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Public Finance in Korea since the Economic Crisis*

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Ten years have passed since the economic crisis hit Korea in 1997. To overcome the crisis, Korean government adopted many drastic reform measures mostly recommended by IMF. Since most of its reform measures were recommended by IMF, this policy stance to "escape" from the economic crisis is regarded as "neo-liberal." Particularly, in the area of public finance, the principle of the "small government" was actively pursued. After two years, however, the policy stance began to be changed. Number of civil servants has increased. The size of the government increased as well, largely due to the increase in the welfare expenditure. Many new welfare programs, most important among them is NBLSS, has been introduced. Size of the government debt has increased. Do all these movements indicate that Korean government in last seven years has tried to be a big government? Although it is too early to tell, there is the strong evidence that the idea of European welfare state has prevailed.

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1. INTRODUCTION

Ten years have passed since the economic crisis hit Korea in 1997. Although that crisis was not the first one since the economic development began in 60's, its impact the biggest and widest. To overcome the crisis, Korean government adopted many (drastic) reform measures mostly recommended by IMF. In the area of public finance, there were a lot of changes in this respect. As a matter of fact, Kim Dae-Jung administration, which came to power in 1998, took the public sector as one of four major targeted sectors for the reform.

Since most of its reform measures were recommended by IMF, this policy stance to "escape" from the economic crisis is regarded as "neo-liberal." Indeed, there was a strong evidence that this was so, because the principle of the "small government" was actively pursued. And this raised criticism as well as praise. In this paper, we do not attempt to evaluate the validity of these reform measures. Already, there have been so many researches in this regard. Particularly evaluation of those policies on the basis of the "ism" is not attempted, although it might be one reasonable approach to analyze the effectiveness of such programs.

After late president Kim Dae-Jung announced the "graduation" of the foreign support to overcome crisis, however, the policy stance began to be changed. Small government is no longer the principle to follow. Number of civil servants decreased in the wake of the reform was increased to the level above that of the pre-crisis by 2002, which was de-facto last year of Kim Dae-Jung administration. The size of the government increased as well. Introduction and expansion of many welfare programs and subsequent increase of welfare expenditure was a main factor behind this trend.

Roh Moo-Hyun administration succeeded above-mentioned policy stance of the second half of the previous administration. This administration did not hesitate to increase the number of civil servants and government organization if it was deemed to be necessary. Several welfare programs have been introduced so that its size and proportion has increased. Vision 2030, which is the blue print for the fiscal management for the next twenty five years, highlighted this trend.

Do all these movements indicate that Korean government in last seven years has tried to be a big government? It is too early to tell. Although it is obvious that the idea of the European welfare state (which is not necessarily equivalent to the big government) has prevailed, it does not seem to overwhelm. If the international comparison is done, we cannot but admit that Korean government is rather a small government yet, and small government cannot make a classic welfare state. There has not been a big jump in the tax burden ratio, even if there has been a gradual increase.

The purpose of this paper is two-fold: First, it is attempted to describe and analyze the developments in Korean public finance since the economic crisis. Thus it covers the period between 1997 and the present. This period will be divided into two periods according to two administrations that took power since the economic crisis, if considered to be convenient for the explanation. Second, it is to check whether Korea is moving to the direction of the welfare state as far as the public finance is concerned.

In doing so, it is necessary to review the size (and its trend) of the government because the size is a good barometer whether a government could have an enough room for the welfare expenditure. Along with the size, the structure of the government expenditure should be considered because it is important to know whether the emphasis of the policy is moving from the economic expenditure to welfare expenditure.

It is not so common to try to evaluate the policy stance of the past administration whose term was over just two months ago. Therefore this paper cannot but be the very first one in this kind considering the timing. It is desired that this research could lay a ground for the further research in this area.

This paper is organized as follows. Following this chapter, the next chapter will review the trend of the government expenditure and tax revenue. In section 3, structure of the budget is reviewed. In section 4, institutional reforms will be explained and reviewed. And then the paper concludes.

2. SIZE OF THE GOVERNMENT

Looking at the size of the government is essential in analyzing the policy stance of the government. Thus, in this chapter, trends of the size of the government will be reviewed from both of expenditure and revenue sides.

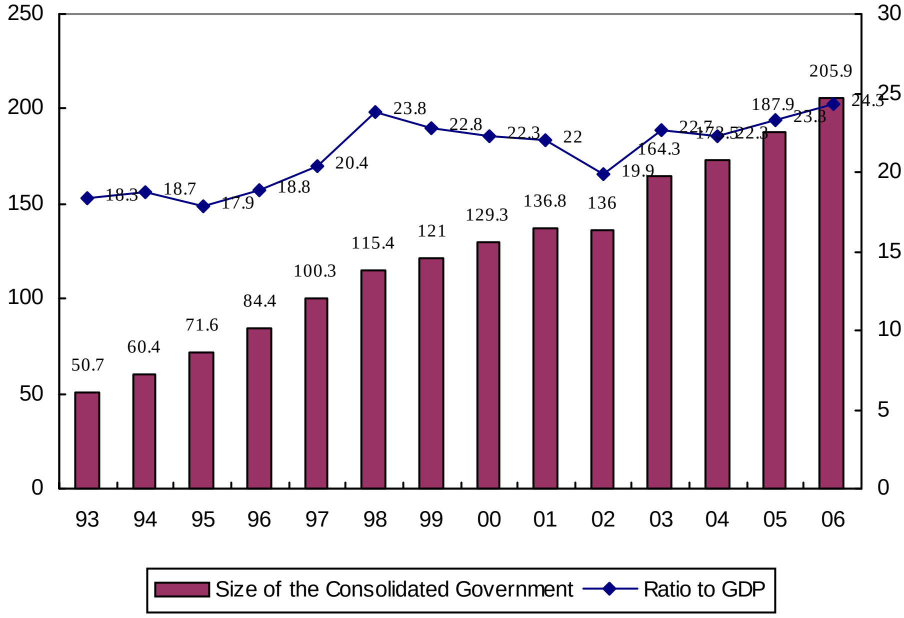
2.1. Trend of the Expenditure

As can be seen from figure 1, size of the expenditure by the central government has increased gradually after the economic crisis. This is not surprising considering following aspects: First, increase in the public spending was inevitable to overcome the economic crisis. Huge expenditure needs occurred such as fiscal support to financial institutions for restructuring (in other words, public bail-out), public assistance to the poor (almost doubled after the crisis), unemployment insurance payment (unemployment rate rose to 7% in 1998, which had been below 3% up until 1997). Second, as can be seen in the international comparison, Korean government had been so “small” that its size could not but increase.

As is well-known, Korea’s development in the past was government led. In such cases, it is usually expected that the government sector as a share of GDP (or GNP) is either very big or keeps increasing. This was not the case in Korea. The ratio of general government expenditure to GDP, which remained relatively low at about 16-18% throughout the 1970s. As a matter of fact, this is understandable considering the fact that Korean government had led in somewhat indirect way (via regulation, monetary policy, tax incentives).

