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**The Japanese and Korean Experiences
in Managing Development**

Miyoehei Shinohara
Toru Yanagihara
Kwang Suk Kim

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Ramgopal Agarwala (editor)

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Foreword

This study is one in a series of World Bank Staff Working Papers devoted to issues of development management. Prepared as background papers for the World Development Report 1983, they provide an in-depth treatment of the subjects dealt with in Part II of the Report. The thirteen papers cover topics ranging from comprehensive surveys of management issues in different types of public sector institutions (for example, state-owned enterprises, the public service, and local government agencies) to broad overviews of such subjects as planning, management training, technical assistance, corruption, and decentralization.

The central concern underlying these papers is the search for greater efficiency in setting and pursuing development goals. The papers focus on the role of the state in this process, stress the importance of appropriate incentives, and assess the effectiveness of alternative institutional arrangements. They offer no general prescriptions, as the developing countries are too diverse--politically, culturally, and in economic resources--to allow the definition of a single strategy.

The papers draw extensively on the experiences of the World Bank and other international agencies. They were reviewed by a wide range of readership from developing and developed countries inside and outside the Bank. They were edited by Victoria Macintyre. Rhoda Blade-Charest, Banjonglak Duangrat, Jaunianne Fawkes, and Carlina Jones prepared the manuscripts for publication.

I hope that these studies will be useful to practitioners and academicians of development management around the world.

Pierre Landell-Mills
Staff Director
World Development Report 1983

Papers in the Management and Development Series

1. Agarwala, Ramgopal. Price Distortions and Growth in Developing Countries. World Bank Staff Working Paper no. 575.
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Preface

Japan and Korea have entered into the folklore of "economic miracles" as a result of the remarkable economic growth they have both achieved in recent years. Their approach to economic management is thus of interest not only to the developing, but also to the developed countries. The two papers presented here by eminent scholars from Korea and Japan and their analysis discloses the special style of economic management practiced in their respective countries. Looking at these studies side by side, some interesting similarities, as well as differences, emerge in the approaches of the two countries.

A strong partnership between government and the private sector is perhaps the most striking similarity between the systems of management in Korea and Japan. The national interest was pursued in each case through cooperation between businessmen and bureaucrats, with the government providing leadership and guidance.

Both countries adopted an export-oriented development strategy. Import substitution was an intermediate step, but the overall goal was to be able to compete at the international level and to promote exports. Since both countries lack natural resources, they emphasized industrialization as the key to rapid growth, but not at the expense of agriculture. Their industrial policies were concerned primarily with dynamic efficiency, and the two governments took the initiative in identifying promising sectors.

Despite government activism, prices did not become highly distorted (with the exception of agriculture), as they have in many developing countries. Instead, export orientation fostered respect for international market forces; and when policy mistakes were identified, the pragmatism and

flexibility prevalent in both systems served by and large to expedite adjustments in their policies and programs.

In addition, both countries put considerable emphasis on education and the development of skills, and thus facilitated the rapid transmission of technology. Moreover, this became a mechanism for achieving social mobility and improving equity. Another common element was the great interest both countries showed in collecting and publishing economic data.

Although both Korea and Japan emphasized the partnership approach, government became a more senior partner in Korea, where the apparatus of planning and policymaking was more centralized and streamlined. Greater government activism in Korea was probably an outcome of the near desperate economic conditions of the early 1960s. By the mid-1970s, however, government intervention was seen by many in Korea to be excessive and the government began to turn to the market and the private sector for help. In Japan, by contrast, planning and policymaking processes were more diffuse, and less emphasis was placed on well-articulated models, intersectoral consistency, or even interministerial coordination. Thus, in Korea an elaborate central authority became responsible for decisionmaking, whereas in Japan consensus-making took place more from the bottom up. Nonetheless, Japan's cultural traditions generated a social cohesiveness that enabled it to formulate coherent policies.

In addition, although both countries followed an outward-oriented strategy, Korea relied much more on foreign trade. Korea's exports as a ratio of GNP have been 40 percent or higher since the early 1970s, whereas in Japan this ratio has been about 10 percent during the last three decades.

Although the experience of these two countries in general confirms that prices, markets, and outward orientation can play a significant part in

economic development, their styles of economic management do not fall neatly into the conventional pigeonholes in economics. The debate on the role of the state, for example, did not center on ideological questions of state as against private sector control. Both sectors were combined in a distinctly indigenous fashion. Although the public sector was large, and government was to some extent dirigiste, the forces of competition operated to streamline operations in the public sector. Moreover, dirigism did not automatically mean "distortionism" in market signals. Similarly, the trade policies adopted by the two countries cannot be characterized as free trade. Export promotion and import protection were both emphasized, although protection was selective and the goal of import protection was to consolidate a base for exporting as well as to meet domestic demand. Similarly, with regard to competition, both Japan and Korea allowed competition to become fierce in certain areas, but in other cases argued that government-induced mergers would be in the interest of the companies as well as the country. Thus, although both Korea and Japan followed the basic principles of orthodox economic management, they shifted direction enough to develop distinctive homegrown styles of management.

