

# Recent Reform on Public Institutions in Korea

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기획재정부  
MINISTRY OF STRATEGY  
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# **Definition & System**

# 1. Definition

## Established or funded by government for providing public services

- Play roles directly related to people's daily life such as transport, energy, health, industry and R&D
- Contribute to economic development in the process of industrialization (construct infrastructure and foster key industries)
- Amount to USD 270 billion in 2009 Budget which is a considerable share of the Korean economy (30.3% of GDP)

## Founded by various reasons following economic needs and political & social changes

- Economic development, market failure cure(natural monopoly & public goods), fiscal revenue
  - \* SOC&key industries, industry & culture promotion, foster&manage R&D., KT&G, etc
- Transfer government's functions, respond to welfare needs
  - \* KORAIL, Korea Land&Housing Corp

# 1. Definition(Con'd)

**Demand autonomy & control at the same time by its nature  
→ essential to set the optimal management range and level**

- Separate it from the government sector to improve performance through autonomy & originality, grant discretion and apply performance-based & private-sector system (internal governance, labor relation, etc)
- Double agent problem (public-government-public institution), moral hazard
  - \* Reduce information asymmetry by public disclosure of management performance, survey on customer satisfaction, evaluation of performance



## 2. Types of Public Institutions in 2010

286 public institutions designated & operated in 2010

	Public corporation	Quasi-governmental institutions	Non-classified public institutions	(Total)
<b>Requirement</b>	Institutions with high marketability (Self-generating revenue reaches or exceeds a half of the total revenue)	Government affairs consigned institutions (Fund management based ,commissioned-based institution )	Public institutions which are neither classified into public corporation nor quasi-governmental institutions	-
<b>Number</b>	22	79	185	286
<b>Budget as of 2009</b> (USD billion)	131	111	105	347
<b>Workforce size as of 2009</b> (thousand)	76	65	101	242
<b>Example</b>	KEPCO, Korea Expressway Corporation, Korea Land and Housing corporation	Korea National Pension Corporation, National Research Foundation of Korea, KOTRA	KDI, National universities hospital, KDB	-

# 3. Current Operational System

## Differentiated management in accordance with type of public institution

- Management of public corporations and quasi-governmental institutions including executive appointment, performance evaluation & management guidelines
  - \* Autonomy of public corporations will increase
- Management of non-classified public institution through public disclosure of management performance & survey on customer satisfaction

Classification		Scope	
		Public corp.(22) + quasi-gov't institutions(79)	Non-classified Public institutions(185)
Monitoring by the gov't	Setting a management guideline	○	✕
	Evaluating management result	○	△
Internal governance	Executive and board of directors	○	✕
Monitoring by the people	Public disclosure of management result	○	○



## **Reform Background**



## 1. Proportion in the Economy

- Increase in gross budget: USD 227 billion in 2005→ USD 270 billion in 2009
- No. Staff 241,000 as of 2009

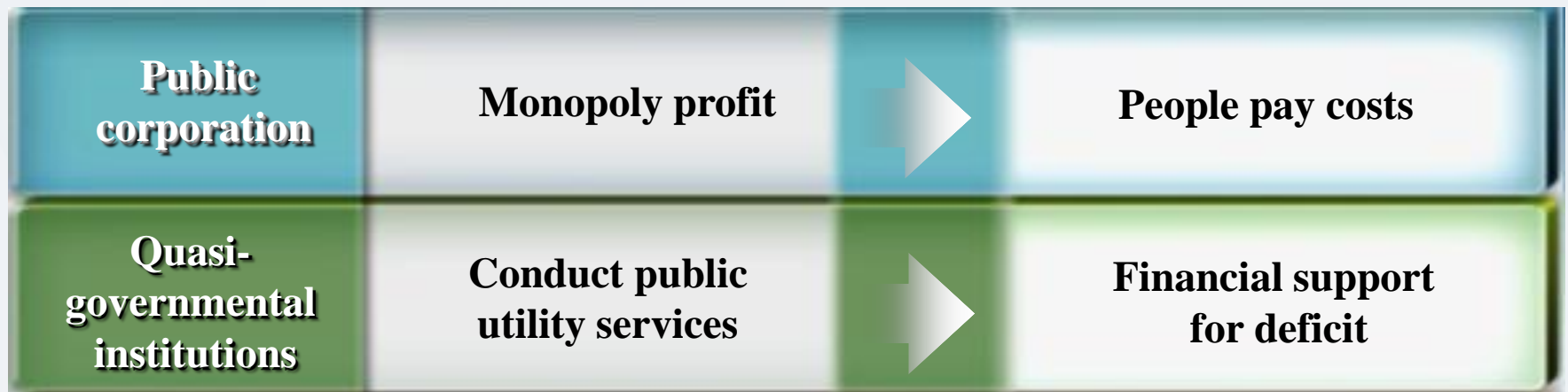
	2005(A)	2006	2007	2008	2009(B)	change	
						B-A	%
■ <b>Gross budget size</b> (USD billion)	227	252	260	372	270	43↑	18.9↑
(over GDP, %)	31.2	33.0	31.7	43.2	30.3	0.9(%p)↓	0.03↓
■ <b>Number (thousand)</b>	242	248	258	261	241	1↓	7.9↓
(over economically active population, %)	1.02	1.03	1.07	1.07	0.99	0.03(%p)↓	2.9↓
■ <b>Assets</b> (USD million)	33.6	36.6	39.8	44.1	51.4	17.8↑	53.0↑
■ <b>Liabilities</b> (USD million)	18.5	19.1	21.0	24.9	29.4	10.9↑	58.9↑