Since the 1990’s till the economic crisis, the fiscal policy began to regain its ‘normal’ role by the increase in the social and economic expenditure, which will be discussed later. As a result, the ratio of the consolidated

Figure 1 Trend of Consolidated Government Expenditure



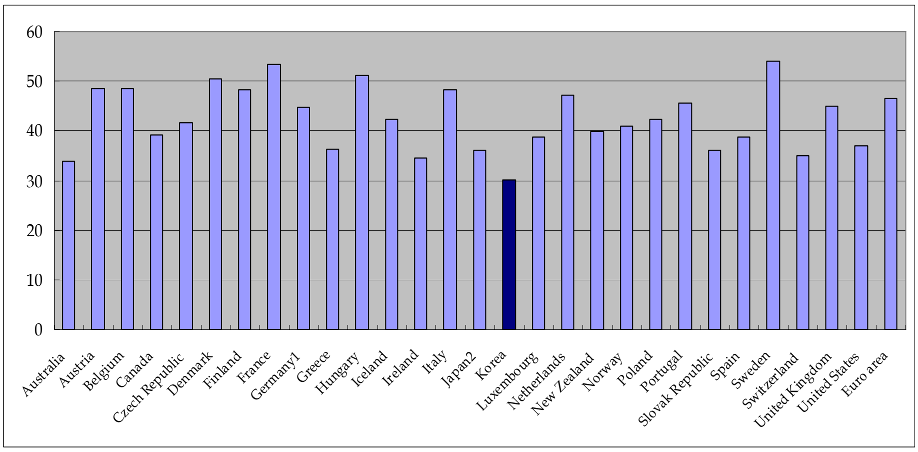
Source: Ministry of Planning and Budget.

government expenditure to GDP (GNP), gradually recovered to the 20% level during the 1990s. Then, with the economic crisis, government expenditure jumped to 24% level in 1998 due to the above-mentioned reason. It decreased somewhat during the Kim Dae-Jung administration because the demand for such urgent expenditure decreased. It began to increase again since 2003, to go back to 24% level.

Is the government sector as a share of GDP has been small even if it has increased recently? Comparing these figures with those of U.S. and Japan, as well as high spending countries like Germany and Nordic countries, one could easily see that the share is indeed small in Korea, yet (see figure 2).

Tax burden ratio also has been low in Korea. As a result of much effort by the government to raise revenue, the share of total (national and local) tax revenue as a percentage of GNP (GDP), or the tax burden ratio, increased from 6-7% in the mid-1950s to 19-20% in the 1990s, as can be seen in table 1.

Figure 2 International Comparison of Government Expenditure



Source: OECD Economic Outlook.

Table 1 Total Tax Revenue as a Percentage of GDP

(unit: %)

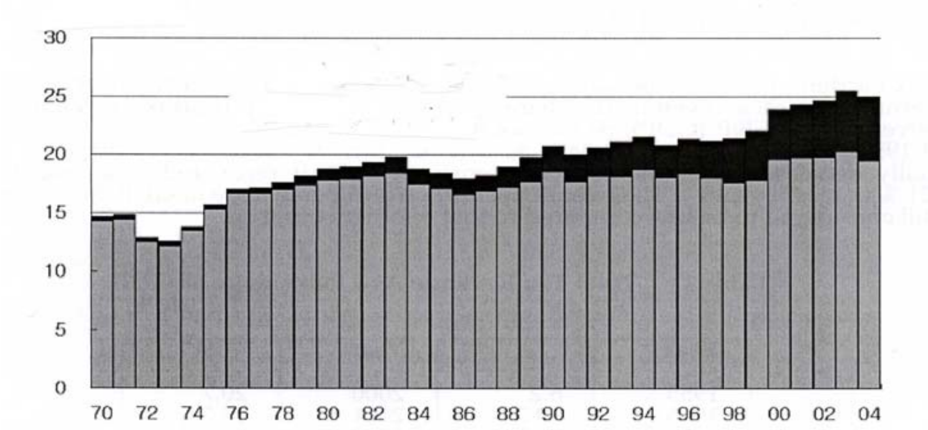
Year	Total Tax Revenue / GDP	Year	Total Tax Revenue / GDP
1955	6.2	2000	20.7
1966	10.7	2001	19.7
1970	14.3	2002	19.8
1980	17.9	2003	20.4
1990	17.9	2004	19.5
1995	19.1	2005	20.2
1997	19.5	2006	19.7p

Source: National Bureau of Statistics, *Major Statistics of the Korean Economy*, various years.
The Bank of Korea, *Economic Statistics Yearbook*, various years.

Although it actually decreased after the economic crisis in 1997, it recovered to a level of 20-21% in recent years. The overall tax burden as a percentage of GDP, however, is still considered to be low compared to that of other countries. For example, the average tax burden ratio of the OECD countries was 26.5% in 2004 with Denmark as the highest at 48%.

It is remarkable that the tax burden ratio remained stable and (internationally) low even if the size of the expenditure has increased after the

Figure 3 Trend of the Tax and Social Insurance Burden Ratios



Note: ▮ Social Insurance Burden, ▮ Tax Burden.
Source: Koh (2005).

economic crisis. It is largely because that the increase in revenue has been through the increase in the contribution (premium) of the National Pension (social security in Korea) which is a part of the consolidated budget. As can be seen in figure 3, the premium for social insurance has increased substantially recently.

If only the size and share of a government is considered, then the likely conclusion would be that Korean government had been, and still is, a small one. However, it is not clear whether same will be true of in the future. It should be noted that the inevitable increase in welfare expenditure is forthcoming. In other words, there is a ‘natural’ tendency of the increasing expenditure. Thus, it is likely that Korean government will no longer be the small one in the future. This has an important implication in judging whether Korea is moving toward the welfare state or not.

2.2. Fiscal Balance

Along with size, fiscal balance is an important characteristic of a country’s public finance. It is particularly important because it can be a barometer of a country’s macroeconomic policy.

Table 2 Korea's Fiscal Balance

(unit: % of GDP)

Year	Consolidated Budget	Year	Consolidated Budget
1975	–4.5%	1999	–2.5%
1980	–3.1%	2000	1.3%
1985	–0.9%	2001	1.2%
1990	–0.9%	2002	3.3%
1993	0.3%	2003	1.1%
1994	0.4%	2004	0.7%
1995	0.3%	2005	0.4%
1996	0.2%	2006	0.4%
1997	–1.4%	2007	1.5%
1998	–3.9%		

Source: National Statistical Office, Korean Statistical Information System, http://www.nso.go.kr.
The Bank of Korea, Economic Statistics Yearbook.

The Korean government has maintained strict fiscal discipline for more than four decades. All line ministries are expected to spend within the limits set by the National Assembly through the appropriation process. All government borrowings are supposed to receive prior approval from the National Assembly. This strict and rigid budgeting approach has led to a very sound fiscal balance as long as the government's general account is concerned (see table 2).

This is strengthened further by an important principle in fiscal management which was established in the 1980s when high priority of the economic policy was shifted to achieving equity, balance, and stability (known as "Liberalization and Stabilization" policy). It was the principle of "Expenditure within Revenue," or the balanced budget principle. While not formalized in a law or a regulation, it acted as a self-imposed discipline mechanism on the budget authorities against imprudent management of the budget. This principle kept public debt at a minimum level and indeed became the foundation for fiscal soundness in the following years until the outbreak of the economic crisis.