No definitive conclusions emerge from the papers on the question of transferability of the Japanese and the Korean techniques of economic management to other countries. Nonetheless, some important inferences can be drawn from the experiences of Japan and Korea regarding the power of prices and role of competition, both internal and external. They underline the key role of pragmatism and flexibility in economic management and also offer new insights into the role of government in managing development.

Japan's Experience in Managing Development

Miyohei Shinohara

Toru Yanagihara

Abstract

This paper tries to assess the place and role of macroeconomic planning and industrial policy in postwar Japan. The Japanese economy sustained a high rate of economic growth (averaging around 10 percent) in the postwar period before it was halved in the wake of the first oil shock. The postwar high growth period saw a simultaneous achievement of growth, stability and equity. The process of economic development was characterized by an upgrading of industrial structure which, in the postwar Japanese context, was identified with the promotion of heavy and chemical industries. Industrial development was the driving force of the sustained economic growth. Industrial programs, therefore, served as the main feature of macroeconomic plans.

The approach to and system for the management of development in postwar Japan is not a rigidly structured one. The most important function of planning and programming consists in consensus formation in the preparation and drafting stages. Collection of information and exchange of views and opinions is much facilitated by means of formal and informal contacts government officials maintain with other ministries and with private business. Deliberative councils provide a forum where the government's position is authorized and an atmosphere of consensus is created among parties concerned. Government's views are often presented as visions--flexible and adaptable ways of expressing broad common understandings about the present situations and future prospects.

Industrial development was guided by visions for the industrial structure and for individual industries. Emphasis was placed on long-term requirements for development and on the protection and promotion of infant industries in heavy and chemical industries. The infant industry policy in postwar Japan was successful in a wide range of industries, and liberalization of trade and investment proceeded as industries acquired international competitiveness. The underlying conditions for this success are sought both in the technical and managerial capabilities of private enterprises and in the manner in which industrial policies are formulated and implemented. Some remarks on the historical and sociocultural background are made with a view to evaluating the transferability of the Japanese experience.

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I. Introduction

1. Japan, like the Republic of Korea, experienced a "success story" after World War II. In Japan's case, however, the extent to which the government contributed to industrial growth has become a point of considerable controversy. Some economists go so far as to claim that growth was achieved in spite of government intervention, but this is an extreme view. Closer to the truth is the notion that Japan's postwar economy advanced because of the interaction between government and private business.

2. In postwar Japan, macroplans and sectoral programs became institutionalized and thus served as the basis for charting the course of the economy and identifying policy needs. Japan's foremost concern, according to the national consensus throughout the 1950s and 1960s, was that it should catch up with the advanced countries. That goal prompted the upgrading of the industrial structure and the main thrust of the macroeconomic plans evolved from the development schemes of the Ministry of International Trade and Industry (MITI), whose policy of promoting infant industry was an essential element of Japan's success in rapid industrialization.

3. In the early stages of Japan's development, serious differences of opinion had emerged over which industries should be promoted--heavy and chemical industries which appeared to promise high growth prospects or light industries in which Japan possessed a clear competitive edge. MITI's long-term vision of industrial structure was instrumental in breaking up the stalemate over this issue and in providing positive encouragement to private enterprises. Thus, the visible hand and, what is probably more important, the spirit of MITI helped to set in motion and accelerate the chain reaction of explosive industrial development in Japan after World War II. The management

of development in this context cannot be understood without some idea of the basic economic (and possibly sociocultural) conditions under which government policies were formulated, the goals toward which they were directed, and the way in which development plans were formulated and implemented during that period. The following discussion of Japan's experience is based on these considerations.

II. Planning, Programming, and Budgeting

4. The situation in postwar Japan can be summed up in a few words at the outset: Japan's system of planning, programming, and budgeting was not a highly structured one. On the whole, the administration made little formal effort to coordinate long-term planning and annual budgeting. Although in many cases both planning and budgeting were influenced by the basic policy stance of political leaders, planning was treated somewhat loosely.

Macroplans and sector programs were not always fully coordinated either, and inconsistencies between macrovariables and sectoral targets were sometimes found. Medium- and long-term sector programs were used to prepare relevant sections of macroplans, and ministries concerned tried to make the most of them as an effective means of securing funding on a continuous basis.

5. Macroeconomic plans, in this system, merely presented a vision of development over the medium term and a list of broad policy objectives for key macrovariables (growth rate, inflation, balance of payments) as well as industrial composition. Nonetheless, they helped to set the tone of national priorities, which were often summarized in catch phrases like "economic self-support," "doubling of the national income," or "rectifying imbalances." How

the system functioned can best be illustrated by first briefly reviewing the various macroeconomic plans formulated in the postwar period.

Macroeconomic Plans in Postwar Japan

6. The course of Japan's economic development at different stages and in changing conditions after World War II is reflected in the plans listed in Table 1. The first official macroplan, the Five-Year Plan for Economic Self-support drawn up in 1955, was geared to an economy that had already undergone postwar reconstruction. As well, the first round of rationalization programs had been instituted in key industries such as iron and steel, electric power, shipping, coal mining, and fertilizer; and the prewar peak levels of key macroeconomic and industrial production indicators had been reached. Thus the nation was ready to consider a new economic goal.

