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the National Bureau of Economic Research

Volume Title: Fiscal Policy and Management in East Asia,
NBER-EASE, Volume 16

Volume Author/Editor: Takatoshi Ito and Andrew K. Rose,
editors

Volume Publisher: University of Chicago Press

Volume ISBN: 978-0-226-38681-2

Volume URL: http://www.nber.org/books/ito_07-1

Conference Date: June 23-25, 2005

Publication Date: October 2007

Title: Comment on "Reforming the Fiscal Management System
in Korea"

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URL: <http://www.nber.org/chapters/c0898>

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Comment Gilberto M. Llanto

An observer like me can only look with envy at how the Korean government showed tight discipline in solving the persistent fiscal deficits of the 70s and 80s. Fiscal tightening in the 1980s was a delicate balancing act, but the principle of *expenditure within revenue*—or the balanced budget principle—produced wonderful results in terms of keeping the public debt at a minimal level and taming the fiscal deficit. The notable achievement of observing a balanced budget was that it was not formalized in either *law or a regulation*. It was the determined effort of the government that made the big difference. The self-discipline paid off because the Korean government could plan massive fiscal supports to troubled financial institutions when the Asian financial crisis hit the economy.

The amazing phenomenon was that the Korean government was able to reduce the ratio of government debt to GDP a few years after the financial crisis. The total public debt burden was 30 percent of GDP around 1998 to 1999 but the budget recorded a surplus of 1.1 percent of GDP in 2000. The surplus has remained in the following years. Strong economic growth and rapid increases in revenues no doubt made this possible.

Mr. Young-Sun Koh was, however, quick to point out that excluding the National Pension Fund from the consolidated balance indicates that there were “budget deficits since 1989, except in 2002.”

Another indicator of fiscal health is the status of government liabilities.

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I would like to thank Mr. Young-Sun Koh of the Korea Development Institute for sharing with us the very instructive experience of South Korea in addressing that country’s fiscal problem and the future path of fiscal management from which developing countries such as the Philippines can draw lessons.

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

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

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

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

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

Comment Chong-Hyun Nam

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

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