
2011~2013

The List of Publications



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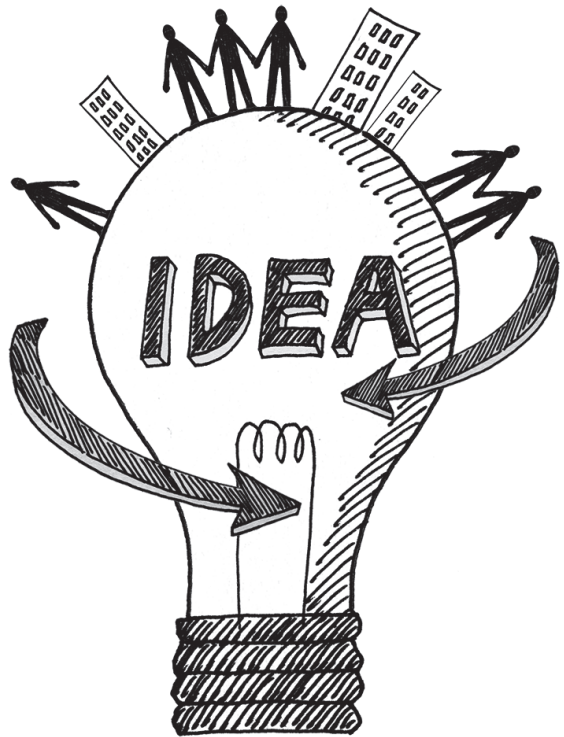
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Research Papers



Changes in Economic Environments and the Reform in Tax System

Jongseok An
Young Jun Chun

This study investigates changes in economic environments which seem to affect tax policy and discusses effective measures to cope with the changes. Current literature referred to aging of population and globalization as the most important changes related to tax policy. In addition, we included welfare reform and unification of Korean Peninsula as important economic environments. In Korea, enlargement of social welfare and preparation for unification are subjects of animated controversy in these days.

The most important issue in tax policy raised by economic environment changes is increase in expenditures. Aging, enlargement of social welfare and the unification demand increase in public expenditures. Adding up the numbers in existing literatures on the effects of those changes on public expenditures, we could expect government expenditures to increase by 20% of GDP until 2050 compared to that in 2009. It means that the tax burden ratio should be doubled by 2050. This study examined ways to cope with the increase in expenditure demand including methods to increase tax revenue.

In addition, this study investigates the effects of the changes in economic environments on tax system of individual tax items. Especially, it examined the effects of aging and globalization on capital income tax at both individual and corporate level. It provided and discussed reform plans for individual income tax and corporate tax in the context of an aging and globalized society.

The Effect of EITC on the Labor Supply and Welfare of Low Income Households in Korea

Heonjae Song
Young Jun Chun

EITC (Earned Income Tax Credit) was paid in 2009 for the first time in Korea. This study analyzes the effect of the EITC on the work incentive and welfare of the low income households in Korea. First, empirical analysis is exerted using National Servery of Tax and Benefit. Empirical results show that EITC induced more labor participation and working months of the households which belong to phase-in range, whereas it worked oppositely to the households in the plateau and phase-out range. Second, general equilibrium analysis is employed to complement the limitations of the empirical study. Policy simulation results based on general equilibrium model suggest that current EITC system generally raises employment with enhancing part-time labor, but it somewhat reduces full time employment and disposable income. However, if we focus on the lowest income group of households, EITC has all positive effects in terms of employment rate, full time labor, disposable income and household asset. Furthermore, policy simulations recommend rather increase of maximum EITC amount with the extension of the phase-in range than increase of phase-in rate to maximize the effect for the low income households. Comprehensively, the results of the empirical study and general equilibrium analysis imply that policy makers should consider extension of the phase-in range, increase of phase-in rate and increase of maximum EITC amount in order to design a new better policy.

Joint Distributions of Income, Assets, and Debt and Their Policy Implications

Myung Jae Sung

This report estimates the joint distributions of income, consumption and assets using the National Survey of Taxes and Benefits (NaSTaB) compiled for the years 2007 through 2009, and analyzes short- and long-term effects of taxes and benefits. Distributional inequalities of assets and debts are much larger than that of income, although their inequalities shrink significantly, if their orders are rearranged in line with that of income. This comes from the differences in determinants of income versus assets/debts. It turns out that inclusion of imputed rents for assets reduces overall income inequality slightly. Personal income tax for wage and salary income and business income turns out to have positive income redistributive effect. On the contrary, consumption taxes have negative redistributive effects, although their absolute sizes are quite small in general. Due to the lack of necessary information contained in the NaSTaB, the distributional effect of property tax is not explicitly analyzed. However, it may not have negative effect, according to the findings of past studies. The relative inequality of long-run income derived by summing up incomes of three years is estimated to be much lower than that of annual income; the long-run income is less dispersed than the short-run income mainly due to the dilution of short-run income inequality caused by age differences or different location in a life-cycle. However, because there exist the asymmetry of life-cycle income paths for each income percentile and, also, because the income mobility declines over time, it is quite possible for the relative inequality of long-run income to increase in the very long run.

Global Financial Crisis and Housing Markets

Younghoon Ro

This study examines the 2008 Global Financial Crisis (hereafter called 'GFC') and its subsequent recessions' impact on housing markets in different countries, and tries to find the fiscal and tax policies to alleviate the negative after-effects.

In general, housing is not only a consumption good but also an investment asset with the potential to generate capital gains. That is, housing has the dual role of providing consumption services and being the form of capital asset in which the household puts its accumulated wealth. While the investment motive of housing capital demand becomes more important than the housing service consumption motive during a housing boom, the latter dominates the first when the market takes its downturn. So, in Chapter II we tried to figure out whether the apartment market in Seoul metropolitan area shows some sign of capital asset efficient market hypothesis. It was shown that the arbitrage condition of total returns consisting of capital appreciation and income returns holds at least in the Seoul metropolitan apartment market by comparing the sales price index series with its rental price index series during the period of years 1999 to 2011. The rental-to-sales price ratio (implying the degree of consumption goods price weight among its capital market value) tends to decline after the October 2001 when the sales price sharply climbed up, but it started to rise when the sales price was stabilized after the outbreak of GFC. It should be noted that the ratio itself was surveyed for each sample apartments independently from the denominator of the ratio, i.e., sales price.

Chapter II also explored what happened to both the sales and rental housing markets in Korea and other major advanced economies after the Global Financial Crisis in 2008. First, we made an international comparison study of housing price index movements among US, UK, Japan, and Korea before and after the GFC. We found that the volatility in housing price movements in Korea is much less than those of other major metropolitan cities in other countries. Aside from the differences in compiling the housing price index in Korea, we noted some institutional factors leading to Korea's insufficient market price adjustment after GFC. Chonsei, Korea's unique form of housing lease contract in which landlord and tenant swap house and deposit money agreeing to net-out of rent and interest payments during the lease period, can be called 'Housing Repo'. With the Chonsei's dual role of housing loan and implicit rent in mind, it is believed to have some role in preventing many distressed houses from turning into foreclosures during the housing downturn in Korea. The so-called 'under-water' houses with its owner's equity being wiped out as price falls could not easily be abandoned by the owners because he is personally liable to both the mortgage lender and the tenant. With its incomplete sales market corrections Korea is not predicted to possibly see troughs in 2012, and many households prefer the rental tenure mode of Chonsei rather than becoming home-owners. Since the two modes of Chonsei and monthly rental markets are substitutes and connected to each other, the recent high demand for Chonsei tenure led to the sharp increase in Chonsei deposit amount and also the landlord tried to convert Chonsei to monthly rental mode due to the low interest rate.

With the new view of Chonsei deposit money in mind, we emphasized the importance of neutral taxation of rental income between the two modes, and suggested some policy directions.

In Chapter III we compared the household net wealth change before and after the 2008 Financial Crisis in both the US and Korea. US Fed reinterview SCF (Survey of Consumer Finance)

data showed that the GFC was a major blow to household net wealth during the 2007 and 2009 period. More than two-thirds of Americans saw their net worth decline during the recession, suffering a median drop of 18% according to the Federal Reserve study. When we compared the 2006 and 2010 Korean Household Survey's 10,000 families' balance sheets, the average net wealth, which is defined as a household's total asset minus their debts, decreased 4.8%, while the median wealth rose 8.5%. However, the lowest (1st) and the second income quintile family group suffered 20.5% and 14.9% loss of average net wealth which is equivalent to 46 months and 14.7 months worth of current income respectively. The similar figures of 21% and 12.1% loss of median net wealth were observed for the bottom two income family groups respectively. This differential impact of GFC on household net wealth according to the family income implied the necessity of property tax relief measures towards the low-income house-owners with high debt burden. To better understand the influences of Korean families' homeownership and tenure mode on their economic positions after the GFC, we regrouped the sample households on the basis of their house-ownership and tenure mode into the following 4 sub-groups: ① single-house owning owner-occupying households, ② multi-house owning owner-occupier families, ③ renter families owning houses elsewhere, ④ renters without any house ownership. Wealthy households with high housing asset experienced a greater net wealth decline compared with Chonsei rental households with less real estate assets in their portfolio. Chonsei rental families performed the best in terms of keeping their net wealth intact. Their net wealth increased by 20%, while the owner-occupiers and the house-owners suffered 3.6% and 1.9% loss of net wealth respectively. The renters with the monthly rent contract lost 25.2% of their net wealth. Among the above 4 categories of families, two-thirds of the multi-house owning families and renters owning one house elsewhere had some form of borrowings, and the lowest two income quintile families had debt-service ratios of

more than 22%. Especially, low-income renter families owning a house elsewhere had more Chonsei deposit debts than their current occupying home's Chonsei deposit claim to the landlord, which tends to restrict their mobility.

With these findings of GFC's impact on housing market and households, we proposed the following four major tax policy recommendations: ① abolition of the burdensome housing capital taxes based on gross property valuation and progressive property taxation of the aggregated housing value on the multi-house owners, ② introduction of property tax relief measures for the low-income families like the various U.S. states' circuit-breaker programs, ③ tax incentives bestowed for the highly mortgage debt-ridden families toward their deleveraging efforts, ④ solutions to the current problem of non-neutral income taxation on the Chonsei deposit's implicit rent and monthly rent.

Studies on WTO Consistency of Tax and Fiscal Policies

Jaeho Cheung
Dukgeun Ahn

This study aims to analyze tax and fiscal policies in a broader framework so as to draw policy implications for the future implementation in a more consistent manner with the WTO Subsidy Agreement.

Government support programs can be divided into two broad categories: tax incentive programs and fiscal policies. This study reviewed various tax programs and proposed the reform actions for tax exemption on overseas dividend incomes, tax credit systems, corporation tax systems, and value added tax systems. With regard to R&D programs that is currently the most prominent government support programs, we conclude that grant or direct subsidy programs may be more effective for fundamental research activities while tax incentive programs may be more efficient and WTO consistent for “near-market” or commercial research activities. Moreover, although R&D programs need not be completely abandoned due to potential legal problems under the WTO Subsidy Agreement, the government should be aware of the lesson that excessive promotion of governmental roles in R&D policies may induce unnecessary trade conflicts with trading partners in the WTO system.

Reform Proposal on Korean Property Tax System Based on its functions

Myung-Ho Park

This study investigates reform proposals on Korean property tax system which are designed based on the main functions of property taxation. The main functions of property taxation are specified as follows: one is to finance public services by the benefit principle of taxation and the other is to improve the income redistribution. According to the analysis, the current property tax system is not aligned with these two functions. When we reconstruct the property tax system as a local tax under the benefit principle of taxation, tax rates may vary a lot among local governments because of differences in tax bases across local governments. In order to reduce local variations in the property tax rates, this study suggests the necessity of sharing tax bases among local governments at the provincial or national levels. When we reconstruct the property tax system toward improving the income redistribution function, property tax relief programs such as the "circuit breaker" are necessary because of the regressivity of the property tax. This study shows, however, that the property tax system with progressive tax rates as well as the "circuit breaker" program may improve the Gini index of income inequality a little, but much less than income tax does.

An Analysis of Determinants of Taxpayer Compliance

Myung-Ho Park
Byung-Hill Jun
Myeonghwan Cho

This paper studies the effect of a non-pecuniary factor on tax compliance behavior. As a preliminary work, we consider a model in which taxpayer's utility is affected by non-pecuniary factors as well as by the after-tax income. In this model an individual with a high level of satisfaction is shown to evade less income if the non-pecuniary component is represented by taxpayers' satisfaction level with a current system. An experiment is designed and conducted to empirically test this hypothesis. Each subject is randomly assigned to one of four subgroups. Each subgroup is characterized by a tax schedule and a way of determining a tax schedule. More specifically we consider two tax schedules (a flat tax and a progressive tax) and two ways of determining a tax schedule (a majority voting and a dictatorship). In this set-up a heterogeneous treatment in a way of determining a tax schedule is expected to cause a difference in a satisfaction level among subgroups. Results from the experiment show that on average a taxpayer tends to report more income when a tax schedule is decided by a majority voting, which agrees with our anticipation. Despite the clear answer to the effect of the majority voting, results from our experiment does not provides a unified explanation on how the majority voting improves tax compliance behavior. In some cases a majority voting seems to lessen dissatisfaction when a less preferred tax schedule is imposed while in other cases a majority voting seems to reinforce integrity when a preferred tax schedule is imposed.

Welfare Financing Policy

Byung Mok Jeon
SangWon Park

This book suggests a welfare financing policy based on current welfare expenditure, future burden, and experience of advanced countries. Korea's welfare expenditure is smaller than advanced countries's despite of individual income and tax burden adjustment. Korea shows similar income-welfare expenditure growth pattern as Japan. The pattern is not changing whether expenditure through State-Owned Entities is included. Considering the growth of income and the change of old age people share, Korea would confront significant welfare demand. Unfortunately, welfare demand cannot be met simply by increasing tax because the welfare expenditure difference is bigger than tax burden difference with other advanced countries.

Other advanced countries's financing experiences imply that social trust or national agenda can be important factors. Sweden shows that social trust can play an important role in tax increase. Joining EU system or reunification is the pivotal factor of Italy's and Germany's tax increase. Japan without them failed tax increase and suffered serious budget deficit. Foreign experiences also suggest that we need to be cautious on increase of old age expenditure during economic recession.

Efficiency, equity, and foreign experiences suggest that top priority of welfare financing policy would be individual income taxation and social security contribution. Then increase of consumption tax would be an option for efficiency and employment purpose. Additional ear-marked tax on alcohol, tobacco, and gambling for welfare would not be a strong option since we have already other ear-marked taxes and current tax level is high enough. Improving governance structure of social insurances is also important to reduce economic incentive for expenditure increase.

How to Finance Unification Costs

Joonook Choi

In spite of the importance, few studies have dealt with the issue of financing unification costs in Korea in detail. Uncertainties about the ways and timing of unification is one of the reasons to make the discussion on the issue difficult. Even though this study can not overcome the inherent difficulty, this study tries to make one step forward in the discussion the issue.

In Chapter II, we survey some of the previous studies relevant to the issue, and show the direction that should be pursued in further discussion. Chapter III lists options of financing unification costs and compare the pros and cons of each option. We also discuss whether funding before unification is necessary or rational. Chapter IV questions whether financing method should be different depending on the ways of unification. Chapter V contains more detailed discussion on the ways of financing unification costs, assuming that we unification is rather more sudden. Chpater VI summarizes the discussion.

A Study on the Fiscal Impact of Demographic Change

Hyung-soo Park
Seung Hyun Hong

This study investigates the effects of declining population and ageing society on the overall public finance in terms of economic growth, income level, labor market, consumption-saving behavior, etc. Since the demographic changes we are experiencing are naturally associated with slower growth in revenue and spending, we focus more on changes in structure rather than changes in the levels of revenues and spendings.

Two major factors that influence tax revenues are changes in the tax base and the tax system. Since change in the tax system is hard to predict, this study analyzes how future changes in the tax base will affect tax revenues, especially focusing on the qualitative changes in the diverse taxes. Both volume factors income, consumption, wealth and price factors interest rate, stock index, real estate price that affect tax revenues are considered in the analysis. Results show that demographic change will bring a higher level of income-related tax revenues, a moderately higher level of consumption-related tax revenues, but a decreasing or at least stagnant level of asset-related tax revenues.