7. The most urgent need at that time was to address certain external and internal imbalances in the economy. Although Japan's balance of payments situation had greatly improved during the first half of the 1950s because of special procurement orders arising from the Korean War, these procurements were soon to be phased out. Alarm over this balance of payments position fueled the desire to achieve "self-support" through import substitution and export expansion. At the same time, Japan faced a serious internal problem: it had a large pool of unemployed and underemployed. The way to restore balance in these areas, it was argued, was to upgrade Japan's industrial structure. This effort was seen as the key to economic growth, and it became the basic element of all macroplans over the ensuing period of high growth, which lasted to the end of the 1960s. It is no wonder, then, that industrial programs and policies occupied a central position in Japan's economic affairs.

8. The emphasis on upgrading the industrial structure, which initially meant promotion of heavy and chemical industries, led to the next major

plans: the New Long-range Economic Plan of 1958-62 and the Doubling National Income Plan of 1960-70. In this period more attention was paid to machinery industries because of their growth potential and high labor intensity, and subsequently to the newly established petrochemical and electronics industries.

9. The Doubling National Income Plan is of particular interest because it brought about a great change in the mood of the nation. The sustained growth and rapid advances in industrialization after reconstruction infused the plan with optimism toward Japan's economic prospects--Japan was thought to be entering a new stage of development that would be characterized by widespread technical progress. The overall goal was to maintain growth potential and eliminate the constraints on growth. The main policy objectives were to provide social overhead capital for the long range, to guide the upgrading of the industrial structure, to develop manpower and promote science and technology, and to rectify the imbalances in the economy.

10. The plan was a manifestation of the growth-oriented economic policy promoted by Prime Minister Hayato Ikeda, who had earlier been an official in the Ministry of Finance (MOF) and thus knew how to persuade the MOF to accept his philosophy of "positive finance." Ikeda pushed for and won large increases in public budgeting in fiscal 1961 and 1962. He also encouraged the Bank of Japan to install a low rate of interest. This policy had a tremendous impact: it created an atmosphere of future-orientedness, dispelled pessimism, and fostered a strong belief in the growth potential of the Japanese economy.

11. The mood of the nation changed again, however, during the preparation in 1965 of the Medium-term Economic Plan, which aimed at "rectifying the imbalances" caused by high and continued growth. Emphasis was therefore placed on modernizing low-productivity sectors such as small-scale industries

and agriculture, and on improving the standard of living and social welfare. This new emphasis was carried over to the subsequent Economic and Social (Development) plans, in which the industrial programs focused on internationalization as a result of the liberalization of trade and foreign investment in 1960s. The general goal of later plans, which was to improve economic efficiency, still included the upgrading of the industrial structure, except that knowledge-intensive activities now received increasing attention.

Growth Target and Actual Performance

12. Throughout the 1950s and 1960s, the target growth rate was set at a level below the performance prior to the plan period, and it was exceeded by the actual performance during the plan period (Table 1). Note, too, that every plan was replaced by a new one before it was completed. This trend was all to the good insofar as the goal of the plan was to achieve maximum growth. In each case the higher actual growth rate was related to the higher-than-expected growth in private investment, which was not pressed by the government to stick to the plan target.

13. This overachievement of plan targets appears to be related to several factors. One is that during these years the growth potential of Japan's economy was constantly underestimated since no one perceived the self-reinforcing nature of Japan's economic growth, which was moving in cycles of capacity growth and demand expansion. Instead, the high growth rates achieved were regarded as temporary or exceptional occurrences. In addition, it was widely believed that once the prewar peak level was attained, the economy would more or less follow the prewar trend of growth; thus the first two plans were criticized as being too optimistic. Attitudes changed, however, when the economy continued to thrive as a result of the strong performance of exports and the sharp rise in private fixed investment. During this time, MITI's

Table 1 Selected Features of Economic Plans in Postwar Japan

Name of plan	Five-year Plan for Economic Self-support	New Long-range Economic Plan	Doubling National Income Plan	Medium-term Economic Plan
Date published	December, 1955	December, 1957	December, 1960	January, 1965
Cabinet at the time of plan approval	Hatoyama	Kishi	Ikeda	Sato
Plan period (Fiscal years)	1956-60	1958-62	1961-70	1964-68
Performance prior to the plan	F.1952-55: 8.6%	F.1953-57: 7.3%	F.1956-60: 9.1%	F.1960-64: 11.3%
Economic growth rate	Projection in the plan F.1956-60: 5.0%	F.1958-62: 6.5%	F.1961-70: 7.8%	F.1964-68: 8.1%
Actual performance plan period	F.1956-60: 8.7%	F.1958-62: 9.9%	F.1961-70: 10.7%	F.1964-68: 10.6%
Method of projection	Colm method (Labor x productivity)	Desirable balance chosen from 3 cases with different growth rates	Growth rate previously decided	Econometric model
Plan objectives	Self-support of the economy; full employment	To maximize growth; improve national living; full employment	To maximize growth; improve national living; full employment	To rectify imbalances
Major policy objectives	To modernize production facilities; promote international trade; reduce dependence on imports; encourage savings	To improve infrastructure heavy industrialization; promote exports; encourage savings	To improve social overhead capital; improve industrial structure; rectify the dual structure of the economy and improve social stability	To modernize low productivity sectors; make efficient use of labor force; improve quality of national living

Source: Planning Bureau of Japan, Economic Planning Agency.

