ADMINISTRATIVE REFORM EFFORTS IN REPUBLIC OF KOREA: CURRENT EXPERIENCES AND SUCCESSES

Through much of the history of the Korean republic, executive reorganization had been a means of reform that was related to, and justified, an evolving mode of executive governance. However, current reform is disconnected from the problem of executive management and has become an instrument of presidential public politics. Contemporary reform confronts a different, newer problem of national-level politics, the widespread public doubt about the legitimacy of the big, bureaucratic state. Recent government reforms have been mainly directed toward changes in government structure. These changes have included consolidating organizational functions and streamlining inefficient operations while keeping the centralized bureaucracy intact. Within these structural constraints, the system oscillated within relatively narrow parameters without bringing about any lasting bureaucratic reform.

In May 1988, when popularly elected President Roh Tae-Woo (1988-93) announced the establishment of the Administrative Reform Commission, it was believed that administrative reform would be critical to the President’s effort to democratize the governmental processes of the Sixth Republic. During the 1980s, the institutional settings upon which Korea had based its rapid economic growth began to change. Although the very success of the Government’s initial industrialization efforts greatly altered the basic features of Korean society, it was the persistence of a surprisingly robust civil bureaucracy that rendered permanence to the Korean Governmental structure and its efficacy was. In spite of accommodating the military, political vicissitudes and the occasional emergence of competing policy-making centres which attend each change of government, the bureaucracy has remained remarkably unchanged.

It may be noted that the efficacy of the bureaucracy ultimately rests on its ability to integrate state and society; to mediate between the government and the private sector. However, Korea’s highly centralized system of government could not simultaneously respond to the changing demands of a pluralistic society, to today’s democratization and liberalization trends, and to economic and social globalization. Hence, “political as well as economic liberalization” became the agenda of the late 1980s and 1990s.

To confront these challenges, two administrative reform commissions were created; one under President Roh and the current one under Kim Young-Sam who was popularly elected in 1992 and inaugurated as the first civilian President in 1993. President Kim’s reform (instituted in 1993) is intended to bring about administrative innovations, in sharp contrast to the earlier efforts that were aimed at structural reforms. The problem with the
earlier attempts was the inclination to view corruption and inefficiency in the bureaucracy as an individualized phenomenon, rather than an institutional or systemic one. The initiatives were more or less regarded as efforts to legitimize unpopular regimes and, in the end, reform was short-lived.

The major tasks of the Kim Young-Sam Government is to root out the legacy of the authoritarian state and to realize the goals of democratization. This involves devolving power to the lower levels of government, coupled with deregulation. It also means a decentralization that moves specific responsibilities away from the national to the local levels of government.

A. Goals and strategies

There are three primary goals of the Presidential Commission for Administrative Innovation: (1) to establish a service/client-oriented government, (2) to accomplish democratic and efficient administration, and (3) to create a small, non-corrupt, professionally competent and effective government. In essence, the promise that better governance associated with decentralization will promote greater efficiency and effectiveness in delivering services and managing the public sector requires a fundamental institutional transformation. The strategies for this transformation were set forth in three phases.

The first phase strategy (1993.4 - 1994.4) was to develop and cultivate a new civic culture which calls for shifting away from policy formulation which is dominated by the bureaucracy. The changed political culture requires citizen participation at the grass-roots level and people-oriented attitudes on the part of the government employees.

The second phase strategy (1994.5 - 1995.4) was to strengthen Korea’s economic competitiveness in the global marketplace, improve living standards, and enhance “the quality of life.” The Government must continue to promote a more efficient allocation of public resources based on market signals. Deregulation and financial liberalization were necessary in order accomplish this.

Contemporary internationalization is different from the post-Korean war economic development efforts. The agendas of governments at all levels include economic development items, environmental agreements, and immigration issues that are partially created and solved by administrative actors in other countries. To meet this new challenge, the Kim Government’s call for globalization is timely and relevant in the administrative context. It is incumbent upon the bureaucrats to adopt global perspectives to assess their environments (e.g., free trade agreements).

The third phase strategy (1995.5 - present) is to cope with the World Trade Organization framework and OECD membership requirements, along with the requisites of democratization. Further liberalization measures are called for in both the economic and
political spheres. In particular, the Government of Kim Young-Sam wants to devolve certain national responsibilities to the local level. Thus the Local Autonomy Act was amended in 1993, Korea initiated a full-fledged local autonomy system in the summer of 1995 with the election of top local officials. Accordingly, legislative proposals focusing on regional economic development, administrative transparency (e.g., citizens’ rights to public information), and the simplification of procedural rules and regulations have been submitted to the national assembly for its action. These are designed to pave the way to a viable decentralized, democratic system.

The two presidential reform commissions can be contrasted with respect to their processes as well as their objectives. The Administrative Reform Commission under Roh Tae-Woo may be characterized as having a batch system of reporting. As the reform proposals were percolated through the various reform committee networks, the outcome of these committee deliberations was then reviewed by the Commission (composed of representatives from academe, the press, labour, and civic groups) and its final decision was transmitted to the President as a comprehensive package of policy recommendations. The preparatory work was done by a small working group of government officials from the primarily Ministry of Government Administration who were assigned special tasks to generate, initiate and develop various reform proposals. However, the more liberal political environment created new channels for diverse groups to provide input to the policy-making process.