In addition, long-term projections (until year 2050) under the current system are provided regarding major public pensions, public health insurance fund, expenditures on social safety net and public education, etc. Our results show that public pension and health insurance costs will grow faster than their revenues, becoming a major burden on future fiscal management. To cope with this problem, authors suggest that the government continue its efforts to increase tax revenues and economize spending in the future.

Impact of Aging on Elderly Health Care Expenditure in Korea

Eunbyeong Lee

This paper studies the effect of a non-pecuniary factor on tax compliance behavior. As a preliminary work, we consider a model in which taxpayer's utility is affected by non-pecuniary factors as well as by the after-tax income. In this model an individual with a high level of satisfaction is shown to evade less income if the non-pecuniary component is represented by taxpayers' satisfaction level with a current system. An experiment is designed and conducted to empirically test this hypothesis. Each subject is randomly assigned to one of four subgroups. Each subgroup is characterized by a tax schedule and a way of determining a tax schedule. More specifically we consider two tax schedules (a flat tax and a progressive tax) and two ways of determining a tax schedule (a majority voting and a dictatorship). In this set-up a heterogeneous treatment in a way of determining a tax schedule is expected to cause a difference in a satisfaction level among subgroups. Results from the experiment show that on average a taxpayer tends to report more income when a tax schedule is decided by a majority voting, which agrees with our anticipation. Despite the clear answer to the effect of the majority voting, results from our experiment does not provides a unified explanation on how the majority voting improves tax compliance behavior. In some cases a majority voting seems to lessen dissatisfaction when a less preferred tax schedule is imposed while in other cases a majority voting seems to reinforce integrity when a preferred tax schedule is imposed.

A Study on the Fiscal Risk of Public Credit Guarantee

Hosin Song
Seokjin Woo

In this paper, we investigate on the fiscal risk of public guaranteed credits with two approaches. One is done with use of aggregate data. The other is done with use of firm level data. We project how much public money will be injected into the 5 public credit guarantee agencies for 2011-2014 based on some specific scenarios as well as baseline scenario with the former approach. With the latter approach, we perform survival analysis for individual firms which have applied for credit guarantee. The results show that marginal firms which have received public guaranteed credits tend to have lower survival probability than those which have not. Moreover, we suggest how to assess the fiscal risk of public guaranteed credits using the results from the survival analysis.

A Study on the Efficiency of Welfare Program(I)

Jonghak Weon
Wonik Son
Taekyu Park
Kwang-Seok Lee

It is expected that the expenditure to social welfare service has been rapidly increased, which occupies 30% or more among the total Korean budget. The point is that the welfare budget is enormous and increasing rapidly, which leads to the speculation of the efficiency of the welfare budget. Considering the balance of budget in the policy making in the economy, the necessity of making efficient welfare administration is crucial to the universal welfare which results in expenditure increasing. Therefore the efficiency analysis of welfare projects is essential for the building of Korean-type welfare state.

The discussion on welfare efficiency can be categorized into two kinds: one is built-in-project, which derives from the difference between the people who pay welfare cost and the ones who benefit without contributing in other words free riders. The other is the inefficiency in the process of administration. The reason for noticing inefficiency in the process of administration is that even though the budget scale spending on welfare projects have increased, the welfare satisfaction has not kept up with, which is the result of inefficiency in welfare administration. Welfare administration in this research is understood as welfare delivery system. Therefore this research categorizes the efficiency of the delivery system as the one in the inter-governmental relation (i.e. central government and local governments) and as a result some projects have been privatized which were coordinated by the government previously.

This research focuses on some cases in Kyung-sangbuk-Do. It shows that on few levels such as central government, upper local government, lower local government, the front-line administrative unit prevent welfare projects from efficiency. In addition, as there is no control center in welfare projects, it is confirmed that welfare distortion occurs in the welfare administration such as leakage, welfare dependency, income conversion, etc.

In order to rectify such welfare distortion caused by problems in the delivery system, this research suggests some alternatives: firstly, there should be control center which leads to consultation among governmental departments related to welfare projects. Secondly, welfare information data base should be utilized in the welfare policy-making. In addition, in the selection of beneficiaries made by the government, the standard set should be clear and consistent. Also welfare policy monitoring system should be introduced in order to overview the estimation of the policy outcome. Finally, the personnel who deal with welfare and work in local governments should increase work force in order to reduce the so-called funnel effect.

The third part of this report deals with an efficiency of the social welfare program performed by NPO. The social welfare service performed by NPO can be classified into 8 different areas: children · adolescent, the disabled, the elderly, low birth-rate, general social welfare, health, baby · toddler care, etc. The service for the elderly has the largest proportion (32.2%) among 8 different areas. The second largest is the area of children · adolescent with 24.6%, the third largest is the area of the disabled.

The result derived from the analysis of a case study shows that the tool of contracting-out to NPO for the social welfare service has an advantage of preventing undesirable expansion of the government organizations. Another advantage of the contracting-out to NPO is to guarantee a high quality service by selecting NPO through steep competition. It is also found

that inefficiency of the social service may occur if a number of NPO is not enough to compete in the market. This type of inefficiency may not occur at the level of the wide-area local government, but it may occur at the level of the narrow-area local government due to lack of enough numbers of NPO.

A case study is performed to measure the efficiency and performance of the baby · toddler care service in Korea. The cost function for the baby · toddler care service is estimated to analyze the efficiency of the service. The connectivity between the government supports and evaluation results is also examined to evaluate the effectiveness of the evaluation system for the service. It is also confirmed that the government support for the baby · toddler care facilities has loose connectivity with the evaluation results for the facilities.

The policy recommendations are made to improve efficiency of the social service performed by NPO. The efficiency of social welfare service can be partly improved at least for the short-run by providing proper education and performance management for the facilities even if a steep competition among NPOs is not possible due to lack of enough NPOs. For the long-run, it is necessary for the central government to establish a standard evaluation system and enforce the local governments to use the evaluation results for the allocation of budget of the social welfare service to achieve the efficiency of the services.

An Analysis of Local Government Amalgamation in Korea

Junghun Kim

The size of local governments in Korea is among the largest in OECD countries. Its average population is about 170,000 whereas that of many OECD countries the average remains below 50,000. However the high demand for local government amalgamation has given rise to the creation of a special law and a special committee. This report analyzes the reason as to why political demand for amalgamation is so strong in Korea. There are two main factors behind this movement. Firstly, the elasticity of population of Korea's local public services is low as the central government is responsible for "population-elastic" public services such as social services, health, police, education, etc. Secondly, small-sized local governments in Korea-of mostly rural areas-have relatively weaker economic and fiscal resources than the city governments. Compared to similar-sized local governments in Europe and Japan, fiscal resources of local governments in Korea with population below 50,000 are almost one-fifth or one-tenth weaker than those in Europe and Japan. Ideally, the benefits of local autonomy may be greater with small-sized local governments. However, the economic reality in Korea indicates that local government amalgamation is indeed a necessary step not only for economic efficiency but also for the effectiveness of local autonomy.

Financing Structure and Pricing Mechanism of Public Enterprises

Jung S. You
Jiyoung Kim

This study provides the theoretical model for the optimal financing structure and pricing mechanism of a publicly-provided good. When a public enterprise produce a good, a government has to make two decisions. First, it determines the amount of a subsidy for the public enterprise. Then it designs the price system to cover the rest of the production cost. Under this setting, we suggest the optimal cost-sharing rule between the public enterprise and a government and the pricing mechanism which can achieve the budget balance of the public enterprise and the maximization of social welfare. Then we apply our model to the case of Korea Expressway Corporation. Korea Expressway Corporation is the public enterprise which constructs and operates the tollway in Korea. We show how our model can be used to derive the optimal price level by estimating the demand and cost function of the tollway.

The Managerial Autonomy and Performance of Public Enterprises

Jiyoung Kim
Kyongsun Heo

Managerial autonomy and accountability are two important factors for operating public enterprises. As the performance of public enterprises are more emphasized, the role of managerial autonomy becomes more important. However, there are few research or government policy on managerial autonomy of public enterprises. This study analyzes how managerial autonomy of public enterprises affects their performance efficiency. First, we review the laws and the policies which affects managerial autonomy and regulates public enterprises. Korean government exercised powerful control over public enterprises in early period. But it changed to induce the efforts and accountability of public enterprises over time. From this institutional review, we chose the variable that can be used as an index for intensity of regulation since intense regulation prevents managerial autonomy of firms. Using this index for intensity of regulation, we made an empirical analysis for the relationship between regulation and firm performance. The results show that the performance level of public enterprises tend to decrease as the intensity of regulation is stronger. Especially, managerial autonomy has negative relationship with the firm profitability and growth. We conclude that managerial autonomy should increase to improve the performance efficiency of public enterprises, and derive policy implications for expanding managerial autonomy of public enterprises.

Corporate Governance and Performance of SOEs in Korea

Kyoung Sun Heo
Young Jae Ra

Corporate governance of deals with conflicts of interests between the owners and the managers, the shareholders and the stakeholders, and customers and investors. To mitigate or prevent these conflicts of interests, various kinds of processes, customs, policies, laws, and institutions have been developed. Well-defined and enforced corporate governance provides a structure that, at least in theory, works for the benefits of both the State and the public interests by improving the strategic decision making and the accountability of the management. In recent years, corporate governance has received increased attention as it is considered as one of the critical policy intervention to increase transparency and performance of SOEs (State-Owned Enterprises).

This study assessed the current status of corporate governance of SOEs in Korea and suggested recommendations for improving corporate governance. As a result, this study confirms that the nomination and resignation process of board members, and the autonomy of the board practice are the most concerned issues regarding corporate governance of SOEs in Korea. Particularly, the functioning of non-executive board members is quite problematic even though it was allowed quite enough trial-and-error periods. This study also compared the current status of corporate governance of SOEs in Korea with OECD Guidelines on Corporate Governance of State-Owned Enterprises, which is being used worldwide as the global standard of corporate governance of SOEs. The result showed that SOEs in Korea have accepted most of the OECD guidelines. This is because the corporate governance reform in 2007 introduced many of OECD guidelines into corporate

governance of SOEs in Korea. Centralizing ownership function into Ministry of Strategy and Finance and empowering board of directors are good examples of corporate governance reform in 2007. However, issues are still remained. Clarifying ownership function, separation between ownership function and other regulation function, and the autonomy of board of directors are found still problematic. Another significant issue in corporate governance of SOEs in Korea is that the gap between the legal and regulatory frameworks for corporate governance of SOES and the way how they are working are quite large. The practices of corporate governance in the real world is not able to catch up the advancement of legal and regulatory frameworks for corporate governance reform of SOEs

This study suggests three recommendations bases on the analysis of corporate governance of SOEs in Korea. First, encouraging the function and the accountability of the board of directors is needed. Second, an action plan should be prepared in order to face the international pressure on competitive neutrality. Third, regular assessment and feedback on the practices of corporate governance should help improving the corporate governance of SOEs.

Quasi-fiscal Activities of SOEs in Korea

Joonook Choi

SOE(State-owned Enterprise)s sometimes carry out some activities that should originally be a part of government's role. Even though they have the characteristics of public finance, those activities, especially activities by SOEs with commercial nature, are often not shown in public finance data. In that sense, they are often called quasi-fiscal activities. They often incur significant impacts on the financial situation of SOEs, and may cause economy-wide influence. Nevertheless, few studies have dealt with those issues in Korea.

This study analyzes the quasi-fiscal activities by state owned enterprises. Discussion on basic concepts are followed by more detailed analysis of the financial situation of major SOEs. Because the scope of the quasi-fiscal activities by SOEs can be wide, this study focuses on one those of SOEs in the energy sector. Since the hike of oil price in 2008, government involvement in energy sector have increased in Korea, and SOEs often have become tools to achieve government policy. Even though the scope depends on how we define "quasi-fiscal activities by SOEs", this study deals with the tariff of electricity and natural gas. This study deals with the various impacts of curbing the rise in the price in spite of the rise in the input costs, and discuss alternative policy tools.

Long-term Revenue Forecasts for Income and Consumption Taxes by Generating Future Income and Consumption Tax Bases

Myung Jae Sung

This report estimates long-term revenue forecasts for personal income tax and consumption-based taxes including VAT, Excise Tax, Petroleum Tax, Liquor Tax, and Tobacco Tax, using micro data which are converted into future values. Based on future tax laws which are assumed to be indexed by GDP deflator, revenues are predicted. It is estimated that the revenue share of labor and business income tax to GDP increases until 2050 and then decreases. The decrease in revenue share in the far future is primary because the population share of the income tax payers continues to decrease as a result of low fertility rate and continued population aging. The revenue share of consumption taxes to GDP is estimated to increase until 2028 and then decrease thereafter.

To cope with this, simulation of VAT increase is conducted. VAT is assumed to increase additionally by 0.01 percentage point every year from 2030 until 2059, eventually reaching 13 percent in 2059. According to the simulation result, this gradual change in VAT rate rebounds the VAT revenue share to GDP into the slightly increasing direction. Recently, NABO (2012) also estimated long-term tax revenues from 2012 until 2060. It predicted that the GDP ratios of taxes would increase in the first several years and then start to decrease significantly afterwards. The differences in revenue forecasts between NABO and this study are basically due to the differences in estimation methods. NABO (2012) assumed that per capita real tax burdens would be fixed at current levels and then apply the future population change. To the contrary, this study allows changes in effective tax burdens induced by changes in real income and consumption in the future.

A Study on Long-term Tax Revenues

Hyung-soo Park
Myung-Ho Park
Hag-Soo Kim
Jaeho Cheung

This report provides analysis on the source of variation in VAT, personal and corporate income tax revenues. We also try to provide long-term projections. Unlike microscopic analysis in previous studies, we apply macroscopic analysis. We first break down the changes in revenue from three major taxes into tax system factor and tax base factor. Then we conduct in-depth analysis on the change in tax revenues by each factor.

Particularly, this report links analysis of change in the tax base factor to results from Park and Hong's 2011 research on change in GDP and income-consumption structure due to low fertility and aging. Finally, we make a projection on medium and long-term tax revenues in Korea, in case the current tax system is maintained.

A Study on the Introduction of FTT in Korea

Beom-Gyo Hong
Sang-Yeob Lee

Renowned economists such as John M. Keynes and James Tobin to name a few have promoted a financial transaction tax (FTT) as an effective policy tool to curb excessive speculation in financial markets. Ever since there are many academic papers and debates that discuss the pros and cons of FTT.

International efforts to introduce a FTT was intensified after the 2008 global financial crisis. In 2011, EU has proposed to impose a FTT on almost all financial transactions carried out by financial institutions. If at least one party involved is a resident of one of the EU member countries, the FTT shall be imposed on those transactions. But England, an EU member, and United States mainly have opposed to the plan, because their financial industry is the most important sector of their own economies. As a result a group of 11 EU member countries such as Germany and France has agreed to introduce a FTT on their own in Oct. 2012.

Currently, global excess liquidity due to US Quantitative Easing and ECB's Outright Monetary Transactions is threatening the stability of emerging financial markets worldwide. Korea as a small open economy is no exception in facing these precarious conditions. The volatility of foreign exchange rates and capital flows in both directions are relatively high in Korea. And the speculative trading in financial derivative markets is predominant in Korea. We have examined the validity of introducing a FTT in Korea under these unstable economic conditions.

Based on our analysis, we have concluded that a FTT can be an effective policy tool in stabilizing the foreign exchange market and financial derivative markets as well as raising

additional tax revenue. In the foreign exchange market, we have proposed a zero-rate two-tier Tobin tax. That means we do not impose the FTT in spot currency market in normal situation. Only when there is a big increase in foreign exchange rate volatility over a certain pre-set level, a high rate of FTT shall be imposed. By these scheme, we can still abide by the OECD code of liberalization of capital movements. The FTT on financial derivatives will play a key role to stabilize the Korean derivative markets. If, by any small chance, it is not effective in reducing the excessive speculative activity in financial derivative markets, it is at least a very good source of new tax revenue.

