Increasing Trust in Government through more Participatory and Transparent Government

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I. Introduction

The purpose of this paper is to explain how government innovation has improved trust in Korean governments. For this purpose, first, we describe why the current Roh Moo-hyun administration emphasizes ‘principle & trust’ as a vision for government innovation. Second, we briefly introduce overall picture on government innovation in Korea. Third, we explain the reason why participation and transparency have been used as major ways and tools to increase public trust in government. A literature review on trust in government is introduced for understanding the background of this choice. Fourth, we analyze effect of innovation on trust in government, that is, whether participation and transparency have improved trust in government. For this purpose we studied the two cases. One is the public prosecution reform, and another is the national tax service reform. Finally, we suggest policy implications for improving trust in government.

II. Why emphasizes Trust in Government?

It has been shown that trust affects the accomplishment of organizational goals, job satisfaction, and motivation (Dwivedi 1983, 375-376, 381-384). Because trust is sometimes viewed to have a close relationship with national growth or economic prosperity, it is considered social capital which enables members of society to confide in each other and form new groups and gatherings (Fukuyama 1995). Also, more and more researchers have proven that trust in government improves the level of public policy
acceptance and reduces administrative costs, while encouraging compliance with laws and regulations (Ayres and Braithwaite 1992; Levi 1998, 1997; Tyler 1998, 1990). Thus, increasing trust in government is becoming an important goal in order for central and local governments to implement their policy measures effectively and so to realize good governance.

However, recent surveys have shown that trust in government has been declining worldwide. In the United States, for example, almost 75% of respondents in a survey said they trusted the federal government “to do what is right” most of the time or just about always in 1958. In 2002 confidence in the government was professed by only 40% of respondents (Donovan and Bowler 2004, 17-18). Also, in Europe, the results of the EURO-barometer survey on twenty five European Union member countries in 2004 showed that the two-thirds of respondents did not trust government. Among fifteen institutions, government ranked at the 13th followed by conglomerates and political party. The survey also displayed a big gap with the level of confidence that people had toward military, press, police, and charity & volunteer organization all positioned in the top four (EURO-barometer 2004, 10). The decline seems to be a general trend, and regarding it as a government failure, each country is pursuing administrative reform in every possible way to upturn the trend.

As Korea is making a big effort to advance to a leading nation in the 21st century, the public confidence in government is becoming more and more important as major social capital on which national competitiveness and high-morale cosmopolitanism are based. Korea has had a long history of showing exclusive trust in an ‘in-group’, which is based on personal connections or various personal ties such as kinship and regionalism, while an ‘out-group’ or ‘between-group’ has been relatively belittled leading to very low level of social trust. The exclusiveness is perceived to have come from the legacy of Confucian culture which emphasizes vertical relationships like the ones between father and son, the ruler and the ruled, the elderly and the younger, etc. The legacy combined with the highly authoritarian political system that holds centralized and regulated power among a few policy-makers has naturally induced corruption as the Korean economy experienced explosive growth steered by the State in conjunction with big business groups for the last forty years since the 1960s. The coalition between the State and the conglomerates called ‘chaebols’ revealed its corruptive nature even around Presidents. In particular, powerful state organizations like the National Tax Service and the Prosecutor’s Office were inclined more towards corruption, leading to various scandals. This type of scandal, or ‘gates’ as they are known, was pervasive during the former Kim
Dae-jung administration, damaging public confidence in government.

Therefore, the current Roh Moo-hyun administration, also known as the ‘Participatory Government,’ set ‘principle and trust’ as a top priority in its governing philosophy, and initiated an intensive reform of the powerful organizations to sever collusive ties among politicians and businesses and transformed the organizations into service-oriented ones. Along with those measures, the administration has enforced several innovation initiatives for more participatory and transparent government in which participation is encouraged from both citizen and public workers, and high integrity of government is retained and all public information freely accessed since the administration took office in 2003. Against this background, E-government has been proposed as a solution for increasing citizen’s communication with government agencies and, ultimately, people’s political trust.

III. Overview of Government Innovation

At the inauguration on February 25, 2003, President Rho, Moo-hyun stated that the policy goals of the administration are to promote a nation that fosters inclusive democracy, a regionally balanced society, and an era of peace and prosperity in Northeast Asia. To achieve them, the administration takes ‘principles & trust’, ‘fairness & transparency’, ‘dialogue & compromise’, and ‘decentralization & autonomy’ as fundamentals in innovating government.

Among the four, ‘principles & trust’ is regarded as the number one priority for Korea to leap into a leading nation in the 21st century. Based on the philosophy, the government innovation has been implemented under a vision of “Transparent and Effective Government.” The five objectives toward the vision are to innovate its government to;
1) be efficient; 2) achieve decentralization of power and autonomy; 3) serve public needs; 4) encourage participation; 5) be transparent.

As the administration calls itself the ‘Participatory Government’, it has chosen the strategy to have middle and low level public workers actively participate in the innovation process rather than the top-down approach pursued by the former administrations, and vigorously sought expert and citizen engagement at the same time (Namkoong 2006).
For this purpose, the Presidential Committee on Government Innovation and Decentralization (PCGID) was established on April 2003 with its members comprised of both civil experts and government officials in order for the committee to take charge of drafting innovative tasks and reinforcing the tasks. The number of the specific tasks called “Government Innovation and Decentralization Road-Map” is 149 in the fields of administrative reform, public personnel reform, e-government building-up, finance and tax reform, decentralization drive, and record-management reform (PCGID 2007). The 149 innovative tasks were designed in a way to fulfill the aforementioned five objectives and as a result to gain public trust in the long run.

Among the objectives, more participation and transparency in government have been chosen by the Participatory Government as key means to achieve the public confidence in government. It was clearly stated by President Rho Moo-hyun in the conference of the international association for public administration on July 14, 2004 as saying;

“The people’s awareness of their rights and their desire to participate in government has been extended, together with the growth of civil society. Thus an authoritarian government is not acceptable any longer. Also an authoritarian government cannot take the lead in the innovation-driven economic era. I believe that our future depends on how we innovate our government to adapt to the new changes.”

And regarding transparency, President Rho stated in the conference with senior officials of the administration on June 20, 2003 as saying;

“The rules and systems that government proposes must be transparent and fair. To do this, the culture in our government should be fair and reasonable. We have to have ethics that values rules and trust. Our government should be in a leading position in every aspect. I think that is the answer. By doing this, I believe that our businesses can promote competitions, innovate technology, and gain competitiveness in the world market, which result for Korea in entering into the $20,000-GNP-era.”

Reform Measures for More Participatory Government

The agenda for participatory administration are enforcement of cooperative governance with the civil society and active support for public service. Specific tasks include actively maintaining a policy community, establishing the People’s Survey and
infrastructure for volunteer activities, and improving conditions for civic group activities. The key measures can be grouped as following and the detail for each measure is covered in the book published by PCGID (2007). Note that there are much more measures than introduced here. The government has attempted to:

- Strengthen the direct democratic values in which residents participate directly in government affairs by introducing the Residents Lawsuit System, the Local Referendum System, and the Citizen Recall System;

- Build a foundation where the public can conveniently and efficiently participate in government affairs using E-government such as the online public engagement system;

- Allow active and substantial civil engagement in the administrative process through the vitalization of policy communities;

- Stimulate the openness of government and the engagement of civilians through the expansion of the entry of civilians in public office, and expand the employment of minorities in public office.

