

Decentralization and Economic Growth in Korea

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Abstract: Empirical studies on the impact of decentralization on economic growth have resulted in mixed findings. This study discusses the relationship between decentralization and economic growth focusing on Korean experiences. The process of decentralization in Korean can be categorized into three periods: the Controlled Decentralization Model period (1948-1961), the Deconcentration Model period (1962-1991), and the Controlled Decentralization Model period (1992-present). Conceding that the centralized system in Korea did not necessarily mean that every decision was made exclusively by the central government, this study examines the relationship between the devolution of decision-making power to local entities and economic development in the country. From the viewpoint of economic development, it can be said that the Korean government's choice of a centralized system that deconcentrated administrative authority in the developing period helped avoid the risks of decentralization and the inefficiency of centralization, which can negatively affect economic development.

Keywords: Decentralization, Economic Growth, Korean Public Administration

INTRODUCTION

Many countries around the world, including developing countries, are decentralizing fiscal, political, and administrative responsibilities. Whatever the political intentions, decentralization can significantly affect resource mobilization and allocation and ultimately macroeconomic stability and economic growth (Iimi 2005; Lin and Liu 2000;

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Litvack, Ahmad, and Bird 1998; Martinez-Vazquez and McNab 2003). It is also an expressed goal of the national governments of many developing countries and part of their economic development strategy (Bahl and Linn 1994).¹ Decentralization has been experimented with in a number of developing and transition economies in Latin America, Africa, and Asia (Bardhan 2002). Reforms in favor of decentralization have been one of the major concerns in developing countries, the international development communities, and researchers for last two decades (Jutting et al. 2004).

Decentralization is widely believed to promise a range of benefits, and the centralized states seem to have lost a great deal of legitimacy (Bardhan 2002, 185). Reformers dissatisfied with the results of centralized economic planning have turned to decentralization to break the grip of central government and induce broader participation in democratic governance (Olowu 2000, Smoke 1994, Wunsch and Olowu 1990). Decentralization is regarded as a way to make government more responsive and efficient, so developing countries are adopting it as a way of solving problems such as inefficient and ineffective administration and low levels of economic growth (Bird 1993). Many researchers and practitioners around the world have supported these benefits. Free-market economists have emphasized reducing the power of the overextended state through decentralization, while postmodernist, multicultural advocates, grassroots environmental activists, and supporters of indigenous people have upheld the assignment of control to local self-governing communities (Bardhan 2002, 186).

These assumptions, however, are not necessarily supported by empirical findings. Rather, the results of studies on the impact of decentralization are mixed (Zhang and Zou 1997, Goldsmith 1999, Fisman and Gatti 2002, Treisman 2000b, Davoodi and Zou 1998). And developing countries are in very different institutional and economic and social conditions from those of developed countries. Careful consideration is needed, because these differences in conditions may result in decentralization having unintended consequences (Litvack, Ahmad, and Bird 1998). Empirical evidence does not permit definitive recommendations about which decentralization model is the best for a country. The best design will vary depending on circumstances and institutions, and this complexity has sometimes been overlooked in the haste to offer policy advice (ibid.).

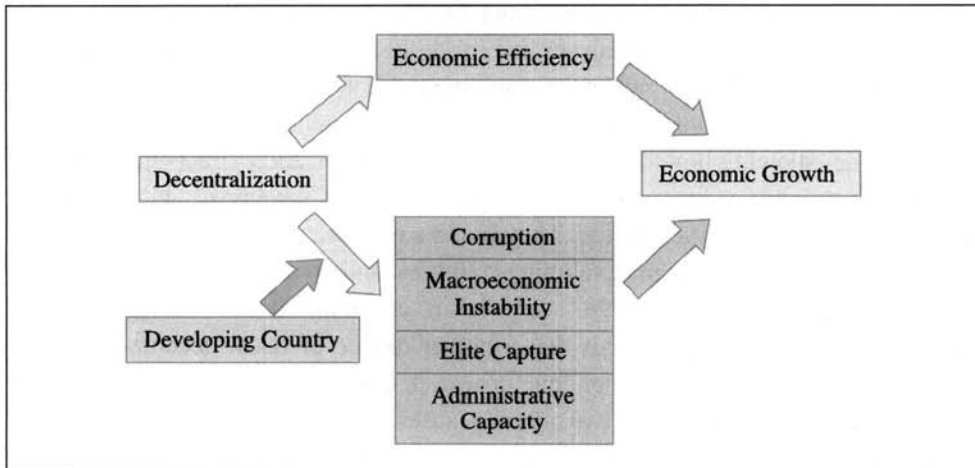
Korea accomplished unprecedented rapid economic growth for the last several decades although its governance structure was, at least seemingly, highly centralized. So it is questionable whether decentralization is a proper policy for economic development in developing countries. From this context, this study tries to examine the ques-

1. Often, one of the stated primary policy objectives of decentralization is to foster economic growth (Martinez-Vazquez and McNab 2003).

tion of whether the Korea's centralized governance during the developing period contributed to its economic development. This is particularly significant for countries whose main concern is economic development that are promoting decentralization.