Economic and Social Development plan	New Economic and Social Development Plan	Basic Economic and Social Plan	Economic Plan for the Second Half of the 1970s	New Economic and social Seven-year plan
March, 1967	April, 1970	February, 1973	May, 1976	August, 1979
Sato	Sato	Tanaka	Miki	Ohira
1967-71	1970-75	1973-77	1976-80	1979-85
F.1962-66: 10.0%	F.1965-69: 12.7%	F.1968-72: 10.4%	F.1971-75: 5.1%	F.1974-78: 4.0%
F.1967-71: 8.2%	F.1970-75: 10.6%	F.1973-77: 9.4%	F.1976-80: a little more than 6%	F.1979-85: 5.7%
F.1967-71: 10.9%	F.1970-75: 5.9%	F.1973-77: 4.2%	F.1976-78: 5.7%	--
Econometric model	Econometric model	Econometric model	Econometric model	Econometric model
To attain balanced and steady economic development	To construct an admirable society through balanced economic growth	To promote national welfare, international cooperation	To realize a richer national life and stable development of the country's economy	To shift to a stable growth path; enrich quality of national life; contribute to the development of the international economic community
To stabilize prices; improve economic efficiency; promote social development	To improve economic efficiency from an international viewpoint; stabilize prices; promote social development; maintain adequate economic growth and cultivate development foundations	To create a comfortable; environment; secure a stable and comfortable life; stabilize prices; promote international cooperation	To stabilize prices and secure full employment; stabilized life and create favorable living environment; cooperate with and contribute to the development of the world economy; secure economic security and foster grounds for long-term development	To attain full employment and stabilization of prices; stabilize and enrich national life; cooperate in and contribute to the development of the world economy and society; ensure economic security and foster the foundations of further development; reconstruct public finance and new monetary responses

industrial rationalization and modernization programs were instrumental in guiding Japan's private enterprises in capacity expansion and technological innovation.

14. A second factor that affected plan targets was the inconsistency in the Doubling National Income Plan between macroeconomic projections for demand and sectoral projections for production, particularly in industry. Private enterprises conceivably took the latter as guidelines. In any case, targets for heavy and chemical industries were set much higher than they would have been if they had been based on final demand components and the input-output matrix. Those industries were energetically promoted by MITI and production projections were based on MITI's vision of industrial development.

Furthermore, private enterprises took these projections as minimum targets, so the keen competition for an expanding market share resulted in a much higher capacity for production than projected by MITI.

15. Another reason for the discrepancy between planned and realized growth rates may be that the MOF intentionally underestimated the growth rate. Since its fiscal programs were based on target growth rates, actual growth rates higher than target would bring about "natural increases" in tax revenues. Thus, the MOF would have more uncommitted resources at its disposal (see para. 29).

16. Whether any of the preceding factors adversely affected Japan's economic development is not clear. Admittedly, the unexpected economic growth spearheaded by large corporations in heavy and chemical industries caused consumer prices to rise and worsened the balance of payments situation. But too much attention to balance and consistency in planning might have reduced the growth potential of the economy.

Macroeconomic Planning

17. The national economic plan in Japan has two basic components. First, it contains a list of sectoral programs, which are formulated by the ministries concerned. Although the goals of those sectoral programs are supposed to be achieved through the efforts of government, it gives little attention to coordinating these goals. Second, macroplans present a projection of macroeconomic variables over the plan period. The economic figures amount to nothing more than a rough forecast, however, and are not regarded as targets in any strict sense of the word.

18. Macroplans in Japan are, in effect, loosely constructed guidelines that lack the means of implementation. Ministries and agencies do not regard plan targets as binding, partly because economic developments in the past diverged from the projected course; thus, adherence to the original target came to be considered useless, or even harmful. In addition, since budgetary appropriation and fiscal investments and loan plans are processed annually, the MOF tries to avoid long-range commitments. Consequently, macroeconomic planning in postwar Japan merely "indicated" quantitative targets for private sector performance as well as the general direction of economic development and the role of individual sectors in development. Plan preparation provided a forum in which future policy needs could be identified and examined from several standpoints, and it enabled private enterprises to see their problems in a broad perspective.

19. At the beginning of the 1960s, however, the Doubling National Income Plan had specified a larger role for long-term macroeconomic planning in the market economy. This plan, at least, was to be an operational program for the public sector, while merely providing assent to private sector activities (although it contemplated guiding private activities through policy

measures). In order to provide effective guidelines for economic management, the plan called for the coordination of long-term sectoral programs; also, short-term economic policies were to be in line with the long-term goals, although flexibility was considered an important ingredient in short-term policy. This document represented the first formal recognition of the need for coordination between the macroplan and sectoral programs and between long-term plan and short-term management. As this discussion has already indicated, Japan's system of economic management has not followed that pattern.

20. Since macroplans tend to be a collection of sectoral programs, those programs have become the means of securing funds for the activities of various ministries; to the extent that annual budgeting is influenced by the policy stance reflected in macroplanning, ministries are eager to have their programs listed in the macroplan. On the whole, however, annual budgeting has followed the established pattern and the MOF has maintained strong control over expenditures.