There is, however, a bit of difference when considering a consolidated central government budget. Since the 1970s and into the early 1980s, the consolidated central government persistently ran a budget deficit. On average, its share reached 3% of GDP during this period (see Koh, 2005). Major factors behind the deficits included: high level of transfers to the agricultural sector, heavy investments in social infrastructure, and various subsidies to promote heavy and chemical industries.

And there was the economic crisis. As mentioned, there was a huge increase in the government expenditure while there is little room for the revenue to increase due t o the crisis. As a result, the consolidated budget, which remained more or less in balance before the crisis, went into a deficit in 1998, over 4% of GDP. The ratio of government debt to GDP rose from less than 10% in 1996 to 16% in 1998.

Beginning in 1999, the Korean government made consistent efforts to contain the growth in expenditure. Thanks to the dramatic rebound of the economy and the rapid growth in revenues, the budget recorded a surplus of 1.3% of GDP in 2000 and also in 2001 and 2002. It seems that the fiscal soundness is back.

There, however, is a reservation on this observation. Consolidated budget includes the national pension fund. Since Korean national pension adopts the (modified) fully funded system and the actual expenditure will begin to be made from 2008 (currently, the regular retirement benefit is given out after the contribution began to be made, and it was introduced in 1988), it has contributed to the surplus so far. This is, in fact, not a surplus but the liability of the government. In other words, it will be a factor of the future government deficit. Besides, the repayment liability of the public fund used in restructuring is not included in calculating the fiscal balance. Taking these two aspects into account, Korean government announced the "fiscal balance to be managed (watched)." This new balance actually shows the deficit since 2004 (see table 3).

Table 3 Fiscal Balance: Consolidated and "Managed"

(unit: trillion won)

	Consolidated Budget (A)	National Pension Fund (B)	Repayment Liability of the Public Fund (C)	Balance to be Managed (A-B-C)
2000	6.5	12.5	-	–6.0
2001	7.3	15.5	-	–8.2
2002	22.7	17.6	-	5.1
2003	7.6	19.6	13.0	1.0
2004	5.2	21.2	12.0	–4.0
2005	3.5	23.6	12.0	–8.1
2006p	3.6	26.4	12.0	–10.8
2007p	13.4	27.0	-	–13.6

Source: Ministry of Finance and Economy.

Table 4 Ratio of the Government Debt to GDP

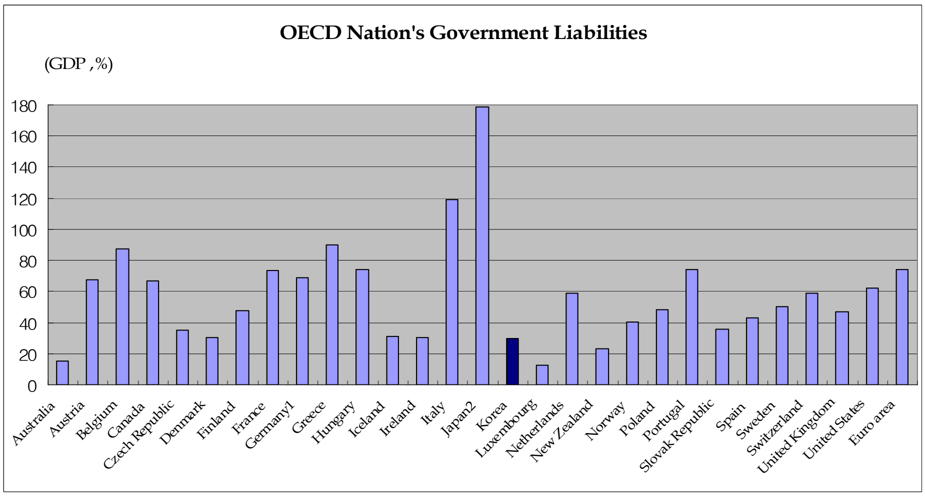
(unit: %)

Year	Ratio	Year	Ratio
'97	12.3	'03	22.9
'98	16.6	'04	26.1
'99	18.6	'05	30.7
'00	19.2	'06	33.4
'01	19.6	'07	33.3
'02	19.5		

Source: Ministry of Planning and Budget.

Now, let's turn to the issue of the government debt which is closely related to the fiscal balance (deficit). It is evaluated that the strict fiscal discipline in the past enabled the Korean government to maintain the size of government debt at a manageable level, and afforded the government some room to maneuver when the crisis hit. Besides, because of the above-mentioned shrewd fiscal management after the economic crisis, the level of the debt of Korean government remained low till 2002. In 1998 right after the economic crisis, the ratio of the government (central and local) debt to GDP jumped from 12.3% to 16.6% as can be seen in table 4. Next

Figure 4 Government Debt of OECD Countries



Source: OECD Economic Outlook.

year (1999), it further increased to 18.6%. Since then, that level had remained stable even if it had increased gradually. In this administration, beginning from 2003, that ratio (and the size) has increased much to the level of 33.3%.

There are two reasons behind increasing trend in this administration: First, the increase in the expenditure, second, increase in the issuance of the bond to stabilize the foreign exchange market. Increase in the debt level is certainly not a good signal. Some, however, argue that too much worry is not necessary because that ratio is still comfortably low compared to the other OECD countries (see figure 4) and the bond for the foreign exchange market is not a bond making up for the deficit.

Even if this argument captures some truth, Korean government should remain very cautious because the increase in government expenditure is inevitable while there is certain limit in the increase of the revenue. In a recent research, for example, Na, Park and Park (2006) warn that the debt level in Korea may be unsustainable in the long run.

It should be noted here that the Roh Moo-Hyun administration tried to avoid the increase in the fiscal deficit and government debt. It was made clear in the roadmap for the fiscal and tax system reform (which will be discussed in detail in section 4). Therefore, it could be concluded that the current administration failed to satisfy this objective admitting that the increase in debt is not solely due to the deficit as explained above.

3. STRUCTURE OF PUBLIC EXPENDITURE

3.1. Change in the Structure: More Welfare Programs

In Korea, there were two notable characteristics in the structure of the expenditure during the development period.[1)] First, the greater portion of the public fund had to be allocated to the defense expenditure. It was inevitable considering the national security situation in this country. The defense budget accounted for about 25 to 30% of the central government's budget till the late 1980s. Since 1990, however, it has been gradually reduced to the level around 16%. Second, there had been large investment on Social Overhead Capital (SOC). It is because Korea lacked the adequate infrastructures as in any other developing countries. Therefore, "economic development" expenditure, most of which is on SOC captured a large share in the budget.

As the priority of the expenditure was on these two areas, the budget allocation to other area could not but be squeezed. Particularly, the expenditure on welfare programs, that is "social expenditure," was suppressed. It could be said that the welfare expenditure was 'sacrificed' for the economic development.

As mentioned briefly in the previous section, a fundamental change in Korea's economic policy stance took place in the early 1980s. One of the most important change was the emphasis on the equity which was regarded to be abandoned during the development period. This has an important

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1) About the details of the change in budget structure in the development period, see Han & Choi (1995).

implication on the structure of the expenditure as well — namely, the welfare (social) expenditure, should increase. In spite of the change in the policy direction, however, not much structural changes in the government expenditure was resulted mainly because of the tight budgetary policy that prevailed during 1982-1986. In other words, room for increasing social development was limited.