In contrast, the Presidential Commission for Administrative Innovation under Kim Young-Sam has operated in a more open political context. From the outset the President has pursued new ways of working through organizational innovation. The task force for “reform policy” proposals was made up of officials from the Blue House and the Office of Prime Minister. In addition, the President wanted an “on-line,” routine reporting system to monitor the work of the Commission. If anything, the President’s keen interest has kept the reform issue in prominence.

It is premature to assess the on-going work of President Kim’s commission, his aspirations to a new form of management under the banner of administrative innovation appear to enjoy limited success in the areas of deregulation and financial reform. In this regard the creation of an “Ombudsmen Office” for direct citizen input is noteworthy. On the other hand, most of President Roh’s reform commission work, i.e., proposing structural reform by reconfiguring government agencies, did not take root. The failure of these efforts is attributable to his weak leadership, which was much exploited by entrenched bureaucrats who were determined to protect their respective turf. This points up the fact that the outcome of intra-government conflict is often critical to successfully implementing reform measures.
The basic policy orientation of financial liberalization was to stimulate private investment and facilitate outward-oriented industrialization. This philosophy did not change even after political democratization. Because of the economic slowdown in the late 1980s and early 1990s and the need to improve Korea’s economic performance in the face of a new global competition, top priority was given to restoring the sagging economy. In 1992 the Korean economy grew by 4.7 per cent, a healthy figure by many standards, but the lowest seen in Korea in a decade. The task confronting President Kim’s new civilian Government was daunting. The President’s overall reform package therefore contained some economic reform measures. The 100-day reform package was announced in March 1993. It provided measures to stimulate economic activity, including reducing regulated interest rates, and assisting small and medium industry to expand investment. There was also a freeze on public sector wages, and a government austerity drive which has curbed conspicuous consumption practices.

B. The role of the Economic Planning Board (EPB)

The successful impact of these comprehensive approaches on Korea’s development and institutional structure are worthy of note here. The major functions of the secretariat unit in the Prime Minister’s Office are to facilitate policy co-ordination between relevant government agencies and to analyse policy options for appropriate action by the president. Since 1994, Mr. Kim’s Government has also solidified in the Prime Minister’s Office the function of comprehensively reviewing national planning, by transferring the economic policy-making activities of the former Economic Planning Board. Correspondingly, the activities related to policy evaluation and performance review have also been placed under the purview of the Prime Minister, more specifically in his policy co-ordination unit.

The 1960s was a period of substantial institutional change, which is much discussed in the literature. Key measures taken during that time included actively involving Government in economic planning, and, most important, creating five-year economic development plans to be implemented by the Economic Planning Board (EPB), established in 1961. The EPB was succeeded by the current Ministry of Finance and the Economy as Korea’s strategic policy shifted from a quasi-planned economy to a market-oriented one.

During the EPB’s existence, it came to play a critical role in Korea’s economic development. It was the main drive behind the Government’s orchestration of the nation’s outward-looking development strategies. The presidential decree in 1963 that the EPB’s minister would also hold the position of Deputy Prime Minister, along with the title of Minister of Economic Planning, established the agency as a virtual “super-ministry.” The EPB not only created all long- and short-range development plans, but also had far-reaching budgetary, regulatory, and statistical functions, as well as responsibility for managing foreign capital. In this way, it was involved directly in implementing and controlling the means to mobilize resources. As Deputy Prime Minister, the head of the
EPB co-ordinated the activities of all the ministries through the EPB’s budgetary function. In addition, the Deputy Prime Minister chaired the weekly meetings of the Economic Ministers Council. Another responsibility of the EPB was to promote technical co-operation with industrialized countries to improve the level of technological advancement.

C. Financial liberalization

Drawing upon his popular mandate as the first civilian head of the Korean Government, Mr. Kim also managed to forge a political support base to institute a hotly debated “Real-Name Deposit” system in concert with fundamental financial policy reform. On the whole however, the political and economic reform measures that the Government of Kim Young-Sam has instituted have had conflicting implications for the Government’s public finance policy. On the one hand, the growth of private capital, the Government’s increasing reliance on market forces in managing the economy, its emphasis on international competitiveness for domestic firms, and the conservative trend in the electorate provided favourable conditions for the economic growth policy. On the other hand, the worsening distribution of income coupled with the growing demands for more equitable distribution of wealth and income were factors pushing to redirect the basic orientations of fiscal policy.