Figure 1 shows the number of citizens’ annual application for administrative information disclosure from 1994 to 2005, and Figure 5 shows the status quo of the information disclosure in 2006.

Figure 1. The number of application for administrative information (MOGAHA 2005).
Figure 2. The number of administrative information disclosure in 2006 (MOGAHA 2006).

Figure 2 implies that citizens’ demand for administrative information is rapidly increased. Each ministry established criteria for information disclosure to meet the increased public demand and strived to improve the system, meeting more than 90% of requests for information disclosure shown in the figure.

Reform Measures for More Transparent Government

The Participatory Government has put the systematic effort for anti-corruption and promotion of a higher sense of ethics among public officials as the major priority. Specific tasks proposed include improving the systems and regulations that induce irregularity, devising anti-corruption measures for each sector, imposing checks and balances among inspection institutions, focusing on the substance of action plans, improving public ethics, and eliminating the authoritative administrative culture. The key measures can be grouped as following and the detail for each measure is covered in the book published by PCGID (2007). Note that there are much more measures than introduced here. The government has attempted to:

- Increase administrative openness by expanding the disclosure of administrative information and enhancing access to it, and by making the Name Recognition System for Made Policies and the recording of major issues mandatory; achieve public ethics through improving regulations and the integrity of public officials;
• Prevent abuse of authority in local governments by establishing self-regulating constraint mechanisms such as securing the suitable environment for local legislation activities, strengthening the responsibility of local governments, and increasing the transparency and soundness of local financial management;

• Raise the level of public trust and prevent the possibility of non-transparent activities by establishing electronic systems for government duties.

Figure 3 shows the annual trend of the Corruption Perception Index surveyed by the Transparency International demonstrating the Korean society is getting better in transparency. The efforts to promote anti-corruption measures and transparency can be evaluated to help moderately increase the CPI from 4.5 in 2000 to 5.1 in 2006.

![Corruption Perceptions index](image)

Figure 3. Annual trend of CPI in Korea (TI 2006).

IV. A Literature Review on Trust in Government

**Factors influencing in Trust in Government**

Complex Factors

Possible causes of decreased confidence in government include government waste and
inefficiency (National Performance Review 1993; Nye 1997, 18; Baldassare 2000, 12),

economic change (Bok 1997), perceptions of performance of government programs
(Orren 1997), decreasing social capital (Mansbridge 1997), party polarization (King
1997), lack of reflecting citizen’s desire toward democratic values into political
institution and by political leaders (McAllister 1999, 203), and corruption like the
Watergate scandal (Thomas 1998, 230). In the meantime, Dalton (2000) attributes the
decrease to a citizen’s accumulation of knowledge about politics; an increase of the
citizen’s influence power toward politics; information on votes; changing attitudes due
to increased influence; and growth of individualism. Comparing these possible causes
of dissatisfaction, Nye (1997) concludes that each of these offers only a partial
explanation, at best, and that the causes are complex.

**Functional and Ethical Aspects**

The factors can be classified in two aspects: a functional realm of government capacity
and an ethical realm. The former is related to the ability of government to perform
effectively, and it extends to the responsiveness to societal change, problem-solving
capability, devotion, and efficiency. On the other hand, the ethical aspect is related to
trust in the intentions of government. Barber (1983, 76-78) defines that trust is
anticipation for performance induced by technical capability and at the same time
anticipation for sibylline duties and responsibility. Therefore, he asserts that since trust
in government can be classified into the two realms: one in the ability of the
government and one in fulfillment of its ethical duties, a measurement would be
possible based on the two classifications. Meanwhile, Mayer et al. (1995) suggest that
the prerequisites of trust are capability, benevolence, and integrity. For McAllister
(1995), they are responsibility, trustworthiness, and ability. Mishra (1996) takes ability
and integrity as key ingredients of trust by defining that trust is ‘a will to accept
potential disadvantage from an object based on a faith that the object is capable, frank,
careful, and reliable’. Thus, efficiency, effectiveness, and capability can be categorized
as the functional elements; and integrity, benevolence, and responsibility as the ethical
elements according to the Barber’s viewpoint.

**Process-based and Institutional-based Trust**

As information technology has emerged as a valuable means to interact with
government, there is a possible disparity between those who have access and those who
do not. Also a recent research provides evidence that citizens base their evaluations not
only on outcome, but also on process considerations as well – how fair, open, and
responsive political and governmental processes are (Donovan and Bowler 2004; Anderson et al. 2005). In this regard, Thomas (1998) concludes that citizen beliefs about the fairness and responsiveness of government processes are important. He identifies two modes for the criterion of trust that are significant for e-government: process-based trust and institutional-based trust. Process-based trust is rooted in repeated exchanges or interactions with government. As a result of these interactions, individuals participate in instrumental exchanges and gets what they need, but there are also symbolic exchanges. Institutional-based trust is a judgment of institutions rather than interactions, and it conveys an expectation that institutions will “do what is right.” Citizens trust institutional expertise or past institutional practice. In many ways, institutional-based trust represents an image held by respondents. Institutional actions that conform to public expectations may enhance an institution’s image or reputation. By following the criterion, responsiveness and accessibility can be categorized as the process-based trust; transparency and responsibility as the institutional-based trust; and efficiency, effectiveness, and participation as both.

Mass Media and Interest Group

The level of trust can be influenced by political communication in the form of mass media such as newspaper and broadcasting. The more critical the media is on government, the less the public confidence toward the government will be, and that depends upon the types of the media and the national circumstances. Because mass media tends to exaggerate negative reports, those who are exposed to the media more are expected to be less confident.

In addition, interest groups like civilian social organizations can also affect the trust level. Along with the opposition party and mass media, they do not always make responsible and constructive criticism on government (OECD 2005).

Participation, Transparency, and Trust

These research findings all indicate that factors influencing trust are numerous, coupled, and complex. The most common denominators, however, are found to be efficiency and effectiveness; integrity and accountability; benevolence and responsibility; participation and transparency. Among them, participation and transparency have been cited as key objectives for building trust in government by many researchers. The view that the two are indispensable of good governance was confirmed and shared in the 6th Global Forum on Reinventing Government held in Seoul on May 24-27, 2005 (Kim, P. S. et al
Lee, J. W. (2005) models the relationship among participation, transparency, and trust as shown in Figure 4.

![Figure 4. Major elements of good governance and their relationship](image)

He asserts that participation benefits democracy, efficiency, and transparency, and with these the cooperative structure (method) will be constructed so that the level of public confidence in government will be increased. Consequently, this will increase participation via the feedback mechanism as shown in Figure 4, generating good circulation between participation and transparency: as there is more and more participation, transparency increases.