Strategy for Establishing a Link Between the Earned Income Tax Credit and Social Insurance Subsidy Program

Jae-Jin Kim
Haywon Lee

In this study, we examine policy recommendation for linking the EITC(Earned Income Tax Credit) and the “Durunuri Social Insurance Subsidy Program.” The former was first implemented in 2008 to support the workingpoor who are excluded from the social safety net, and the latter program was first introduced in July, 2012 to expand social insurance coverage to low-paid workers who are currently uncovered. The main purpose of linking these two programs is not only to relieve the financial burden of the government, but also to enhance the efficiency of both programs. In many developed countries, subsidizing social insurance contributions of low-skilled workers and the long-term unemployed is a popular policy option to increase financial incentives to work, although the effectiveness of the program differs by target, aim and coverage of the program. In general, studies find that subsidizing social insurance contribution of employers increases demand for low-skilled labor while generating substantial costs, such as deadweight loss, substitution cost and displacement effect.

In Korea, two programs with a similar purpose were implemented shortly one after the other, putting unnecessary burden on government budget. Moreover, a lack of connection between the two governing agencies-National Tax Service for the EITC and the National Health/Employment Insurance Corporation for the Durunuri Social Insurance Subsidy Program - as well as a shortage of data on benefit recipients reduces the program effectiveness, since prior social insurance coverage of the EITC recipients are unknown. As a result, a pilot project of the Durunuri program ended up

subsidizing mainly workers who are already covered by social insurance. Only 17% of the program budget were spent to expand social insurance coverage for those who are previously uncovered.

Based on our study, we expect that our policy recommendation for linking the EITC and the Durunuri Social Insurance Subsidy Program will substantially enhance program efficiency as well as economic efficiency, since there will be substantial cost savings from cutting down financial resources that are currently wasted on overlapping programs. In addition, data sharing between the National Tax Service and the National Health/Employment Insurance Corporation will considerably improve the targeting of the social insurance subsidy program to effectively achieve its original aim of expanding social insurance coverage to previously uncovered workers and strengthen social safety net protection for EITC recipients. Our policy recommendation coincides with the principle of government paternalism which posits that the government is responsible for providing social insurance for the best interest of its people. Above all, we expect that our policy recommendation would guarantee a stable life for the workingpoor by providing a firm safety net that would protect them from various social risks they could encounter in their future lives.

A Study on Fundamental Reform of Corporate Income Tax in Korea

Jongseok An
Sung Tai Kim

There are many discussions and researches on fundamental reform of corporate income tax in European countries, and some of them introduced new systems like cash flow tax system and ACE(Allowance of Corporate Equity). Also in the U.S., there are discussions on reforming corporate income tax into CBIT(Comprehensive Business Income Tax). However, in Korea, researchers and policy makers did not pay much attention on this issue yet.

In this report, we examined fundamental reform of corporate income tax in Korea. Firstly, we investigated trends of corporate income tax system in OECD countries and the reasons why the fundamental reform became an important issue. We also discussed the reasons why we have to consider the fundamental reform in Korea

Secondly, we reviewed literature on cash flow tax system, ACE, and CBIT. We discussed theoretical issues, precedent cases of reforms, and evaluations of previous or hypothetical reforms.

Lastly, we studied on the introduction of ACE and CBIT in Korea. We investigated changes in tax revenue and the revenue-neutral tax rates in new systems. We also estimated expected effects of ACE and CBIT on investment, GDP, employment, and welfare through dynamic CGE model for Korean Economy.

Harmonization of Carbon Tax and Energy Taxes

Byung Mok Jeon
Myung Jae Sung
Young Jun Chun

This study analyzes carbon tax issues from effectiveness of tax changes to economic effect of carbon taxation. Industry and household energy demands show moderate responsiveness on price change. Especially, current deterioration of energy intensity of industry sector was significantly affected by price decrease. Considering the European experiences on carbon tax, we need to increase horizontal equity of energy taxation. Before the implementation of carbon emission trading system, taxation on coal and electricity should be strengthened since they are exempted from current energy taxation. This will be the 1st step of carbon taxation. 2nd step should be coordinated taxation with emission trading system. 2nd step would impose carbon tax on sectors that are not included on carbon trading system. EU ETS(Emission Trading System) price will be a good proxy for the carbon taxation level. We consider multiple taxation levels based on EU ETS price and income difference between EU and Korea. Computable general equilibrium model is used for simulation. The results show that GDP level would be lower under carbon tax. However, in the long run, carbon tax would stimulate growth and attain higher GDP level. For the revenue recycling aspects, investment on R&D activity shows higher GDP level than household subsidy scheme.

Net Wealth Tax and Aggregated Real Estate Tax in Korea

Younghoon Ro

This study compares the genuine net wealth tax and the Korean Aggregated Real Estate Tax, and assess the revenue and distributional effects of substituting the current one for various version of net wealth tax by micro-simulation of 10,000 or more sample household data.

Chapter II explores the proto-type concept of net wealth tax extracting the core elements from the various forms of wealth taxes implemented in European countries from early 1900. We defined it as 'national (or state level) personal, recurrent (annual) tax levied on household net wealth'. In this sense, Korean Aggregate Real Estate tax which was introduced 2005 after adding housing asset to existing Aggregated Land Tax can be labeled as 'gross wealth tax imposed only on real estate asset'.

In Chapter III we surveyed the net wealth tax experiences in European countries, and found out that the tax was introduced with the aim of complementing loopholes in individual income tax policy and administration. With the capital gains and capital income flows from the individual households various portfolio holdings not fully disclosed to the taxing authority, introducing a low-rate net wealth tax together with reducing the progressivity of personal income tax rate schedule would bring more tax revenue and less distortion. Especially, ISF (Impôt de Solidarité sur la Fortune) which is the French version of net wealth, had the unique feature of reducing the liquidity problem by setting ceiling requiring not to exceed 50% of taxpayer's annual income.

In Chapter IV we estimated the current housing tax burden in Korea, and examined the distributional effects of both

local property tax and national Aggregated Real Estate Tax. With the rich information on 2011 Korean Household Survey's 10,517 families' income and wealth, we calculated the average net wealth, household current income before tax, recurrent housing wealth tax, and examined the regressivity of local property tax and progressivity of national Aggregated Real Estate Tax. When we measured the progressivity through the Suits' index for both taxes, we found the former to be -0.10 and the latter 0.21.

Finally, we explored the feasibility of substituting current housing wealth tax for genuine net wealth tax in Korea by expanding taxable assets and deducting liabilities. When we examined the various alternatives of Korean net wealth versions, most of them produced more revenues with better distributional effects.

However, as witnessed in many European net wealth tax abolishment cases in 1990s, the successful implementation requires careful design handling the liquidity problem and mark-to-market valuation together with the reform of the related capital taxes like local property tax and capital gains tax.

Linkage of the Medium Term Fiscal Frameworks of the Central and Local Governments

Junghun Kim

The size of local expenditures is larger than that of the central government expenditures in Korea. To enhance the efficiency and stability of national fiscal policy, the linkage of the medium term fiscal frameworks of the central and local governments is investigated. The most desirable way seems to adopt a nation-wide medium term fiscal framework by which the total sizes of government revenues, intergovernmental grants, and budget balances are projected and planned. Especially, the sizes of intergovernmental grants which are currently fixed by law need to be determined within a medium term fiscal framework. It is also important to enhance the coordination capacity of ministries which are responsible for the medium term fiscal frameworks of the central and local governments.

Graduating during the Recession and Its Medium-term Implications on Public Finance

Seung Hyun Hong
Jonghak Weon

The recent global crisis had a significant impact on the labor markets, especially the youth labor markets. OECD(2012a) points out that disproportionately large numbers of young people suffered job losses during the crisis, leading to a 3%p drop in the average employment rate and a 4.5%p increase in the average unemployment rate of the youth labor markets in OECD member countries between 2007 and 2009. Although Korea fared relatively well in terms of major indices, youth labor market issues have long been at the center of government labor market policy targets. As the employment rate and the unemployment rate among youth show steady downward trends, there has been a growing concern over possible productivity, potential growth slowdown and associated society-wide cost increases.

This study examines Korean youth labor market problems from a macroeconomic point of view, which is the main difference from the existing youth labor market studies, and assesses the possible medium-term fiscal implications of the recession stricken youth labor market. Economic downturns usually reduce job openings and increase unemployment rates. Finding a new job or keeping the existing position is difficult for everyone but it can be particularly hard for young workers, who face less job opportunities with higher levels of competition during recessions. In addition, there is a scarring/stigma effect for young workers. The temporary negative labor market situation can have a long-term negative impact on one's labor market experience.

The scarring effects pose additional negative risks for young workers who graduated during the recession. To reduce

possible negative scarring effects, one who faces higher competition and less opportunities upon graduation may choose to be under-employed or to continue on to higher education, waiting for economic upturn. With reduced economic activities, the automatic stabilizer begins to work and the government revenues tend to reduce with smaller personal income tax, consumption tax, social security contributions, etc. At the same time, government spending needs tend to increase with more unemployment benefit requests and more labor market policies. Again, the problem of the youth labor market is that the temporary negative shock can have a negative fiscal impact for an extended period of time.

Focusing on male college graduates during the recession(1998) and the booms(1995, 2002), this study finds the differences in employment and wage rates among different cohort groups and their fiscal implications. Those who graduated during the recession tend to have a shorter tenure in the early years of work experience, to suffer negative wage shock in the beginning which takes about 5 years to catch up, and to experience significantly negative employment shock which takes about 3 years to disappear. With negative wage shock, the expected revenue decrease from an individual graduating during the recession is approximately USD 60.

This study finds that those who graduate during a recession suffer from uncontrollable external shock and the risks of scarring effects tend to extend their negative impact for a longer-period of time. Although the government has been using many labor market policy measures, special attention is needed to reduce the sustained negative impact of the early labor market experience.

An Analysis of Spending Programs' Performance and Its Policy Implications

No-Wook Park
Jonghak Weon

This study is carried out to identify policy issues of spending programs in the Korean government, in an effort to improve their efficiency and effectiveness. This study analyzes the assessment results from spending review process in the Korean government. The statistical analysis is conducted to examine whether the characteristics of spending programs affects the assessment results. The characteristics of programs are classified based on the funding method, policy areas, budget size, program history and implementing organizations. This study finds the following. (1) Programs implemented by the central government perform better than those by local governments or private organizations. (2) Social welfare programs perform worse than other programs. (3) Programs with big budget perform better than those with small budget. (4) Programs implemented by agencies perform better than those by ministries. (5) Mandatory spending programs perform worse than discretionary programs.

Policy implications from these findings are the following. (1) Service delivery process should be improved. (2) More efforts should be given to the management improvement of rapidly expanding social welfare programs. (3) Proper investment to performance management tends to improve programs' performance. (4) Organizational culture affects programs' performance. (5) More scrutiny should be given to the management of mandatory programs, since its demand projections are often overestimated and service delivery processes are not well-designed.

A Study on Evaluation System of Conditional Grants

Junghun Kim
Dongsung Kong

It has been two years since a system of evaluation of conditional grants was introduced. This evaluation system has contributed to curbing the growth of conditional grants and reducing inefficient programs. However, since it is at the beginning stage, it has several improvements to make it a more successful system. Among other things, specific explanation of types and performance management guidelines of conditional grants in relevant laws and regulations will significantly improve the effectiveness and objectivity of the evaluation system. An early start and an ex post analysis of the evaluation will also enhance the evaluation system.

A Study on Central and Sub-national Fiscal Share in Social Expenditure

Hyun-A Kim

This paper tries to investigate the intergovernmental fiscal share in social expenditure in Korea. This paper considers two things may be pre-requisite for the reform of intergovernmental fiscal share. To clarify the issue clearly, this paper starts with the classification of Social expenditure data between central and sub-national governments. The results confirm that current fiscal share in social expenditure(SOCX and COFOG) between central and sub-national governments would be in range among OECD countries. The other thing is to investigate that "flexible fiscal share" in major projects should be expanded to all projects in sub-national level. The comprehensive analysis is explained by the relation of the population and intergovernmental transfer. According to DID(difference in difference) empirical analysis, "flexible fiscal share" policy does not play a significant role on fiscal efficiency in sub-national level. As a result, there is no clear evidence that current fiscal share in central level should be risen. And, the reform of intergovernmental transfer. Intuitively, the contribution of the paper is to connect the relationship between population distribution and intergovernmental fiscal transfer. Academic contribution is that DID analysis attempts to find main results on central and sub-national level by using sub-national data.

Policy Proposal to Improve the Efficiency of Government Expenditure Through Non-profit Organizations(NPOs) in the Culture and Arts Sector

Wonik Son
Taekyu Park

This study examines flows and paths of the government expenditures in the field of culture and arts. A proportion of the government expenditures spent through NPO (non-profit organization) has been increasing over time in most countries including Korea. The government expenditures are distributed to NPO in the form of the government grant. NPOs in Korea spent almost 17.2% of total government grants in the field of culture and arts in 2010.

The case studies on NPOs in the field of culture and arts were performed to find out any problems related to the government grants. We found that the goal of government spending policy needs to be more clear and action plans also need to be designed for the goal to improve the efficiency of government spendings.

We performed an efficiency analysis on the expenditures spent through NPOs. For this analysis we used the survey data derived by the survey for "Arts Council Korea" and for consumers of arts services performed by NPOs. Our analysis pointed out some problems need to be corrected to derive more objective and trustable survey results. It is recommended, for example, that the survey for "Arts Council Korea" should be performed not only for NPOs which are successful in getting the government grants, but also for NPOs which are not successful. More recommendations were made on designing questions of the surveys.

The DEA (Data Envelope Analysis) was also done to examine the relative efficiency of NPOs. We could find interesting

results regarding quantitative and relative efficiency of NPOs within the same genre of arts. It is also recommended that NPOs need to be obliged to provide the same information regarding their services and financial statement to accumulate more objective data for further analysis.

Government Support for Tertiary Education

Jongseok An
Byung Mok Jeon
Jin Young Kim
Young Lee

In Recent years, government support for tertiary became an important issue in Korea. Most of the government support for education is focused on the primary and the secondary education. The tertiary education got only small portion of government support. Therefore, most of the education costs are covered by tuition. In Korea, The share of tuition in total education costs is 80%, while the shares of government support are 80% in other advanced countries on average.

Thus student associations and a group of researchers and politicians argue that the government has to increase its support and thereby reduce tuition by half. At the same time, there is another group of researchers and politicians arguing that cutting marginal cost of tertiary education is not a good policy. Reducing marginal cost of education may increase demand and supporting college graduate through tax may results in regressive redistribution.

This report investigates current government support for tertiary education, examines the rationale for government support, estimates the demand function for tertiary education, compares various methods to support tertiary education based on efficiency and equity criteria, and evaluate the volume of current support compared to other countries. Based on these investigations and examinations, we discuss policy directions.

Fiscal Institutions and Fiscal Management in Korea

Hyung-soo Park
Deockhyun Ryu
No-Wook Park
Ehung Gi Baek
Seung Hyun Hong

It has been almost 10 years since Korean fiscal management system changed greatly as the government initiated four major fiscal reforms including Mid-term Fiscal Management Plan, Top-down Budgeting System, Performance Budgeting, and Digital Budget and Accounting System. While many previous researches focused on suggesting improvement plans for individual fiscal institutions and fiscal management systems, almost no research has provided comprehensive evaluation on all four fiscal reforms with objective and critical analysis.

This study suggests substantive improvement plans from critical point of view by analyzing domestic and foreign researches and collecting diverse opinions through written inquiries and in-depth interviews, by dividing the research focus into four topics including medium and long-term fiscal management, budget formulation procedures and decision making, evaluation and feedback on fiscal programs, and fiscal information management and disclosures. It also concentrates on providing analyses and policy alternatives on a large framework, instead of in a detailed or a minute fashion. Furthermore, this study cross-references the results on each topic and suggests ways to improve the fiscal system by reflecting links between the elements comprising fiscal institution and fiscal management system.

Program Budgeting in Public Institutions

Kyongsun Heo
Jiyoung Kim
No-Wook Park

The debt of public institutions has rapidly increased in recent years, causing pressure on the government which is responsible for the debt. Particularly, a significant portion of the debt of public institutions was accumulated in the process that they delivered public policies on behalf of government. As a solution to clarify what causes the increase of the debt of public institutions and to figure out who is accountable for the financial results, separate accounting and program budgeting are getting more attentions.