21. The Administrative Reform Council has repeatedly advocated that the macroplan, sectoral programs, and annual budget should be coordinated and that the government should use macroeconomic planning as a means of overall economic management. It can be argued, however, that such formal consistency would lead to rigidity in planning, programming, and budgeting, and could stifle the initiative of people involved in project design at the microlevel.

Economic Agencies

22. Japan's political system in the postwar period is one of parliamentary democracy, with the National Diet electing the prime minister. Despite the constitutional supremacy of its power, the actual function of the Diet rarely goes beyond the formality of deliberating and authorizing

legislations prepared and proposed by the Cabinet. The genuine process of deliberation takes place in the preparation and drafting of legislation, with sponsoring ministries taking initiatives and making consultations with other ministries, the ruling party, and interest groups. In this way bureaucrats in the executive branch exert substantial influence and effective control over the policymaking process. Ministries and agencies involved in overall economic management are the Economic Planning Agency (EPA), in charge of macroeconomic planning; the Ministry of Finance (MOF), responsible for budgeting; and the Ministry of International Trade and Industry (MITI), dealing with external transactions and industrial programming.

23. Economic Planning Agency (EPA). The main function of the EPA is to analyze domestic and international economic situations and to coordinate Japan's overall economic policies. It is responsible for the preparation of long-term plans and annual economic projections. Unlike the other ministries, the EPA is not associated with any particular interest groups and does not engage in routinized policymaking. In addition, it has no means of implementation under its control and its influence is exerted only through its function as a coordinator of economic policies. Some of EPA's key posts have been held by transferees from other ministries, notably MITI and MOF.

24. EPA's contribution to management lies in its long-range and comprehensive approach to economic issues through systematic investigation and analysis. Its long-range perspective contrasts with MOF's emphasis on short-term macroeconomic management, and its broad range of interests with MITI's special interest in industrial development. EPA tries to identify problems and tasks of the future. Through its Planning Bureau, it developed a general framework for macroeconomic planning that evolved into a macroeconometric model for projection. This model, linked with input-output analysis, was used

to prepare the Medium-term Economic Plan of the mid-1960s (see Table 1), which emphasized, first, achieving consistency between macroeconomic targets and projections in the industrial sector and, second, understanding the tradeoffs among macroeconomic variables such as rate of growth, balance of payments, and rate of inflation. Since then, the econometric model has been a permanent feature of macroplanning in Japan.

25. In the mid-1960s EPA assumed responsibility for price policy, consumer affairs, and the standard of living--areas that had not been properly covered by other ministries and agencies--and it helped to establish the Economic Welfare Bureau. Because of the general enthusiasm for "rectifying imbalances" and realizing the ideals of the welfare state, the EPA was able to strengthen its position by representing the interests of consumers and promoting national well-being. Toward the late 1960s, however, the EPA found itself ineffectual in the face of new macroeconomic developments (consumer prices had risen to around 6 percent per annum and the trade surplus had become a standard phenomenon). Although an upward revaluation of the yen seemed necessary at the time to attain internal and external balances, revaluation was a political taboo and the EPA was not able to reflect its rational macroeconomic viewpoint in government policies.

26. Ministry of Finance (MOF). The primary function of the MOF is to prepare the annual budget. Traditionally, the MOF has had almost sole power over the size and allocation of the budget, but since the mid-1960s that power has been somewhat eroded by the ruling Liberal Democratic Party. MOF officials are strongly committed to protecting fiscal discipline and do not like to have their prerogatives challenged. Their activities have been guided by the principle of the balanced budget, which was established through the Law

on Public Finance (1947) prohibiting the issuance of long-term government bonds to cover general account deficits.

27. The principle of the balanced budget was upheld by the MOF as a means of maintaining fiscal neutrality against political pressures, and it was not modified until 1965 when strong countercyclical fiscal stimulation was needed. As a result, public expenditure moved largely procyclically with nominal GNP up to 1965, except for the period 1954-56, and the early 1960s. In the first case, a constant "one trillion yen budget" was maintained to control inflation and the balance of payments deficit (conservative fiscal management over this period was guided by Finance Minister Hisato Ichimade). Meanwhile, in the early 1960s when Prime Minister Hayato Ikeda promoted the Doubling National Income Plan, fiscal policy underwent a clear shift toward activism, and demand management became geared to the realization of the growth potential.

28. When the balanced budget principle was abandoned in 1965, the MOF became alarmed; at the same time, the medium-term programs pushed through by various ministries heightened concern about the rigid approach to public expenditures. With a pessimistic view of the economy's prospects for growth, the MOF campaigned for budget cutbacks. Resumed high rates of growth during the second half of the 1960s generated large increases in tax revenue, however, and alleviated the fear of a crisis in public finance.

29. Budgeting in Japan can be divided into two basic activities: determining the size of the total expenditure, and allocating these funds among ministries and major items. The overall budget level is determined by projections of the economic situation and tax revenue for the next fiscal year. The annual macroeconomic projection is prepared by the EPA.

