

# *Fiscal Federalism and Korea*

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## **Abstract**

*Over two decades have elapsed since the South Korean government restored local autonomy in 1995. It resulted from a process of democratic transition which saw the first civilian president popularly elected after nearly three decades of authoritarian governments. The central government handed over some tasks and responsibilities to the regional governments and local residents elected their executive heads and local councils. Yet, despite many desires and high expectations for improved public services and participation, Korea has seen inherent tensions and conflicts between the central and regional governments so far. This paper seeks to clarify them from the perspective of fiscal federalism. It gives a case study of controversy between Seongnam City and the central government over the revising regional financing. It is argued here that eventual unification of divided two Koreas might provide principal policy-makers with a critical juncture during which current over-centralized half-way devolution might turn into a fiscal federalism.*

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## 1. INTRODUCTION

Democracy means a lot of different things to different people. But it shares certain core elements such as open and transparent decision-making based on inputs from stakeholders and citizens alike. Korea was one of the rarities among the developing countries in that it achieved both industrialization and democratization over five decades, which has been no push-over across the globe.

As a part of wider democratization process, the civilian government which brought the first popularly elected President Kim Young-Sam to power restored local autonomy in 1995. The military which came to power in 1963 stopped the incipient self-rule at various levels of government across the country and postponed its reintroduction thereafter, saying that it would be reinstalled on the moment Korea would be unified (Choi and Wright, 2004; Kim, 2015; Seong, 1998). Devolution in Korea in mid-1990s thus resulted from a democratic transition process after nearly three decades of authoritarian regimes. The central government handed over some tasks and responsibilities gradually. As of the end of 2015, local governments implement about 40% of tasks related to state affairs such as welfare delivery, while the revenue from local tax accounts just for 20% of the total spending by the regional governments. Fiscal autonomy (independence) for regional governments as a whole is another crucial component of local autonomy, yet it is still a far cry.

In this context, a most recent controversy over strengthening regional finance tells much about the nature of inherent tensions in a unitary, multi-tiered government in Korea (Republic of Korea). It revolved around Seongnam City Mayor Lee Jae-myeong and the central government, particularly Ministry of Interior. This paper takes the case, as it touches on the fundamental aspects of local autonomy, that is, on the perennial disputes over the revenue-sharing between the central and the local levels of government. The case was not just confined to Seongnam, because other five municipalities in the Gyeonggi-do-province also joined on the side of the city, highlighting the salience of the issue. Despite the politicization of the issue, it has been very much underreported both in domestic and foreign media. Google search made on 22nd June 2016 revealed only the controversy surrounding his cash-in-hand for the youth between the city and the center.

This paper analyzes the conflict in detail and discusses it from the perspective of fiscal federalism. It is argued here that eventual unification of divided two Koreas might provide principal policy-makers with a critical juncture during which current over-centralized half-way devolution might turn into a fiscal federalism. The first section contextualizes the conflict between the center and Seongnam, followed by detailed accounts of inherent tensions in local autonomy in Korea. It then discusses the relevant issues that the possible unification of capitalist South Korea and dynastic communist dictatorship North Korea would raise in light of fiscal federalism.

The originality of the paper lies in linking the local autonomy with fiscal federalism in the context of possible Korean unification. Existing research falls into two categories. One addresses issues in Korean local governments (Choi, 2015; Choi and Deil, 2004; Kim, 2015). The other concerns itself with the various topics on Korean unification (Lee, 2003; Mario and Estrada, 2008).

## 2. “SCROOGE” VS. FOR A GENUINE LOCAL AUTONOMY

The city of Seongnam is situated in the south-east of Seoul with around 970,000 citizens. Being close to Seoul, Capital of South Korea, it has new town Bundang-gu district where many affluent middle-class citizens reside and educate their children. Due to soaring property prices and mayor's reformist agendas and its implementation, it was judged to be the most financially stable city in Korea by the Ministry of Interior in 2014. Yet, the city's finance was in pretty bad shape until 2010. Since coming to office in that year, progressive mayor Lee Jae-myeong (myung) declared moratorium on its 520 billion won debt (around USD 500 million) that he inherited from his conservative predecessor.<sup>1</sup> Continued budget cuts and anti-corruption efforts along with restructuring public corporations turned the city into the black, a rare success story. Reelected in 2014, he initiated three welfare programs from the mid-2015: 500,000 wons (USD 480) annually for people aged 24 with more than three-year residence in the city regardless of its income level ('youth dividend'); free school uniforms for students entering secondary school; 500,000 wons in post-pregnancy subsidies to mothers each year. The City can afford them in the medium and long term.