This research aims to understand the issues of current budgeting system and suggest directions for improving current budgeting system in public institutions. To achieve the research objectives, we conducted the survey on current budgeting system from all of 288 public institutions in Korea and examined five case studies on program budgeting from government and public institutions. The survey results show that 105 out of 288 public institutions (36.5%) have already adopted program budgeting. However, the levels of the program budgeting in the public institutions are quite different. To explore more the level issue of program budgeting, we analyzed the budgetary documents of 93 public institutions of the year 2012 and found out that only 18.3% of them implemented program budgeting for the whole area of business using the well-designed hierarchical program structure. Majority of them (60.2%) are implementing program budgeting at the very superficial level. The rest of them (21.5%) are considered practically not having any program budgeting system. Since the financial information from these various budgeting systems are not standardized at all, it is

hard to use the information in the decision making process.

Based on those results, we conclude that the top priority of budget reform of public institutions is to produce reliable and comparable budget information in detail. In a long term perspective, program budgeting and separate accounting could be the solutions for enhancing transparency and accountability of budgeting in public institutions. However, it should be noted that, considering current status of budget system in public institutions, it is not feasible to apply uniform program budgeting to all the public institutions at the same time. Therefore, a step-by-step approach is more appropriate when applying program budgeting to the public institutions. Also, alternative solutions which are applicable in a short term should be considered as the mediate for the program budgeting and separate accounting.

Potential Risks in the Liabilities of the Public Institutions and the Policy Response

Jin Park
 Joonook Choi
 Jin Hee Park
 Jiyoung Kim
 Kyoungsun Heo

Korea shows relatively low government debt/GDP ratio of 38% as of 2011. However, it should be noted that such a low ratio does not include the debt by the 288 public corporations of which aggregated liability amounts to 36% of GDP. The top 7 in the high debtors' list take up 95% of the total, and they are: Land & Housing (LH), Electricity (KEPCO), Gas (KOGAS), Expressway (KEC), Water Resource (K-Water), Oil (KNOC), and Railway (KORAIL).

The 'most risky' financial statement is found in KEPCO. Though the second in the volume, it shows negative operating profits 4 years in a row. The next 'very risky' one is KORAIL which is enjoying transient positive profit. The biggest debtor LH taking up 41% of the total liabilities by public corporations, is surprisingly categorized to the 'risky', not 'very risky' because it shows interest coverage ratio of 610%, the highest among the top 7 debtors. KOGAS and KNOC are also in the league of the 'risky' followed by K-Water and Expressway in the 'potentially risky' group.

The liability of public corporations is a result of two types of collusion by three parties: the government, public corporations, and the citizen. The first type is public projects conducted by the debt of public corporations not by the government budget, which enables the government to enjoy low debt/GDP ratio. The public corporations do not mind these debt-ridden projects because it will expand their political power and staffs' promotion opportunity. The citizen look forward to those projects because they will be beneficiaries. The second type of collusion is low public utility rate such as electricity, water, gas, toll fee etc, which is of course very

welcomed by the citizen. The government enjoys low inflation rate and consequential favorable approval rating by the citizen. The public corporation accepts the regulated price level partly by the government pressure and partly by the belief that the low rate will put more distance to the privatization.

The background of the debt problem is the three party collusion through which both the government and the citizen seek its own benefit without paying the cost. This unpaid cost is eventually shifted to the next generation as a form of debt. The government should finance the public projects by the budget not by the debt of public corporations. The citizen also should be ready to pay a utility rate that can recover the costs. Of course, the public corporations should do their homework by innovating themselves to be more efficient. To solve the debt problem, all three parties should change.

Diversification of Employment Policies & Current Status and Direction of Personnel Management in Public Institutions

Hanjun Park
Youngjae Ra
Yoonjik Cho

While the repeated global financial and economic crisis increased the uncertainty of business environment, the labor market continued to tighten and the unemployment has become the most serious social problem. To create more jobs for youth and improve working conditions for female workers, the Korean government has recently pressed public institutions to adopt three major initiatives: internship, high school graduate recruitment, and flexible workplace. This paper examined how such initiatives have been introduced and measured how public institution workers perceived the utility and limitation of each initiative. The policy implications identified in this study can be summarized as follows.

First, the intern workforce often placed complaints about the difficulties of translation into a full-time position. Since the size of new recruits is limited, the translation into a full-timer is hardly possible to public institution interns. In addition, the irregularities of task assignments also caused complaints and conflicts in their performance evaluation. These indicated that public institutions have recruited and managed the youth interns without any personnel planning.

Second, public institutions significantly contribute to the employment culture transformation by recruiting more high school graduates. However, many of them have been employed to meet the request from government not the internal needs. In order to vitalize the recruitment of high school graduates, public institutions should analyze the value of individual tasks and try to place a right person on

each position because over-qualified candidates often lose their work-motivation when they are assigned to simple tasks. Although such recruitment policy emphasizes their social responsibilities, the public institutions are able to autonomically determine the recruitment size of high school graduate workers to strategically match this workforce and organizational tasks.

Third, public institutions are now working on adopting flexible workplace to help employees to balance their jobs and family duties. However, this study found that there are some obstacles against the spread of flexible work. Many young, woman, and unmarried respondents complained that they were hesitated to enjoy the benefit flexible workplace because of conservative organizational culture.

All youth internship, high school graduate recruitment, and flexible workplace were introduced to strengthen social responsibilities of public institutions. However, this study suggests that the successful diffusion of such initiatives depends on the balance strategic human resource management and social responsibilities. When public institutions can manage youth intern, high school graduates, and flexible workplace as a means of leverage to improve their work motivation and performance, the institutions will be truly able to serve the public interests.

A Study on Government Size and Tax Structure

Jongseok An
Joonok Choi

This study investigates factors that determine tax burden ratio including social security contributions. It uses OECD data and tries to investigate the effects of each factors such as income level, openness, share of sole proprietorship, aging, geographical location, political system, and others. And it concludes that aging and several other factors, especially geographical location and political system are important to explain the differences of tax burden ratios of OECD countries. And it says that there are three reasons why Korea has a lower tax burden ratio compared to other OECD countries: the level of aging is still lower in Korea than in many other OECD countries; Korea is a non-European country; and Korea has a presidential system.

This study also examines the relationship between tax structure and the tax burden ratio. Tax structure could be considered as a supply side factor that affect tax burden ratio because a country with more efficient tax structure might increase tax burden ratio with less cost. This study tries to test the following three hypothesis: (1) increasing tax efficiency increases tax burden ratio; (2) efficient taxes are used to substitute other taxes; (3) when a government has to increase tax revenue because of a non-tax reason, it prefers to increase efficient taxes to others. This study tests these hypothesis using panel data of OECD countries from 1995 to 2008. It estimates a simultaneous equation system that consists of four equations that explain total tax revenue, personal income tax share, corporate income tax share, and VAT share.

Future Developments for Value Added Policy in Korea

Sunghoon Hong
Myung Jae Sung

Value Added Tax (VAT) is an important source of tax revenue for governments in a number of countries including South Korea. Moreover, in principle, VAT is levied on all the transactions that generate value. Therefore, the specification of VAT policy influences all sectors, such as households, firms, and governments. The purpose of this report is to understand the strength and weakness of VAT policy in South Korea through cross-country comparative studies and micro-simulation analyses. This report also aims to provide a discussion on future developments for VAT Policy in South Korea.

Income Shifting Between Personal and Corporate Income Tax Bases

Byung Mok Jeon

This study analyzes income shifting between personal and corporate tax bases. Though two taxes are the same sort/type of taxes on income, they are treated as a completely different tax in researches and policy discussions. I test the possibility of income shifting between those two taxes. According to the tax laws, the Korean government gives tax favor to wage-dividend mixed remuneration over pure non-corporate business income, dividends, and pure wage once the income exceeds 100 million Korean won. If the income is less than 100 million Korean won, no type of remuneration dominates. Using Workplace Panel Survey data, I test income shifting hypothesis implied by tax laws. According to the results, I can find asset shifting between personal and corporate tax bases. As the tax rate difference between two taxes increases 1 percent point, the asset of owner-manager firms increases 2.89%.

Firm Characteristics and Effective Corporate Tax Rates

Hag-Soo Kim

Some politicians are proposing more corporate tax burden in order to reduce budget deficits and finance the increasing social welfare expenditures. It is also argued that a few extremely well performing firms should be taxed more heavily since they are charged only the average effective corporate tax rates similar to or slightly lower than those of small and medium size firms. The discussion of horizontal and vertical tax burdens should be based on objective and reliable current distribution of tax burdens. This study presents the distribution of corporate tax burdens by focusing on the average effective tax rates based on various firm characteristics such as the corporate type, the firm size, industry, location, and so on, using data from Statistical Yearbook of National Tax and financial statements of individual firms that are open to the public. In order to study the validity of effective tax rates measured from financial statements, we analyze the size of errors by comparing to those measured from Statistical Yearbook of National Tax. We also study what determines the effective tax rates using firm level data and how responsive investment and employment are responsive to the changes in effective tax rates using industry level data.

A Study on the Reform of Financial Income Tax System in Korea

Beom-Gyo Hong
Sang-Yeob Lee

Currently, in Korea, only interest income and dividend income are defined as financial income by tax law. They are subject to financial income tax separately or globally depending on the total amount of financial income. But capital gains in general are not taxed, except capital gains from real estate transactions. Under this system, maintaining consistency in the tax treatment among different financial incomes from various sources is quite difficult.

Therefore improving the current financial income tax system demands a new concept, called 'Financial Investment Income.' Financial investment income includes all kinds of returns from financial investments. It also covers interests and dividend incomes. In those countries where financial income is taxed comprehensively, this is not a new concept. However, it is desirable to introduce this new concept in Korea, because our financial income is defined as interest and dividend income only by current tax law.

We propose a three stage approach to the reform of financial income tax system in Korea. In the first stage, capital gains tax should be introduced so that we can reduce the chances for tax arbitrage. Because capital gains from financial transactions are not taxed, taxpayers often change the type of income so that they can save taxes. It should be introduced as a classified income in the beginning in order to ease the tax burden of this new tax.

In the second stage, all financial incomes should be combined and taxed as financial investment income. If the financial investment income is below 20 million won, it would be taxed separately. If the income is at or over 20 million won, it would

be combined with other incomes such as salary, business income, etc and taxed progressively.

In the third and final stage, we have to choose between two alternatives: various types of dual income tax system or comprehensive income tax system. Considering international movement of capital, dual income tax has a merit in terms of efficiency. While in terms of equity, comprehensive income tax system is a better alternative. Like the perennial economic debate on the choice between growth vs distribution, the last choice of tax policy on financial income shall depend on the consensus of our society.

Utilization of Antidumping and Countervailing Duty Investigations in the FTA Era

Jaeho Cheung
Jaemin Lee

The network of Free Trade Agreements is being rapidly established globally. To some extent, the multilateral trade regime has been weakened and bilateral/regional preferential agreement has taken the place. Korea is no exception. As of December 2013, Korea has concluded nine FTAs and completed negotiations for two FTAs with many more being on the way including the one with China. As the market liberalization accelerates and market penetration by foreign import products increases, the importance of trade remedy law is getting new attention, as this is the only available legal tool to address foreign unfair trade. As much as the tariff rates have been eliminated, thereby exposing domestic markets to the surge of imported products from FTA partners, the trade remedy measures have become much more important. As such, almost all FTAs include provisions relating to trade remedy measures that usually guarantee virtually unfettered utilization of trade remedy laws within the confinement of the WTO Antidumping Agreement, SCM Agreement and Safeguards Agreement.

Korea is also undergoing a similar transition period. As FTAs with our major trading partners have been concluded, products from these countries will continue to increase in all key economic sectors in the years to come. Of course, many of the imports will constitute fair trade products which should be permitted to take full advantage of the FTAs. At the same time, however, it is also likely that foreign exporters attempt to engage in unfair trade practices - most notably dumping activities and subsidization by their home governments. If these imports are left unchallenged, the legitimate interest

of the domestic industries of Korea will be seriously harmed in the FTA era. Thus, it is critical that Korea undertakes active antidumping and countervailing duty investigations in the future so as to exercise its legitimate rights provided in the FTAs and to protect the interest of the domestic industries of Korea. The active utilization of antidumping and countervailing duty investigations by Korea also requires adjustment of relevant laws and regulations and enhancement of resources for the Korea Trade Commission, an investigating authority of Korea for trade remedy measures.

With this in mind, this report aims to provide new suggestions to achieve the objective - the laws and regulations to be adjusted, key policy decisions to be made, and practical consideration factors to be taken into account. For instance, the Customs Law and Enforcement Decree which provide a statutory framework for antidumping and countervailing investigations need to be amended to reflect new elements of the FTA provisions and to facilitate the investigations by the KTC. The presently bifurcated structure of decision making process between the KTC and the Ministry of Strategy and Finance also needs to be recalibrated so as to respond to the investigation needs in an effective manner and to streamline decision making process. As it currently stands, it is not entirely clear which agency is responsible for actual investigations, complicating the preparatory work for future trade remedy enforcement mechanism in Korea. In any event, it is critical that sufficient financial and human resources be provided to the KTC so that it can implement these new tasks in the FTA era, keeping up with the counterparts from major trading partners such as the United States, EU and China.

Antidumping and countervailing duty investigations have been important subjects for the Korean government and companies for a long time - as a hurdle for exports of Korean products. Now these investigations have become all the more important to identify and deter foreign dumping and subsidization activities directed at the Korean market of the FTA era.

On the Role of Housing Transfer Tax in Korean Housing Market

Younghoon Ro

Korean government's move to lessen the 'Acquisition Tax'-a provincial tax accounting for almost 26% of the total local tax-dates back to the year 2005. Underlying motivation at the time was to stabilize the housing price inflation by increasing the property tax burden while reducing the transaction tax burden. Now, after the 2008 global financial crisis Korea, is no exception to suffering the housing market recession, and the government tries to curb the ongoing house price decline and stimulate renters' home purchase demand by cutting back the housing acquisition tax burden by half and exempting the future capital gains for 5 years.

However, due to the local major revenue source of the 'Acquisition tax', the repeated temporary 50% housing transfer tax reductions caused two types of policy debate. First, provincial governments, especially those of major metropolitan cities suffering from tax revenue loss, are not cooperative to the central government's initiation to stimulate the sale volume by rate cutting unless the tax revenue loss is fully compensated by intergovernmental grants. We focus on whether the transfer tax reduction induces more sales transactions. Second, the simultaneous "price-notch" and "time-notch" problem created by government's differential transfer tax rate treatment towards high-priced house sales and preferential tax treatment only on sales transacted during certain periods involves the discontinuous jump in tax liability. We address some of economic inefficiency issues following these notch problems.

The traditional user-cost-of-capital framework, which has been used to study the impact of housing-related taxes

on housing investment and prices, does not incorporate the housing transfer tax in the model. The reason is that the framework sets the rental rate of housing equal to the ongoing costs of homeownership, including after-tax mortgage interest and property taxes, the opportunity cost of housing equity and maintenance, minus the expected after-tax real housing price appreciation. Local property tax levied recurrently during holding period and capital gains tax imposed upon alienation are the main factors in the housing market price and transactions. Compared to capital gains taxes and property taxes, transfer taxes based on a house's selling price have received relatively little attention in the economics literature therefore, we focus on learning about the sales market participants' behavioral change in response to the change in housing transfer tax. In other words, we try to measure the 'lock-in' effect by estimating the (quarterly) sales volume elasticity with respect to transaction tax rate.

But, in real world, transaction costs take much higher share of price since they include transaction taxes, front-end costs (loan origination costs, title charges, realtor fees etc.), and back-end costs (realtor and legal fees, deed transfer tax etc.).

This study uses both aggregated sales volume data during the period of 1998-2012 and 8.6 million individual sales price report data after 2006 to examine the lock-in effect of housing transfer tax changes. Major findings are as follows:

First, it is important to determine the slowness of existing housing market in comparison to the future housing market by noting the relative importance of reconstruction activity during downturn market. In Korea, entering into the forward contract to buy future apartment building (this reads more like buying an ENTIRE building; I'd advise you to change it to something like 'buying a unit at a future apartment building' or 'buying a future apartment building unit') to be completed in 2 to 3 years at present prices is quite prevalent. This kind of future transaction tends to increase during housing market downturn.