It is 1989 fiscal year (which was the first budget of the 6th republic), which began to show a real change in the expenditure structure. The share of the budget for social development was increased by as much as 5.5 percentage points. Although this is a significant change, it should be pointed out that it is not due to the increase in (traditional) welfare expenditure such as health and social security. Rather, it is because there was a big increase in investment on the construction of housing and community development projects.

Therefore, it should be evaluated that the shift toward the increase in welfare expenditure had been incomplete, although the change in direction was started in the early ’80s. It was Kim Dae-Jung administration, which made this shift real. As a matter of fact, for the first half of the administration, government could not afford to focus on this issue. In that administration, the concept of the ‘productive welfare’ was the main motto of the welfare policy. This concept is similar to the ‘workfare’ in the sense that graduation from the entitled benefit and subsequent return or shift to working is encouraged, although they are not exactly same. Welfare policy for the first two years in Kim Dae-Jung administration was rather ‘passive’ in the sense that it just covered the expenditure for the needy than introducing new welfare programs.

After the economic crisis was overcome, this was changed. Kim Dae-Jung administration began to implement many new welfare programs which will be discussed later. As a result, the substantial increase in the welfare expenditure began to be realized. The trend of the budget structure, which shows this change well, is summarized in table 5.

How could such increase in the welfare expenditure possible? It is because

Table 5 Trend of Functional Expenditures

(unit: %)

	Economic	Welfare	Education	Defense
’70	27.3	7.9	16.6	22.6
’80	26.0	9.9	14.6	30.6
’90	20.4	20.4	17.0	20.0
’98	26.9	18.7	14.9	12.1
’99	27.2	22.2	15.1	11.2
’00	25.2	22.2	15.3	11.4
’01	22.5	21	17.3	11.9
’02	22.6	19.9	16.5	11.6
’03	28.7	20.2	14.8	11.4
’04	23.2	24.5	13.8	11.4
’05	21.0	26.7	14.1	10.3
’06	18.4	27.9	14.5	11.5

Source: Ministry of Planning and Budget.

there were several new welfare policy measures introduced during Kim Dae-Jung administration. Two most important among them are the following: One is the expansion of the National Pension (social security in Korea) to the self-employed, and the other is the introduction of the National Basic Livelihood Security System (NBLSS, hereafter).

National Pension, which was first introduced in 1988, expanded its coverage to virtually every Koreans in 2000, by including self-employed’s. It was announced to be the completion of the four social insurance programs — Health Insurance, Unemployment Insurance, Industrial Accident Compensation Insurance, and National Pension. It was criticized, however, to be introduced without adequate preparation: Means testing (checking the true income and wealth) of the self-employed’s could not be done properly. Infrastructure for the testing lacked, and this remains as the problem, yet.

NBLSS was introduced in 2000. This is a consolidated public assistance program replacing various assistance programs existed till then. It was boasted that the basic social safety net was completed with the introduction of this program. This, however, has some problems, too. Like AFDC in the U.S., benefit is given to the family with income below certain level regardless of the working ability of the recipients. Thus, there is a serious work incentive problem. Because of this, it cannot but be admitted that this program does not fit well with the above-mentioned idea of productive welfare. This can be interpreted as an important change in the policy direction. Another problem with this program is the difficulty in means-testing. This difficulty in detecting participants' real income and wealth, as in the case of the National Pension for the self-employed's, will cause the strain in the fiscal balance.

In the Roh Moo-Hyun administration, several new welfare programs have been planned to be introduced. Most important among them are Earned Income Tax Credit (EITC), Subsidy for the Childcare (Family Allowance), Long-term Care Insurance for the senior citizens with chronic disease (e.g., Altzheimer). These programs will also work as factors for the substantial increase in the expenditure.

Change in the structure is clearly highlighted by Vision 2030 which was made public in the last year. It is the long-term master plan on how to manage the public finance to achieve the goal of becoming one of the advanced countries in the world, by 2030. Thus, it is a vision as well as a plan. Although it covers nearly every aspects of the economy, main focus is on the welfare policy and its role in the long-term growth.

This "Vision" consists of five strategic plans and fifty action plans to make strategic plans possible. According to it, Korea will become one of ten largest economy quantitatively and qualitatively with per capita GDP of US$49,000 (Korea is currently ranked as 12th largest economy while per capita GDP is below 30th), if the reforms were carried out as planned. This might look rosy. But, it is not the point whether it is rosy or not. What interests us is the strategy to reach the goal.

According to this plan, Korean government (current administration) does aim to achieve "growth with equity." For this purpose, increase in welfare expenditure is necessary so that the size of the government becomes big. At the same time, fiscal balance is planned to be maintained. Therefore, the tax burden should increase as well.

In the “Vision,” however, there is no explicit plan on how to finance such expenditure increase. It only indicates that there will be a structural adjustment so that the more expenditure on welfare programs possible and the attempt to increase tax burden will be halted till 2010. From these, it could be conjectured that the current administration does not have a clear plan on how and how much to finance, as of now.

3.2. Increase in the Welfare Expenditure: Road to the Welfare State?

Do these structural changes imply that the fiscal policy in the last ten years (or eight years except first two) after the economic crisis has been based on the philosophy of the (European) welfare state? Before answering this question, we have to define the welfare state, first of all.

According to Pestieau (2006), ‘the welfare state consists of a number of programs through which the government pursues the goal of social protection on behalf citizens against certain categories of risk, of social assistance for the needy, and of encouraging the consumption of certain services such as education, housing and childcare.’ Or, as in Sandmo (1995), the welfare state is a subsection of the public sector, concerned with redistribution (via social security and social assistance) and the provision of those social goods which have a strong redistributive element, like health care and education.

These are very loose definitions. If only welfare programs mentioned were considered, any country (including U.S.A. and Korea) can be classified as a welfare state, which is not the widely accepted view. Therefore, we have to consider the other definitions. In this paper, Esping-Anderson’s (1990) categorization could be used. To put it more precisely, countries of first and second clusters in his paper are regarded as the (European) welfare states.

There are three aspects to consider in the discussion whether Korea is moving toward the direction of the welfare state: First is that there has been a big and rapid increase in the welfare expenditure — private and public. As a matter of fact, private social expenditure (charity, donation, etc.) is considered to be equally important as the public social expenditure (public assistance, social insurance), in evaluating a country to be a welfare state (Adema, 2006). As we discuss the public finance in this paper, we will focus only on the latter.

Second, despite such increase in the welfare expenditure, Korea is far behind the welfare expenditure level of the other OECD countries. Adema (2006) pointed out that Korea is below OECD average in both private and public social expenditures. If we consider the International Expenditure Comparison Index (IECI), however, the gap with other countries is narrowed. This index is the ratio between the actual social expenditure and 'proper'[2] social expenditure considering such factors as GDP, age structure, unemployment rate etc. Proper expenditure level controlled by such variables is calculated by the regression on the cross-section data of OECD countries. As can be seen in table 6 and table 7, Korea is at the same level with countries like U.S.A., Japan, and Ireland.