Central government didn't like his policy, as his was in stark contrast to President Park Geun-hye's. President Park made pledges during her presidential campaign: provision of free nursery education to kids aged 3-5; no tax hike. Increasing welfare program without tax rise was impossible to keep. One year and a half into the government, the Korean government raised tax on tobacco by 80% and doubled residential and vehicle taxes in September 2014 (Yoon, 2014). The central government warned against mayor Lee on several occasions and went so far as to amend enforcement ordinance (presidential executive order) on local tax grant, empowering the central government to slash regional government's social welfare programs. It was targeted at the city. Seongnam filed a law suit to the Constitutional Court, arguing that the ordinance would violate local autonomy in December 2015. Seoul also followed a law suit, as its progressive mayor Park Won-soon has initiated similar welfare programs. The ball is in court's court.<sup>2</sup>

The center went a step further in its efforts to tame the progressive mayors. On April 22, 2016, the Ministry of Interior listed on its website plans to strengthen regional fiscal equity and soundness. The plans aimed at modifying the distributional formula of central government's grant to the local and turning local corporate tax into a co-tax to be redistributed to the financially weak municipalities. Existing formula is skewed toward financially sound councils, the ministry argues. Currently, grant distribution from the center takes the following into account: the number of population 50%; fiscal independence ratio (ratio of own-sources revenue to total revenues) 20%; levying performance 30% at the local councils. The higher local government's fiscal independence is and the more population it has, the more grants it gets from the center. The Six municipalities (Suwon, Hwaseong, Goyang, Yongin, Gwacheon along with Seongnam) that do not receive any grants from the center, due to their fiscally strong position are all in the Gyeonggi-do-province close to Seoul. A byelaw concerning the distribution of grants from the province to the lower levels of cities and townships is tilted towards giving more to the municipalities with sound fiscal capacities. Two months later, as of July 4, 2016, the Ministry of Interior announced on its website that it would raise the fiscal independence to 30% and lower levying performance to 20%. The Six estimates that this change in formula would take away about 500 billion wons from them. Change in distributional formula is to be done by a presidential executive order. Therefore, the ministry can push it through. On the other hand, revising the local corporate tax needs to be approved by National Assembly (Parliament). The tax is one of the very few things over which lower levels of cities

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<sup>1</sup> Mr. Lee Jae-myeong was born into a poor family and majored in law at a university in Seoul. He then worked as a human rights lawyer before coming into the mayoralty.

<sup>2</sup> The City of Seoul introduced 'youth dividend' in early August 2016 and the central government (Ministry of Health and Welfare) instructed the city to stop it. The metropolitan government brought the case to the Supreme Court, as it regards the ministry's instruction as a violation of the local autonomy (Jun, J. and S. Baek, 2016).

and townships have jurisdiction. The center wants to switch a part of it into a co-tax by the province and the municipalities. Given the timing and its aggressive pursuit of the plan, it thus penalizes the Six, which has made sustained efforts to improve their fiscal soundness. The ministry announced rewritten presidential executive order in early July 2016 and it will take into effect starting mid-July. It scrapped the byelaw giving priority to the fiscally healthy cities in a phased-out way. According to the Six, this revision would generate around 20 billion won fiscal loophole from 2016 onwards (Suwon City, 2016).

The Six, spearheaded by Mayor Lee, protested loud and clear. They demanded that the center implement the comprehensive plan for developing local autonomy made public in 2014. Approved by the Cabinet, the Presidential Committee on Local Autonomy Development suggested that the central government make up for 4.7 trillion won regional financing gap by raising local consumption tax, increasing grants from the center, and reducing and scrapping local tax exemptions (Choi, 2015). The local governments had to bear a large chunk of money in implementing free education for kids aged 3-5 and paying up the basic income since President Park was sworn in at the end of February 2013. Yet, the central administration didn't follow up the plan. Hence, chiefs of six cities asked for more fiscal autonomy, not more heavy-handed interference from the center. Mayor Lee waged a ten-day hunger strike from early June to mid-June at central Seoul, demanding retracting the plan. Five other mayors made the same requests to the center. The six joined hands in criticizing President Park for putting aside fundamental reform of regional financing and pushing for temporary and stop-gap measures to penalize the councils. Many citizens from Seongnam took turns in giving a helping hand to the mayor in a strike.