**Mechanism of Participation vs. Trust**

**Participation in Organizations and Trust in Government**

Putnam (1993/2000) asserts that participation in various groups and club activities would basically improve not only trust in each member, but also trust in government as citizens in a more and more tight community tend to cooperate for their public interests.

Stolle (2001) implicates from the cases in U.S.A., Germany, Sweden, etc. that the longer constituents belong to their freewill organization, the higher the level of trust becomes. Also, there are many research results showing that participation in various civic groups has a close relationship with trust in government, administrative responsiveness, and political efficiency (Rosenstone and Hansen 1993; Axelrod 1984).

The type of organization also matters. Putnam (1995) shows that a network which is tight but segregated may result conflict between constituents. While the horizontal trust that is universally open to general citizens plays a positive role on a functioning
democracy, the vertical trust that is exclusive to a primary group sticking only to kinship, colleagues, and regionalism does not become helpful in democratic governance (Putnam 1993).

In this regard, Fukuyama (1995) points out that the Western civic society is horizontal and the social trust is prevalent, but in Korea and China people have a tendency of not trusting strangers. Park, H. B. et al. (2003) assert that it is more important to find out what type of organization in what circumstances actually contributes to a positive impact on trust.

As a result, like the Western social capital theoretician implies, it is very much likely for participation in organization that is horizontal, democratic, and open to help increase the level of public trust.

Political Participation and Trust in Government

Rothstein (2001) states that those who actively participate in politics such as enrolling in labor union and parties demonstrate higher level of confidence in other constituents and government than those who are not. This statement is similar to one in the case of participation in an organization.

The researchers, who emphasize the value of Western civil society (Almond and Verba 1963; Tocqueville 1984; Putnam 1993/1995), claim that the culture and value of civic groups and their political participation would increase social capital like trust, cooperation, and interaction, which leads to development of democracy and economic prosperity. This view actually coincides with the one of the social capital theoreticians.

Kasse (1999) explains that in the case of low trust in political system, illegitimate political participation could happen, and that in the case of low trust in government, people do not feel it necessary to participate in politics itself. He asserts that trust and confidence in system are not coming from individual traits or direct results from social experiences, but from experiences of the political system.

Restoring trust would be hard society-wide when government systems or State powers function dishonestly. A research analyzing survey data in Korea finds that those who actively participate in politics are not likely to trust state organizations, implying that administrative culture is so different than democratic civilian culture.
Mechanism of Transparency vs. Trust

Some experts pointed out that when those, who believe there are certain correlations between corruption and trust and that their nation has a fair and efficient political system, once suffer discrimination from or witness corruption of public officials, they usually develop distrust of the entire society (Rothstein and Stolle 2003). Others insist that it is important for public officials to conduct their duties in a fair and just manner because social trust can be built only when the general public considers their government trustworthy (Levi 1998).

In a society where corruption is rampant and the rule of law is completely ignored, people rarely trust each other and this in turn increases cost necessary for social transaction. In order to lower the opportunity cost, people usually turn to fraud or other irregularities (You and Khagram 2005). When many people sacrifice justice for private benefits and more and more people join the move, it will not only become a general practice of the time but also adversely affect the following generation. This will eventually form a vicious circle of corruption and distrust and the society will lose control over the situation (Putnam 1993, 1150).

In particular, the integrity of law enforcement authorities such as police and the prosecution have strong effects on social trust. When the law enforcement authorities fail to abide by the rule of law, people will have distrust not only in the authorities but also in society as whole (Rothstein and Stolle 2002, 21). Seligson (2002) conducted a study on corruption scandals in South American countries, and finds that corruption even undermines institutional efficiency, which is a key element in raising people’s support for government, not to mention people’s trust in and legitimacy of the government. In other words, because corruption is a product of internal problems, people usually blame the persons in charge or a lack of resources for policy failure, but if social distrust spreads all over society, people tend to point the finger at the government (Morris 2006, 9).

In particular, political corruption in the newly democratized countries poses serious threat in trust between people and government and even to the survival of democracy (Canache and Allison 2005). That’s because, under severe political corruption, people are apt to seek special favor through illegal measures. This will distort the normal distribution of goods and services and hamper the development of democracy in which policies are supposed to be decided through open competition. Therefore, voters and the
media should not be silent when political leaders were found to be involved in corruption and irregularities (Uslaner 2004, 8).

**Information Disclosure and Trust**

Transparency is dependent on the quantity and quality of information between the government and citizens, and the improvement of information dissemination system. Furthermore, transparency can be increased by mandating information exchange and eliminating obstacles such as practices of withholding and reserving information.

In this regard, E-government has been proposed as a solution for increasing citizen communication with government agencies and, ultimately, political trust (Chadwick and May 2003; Ho 2002; Norris 2001; Tapscott 1997; Thomas and Streib 2003; West 2005, 2004). E-government has the potential to reduce the cost of service delivery. This is consistent with the philosophy that a government that “works better and costs less” will increase citizen confidence in government. Although customers are concerned with results, the effectiveness of government processes counts as well (Tolbert and Mossberger 2006). Therefore, E-government needs to be built in a way in which governmental processes are fair, open, transparent, and responsive for greater trust.

**E-Government and Trust: has confidence in government improved as e-government use has increased?**

An early study of e-governance conducted by the Organization for Economic Cooperation and Development (OECD), based on interviews with information specialists, public officials, and the policy-making community in eight postindustrial countries found that the “overall impact of the Internet had failed to increase access to policymakers, to improve the transparency of government decision making, or to facilitate public participation in policy making” (Norris 2001, 114).

However, the finding has been challenged ever since. Some survey data suggest that citizen attitudes are influenced by e-government. West (2004) analyzes national survey data gathered by Hart-Teeter in 2000 (Council for Excellence in Government 2000) and finds that exposure to information about e-government is significantly related to the opinion that government is effective at solving problems, but there is no significant relationship with trust in government. After then, Welch et al. (2005) concluded that e-government users are in fact more likely to trust in government as a result of their experiences online using a two-stage multivariate analysis of the 2001 Hart-Teeter data.

Using the 2001 Pew survey data discussed by Larsen and Rainie (2002), Tolbert and Mossberger (2006) suggest that “increased government trust is produced by improved interactions through e-government at the local level.” Even though the federal government exhibited highest on positive attitudes about government processes, it did not produce greater trust. Overall, more frequent use of e-government turns out to be related to more positive attitudes toward government processes in many of the models as a result of the research.

Limitation of Complete Transparency

O’Neill (2002) implies that, however, the trust can even be damaged by complete openness of information. It might cause skepticism of the public if the information is made known completely and there is too much transparency. In this case, it makes the government to put more efforts for the public communication, which might result in the emergence of the vicious circle where the public considers the government’s communication efforts negatively and the government puts more resources in the communication with the public to fill the gap.