Third, there will be an inevitable increase in the welfare expenditure in the future considering the pace of aging and the premium of social insurance. This means that relatively low level of the welfare expenditure at present could be changed to the higher level in the future. For example, Moon, *et al*. (2000), showed that the ratio of the welfare expenditure to GDP will reach around 15% level by 2020, which is similar to the current level s in Australia, New Zealand, and Spain (see also Choi *et al*., 2005).

Taking these three aspects into account, it can be concluded that Korea is moving toward (or Korean government tries to move to) the welfare state although it cannot be claimed to be one now.

[2] 'proper' does not mean that it is 'optimal'.

Table 6 International Expenditure Comparison Index (IECI): Total Social Expenditure

	Actual Social Expenditure	IECI1	IECI2
Australia	18.88	92.07	101.25
Austria	26.83	111.30	102.27
Belgium	27.23	103.54	98.19
Canada	17.81	82.52	83.41
Czech Republic	20.09	106.45	103.99
Denmark	29.47	123.75	103.15
Finland	24.92	99.67	89.74
France	28.45	107.80	102.32
Germany	28.77	108.25	118.33
Greece	24.34	95.96	107.11
Hungary	20.07	107.52	106.88
Iceland	21.26	109.30	99.25
Irelnad	13.75	72.82	77.45
Italy	25.84	90.22	93.20
Japan	17.47	61.90	81.69
Korea	8.70	70.43	79.22
Luxembourg	20.84	90.20	84.35
Mexico	11.83	184.93	246.63
Netherlands	22.45	105.42	99.57
New Zealand	18.53	100.38	102.45
Norway	25.23	101.70	95.13
Poland	23.03	117.64	127.81
Portugal	21.54	95.96	107.39
Slovak Republic	18.15	97.64	104.05
Spain	19.57	75.26	85.34
Sweden	30.37	113.89	99.28
Switzerland	27.03	112.21	133.82
United Kingdom	22.35	90.63	113.19
United States	15.12	70.32	67.11
OECD Average	21.72	99.99	103.92

Note: IECI1 is the index when only the tax burden is included while IECI2 is that with total burden including social insurance is counted.
Source: Jinyoung Kim and Chul-In Lee (2006).

Table 7 IECI: Public Social Expenditure

	Actual Public Expenditure	IECI1	IECI2
Australia	18.00	92.08	104.65
Austria	25.96	107.97	97.00
Belgium	27.23	102.04	95.39
Canada	17.81	87.25	88.77
Czech Republic	20.09	92.54	88.63
Denmark	29.22	127.69	101.52
Finland	24.80	101.44	89.01
France	28.45	108.12	101.33
Germany	27.39	102.83	114.92
Greece	24.34	88.88	100.05
Hungary	20.07	89.75	87.19
Iceland	19.83	112.48	99.11
Irelnad	13.75	79.97	87.51
Italy	24.45	82.34	85.34
Japan	16.89	61.26	88.96
Korea	6.12	51.95	60.09
Luxembourg	20.84	99.47	91.40
Mexico	11.83	175.40	235.14
Netherlands	21.75	104.81	97.28
New Zealand	18.53	99.95	101.87
Norway	23.90	101.95	93.75
Poland	23.03	105.59	114.47
Portugal	21.10	85.39	95.62
Slovak Republic	17.90	86.08	91.25
Spain	19.57	72.37	83.89
Sweden	29.78	111.66	94.23
Switzerland	26.41	114.72	145.71
United Kingdom	21.82	89.00	118.43
United States	14.73	75.96	71.75
OECD Average	21.23	96.93	100.84

Source: Jinyoung Kim and Chul-In Lee (2006).

4. INSTITUTIONAL REFORM[3)]

4.1. Reforms in Kim Dae-Jung Administration

4.1.1. Streamlining of the Public Organization and Personnel

As mentioned, public sector reform was one of four major reforms to overcome economic crisis. The main direction in the public sector reform was to reduce the unnecessary public organization and personnel so that the saving in the budget and the efficient operation of the government is possible.

As a result, such reform measures as streamlining of government organization, reduction of public employees, and privatization of public (state owned) enterprises (SOEs in what follows) were carried out largely between 1998 and early 2000.

Achievements resulting from such reforms were remarkable. For example, Reduction of 25,955 civil servants was carried out by 2001, which is equivalent to 16% of total civil service workforce. It is estimated to result in savings of approximately US$3 billion (Lee, 2000). Besides, many central government functions were transferred to local governments (23 functions by 2000), outsourced or privatized (88 functions by 2000).

Table 8 Trend of the Number of Civil Servants

Year	1988	1996	1998	2000	2002	2004	2006
Total Number	737,225	925,794	886,582	872,106	889,993	936,387	954,713
Number of Civil Servant per 1000 People	17.5	20.3	19.2	18.6	18.7	19.5	19.8

[3)] As a matter of fact, reform measures discussed in this chapter does not cover the whole list of reforms carried out during last 10 years in Korean public finance.

In 1998, there were 26 public enterprises and 82 subsidiaries with 166,000 workers. As of March 2000, 2 parent companies and 11 subsidiaries were privatized. In the mean time, state-owned stocks had been sold so that there was revenue of sales amounted to US$9 billion.

Such remarkable achievement during the first half of Kim Dae-Jung administration was offset by the dismal performance in the second half of the administration. First, number of civil servants and government functions were increased to result in the level above that before the crisis (see table 8). No further privatization was carried out after that. It was simply halted.

4.1.2. Performance Based Budget System

Even before the economic crisis, there had been much talk about the reform of Korean public sector in line with the world wide public sector reform which was mainly originated in Anglo-Saxon countries (see Bahk and Yoo, 1995; Moon and Lee, 1995). Reduction of the government size already mentioned occupies one major part of it, while the performance based budget and human management system, another. As Koh (2002) later pointed out, the latter is important for efficient information flow. According to him, since the information on expenditure outcomes does not usually appear in budget documents, a more performance-based budgeting system is needed.[4)]

Following discussion and some steps taken in the previous administration, Kim Dae-Jung administration actively pursued this policy. What have done was as follows: First, human resource management reform such as an open career system and performance based management, second, increased the autonomy of the ministry, third, the introduction of various measures to improve flexibility and efficiency in public finance, and four, the increased adoption of information technology for improved transparency and customer service.

It is evaluated to be meaningful at least, if not successful. Much has been

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4) He also pointed out that the cash-based accounting system makes it difficult to assess the true costs of fiscal activities and the financial soundness of the government. These must be considered for the reform in the future.

done, e.g., e-government, performance budget, and so on. The current administration also succeeded this policy. The real result is left to be seen, however, because it takes time for such policies to be effective.

4.1.3. Tax Reform

In the wake of the economic crisis, what was immediately needed was to help restructuring financial and corporate sectors and to stimulate investment and consumption to recover from the crisis. Taxation assumed the major role in this aspect. As a part of such reforms, the government made a number of changes in the tax laws.