## 2. Changing Environments & Lax Management Aggravation

- Expansion of manpower & assets of public institutions under the circumstances that private sector's capacity is fully mature
  - contract market function, impose financial burden on people
  - \*(e.g) Competition on construction of housing and sale in lot between Land&Housing corp. and private construction firms
- Low productivity due to lax management relative to private sector, and excessive salary and benefits plans
  - \*(e.g) Added value per head grows at the annual average rate of 1.8% while labor cost per person increases at 6.6% during 2002 to 2007  
(Analysis result from Korea Institute of Public Finance, March 2008)

### 3. Limitations of Supervision & Control

- No default risk owing to monopoly status in the industry & government support, difficulties in direct supervision & control of public institutions by people



# [E.g] Experiences & Cases of Other Countries

## Innovation of public sector



## Driving force of overcoming economic crisis

### Thatcherism in UK

- Overcome resistance from coal miners' labor union, and close coal mines with chronic deficit
- Reconstruct the lackluster British economy and transform into the small government (escape from English disease)

### Koizumi's reform in Japan

- Root out practices that funds raised by issuing government bonds from deposit & insurance of Japan Post were invested in SOC
- Overcome 'lost decade' through strong reform in the public sector

### Sovereign-debt crisis in Greece

- Increase in loss for the term from SOEs such as railroad & electric power, public sector wage growth rate (7%) > private sector wage growth rate (3%)  
→ Concern over sovereign risk due to deterioration of public finances



## **Key Contents of Reform**



# 1. Principles of Reform

## Small government & big market

- ▶ Private sector operation & competition are possible  
→ privatization and private sector consignment
- ▶ Redundancy in public sector  
→ consolidate & abolish, streamline functions & adjust number of staff

## Stabilize people's life

- ▶ Exclude possibility of increase in service charges  
: Businesses relating to electricity, gas, water supply will be operated by the government
- ▶ Promote stable employment  
: employment transfer, natural retirement

## 2. Implementation Plan for Reform

**Six rounds of announcement for reform in order to enhance efficacy and competitiveness**



# 3. Key Contents

## Privatization

24 public institutions including KDB

## Consolidation & abolition

Consolidate 36 into 16 institutions, abolish 5

## Function adjustment

Reduce function & consolidate functions for 22 public institutions

## Improve efficiency

Labor force cut(↓25,000 ↓ 12.7%), reduction in budget

## Reorganize public institution-funded corporation

Reduce number of firms funded by public institutions:  
273→142 (↓ 131, ↓ USD 3.1 billion)

## Rationalize labor relations

Reduce excessive benefit plans & improve infringement on personnel affairs

## Cut in college graduate starting salary

252 public institutions paying more than 17 thousand dollars college graduate salary → 15% decline on average