Figure I. The Geographical Location of Seongnam (Songnam)

*Note:* The administrative boundary of Seongnam is gridded with Seoul (in the white circle) in the upper left. The location of Seongnam is denoted with the red circle in the map of East Asia (right).

*Source:* GIS-generated (left); generated from WorldMap of the Center for Geographic Analysis at Harvard University (<http://worldmap.harvard.edu/maps/new>) (right).

Domestic press reports on the controversy were divisive along the ideological spectrum. Such liberal dailies as *Kyunghyang* and *Hankyoreh* gave a more balanced and nuanced analysis on the dispute with frequent reporting, while three conservative papers with the highest circulation (*Chosun*, *Joongang* and *Dong-a* Dailies) wrote very brief stories on it. A columnist at the *Dong-a* accused Mr. Lee of being scrooge without giving a full picture of issues about regional financing (Song, 2016).

Korea has witnessed frequent conflicts and controversies between the central and local governments since 1995 like the one above, and will continue to see similar ones in the years to come. This is a consequence of an over-centralized unitary governmental structure. In this regard, fiscal federalism might offer an opposite case as a cooperative one to get out of the inherent tensions. The paper doesn't regard the fiscal federalism as a panacea to resolve all disputes. Yet, it does suggest that the federalism is at least to be tried in Korea during the windows of opportunity, that is, during the uncertain times of reunification of the two Koreas.

### 3. FISCAL FEDERALISM AND KOREA

#### 3.1. Over-Centralization in Korea

Basic problem regarding over-centralization lies in the power imbalance between the center and the region. Although the Presidential Committee on Local Autonomy Development aims at strengthening regional devolution, it falls far short of rewriting tax system in region's favor. Currently, even the categories and rate of the local tax are to be determined by the central government. The center would not loosen its tight grip on the region. It has been too powerful for the region to break free. Political parties, ruling and opposition alike, still play a central role in nominating provincial governors and mayors at metropolises likes Seoul, Busan and Daegu and even to the lower levels of governments. There exists a power hierarchy between the center and region.

Besides the administrative and political rationale for underdeveloped local autonomy, Korea has had little historical experience of sharing power between the center and the region until the reintroduction of local autonomy in 1995. Mayor Lee in hunger strike was pictured in several newspapers and online. One citizen commented on it, "how dare a local mayor challenge president, the highest public official?" Many similar comments like these evidence to the deep-seated (mis)perception about the proper relationship between the center and the local. It is assumed here that region is dependent upon the center. It is not supposed that both the center and region are interdependent. Such perception is in stark contrast to the basic tenets of federalism that each political unit (center, region, etc.) is independent, rather than in a hierarchical order.

As a way of defusing inherent conflicts embedded in the unitary centralized political system such as Korea, federalism is to be an option. Federalism has been based on the power-sharing at economic and political areas as well (Musgrave, 1959; Shah, 2007; Maior, 2010). Unlike the power concentrated in the central government, it recognizes the equal status and the need for continued cooperation among the various levels of government. It is in this context that fiscal federalism may be a useful tool to rethink about the over-centralized administrative structure, offering a way out of the current impasse. Existing research on federalism is either focused on its history or reforms (Henning, 2012; Hallerberg, 2013) and there is little study on linking it with reform efforts for a centralized government.

Currently, Korea is over-centralized. It has higher levels of government (Seoul and six large metropolises with over one million population, eight provinces, Sejong City, and Jeju-do Island) and lower levels of government (in all 227: 75 cities, 83 counties and 69 townships or districts within either metropolises or big cities). As of end of 2013, over 1/5 of Koreans (over 10 million) live in Seoul, whereas its land size takes up only 0.6% and its gross output constitute 22.8% of the Korean gross domestic product (GDP). Gyeonggi-do-Province close to the capital has over 12 million citizens and 19.7% of the national GDP. Seoul and Gyeonggi-do-Province together constitute nearly half of population and 42.5% of total output in Korea (Kim, 2015). Such big gaps between the center and region have not been narrowed so far. Over-centralization is also seen in the tax collection. Both,

the revenues of local tax and national tax have increased gradually during two decades 1995-2014. Yet, in spite of roughly same rate of four-fold uptake over the period, its gap between 1995 and 2014 have vastly widened. In the fiscal year of 1995 (from 1 January to 31 December 1995), national taxation accrued 36.4 trillion wons (USD 1 billion amounts to about 1.2 trillion Korean wons) more than the local one, while it 2014, the gap totaled 134 trillion wons. Figure II shows the trend with clarity.