We will, however, focus more on the indirect impact of decentralization on economic growth rather than the direct relationship on which previous empirical studies have focused. There are many factors that significantly affect economic development, so the direct relationship between decentralization and economic development can be much less relevant than indirect factors closely related to decentralization. According to our literature review on this subject, major mediating variables between decentralization and economic growth are economic efficiency, corruption, macroeconomic instability, elite capture, and administrative capacity. The relationships among variables that this study presumes are summarized in Figure 1 below.

Figure 1. Schematic Relations Among Variables



The methodology this study relies on is basically literature review and simple analysis of data. We will analyze these relationships by reviewing existing theories and empirical studies and by focusing on possible risks of decentralization that can do harm to the countries' economic growth. In particular, Korean decentralization experiences will be discussed in more detail. Based our framework of analysis, some statistical analysis about the Korean case is attempted, in order to conjecture its implications for developing countries' economic development.

THEORETICAL PERSPECTIVES

Many studies that support decentralization are implicitly or explicitly inspired by Tiebout (1956) and Oates (1972, 1999). Tiebout's model, called "voting with feet," assumes that individuals are fully mobile and will move to the community where their preferences are best satisfied, which will come from competition among local governments. Oates (1972, 1999) assumed that local governments were better positioned than the central government to deliver public services to the citizen as a result of their information advantage. Oates (1993) and Martinez and McNab (2003, 1603-1606) studied the relationship between decentralization and economic growth, at least partly, inspired by the inference of these assumptions of economic efficiency. Economic efficiency here refers to a minimization of waste because public resources are allocated exactly to what should reflect citizens' true needs. Increased efficiency will result in more economic growth.

There are mixed findings, however, about the effect of decentralization on economic growth, both in cross-country analyses and in studies within a single country. In other words, empirical studies do not prove consistently that decentralization is positively related to economic growth. Davoodi and Zou (1998) provided a simple endogenous growth model showing how the degree of fiscal decentralization affects the economic growth rate through a cross-country panel data set of 46 developed and developing countries over the 1970-1989 period. They found a negative relationship between fiscal decentralization and growth in developing countries, and no relationship for developed countries. Zhang and Zou's (1998) study, based on annual data on 28 provinces in China from 1986 to 1992, reveals that a higher degree of fiscal decentralization is associated with lower regional economic growth in China. They argue that an increase in subnational government-level expenditure causes a decline in the real growth rate of regional income. The key infrastructure projects, according to Zhang and Zou's (1998) study, may have a far more significant impact on economic growth across provinces than their counterparts in each province; the association between central government development spending and economic growth is positive and significant, while provincial governments' expenditure for development is negatively associated with economic growth.

This finding implies an important lesson for other developing countries and transition economies blindly pursuing fiscal decentralization. Since the 1970s, China has promoted fiscal reforms with the aim of decentralizing fiscal expenditure and ensuring the central government's role on the fiscal revenue side (World Bank, 2000). However, many scholars such as Ma (1995) and Zhang and Zou (1998) argue that fiscal decentralization in China was implemented too rapidly and too extensively. What is interest-

ing is that this is not a simple problem that just concerns developing countries. Xie, Zou, and Davoodi (1999) examined the relation between fiscal decentralization and regional growth in the U.S. economy from 1948 to 1994. They interpreted the insignificant coefficients on subnational government expenditure shares as a policy implication that further decentralization in public spending is harmful to growth in the U.S. context.

On the contrary, there also exist several empirical studies supportive of a positive relationship between decentralization and growth. In the cross-country context, Huther and Shah (1998), though investigating a simple correlation, showed that fiscal decentralization is positively associated with quality of governance, which is presumed to accelerate economic development. Thiessen (2000) found a positive and direct relationship between decentralization and growth for panels of high-income, Western European, and middle-income countries. Akai and Sakata (2002) argued that they provided new evidence that fiscal decentralization contributes to economic growth, in contrast to previous studies that have denied such a contribution. They insisted that their new state-level data for the United States enable them to estimate the effect of fiscal decentralization more objectively than previously, because the data set exhibits little cultural, historical, or institutional variation. Lin and Liu (2000) investigated the effect of fiscal decentralization initiated in the mid 1980s in China on the growth rate of per capita GDP. They found that fiscal decentralization has made a significant contribution to economic growth, which is consistent with the hypothesis that fiscal decentralization can increase economic efficiency. In addition, they argued that rural reform, capital accumulation, and nonstate sector development were the key driving forces of economic growth in China over the past 20 years or so. They argued that, according to the data set, fiscal decentralization has raised the growth rate in China mainly by improving the efficiency of resource allocation rather than by inducing more investment. Iimi (2005), using the instrument variables technique with cross-country data for the period from 1997 to 2001, found that fiscal decentralization has a significant positive impact on per capita GDP growth. And it was argued that when the focus is placed on the latest information on the economic situation in the latter 1990s, decentralization, particularly in terms of fiscal expenditure, is instrumental in economic growth.

