 329-359
- Park, H.J., 2010, Central government's no consideration for local government, *DongA-Daily News* [online] 17 July 2010, Available at <<http://www.kinds.or.kr>> [accessed at 8 July 2013]
- Park, H.Y., 2010, A Study on the Development of Joint Performance Assessment of Local Government in Korea, *The Korean Association for Public Administration*
- Park, J.M., 2008, The analysis on fiscal autonomy of the previous governments, published in the winter conference in 2008, The institute of Seoul Public Administration
- Park, M.H. et al, 2011, The change and continuity of local political elites recruitment, *Journal of the Korean parties*, 10(2), 93-131
- Park, N.W. et al, 2008, *Assessment of Performance-based Budgeting in Korea and Policy Recommendations*, Korean Institute of Public Finance.
- PCLA, 2014, *The comprehensive plan for the local autonomy development*, The Presidential Committee for the Local Autonomy development.
- Ryoo, Y.A., 2010, An Analysis of Relative Importance on the Key factors of Combined Evaluation of Local Government, *Korean Policy Science Review*, 14(4), 242-264
- Sa, D.H., 1999, Local government's responses to fiscal crisis, presented report at the winter conference, The associate of Korean public administration
- Seoul, 2013, *The assessment plan 2013*, Seoul Metropolitan City Government
- Shin, B.G., 2011, Issues and response over the change of Local Autonomy Act 2010, *Journal of the Local Autonomy Act studies*, 11(1), Korean Local government Law Association
- Shin, H.C., 2008, Comprehensive Performance Measurement and Management of Korea Government: Current Issues and Suggestion for Improvement, *Studies of Management Accounting*, 7(3), 20-59
- Shin, J.S., 2010, *Pragmatism and Korean Politics*, Dongseosasan
- Yonhap News*, 19 May 2014, 'Slugfest interview', [online], Available at

<http://www.yonhapnews.co.kr/politics/2014/05/19/0505000000AKR20140519107800063>

- Song, I.J., 2012, *Government and Enterprises*, University of GyeongSeong
- So, S.C., 2002, The appreciation, the process, and the direction of Japanese decentralization, *Studies of Local government*, 6(4), 251-274
- Jeonbuk Residents Times*, 13 Jan 2009 'Sweating by earlier spending budget', [online] Available at <<http://www.kinds.or.kr/>> [accessed 20 June 2013]
- Won, Y.H., 2004, the core issues of the real estate holding tax system, *the Journal of Local Tax*, 81
- Yoon, H.I., 2005, The ten years of local autonomy: Survey over sixteen regional governors, *Kyunghyang Newspaper*, [online] 30 June 2005, Available at <http://www.kinds.or.kr>. [accessed 1 July 2013]
- Yu, J.H., 2002, Logic and tasks for decentralization, *Studies of Local government*, 6(2), 7-22
- Yu,S.W. and Jo, Pil Kyu, 2015, The heads of local governments and fiscal evaluation, *Journal of the Korean association of local government studies*, 18(4), 1-21