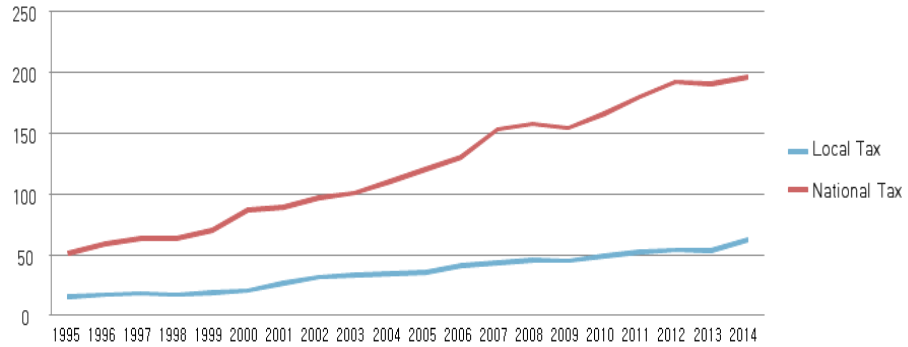


Figure II: Increases in National Tax and Local Tax Revenues from 1995 to 2014 (Unit: Trillion Wons)

Source: Korean Statistics Portal (<http://kosis.kr>).

This imbalance in the tax collection and over-centralization illustrate the vast gap between the fiscal independence ratio among the various tiers of governments in Korea. As Figure III indicates, Seoul and Gyeonggi-do province rank the first and third in their fiscal autonomy. Ulsan takes the second place. It is often called “Hyundai city,” because it has two big companies under business conglomerate Hyundai – motor and shipbuilding – and they contribute significantly to the city’s budget. On the other hand, Jeonnam, farthest down the south-west of Seoul, is financially the weakest, followed by Gangwon-do province by the North-South military dividing line (38th parallel line).



Figure III: Fiscal Independence Ratio of the Korean Local Governments as of 2015

Source: Ministry of Interior, 2015 ([lofin.moi.go.kr/portal/main.do](http://lofin.moi.go.kr/portal/main.do)).

Fiscal independence ratio posts 52.47% as of 2016. As figure IV shows, it had declined by over 11% point over the past two decades. Lower levels of government have had to spend more for welfare services such as provision of free pre-school education for kids ages 3-5 without corresponding increase either in local tax or grants from the central government (Choi, 2015). The Ministry of Interior acknowledges that in 2015, social welfare spending shot up to 27% of the regional governments' spending from 10.6% in 1995.

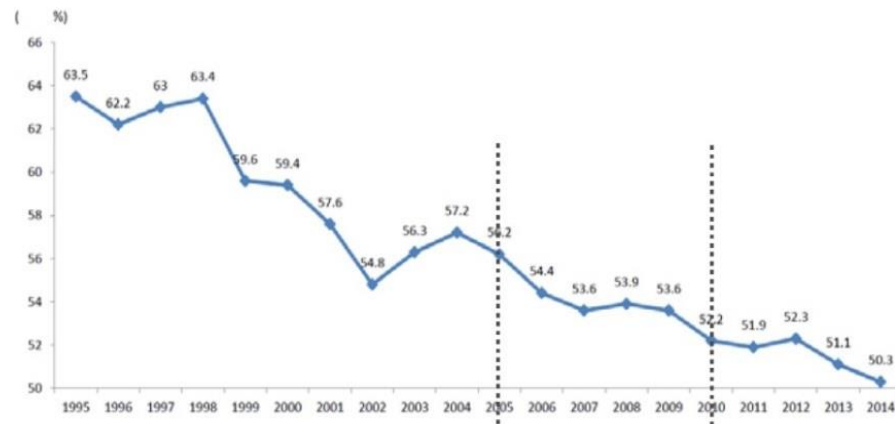


Figure IV: Changes in Fiscal Independence Ratio from 1995 to 2014

Source: Choi, 2015.