(Typically, EPA presents a compromise view between the bullish MITI and

bearish MOF.) Tax revenue is estimated solely by the MOF, which seems to underestimate growth rates intentionally in order to control demand from the ministries. Throughout the postwar era, the MOF has also been careful not to give the appearance of promoting a stimulative fiscal policy and has made sure that annual growth rates in the general account budget were kept below estimated GNP growth rates.

30. Although the MOF has certainly been under the influence of a conservative doctrine of fiscal management, basically it has not been opposed to growth. On the contrary, it was instrumental in providing the stimulus to savings and investment in general. At the same time, MOF's conservative fiscal management proved to be sound demand management under persistently strong private demand. On several occasions the "positive financing" promoted by a strong political leadership tended to overheat economic activities and thus necessitated a policy of drastic stabilization (for example, in 1957 under Ishibashi, in 1961 under Ikeda, and in 1972-73 under Tanaka). These experiences suggest that the cautious stance of demand management adopted by the MOF helped to sustain economic growth after 1955.

31. The MOF has tried to keep the government small in terms of the ratio of public expenditure and tax revenue to GNP. It reduced the tax on income several times to prevent the tax ratio from rising under high growth of nominal GNP and progressive taxation. Because of these income tax reductions, private savings have increased and have been channeled to finance rapidly growing private investments. One particularly notable feature of macroeconomic policy in Japan over the period of high growth was its pursuit of a low interest rate. The consensus was that international competitiveness in the large manufacturing industries had to be strengthened, and that the low interest rate would help to reduce financial cost and stimulate investment.

In addition, the share of investment in public expenditure has been very high in postwar Japan ever since the provision of social overhead capital was recognized as a precondition of sustained economic growth. The Fiscal Investment and Loan Plan (FILP), for example, was an effective scheme to channel public funds into public and private investment.

32. Ministry of International Trade and Industry (MITI). All matters concerning industry and commerce are under the jurisdiction of MITI, which is strongly committed to fostering Japan's industries and has been active in identifying problem areas and formulating policies to cope with them. Traditionally, MITI's stance on industrial development has approached nationalistic zeal. The sections of MITI concerned with the subdivisions of industry have always consulted closely with the management and technical staff of private enterprises and with the representatives of trade associations on the current performance and future prospects of industries. The careful attention MITI has given to business affairs is often compared to the attention a mother gives a student preparing for an entrance examination: that is to say, MITI went to great lengths to help Japan's industries enter into international competition.

33. Since the primary goal of postwar economic development was to catch up with advanced countries, MITI's main function was to draw up strategies for the most rapid and efficient attainment of that national goal. MITI was highly pessimistic about the preparedness of Japanese industries, however; it was particularly concerned about the excessive competition, within Japan, among small enterprises. MITI believed that defects in Japanese industries could be corrected by focusing on industry-specific targets. Unlike the macroeconomic plans prepared by EPA, MITI's industrial programs have been based on a detailed analysis of the technical and financial situation of

individual industries and their projected development. These programs identify both the responses required by private concerns as well as supportive policy measures.

34. MITI also believed that Japan's industries would not be able to compete internationally unless they realized technical and financial economies of scale. One important element in MITI's postwar industrial policy was its emphasis on industrial reorganization. In particular, it encouraged mergers; and it coordinated investment behavior and specialization through formal (legislative) and informal (administrative) measures. MITI's industrial policy thus ran counter to the orthodox Western approach to development, which favored a market mechanism and free competition. That essentially "static" approach, it was argued, fails to take into account the possibility that industries can change dynamically in comparative advantage or disadvantage over a period of ten or twenty years. Such an approach seemed inappropriate in formulating a policy for industrial development in Japan. Instead, MITI favored a new concept of income elasticity for the demand side and comparative technical progress for the supply side as a basis for development policy.

35. Understandably, then, MITI's policy concentrated on upgrading the industrial structure. According to the Research Committee on Industrial Policy formed within MITI to clarify this concept, it meant, first, increasing the share of the industrial or manufacturing sector in the national economy as well as expanding heavy and chemical industries within the manufacturing sector. Second, it meant improving the technology and equipment in individual industries. The upgrading of the industrial structure was therefore seen as a means of increasing capital intensity and labor productivity in the entire economy. In other words, MITI presented this policy as comprehensive and dynamic vision of economic development.

Role of Consensus Formation in Planning

36. Another distinctive feature of Japan's system of planning is the "consensusmaking" that takes place at various levels; that is, macroplanning involves consultation among government ministries and between the government and the private sector. This means that many individuals having diverse interests and opinions are directly involved in the planning process. Although a consensus may often be reached by way of ambiguous and noncommittal expressions, the interaction among the parties concerned helps to delineate the macroeconomic challenges the nation is facing and places industry-specific issues within a macroeconomic perspective. As noted earlier, macroeconomic planning in Japan does not proceed through the formal coordination of competing or conflicting demands for resources. The allocation of funds is part of the annual budgeting activities.

37. At one level of planning, consensus is the result of deliberation in economic councils formed for this purpose. They provide a forum in which private interest groups and scholars can present their views on the basic goals of economic management. The agenda for council meetings are prepared by the secretariat, which is staffed by EPA officials, and EPA views set the basic tone of the consensus to be "authorized" at the council. Inter-ministerial coordination takes place when ministries add their revisions to the draft plan prepared by EPA. This process requires rewriting sections of the plan through consultations between EPA and ministries concerned. Ministry officials are assigned to the appropriate sections of EPA to serve as a medium in coordinating each ministry's interests with EPA's overall perspective.