A Test Model for Participation, Transparency vs. Trust in Government

Figure 5 shows a model that relates the two independent variables, participation and transparency, to trust in government. It is based on a hypothesis that the two have a positive impact on the trust as a result of the literature reviews. As shown in Figure 5, the two independent variables are modeled as coupled, meaning that the two have a positive correlation.

![Figure 5. A test model of trust in government.](image)

In addition, the citizen’s expectation and organizational level are regarded moderating
variables in this model. If the expectation is relatively high, the level of trust would be lower than government anticipates. Also, the trust level can be varied among state organizations: President, government as a whole, or individual state organization. In each organizational level, a leadership plays an important role in increasing the level of confidence on the organization.

In the following section, the two reform measures, which are the public prosecution reform and the national tax service, are introduced and used to test whether more participation and transparency actually have a positive impact on the trust level. The measurement of the level of trust is approximated by use of three indexes: customer satisfaction, integrity index, and content analysis. Furthermore, it speculates on how important government leadership is and what conditions are necessary for a reform to be successful in gaining the public trust.

V. Case Studies: Public Prosecution Reform and National Tax Service Reform

Why the Two Cases?

During the 20th century, the modernization of Korea was carried out through a top-down approach. The reforms which were based on the country’s underlying legacy of Confucian governance created an imbalanced institutionalization of governance systems by expanding bureaucracy and restraining democracy. The so-called Developmental State, which is an Asiatic form of the Administrative State, paved the way for the state-led rapid industrialization up to the 1980s (Jung 2006). In the process, corruption was prevalent due to excessive regulation governing administrative authority such as the issuance of permits and licenses. Presidential candidates solicited presidential election campaign funds from big businesses in promises for privileged business opportunities. Police officers received bribes for giving traffic violators breaks. The major examples of political corruption were the Slush Fund scandal during the Noh Tae-woo administration and the ‘Hanbo-gate’ during the Kim Young-sam administration. In both cases, tycoons bribed major bureaucrats or the head of the state in exchange for favors. Furthermore, in preparation for the upcoming presidential campaign, the ruling party mobilized the National Tax Service and collected the campaign fund of 16.93 billion won from twenty three ‘chaebols’ in a scandal called the ‘Sepoong Affair’. As a result of these scandals,
Korea fell under the 1997 foreign currency crisis leading to IMF supervision.

Even at a time of major restructuring and government reform implemented to overcome the crisis, the ‘Fur-gate’ was disclosed in 1999 when the Kim Dae-jung administration took office. The scandal involved the wife of the former chief prosecutor, who had accepted a fur coat and other expensive items from the wife of one tycoon. Even worse, the number of ‘gates’ increased between 2000 and 2002: ‘Lee Yongho Gate’, ‘Jin Seung-hyun Affair’, ‘Chung Hyun-joon Scandal’, …, ‘Kim Hong-gul and Kim Hong-up Scandal’. The last one involved the two sons of the incumbent President, who were found guilty of accepting bribes for influence peddling. Many more scandals were revealed in the Kim Dae-jung administration.

As these scandals came to light, the civic groups and citizens had raised their voices. Some examples are the impeachment movement of the incumbent chief prosecutor after the scandal related to his younger brother was disclosed in December, 2001, and the movement for establishment of the law on anti-corruption promulgated later in 2001 and the anti-corruption government body born in 2002. At the same time, the civil society demanded fair and transparent tax administration. It is notable that the increase of the number of scandals and the active citizen’s participation in the political matters has a close relationship with the degree of democracy shown in Figure 6.

![Figure 6. Degree of democracy.](image-url)
This index by Freedom House measures the degree of democracy, where the lower number means greater political freedom. The 4th–6th grade group means dictatorship and military regime and the 1st–2nd grade free democracy. During the military regime between 1963 and 1993, civil status and political rights were suppressed by the authoritarian government. Mass media was scrutinized and the intelligence service agency wielded omnipotent power over people. Thus, scandals related to men of power could not be disclosed at that time. As a matter of fact, the political soil during that time was unfit to nurture any growth in civil society. From this perspective, the many scandal breakouts do not necessarily mean that the Kim administration was any more corrupt than its former administrations. Rather, the active participation of civil society in politics indicates that the Korean society was being increasingly democratized.

Upon the demand of civic groups and civil experts, the presidential candidate at that time, Mr. Roh Moo-hyun, pledged the national tax service reform and the public prosecution reform and was elected with their full support.

The following section introduces the background and contents of the prosecution reform, and evaluates the reform. Then, a brief history of tax administration is introduced, and the current reform to increase taxpayer’s participation and transparency in the tax administration is explained and evaluated focusing on the Cash Receipt System.

**Public Prosecution Reform**

Prosecutors have long been known to be a symbol of ‘power’ and ‘authority’ that exercise fairness and accuracy in applying laws and regulations equally to all people. In Korea, however, they have only been generous to those in power and/or wealth while harsh to anyone that falls out of that scope. In particular, images of prosecutors who mocked public expectation on enforcing the laws strictly to coercive corruption caused public distrust in government. This has given them the nickname ‘servants to power holders.’ For this reason, the prosecution reform as well as political reform had been considered untouchable. For the first time in Korean history, the Roh Moo-hyun administration initiated an effort to reform the public prosecution in order to be independent from politics, starting from the investigation of presidential election campaign funds in February 2003.

In June 2003, the so-called ‘Good Morning City gate’ was erupted. Major political figures from the ruling party were summoned for investigation, and the prospect of the collapse of the ruling party and its association was extensively covered by the mass
media. The chairman of the Democratic Party who was recalled for prosecution investigation at that time, complained of the lack of power the President wielded over the prosecution, saying “why isn’t Cheong-wa-dae (the Presidential Office) controlling prosecution?”. The Cheong-wa-dae responded to the remark saying “he seemed ignorant of the fact that times have changed.” Even in the process of a full investigation of the prosecutors, the Cheong-wa-dae stressed a non-intervention stance stating ‘it’s the prosecutors’ business, not ours.’

The people closely followed every move and every word uttered by the prosecutors, and cheered in victory when they heard those remarks. At the time, the team of the investigators was cheered on by the people who called them the ‘Korean Mani Pulite (a clean hand)’ and ‘people’s prosecutors.’ Even support groups and fan clubs began emerging on the internet.

An unprecedented foundation for prosecutor’s independence was built by observing thoroughly the principle of ‘no intervention to investigation’ from the President. In addition, the firm will and courage of the Public Prosecutor's Office ensured political neutrality and the people became confident of the independent investigation process. The Participatory Government is adhering more firmly to the principles of political neutrality and independent investigation than any other former administration.

After the launch of the Roh administration, people have wanted a reform that accommodated the new era of 21st century, and the will of the administration to carry out this reform has been firm. In line with the social trend, internal voices in the Prosecutor’s Office for reform and purification have also increased.