### 3.2. Unification as a Critical Juncture and Fiscal Federalism

The Korean Peninsula saw the territorial division as a result of the Second World War and fratricidal Korean War 1950-1953 which has cemented adversarial competition between the capitalist South and communist North. With cold war still going on and truce very fragile on the peninsula, circumstances at home and abroad for unification have improved and worsened with changes in government in the South along with those at major powers like the US and China surrounding the peninsula. During the liberal governments under the late Presidents Kim Dae-jung and Roh Moo-hyun from 1998 to 2008, inter-Korean relations had been bettered significantly. Sunshine policy, the active engagement of the North by the South, bore some fruits by holding irregular family reunions separated by the war and building Kaesong Industrial Complex (Zone) in the North by South Korean capital (Son, 2006). With South Korean companies investing and employing Northern workers, the complex was a laboratory for peaceful engagement of the two Koreas. As of end of 2015, it hired around 54,000 North Koreans, and 124 South Korean companies had paid about USD 100 million annually to the North as wages. Yet, the conservative government coming to power in 2009 in the South, basically, renounced the engagement policy, and the North countered it by continuing to have nuclear arsenal and testing long-range missiles. In response to continued development of nuclear weapons and missiles, current administration in the South also closed down the joint industrial zone in February 2016, virtually freezing the bilateral relations.<sup>3</sup>

<sup>3</sup> The government claims that about 600 million US dollars were diverted to develop the nuclear weapons in the North. Yet many experts dispute the claim, saying that the North mostly funded the nuclear arsenal by selling missiles overseas and conducting illicit trade. Calculation by the South Korean government equals the sum total that Korean companies had paid to the North since Kaesong's operation.

Despite the ever-rising tensions on both parts of Korea, South Korean government has pursued unification policy aiming at a peaceful and liberal unity so far. Nobody knows when and how the two Koreas would come together. Starting in the 1990s, various attempts have been made to research the unity from foreign policy and economic perspectives (Lee 2003; Noland, Robinson, and Liu, 1999). With regard to unification method, quick unification refers to the absorbing of the North by the South similar to that in German unification in 1990. On the other hand, gradual one expects the two Koreas to merge into one over longer period of time (Lee, 2003). Quick or gradual, what matters for current discussion is, the enormous pressures and challenges that eventual unification would bring to the main policy-makers.

As of 2014, South Korean GDP totaled USD 1.802 trillion and GDP per capita USD 35,700 in purchasing power parity (PPP), while those of North Korea USD 40 billion and USD 1,800, respectively (CIA, 2016). For GDP, there is a gap of 45 times and 19.8 times per capita income.<sup>4</sup> In view of the vast regional disparities between the South and the North, future unified government in Korea would need to introduce new taxes to fund the old and decrepit infrastructure in the North. Solidarity tax was imposed in unified Germany in the 1990s, despite pledges to the contrary by then German Chancellor Helmut Kohl. Revenues from the new tax and vast fiscal transfer would be likely to flow into the northern half of Korea.

In addition to the expected enormous fiscal burden that unity would bring with it,<sup>5</sup> social integration of the unified Korea would be one of the top priorities for the policy-makers. Nearly 30,000 defectors from the North live in the South, but their integration in the southern half, is judged to be not encouraging to say the least. They feel discriminated and have had difficulty in adjusting themselves to a completely different environment (An, 2016). Pent-up demands and expectations from North Koreans would far exceed the capabilities with which unified government would equip itself. North Koreans have never had an opportunity to experiment with democracy. After the territorial division in 1948, they have lived under a dynastic totalitarian communist dictatorship that is very hard to find anywhere else across the globe. In this regard, current over-centralized government structure would be considered very insufficient to address the various challenges coming from the unification. Actors from different levels of government are likely to ask for a federalist formula as a way to solve the problems. In particular, a coalition of regions from the financially hard-pressed North, in part allied with the regions with far lower fiscal independence ratio in the South, is very likely to be formed to demand federalism of the unity government. Current Constitutions lacking such clauses, the coalition would naturally ask for rewriting the highest law in the land to enshrine fiscal federalism based on power-sharing, political and economic. Several regions in the South might not like the idea, yet under the huge challenges from the unification, the central government would have no other choice but to accept the federalism. Therefore, unification would probably provide various policy-makers with a critical juncture for a unified Korea to turn itself into a fiscal federalism. Among the huge divergent pressures from the stakeholders ranging from the status quo – over-centralization – to a new structure for a unified land, major political actors would have powerful incentives to try out a new experiment. The several years from the unification to the initial stages of a unity government would constitute a critical juncture in the historical institutionalism (Capoccia and Kelemen, 2007). At the times, any outlines about the future governmental structure would be very fluid and uncertain, empowering the key decision-makers to choose among the several options. It would then initiate a path-dependence along the federalist lines that would last for quite a long time.