1) Tax Measures for Restructuring

One of the most important reasons behind the crisis was excessive borrowing by firms. Thus, the financial restructuring of the corporate and financial sector was inevitable. And tax liability should neither discourage nor prevent companies and financial institutions from undergoing necessary restructuring. Therefore, the government has exempted or reduced taxes on asset transactions used for the purpose of corporate and financial restructuring.

Tax incentives to encourage and accelerate restructuring were mostly granted to transaction-related taxes, such as capital gains tax, acquisition tax, and registration tax. These incentives were intended to bring about corporate mergers and acquisitions, business divisions, asset swaps, alienation of business assets, and contribution by company owners. For example, profits resulting from a re-valuation of corporate assets after a merger or acquisition were eligible for deferral from corporate income tax until the alienation of the re-valued assets. Corporate mergers and acquisitions are also exempt from the registration tax.

2) Stimulating Investment and Consumption

It is well-known that the withdrawal of foreign capital was one of the major factors that precipitated Korea’s economic crisis. Therefore, priority of the policy was given to attracting foreign direct investment (FDI) to overcome economic crisis. For this, the Foreign Investment Promotion Act (FIPA) was enacted in 1998. In May 1999, provisions dealing with tax incentives for inducing foreign direct investment (FDI) was subsumed into the Special Tax Treatment Control Law (STTCL).

Korean government announced that the principal objective of FIPA is to attract FDI by creating a more liberalized and favorable business environment for foreign businesses and providing tax incentives to certain types of FDIs. Therefore, under FIPA, there are various incentives which could be summarized as follows[5]: Foreign businesses and investors that made an investment in advanced technology are eligible for exemption from individual and corporate income taxes for the first 7 years as well as a reduction of 50% for the next 3 years. In addition, foreign businesses and investors are granted exemption from a number of local taxes (i.e., Acquisition Tax, Property Tax, Aggregate Land Tax, and Registration Tax) for a minimum of 5 years as well as a reduction of 50% for the next 3 years. Imported capital goods are also eligible for full or partial exemptions from customs duty, the special excise tax, and VAT.[6]

3) Tax Incentives for Small and Medium Sized Enterprises (SME)

Tax incentives were provided to small and medium-sized companies to stimulate employment and technology investment. They include tax exemptions on stock options, tax credit and exemptions on R&D, lower special excise tax on consumer electronic goods and automobiles, lower automobile tax, and lower capital gains tax. For example, for employees of venture capital companies who take stock options, the individual income tax on income from stock options is exempted.

4) Broadening Tax Base and Lowering Tax Rates

This is undoubtedly the principle of the modern tax reform. As Korea

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[5] The following is an excerpt from Korean Taxation, 2006.

[6] Korean government also introduced a Foreign Investment Zones (FIZ) to induce FDI. Unlike the past, local governments have autonomy to designate FIZs, and foreign invested companies in FIZs are eligible for tax benefits.

began to overcome the crisis, focus of the tax reform is turned toward to this “normal” direction.

Broadening the tax base worked also as the revenue increasing mechanism to some degree. By the enactment of STTCL, many of tax exemptions and reductions were abolished. For example, the VAT exemption on services provided by lawyers and accountants was abolished, which in turn, broaden the tax base not only of VAT but also of personal income tax.

The most important change in lowering tax rates were made in income and corporation taxes. In 2001, (global) income tax rates were lowered by 10% (from 10-40% to 9-36%) and corporation tax rates were lowered by one %point to 15% (for corporations whose taxable incomes are below 100 million won) and 27% (for corporations with taxable income greater than 100 million won).

4.1.4. Tax Administration

As is well-known, tax administration in Korea has improved much since the foundation of the NTS. Nevertheless, there is still much room for future improvement as can be seen from the following discussion.

In 1999, the tax administration was fundamentally reformed. A major goal of this reform was to induce taxpayers to voluntarily comply under self-assessment. The organization of the tax authority was reorganized that its structure was based on functions rather than tax items. Also, each taxpayer's information on income and expenditure was integrated into one database at the tax authority. The tax authority was renamed as the National Tax Service to demonstrate the tax services for taxpayers in 1999. Recent studies indicate that the tax administration reforms in 1999 led to more efficient resource allocation as well as greater trust of the tax authority among taxpayers.[7)]

There is still much to be desired, however, in the tax administration of Korea. It is particularly so, if the administrative costs and tax arrears are considered

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[7)] Some even argue that, tax administration in Korea can be divided into two periods; one is pre-reform period of 1966-1999, and the post-reform period after 1999 (see Hyun, 2002).

which are still high under the international standard. At the same time much concern is expressed that the abovementioned reform was set back these days. Thus, further reform of Korea's tax administration is necessary.[8)]

4.2. Reforms in Roh Moo-Hyun Administration

4.2.1. Roadmap for the Reform of the Fiscal System

As was pointed out, Roh Moo-Hyun administration succeeded most of the policy stance of the Kim Dae-Joong administration. Therefore, many of the reform measures taken are similar. One procedural difference, however, is that the current administration started reform with setting up the roadmap for it.

The roadmap consists of five parts — public administration, personnel management, fiscal and tax system, e-government, local administration. Most of the reform agenda in the fiscal system is included in the fiscal and tax system roadmap. This roadmap consists of five goals and fifteen strategies to realize those goals. All of the reforms of the fiscal system are listed and carried out following the time table in the fiscal and tax system reform roadmap.

The background for the reform in this roadmap is summarized as follows: First, Korean public sector including public enterprises, is much to be desired

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8) There are opinions that the tax administration reform is needed because there is certain degree of distrust toward tax authority by general tax payers. This kind of distrust is caused by following aspects. First, the tax burden between wage earners and the self-employed is unequal, because the tax authority has difficulty in administering evidence-based taxation. This horizontal inequity makes taxpayers feel that tax administration does not function properly. Second, there is wide-spread perception even among ordinary tax payers that tax evasion is all right. It may be due to the sufferings that general public had to endure in the past (by despots, colonialists etc.). Third, it is believed that corruption in tax administration is significant, because tax officers are likely to use too much discretion and subjective judgment in interpreting the tax code. These factors make taxpayers distrust tax administration, and the tax authority has realized that dramatic reform in tax administration is needed.

in terms of efficiency, transparency, and equity, while its size is so big that its impact on national economy is significant. For example, public expenditure is considered to be less efficient because the expenditure system is not output oriented but input oriented. Moreover, so called fiscal discipline is weak because fiscal authority is affected too much by interest groups including political groups.

Second, monitoring and participation by citizens in fiscal process has lacked. It is because the opportunity for people to participate in such process is scanty. Moreover, budget and tax system is too complicated for ordinary citizens to understand.

Third, both of tax system and tax administration are much to be desired yet although there has been much effort to improve them. Horizontal inefficiency of income tax burden between self-employed and employee is severe and property taxes do not carry out the redistributive role properly. Besides, national tax service is regarded rather as an authority than the service agency by the general public.

Fourth, fiscal system of Korea is so centralized that financial basis of the local autonomy is very weak. It obviously is the major obstacle for the full-pledged local autonomy.

Finally, fiscal soundness is seriously weakened due to the sudden increase of fiscal demand during economic crisis in ’97 such as public bail-out and unemployment benefit. Moreover, there are potential aggravation factors like huge deficit in national pension in the future.