To achieve the prosecution’s political neutrality, an effort to remove the influence of politics in staffing prosecutors was made. Previously, senior prosecutors who have a political connection used to command investigating prosecutors who were their subordinates. This behavior was in accordance with the Code of Criminal Procedure that articulated a prosecutor’s duty under the control of his/her senior, the original purpose of which was mainly to guarantee fairness in a consistent manner under the ‘principle of prosecutors’ identification.’ But the principle was often misused as an excuse for the superior’s intervention of the investigation. The intervention often hampered fair investigation, leading to favoring the corruptive linkage between politicians and big businessmen. Because of the influence that higher ranking prosecutors had in staffing their subordinates and the traditional military culture of
obedience in the organization, the investigating and subordinate prosecutor had no other choice but to follow even a wrongful order. This behavior eroded public trust in government, and many civic groups pointed out the problematic issue that arose during the investigations of various scandals.

The reform measures carried out on the prosecution system consisted of a transformation of the Prosecutor Personnel Committee from a consulting body to a compulsory review body, in which the proportion of outside participation was increased. In addition, the introduction of a ‘multilateral evaluation system’ was a Copernican revolution. It means that prosecutors were evaluated not only by their superiors, but by their peers and subordinates as well. Furthermore, the implementation of a ‘Post Public Subscription System’ enabled the Prosecutor’s Office to recruit professionals from various fields.

Another reform measure to ensure neutrality was the abandonment of the ‘principle of prosecutors’ identification’. The measure had been tried since 2001 with no visible result, until the Participatory Government finally made over-arching revisions. When the law on the Public Prosecutor’s Office was revised on January 2004, the principle was corrected to ‘the instruction and supervision of prosecution affairs.’ Also, the second clause introduced an article about ‘the right of claim objection’ to the instruction and supervision of superiors. This meant an investigating prosecutor could claim an objection to and reject instruction and supervision which seem illegal and unjust at anytime.

At the same time, the right of independent investigation was promoted. During a live broadcast of President Rho, Moo-hyun’s open discussion about key issues of the reform with general prosecutors, he told them that the core of his administration was a principle of no intervention on investigation from the President. From the early stage of his inauguration, he often stated the principle in which the president himself allows an investigation without sanctuary.

The next reform measure was ‘democratic controls’ of the prosecution, as the neutrality and independent investigation was secured. Because a prosecutor wields great authority from the initiation of the investigation to the execution of the sentence, a system of checks and balances need to be implemented.
Three measures were implemented for this purpose. First, the function of the Minister of Justice to check prosecutors was effectively reinforced. Second, the review system by the National Assembly was introduced by implementing a hearing for the nomination of the Prosecutor General. Thirdly, review mechanisms such as civil monitoring and civil Ombudsman have been introduced.

The Prosecutor’s Office has established the principle of non-arrest of the suspects in the investigation. In the past, the arrest of the suspect was a practice widely exercised by prosecutors. In this effort, the Prosecutors Office has mandated public disclosure of the grounds for the issuing an arrest warrant in the process of investigation. As a result, “the guidelines for the promotion of the rights of the suspect in the investigation” has been greatly enhanced.

In accordance with these reforms, abuse of suspects has been forbidden and the practice of repeatedly summoning the suspect has been minimized. Also, family members or the lawyer is immediately notified upon the arrest of a suspect, in order to ensure the suspect’s right to an attorney.

The reformative measures carried out in conjunction with the Roh administration’s inauguration has evoked people’s desire to participate in political matters, encouraging the press to report on prosecution reform to an unprecedented degree. The following is the statistics that how often the prosecution reform has been cited in the 5 major newspapers in Korea during the period of 1990-2007. Figure 7 shows that in particular, the coverage of prosecution reform has increased enormously in 2003, meaning that the public expectations regarding reformative measures were high. Meanwhile, in 2004, the number of citations dropped very rapidly, which testifies that the reform of the prosecution was quite successful. This implies that the level of trust in government has increased.
In the general election that took place in April 2004, the minor ruling party became the major party, increasing its occupancy in the National Assembly from 49 seats to 152 seats. While many factors attributed to the political victory, it is certain that the prosecution reform carried out mostly in 2003 had a positive impact on the dramatic upturn, which can be interpreted that the level of confidence in government was certainly increased at the time of the election. But because the confidence level was very low toward prosecutors before the election, one cannot say that the Prosecutor’s Office is become trustworthy. That’s why the current administration carried out unprecedented reform measures to gain trust in the Office because it takes longer time to restore it. Note that Table 1 shows the Korean integrity index of the Office is very low in 2002. Good news is the index is going up between 2002 and 2005 except a decrease in 2006. Nonetheless, the level is still below the average level of total state organizations.

Table 1. Korean Integrity Index on the Prosecutor’s Office (KICAC 2007).

<table>
<thead>
<tr>
<th>Year</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average of the total state organizations’ index</td>
<td>6.43</td>
<td>7.71</td>
<td>8.38</td>
<td>8.68</td>
<td>8.77</td>
</tr>
<tr>
<td>Integrity index of the Prosecutor’s Office</td>
<td>4.26</td>
<td>7.28</td>
<td>8.15</td>
<td>8.37</td>
<td>7.80</td>
</tr>
</tbody>
</table>

* 0: lowest level of integrity, 10: highest level of integrity

KICAC: Korea Independent Commission Against Corruption
So still, there are many important issues to be addressed. For example, the consolidation of the independent role of the Prosecutors office, review of the investigation mandate between the Prosecutors office and the police authority, the introduction of the special independent prosecutor and the set up of the investigation agency dealing with wrongdoings of the public officials are important tasks yet to be tackled.

In addition, the reform measure for ensuing integrity and morality of prosecutors needs to be institutionalized. There had been speculation of the practice of covering for family members in the Prosecutor’s Office, in which investigations were carried out off-handedly and the cases against fellow prosecutors or internal staff were quickly closed as long as they were not disclosed to the public. In this regard, an Inspection Committee is being reviewed in the Prosecutor’s Office, which would be comprised entirely of outside members for the first time among the Korean government.

**National Tax Service Reform**

During the Japanese colonial period, tax evasion was regarded a virtue, and people evading taxes by escaping the scrutiny and investigation of tax authorities were considered to be patriotic. National tax administration at the time involved tax authorities directly contacting taxpayers in order to identify sources of tax revenue and continuously probing to uncover cases of tax evasion.

Such public perception on taxes remained well after Korea achieved independence in 1945. When private capital proved far insufficient to finance the state-led economic development that began in the 1960’s, the government turned to public capital to fund the project that required huge financial resources. However, in the absence of a culture of voluntary tax compliance, the circumstances only reinforced the practice of tax officials coming into constant contact with taxpayers and tightly monitoring and scrutinizing tax evasions.

If anything, such methods of direct taxpayer contact exposed many problems with the way taxes were administered. More than anything else, to try to detect and monitor potential sources of tax revenue using a limited number of tax resources and through direct engagement with taxpayers not only proved inefficient, but made tax evasion a commonplace occurrence. As taxes were assessed more or less at the discretion of the tax inspector, exposure to corruption to some extent was inevitable. It was widely imprinted on the public mind that tax officials were “corrupt officials.” The inequitable
and unfair taxation under which some were subject to taxation while others weren’t only deepened taxpayer mistrust in the nation’s tax administration.

