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Author: Chong-Hyun Nam

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The total public burden including direct liabilities and guarantees was around 33 to 34 percent of GDP. On the other hand, the author notes a worrisome feature of Korean public finance: the pension schemes have too generous benefits in relation to contributions. A rapidly aging population creates an imbalance between the expected benefits and the contributions with the former outgrowing the latter. The aging population also implies an increase in health expenditure, projected to rise to as much as 25 to 30 percent in 2070. Age-related expenditures, that is, the pension and health expenditures, create pressure on fiscal sustainability.

The weak side of Korean fiscal management is the budget. The complex structure of the budget reduces allocative efficiency and transparency. However, the government has to be lauded for serious efforts to strengthen transparency and accountability by reviewing various funds with the objective of abolishing obsolete funds and consolidating those with similar objectives. The problem of reducing the number of special accounts has remained an outstanding issue and will certainly merit greater action by the authorities in the near future.

An important reform is the introduction of the MTEF, which moves the budgeting process away from *microscopic control of line items* to the *strategic alignment of budget requests with overall policy directions.* The focus should be on outputs and outcomes rather than the traditional control of inputs. The author has several suggestions to improve the MTEF and one item stands out as a crucial area needing government attention: risk analysis and management, more specifically, the explicit and implicit contingent liabilities of the government arising from loan guarantees, public corporations, local governments, and others.

Another critical reform objective is the introduction of performance monitoring and evaluation. If adopted, this will improve the transparency of the budget process and effectiveness of various government interventions.

This interesting chapter encourages one to await the author's next report on the progress made by the government in pursuing the fiscal reforms highlighted therein.

Comment Chong-Hyun Nam

This is a very interesting and highly informative chapter. It consists of, largely, two parts. The first part presents an excellent survey on the development of the public sector in the Korean economy, and the second part evaluates institutional reforms that have been taking place in Korea in re-

Chong-Hyun Nam is professor of economics at Korea University.

cent years, suggesting almost an exhaustive list of recommendations as to how the reform can be shaped better for now and in the future.

The chapter is by and large self-explaining, and I have little in disagreement with whatever Koh writes. I have only a couple of quick comments on each part of the chapter.

First of all, I would have liked to see it more focused. The focus may be placed on the role of public finance that has played in the process of Korea's economic development. It is well known that a single most important goal that the Korean government has pursued, all along over the past forty years or so, is rapid economic growth. Almost every means that is available for policymakers has been mobilized to achieve this goal in one way or another. I believe fiscal policy has been no exception.

I think table 9.2 in the chapter provides some useful clues in that regard. The table shows that, as of 2000/2001, the share of capital outlays in total government's expenditure in Korea amounts to 8.3 percent of GDP, which is conspicuously higher than those for other countries compared in the table. This contrasts sharply to the share of transfers, which is substantially lower at only 3 percent of GDP in the corresponding year. Table 9.4 also provides a good indicator on this score. The table shows that the share of government expenditure on economic affairs has not only been large, but has also been increasing over time. The share of spending on economic affairs, for instance, shows a slightly declining trend over the 1970 to 1990 period to 3.6 percent from 4.6 percent of GDP, but it climbs back to an even higher level of 6.2 percent of GDP by 2003.

What does all this mean? This may mean that Korea's public sector has been heavily used, or abused for that matter, as a means of domestic capital formation, possibly replacing private sectors. This kind of fiscal policy may have continued to be in use, even long after Korea joined the OECD in 1996. A natural question to be asked is, then, to what extent and at the cost of what has the public sector been used as an instrument to achieve rapid growth in Korea? The author may be interested in exploring this issue further.

Another minor point that I want to mention is that nowhere in the chapter has the role of local governments as a player in the public sector been discussed. I believe local governments have also been an integral part of the public sector in a broader sense, and may be worthy of mention.

Let me now turn to the second part of the chapter to make a couple of comments. One is concerned with the structure of the budget, and the other with budget process.

I think the author correctly argues that special accounts and various funds are more prone to abuse than general accounts, since they are more likely to suffer from lack of transparency, accountability, and efficiency. Among special accounts and funds, the latter can be more problematic because they tend to remain unattended by the National Assembly, and, therefore, may fall exclusively in the hands of government's bureaucrats, which represents another interest group by itself.

This is not too surprising to me because funds are often managed like a protection scheme in international trade. Though they are often being introduced with very good reasons or causes, once installed, they become extremely difficult to get rid of. This is because interest groups benefiting from the funds, and influence-seeking government's bureaucrats, may work together to make the funds outlive their needs.

Figure 9.15 in the chapter seems interesting in this regard. The figure shows that during the past 34 years, the share of special accounts and funds in the consolidated budget keeps decreasing for the first half of the period, but increasing for the second half of the period. What does it mean? It means that government's budget structure has been drifting toward more inefficient structure lately. I hope it is not true, but one can hardly deny that the Korean government has become more a populist regime in recent years than ever before.

Considering that the share of special accounts and of funds in the total consolidated budget has grown to as high as 16 and 29 percent, respectively, as of 2004, it seems worthy to investigate further into the causes and consequences of that.

My final comment is about the medium-term expenditure framework (MTEF), which was introduced in 2004, as a new budget process in Korea. I recall vividly that the issue of the MTEF was hotly discussed among the government and academic circle as early as in the early 1980s. I wonder why it took so long before such a useful scheme as the MTEF was introduced only in 2004?