No matter what the results are in those studies, there are many methodological issues and problems in empirical studies testing the role of decentralization in economic growth (Martinez-Vazquez and McNab 2003). One of the critical limitations of previous studies is that most of them focused on only one aspect of decentralization: fiscal decentralization, measured by subnational share of total expenditure. Although it is clear that fiscal decentralization is an essential element of the decentralization process,

subnational share in total expenditure can not fully reflect the diverse and multidimensional processes of decentralization in different countries, and thus, fiscal decentralization has serious limitations in analyzing the relationship between decentralization and economic development. The decentralization implemented now in many developing countries is not just fiscal decentralization. For example, many developing countries decided to make local officials' positions elective. Further, the level of real decision-making power of elected local officials is different in each country.

One of many reasons that previous studies used subnational share in total expenditure as the only indicator of decentralization seems to be the fact that it is relatively easy to measure and convenient to analyze using statistical methods. But considering the limitations of this approach, the concept of decentralization will be categorized into several different aspects in the next part of this paper to analyze the Korean experience of decentralization and economic development.

There are also many different ways to define economic growth or economic development, because it is in fact a very broad concept. Previous studies used annual GDP growth or GDP per capita growth as an indicator of economic growth or development. Nevertheless, it is necessary to keep consistency in the case of the dependant variable so that it can be compared accurately with previous studies. Therefore the term of economic growth or economic development in this paper refers to the GDP growth rate.

THE FRAMEWORK OF ANALYSIS: TYPOLOGY OF DECENTRALIZATION

Decentralization covers a broad range of concepts, and each type of decentralization has different characteristics, policy implications, and conditions for success (Rondinelli 1999). One frequently cited classification presumes four broad categories: administrative, fiscal, political, and market decentralization (Rondinelli and Nellis 1986, Rondinelli 1999). Administrative decentralization refers to transferring the responsibility for planning, financing, and managing certain public functions from the central government to local authorities. Fiscal decentralization refers broadly to efforts to change the distribution and sources of resources available to local governments. Political decentralization refers to devolving powers to democratically elected local governments or, in much weaker forms, to making local governments more accountable to communities through the establishment of oversight boards or the introduction of new forms of citizen participation in development projects and policy-making. Market decentralization involves attempts to transfer substantive control over resource allocation to nonstate actors.

While distinguishing among the different types of decentralization is useful for highlighting its many dimensions and the need for their coordination, these concepts overlap considerably (Rondinelli 1999) and occur coincidentally. In other words, it is not easy to describe countries' different in phase or characteristics of decentralization by clearly distinguishing the stages or phases.

Im (2005, 113) suggested a typology of decentralization based on two variables: local election and the central government's power over local government. This framework of analysis, presented in Table 1, is more valid for the purpose of this study.

Table 1. Framework of Analysis

		Local Officials	
		Appointed	Elected
Central Power	Strong	Centralization Model (1.1)	Controlled Decentralization Model (1.2)
	Weak	Deconcentration Model (1.3)	Decentralization Model (1.4)

A country where local high officials, including mayors and prefects or governors, are appointed by the central government and the central government keeps close control over local administration can be classified as fitting the Centralization Model (cell 1.1). The Centralization Model is in contrast to the Decentralization Model (cell 1.4), in which leaders in local governments are chosen by popular election and the influence of the central government is weak with regard to local government's policy-making. These two models constitute the polar types, and the other two models are deviations from them. The Deconcentration Model (cell 1.3) refers to a system where local officials are appointed by the central government and exercise relatively strong decision-making power delegated by the central government. Under the Controlled Decentralization Model (cell 1.2), the central government, using direct or indirect means, retains control over local governments, even though local officials are chosen by popular election.

This framework was originally suggested with the object of analyzing changes in intergovernmental relations and decision-making (Im 2005). Regardless of differences in purpose, we have adopted this framework here because each type of decentralization can have different meaning—to economic efficiency, as suggested by the fiscal decentralization literature, and to the indirect or moderating factors of economic growth, as suggested in the next part of this paper: corruption, macroeconomic instability, elite capture, and lack of administrative capacity in local government.