The development of the fiscal federalism in the United States offers similar lessons. In the early founding days of the 1780s, Alexander Hamilton, the first Treasury Secretary, represented the federalists, arguing for the power-sharing between putative federal and vocal states governments opposed to any kind of intervention from above. Since then, federalism got

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<sup>4</sup> As North Korea doesn't publish any official statistics, data on the North is an estimate. The estimate by the Bank of Korea in the South is roughly the same for the GDP, while disparity for the GDP per capita amounts to around 21.4 times.

<sup>5</sup> In case of a gradual unification scenario, fiscal transfer from the South to the North would be less than a quick one.



spread in many parts of the world (Musgrave, 1959; Shah, 2007). In the 1840s, eight states and Florida, then a territory, defaulted and they naturally asked for bailout to the federal government. Since Alexander Hamilton assumed states debt in the early, formative period of the republic of the 1790s, the federal government was expected to do so again on this occasion. Yet a coalition of fiscally healthy states prevented the federal from offering bailouts to the states fiscally collapsed (Wibbels, 2003). Seven states such as Connecticut and Delaware had no debt and nine states less than \$10 per head. Their coalition was strong enough to stop the financially weak states from getting rescue fund from the federal. Since then, states volunteered to incorporate balanced budget rules in their constitution. In this regard, financial crises among the tens of states in the 1840s are to be regarded as a critical juncture during which significant changes on fiscal rules occurred, reforming the implied powers of the states' debt assumption by the federal government.

Another case in point is the European Union. Since the single currency Eurozone had been struck with financial crisis starting from Greece in 2010, the Member States of the Euro Area made some headway in its fiscal governance. New fiscal compact treaty adopted in 2012 stipulated 'debt brake' for the Euro Area, forcing the constituent states of the currency zone to balance its budget.<sup>6</sup> Germany, as an economically dominant country in the troubled zone, pushed for its policy preference of balanced budget rule that it previously incorporated into its Basic Law (*Grundgesetz*, German Constitution). Other proposals such as Eurobond, to be issued by a Eurozone finance authority, and Eurozone finance minister, were not implemented (Henning and Kessler, 2012).<sup>7</sup> An informal coalition composed of the European Commission headed by then President Jose Barroso and peripheral countries such as Greece, and Portugal proved very insufficient to override the German demands. Several year-long financial crisis in the Euro Area pressurized key policy-makers in the zone to improve its failings in the imbalanced construction of the monetary union with very limited fiscal capacity.<sup>8</sup> The critical juncture provided by the crisis has been heavily skewed in Germany's favor. Both the US and Eurozone cases illustrate that crisis is to be a critical juncture for changing existing path, depending on the policy preferences of major actors and its strength of coalition.

#### 4. CONCLUDING REMARKS

This paper sought to clarify the inherent tensions and conflicts in the relationship between the central and regional governments in Korea from the perspective of fiscal federalism. After giving detailed accounts on the most recent controversy between Seongnam and the center over revising regional finance, it was argued here that possible unification of the two Koreas would present regions, in particular, from the fiscally hard-pressed North, with a golden opportunity to push for introducing fiscal federalism.

As an ongoing concern, as late as June 2016, several demands for rewriting Constitution were made. Chung Se-gyun, Speaker of National Assembly, first floated such a need in mid-June at his inauguration press conference. His rationale was that current Constitution amended in 1987 doesn't reflect various changes over the past three decades in Korea. A new Constitution is needed to pave the way forward of the country. He hoped to finish the revision by mid-2018. His remarks were received with some mixed feelings across the party line. Yet, President Park remain firmly opposed to it, saying that policies for the citizens come first and amending constitution would divert away government's efforts on improving people's living standards. On the other hand, Koreans do not agree with the president's stance. A newspaper poll found

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<sup>6</sup> Its full name is Treaty on Stability, Coordination and Governance in the Economic and Monetary Union. Three countries, the UK, Czech and Croatia opted out of it.