During the presidential election, the “Real Name Deposit” system became a salient political issue. Under this system, Korean citizens would be required to hold financial accounts under their true names. The former practice of holding financial accounts under false names would be banned. The false name financial system was a by-product of the development strategy set up by President Park Chung-Hee after he came into power to 1961. A central element in Park’s economic plans was control of the financial sector. Its role was to support state sponsored goals for investment, production and export. Under Park’s policy, the Government kept interest rates artificially low so that they supported the Government’s targeted industries. However, the low interest rates led to lower domestic savings. As corporate demand for cheap bank credit at low interest rates exceeded available credit, the false name system was introduced to attract savings by inducing money from any source, even dubious ones, to be deposited in false name accounts.

While the Government’s targeted industries grew in response to these special strategies, the growth was achieved at the expense of small and medium size enterprises which had to borrow their funds at much higher interest rates in the curb market. Thus government intervention in the financial sector contributed to the creation of a two-tiered financial system and distorting the financial market.

The “Real Name Financial System,” therefore, was implemented by President Kim Young-Sam as a Presidential Decree (Presidential Financial and Economic Emergency Decree on Real Name Financial Transaction and Guarantee of Secrecy, 1993) to specifically attack the “underground economy.” The President’s plans for the new system’s
implementation were kept strictly confidential right up to the moment of his announcement. In order to ensure confidentiality, he entrusted the administrative preparations for implementation to a small working group of government officials under the direction of Deputy Prime Minister Lee Kyung-Shik. Because many government officials were opposed to a “Real Name” system (including the senior economic adviser to the President), they were kept in the dark about the impending plans.

D. Privatization effort

The Government has pursued a wide-ranging policy to liberalize markets in conjunction with democratic reform measures. A variety of internal and external reforms give more autonomy to the private sector and allow market principles to play a large role. In keeping with this policy, the Kim Young-Sam Government has hastened the denationalization process by setting a comprehensive time table for 58 of the 133 state-owned enterprises to become privatized during 1994-98. A privatization implementation committee has been set up in each of the relevant ministries to carry out the transition and the Privatization Promotion Committee in the Ministry of Finance and Economy has been entrusted with the overall tasks of co-ordination and monitoring. The Kim Government’s liberalization plan represents a radical departure from the previous forms of economic management, which had been riddled with government intervention. Given the increased size and complexity of the Korean economy, the privatization program was a response to a changing international environment and the need to make necessary structural adjustments.

The concomitant effect of political democratization is that the loci of political and economic decision-making has been widened. As a result, it has become more difficult to co-ordinate policy measures among “economic” agents of the bureaucracy. Explicit or implicit resistance from other sectoral ministries poses a significant obstacle to the President’s efforts to implement his economic reforms fully. The resistance has come in various forms, including vested-interest groups, bureaucratic inertia and institutional constraints. In addition, centrifugal tendencies in the policy-making process have undermined the Government’s autonomy to formulate and implement consistent economic and fiscal policies. For example, the Government policy stance continually oscillates between growth-oriented and welfare-oriented policy measures. In fact, the most significant change in the policy-making process since democratization has been the growth of inter-ministerial conflict.
2. Decentralization: the local autonomy

The local autonomy system is an important way to promote a more efficient allocation of public resources since local governments are closer to the people and hence can be more responsive to local preferences for public services. Institutional reform is particularly needed in the public sector where the Government has led the growth of the economy. Although the public sector’s overall level of efficiency appears to be generally good, it must operate more democratically and even more efficiently than it does.

Korea has fully recognized the contribution that local autonomy can make in achieving the goals of political democratization. The local autonomy system is an important way to promote a more efficient allocation of public resources since local governments can be more responsive to peoples’ needs and preferences. Strengthening the administrative and fiscal capacities of lower levels of government is an essential process in decentralization.

The inauguration of President Kim Young-Sam in 1993 signalled the arrival of the decentralization era that culminated in the amendment of the Local Autonomy Act and gave much greater prominence to provinces, municipalities, and local entities. In particular, President Kim wanted to devolve certain national responsibilities to the local level. Korea initiated full-fledged independence in the summer of 1995 when the people elected their top local government officials for the first time. Decentralization was conceived of as a composite policy response to the decreasing effectiveness of central control and intervention, economic and fiscal constraints, and growing claims for local democracy and citizen rights.

However, local government has been left to cope with maintaining existing services and public infrastructure without adequate resources and at the same time deal with the displacement of national problems. The problem is compounded by the limited authority given to local government to raise the necessary revenues. In short, political transformations have been unable to meet the need for rapid and substantial transfer of both the political and the fiscal powers of government. Unless local governments are granted some degree of freedom with respect to local revenues and manpower, the development of responsible and responsive local government will remain a major problem.\(^1\)

Korea’s economic success has been based on outward-looking policies that encourage companies to adapt to the opportunities in world markets. The policies were backed by a rapid increase in the size and quality of the labour force, a tax structure that encouraged saving and investment and sound fiscal policy. Moreover, industrial policy, which had favoured certain sectors of the economy in the 1960s and 1970s, has become less interventionist since the 1980s. Instead, the Government has concentrated on liberalizing the foreign trade and financial sectors and reducing the role of public enterprises.
This liberal policy stance appears to have hastened the growth of productivity and paved the way for further economic expansion. The shift to reduce government control and guidance and rely more on market forces has already had beneficial effects. Further deregulating the domestic financial system and opening of the capital market would enable Korea to utilise domestic saving more efficiently and benefit from lower borrowing costs, thereby promoting investment and growth. There is some cause for caution, however. Such opening could be accompanied by risk to Korea’s sustained growth and its long track record of sound fiscal management.