Under the circumstances, as social democratization progressed and taxpayers became increasingly aware of their rights, people began to demand for transparency in the administration of taxes, fair taxation, and integrity of tax officials. Many reform measures were implemented since the National Tax Service (NTS) of the Republic of Korea was established in 1966, but the ones most notable are the two measures that will be dealt herein.

First of all, in 1999, the NTS underwent a sweeping reform of its organization and function. So deeply engrained in the people’s minds at the time that tax was one of the greatest areas of corruption, placing an institutional instrument to have it rooted out became top priority. While the former organization, based on the type of tax and represented by a zone management tax officer, did have its merits of efficient enforcement of the tax laws in that a single officer was designated to a specific “zone” to oversee all tax-related functions of a taxpayer in that zone from business registration, tax return, tax audit, tax collection to appeal, it had a structure that was inherently vulnerable to corruption and collusive links, which affected the credibility of the tax administration. Specific steps taken are described hereunder.

First, the organization and function of the national tax administration was completely restructured. District tax offices previously organized around tax types were restructured around functions, such as collection, compliance management, and auditing. Zone management system was abolished in the process and direct contact with taxpayers was heavily restricted.

Second, all areas of the administrative procedure were made routine by manual, and a computer system was set up to manage compliance.

Third, a tax-related social data infrastructure was implemented. In particular, the year 2000 saw an introduction of a system that grants income deductions for the amount paid with a credit card and the credit card lottery system that gave out lottery prizes. They helped improve the exposure of income earned in customer-facing industries. As a result, the rate of credit card payment that remained flat at around the 10% range of private spending in 1999 increased to 45.7% in 2002, contributing greatly to exposing the
income earned by the self-employed.

The next significant reform came during the current Roh, Moo-hyun administration.

Although the NTS underwent a sweeping reform in the administration of taxes with a focus on service improvement and corruption elimination since 1999, but public mistrust still persisted.

Whereas the tax administrative environment was experiencing rapid changes brought about by advances in IT and increased taxpayer demand for service diversification, the tax administrative system concerning tax returns, collection, and tax audits were designed around direct contact with taxpayers, and taxpayers on their part felt secure only through the practice of meeting with the competent tax authority face to face to resolve tax issues.

Accordingly, the Participatory Government placed the focus of the reform on establishing a system that fundamentally prevents opportunities for tax officials to come into direct contact with taxpayers.

First, the Home-tax system first implemented in 2002 went through a structured upgrade to become a cutting-edge provider of e-tax administration that meant taxpayers no longer had to go to the tax office or meet with a tax official to file tax returns.

Also, on the assumption that mistrust towards tax administration forms during the course of a tax audit, a series of measures were implemented to rebuild trust in tax audits and enhance audit transparency and objectivity. Measures include: abolishing intensive tax audits; disclosing audit selection criteria; dividing the audit function into “selection” and “execution”; and reducing the number and duration of tax audits.

Such reform measures notwithstanding, by far the most remarkable accomplishment was the introduction of the world’s first Cash Receipt System in 2005.

As aforementioned, substantially more income was exposed through the increased use of the credit card, but in a situation where cash transactions still accounted for over half of all private consumption, it was still only “half a success.” Korea is well known for its buying pattern of traditionally preferring to pay in cash and not asking for a receipt.
Such penchant for not leaving traces of transactions and preferring cash significantly undermined social transparency and soundness. Financial resources accumulated through under-the-table cash transactions do not come out in the open to be incorporated into the normal economic system, but tend to flow back again into such activities that destabilize society and stunt sound economic growth as illegal transactions, bribery, extravagance, pleasure-seeking, gambling, and real estate speculation.

Cash transactions also make it difficult to identify income earned by the self-employed, creating a tax burden inequity with wage-earners dubbed the “glass wallet.” The issue of tax burden inequality, coupled with social bipolarization that worsened in the aftermath of the 1997 economic crisis, created tension among different social classes. In a situation where the cash transactions of the self-employed fail to surface in the open to be captured as taxable income, public distrust in the nation’s tax administration remained, as it meant that there is always room for a tax official to abuse his or her discretion or engage in a corruptive dealing with the taxpayer.

On top of that, an increase in household debt and the credit crisis that followed the 1997 financial meltdown made it impossible to depend solely on the credit card policy.

In the end, in order to enhance social transparency, economic soundness, taxation fairness, and trust in the tax administration, it became imperative that cash transactions be detected.

The next question was how to keep tabs on the millions of cash transactions that occur on a daily basis among the almost two million businesses and over 20 million consumers. With the launch of the Participatory Government, it was determined that the “Cash Receipt System” would be pursued as the government’s reform task. On January 1, 2005, after almost a year of preparations, the NTS launched the Cash Receipt System, the first of its kind in the world – full of aspiration that it will not only resolve inequities in the tax burden, but help in realizing social transparency and constructing the future of an advanced and harmonious Korea.

<Overview of the Cash Receipt System>

1. When making a purchase in cash at a “registered store (a store that has installed
a Cash Receipt issuing device), a consumer presents his or her means of identification (e.g., Cash Receipt Card issued by the NTS, credit card, cell phone number, or resident ID number).

2. The (registered) store enters the consumer ID into a “Cash Receipt issuing device (which is installed by embedding a Cash Receipt chip in a credit card reader) and a Cash Receipt is issued. The transaction is recorded and sent to a Cash Receipt Operator, who then passes it on to the NTS.

3. The information received is sorted either by consumer or by registered store (business) and is used for the Cash Receipt lottery system and the granting of tax credits to registered stores and income deduction to consumers.

Once the Cash Receipt System was in place, complaints surfaced among business owners. Businesses began resisting the system out of fear it would increase their tax burden. Across the country, some took advantage of the fact that registration and issuance was not legally enforced, and refused to register as a Cash Receipt issuing store. Others may have reluctantly registered, but used broken devices as an excuse not to issue Cash Receipts.

Consumer interest in Cash Receipts were unexpectedly low, due to Korea’s age old “habit of not asking for receipts”, a tradition passed on over generations and already established in Korea’s society as a “culture” of its own.

Tension stirred within the NTS with a sense of crisis that the system might “fail if this keeps on,” because the Cash Receipt System could not work without business and consumer participation. The system needed something that could attract participation and arouse interest of businesses and consumers in Cash Receipts.

First, various tax support programs were implemented. Businesses receive a tax credit on their VAT tax (at 1~1.5% of the total amount for which a Cash Receipt was issued, for up to $5,000 a year) so that the added tax burden from the extra exposure of income may be relieved to some extent. If the issuance of Cash Receipts results in an increase in revenue (by 130% from the previous year), the business owner is granted a reduction in income tax, corporate tax, and VAT, and will also be exempt from tax audits. In addition, Cash Receipt devices (or “chips” embedded to credit card readers) were installed free of charge for store owners so that they may register as a Cash Receipt issuer without the extra financial burden.
These tax support programs and various promotions helped in getting more businesses involved; but participation was still low among small businesses such as private learning facilities and real estate agencies which usually do not have enough number of cash transactions to see any merit in bearing the cost of buying $300~$400 credit card readers.