# Major Issues Regarding Reform

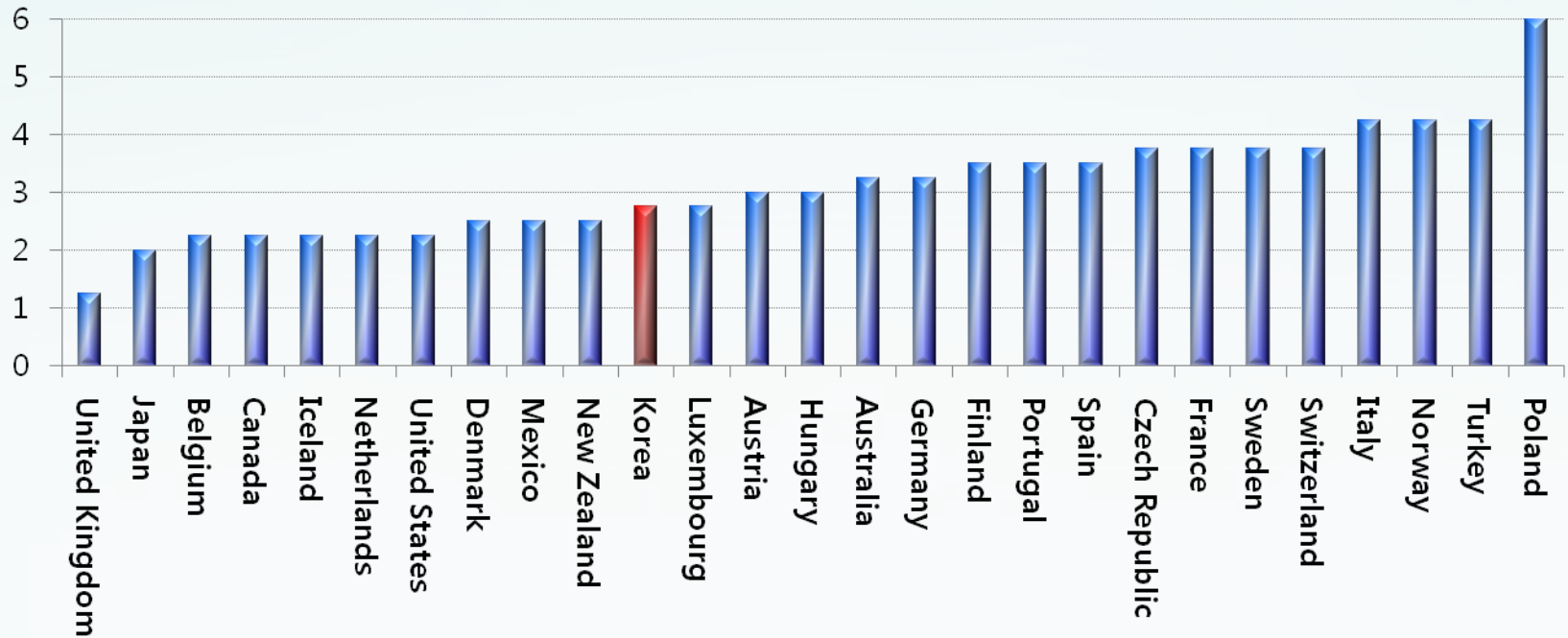
✓ Is it desirable to undertake a reform in the public sector under the condition that neoliberalism has shown a sign of decline since the global financial crisis in 2008?

✓ Is it essential to reform public institutions under economic difficulties with being accompanied by workforce restructuring?



# ✓ Is the direction of reform on the right track?

## <Comparison of Public Sector Size>



■ The size of Korea's public corporations is at the medium level among OECD countries, but is larger relative to G7 countries

→ Transform the Korean economy in a desirable way Korea pursues



# ✓ Conflicts between job creation and reform

- Workforce restructuring & function adjustment aim to improve medium- & long-term competitiveness in the public sector through eliminating its bubbles and streamlining it.
- The delay of restructuring can be helpful for resolving unemployment in the short run, but may aggravate insolvency in the long run.  
→ result in imposing financial burden on people
- Restructuring is expected to lead to raising added value and employment by revitalizing the private sector.

**“Crisis is opportunity for restructuring”**



## **Lessons from Reform**

# 1

## Privatizing public institutions needs cautious and thorough preparation in advance

- Comprehensive preliminary analysis is required for analyzing necessity and effects of privatization of public institutions relating to railroad and energy.
- In particular, it is essential to take into account public service charges closely connected to people's daily life prior to the determination of its price
- Drastic privatization plan was established at the beginning of Lee administration. However, the plan was reduced due to the recent financial crisis.
- ※ Public service charges tend to be determined at lower prices than market price considering public interest, public attributes and economic ripple effects.
- Privatization may confront political obstacles without taking into account the aforementioned factors.

## 2

# Necessary to consider labor relations when reform is conducted in the public sector

- Korea has the specific structure of labor relations in the public sector.
  - While the total trade union membership rate comes to mere 10.8%, the union membership rate for public sector workers remains at the very high level, 65.8%
  - Infringement on management rights and generous benefit plans have impeded its reform through “side agreement” under the collusion between labor union and management.
- There are limitations to reforming the public sector without establishing the rational labor relations.
  - Korea will make every effort to advance labor relations for the public sector reform using various tools.

### 3 President's interest is key to success

- President has shown an interest in the reform of public sector after being reported about public corporations' operation → driving force of reforming public institutions
  - Workshops have been held once or twice a year after the president's inauguration

### 4 Inevitability for constant & periodic reform of public corporations

- Issue of reform on public corporations is raised continuously whenever a new administration is launched.
  - Necessity of reform is inevitable due to public corporations' underlying properties.
- Pivotal to devise a model with a systemized tool whereby the appropriateness of function is evaluated on a regular basis.



THANK YOU



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