During this transition, the Government has also taken appropriate financial reform measures with respect to monetary management (e.g., increasing foreign exchange rate flexibility and improving bank supervision). These measures were necessary in order to limit any instability that might result from opening the financial markets in Korea. However, further measures to liberalize and open the Korean economy will be needed to fuel the “growth” engine and help prepare for the possible unification with North Korea.

A. Limits of local fiscal autonomy

Under local autonomy, Korea’s local public finance has three significant problems that call for reform. The first issue is how to improve local governments’ fiscal capacity. Without their own independent sources of revenue, local governments become nothing more than spending agents of the central government. Although intergovernmental grants from central to local governments play an important role in the fiscal system, an excessive reliance on intergovernmental transfer severely undermines local governments’ fiscal autonomy and reduces their accountability for budgetary decisions.

The second issue concerns the level of fiscal independence enjoyed by local governments. Even if local governments have more taxing power and expenditure responsibilities, without a substantial degree of fiscal autonomy they cannot respond swiftly to the rapidly changing service needs of local residents.

The third issue is how to achieve balanced regional development while introducing the local autonomy system, given the fact that political cleavages based on regional conflicts have brought about severe regional disparities. This question of unbalanced regional development creates an intriguing problem for the Korean Government since regional disparities in income and wealth can be accentuated because the wealthiest jurisdictions benefit most from fiscal decentralization. Full-fledged local autonomy may worsen, rather than improve, the balance in development because of the differences in the capacities of local governments to redress regional income disparities.
B. Vertical and horizontal imbalances

The problem of vertical and horizontal imbalance is a serious issue to be addressed under local autonomy. The relative share of tax revenues exhibit serious disparities among levels of local government, and own-source revenues show a similar pattern. As of 1994, the ratios of own-source revenues to total revenues in Seoul and five metropolitan cities were as high as 98.4 percent and 87.4 percent respectively. But in provinces and counties, own-source revenues accounted for only 54.6 percent and 36.4 percent of total revenues.

The share of local tax revenues in total revenues also reveals serious imbalances among levels of government. While local tax revenues in Seoul and other metropolitan cities account for 85.6 percent and 58.3 percent of total revenues respectively, in the provinces and lower-level governments tax revenues generated locally account for less than half of total revenues. The most critical shortfalls are found in county government. On average, local tax revenues account for only 12.1 percent of total revenues in counties. With tax rates fixed nation-wide, only major cities and affluent communities enjoy the advantages of having greater tax bases and hence collect more tax revenues. This suggests that county governments in particular have a limited capacity to rely on their own revenues because they have restricted taxing authority. The situation can be attributed to the central government’s policy of reserving for itself the most lucrative tax bases. This further explains why most local governments have to rely heavily on transfers from higher-level governments.\(^2\)

Horizontal fiscal imbalance among governments at the same level is also serious. The ratios of local tax revenues to total revenues range between 14.1 percent and 55.6 percent among self-governing districts in Seoul. In the case of provinces, the ratios range between 20.8 percent and 68.6 percent. The ratios of own-source revenues to total revenues also show wide variations among governments at the same level. For counties, the ratios ranged from 29.5 percent to 96.9 percent.\(^3\)

Even those local jurisdictions in better financial positions find it difficult to respond to the growing service needs of local residents, so the transfer of revenue sources from the central government and local governments appears inevitable. As one element in its programme of fiscal reform, the Korean Government transferred the cigarette sales tax (now renamed the tobacco consumption tax) to local government in 1989. While it may reduce the vertical fiscal imbalance, this transfer of revenue sources will, in the long run, aggravate horizontal fiscal imbalance due to the highly uneven distribution of tax bases. The transfer will also shrink the pool of financial resources available to the central government that can be used to correct horizontal fiscal imbalance. Thus, in Korea, correcting vertical fiscal imbalance and enhancing local fiscal discretion directly contradict the objective of reducing horizontal fiscal imbalance.
For this reason, how to restructure the system of intergovernmental transfers becomes a prime issue in the reform of local public finance in Korea. Although the system of intergovernmental transfers alone cannot rectify all the problems of local public finance, it is essential to reinvent the local tax system and the system of non-tax revenues in order to improve the fiscal capacity of local government. In this respect, the mechanisms of both tax base and revenue sharing between different levels of government may redress vertical imbalances.