An idea hit the NTS: “If Cash Receipts can also be issued using the Internet, then people won’t necessarily have to buy credit card readers!” The NTS immediately began implementing a system that now enables small businesses to issue Cash Receipts over the Internet.

For businesses that were registered, yet refused to issue Cash Receipts for no apparent reason, a civil watchdog system was needed to stabilize the system and for equity with other businesses.

A range of channels including the Cash Receipt website, Cash Receipt call center, and NTS website was available to consumers for reporting stores that refused to give Cash Receipts. Businesses reported of refusal were immediately placed under administrative supervision. The result was quite successful with negligibly few repeating offences by those that received supervision. Such channels laid the firm groundwork for the Cash Receipt System to fast take root.

There was another task that remained to be accomplished in order for the Cash Receipt System to be successfully implemented. That was to help consumers nurture the “habit of asking for receipts.”

This was no easy feat, for it meant changing the very purchasing behavior of Korean consumers unfamiliar with the practice of keeping receipts. Clearly recognizing that “raising consumer interest is top priority,” the NTS staked everything on promoting the system to citizens. Promotional targets were segmented into groups of wage earners, housewives, youths, and the self-employed, whose annual Cash Receipt usage rates were analyzed for the purpose of establishing promotional strategies customized to each segment’s characteristics. An all-out advertisement was launched using a variety of media that included television, radio, Internet, newspapers, and subway walls.
The NTS also encouraged wage earners to acquire the habit of asking for Cash Receipts by granting income deductions to those with receipts. Accordingly, for the purchases a wage earner and his/her non-income earning family member make, that wage earner may combine the amount for which a Cash Receipt was issued and the amount paid for using a credit card; and where that combined amount exceeds 15% of his/her annual earnings, 15% of that excess is income deductible when filing year-end tax returns.

However, unlike wage earners, non-wage earners have no particular incentives for asking for Cash Receipts. Indifference from non-wage earners, who represent most of the consumer base, had been expected more or less, but without their participation, the Cash Receipt System’s success was at risk. To address this, a lottery system was introduced that awards lottery prizes to selected consumers that have asked for Cash Receipts.

It was already proven through experience with the credit card lottery system that lotteries are an effective means of eliciting public participation as they provide incentives equivalent to income deductions. The prize money has gone up substantially (from $2.7 million to $5.86 million per year) and through monthly drawings, a total of $489,000 is awarded to 8,608 winners. This plays a central role in motivating non-wage earners to use the system.

The most noticeable achievement of the Cash Receipt System was that tax revenue management has become fair, efficient, and transparent due in large part to national participation, enthusiastic support, and an advanced IT infrastructure. They resulted in enhanced public trust in the NTS and greater integrity of tax officials.

Formerly, the NTS monitored cash-intensive industries by way of face-to-face encounters with taxpayers – usually in the form of providing filing instructions – and tax audits. Such methods entail conflict with taxpayers and leave room for corruption.

However, by bringing on a shift from a direct contact-based to an IT systems-based management of tax revenue streams, the Cash Receipt System was able to detect cash transactions without conflicts with the taxpayer and with more efficiency. By eliminating the potential for corruption at the very roots, tax revenue management was made more transparent and clear.
As the tables below indicate, public satisfaction on tax administration and the integrity index of tax officials have consistently been on the rise; and while this may be attributed to many different factors, the Cash Receipt System had a defining role as it had made revenue management more transparent.

Taxpayer satisfaction on the services the NTS provides, measured for the first time in 1998 by an independent research institute, show a sharp increase in 1999 and 2000 then stabilizing at around 76 points beginning 2001. With the launch of the Participatory Government, taxpayer satisfaction rose further to 80.2% in 2006, following a string of measures implemented to improve taxpayer service such as offering more tax items that could be filed online and providing higher-quality tax consultations, and as a result of improved transparency achieved by the Cash Receipt System.

Table 2. Taxpayer satisfaction on Nation’s Tax Administration (National Tax Service 2007)

<table>
<thead>
<tr>
<th>Year</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxpayer Satisfaction Index</td>
<td>57.3</td>
<td>64.4</td>
<td>73.1</td>
<td>75.8</td>
<td>75.9</td>
<td>76.1</td>
<td>76.5</td>
<td>76.8</td>
<td>80.2</td>
</tr>
</tbody>
</table>

The Public Official Integrity Index, evaluated every year on the NTS by the KICAC, was a mere 5.82 (on a scale of 1 to 10) in 2002 before the Participatory Government. The index significantly improved to 8.77 in 2006.

Table 3. Korean integrity index on National Tax Service (KICAC 2007)

<table>
<thead>
<tr>
<th>Year</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average of the total state organizations’ index</td>
<td>6.43</td>
<td>7.71</td>
<td>8.38</td>
<td>8.68</td>
<td>8.77</td>
</tr>
<tr>
<td>Integrity index on NTS</td>
<td>5.82</td>
<td>6.80</td>
<td>8.18</td>
<td>8.42</td>
<td>8.77</td>
</tr>
</tbody>
</table>

Next, the Cash Receipt System enabled a more equitable and efficient operation of the tax administration by exposing those cash portions of the transactions that were kept largely hidden, therefore greatly improving the transparency of tax sources.

Total Cash Receipt value reached $18.6 billion in its first year in 2005, and climbed further to $30.6 billion during the second year of 2006. This is remarkable particularly when compared with the 16 years it took for annual credit card payment to reach $18
billion.

When estimating how much of taxable resources have been automatically exposed as a result of credit cards and Cash Receipts, the figures stood at a mere 12.1% of total private consumption spending in 1995 and 15.5% in 1999, but started to grow with the various credit card incentives that followed in 2000, before reaching a plateau at the lower 40% range. The numbers picked up with the introduction of the Cash Receipt System to 50.8% in 2005 and to as high as 56.9% in 2006, an indication that transparency is improving.