Second, the degree of sales fluctuation depends significantly

on the choice of time period unit: month, quarter, and year. For example, monthly coefficient of variation is 32.4, which is larger than the quarterly one of 27.6. Also, the choice of base year is so important that using the housing peak year 2006 as the baseline year due to the data availability might lead to overestimation of the lock-in effect.

Third, we confirm that there exist both time and price notch effects since 2011. As the prior temporary Acquisition tax rate reduction measures taken place between 2006 and 2010 had been repeatedly extended and the rate was uniform, there were no notch effects.

Four, we extended the empirical data analysis period as early as 1998 to estimate the quarterly sales elasticity with respect to housing transfer tax rate. We obtained the estimates of 0.4~0.5 and 0.2~0.3 between 1998 to 2012 and between 2006 to 2012, respectively. All the estimate results are significant with less than 1% critical level. Therefore, if other things being equal, the transfer tax rate reduction does not automatically translate into the proportional decrease of the tax proceeds because it causes some - even if small - increase in sale transactions.

Five, international comparison studies showed that housing transfer taxes varied among major metropolitan cities in terms of effective tax rates, local versus state tax structures, and the relative importance of the total transaction cost. Overall effective tax rate is less than 1% of the sales price.

Lastly, Korean government decided in December to reduce the local housing transfer tax by half with the intergovernmental arrangement of compensating the loss by increasing the local portion of national VAT proceeds. Considering the desirable feature of 'accountability of local tax' much needed in Korea, the exchange of local housing transfer tax with other national tax would be a better idea in future tax reform.

Fundamental Policy Recommendation for the Governance System of Non-profit Organizations

Wonik Son
Taekyu Park

This study examines the current governance system for non-profit organization(NPO). The procedure of establishment for NPO, the scheme for evaluating the level of public benefit and the surveillance systems are reviewed. To this end, the governance systems of the United States, Japan and the United Kingdom are compared with the current system of Korea.

Several problems for the current governance system are pointed out. First, it is very difficult to get a permission to establish NPO. Second, the government does not have proper monitoring system for transparency, accountability, and expertise. NPOs in Korea have a hard time receiving donations from the private sector due to the lack of transparency. Third, the public interest activities by NPOs are limited to fixed fields because in Korea, NPOs are not allowed to work on fields other than those registered by ministry. Finally, a objective and trustworthy testing system is not working yet for evaluating NPOs for their contribution to the public benefit.

To this end, the establishment of NPO needs to be eased while a objective and trustworthy testing system needs to be established in order to evaluate NPOs for the level of public benefit. It is recommended that a new organization similar to Charity Commission of the U.K. needs to be established for the integrated management of all the tasks associated with NPOs. In order for the new organization to be independent of the ministries, the new organization should be under the office of either the president or the prime minister.

On Improving Budget System Laws for Fiscal Soundness

John M. Kim
Seung Hyun Hong

We aim to identify what are the crucial features of budget systems that matter for fiscal soundness, and what are the factors that determine whether a particular system will be able to perform as originally designed. As such factors, we focus on the legal system, political system and phase of socioeconomic development of a society.

Specifically, we carry out case studies of 4 Southeast Asian countries: the Philippines, Thailand, Indonesia and Singapore. As relatively unfamiliar countries to the Korean audience, we devote additional attention to their historical, political and legal environment. Examined in this study as well are the familiar cases of the US budget system and the EU's New Fiscal Compact, in which we retain a closer focus on budget system laws and fiscal rules.

Legal systems and budget laws per se were found to have limited influence on fiscal outcomes. Rather than any specific features or clauses, it is the combination of such legal elements with other institutional features (political, administrative, or social) that is crucial. Of special importance is the manner in which political systems can influence the incentives of decision makers — effective budget systems would be those that ensure that, for the overall institutional background given, their design safeguards the centralization of budgeting decisions.

Our analysis of political and socioeconomic factors identifies democracy, in particular, the principle of checks and balances as the crucial factor for budgetary performance. Applying this insight to the Korean institutional environment, we find that the current constitutional features such as budget formulation

by the executive, restriction on increases by the legislature, and power of the legislature to reduce the government's budget proposal are in fact ideal for purposes of safeguarding fiscal soundness. Recent proposals to amend such features in favor of the legislature would run the risk of undermining fiscal probity.

A Study on Political Factors in Government Spending on Agriculture

So Yeong Lim
Songsoo Lim

This study addresses political factors in governmental budgeting, with emphasis on agriculture. The share of agriculture in the course of economic development has been decreasing in terms of employment and production. Meanwhile, spending on agriculture and rural population has maintained a quite large proportion relative to the economic importance. It has long been a question among researchers why farmers are protected in advanced economies while they are exploited in under-developed countries. This study focuses on the role of farmers association and politicians as interest groups seeking rent or maximizing political support. This study conducted surveys among different types of farmers association to evaluate the cost of organization and their political outcomes. The survey shows that farmers associations are not advantageous in terms of human and financial resources. Moreover, though existing studies on interest groups imply that geographic concentration is a contributor to organization of associations due to reduced cost of transportation, it does not apply in Korea since the country is too small and has well developed transportation and communication so that geographic factor does not significantly affect the activity and outcome of farmers association. Even though farmers union has been successful in obtaining political attention and affecting policy through demonstration to some extent, most farmers associations are likely to choose modest ways to appeal their interest.

Politicians are found to be supportive of agriculture regardless of their political base. That is, politicians who do not have any interest in rural regions also show favoritism

to agriculture and rural population in legislations. This may be because people in general are protective of agriculture, which can be attributed to the emotional attachment between urban residents and rural residents.

The results of regression analysis using government expenditure on agriculture and socioeconomic factors such as proportion of rural population, relative income of rural population to urban population, the share of food in household expenditure, do not show significant correlation. This indicates that collective action model and politician voter model may not apply in Korea because budgeting process plays a bigger role. However, regressions using international data show that proportion of rural population is negatively related to governmental spending on agriculture while relative income of rural population to urban population is positively associated with spending on agriculture.

Fiscal Impacts of Healthy Aging and Labor Market Participation of Older Workers

Eunkeyeong Lee

Currently, population aged 65 and over comprises only 12% of the Korean population. However, it is projected to grow rapidly and reach 40% in 2050. With increased life expectancy and decreased fertility rates, population aging presents a great fiscal challenge, decreasing fiscal revenues (labor income tax, consumption tax and social security revenues) and increasing fiscal expenditure (welfare and social security costs).

The purpose of this study is i) to verify that Korea experiences healthy aging, ii) to conduct empirical analysis on whether improved health of older workers increases their labor supply, and iii) to estimate fiscal impacts of employing more older workers. First, this study shows that increases in life expectancy and national income lead to increasing healthy life expectancy (disability-adjusted life expectancy). Second, using probit and IV probit models, we find that improved health of older workers (50-64 year olds) does increase their labor force participation by 60%. Lastly, this study presents that the extension of legal retirement up to 60 years is estimated to increase the fiscal revenues by 250 billion KRW (0.02% of GDP). However, implementing employment policies for older workers can result in direct and indirect costs (government expenditure and crowding-out of youth employment).

In order to alleviate the fiscal burden of an aging population, this study suggests demand and supply side policies to increase the labor force participation of older workers. To give incentives for employers to hire more older workers, many countries provide subsidies and reduce social security contributions imposed on employers. Developed countries provide more financial benefits for older workers and focus on disease prevention and workplace health promotion.

Supply Model and Efficiency of Social Services Provided by the Government

Wonik Son
Sengeun Choi
Taekyu Park
Hanjoon Lee
Jin Kim

As income increases, the demand for social services also increases gradually. In a broad sense, social welfare services are referred to a wide range of services including education, health care, child care and elderly care and welfare of persons with disabilities and cultural services. These services are facilitated by the government budget, and the scale of these services is expected to increase further.

This study examines the issues of supply models for social services. Both theoretical issues and real case issues are reviewed the survey methodology is used, and the conditions for the voucher scheme are examined to evaluate the suitability of the supply model.

The social service for infants and children is an example that all different types of supply model are facilitated for the service such as cash assistance, e-vouchers, implicit-voucher for providers, government's direct supply

The total amount for this service reached 6 trillion won in 2012. However, problems such as moral hazard of providers, lack of child care facilities and poor quality of child care need to be solved. To address this need, the current service delivery structure and support systems need to be redesigned. In addition, information about the overall operating matters and details about accreditation, penalties and other information such as special expenses need to be open to the public to strengthen consumer choice.

For elderly-targeted social services, the efficiency of the service management system, such as cost-effectiveness, should be prioritized as a policy goal. However, to solve the problems such as the excess increase of providers and poor quality of

services, a comprehensive policy approach is necessary for the elderly-targeted social services.

Through the voucher system, consumers can widen their choices for the services in the field of culture and art. Inefficiency problem arises due to the lack of competition among service providers who are related to the voucher system. In order to solve the inefficiency problem, a planned voucher system designed to satisfy special needs of consumers should be applied widely expanded.

Policy recommendations for social services discussed in this study are based on in-depth assessment of the suitability of the current supply models. It is expected that the evaluation results presented in this study can be utilized to improve the efficiency of government spending for social services.

A Study on ALMP Efficiency Evaluation

Seung Hyun Hong
Jong-Hak Weon

Unemployment occurs when a person, actively searching for employment, cannot find work in the labour market. Unemployment implies an absence (or a significant reduction) of wage income to a person (or a family) so that an increase in the unemployment rate may result in serious social problems in many aspect. Therefore, the government uses a significant level of public resources to make the labour market function smoothly.

Labour market policies, according to their characteristics, are categorized as active or passive labour market policies. Passive policies are mainly income subsidy type policies such as unemployment insurance, while active policies emphasize labour market participation such as vocational training, public employment, etc. In general, government activities are financed by tax revenue. With its limited resources and a large number of activities to finance, an efficient and effective use of general tax revenue becomes an important issue for the government. However, a full scale evaluation of government programs also requires a significant level of resources, meaning a timely evaluation report on a program to be used for decision making shall need a good balance between the level of rigor in its evaluation and the level of resources (time, man power, money, etc.) made available.

This study focuses on designing an efficient evaluation framework for public policies, especially active labour market policies. With most public policies decided without systematic review on their evaluation methods, this study examines various issues in designing an effective and efficient policy evaluation system in conjunction with policy implementation.

Some of the main results from this study are:

First, policy evaluation must be a part of policy design. Depending on the kind of information (evaluation results) needed for decision making, an efficient evaluation system has to be designed ex-ante to produce appropriate (in terms of quantity as well as quality) data in a cost effective way. The evaluation result must be sufficient for policy makers' decision making and depending on the type of decision they are facing, the required data may vary. Therefore, evaluation design must reflect the purpose of evaluation, surrounding environment, level of rigor required, etc. in finding a cost-effective way of producing sufficient data.

Second, in a general setting, an evaluation requires both a treatment group and a control group for comparison. Ideally, these groups are constructed from a random sampling but a random sampling is seldom feasible in practice. An alternative is something called quasi-experimental data where statistical techniques can be used to remove the selection bias which is common among non-random samples. However, using these techniques also requires additional information to be collected to construct a so-called 'counterfactual' and this consideration has to be reflected in the evaluation design ex-ante.

Third, it is critically important to choose the right statistical technique in removing the selection bias contained in the dataset, especially when a true random sampling is not feasible. Sometimes, an evaluation system has to be designed where quasi-experimental data cannot afford a control group. Without an appropriate counterfactual, most of the existing statistical techniques are not applicable, but less robust evaluation methods are still available such as case studies, causality analysis based on program theory, or contribution analysis.

Designing an evaluation system is ensuring a sufficient quality of evaluation results under various constraints in reality. There exists a trade-off between the strength of practical

constraints and the attainable quality of evaluation, and it is almost impossible to totally escape from this trade-off relationship. Therefore, a good evaluation system has to be designed within the policy planning such that it can produce information most useful to decision making by balancing the rigor of evaluation and the strength of binding constraints.

Appropriate evaluation of a policy plays a crucial role in enhancing the fiscal efficiency for policy implementation. Therefore, careful ex-ante consideration of an appropriate evaluation system must be taken seriously in developing effective fiscal policies so that sufficient data can be collected efficiently, guaranteeing a rigorous evaluation afterward.

A Study on the Effectiveness of Child Care Policy in Korea

Haywon Lee

Public spending on early childhood care and education in Korea has rapidly increased since the late 2000s. In particular, government subsidy for child care, originally a selective benefit targeted to lower-income families, expanded over time to become a universal benefit. Starting from this year, all children under the age of 5 are eligible for free child care, regardless of their family income. Given that the size of public expenditure on early childhood care and education in Korea had been relatively small compared to other OECD countries, increased government support for young children, particularly the so-called "Free Child Care Policy," can be seen as an appropriate move. Yet, there remains a wide debate on the effectiveness and sustainability of the policy over long term.

The main goal of increased government support for child care is to provide good quality child care at an affordable price. While the primary beneficiaries of the proposed policy are children, a well-designed policy can also have the additional benefit of promoting fertility level as well as female labor participation. Facing unprecedented low fertility level and relatively low female labor participation rate compared to other OECD countries, the Korean government aims to utilize child care policy as an important policy tool to promote both the fertility level and female labor participation rate. This study aims to investigate whether the current policy scheme is optimally designed to deliver its proposed goals and suggest possible policy recommendations.

The study is organized as follows. Section II explains the rationale for government intervention for early childhood care and education and discusses several major issues stemming

from the current free child care policy. Section III examines child care policies in selected OECD countries with a special emphasis on the policy implication for the Korean case. Section VI illustrates the effectiveness of child care policy in promoting female labor participation, and Section V examines the effectiveness of child care policy in raising fertility. Section VI focuses on the quality of child care and discusses the role that public sector can play in improving the quality of child care.

A Study on the Improvement Plan of Long-term Care Insurance

Sung-Joo Yoon

This study is about Long-Term Care (LTC) Insurance system in Korea; it particularly focuses on the expenditure aspect. With rapid aging of the population, the demand for LTC in Korea is thought to rise sharply in the near future, which would affect the LTC expenditure. However, previous studies have mostly focused on the quality control of the service, and the effects of LTC on employment or health status, rather than expenditure aspect. The main objective of this study is to suggest a way to manage LTC expenditure efficiently. Here, we provide two systems. The first one is to introduce 'pay for performance system' into LTC institution. Under the current system, institutions receive payments from National Health Insurance Corporation (NHIC) regardless of the service quality; so, we propose pay for performance system in order to improve the service quality, which would attain efficient LTC expenditure as well. The second one is to increase the individual co-payment according to usage. Currently, the unit price of LTC service is constant; therefore, the probability for the recipient to reduce the amount of use voluntarily is quite low. We believe that the unit price which depends on the amount of use might change recipients' behavior, which would reduce the LTC expenditure. For analysis, we set up simple model for each system and perform simulations with several parameters. We show that the effect of the system varies considerably depending on the policy parameter values.

Local Fiscal Consolidation in Korea

Hyun-A Kim
Jiyoung Kim

This paper tries to clarify the issues surrounding local authority's fiscal risk. Main agendas for fiscal risk in local authorities are local debt in General account and liabilities in Local Public Enterprises (LPEs). The paper explains that local fiscal environments are fluctuating and exogenous under the given constraint such as unstable global economy. And, the trend of sub-national fiscal crisis in OECD countries are shown with analysis of fiscal risk across levels of governments.

For the reduction of LPE's liquidity problems, the paper investigates the relationship between the liabilities of local development enterprises and economic, political, and fiscal variables. The empirical results imply that the fluctuation of macroeconomic variables such as 'land prices' may affect the increase of Local development enterprises' liabilities. Also, the analysis shows that 'voting rates' and 'whether the political party of local representative and dominant council members are coincidence' might cause an increase in the local fiscal risk. The implication of the empirical results is that that local authorities' moral hazard using LPEs as Special Purpose Company was not explicitly shown.