The four types of decentralization are likely to have different effects on these fac-

tors. These different effects are summarized in Table 2. These relationships were derived from theoretically inferred predictions and not empirically tested, based on the assumption that strong central power means intensive monitoring of local officials and a low level of autonomy and that elected local officials will have a high level of responsiveness and accountability to the local community, a low level of interest in macroeconomics, and a low level of administrative capacity. These assumptions can appear somewhat intuitive, so that the previous studies on these factors will be reviewed in the next part of this paper.

Table 2. Relationships Between Decentralization Models and Factors Affecting Economic Growth

Model	Local Economic Efficiency	Preventing Corruption	Preventing Macroeconomic Instability	Preventing Elite Capture	Administrative Capacity in Local Government
Centralization Model (1.1)	very low	very high	high	very high	high
Controlled Decentralization Model (1.2)	high	low	low	low	low
Deconcentration Model (1.3)	high	high	high	high	low
Decentralization Model (1.4)	very high	very low	low	very low	low

This summary of the relationship between the types of decentralization and mediating variables suggests that a country intending a certain type of decentralization should consider the possible risks or shortcomings the decentralization type implies if they want to achieve a high level of economic efficiency as suggested in traditional decentralization literature. If the country is not prepared enough, it can be better to choose centralized models to prevent negative impacts.

POSSIBLE RISKS OF DECENTRALIZATION: MEDIATING FACTORS

In contrast with the theoretical prediction from the traditional view, there is great variation in practical results due to the countries' differing institutional environments and circumstances. Several possible risks of decentralization were suggested in previous studies, and developing countries are usually much more vulnerable to these dan-

gers. These risks, if they occur, must directly or indirectly affect economic growth, which means that these factors play a moderating role between decentralization and economic development.

Corruption

Prud'homme (1995) argued theoretically, with examples, that there are probably more opportunities for corruption at the local level. First, local bureaucrats and politicians are likely to be more subject to pressing demands from local interest groups. Second, local officials usually have more discretionary powers than national decision makers. Banfield (1979) also argued that decentralized political systems are more corruptible, because the potential corrupter needs to influence only a segment of the government, and because in a fragmented system there are fewer centralized forces and agencies to enforce honesty. And Bardhan and Mookherjee (2000) argued that countries where a greater share of public business is conducted at subnational levels would be more corrupt and less effective at providing public goods because interest groups may be more cohesive at the local level.

Empirically, Goldsmith (1999) argued that administrative centralization is associated with lower degrees of political corruption through cross-country regression using the Corruption Perceptions Index (CPI) released by Transparency International (TI). This study points out that federal or decentralized systems make it easier to hide corrupt practices. Through cross-country regression (using TI's and the World Bank's corruption indexes, with data on 154 countries), Treisman (2000a) argued that states with more tiers of government tend to have higher perceived corruption and may also do a worse job of providing public services. In a later study, he also found that federal states are more corrupt than unitary ones, using cross-country regressions with TI's CPI as the main dependent variable (Treisman 2000b). He attributed this higher level of corruption in federal states to the collective action problem for subnational officials in deciding how much to extract in bribes from businesses that they have the power to regulate. According to Treisman, competition between autonomous levels of government to extract bribes leads to "overgrazing" of the commons. In unitary states, in contrast, a more effective hierarchical control enables central officials to limit the subnational officials' bribery to a more "reasonable" level. In this case, to decentralize political power giving total autonomy to local governments in poor countries is likely to increase corruption among local employees.

In addition to hierarchical control, many studies support the belief that competition among different levels of government leads to a decrease in corruption (Breton 1996, Weingast 1995, Arikan 2004, Fisman and Gatti 2002). However, these studies did not

consider the particularity of developing countries' politico-administrative situations, and even the empirical tests turned out to be insignificant (Arikan 2004). Each country's different institutional and social settings could affect local governments' corruption tremendously. Shleifer and Vishny (1993) suggested a theoretical model arguing that not only nations with a highly centralized institutional structure but also those with a very decentralized one may suffer less from the damaging effects of corruption than states with an intermediate level of institutional centralization. Brueckner (2000) analyzed the consequences of altering Tiebout's model, which claimed that decentralized provision of public goods allows better fulfillment of diverse individual demands, by including local corruption and tax evasion, which may exist in many developing countries, and the analysis showed that these forces limit the benefits from decentralization. Decentralization, according to Tanzi (2000), can be good only if proper institutional grounds are established, but these conditions for successful decentralization are often not in place, especially in developing countries.

Empirical cases support the hypothesis that decentralization in developing countries at least partly increases corruption. Fjeldstad (2001) found that fiscal administrations in many local authorities in Tanzania were highly corrupt, partly due to local officials' extreme degree of discretionary fiscal powers and poor (or nonexistent) monitoring from above. Mana (1999) examined the causes and characteristics of corruption at the provincial level in Papua New Guinea and argued that the decentralization reforms in Papua New Guinea in 1995 resulted in increased discretion among provincial governors as well as increased competition among NGOs, leading to enhanced pressure for corrupt practices. Also it is important to note that monitoring mechanisms of public bureaucrats are much weaker in low-income countries than others (Bardhan 2002).