C. Local tax system

The current Korean local tax system consists of fifteen different taxes. Among the seven major local taxes, the registration tax is the most productive, with a significant share (23.6%), followed by the acquisition tax (17.8%), tobacco consumption tax (15.7%), resident tax (10.4%), automobile tax (10%), aggregate land tax (7.9%), city planning tax (4.3%), and property tax (3.7%). These account for 93.4% of total local tax revenues. In addition, there are eight other miscellaneous taxes that account for less than 7.0% of total tax revenues. These taxes continue to exist because there has been no comprehensive local tax reform and because there are no other obvious options for revenue sources. Because the central government virtually monopolises all the buoyant income and consumption tax bases, the local governments are forced to rely on what is left. But these taxes result in considerable administrative and compliance costs because there are so many of them. These taxes should be consolidated into fewer major local taxes to the extent that this is feasible.

The Korean local tax system is also characterised by its heavy reliance on property-related taxes, which account for approximately three-fifths of total local tax revenue. Although property-related taxes constitute a major source of revenue in most countries, the Korean case is unique in that a very great emphasis is placed on taxing property transfers. The real property registration and acquisition taxes accounted for 41.4 percent of total local tax revenue in 1994. By contrast, taxes on property holdings – that is, the aggregate land tax and the property tax – contributed only 11.6 percent of total local tax revenues. Local governments rely heavily on property taxes mainly because it is administratively convenient to collect such taxes.

The problem with property transfer taxes is that they severely weaken the stability and predictability of local tax revenues since these taxes tend to fluctuate widely depending on real estate market conditions. For this reason alone, property transfer taxes should be replaced by more stable taxes on property ownership, which remain as an important untapped revenue source in Korea. With the property ownership tax the adequacy and stability of local tax revenues are guaranteed because the tax base is relatively evenly distributed across localities. Furthermore, property taxation satisfies the benefit principle of
taxation since the present value of properties reflect not only the capital investment made by past and present owners but also the value of publicly provided goods.

Korea has a dual system of property taxation. Currently, it has an aggregate land tax levied on the total value of all land owned by a taxpayer nation-wide and a property tax levied on properties (mostly buildings) other than land. The aggregate land tax was introduced in 1990 in order to halt rapid increases in land prices and redress the unfair distribution of wealth. Despite these measures, property ownership taxes are hardly significant in terms of revenue yield. This is mainly due to the unreasonably low assessed value of real properties for tax purposes. The assessed value of land for taxes ranges between 22 percent and 25 percent of actual market prices. Strengthening the property tax system by improving assessment practices is an essential strategy to bolster local government’s revenue-raising capacity.

Another problem of local public finance is that central government alone determines what activities are eligible for tax reductions and exemptions. This further undermines the local governments’ powers to tax and limits their discretionary authority in financial management.

At the present time, local borrowing is the least important of all sources of local government revenue. Local governments have very little autonomy in issuing debt; the central government places undue restrictions and control over local government borrowing. This fact, combined with a relatively underdeveloped capital market, is responsible for the under-utilization of local government borrowing in Korea. The efficient management of local borrowing requires adopting a capital improvement program and institutionalizing capital budgeting in Korean local government. Since the demand for urban infrastructure and hence investment expenditures will likely increase for the foreseeable future, it will be necessary to specifically link local borrowing with long-term capital investment.

Finally, whereas national government transfers to sub-national governments include the local shared tax, national subsidies, and the local transfer tax, transfers from the upper-level local governments include subsidies and equalization grants. Equalization grants help local governments with weak fiscal capacities attain equity and efficiency goals. The local shared tax was designed to redress horizontal as well as vertical fiscal imbalance but it is effective only at correcting vertical imbalance. The correction of vertical and horizontal fiscal imbalance could be more effectively achieved by redesigning the local shared tax with a different distribution formula. This point will be addressed in the following section.

Reformulating the local revenue system should include not only reforming the local tax system but also restructuring the local tax administration system. It is very difficult to develop expertise in tax administration because of the decentralization and fragmentation of the tax administration system. The efficiency of the local tax system as a whole could be improved by strengthening the fiscal and administrative capacities of lower levels of government. These problems exist because the timing of Korean local autonomy was
politically motivated. The system was hastily conceived without exploring some of the questionable assumptions of the decentralization model that persist in the background of the ideological motivation to decentralize.

### D. Intergovernmental relations

Reform is a reflection of time. Intergovernmental transfers remain an important part of the local government finance system. National government transfers (the local shared tax) amount to 73.3 percent of the total intergovernmental transfers while provincial government transfers to local government constitute only 26.7 percent of the total. This reflects the fact that the primary purpose of the local shared tax is to equalize local fiscal capacities. As was mentioned previously, although the local shared tax was designed to redress horizontal as well as vertical fiscal imbalance, it is ineffective at correcting horizontal fiscal imbalances. This is because of problems with the way it is currently allocated among local jurisdictions. Since the distribution formula includes such items as size of population, number of civil servants, and size of public buildings, those localities with greater population, tax bases and resources receive a higher proportion of the local shared tax, thus widening disparities in fiscal capacity among local jurisdictions. In fact, current distribution practices discourage local government tax efforts. Local governments have little incentive to improve the efficiency of their operation and reduce the costs of providing services because this would lead to a reduction in central government transfers.