An Analysis and a Proposal for Restructuring the Management Evaluation System of Public Institutions in Korea

Youngjae Ra
Taebeom Yun

This research is a systematic study on the management evaluation system of public institutions in Korea, which had been systemized based on legal ground earlier than other advanced nations. The management evaluation system of public institutions in Korea is a means of control and oversight for public institutions by the Ministry of Strategy and Finance which has the ownership over the country's public institutions. The management evaluation system of public institutions is an institution evaluation which involves program evaluation as well. The evaluation system, as described by Radin (206), has functioned as a management mechanism for improving the performance, accountability, and transparency of public institutions. The empirical studies which surveyed public corporations in Korea report that the introduction of the management evaluation system has enhanced the organizational capacity, productivity, and profitability. Quasi-governmental organizations which have adopted the management evaluation system since 2004 are also regarded as having improved their general business performances after the adoption; however, proving the effectiveness of such empirical improvements would be difficult as productivity or performance indicators of core businesses of individual quasi-governmental organizations are hard to be compared with one another. Such quasi-governmental organizations, however, also see improvements in their customer satisfaction as well as other primary administrative performances such as cost containment and expense reduction. However, as Daley (2003) mentioned, since the management evaluation system has

been expanded to quasi-governmental organizations as well as public corporations and strengthened its follow-up measures such as the official suggestion for the dismissal of executives and differentiated incentives depending on the evaluation results, problems such as inevitable subjectivity of the evaluation, comparison between institutions due to relative evaluation, transposition of evaluation and goals, and the lack of consistency in performances have been arising. Public institutions file reasonable complaints about increasing burdens of the evaluation while public labor unions argue that the management evaluation of public institutions is so centered on profitability that the evaluation obstructs public institutions from pursuing public interests.

In 1984, the management evaluation system as it is now, was introduced and has been in the processes of forming, settling and expanding in the country. The system reinforcement phases can be observed under the following 4 criteria - evaluation type, number of public institutions subject to the evaluation, evaluation indicators and the contents, and the turning points of average incentive payment rates. Period of change can be divided into four - from 1972 during the Jeonghee Park administration period is an introductory or beginning period, the Duhwan Jeon administration is a formative period during which the Framework Act on Public Institutions Investment Management was established to give a legal ground to the evaluation and the management evaluation model was developed as it is now. From the year 1998 and the Daejung Kim and Muhyeon Noh administrations are the period when the evaluation was expanded and settled beyond government investment organizations to their controlled agencies as quasi-governmental organizations and thereafter the evaluation continued to be reinforced. As the management evaluation system has been continually fortified, public institutions have seen increasing burden of evaluation accordingly; this inevitably produced sprawling controversies over the evaluation objectivity or infringement of public interests.

Moreover, Budgetary Program Assessment (BPA, Korean PART) is also being conducted above the institution evaluation and institution head evaluation consisting the current management evaluation system as a means to control public corporations and quasi-governmental organizations, further increasing public institutions' burden of evaluation. Diverse voices and a variety of academic research have been demanding consistency between similar evaluation systems on public institutions; +however, the complexity and multi-layered nature of subagent or responsibility relationship between various government organizations and individual public institutions complicated vertical or horizontal connections among various performance evaluation systems of the government.

For the management evaluation system, which has changed and developed for over 3 decades, the academia, National Assembly and even national organizations like the Audit Inspection Board are all pointing out problems such as the single evaluation system, classification of evaluation types, focus on short-term performances, representativeness of evaluation indicators, excessive use of evaluation results, infringement of public organization's management autonomy, expertise of evaluators, and the lack of fairness.

A comparative look at the management evaluation systems of public institutions in the UK, France, Sweden, New Zealand and China, reveals that they are much different from each other in their roles and significance in their national economies as they have different historical, political and economic backgrounds. As such, ownership agency, the number of public institutions subject to central government management or evaluation, and the evaluation models and methods for performance evaluation differ in each country. Despite the slight differences that exist between countries, evaluation on financial and non-financial business performances of public institutions, especially public corporations, has been reinforced by central financial

authorities of each country. In the UK, France, and Sweden, in particular, government authorities holding the ownership of public corporations directly and indirectly interfere into the public corporations' administration by appointing executives, investment decisions, privatization plans, and other administrative strategies while constantly inspecting their functions and conducting performance evaluations. What is common about these advanced countries' management policies for public institutions is that a government authority with the ownership of public institutions is involved both directly and indirectly in the improvement of their governance structure and conducts constant monitoring and evaluation on their management to improve business performances of public institutions.

The present research has surveyed public institutions' performance evaluators and employees for the current management evaluation system that has been in place for about 30 years in the country and its future improvements. The two groups identically answered that the present evaluation system has contributed to the improvement of management efficiency and the responsibility of public institutions, however, on the other hand, infringed management autonomy of public institutions. The two groups also responded that the current management evaluation indicators well represented business performances of public institutions; however, they showed different opinions on the representativeness of indicators regarding evaluation by the general public, contribution to the society, labor-management relations, and core businesses. As for quantitative indicators, in particular, evaluators, rather than employees of public institutions, were found to believe that the indicators do not accurately represent the business performances of public institutions. Regarding future improvements, both groups all agreed to the following needs: the need to fortify public interests, to apply differentiated evaluation models between public corporations and quasi-governmental organizations, to diversify evaluation period, to

include non-classified public institutions into the management evaluation system, and to consider the nature of a public institution's business services and its size in classifying the evaluation types.

In recent theoretic discussions on the management evaluation, Shadish, et al. (1991) proposed a tailored evaluation; Funnell and Rogers (2011), an effectiveness-oriented evaluation; and Patton (2011), a developmental evaluation from traditional performance evaluation. In this research, we studied previous literatures on the current management evaluation system of public institutions, relevant government agencies' advices, and opinions of experts and employees of public institutions. And we proposed a comprehensive set of improvement plans. The main improvements of the new management evaluation model are as follows; first, we differentiated the existing evaluation model for public corporations and for quasi-governmental organizations and allowed flexibility in the evaluation period and the evaluation indicators for each evaluation type. Second, we established evaluation indicator menus for each evaluation type and modularized sub-evaluation indicators and their significance weights for each evaluation type and individual public institutions. Such improvement strategies, of course, may face difficulties to be implemented immediately due to possible conflicts of interest among stakeholders. However, the current management evaluation system is deemed to be improved since it is a means to restore the horizontal relationship between evaluators and the evaluated, to improve performance and accountability of public institutions, and to ultimately innovate and enlighten public institutions and their employees.

Analysis on Market Participation of Public Institutions

Jin Park
Kyongsun Heo
Sung Bong Cho

Many public institutions raise funds by participating in the private sector market. This is true not only for public corporations who are supposed to be involved in market activities but also for quasi-government institutions, which collect more than 50% of their revenues from the government budget. For public institutions, those market revenue expand their financial flexibility. The government is also a beneficiary of market participation of public institutions since it replaces government budget allocation. The purpose of this volume is to verify the justification of market participation of public institutions.

The contributions of this volume are as follows. First, it conceptually classifies market participation into 8 types and examines almost all public institutions' programs to apply the typology. Second, for 8 different types, this paper examines various alternatives to market participation that can satisfy the original objectives of the program. Third, this study applies competitive neutrality suggested by OECD to Korean cases. Fourth, to verify the justification of market participation of each program, this study suggests 8 flow charts that consist of three processes: identification of types, checking the applicability of alternatives to its market participation, and then checking the competitive neutrality. Fifth, for each of 8 types, one representative program is selected as an example to apply the proposed flow chart.

Reducing market participation is a difficult task not only to public institutions but also to the government since it may have to increase budget allocation to fill in the loss of revenues of public institutions.

Therefore, the driving force of the government that reviews the justification of market participation should be reinforced. The following table is the epitome of this book.

List of Publications
2011~2013

Issue Papers





Essay on the Productivity of Public Enterprises

Jiyoung Kim

This paper examines the determinants of the productivity of public enterprises. Especially it focuses on the effect of public ownership on the total factor productivity and labor productivity. The empirical analysis utilizes the panel data which contains the individual firm data for both public and private enterprises.

The results show that the total factor productivity of public enterprises is not statistically different with that of private enterprises in most industries. Also I could find the same results on the labor productivities. In addition, I investigate the effect of performance evaluation system on the labor productivity of public enterprises. Performance evaluation system turns out to have significant effects on the labor productivity of public enterprises, but its effects vary across the size of public enterprises. It increases the labor productivity for the public enterprises with large size of capital and labor costs, while it has negative effect on the labor productivity for the public enterprises with small size of capital and labor costs. Besides the empirical analysis, this paper provides a brief exploration on the difference between the productivity index of performance evaluation system and the productivity measure.



Privatization of State Owned Enterprises in Korea

Jhung-soo Park
Seok-hui Park

During last 30 years or so, privatization of SOEs has attracted so many countries' policy leaders, academia, and produced a lot of improvements in economic performance in many significant industries. However, there are some opinions that the utility of privatization policy is not any longer relevant, so privatization policy of SOEs does not make much sense in current developed countries. Even though, still, many countries including Korea, as a national agenda, privatization policy always has one of top priorities whenever government changes. Why this dual and contradictory characteristics of privatization policy has been sustained in Korea and many other countries is main research question and motive for this study.

Privatization has broad and flexible perspectives; traditionally it is defined as selling stocks to the private sector and change hands of its shares of ownership. However, in broader sense, it is possible to be considered as part of privatization, which is set up more competitive environment and allow more autonomous decision making power to SOEs' CEOs. Therefore, we can call it as a future policy agenda, not only past or present one.

This study critically reviewed literature and empirical studies done by western world and developing countries (such as China and India) as well which covers logic and limitation of the argument. There are some evidences which found negative and limitation of the privatization policy, however, in general, majority of the studies found that ownership transfer to the private sector enhances productivity and efficiency as a performance. Surely, there are differences on performance



for industry by industry, for the level of development of the nation, and culture and history of the nation which they share. In addition to that, the quality of process management is very important determinant of the success of privatization policy.

The privatization policy, which influence diverse stakeholders' interest and is strongly influenced by political decision making rather than economic analysis, is followed path dependent from the past. Therefore, we need to learn from our privatization history and their success and failure experiences and make them as a base for future development. These are major purpose of this report that reviews before Kim Dae-jung government, Roh Mu-hyun government and Lee Myung-bak government's privatization policy performances. We reviewed in-depth industry-wise case study as well as time series analysis. Generally, past privatized enterprises are mainly distributed through mining, manufacturing, construction/transport and finance/insurance industry and are heavily focused on the manufacturing industry in particular. Past privatization policy of Korea is evaluated as successful in general and we could drive policy suggestions that recommend as market structure and characteristics of the industry should be fully considered for increase of the possibility of success to future privatization potential enterprises selection, scope, range, method, and priority.

We have learned that the privatization policy is not panacea at all through the review of international case studies. Some cases are successful and the others are not. It depends upon the industry and market structure. Even though, we could drive policy implication that we have to consider the development level of the nation and cultural characteristics of the society influence the privatization policy's impact and technical development could lead overcome the limitation of the industry's scale of the economy, so currently the privatization policy includes energy industry and network industry as well.



Before and after empirical analysis of the privatization shows that Posco, Daehan oil pipeline corporation, Samsung general chemicals Co. Ltd. cases are quite successful. Mainly, they are manufacturing companies which were high market concentration and high supplier market share induce improvement of productivity and efficiency. Therefore, industry based approach is much more important than the classification of the firm or ownership type approach. Indicator based analyses found that mainly behavioral change of efficiency-wise is much more significant than that of growth-wise approach. This implies that SOEs were focused on the sales maximization strategy rather than profitability or productivity. The impact analysis of the privatization policy found that productivity and efficiency are all proved much better performance in privatized firms. Therefore we could conclude that still, we can expect national economic benefit from further privatization policy if we can.

We suggest following policy alternatives. First, enlarge the management autonomy in SOEs as far as we can. We already have started this pilot project from 2010 and the performance evaluation of this project has been reported as quite good. So we need full scale project of governance reform for market based SOEs for further autonomous management. Second, for the selection of the potential privatization firms should not be limited to small scale as Lee Myung-bak government tried. We could consider favorably for privatization to electricity industry, railroad industry, energy industry including gas supply, SOC industry and finance industry as well. It is based upon the industry based case analysis and past performance review, empirical analysis, and international comparative analysis as a whole. Privatization policy still is quite attractive alternative to improve competition enhancement and overcome the difficulties of SOEs management which we are experiencing.



A Study on the Estimation of Corporate Tax Burden and Tax Base Using Firm Level Data, and the Effect of Corporate Tax Burden on Firm's Investment Behavior

Hosin Song
Bong Geul Chun

In this paper we proposed to estimate the corporate tax burden and tax base using the information in financial reports at firm level. Furthermore, we confirm how well the proposed method works since the firm-level data of the actual corporate tax burden and the corresponding tax base during 1998~2002 are available. The results show that the estimates of tax base have little deviation from the actual tax base, while the estimates of tax burden very large deviation. In addition to the estimation of corporate tax burden and tax base, we empirically investigate how corporate tax burden is determined and how corporate tax burden affects firms' investment such as net investment and R&D investment.



Public Institutions' Sustainable Level and Model Development

Young Jae Ra

According to increasing in size and influence of public institutions, the government pushes various policies for accountability of public institutions. In recent years, public institutions are required to comply with not only economic and political role, but also a diversity of social responsibility. Lee Myung-bak government especially has set ecosystemic development in the national development goals and then its policy has been strengthened. However, public institutions' sustainability has not been confirmed whether what level. In this study, we measured sustainable management of country-level public institutions considerably based on ISO 26000.

Public institutions' ISO 26000 implementation level was high(82.88%). However, it depends on the type of situations. The highest score market-based SOE(State-owned enterprise), the lowest score other public institutions. Analysis based on a scale of public institutions was resulted that also, larger size of the organizations were scored high and smaller organizations were scored low.

Therefore, the government of would-sustainability model considers public institutions' type and size in order to set up a guideline.

ISO 26000 implementation level analysis could be limited, thus we interviewed with representative institutions and multiple stakeholders. Personal interview survey results showed that the most important factor is the will of directors to promote



sustainability. Interest of the competent ministries was also a major factor. Because “the Act on the Management of Public Institutions” is focused on the public agency's major business and economic efficiency, there are many difficulties to promote sustainable management from the point of view of public institutions. For example, human rights due diligence with partners need to put the terms of the agreement. However, it is difficult to require public agencies of private companies because of not using having legal grounds. Having legal grounds to require public agencies to private companies is difficult.


In order to support the sustainable management of public institutions, the government should be reviewed by the following policies.

First, government and parliament need to revise “the Act on the Management of Public Institutions” the basis of social responsibility and sustainability management.

Second, public institutions' economic, social and environmental performance is evaluated in balance, so the system of management evaluation would be reorganized.

Third, the government might extend the items of public disclosure in the public institutions social responsibility activities.

Fourth, various stakeholder groups might actively participate in “the council of public institutions for fair society.”



The Debate on the Book-Tax Conformity and Its Implications for Corporate Income Tax Law in Korea

Kiho Choi

In this study, I try to suggest how to build the relationship between GAAP and tax law in Korea after introducing IFRS. And I also try to suggest how to reform tax law under the new relationship. My suggestions are based on long term and macro framework.

To build the relationship between GAAP and tax law is to choose the degree of book-tax conformity. The book-tax conformity strengthen book-tax income trade-off. Under book-tax income trade-off, manager who want to increase book income should worry to increase taxable income and manger who want to minimize taxable income should worry to decrease book income and firm value. So, conceptually, it is difficult to manipulate book and taxable income under high book-tax conformity and we can have benefits from it.

But information loss is the disadvantage of high book-tax conformity. Taxable income has incremental information value on book income, because tax law measures income by different rule from GAAP. Some empirical research showed taxable income had additional value on book income and the value increased as lower the reliability of book income. So, the conformity between GAAP and tax law reduce the value of taxable income.

U.S is one of the countries in which book-tax conformity is the lowest. But, after Enron accounting scandal, there have been so many debates on relationship between GAAP and tax law. Desai(2005) said that the separation between GAAP and tax law was one of the reasons of accounting scandal and tax avoidance in U.S. after 1990. And he insisted that the book-tax conformity should be increased. But many academicians



and practitioners refuted his opinion. Based on this debate, U.S. IRS and Treasury developed the schedule M-3 and SEC promulgated FIN48. The main idea of these actions was to require public companies to explain their book-tax differences and disclose them to capital markets.

