Studies in the Modernization of The Republic of Korea: 1945-1975

Public Finances During the Korean Modernization Process

ROY BAHL CHUK KYO KIM CHONG KEE PARK

PUBLISHED BY
COUNCIL ON EAST ASIAN STUDIES
HARVARD UNIVERSITY

Distributed by Harvard University Press Cambridge, Massachusetts and London, England 1986

Contents

FOREWORD

ONE

	DEFINING AND MEASURING THE KOREAN
	PUBLIC SECTOR 3
	BUDGETARY PERFORMANCE 7
	ECONOMIC GROWTH AND FISCAL POLICY: A
	CHRONOLOGY 14
	SUMMARY 22
rwo `	Fiscal and Economic Development: Korean Versus
	Traditional Patterns 24
	TAXABLE CAPACITY AND EFFORT 25
	TAX STRUCTURE 30
	EXPENDITURE SHARE OF GNP 34
	THE COMPOSITION OF EXPENDITURES 38
	CONCLUSIONS 44

1

Budgetary Policies and Performance

THREE	The Development of the Korean Tax Structure	45
	EVOLUTION OF THE TAX SYSTEM 46	
	FINANCING PATTERNS DURING THE MODERNI-	
	ZATION PERIOD 55	
	GROWTH IN THE TAX RATIO 56	
	TAX STRUCTURE CHANGES 61	
	THE PERSONAL INCOME TAX 64	
	CORPORATION INCOME TAX 73	
	COMMODITY TAXES 86	
	BUSINESS TAX 102	
	SUMMARY: TAX POLICY AND THE MODERNIZA-	
	TION PROCESS 106	
FOUR	Modernization and the Long-Term Crowth of	

FOUR Modernization and the Long-Term Growth of Korean Government Expenditures

109

INTRODUCTION 109

THE LONG-TERM GROWTH OF GOVERNMENT
EXPENDITURE 110

THE DETERMINANTS OF EXPENDITURE GROWTH:
HYPOTHESES AND EVIDENCE FROM OTHER
COUNTRIES 120

THE DETERMINANTS OF KOREAN EXPENDITURE
GROWTH 131
A TIME-SERIES MODEL 139

CONCLUSIONS 147

FIVE The Distributional Effects of the Korean Budget 150

FISCAL INCIDENCE ANALYSIS: IS IT WORTH
THE EFFORT? 153
ASSUMPTIONS AND METHODOLOGY 155
CHANGES IN FISCAL STRUCTURE 157
DISTRIBUTION OF INCOME 167
ALLOCATION OF REVENUE BURDENS BY
INCOME CLASS 178
ALLOCATION OF EXPENDITURE BENEFITS BY
INCOME CLASS 194
NET FISCAL INCIDENCE 204
CONCLUSIONS AND IMPLICATIONS 211

Contents

SIX	Korean Public Finances During Modernization: A Summing Up	216
	THE SUPPORTING ROLE OF BUDGETARY POLICY 217	
	KOREAN FISCAL CHOICES 218	
	THE SETTING FOR KOREAN FISCAL CHOICES 22	0
APPEN	IDIX A	225
APPENDIX B		255
NOTES		297
BIBLIOGRAPHY		319
INDEX		331