In addition to the general local shared tax, there is also the special local shared tax which was designed to provide special assistance to localities with special fiscal needs. Since the Ministry of Home Affairs is in charge of distributing the local shared taxes, the central government enjoys a substantial degree of discretion in disbursing the special local shared tax, for it is not based on a formula. In practice the disbursement of the special local shared tax has been strongly influenced by political considerations. Therefore, the current system further undermines the fiscal autonomy of local governments.

Whereas the local shared taxes are unconditional grants, national subsidies are conditional grants. These grants are basically intended to support local spending that has spillover benefits or to encourage expansion of particular services. They are also allocated to local governments to cover the costs of providing centrally-mandated services which are often accompanied by matching requirements from the local jurisdiction. However, in allocating national subsidies, subsidized projects and the matching rates are determined by the Ministry of Home Affairs in a rather arbitrary manner, thereby resulting in an inefficient allocation of public resources. In order for the allocation system to operate fairly and efficiently, objective criteria for selecting projects for conditional grants and determining matching rates should be established.
E. Human resources management

The context of administrative reform has varied historically. There have been various attempts to improve the Korean civil service system. Every government since the founding of the republic in 1948 has devoted some time and effort to civil service reform.

The Korean Government successfully built up a solid, merit-based bureaucracy by the late 1970s to prepare highly motivated, competent bureaucrats for the role of government ministers and secretaries in the Presidential Office. In the 1960s, the Government exerted a massive recruitment effort through a highly competitive national examination system. As the Korean economy grew larger, more complex, and internationalized in the 1980s, macro-issues surfaced at the top of the presidential decision-making agenda. Macro-issues require systematic and theoretical knowledge from policy-makers. As the economy matures, macro-issues will be even more dominant. Since career bureaucrats dominated the important decision-making positions in the Korean Government historically, the narrowly defined experiences of career public servants were utilised only for detailed technical matters and not for policy-making at the macro-issue level.

In the mid 1980s, however, the emergence of outside experts became quite evident. Many of them have officially taken over important positions from career bureaucrats and they have exerted their influence throughout the system. Moreover, the political democratization which has taken hold will likely encourage greater dependence on external expertise and on a fresh cadre of government workers to be recruited from all strata of Korean society.

The current Government (Kim Young Sam) started with high hopes for democratic reform. He established many commissions for civil service reform in such areas as administrative process and regulation, labour and trade union affairs, education, and anti-corruption. The first half of Kim’s term was focused on government downsizing and deregulation. In spite of the clear direction of reform towards democracy and liberalization, the measures and instruments for reform have not been fully and successfully implemented (e.g., decentralization/local autonomy). Civil servants have shown widespread passive resistance and the mobilization of civic group support has not materialized.

The following section discusses two salient issues which have arisen since the period of increased local autonomy has been in effect. The changes in Korean society have been so rapid that the Korean civil service system now seems to be lagging behind the pace of democratic transformation. Once a leading force for industrialization and a guiding agent of national development, the Korean bureaucracy has been slow to adjust to democratic changes which focused on decentralizing and devolving authority.

Despite changes in the environment, the main framework of Korean bureaucracy – a highly centralized administrative system with a clear rank system and hierarchy – has remained intact. The Korean civil service system rests on a very rigid merit system which has
maintained competitive examinations as the only legitimate recruiting mechanism. It does not yet have any independent civil service commission. The Ministry of Government Administration takes charge of civil service entrance examinations. The reward system in the bureaucracy also relies much more upon seniority than performance. The compounding effect of this myriad collection of traditions, the *esprit de corps*, and attitudes of these bureaucrats has made “reinventing” efforts in the public sector a much more daunting undertaking than it would likely be in the private sector.

For the upper-level public employees the new local government personnel system functions under strict guidelines and rules for eligibility requirements, appointment, promotion, discipline, etc. Under the Local Autonomy Act, all local jurisdictions (e.g., municipalities and counties) have established a personnel board chaired by the Vice Mayor/Deputy County Administrator. It is usually made up of five to seven members (the Vice Governor, the Mayor/Deputy County Administrator, and two or more external appointees) to provide leadership in local government-wide personnel management. The Vice Governors, Deputy County Administrators and Vice Mayors who chair the personnel boards are centrally appointed high ranking career civil servants.

While this mechanism (the local personnel board) may prevent the possibility of “ politicization” of local public employees and may ensure a degree of fairness and equity in public sector employment, it is a questionable mechanism for it violates the principles of “unity of command” and “political accountability.” Policies and practices to manage local civil servants should be clearly aligned with overall strategies to ensure quality performance of public service and smooth transition to local autonomy.

In the early stages of the decentralization process there should be an impartial public service personnel board responsible for driving human resource management reforms forward. Once key reforms are achieved, the role of the personnel boards should focus less on control and prescription and more on training and disseminating best practices. Rules and regulations affecting the management of people should be reviewed periodically and streamlined where necessary to ensure that they contribute to (and do not inhibit) management efficiency and effectiveness.