On the contrary to the case of U.S., GAAP and tax law are closely related with each other in Korea. Recently, IFRS was accepted as GAAP for public firms in Korea. After introducing IFRS, it is very difficult to maintain the high book-tax conformity in Korea. So, I think GAAP and tax law should be separated with each other. If the separation were completed in a short time, there would be huge confusion in Korea because Korea is one of the countries that have high book-tax conformity. Therefore, this study suggests more systematic approach for the separation by preparing a short-, middle-, and long-term plan respectively.

I expect that this study give useful guideline for tax and accounting policy maker who are concerned in the book-tax conformity in Korea. And I also expect that many Korean academicians start to research on this topic from now.



Study on Legislation of Tax Litigation Act

Jong-Su Park

This report examines measurements for legislation of Korean Tax Litigation Act. Today's tax litigations increase very rapidly in Korea. After the information of Korean Supreme Court tax litigations are highly located in the portion of entire administrative litigations in Korea. As the legal mind of citizens are step by step increasing, the necessity of independent litigations act in tax law area becomes bigger.

Presently tax (administrative) litigations in Korea are conducted without independent litigations act after the (general) administrative litigations act. And in point of court organization Korea has not yet independent special court of tax law suit. This causes, in my opinion, decrease of expertise of lawyer in tax area. We can understand this situation very clearly in fact, that in second tax law suit (appeals) the portion of tax litigation becomes bigger than general administrative law suit. Because in general administrative litigation the ratio of process ending with first judgment is bigger than in tax litigations.

To resolve this problem we can refer to examples of other countries. For example Germany has typically independent tax litigations act with independent court of tax law suit ("Finanzgerichtsordnung, FGO). The tax litigation has very different identity against the general administrative litigations.

Of course the general administrative litigations act is now in process of Amendment. It is strongly suggested, however, that further improvement of the Korean tax litigations system can be made through establishing of new act which has new forms of suit and rules of process. Looking from the standpoint of improving Korean tax law litigations, it is noteworthy that



in the case of German law, in its completed forms of legal systems, one, independent court organization gives a good chance to lawyer to enhance their tax law expertise and two, independent tax litigations act provides highly detailed rules and institutions to tax law system. From these it appears logical, therefore, to think that both tax court and tax litigations act will no doubt help enhance the overall vitality of Korean Tax Law Systems and their improvements.

It is strongly hopeful that Korea is soon to adopt such new law and of course one may expect much debate to be taking place after this report.



The Analysis of Impact Factors that Affect the Credibility of Performance Information

Jonghak Weon
Jaeduk Keum

In order to use performance information for various types of management decisions, first of all, such performance information should be credible. Despite the importance of the credibility of performance information in implementing performance management efficiently and effectively, it is true there is little research on this issue. In this context, this study tries to define the concept of the credibility of performance information and find out some insights from several case studies in order to establish the control system for acquiring credible performance information. In addition, this study also tries to identify what factors affect the improvement of credibility through an empirical research in which the survey and interview method has been utilized.

The results from case studies address some solutions as follows: First, it is required that the department independently establish internal control system to make performance information more credible. Second, each department, Budget and Finance department, Prime Minister Office, National Audit Office, and National Assembly should cooperate among themselves to develop the manuals for performance management. Third, internal control system and external control system should be consolidated for making more credible performance information. Fourth, comprehensive strategy, including hardware and software devices, should be developed.

The survey results also highlight that leadership, securing professionals, systematic manuals factors play very important roles in improving the credibility of performance information. Especially, the development of a systematic manual that contains specific guidelines for the implementation of a



performance management system is essential because the Korean civil servants are frequently moved to different section of the agency. This feature of the civil service hinders the individual level expertise to be obtained from their positioning of work.



A Study on Taxation of Private Educational Institutions

Jeongwoo Park

The tax policy for private educational institutions should be based on the concept that government should support the finance of private educational institutions. This concept is derived from historicity and publicness. That means public educational institutions have provided educational services as an agent of government and it has an important role in the entire society. This study can be summarized in two parts.

As one of parts, we have focused on the rule of profit-making business in tax law. The issues of this part are the followings.

First, research projects that an industry-university collaboration handle for government or public institutions should be excluded in the range of profit-making business in corporate tax law.

Second, we need to make a new penalty rule against the omission of revenue for a school of continuing educations in reporting a corporate tax return.

Third, interest income or dividend income which is derived from the business with a proper purpose should be excluded in the range of profits for a non-profit corporation in corporate tax law.

As the other of parts, we have dealt on tax preferential treatment for private educational institutions. The issues of this part are the followings.

First, elementary and middle educational institutions as well as higher educational institutions should be exempt from pre-reporting in corporate tax law.



Second, the rule of expense deductions relating to donations to a certain public educational institutions should be applied to elementary and middle educational institutions as well as higher educational institutions.

Third, VAT exemption rules should be equally applied to all educational institutions when the educational institutions operate own student dining rooms by school food service systems on consignment.



A Study on the Consolidated Reform of Social Security and Tax System in Japan and Some Implications to Korea

Joongho Kook

Not only have both Korea and Japan the similarities of the changes in the social structure that shows the aging population and low birth rate, but also the two countries have similar patterns that savings rate has gone down and public pension fund has been depleted. It is urgently needed to prepare the mechanism of how we guarantee the sustainability of social insurances such as public pension and medical insurance etc.

This study investigates the macroeconomic fiscal features associated with the consolidated reform of social security and tax system, also examines the characteristics and problems of social securities in Japan.

The study of how Japan's social security and social welfare reform are carried out and of how their revenue resources (i.e. taxes or premiums)

are financed will be useful in constructing the desirable tax and social security system in Korea because Japan offers many precedented examples to Korea.

Japan started public pension framework at the type of funding system.

Its type has been transformed into a type of pay-as-you-go system, however, because the first generations have benefited from their own pension fund as well as from the premiums covered by the second generations. Hence, the public pension system in Japan is called as 'modified funding system'.

In the operations of public pension in Japan, three points should be noted: 1) Japan neglected the hike of premium rate for the legacy, or historical debt, 2) low contribution rates were set in the period of high economic growth, and 3) the



level of benefits was set higher than that of premiums. As a result, Japan was not able to resolve the problem of legacy, or historical debt. Furthermore, the rapid aging society made it more difficult to redeem the historical debt.

Once the tendency to budget deficit gets started, it is extremely hard to restore a balanced budget. It is recommended that the revenues from the hikes of consumption tax and local consumption tax be used for the expenditure of social securities such as public pension, medical care, and social welfare. The bill that mainly aimed to raise the consumption tax rate passed in August 2012, which elucidated the situation that it was becoming increasingly difficult to decrease fiscal deficits without increasing the tax burden in Japan.

While Japan shows the characteristics of stock economy that accumulated capital and wealth, Korea appeals to the features of flow economy affected easily by external factors. Flow economy has the merit of the dynamism of economy, but can include a risk that the impact of government policy and the movement of capital are highly volatile.

Consolidated reform of social security and tax in Japan gives an important implication that public pension system has lots of merits in the operation as the type of funding system rather than as that of pay-as-you-go system. It is because the latter is inclined to bring about the generational disparities and the accumulation of governments bonds like the case of Japan. We need to avoid the benefit-burden imbalances between the generations caused by pay-as-you-go system.

Stake holders, like the law makers who benefit from the current system, do not want to change it or accomplish fiscal reform. Japan has a good example that it had passed the fiscal structural reform act in 1997 to lessen the amounts of government bond outstanding, but the act had not been in effect in reality. Constitutional provisions for the funding system might be required in order to keep the stake holders who do not consider heavy burdens of future generation from maintaining their own private interests.



A Study on the Design of Project Referendum in Korean Local Governments

Changhoon Jung

Many Korean local governments initiated massive local development projects since 1995, with fiscal decentralization under devolution revolution, without taking serious feasibility studies. When the national economy was booming in the early 2000s, massive development projects turned out to be profitable to most local governments. Unfortunately, however, when the national economy experienced depression in the wake of global financial crisis in 2008, many local governments experienced dramatic reduction of local tax revenues, resulting in local fiscal crises in part due to massive debt accumulation and moribund tax revenue collection. By benchmarking bond referendum, which is widely utilized in state and local governments in the United States, this study intends to design project referendum for local governments in Korea. Project referendum which is linked to the mandatory use of elastic tax rate increase is expected to prevent wasteful and inefficient local spending. It is also expected to link (restore) tax and service price mechanism in local service delivery. Furthermore, it will work as a mechanism to exercise direct fiscal democracy by residents.



Securing Schemes of Tax Information Related to Customs Valuation

Jaisik Kim

It is essential that customs tax authorities secure accurate information on prices actually paid or payable for the imported goods because in many cases there is undervaluation or overvaluation that is inconsistent with the actual transaction value, regardless of whether it is a transaction conducted at arms-length or between related parties.

Customs authorities often need to further verify the customs tax value, declared by taxpayers seeking to avoid tax obligations, in order to identify non-compliance cases. In these instances, it is highly desirable that they secure appropriate information on the characteristics of each case. However, as most tax information exists within the taxpayer's purview, notable information asymmetries occur, and some complimentary measures as follows are needed to solve those problems.

First, using the financial information managed by FIU should be expanded to address the above problems. Their data would be very useful to verify the accuracy of the declared customs tax value.

Second, the internal revenue tax authorities' data on transfer pricing commonly used between multinational corporations would be very useful for customs tax authorities. Such information exchange is facilitated when the relationship between the two tax authorities is well established.

Third, from the viewpoint of management, using a total information system, and reinforcing the organization and staff related to directing tax material are highly desirable to effectively secure and verify the customs tax information.



Fourth, institutional improvements such as filling out the price declaration forms, reasonable reallocation of the burden of proof between customs authorities and taxpayers, and regulations on presenting and managing the customs tax information existing with internal and local revenue tax authorities are required.

Finally, the present financial and customs laws must be revised to grant customs officials access to the FIU's financial information for the purpose of customs tax inspection, and to supplement imperfect regulations, respectively.

For driving institutional improvements, customs authorities require comprehensive knowledge on the business pricing decision-making mechanism and on the system used for managing customs tax information.



Effects of Fat Tax on Unhealthy Food

Eunbyeong Lee

Obesity incurs substantial costs to individuals and to society. Fat tax is one of the policies that aim to prevent and manage obesity. This paper empirically examines effects of increased price on unhealthy food (fat tax). I focus on estimating price elasticity of soft drinks, which have been linked to obesity in many developed countries.

First, I look at effects of soda price on its own consumption, consumption of other beverages, and overweight status, using Korean National Health and Nutrition Examination Survey (KNHANES). Korea had been imposing 10% of special consumption tax on soft drinks, but repealed it at the end of 1999. Therefore, price variations are obtained from this tax repeal and consumption changes between 1998 and 2001 are compared. Applying OLS regressions, Tobit model, and two-part models, I find that price elasticity of soft drinks is -0.34. Although increased soda price reduces its consumption, consumption of other beverage (milk) increases, so overweight prevalence does not change.

Second, I use a survey data where we questioned the price that one is currently paying to buy one unit of soda and the price that one would stop buying soda. I examine the changes in soda consumption at these two price levels. Unlike KNHANES, this survey data have a panel structure, so within-variations enable me to use fixed-effect models. My findings suggest that adolescents (-1.18) are more price elastic than adults (-0.69). For regressivity, I do not find consistent results based on these two data sets.



This paper provides evidences that increased soda price does decrease its consumption, which is likely to reduce obesity rates in the long run. In the short run, however, it may have limitations because of addiction, effect lag, substitution effects, etc. Also, this fiscal policy might be more effective if it is implemented with other non-price policies.



The Redistributive Effect of Electricity Pricing

Jung S. You
So Yeong Lim

Korea implements electricity block pricing not only to control demand but also to redistribute income. Block pricing has been commonly used for utilities that public enterprises produce. As low income households under block pricing pay averagely low price, block pricing has been considered an appropriate way to assist the poor. Though direct subsidy to low income households is more effective to enhance welfare, many countries implement block pricing to achieve fairness and cost recovery.

Recently, the low cost-recovery rate of the monopolistic public enterprise producing electricity in Korea has pushed the enterprise to increase electricity retail prices. This has caused controversies in what is the right way to price electricity, what is the adequate price level, and how to modify the complicated block pricing whose 6th block price is 11 times higher than the first block. Thus, we evaluate the current block pricing and alternative price structures, in order to find the best pricing structure.

Establishing 9 scenarios suggested by the various organizations, we analyze the effect of the alternative block pricing on the consumption and expense by household income deciles. Furthermore, to evaluate the redistribution effect of block pricing, we analyze the welfare change by household income deciles and the changes in the overall social welfare as well as the degree of inequality.

In Chapter 2, we explain the characteristics of electricity pricing in Korea and compare it to other countries like USA, Japan, France, UK, and Taiwan. Chapter 3 introduces related literature. Chapter 4 develops the theoretical framework to measure



the welfare change of each household associated with consumption change under scenarios. Welfare change is measured by equivalent variation (EV), and we develop an algorithm to compute EV when budget constraints are not convex. In Chapter 5, we first estimate linear demand functions for residential electricity consumption, using time series data; then we compute the price elasticity by household income deciles. Secondly, we predict residential consumption, expense, EV under alternative scenarios. Finally, using social welfare functions and Atkinson's inequality index, we compare all scenarios including the current block pricing and conclude the best way of electricity pricing.



A Study on the Expenditure Structure of Local Governments

Sangheon Kim

This paper analyzes the problems regarding the expenditure structure of local governments and specifies the financial environmental factors affecting problematic financial structures. This paper also examines the esuccessful in restructuring the expenditures of their local governments in order to obtain methods for the efficient and sound restructuring of our local governments.

An examination of our country's expenditures reveals that, while in the past, economic development expenditures were at the core, expenditures regarding social welfare gradually increased so that at present, it takes up the biggest piece of the pie. Social welfare is also highly dependent on government resources. By analyzing the types of expenditures in real time, we cornered the following problems regarding the expenditure structure of our country's local governments. One is that there is no connectivity between revenues and expenditures. Expenditures are also largely subsidized by the central government, which lowers the level of financial autonomy. There are also high levels of debt amongst local governments and public corporations. Last, but not least, there are numerous problems amongst the cost of labor, promotion of local programs, international events, and expenditures regarding policy works, civilian transfers, and festivities-related expenses.

In order to solve these problems by restructuring budgetary expenditures, a new direction regarding financial management is necessary. First of all, finances must be managed to fit the demands of local residents through fiscal decentralization. Fiscal decentralization assures the efficient and planned



management of finances by increasing revenues of the local government. This method can also rejuvenate the local government as well. Within these changes, efforts to reduce current expenditures and making investments regarding SOC must be done following thorough cost-benefit analyses. Efforts must also be made to reduce tax expenditures regarding the high cost of societal welfare by raising the level of transparency and efficiency of financial management. Continuous investments must also be made regarding new businesses and projects to meet the new demands of local governments and communities.

A systematic change bases on priority which considers the budget process is necessary in order reduce the more specific problems regarding expenditures and proper restructuring. From planning, execution and to assessment, the supply of expenditures must be consistent with the demands, and the cost of expenditures must be in relation to revenues obtained. Sound financial management must be secured by establishing a system which assures self-accountability and responsibility. By gradually increasing local revenues, local governments should be held accountable for its expenditures and be able to meet the changes in public demands of its residents. Furthermore, the relativity regarding current local financial management systems must be strengthened in order to increase the soundness responsibility of local financial operations.

These changes would bring about a reduction in problematic expenditures and make possible in supplying public services that actually meet the demands of its local residents. Planned financial management can be established by fiscal decentralization and restructuring. These changes will help to assure the soundness and efficiency of local financial management.



Credit Card Stimulation Policy in Korea

Jae-Jin Kim
Beom-Gyo Hong

The South Korean government has introduced a set of tax incentives that aims to stimulate credit card usage to improve the poor tax compliance level by self-employed. This, so-called, “Credit Card Stimulation Policy” includes “Income Deduction for Credit Card Usage,” “Credit Card Receipt Raffle System,” “VAT Credit” and “Tax Credit on Increased Revenue Amounts.”