With these factors as the background, the fiscal and tax system roadmap identified five policy objectives; decentralization, rationalization of tax system and administration, efficiency in expenditure, transparency of fiscal system, and fiscal soundness. Under these objectives, there are 15 agenda to achieve those goals. In what follows, those objectives and agenda will be briefly reviewed.

1) Fiscal Decentralization for the Local Autonomy

For this objective, the following should be carried out: First, taxing power of local governments, which is very limited currently, should be increased so that local governments could set their own tax rates and introduce new taxes depending upon the environment and situation of each local government.

Second, intergovernmental transfer system consisting of general grant, subsidy, local transfer fund, should be reformed as well to secure transparency and autonomy. For local share tax (general grant), the formula for distribution should be simplified, and ad-hoc part of it, (part not based on formula) should be reduced. Subsidized program should be drastically reduced so that the subsidies could be reduced as a consequence and the local transfer fund should be abolished and become a part of the general grant.

2) Rationalization of Tax System and Administration

First, structure of taxes should be reformed. For this, reassignment of tax bases between central and local governments, realization of the principle of "broader tax base, lower tax rate" by the reduction of tax exemptions, streamlining earmarked taxes, tax system supportive of firms should be done.

Next, both of horizontal and vertical equity should be enhanced. It is particularly important to build infrastructures for detecting the underreporting of tax base by self-employed, because tax evasion by this group is the major source of horizontal inequity. It can be accomplished by the wider use of credit cards, tax data base by person and household, simplified method of filing VAT which is often abused for tax evasion should be abolished.

Finally, for the tax administration, expansion of electronic tax filing and report, objective and transparent tax auditing should be done and tax compliance analysis system by individuals should be introduced.

3) Efficient Expenditure

For this, the introduction of the performance based budget system which is suitable for Korea is necessary. It requires the following; a) program and activity classification of government transactions, b) performance measurements including the development of indicators of such measurements, and c) performance reporting, and d) feedback into budgeting and evaluation process.

Next, the autonomy of ministries and agencies in budgeting should be enhanced. For this, so called “top-down approach” should be adopted gradually.

Third, streamlining of expenditure items which are regarded to have rooms for waste is called for (e.g., expenditures on such area as agriculture, small and medium sized enterprises, R&D, and IT). Therefore, pre and post evaluation of the performance of such expenditures should be strengthened and allocation of the fund should be made within the framework of long-term national plan and goal. Also, the share of the welfare expenditure needs to be increased.

4) Transparency in the Fiscal System

For this, financial and accounting infrastructure of the fiscal system should be properly built. In this respect, accrual accounting and double entry bookkeeping should be introduced in both of central and local government levels and advanced fiscal information management system should be operated.

Next, special accounts and public funds should be streamlined. As is well-known, there has been much distortion on the resource allocation due to the abuse of so many of special accounts and public funds. Therefore, purpose and rationale of them should be reevaluated and those which do not have proper reason to exist any longer should be abolished.

5) Fiscal Soundness

Current one year based fiscal system causes inefficiency of the budget management because there is a limit for the proper allocation of fund and maintaining fiscal soundness with the medium and long term perspective. Therefore, multi-year (3 year) budget system should be introduced. This has the form of national fiscal management plan and it should be rolling every year. All the accounts (general and special) and public funds should be included in this and fund allocation plan by sectors, policy objective such as medium term fiscal balance should be included as well.

Besides, systematic government debt management and evaluation system should be introduced. Especially, legal device to ensure such measures as giving priority of use of the fiscal surplus for the repayment of the debt should be secured.

Finally and most importantly, fiscal soundness of social insurance is essential for the overall fiscal soundness. As the current public pension systems (national, civil servants, private school teachers', and military) have structural deficit problems due to the "low premium (burden), high benefit," and this problem will be worsened in the future, current system should be changed to the "right burden, right benefit" system by the increase of the payment and lowering benefit.

All of the reforms in the area of public finance in this administration have been carried out following these agenda and timetable set in the roadmap. Major reforms among them should be reviewed in what follows.

4.2.2. Streamlining Intergovernmental Transfer System

Korea's local government consists of nine provinces, six special cities with provincial status, and sub-level local administrative units such as cities (towns), counties, and districts. Korea's local governments had been under the direct control and supervision of the central government. But the election of governors and mayors in June 1995, they were given full autonomy.[9)]

Even after the full autonomy was given, local governments do not have the full control on their taxing power because local tax law is to be enacted not by the local congress but by the National Assembly. Besides, there is a serious economic unbalance among the localities. Thus, the fiscal autonomy lacks although the political autonomy was given. Because of these, intergovernmental fiscal transfer system between central and local

[9)] The local government's budget includes a general account, education special account, and local public enterprise special accounts covering such activities as water supply, hospital administration, and transportation.

governments and among local governments has been regarded to be very important.

Intergovernmental transfer system, however, has been criticized to be inefficient, not to be transparent enough. Thus, the big reform in the local fiscal system was carried out during 2003 and 2004.

First, reduction of the ad-hoc grant was carried out. Like many other countries in the world, Korean grant system (Tax Share System) is a formula-based one. There is, however, an ad-hoc grant which captures one eleventh of the total grant. This is ad-hoc because its distribution is not based on the formula but on the discretion of the Minister of the Government Administration and the Home Affairs. It is believed that the political concern is behind such distribution. This, in terms of Bahl (1999), is one of the major detractors of fiscal decentralization and a serious blow on the transparency of the local Public Finance. Because of this, it was planned to be abolished. Instead of complete abolition, however, Korean government reduced the size of the ad-hoc grant.

Next, number of subsidies to local governments from the central government was reduced. It was argued that the most serious problem of the subsidies is too much interference by ministries of the central government, admitting that certain degree of control by the central government is necessary. Clearly, too much interference and control is against enhancing the accountability. Especially, it is observed that the share of the subsidy among three transfer mechanisms has increased recently. This trend may be interpreted as “disguised centralization.” To correct this problem, it would be most desirable if we could find means to minimize control by ministries. It is, however, very hard to implement. As a second best solution, drastic reduction of the subsidized programs was suggested. This reduction, however, was below the planned level.

Finally, local transfer fund (similar to the block grant) was abolished. Though it was introduced in early ’90s to function as a true block grant, it had not been different from the tax share (general grant). It had also been argued that the programs financed by this fund did not fit to the original purposes specified in the law. The reduced amount of the transfer due to the abolition was made up by increasing the rate of the tax share.

4.2.3. Streamlining Special Accounts and Public Funds

Originally, Special Accounts are established to fulfill specific objectives and have their own sources of revenue that are earmarked exclusively for those objectives. However, in cases where these accounts do not have sufficient revenue, funds are often transferred to them out of the General Account. The number of special accounts increased to twenty nine in 1970 from only two in the first fiscal year of 1948. Although it began to decrease after 1970, there still remained many.[10)]

Public funds are established in order to allocate a certain amount of money needed to achieve specific government objectives, primarily through the operation of revolving loans. Currently, there are forty three public funds (in 2003). The activities of these funds are exempt from deliberation or approval by the National Assembly. However, the National Assembly does receive reports on the implementation plan for these funds. Nevertheless, the budget for public funds should be taken into account when analyzing the macroeconomic effects of governmental fiscal activity because these funds account for much of the overall deficit in the public sector.[11)]

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10) Among them, the Fiscal Financing Special Account is important because in principle, all government loans are made through this account. The five Enterprise Special Accounts are essentially organized along departmental lines such as railway, postal, government purchase, agency management, and grain management services. Some of the most conspicuous among the “Other” special accounts include accounts for road and transportation facilities, rural development, special tax management, energy and natural resources, environmental improvement, and two special accounts for transfers to local governments; one for regional development and another for primary and secondary education.