With regard to human resource management, the national Government has transferred 11,633 current central government employees to the local level simply by changing their status from being members of the national government civil service to that of the local government public employees. This is in compliance with an amendment to the *Local Autonomy Act* and the *Act on the Complement of National Civil Servant Assigned to Local Government*, approved in 1994. This is an attempt to help alleviate the manpower shortage that is expected at the lower levels of government during the transition to full local autonomy. Meanwhile, full implementation of local autonomy will still require a substantial investment in training and upgrading professional skills at the local level.
The Kim Government encourages an open recruitment system, performance-based evaluation, and workforce diversity. Accordingly, the President has instituted several measures dealing with such issues as downsizing, cost containment, efficiency and effectiveness: (1) reconstituting administrative activities based on the “functional inter-linkages” system, (2) reforming the government examination system, (3) creating a government employee training program, (4) reviewing employee compensation and welfare packages, and (5) promoting employees based on a merit basis with less emphasis on seniority. To improve performance, the Government has instituted an incentive system which is linked to an annual “merit” bonus, contingent upon a positive performance review. The major indicators considered are an employee’s workload, efficiency, productivity, and supervisor’s evaluation.

F. The operational effect of local autonomy

Seoul Metropolitan City provides a case to examine the effects of greater local autonomy. Since the 1995 election of the city mayors and the top political leadership of autonomous self-governing units (called “districts”) within the Seoul metropolitan jurisdiction, an evaluative study was conducted (1996) to assess the impact of the Local Autonomy Act. Its findings suggest there have been almost no major changes in the conduct of government affairs. On the surface it appears that the Seoul city government has transferred some municipal functions to the autonomous “district” units and also commissioned certain activities to them. However, transfer of functions and activities was not accompanied by a corresponding transfer of budgetary authority and financial support. Consequently, it was tantamount to shifting administrative burdens and similar in effect to unfunded public mandates. In essence, the transfers only resulted in expanding government accompanied by a loss of steering and control at the “district” level, thereby leading to a wide gap between objectives of the act and results achieved.6

This example reinforces the notion that local autonomy was politically motivated and hastily conceived without due regard to matters of political accountability and fiscal authority. The civil servants at the “district” level are relegated to the role of mere implementation agents of city government and burdened even further with new responsibilities to deliver essential municipal services.

A newly designed structural configuration under the Local Autonomy Act confuses the interface between the provider and the recipient of the service. As a case in point, there exists an elected Mayor and two Vice-Mayors in each municipality. One Vice-Mayor oversees general political affairs in assisting the Mayor. The other one has important administrative responsibilities and is nominated by the Mayor and appointed by the central government. The same phenomenon can be observed at the county government level. However, the administrative Vice-Mayor plays a critical role in managing the municipal
affairs. Thus he has a dual role serving two masters – the Minister of Home Affairs and the elected Mayor – with all its attendant ramifications.

In theory, this system of two vice-mayors or multi-mayors can be as successful in intergovernmental relations as it is in the American private sector (e.g., banking, manufacturing, and service industries) if they could all work in concert toward common objectives. For instance, the administrative Vice-Mayor could serve as a link between the central government and the local government since he has the network and knows the bureaucratic game at both levels. By the same token, this could be quite unsuccessful and might easily become more of an obstacle to efficient governance and introduce more risks than are acceptable.

Government is, of course, political by nature. The goals and objectives of the various stakeholders of any single agency or different level of government may vary and may even be inconsistent or mutually exclusive. Each stakeholder may have a different agenda and list of priorities. More often than not, therefore, national government interests may prevail over strict considerations of economy and effectiveness, and certainly over the interests of local governments.

3. Conclusion

The modern administrative reform effort in Korea dates back to the 1960s during the incumbency of President Park Chung-Hee. Since that time, the Government has undertaken a number of initiatives to reform, modernize and revitalize its national public service. These initiatives were typically started at times when the public service was seen as out of touch with public expectations regarding services or accountability. Therefore, reform agendas often aimed to improve efficiency and effectiveness of operations. The Government’s aims in reforming the public sector were to reduce costly overlap and duplication, and respond to the public demand for (1) better and more accessible government, (2) public demand for smaller government and (3) better quality service with lower taxes.

The extent and frequency of administrative reform has presented major challenges for the Government. The focus of each president’s reform effort and the operation of the respective reform commissions has differed, however. During the era of Park Chung-Hee (1963-79), the Presidential Reform Commission functioned under the direct supervision of the President, although the work of the commission was later placed under Office of the Prime Minister, with its emphasis on increasing the government efficiency and effectiveness. Under President Chun Du-Whan (1980-88), on the other hand, the Presidential Administrative Reform Commission and its activities were directed by the Prime Minister. Much of its efforts sought to transform governmental structures and set out processes to eliminate redundant government work and create a smaller government.
In defining his approach to administrative reform, President Roh Tae-Woo (1988-93) was concerned, on the one hand, with striking a balance between democratization and deregulation and, on the other, with aligning organizational and programme structures to deliver more efficient government. His reform commission was chaired by a former Prime Minister, Shin Hyun-Hak, and the commission was composed of individuals from all segments of society. Its subcommittee structures were in turn chaired by former government ministers, professionals, and prominent citizens representing their respective fields of expertise and interest and who brought many years of experience in the professional sectors from whence they came. The work of the commission over the fourteen months period culminated in a 500 page final report.