Macroeconomic Instability

Decentralization can affect the macroeconomic stability of a country which, in turn, influences economic growth. Since local governments have less incentive to consider the macroeconomic impact of their policies than central governments do, decentralization can have a negative impact on macroeconomic stability, especially in developing countries whose economic conditions are unstable (Hoffman 1999). Decentralization can reduce the tax and expenditure base that the central government can use to carry out its stabilization function, and poorly designed decentralization policies can create incentives for subnational governments to spend irresponsibly and unsustainably (Seddon 1999).

Some countries, including Brazil and China, experienced macroeconomic problems when tax bases were decentralized without a clear assignment of expenditures to

the lower level of governments that receive the revenues (Hoffman 1999, 89; Dillinger 1997). The expansion of local government expenditure in Argentina, Brazil, Columbia, and Mexico undermined their central fiscal policies when subnational deficits resulted in a bailout by the national government, which made it more difficult for the central governments to control their budget deficits and stabilize inflation during the 1994 Latin American economic crisis (Dillinger 1999).

Elite Capture

Bardhan and Mookherjee (2002) argued, inspired by the capture theory, that there is a tendency for services to be overprovided to local elites at the expense of non-elites. The extent of such inefficient and inequitable cross-subsidization depends on the extent of local capture and on the degree of fiscal autonomy that local governments enjoy. Therefore the effects that decentralization will bring depend on the relative vulnerability of national and local governments to capture by influential interest groups, as well as on the existence of an appropriate set of political and economic institutions (Bardhan and Mookherjee 1998, 1999).

Mani (2003) found that local government officials in less developed areas often wield power within the local community and use this power to manipulate information and development for the benefit of the particular group they belong to. In a similar context, Bardhan and Mookherjee (2000) argued that the relative proneness to capture of local governments depends on a multitude of diverse factors. This study supports the Madisonian presumption that there will be greater capture due to greater cohesiveness of interest groups and higher levels of voter ignorance at the local level. But they also identified a number of other determinants of capture that pull in different directions. These include the relative extent of electoral competition, electoral uncertainty, and the value of campaign funds in local and national elections. Other relevant factors include heterogeneity among local districts with respect to intra-district inequality, and different electoral systems at the two levels. The contrasting roles of these diverse factors suggest that the extent of relative capture at the local level may well turn out to be context- and system-specific.

Lack of Administrative Capacity in Local Government

Lack of institutional capacity in local government can be a serious problem, especially in developing countries. Local governments in developing countries generally lack the managerial, technical, and financial capacity to plan and implement policies and public services. Bardhan (2002) argued that the decentralization literature typically

assumes that different levels of government have similar levels of technical and administrative capacity, but this assumption is questionable, especially for developing countries. According to him, a central bureaucracy attracts better talent on account of agglomeration economies in attracting qualified people, and this problem is especially severe in many developing countries where the quality of staff, including those handling basic tasks such as accounting and record-keeping, is very low at the local level (Bardhan 2002, 189). Although it is assumed that local governments may know what to do, they may not know how to do it (Bird 1993).

Mani (2003) stated several problems of local government capacity in developing countries. Local governments in less developed regions have the greatest problem in recruitment of qualified people and suffer most from weak managing capacity. Many developing countries are in a situation where central governments attract the best-qualified human resources while local governments function with less qualified personnel. Moreover, the private sector and multilateral and bilateral agencies engaged in development attract skilled staff away from government by offering higher salaries. Motivation of staff is low because of frequent transfers and low salaries. In terms of skills, local government personnel tend to have poorer qualifications and less experience in generation and disbursement of resources for development. They lack sufficient skills in collaborative planning with NGOs and CBOs as well as in participatory planning with communities. Lower levels of governments lack the capacity to identify threats to development and target vulnerable populations, and have a limited mandate and capacity for conflict resolution.

DECENTRALIZATION AND ECONOMIC DEVELOPMENT IN KOREA

The decentralization process in Korea can be categorized into three periods on the basis of the existence of local elections: from 1948 to 1961, from 1962 to 1991, and after 1992. Korea started with a decentralized system, at least at the legal level, because the Constitution formed in 1948 after the Liberation clearly called for local autonomy and a Local Autonomy Act was enacted in 1949. The first local council election was held in 1952. However, this radical decentralization went through a great change after the military coup in 1961. After that, local elections were never held, and mayors and governors as well as directors of local governments were bureaucrats appointed by the central government. Local elections finally resumed in 1991, thanks to the democratization movement. Local autonomy has steadily increased since then, which has been more or less successful from the viewpoint of participatory democracy.