Table 4. Cash receipt and credit card usage as a percentage of private consumption spending (National Tax Service 2007)

<table>
<thead>
<tr>
<th>Year</th>
<th>Private Consumption Spending</th>
<th>Total (①+②+③)</th>
<th>① Credit Card</th>
<th>② Debit Card</th>
<th>③ Cash Receipt</th>
<th>Proportion (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>208,461</td>
<td>25,151</td>
<td>25,151</td>
<td>N/A</td>
<td>-</td>
<td>12.1</td>
</tr>
<tr>
<td>1999</td>
<td>274,934</td>
<td>42,634</td>
<td>42,634</td>
<td>N/A</td>
<td>-</td>
<td>15.5</td>
</tr>
<tr>
<td>2000</td>
<td>312,300</td>
<td>79,592</td>
<td>79,592</td>
<td>N/A</td>
<td>-</td>
<td>25.5</td>
</tr>
<tr>
<td>2001</td>
<td>343,416</td>
<td>134,233</td>
<td>134,233</td>
<td>N/A</td>
<td>-</td>
<td>39.5</td>
</tr>
<tr>
<td>2002</td>
<td>381,063</td>
<td>174,024</td>
<td>174,024</td>
<td>N/A</td>
<td>-</td>
<td>45.7</td>
</tr>
<tr>
<td>2003</td>
<td>389,177</td>
<td>170,530</td>
<td>170,530</td>
<td>N/A</td>
<td>-</td>
<td>43.9</td>
</tr>
<tr>
<td>2004</td>
<td>401,469</td>
<td>169,796</td>
<td>167,096</td>
<td>2,700</td>
<td>-</td>
<td>42.3</td>
</tr>
<tr>
<td>2005</td>
<td>426,690</td>
<td>216,800</td>
<td>190,463</td>
<td>7,777</td>
<td>18,560</td>
<td>50.8</td>
</tr>
<tr>
<td>2006</td>
<td>453,870</td>
<td>258,165</td>
<td>214,820</td>
<td>12,708</td>
<td>30,637</td>
<td>56.9</td>
</tr>
</tbody>
</table>

However, measuring the extent to which revenue of the self-employed has been exposed as a result of the Cash Receipt System can be much trickier. In other words, as the tax base is influenced by a broad range of factors including economic growth rate, economic trend, and price of living, it is not easy to estimate the System’s direct impact on exposure.

The rate of automatic tax base exposure obtained from Cash Receipts and credit cards as
a percentage of total private spending is estimated to be at approximately 80%.

Table 5. Estimate of automatic exposure from credit cards and cash receipts (National Tax Service 2007)

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Private Consumption Spending</td>
<td>453.8</td>
<td>426.7</td>
<td>401.4</td>
</tr>
<tr>
<td>Excluded Items*</td>
<td>226.4</td>
<td>210.5</td>
<td>198.2</td>
</tr>
<tr>
<td>Applicable Amount among Private Consumption Spending</td>
<td>227.4</td>
<td>216.2</td>
<td>203.2</td>
</tr>
<tr>
<td>Applicable Credit Card Amount</td>
<td>155.3</td>
<td>140.7</td>
<td>122.6</td>
</tr>
<tr>
<td>Cash Receipts for Income Deduction Purpose</td>
<td>28.3</td>
<td>17.8</td>
<td>-</td>
</tr>
<tr>
<td>Total Amount Exposed</td>
<td>183.6</td>
<td>158.5</td>
<td>122.6</td>
</tr>
<tr>
<td>Percentage of Exposure</td>
<td>80.7%</td>
<td>73.3%</td>
<td>60.3%</td>
</tr>
</tbody>
</table>

* Excluded items: Utilities bills, transportation fee, telecommunications cost, public education fees, insurance premiums, overseas spending, etc.

The effect on exposure is clearly visible in the drastic increase in taxes paid voluntarily on the income earned for the year ending December 31, 2006.

Table 6. Growth in voluntary individual global income tax payment (National Tax Service 2007)

<table>
<thead>
<tr>
<th>Attributable Year</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Voluntary Payment</td>
<td>1,992.2</td>
<td>2,132.4</td>
<td>2,239.8</td>
<td>2,285.3</td>
<td>2,978.9</td>
</tr>
</tbody>
</table>

* An increment of 693.6 billion won in the amount of individual global income taxes paid on 2006 income (30.35% growth from 2005)

At the end of 2006, with the number of registered stores at 1.4 million and registered Cash Receipt website users reaching 9.35 million and still growing, the Cash Receipt System is fast becoming established amidst active public participation.
The Cash Receipt System, a product of passion and tenacity, has now stirred up a strong wind of change in Korea’s transaction culture and is generating a pleasant prospect that soon Korea will have as high a standard of transparency and integrity as any other advanced country.

Then what are the success factors behind the system introduced to address the long-standing challenge of “exposing cash transactions”? What was so successful about the system that it had caught the attention of China, US, Japan, and IMF, just to name a few?

The key was coming up with innovative thinking and action, along the line of: Innovative ideas based on advanced IT technology; leadership commitment and passion for success; dedicated staff; incentives in the form of tax breaks and lottery; and differentiated promotional strategies to suit diverse consumer groups, such as wage earners, housewives, and students. What cannot be left out is the fact that these innovations were grounded on people’s hope for taxation fairness and established upon the nation’s enthusiastic participation and support.

The results achieved in just two years of implementation cannot be evaluated simply from a tax administrative perspective, for example, secured revenue through earnings exposure of the self-employed, fairness in the tax burden, public trust in the NTS, and enhanced integrity of tax officials. It has a more far reaching effect; secured tax revenue will contribute to resolving social bipolarization issues, and reduction in the illegal flow of funds will be instrumental in enhancing the transparency of the overall society and equitable allocation of resources.

In this example, the leadership of its president and senior officials in the National Tax Service has played a major role in devising the innovative measures and carrying those out, which have resulted successful in increasing transparency as well as participation from taxpayers.

VI. Conclusion and Policy Implications

As a result of the analysis of the two cases, findings are as follows;
Participation and transparency have a positive impact on a level of trust in government;

A strong will and courage of a head of the state or an organization is important in making it possible to preserve the rule of law. Especially in the case of the prosecution reform, the unprecedented action of President Rho, which had a open discussion with common prosecutors to devise right direction of the reform and to have them initiate the reform;

To restore trust in government, it takes longer time once government lost the public’s faith. As implied in the case study, the national tax service reform seems to gain higher level of confidence than that of the prosecution reform, which has been implemented in the shorter period of time.

From this study including the findings, several policy implications can be drawn for restoring trust in government as follows;

It is necessary to perceive trust in government has various kinds of factors and multi-facets itself. The trust can be built by fair and open processes or efficient and effective outcomes. Moreover, a major political figure like President or a state organization itself can attain the trust, and much more;

Even though a President’s leadership is important as suggested in the above to increase the level on government as a whole, a leadership of state organizations becomes more and more important. In a new environment of globalization and informatization, the leadership of a head of state gets limited to influence the confidence in public sectors as a whole. Therefore, each state organization should make an effort to do that. For this purpose, autonomy and decentralization of power becomes necessary. Namely, a strategy is needed to increase the level on whole government through increasing a level of confidence on each organization. In this context, it would be required to promote autonomy in order for each organization to gain public trust by itself;

To find out whether the level is increased, its measurement tools and methods need to be devised. In this paper, an approximation was used leading a limitation to this analysis. Further study on scientific measurement of the level of trust in government as a whole as well as a specific state organization needs to be carried out.
Acknowledgement

Some parts that describe the prosecution reform were adapted from the book, “Proper Placing of The Powerful State Organizations” being written by the Presidential Secretary of Legal Affairs of the Republic of Korea. And the material about the national tax service reform was provided by the National Tax Service of the Republic of Korea.

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