11) Already in 90's, several major changes of the public funds were made. First, to improve the government grain management system, the government abolished the problematic Grain Management Fund in 1994. Second, the Public Money Management Fund (PMMF) was introduced in 1994. According to PMMF act, surplus financial resources from major pensions, public funds, and Savings Account at Postal Services are to be deposited into the PMMF for the purpose of absorbing the burden of policy loans and securing sufficient

As mentioned, it has been pointed out that too many public funds and special accounts will do harms on fiscal transparency, accountability, and efficiency. Therefore, Korean government has tried to decrease the number of public funds. As a result, it is reduced to 51 in 2003 from 106 in 1994.

Although the effort by the current administration to streamline the special accounts and public funds are somewhat fruitful, it could not achieved the goal originally set (due to the resistance by the related parties). This would remain as an important reform agenda for the future administrations.

4.2.4. Tax Reform

Unlike the case of previous Kim Dae-Joong administration, there has not been major tax reforms under the current administration except for introduction of the comprehensive real estate holding tax[12] in 2004 (effective from 2006), largely as policy to stabilize the real estate price hike.

There were several major tax law amendments, however, in 2003 as follows. First, inheritance and gift tax is changed to the fully comprehensive one. Second, condition for the favorable treatment of the capital gains tax on the transaction of the housings (so called 'one household with one house' principle) were strengthened. Third, corporation tax rates were lowered by 2 percentage points, so that they become 13% and 25%, respectively.

Table 9 Change in Tax Brackets

(unit: %, won)

Tax Rate	Income	
	Now	From 2008
8	Below 10M	Below 12M
17	10M ~ 40M	12M ~ 46M
26	40M ~ 80M	46M ~ 88M
35	Above 80M	Above 88M

resources to spur economic growth without resorting to additionally increasing taxes.

12) This tax will not be discussed here in detail because its main aim is for the stabilization of the real estate prices, as mentioned.

Finally, in 2007, Korean government enlarged the tax brackets (see table 9) so that the effective income tax burden could be reduced. For now, this proposal is submitted to be passed in the National Assembly (Korean congress).

4.2.5. Other Institutional Reforms

1) National Fiscal Management Plan

As was pointed out, Korean budget system lacks a medium to long term perspectives. To resolve this problem, the national fiscal management plan was introduced.

This plan is a five year plan to present national policy visions and directions. In other words, it enables fiscal management from a medium-term perspective and materializes national development visions by sectoral investment plans. Its main contents are as follows: a) Total expenditure ceiling, b) sectoral and ministerial resource allocation plans, c) national policy directions, d) medium-term fiscal management outlook. This plan is revised and updated every year to ensure the linkage with the annual budget.

2) Top-Down Budgeting System

This system is introduced to give each ministry and agency more flexibility and autonomy as well as accountability and responsibility on its own budget. Basically, the office of the budget in the Ministry of Budget and Planning (MPB), which used to inspect and decide the budget of the each program, only sets the ceiling for the total amount that a line ministry can use. Under that ceiling, ministry can decide how much to spend on specific programs and projects. The ceiling is determined in the cabinet meeting based on the above mentioned national fiscal management plan.

This is indeed a revolutionary change in the budget process. Its effect, however, is remained to be seen because it is the early stage of the development yet.

3) Digital Budget and Accounting System

Korean government fully digitalizes its budget and accounting system in FY 2005 (effective from 2006) with the following objectives: a) Redefining the scope of public finance, b) Establishment of the program-oriented and simplified budget structure which aims for the systematic linkage between policy, organization and program and simplification of budget structure, c) Introduction of accrual accounting to support performance management, d) Integration of fiscal information systems to support policy formulation and decision making.

Although its effect is too early to tell, there is no doubt that this is a meaningful step to enhance the efficiency of the budget system and budgeting process.

5. SUMMARY AND CONCLUSION

In this paper, it is attempted to critically review the public finance in Korea since the economic crisis hit this country in late 1997. As a summary, we have seen that the size of the government has grown steadily both of revenue and expenditure. Government debt has grown as well, in spite of the fact that the fiscal balance was restored. As far as the structure of the expenditure is concerned, it is clearly seen that the emphasis has been moved toward the welfare expenditure, which is highlighted by the introduction of the NBLSS.

There have been many important institutional reform measures, too. In Kim Dae-Jung administration, streamlining of the government organizations and personnel was carried out. Although it had the nature of being forced, it cannot be denied that it was indeed an important step. Performance based budget system was first introduced. Tax reform under the principle of "lowering the rate, widening the base" was carried out and several reform measures were taken to improve the tax administration.

In Roh Moo-Hyun administration, many of the reforms have been carried out following the agenda set in the roadmap. Important among them includes streamlining of the local fiscal system, streamlining of the special accounts and public funds, introduction of the national fiscal management plan, top-down budgeting system, and digital budget and accounting system. Tax reform under the principle of the widening base and lowering rate has been continued.

Some of them have been successful and some were not. It is not our intention to evaluate the successfulness of each reform measures. Rather, we would like to ask whether the stance of the fiscal management in the past 10 years was close to the ideal of the "(European) welfare state."

Obviously, fiscal management in the first two years of Kim Dae-Jung administration is far from this. There was no direct increase in welfare program (except for the increase in unemployment insurance benefit). Moreover, reduction in the number and size of the government organizations and personnel, and privatization of SOE were taken. As mentioned, such policy stance was praised by some and criticized by others as "neo-liberal."

In the second half of Kim Dae-Jung administration, however, there was a change which could be identified as 'dramatic" or 'fundamental." Many new welfare programs, most important among them is NBLSS, has been introduced. Size of the welfare program increased remarkably not only absolutely but also relatively among government expenditures. Size of the budget and tax burden ratio had increased. This trend continues under the current administration as well, as could be seen in the previous chapters of this paper.

Taking all these into account, can we conclude that the fiscal management of Korean government in the past ten years (or eight years except first two years of the previous administration) is a movement toward the 'welfare state'? One could say so with caution and some reservation. As clearly indicated in "Vision 2030," the ideal of the welfare state is vividly alive. On the other hand, such reform measures as lowering tax rates, particularly that of the corporate tax, keeping low tax burden ratio, streamlining of special accounts and public funds are located in the opposite side of that idea.

Streamlining of the intergovernmental transfer system and other institutional reforms including national fiscal management plan and top-down budgeting have little to do with the idea of the welfare state.

Thus, it is not easy to identify the true nature of public finance perfectly, although the tint of the welfare state is quite strong. Good empirical research would be necessary and that would be the topic for the future research.

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