However, closer examination of the Korean decentralization process is required; having local elections instead of appointing local officials is just one of many aspects of decentralization—which includes, as mentioned above, administrative, fiscal, political, and market aspects. To understand the decentralization process of a country, one must view it from several dimensions. We will use Im's framework in our analysis, with its four models of decentralization: Centralization, Controlled Decentralization, Deconcentration, and Decentralization.

1948-1961: Controlled Decentralization Model

In this period, decentralization was attempted seemingly for the purpose of establishing a liberal democratic system in South Korea. The Local Autonomy Act of 1949 is widely accepted as the start of local self-government in Korea, and in 1952, local council elections were held.

However, local elections in this period had a somewhat different meaning from what we generally assume about decentralization. The true intention of introducing local elections in a time of poor political participation was considered to be strengthening President Syngman Rhee's political power base; paradoxically, the political system was highly centralized rather than decentralized (Kim and Chung 1995). Although decentralization is mostly regarded as a way to delegate power to lower levels, President Syngman Rhee utilized this method to ensure that local power bases were occupied by his political supporters.²

In addition, there were mechanisms that enabled the central government's policy directives to be implemented without obstruction from local governments. For the provincial governments,³ the president of the Republic appointed the chief executives with the recommendation of the Minister of the Interior, who was one of his closest collaborators. This way of appointing leadership positions in the local governments made provincial government comply with the central government, so that central government policies did not encounter local governments' opposition. In addition, agencies and organizations delegated functions in a way that kept local governments under central governmental supervision, and local governments were strictly required to follow national-level policy directives in implementing the functions delegated by the central government (Kim 2003, 328).

2. This must be possible because the election was held in a crisis during the Korean War.

3. There were two tiers of local government. Upper-tier government, like provincial government, was called "Do." And lower-tier government, like county and city governments, were called "Shi," "Eup," and "Myeon." Seoul Metropolitan City, the capital, had a special status.

In 1960, the Second Republic was established after the first president, Syngman Rhee resigned from office. Efforts during the Second Republic to make the government more decentralized were halted by the coup in 1961. Relations during this period can be regarded as following the Controlled Decentralization Model, in which the central government, using direct or indirect means, retains its controlling power over local governments, even though those offices are filled by local election.

The Korean economy in this period performed miserably due to the accumulation of the previous histories periods when the Japanese colonial government from 1910-1945 had exploited Korean economy for its interest and the Korean War from 1950-1953 had ruined all infrastructure and social capital. Korea was one of the poorest countries with one of the lowest economic growth rates in the world. The apparent decentralization of the political system did not contribute at all to the country's economic growth. All the mediating factors included in the framework of the current study were bad.

1962-1991: Deconcentration Model

In this period, economic development was highly emphasized. Efficient use of national resources and their mobilization were stressed by the central government. Local autonomy was suspended by a Special Law on Local Autonomy. All mayors and governors were appointed by the central government, and all appointed chief executives were expected to implement nationwide development plans and directives. In addition, the roles and functions of local councils were taken over by the central government. However, it can never be said that decentralized governance was totally stopped. Instead, administrative decentralization was carried out for efficient execution of the development plan.

After the military coup in 1961, there was a military government which had a two-year time limit. The reform agenda of this military government became basic elements of governance in this period and have remaining influences during the rest of President Park's regime, so it is worth looking closely at this government's policies. Many of the central government ministers and provincial governors were generals of the armed forces. The first Minister of the Interior was a general. He held an inspection tour of the provinces and said he found a lack of coordination and a lack of initiative on the part of local administrators (Cho 1966). However, the minister was asked to delegate the authority of the central government to the local governments by a section chief of the Ministry of the Interior and by its bureau chief (*ibid.*). From this time, administrative decentralization began. According to Cho (1966, 24), the guidelines discussed in the first governor's meeting after the military coup were as follows: "The

central government will have the planning function, the provincial government will have both planning and executive functions, and the cities and counties will have executive functions.”

On 28 August 1961, General Park Chung Hee, the chairman of the Security Council of National Reform, said that the government would decentralize to a great extent and that the central government would only do the planning, coordination, and supervision, so the governments below the provincial level should have executive functions (Cho 1966, 26).

On 24 January 1962, the chairman said that successful implementation of the five-year economic development plan was the most important goal; the Minister of Interior, on the other hand, said that strengthening the functions of local government was equally important (Cho 1966). Cho has pointed out, however, that leaders of the military government used the military analogy in civilian administration; the concept of division between planning and execution was based on their military experience. With regard to interagency cooperation, the chairman said that if one is going to develop a basic plan for a field operation in the army, the planning for logistical support should go together with it (Cho 1966, 37). This military analogy helped them to realize the need for delegation of authority, which would bring administrative efficiency (Cho 1966).