The salient aspect of President Kim Young-Sam’s (1993 - present) Administrative (Innovation) Reform Commission is that its entire fifteen member commission has been made up of the civilians (with no incumbent public officials involved) reflecting the diverse interests of a pluralistic society. Among them are prominent scholars/professors, journalists, labour leaders, etc. Accordingly, it is chaired by an emeritus professor Bark Dong-Suh. With democratization and decentralization in progress, this commission has had to undertake fundamental reorientation of its goals and values, with emphasis on building a strong customer focus (i.e., public convenience), competitiveness and deregulation.

The work of the Administrative (Innovation) Reform Commission has functioned as a two-tiered system. The first-tier is composed of the aforementioned civilian members, whereas the second-tier consists of government practitioners, mainly mid-career personnel representing various government ministries and public agencies. The second-tier personnel have played an important supporting role by providing necessary information and materials to the first-tier commissioners, and have also provided a screening function in sorting through numerous reform proposals emanating from local government agencies, small and medium size business firms, and many other sources.

What is significant to note here is that each recommendation of this commission is forwarded to Office of the President for his timely action whenever the a subcommittee completes its work and it is approved by the whole commission. Furthermore, the reform commission has confined itself to general administrative reform matters, thus limiting the scope of its overall reform efforts. Those proposals requiring consideration of technical issues and specialized knowledge are handled separately under such appropriate agencies as the Ministry of Finance and Economy, the Ministry of Commerce and Industry, etc. So far 12,000 items have been received by the Administrative (Innovation) Reform Commission, and it has recommended about 2,000 items for the presidential action. Meanwhile the Ministry of Finance and Economy, the Ministry of Government Administration, and the Ministry of Commerce and Industry together have submitted about 3,000 items for the President’s review and action. The bulk of the items from the above agencies have dealt with the matters of deregulation. This is in sharp contrast to the practice
of the President Roh’s commission where it waited until the deliberations of the entire reform proposal package were completed.

Given the track record of various reform efforts, I would like to conclude this report with some of my personal observations. These are based on my own active involvement in the work of the two successive innovation/reform commissions under Presidents Kim and Roh. Parenthetically I may note that I am the only individual whose appointment has overlapped with both the Roh and Kim presidential reform commissions - thus, I may have a unique vantage point, and would like to share my thoughts with you.

Some of typical administrative reforms aim to develop administrative and managerial capabilities in the public sector. In other words, these efforts are designed to induce fundamental changes through system-wide reforms to improve key elements such as structures, processes, and personnel, as distinct from normal and continuing activities to improve public management. These changes also involve planned organization transformation, enhanced professionalization of public employees and client satisfaction.

I believe that there is a season for everything. A reform agenda is no exception. I believe that successful reforms are driven by three factors: (1) leadership commitment, (2) timing and (3) a conducive environment. They must go hand in hand.

Obstacles to administrative reform can range from cultural factors to institutional rigidity. The difficulty in overcoming these obstacles stems from the findings that government institutions are not easily changed and have power to stand against the changes that conflict with bureaucratic self-interests and agency prerogatives. In Korea’s experience, bureaucratic resistance and inertia may be identified as the major factors preventing administrative reforms. Cabinet members often became the captive of their own audience (e.g., agency bureaucrats and interest groups). As time passes, the zeal for reform gets lost in the midst of the crowded policy agenda of a new president. As an old saying goes, “strike while the iron is hot”.

There is an important time dimension to the argument that we need to utilise some form of political-insulation (e.g., the establishment of the blue ribbon commission on administrative reform) to cull the ranks of outmoded agencies and reorganize government. Politicians live in the short term. Timing is critical in forestalling bureaucratic politics and resistance. The biggest opportunities for reinventing government are presented when the President and executive leaders are willing to get out front and bring vigour and urgency to a reform movement. A new president can take advantage of his newly reinforced political base to advance reforms and convert promises (reform package) into performance. Accordingly, the appointment of a reform commission should follow immediately after a presidential election. If the recommendations of the presidential reform commission are accepted, the President should pronounce the reform decree prior to the appointment of his new cabinet members. These people should be chosen because of their belief in the reform as well as
their expertise in their respective functional areas. This would minimize any potential lobbying effort, reduce the hot and heavy give-and-take of day-to-day political horse trading, and prevent political sabotage by self-interested parties.

While it may be implicit in what I have stated so far, there is another element to be noted—the conducive environment. This refers to the perceived need and general support for government reform by the public. Reform will be seen as a success if it responds to the legitimate expectations of citizens; in short, when reform efforts are viewed as being concerned with meeting the needs of its citizens rather than meeting government’s own needs.
References


Endnotes

1 Seoul Development Institute, 1994: 45-55


4 Ministry of Home Affairs, 1995: 16-20


6 Seoul Development Institute, 1994: 11-16.