38. Japan's method of reaching consensus has both its advantages and disadvantages. On one hand, widespread participation in the dialogue helps to strengthen the public's sense of involvement in national goal setting and

facilitates the acceptance of the consensus. The ministries' direct involvement in plan revision has a similar effect. During the period of high growth, for example, interministerial conflicts were neither frequent nor serious because ministries had a common goal, which was to modernize the entire economy. On the other hand, this approach to planning leads to procrastination in decisionmaking on major economic issues, since drastic reforms are apt to be put off unless overwhelming external pressures are present. The reluctance to reevaluate the yen upward in the late 1960s is a case in point. Another disadvantage of the system is that the consensus tends to yield to vested interests, as it did in the question of maintaining a price support for rice as a means of subsidizing farm households.

39. A large number of deliberative councils are active in the decisionmaking process in Japan. These groups are said to be independent organs responsible for setting priorities and guidelines for policy formulation. In reality, however, council members merely comment on drafts of guidelines prepared by bureaucrats; serious discussion among themselves rarely takes place. As a result, many council meetings are occasions for authorizing a bureau's or section's policy decision made in advance through informal bilateral consultations between the bureaucrats and private parties involved. Now and then, academics and other neutral members may make important contributions in setting the basic tone of a council's proposal or in providing a theoretical basis to the government's position. On the whole, however, the main purpose of these deliberative councils is to create an atmosphere of consensus around the government's views, which are often presented as "visions." Visions thus authorized serve as a guiding principle in the formulation of economic policy and also serve as a frame of reference in consultations between government and the private sector.

40. Visions may pertain to any level of the economy--macroeconomic sectoral, or industrial. All visions have certain elements in common. They tend, for example, to point out the defects and problems in current domestic situations and to compare these situations with those in advanced Western countries. Visions may also identify recently emerging trends that have enabled policymakers to judge what could be done as well as what should be done to improve the economy. Visions seemed to have considerable impact on the upgrading of the industrial structure during the postwar period as they provided an effective framework for policy formulation.

41. The Japanese style of decisionmaking may be characterized as a "bottom-up" approach in the sense that initiatives for and inputs to policymaking come from the bottom level of bureaucracy; that is, proposals are formulated by section staff members and then are thoroughly discussed, first within the section and subsequently at higher levels. Policy coordination within and between ministries is carried out formally and informally at various levels. One clear merit of the bottom-up approach is that basic policy details are compiled by those government officials who have access to the required information through their daily contact with various industries. One possible disadvantage of this approach is that narrow interests may come to be emphasized in policymaking. That problem seems to have been largely avoided in Japan because of its effective system of examining and evaluating initial proposals at both higher and lower levels of government, and because of its practice of training government officials to be generalists by assigning them to diverse fields and functions within ministries every two to three years. At least the problem has not been prevalent within individual ministries. Interministerial policy coordination, by contrast, has never been as effective, and rivalry and sectionalism have

been regular features of Japan's bureaucracy. In the absence of "top-down" leadership, mechanistic criteria have been applied to budget allocation in line with the practice of incrementalism.

42. The provision of social overhead capital has been one important result of macroeconomic planning in Japan. After the Doubling National Income Plan proposed closer coordination between the macroeconomic plan and sector programs and between long-term planning and annual budgeting, multiyear programming of infrastructure construction was undertaken to alleviate and prevent bottlenecks in economic growth. (Much emphasis was placed on the transportation sector, for example, especially road transportation.) Many ministries formulated medium- and long-term programs as a means of securing budget allocation over the long term. However, this new feature in budgeting was not always effective in safeguarding steady and smooth funding of public investment programs because these expenditures were subject to annual fluctuations in short-term fiscal management.

III. Formulation and Implementation of Industrial Policy: Objectives and Instruments

43. The industrial policy that was designed and implemented by MITI and that became the backbone of macroeconomic development plans over the 1950s and 1960s went through several changes during this period, in both its objectives and instruments. Immediately after the war, when most efforts were directed toward the recovery of industrial production, a priority production scheme was adopted in which Japan's limited resources were concentrated in the production of coal and steel. That recovery, which lasted up to 1948, was accompanied by rampant inflation fueled by public loans and subsidies. Consequently, a drastic stabilization program was carried out in 1949; and the goal of

industrial policy became "industrial rationalization" for key industries such as iron and steel, coal, electric power, shipping, fertilizer, and textiles.

44. During the first half of the 1950s, Japan took several measures to protect and promote its infant industries. One was legislation for the protection of industries from foreign competition in the Foreign Exchange and Foreign Trade Control Law (1949) and the Foreign Capital Law (1950). In addition, a protective tariff was set up. As for the policy measures that were to promote infant industry, these included fiscal incentives and financial support for selected industries as well as public investment in industry-related infrastructure. Tax exemptions and special depreciation allowances were granted for the favored industries, and various kinds of tax-exempt reserves were designated. It is noteworthy that export earnings enjoyed a tax-exempt status. Financial supports included the provision of public funds at low interest rates. A large number of public financial institutions were established during the first half of the 1950s and the Fiscal Investment and Loan Plan was organized in its present form in 1953 to facilitate systematic deployment of governmental investment funds.