This policy agenda of economic planning and administrative decentralization in order to efficiently execute the plan lasted throughout this period with some variations. But the third Republic, inaugurated after the constitutional reform, stated that the local council election had to be postponed until the unification of the two Koreas. Let alone the fourth republic, the constitution of the fifth Republic once again delayed local elections, stipulating that local councils should be established on an incremental basis taking into account the level of financial self-sufficiency attained by localities.

The degree of decentralization during this period can be classified as following the Deconcentration Model, which means a system where local officials are appointed by the central government but exercise relatively strong decision-making power as the central government delegates its power to local agencies as well as local governments. Explaining decentralization in this period with the Deconcentration Model, however, does not mean that the central power over local government was weak in an absolute sense. In fact, the central power in this period was strong to consistently pursue an export-driven economic development policy. Nonetheless, the reason for identifying this period as following the Deconcentration Model is that there was a delegation of governmental function to local government and central government did not do everything.

Korea experienced spectacular, usually double-digit, economic growth in this period. Mobilization of resources to focus on strategic areas for economic development was

possible thanks to a strong bureaucracy based on the Deconcentration Model. The administrative capacity has played a great role in this process of extraordinarily high economic growth, while the other mediating variables have improved gradually.

1992-Present: Controlled Decentralization Model

As economic growth continued catching up the subsistence level, Korean society became increasingly diverse (Lee 1995). The people, especially young people, aspired to western democratization, and in this sense, decentralization was regarded as the one of the indicators of political democratization. From the early stage of the sixth Republic, people started to request political decentralization of local governance.

In 1987, the ruling party proposed an amendment to the Local Autonomy Law. The seventh amendment of the Local Autonomy Act passed the National Assembly on 6 April 1988. The amendment stipulated that city and county councils were to be composed by 30 April, but allowed that the executives of local governments be appointed for the transition period. City and county council elections were held on 26 March 1991 and the provincial council elections on 20 June 1991. Thus, the Korean government has been politically decentralized, and the local governments' decision-making autonomy has steadily increased.

The Controlled Decentralization Model of this period does not mean that the central power was stronger than during the period from 1962 to 1991, which is identified as Deconcentration Model in this paper. The reason for categorizing this period as Controlled Decentralization is that the central government power was still too strong to be characterized by the Decentralization Model. The period from 1948 to 1961 is also characterized by the Controlled Decentralization Model with apparent Decentralization Model in this paper, but we cannot say the central power over local government after 1992 is comparatively as strong as that of the period 1948; local elections during the Syngman Rhee administration were conducted just in order to strengthen the president's political domination.

In spite of these relatively drastic reforms, the great power that the central government exercises over the local government has been gradually weakened, to the extent that the Ministry of the Interior, with its name changed to Ministry of Home Affairs and Decentralization, employs various strategies to keep its influence over local governments (Im 2004). Park (2006) pointed out that the local government remained functionally and financially limited despite its constitutionally guaranteed autonomy for several reasons. The structure of local governance is largely fragmented and dispersed, and local decisions are subject to strong central control. Local electoral politics is increasingly nationalized, and the local chief executive does not share local govern-

mental power with other local political actors. Economic interests and social identities at the local level are poorly organized and barely active. Local residents remain politically passive and hardly empowered. Principal actors in the local arena spent time developing new game rules, so that many problems that local councilors as well as mayors and governors were involved in were discovered (Im 2004).

Relationship Between Decentralization and Economic Growth in Korea

It is often argued that the Korean government has functioned for many decades as an extremely centralized unitary system. This, however, does not necessarily mean that every decision in the Korean political system was made exclusively by the central government. In practice, the centralized system dispersed decision-making power to the various locations around the country to a great extent, as we examined above.

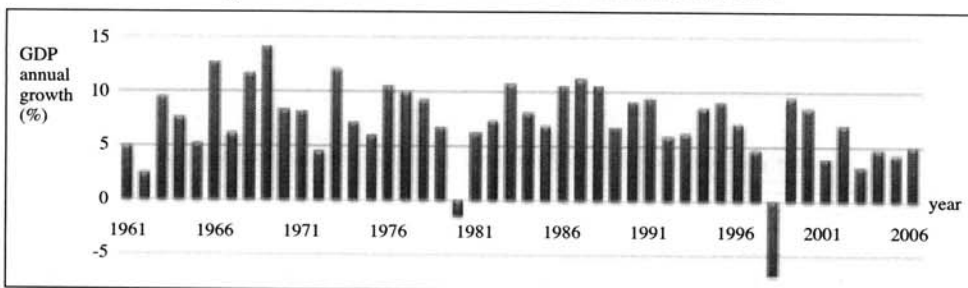
The Korean experience of decentralization can be analyzed as Table 3 shows.