As a result of the stimulation policy, credit card has become the most common payment medium in Korea. In 2010, the amount of credit card transactions made 57.0% of the private consumption expenditure in Korea. It is a huge increase from the pro-policy figure of 14.7% in 1999. Increased credit card usage in private sector has helped the Korean tax department to track down revenues realized by self-employed more accurately.

In particular, it has improved collection of “Global Income Tax” and “Value Added Tax (VAT).” In 2000~2009, elasticities of tax revenue for “Global Income Tax” and “Value Added Tax” are 1.98 and 3.21, respectively, while the tax elasticity for the whole tax system is 1.16. It means that tax revenue growth in “Global Income Tax” and “Value Added Tax” is much higher than economic growth and general tax revenue growth. The policy has also helped to increase the number of self-employed tax payers and broaden the tax bases, even in industries where predominantly handling cash-revenue, such as food service and retail. It has also achieved reducing the number of tax payers under minimum tax floor and income threshold.



Despite the positive results, costs of sustaining the tax incentive and credit card transactions have been exponentiated as the credit card transactions increased over the time. In 2000~2010, it is estimated that the costs of the stimulation policy reached staggering 72 trillion won. It is consisted of the cost of credit card transaction processing fee paid by merchants, 53 trillion won and the tax expenditure paid by the government to sustain the tax incentive system, 19 trillion won. Moreover, it created many delinquent borrowers as the credit card industry has set a poor credit card issuing criteria, in hoping to take advantage of the credit card stimulation policy. As a result, in 2003, Korea suffered from so-called “Credit Card Crisis”. Approximately 3.72 million people were classified as delinquent borrowers and the government injected 6 million won to provide the contingent financial aid for them.

Furthermore, the credit card stimulation policy has induced the market inefficiency as it was initiated without much consideration of the poor credit card industry structure and credit finance legislation in Korea. As a result of the market inefficiency, merchants in Korea pay expensive credit card processing fee in OECD countries. Also, credit card industry charges merchants the processing fee not by a systematic industry standard, but by their bargaining power. The credit finance legislation imposes “Honor All Cards” and “No Surcharge” rules on merchants with the enforcement penalty. These rules limit merchants to transfer costs of accepting credit cards to their customers and it is against the “Benefit Principle.”

This study evaluated that the credit card stimulation policy has achieved its objective. It made labor-income earning tax payers to use credit card widely in their consumptions and resulted in a better tax compliance level for self-employed. However, due to costs of tax incentives and transaction processing fee, credit card is the payment medium that imposes the highest cost in Korea.



Therefore, the South Korean government needs to shift its stimulation policy toward the payment medium that is more cost-effective, whilst improving the tax compliance level for self-employed. Stimulating debit (or cheque) card could be an answer as it imposes less costs than credit card. As the transaction mechanism for debit (or cheque) card is the same as credit card, it is expected to maintain the tax compliance for self-employed that was achieved by the credit card stimulation policy. To do this, the current tax incentive for credit card usage should be abolished or lessened. Then, it should apply more generous tax incentives for debit (or cheque) card usage. Moreover, to correct the market inefficiency existing in the current credit card industry in Korea, the government needs to reform its credit finance legislation and promote competition within the industry. In Australia, it achieved setting a lower credit card processing fee for merchants by abolishing “Honor All Cards” and “No Surcharge” rules and promoting the competition within the industry.



Changing Phases of the Evaluation Management System for Korea Public Institutions: Part II

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This study intends to examine how the evaluation management system of government-invested institutions has evolved into that of public institutions since 1983. In so doing, this study tries to analyze various aspects of the evaluation system like institutional, managerial and/or functional one. In particular, this study is a follow-up to the previous study of changes in the evaluation management system and, thus, expands on it by adding in-depth factual descriptions and, more importantly, providing reasons (or inevitable factors) why certain changes might have happened over the period of institutional changes. Consequently, this study is expected to provide a set of policy-related information which can be of help in improving the evaluation system.

First of all, a reference point was set up which could enable us to see how much the current evaluation system has changed from the original one through a series of in-depth interviews with a group of experts including a few participants involved in the earliest evaluation at the beginning. According to the results of analysis, the management evaluation system started to systematically develop such core elements as evaluation directions, designing evaluation indicators, operation of evaluation team and use of evaluation results since 1985, two years after its launching. It is worth noting that the objective evaluation and feed-back of earlier evaluation teams as well as strong support of international experts made a valuable contribution to the development of the evaluation system as it is.

This study includes government-invested institutions, government-affiliated institutions, state-owned enterprises



and quasi-government institutions as subjects of analysis. A comprehensive analysis was made on several features like legal bases, evaluation processes, management tools for evaluation, evaluation indicators and management evaluation team. The Analysis also touched upon the backdrop of evaluating government-affiliated institutions and the process in which it had evolved into the evaluation of quasi-government institutions. In particular, this study examined other features like actual performance evaluation of management plan executed by institution heads, actual performance evaluation of management plan executed by institution heads of state-owned enterprises and quasi-government institutions and autonomous management institutions, which were not dealt with in the previous study. In so doing, this study tries to provide valuable information for feasible improvement of the management evaluation in the near future.

As a way of clarifying the chronologically distinctive features of institutional changes over the last 28 years, the time period was broken into four stages: Stage I (1983~1998), Stage II (1999~2006), Stage III (2007~2010) and Stage IV (2011~). In so doing, this study intends to examine how some critical factors (i.e. directions of government policies, changes in policy environment and feed-back from management evaluation team to name a few) might have affected changes in the management evaluation system for each stage.

Stage I was the period for initiating and laying a foundation for the evaluation of government-invested institutions. Some activities (e.g., classifying evaluation categories, developing evaluation indicators, grading methods, etc.) based on clear logics at Stage I made a significant contribution to improving Stage II. It was the strong commitment and research capability of those involved in Stage I that has made the management evaluation system of public institutions internationally renowned.

State II could be characterized as the period of expanding the evaluation system. During the period, the evaluation of



government-affiliated institutions, the actual performance evaluation of management plan executed by institution heads and that of innovation in public institutions were newly included and implemented. This was due not only to an effort to appropriately respond to demands from outside stake holders but also to a government perception that competitiveness of public institutions ought to be the basic of management and, thus, it should be monitored and evaluated on a regular base.

Stage III was the period in which a strong demand was made for globalization of the evaluation system from the start. For example, the Malcom-Boldridge model was benchmarked, and reforming public institutions was reenforced by including public institutions' efforts for globalization as part of the management evaluation. Furthermore, evaluation of standing auditors of public institutions was newly implemented. Likewise, some level of flexibility was added to the evaluation system by appointing autonomous institutions and reducing the burden of preparing for evaluation, not to mention delegating some of authorities. As a result, the management evaluation system could operate in terms of the life cycle of programs like planning-implementation- evaluation, which are inter- connected as one cycle through reenforced feed-backs. Although tried as a demonstration, the newly implemented activities could provide some insights and factual data for government to come up with better ideas about how to manage institutions like autonomous ones.

Stage IV recognized the emergence of the so-called personalized (or tailor made) evaluation that could take distinctive features of individual institutions into consideration. This was when government needed to develop the evaluation system more relevant to strengthening business diversity as well as to public concern over the fiscal integrity of public institutions. This effort was the core of revising the 2011 evaluation indicators, which was expected to upgrade the then evaluation system in term of efficiency, simplicity and



uniqueness. The evaluation model for Stage IV, however, needs to be kept evolving while considering sustainability of the evaluation system under the rapidly changing environment.

Finally, in addition to analyzing the process of changes in the management evaluation system, this study also examines a set of critical issues facing the evaluation system and offers a few suggestions as follows:

- ① Integration or separation of the evaluation system for state-owned institutions and quasi-government institutions
- ② Integration or separation of the evaluation system for public institutions and institution heads
- ③ Scope and categorization of public institutions for evaluation
- ④ Standardization and uniqueness (or differentiation) of evaluation indicators
- ⑤ Rebuilding evaluation models and simplifying evaluation indicators
- ⑥ Enhancing objectivity of management evaluation
- ⑦ Globalization and rebuilding the feed-back system of management evaluation



Financial Stability of Local Public Enterprises and Policies for Reducing their Liabilities

Il-Seob Soh

Liabilities of public enterprises are basically a part of national debt or liabilities, considering the nature of its final burden on public finance or next generations. As activities of local public enterprises for meeting increasing needs of local residents' social welfare are expected to expand rapidly in the future, their liabilities and the impact on fiscal risk of local governments will increase, and policies for reducing them will get to be more important.


The amount of local public enterprises' liabilities totaled to 67.8 tril. won with the debt ratio of 74.7% as of the 2011 year-end. Since the debt ratio is relatively low compared with overall private companies, some specific approach different from ordinary financial analysis applied to private companies is required for examining their financial stability. To this end, this paper adopted a 3-dimensional model assessing (1) present debt status with debt ratios, (2) short-term risk factors with liquidity ratios, and (3) long-term risk factors with profitability ratios with respect to capability of debt payments, and applied this model to, as representatives of local public enterprises, 7 urban railroad entities and 15 local land development entities on the basis of their 2011 financial statements.

As a result of analysis, urban railroad entities are financially stable with present debt and liquidity status, but their liabilities are expected to increase fast in the future as a large amount of deficits continues. Local land development entities are expected to maintain present high level of debt ratios and low liquidity ratios as their stock of unsold developed land or land under construction accumulates, and their present profitability will not continue as new land development projects are to be



restrained for some time in the near future.

In order to reducing their present and long-term liabilities, urban railroad entities should make efforts above all to increase subway rates regularly for considerable period of time and to reduce cost factors including construction expenses. Land development entities are required to dispose stock of unsold developed land or land under construction, and to, for this purpose, revise related public land development regulations in a more flexible way, and basically to revise their loan-based development management structure.



The Current Status of NPO Statistics and Policy Proposal for Improvement


Wonik Son

The government expenditures for social services in the field of welfare, education, culture and arts, etc. have been expanded as people demand more for the social services. The government expenditures are distributed to people through NPOs (non-profit organizations) in most countries including Korea. An accumulation of relevant statistics for NPOs is more important than before in order to achieve an efficiency of the government expenditures. It is also very important to accumulate statistics for donations for the purpose of cross examinations since donations are another critical financial source of NPO's social services.

The current status of statistics for NPO in Korea is still poor even though the importance of relevant statistics has been greater. This study was performed to improve the current status of NPO statistics and examined the current situation of NPO statistics in Korea, and recommended policy proposals for improvement based on the comparison with other countries such as the U.S. and Japan.

This study showed that Korea has less detailed statistics for NPOs and donations than other countries. It is recommended that fields of NPOs need to be officially classified, and classified codes also need to be assigned to each donation to create and accumulate relevant statistics.

It is also recommended that more fundamental reform would be necessary in order to improve the efficiency of social services delivered by NPOs. The direction for the fundamental reform is to establish an organization which takes all responsibility from NPO's registration to NPO's audit.



Directions for Income Tax Reform to Mitigate Income Polarization in Korea

Jae-Jin kim

In general, tax policy serves three functions: income redistribution, resource reallocation and stabilizing the economy. Since the financial crisis, the polarization of wealth has become more serious, and the importance of income redistribution has been highlighted. However, in Korea, the decrease of Gini coefficient from before-tax to after-tax is only 8.7%, which is far lower than the OECD average, 31.3%. This implies that the income redistribution through tax policy in Korea is far less effective compared to that in OECD countries.

In Korea, the income tax, inheritance/gift tax and property tax carry out income redistribution function mainly through progressive tax rates and deductions system. Especially, income redistribution undertaken by income tax system is highly important for the purpose of alleviating the problem of income polarization in terms of tax revenue and taxable base. However, individual income tax accounts for 3.6% of GDP in Korea, which is lower than OECD average, 8.4%. This signifies that the current income tax system in Korea is not functioning well to deliver effective income redistribution for various reasons.

In order to enhance the income redistribution and equity in taxation, our income tax system needs to be reformed towards the following directions. Firstly, its role as to achieve the income redistribution has to be performed more effectively. In Korea, income tax liability is largely reduced by income deductions, which provides more tax advantages to taxpayers with high income due to the difference in marginal tax rates: despite the same amount of deductions provided, those with higher tax rates take more tax benefits. This leads to deeper income polarization. Secondly, the scopes of income tax reductions and non-taxpayers need to be tapered off after careful review and restructure of current exemptions/



reductions system. We have various deductions and credits available for income tax which results in unnecessarily high tax-free income band and large number of people with no income tax liability. Also, income tax is with the largest tax reductions compared to other national taxes. Thirdly, the gap between marginal tax rates and effective tax rates needs to be reduced and the adequate proportion of taxpayers with reasonable tax liability has to be maintained in each income band. Our marginal income tax rates are not low in comparison to other OECD countries, but our effective tax rates are significantly low due to the large number of deductions and credits. There are additional tax credits available to taxpayers with labour-income, which makes their effective tax rates lower than those with other income. Consequently, within the same income band, people with labour income enjoy far lower effective tax rates compared to those with other income.

Hence, for the income tax system to fulfill its own fundamental function, the income redistribution, the following policy reforms are required. Firstly, the excessive use of income deductions has to be replaced with tax credits. Tax credits are not affected by marginal tax rates, thus deliver equal tax benefits for every taxpayer. Therefore, the problems with tax advantages overly taken by high income earners under the income deduction system can be mitigated, and the equity in taxation would be improved. Secondly, the Phase-out Rule, which reduces the amount of deductions as income increases, can be introduced. This rule has been adopted by US, UK and Australia, in a way which reduces or limits the amount of standard deductions for high income earners as their income increase. Thirdly, deductions for retirement savings and retirement annuity have to be restructured. In 2013 tax revisions, deductions for retirement savings and retirement annuity have been converted into forms of tax credits. This may improve the effectiveness of income redistribution, but only to a limited extent, since people with low income (hence, no income tax liability) cannot enjoy the tax benefits. Refundable tax credits can be a positive alternative in order to make the tax advantage available to low income earners and provide incentives for them to join pension schemes.



A Study on the Operation of Appropriation Act Focusing on U.S.A, U.K and France

Changhoon Jung
Seong-Ho Jeong
Injae Kang

Fiscal control system in a democratic society is based on legal and political system and values such as fiscal democracy and constitutionality. Through effective fiscal control system, governments also try to improve performance in rapidly changing administrative setting recently. In the United States, Great Britain, and other advanced countries, appropriation act prescribes execution method, constraints, project goals, and other details. By so doing, the legislative branch effectively controls the executive branch, and also secures fiscal democracy and fiscal responsibility of the executive branch. However, unlike the United States and the Great Britain, Korea does not have appropriation act. As a result, the Korean executive branch exercises too much power in the budget execution stage. The lack of appropriation act is contrary to the idea of fiscal democracy, and it may result in fiscal irresponsibility by the executive branch.

The current Korean budget document just lists the names of project and its planned expenditure (amount), and it is just being passed in the legislative branch, without the requirement of president's signature.

Thus, it is not an Act but rather a statistical budget table. In order to institute an appropriation act, Korea needs constitutional reform, 260 which is time-consuming and quite difficult in the short period of time.

Nevertheless, the lack of control on executive budget execution should be addressed in a rational manner, and thus an institution of something like appropriation act is long overdue in Korea.



By analyzing appropriation act in the United States, Great Britain, and France, this study attempts to search for alternative fiscal control systems in lieu of appropriation act as a stop-gap measure in Korea.

A couple ideas could provide such alternatives. First, by revising National Finance Act, Korea can introduce executive order in which measures to control executive budget execution methods and other details can be listed. Second, an institution of comprehensive project management system can be devised and implemented. In the comprehensive project management system, project goals, project costs, monitoring of budget execution, and project performance review system can be interlinked. Third, as in France, a separate national budget and accounting review board can be installed at the central government to monitor, control, and rectify budget execution and project management. Finally, by utilizing judicial branch, illegal, irresponsible, and inefficient budget execution by executive branch could be punished.

In sum, given current fiscal and legal constraints, we recommend an institution of comprehensive project management system appears to be one of the best options.

List of Publications
2011~2013

About KIPF



About KIPF

The Korea Institute of Public Finance (KIPF) was established in July 1992 for the purpose of policy-oriented research and analysis in all aspects of taxation and public finance, assisting the government in formulating national tax policies thus consequently contributing to the nation's economy.

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