<sup>7</sup> Five President's Report (European Commission, European Council, European Parliament, European Central Bank, Eurogroup) envisaged a Euro zone finance minister and ministry, issuing Eurobond by 2025. For the report, see [https://ec.europa.eu/priorities/sites/beta-political/files/5-presidents-report\\_en.pdf](https://ec.europa.eu/priorities/sites/beta-political/files/5-presidents-report_en.pdf) (Accessed 9 July 2016).

<sup>8</sup> For criticisms against the present state of limited fiscal union and policy recommendations, see, Bénassy-Quéré and G. Wolff. 2016. *Which fiscal union for the euro area?* Brussels: Bruegel.

that 57% of the surveyed thought that reforming Constitution would not sap government's energy for policies for the citizens (Kim, 2016). Nearly two thirds of them deemed a new Constitution as necessary. They preferred some division of power between the president and prime minister to current executive presidency or cabinet system.<sup>9</sup> Besides the party politics, several regional governments endorsed such demands. Mayor Yeom Tae-young, Suwon City, one of the six cities discussed above, agreed to such a demand for a new Constitution in his letter to the citizens in 11 July 2016. Criticizing the government's push for revised regional finance, he argued that local autonomy and devolution are safeguards for citizen's rights and interests. For substantial increase of regional finance and devolution, he asked citizens at the city to support his calling for overhauling Constitution focused on giving more powers and fiscal independence to the lower levels of government. Two days later, his call was repeated by Gyeongbuk Governor Kim Kwan-yong, one of the longest-serving governors in Korea. On 14 July, tens of former National Assembly men argued for setting up a special committee for reviewing Constitution at the Assembly. Amid growing calls, a political scandal surrounding President Park enabled the National Assembly to impeach her on charges of violating Constitution and laws in early December 2016. The change in political situation resulted in Assembly's organization of a Constitutional Revision Committee at the end of 2016 (Choi, 2016). It is highly likely that presidential election is to be held in the first half of 2017, at least six months earlier than scheduled (Bae, 2017).

Some of the demands are appropriate. The Constitution was fully rewritten on 29 October 1987 after June the 10th democratic movement which saw hundreds of thousands of students and even the middle-class citizens taking to the streets demanding direct presidential election, forcing the then authoritarian government to revise it. It entered into force on 25 February 1988.

In terms of local autonomy, the fully modified highest law has only very brief clauses, given the prevalent national mood at the time. Overriding priority then was to elect president by a popular vote rather than electoral college heavily rigged to the government. Article 117 lists the tasks of the local autonomy as managing citizen's welfare, property and the like. It has local legislature and its organization, power, and election are to be stipulated in a law (Article 118). Several prominent presidential hopefuls, governors Nam Kyung-pil and Ahn Hee-jeong among others, both from the ruling and opposition parties, share the need for extending local autonomy on the occasion of revising the basic law (Yoo and Hong, 2017). By contrast, Germany, a typical case of fiscal federalism, has very long and detailed clauses in the German Constitution (Feld and von Hagen, 2007). The German Constitution has 18 articles, from article 20 to article 39, laying out policy competences between the federal and the Länder, state governments. What is noteworthy for fiscal federalism is the financial allocation scheme (*Finanzausgleich*) among the financially strong and weak Länder (Article 107). It is a kind of automatic fiscal transfer from the rich to the poor Länder according to certain criteria. The German Constitution also clarifies the joint tasks between the federation and the Länder (Articles 91a to 91e).

Fiscal federalism is not given. As American and European cases illustrate, it resulted from controversies and struggles among various political actors during the windows of opportunity under specific historical conditions. For the divided Korean Peninsula, such a window might not open in future, until the two Koreas will continue to engage themselves at economic, as well as, political and cultural fields to prepare themselves for a gradual unification.

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<sup>9</sup> Korean presidency has been often called 'imperial,' as president exercises enormous powers virtually on every policy fields.

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