Table 3. Changes in the Model of Local Governance in Korea

1948-1961	1962-1991	1992-present
Controlled Decentralization (Apparent Decentralization)	Deconcentration	Controlled Decentralization

The annual GDP growth rate of Korea from 1961, presented in Figure 2, shows that Korea accomplished a high level of economic development. Especially during the period from 1962 to 1991, the average annual growth rate was more than 8%.

Figure 2. Korea's Annual GDP Growth Rate From 1961



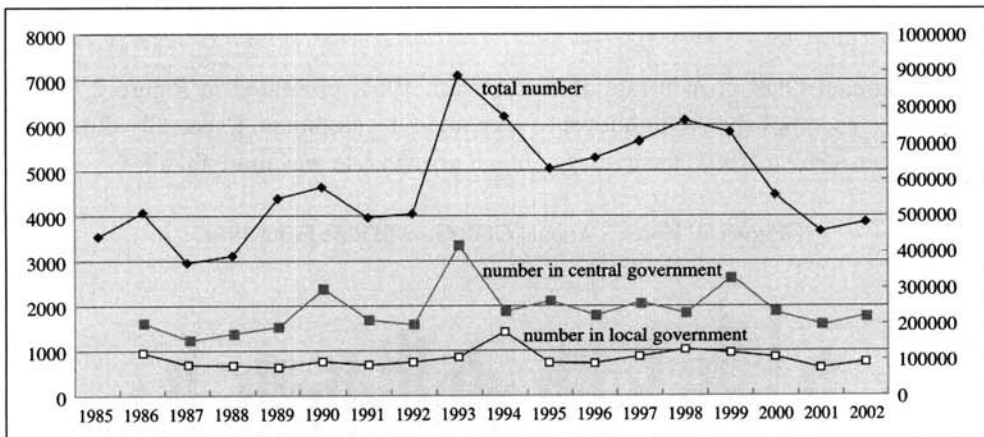
Unfortunately, there is little data available to clearly prove that Korea's Deconcentration Model during the developing period contributed directly or indirectly to this high level of economic growth. It is, however, not meaningless to try to explain the relationship, because the centralized governance system was one of Korea's major fea-

tures during this period.

In our theoretical prediction, summarized above in Table 2, the Deconcentration Model can prevent corruption, macroeconomic instability, and elite capture, and can foster high administrative capacity in local government. And we can say that the Korean government's choice of a centralized system that decentralized administrative authority helped avoid the risks associated with decentralization to which developing countries are especially vulnerable, and economic development was not affected by these risks.

Although there are few materials to prove the relationship between the Deconcentration Model and the avoidance of risks related to decentralization, it is not impossible to explain it partially. For example, Cho (2004) insisted, based on the number of public servants punished by disciplinary action (see Figure 3), that local elections in Korea in the early 1990s were likely to produce more corrupt behaviors. It is argued that the number of disciplinary cases increased in the early 1990s when local elections took place. Furthermore, the numbers in the years 1990, 1993, and 1998 show high increases, and there were local elections before or after these times.

Figure 3. Number of Public Servants Punished by Disciplinary Action



Note: This graph has been adapted from Cho (2004).

Kim (2007) pointed out the low capacity of public servants in the Korean government in the 1960s. At that time, two-thirds of the middle level of public employees in central government were not educated to or beyond the high school level. They rarely received further education or long-term training after they became public servants, and salaries were very low. This lack of administrative capacity was an even more serious problem for local government. The president launched an initiative to make central

government more effective by educating central government officials and dispatching them to local government instead of conducting local elections. It seems that this could minimize the possible negative effect of the low level of administrative capacity in local government.

It needs to be noted that the highly centralized government during the period from 1962 to 1991 partly devolved its administrative function to local government. Unlike the Centralization Model, this type of governance can, to some extent, exploit the benefits of the information advantage, which increases economic efficiency. These findings can support the theoretical predictions of this paper. However, the supporting evidence is not enough, and further studies are needed to firmly establish this relationship.

CONCLUDING REMARKS

We have examined the relationship between decentralization and economic growth in Korea and considered its implications for developing countries where decentralization is being promoted. Focus was concentrated on the indirect relationships in which several factors can play a role. Within our framework of analysis, we argued that the Deconcentration Model, as applied in Korea from 1960 to 1991, could help avoid the risks associated with decentralization to which developing countries are especially vulnerable, such as corruption and lack of administrative capacity in local government, and could help keep economic development from being negatively affected by these risks.

Although Korea's successful economic growth can partly support this argument, there is not enough evidence to prove it, and further research is needed. Nonetheless, we can say that it is safer to start local governance when a country has the capability and the mature democracy to absorb the risks and problems that decentralization may bring about. Until a certain stage of progress, a strong central government that decentralizes its executive function can be beneficial. Simply copying and rapidly introducing western-style decentralization is likely to harm economic growth and, in turn, to harm democracy in developing countries.

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