45. During the second half of the 1950s industrial policy promoted the machinery industries as well as new industries such as petrochemicals, plastics, synthetic fiber, and electronics through fiscal incentives and financial preferences. Those branches of manufacturing were to become the cutting edge in upgrading the industrial structure toward heavy and chemical industries. The support given to selected industries contributed substantially to the rapid growth of those industries. The provision of public funds facilitated the financing of new and (ex ante) uncertain projects by providing a "seal of approval" that encouraged private financial institutions to follow suit. Tax exemptions reduced the effective tax rate on

corporate earnings and enabled fledgling firms to retain a higher percentage of the profit.

46. One notable feature of industrial policy as it applied to machinery and electronics was the emphasis it placed on upgrading small- and medium-scale manufacturers of parts and components. The technical and managerial improvements in industries of this size achieved under government-sponsored rationalization and modernization programs led to considerable productivity increases in the machinery and electronics industries. Since small- and medium-scale industries exhibited a high capacity to absorb employment, the distribution of income improved at the same time that the economy was experiencing rapid growth.

47. Industrial policy during the 1960s, meanwhile, aimed at strengthening Japan's ability to compete internationally. The key to international competitiveness was sought in a restructuring of industrial organization. When the Japanese government committed itself to programs of trade and capital liberalization, the concern over international competition deepened. MITI's worries were twofold. First, too many firms of too small a scale were engaged in excessive competition. Second, MITI was faced with the loss of a legislative basis for influencing private industries through the control of foreign trade and direct investment. It therefore advocated new legislation, the Special Measures Law for the Promotion of Designated Industries (1963), which was originally named the Law for Strengthening of International Competitiveness of Designated Industries. In MITI's view, it was essential to integrate existing production units into larger and more efficient enterprises and to carry out this reorganization under effective government leadership. Liberalization raised the specter of foreign dominance and thus cast a shadow on the postwar industrialization efforts. In this atmosphere of deepening

crisis, the implementation of the liberalization programs proceeded gradually and selectively. Although the above-mentioned new legislation failed to pass the Diet, MITI continued to pursue industrial reorganization vigorously, by arranging mergers and coordinating investment projects. Lacking legal authority, MITI relied heavily on an informal means of persuading and guiding the private sector--that is, through administrative guidance.

48. The promotion of heavy and chemical industries succeeded in generating high rates of economic growth that were sustained for two decades. At the same time, a host of environmental problems developed, particularly in industrial centers and congested cities, and they reached a peak toward the close of the 1960s. The way to cope with this situation, according to the vision of industrial policy for the decade of the 1970s, was to improve the standard of living from a broad perspective. Thus the guidelines for industrial structure were expanded to include "environmental effect" and "quality of work" in addition to the "income elasticity" and "productivity increase" that had been adopted in the preceding decades. Industrial policy now emphasized the development of knowledge-intensive industries (conceptualized as research and development), sophisticated assembly, fashion-oriented industries, and information-related industries.

49. During the early 1970s Japan's industries suffered a series of shocks, which accelerated the reorientation of its industrial policy. The rapid appreciation of the yen after the breakup of the regime advocating a fixed exchange rate accentuated the fact that Japan's labor-intensive industries were less and less able to compete with the prices of the industrializing countries in East Asia. In addition, the first international oil crisis dealt a devastating blow to those branches of the heavy and chemical industries that depended on petroleum as a source of energy and

feedstock. For one thing, the increased price of petroleum put user industries at a cost disadvantage in relation to their competitors, who were able to turn to alternative sources of energy or feedstock. Second, the oil crisis ushered in a new era of slow growth, both domestically and internationally. Japan's rate of growth fell from 10 percent to 5 percent a year; meanwhile, the producers of industrial intermediate goods were particularly hard hit by an even more drastic reduction in investment activities.

50. Structural adjustment thus became a serious problem for Japan's economic managers in the 1970s. They faced the gloomy task of coping with excess capacities in old (labor-intensive) and new (energy-intensive) "structurally depressed" industries. For the first time in MITI's postwar history, most of its assignments were backward-looking in that it had to take care of the contraction, rather than the expansion, of Japan's industries. In short order, however, MITI managed to turn necessity into a virtue. It found a new, forward-looking challenge in technological development. Unlike the previous decades, when the essential ingredient of technological progress had been the import of technology from advanced countries, now was the time to emphasize indigenous research and development, which were directed toward pollution control, energy saving and diversification, and labor saving, mainly through electronic automation. MITI began exploring technological frontiers with the same vigor that it had shown earlier in the search for ways to catch up with advanced countries.

51. Significant as it was, technological development did not solve all the adjustment problems of the 1970s, many of which--in both the old and new structurally depressed industries--had to be tackled in a backward-looking manner by orderly contraction of production capacity. Also, some lines of

business had to be diversified and some locations shifted through direct foreign investment. In many cases, even downright scrapping of the existing facilities and a reduction in the workforce were necessary. Nonetheless, with its forward-looking vision of industrial development well established, MITI managed to abide by the principle of positive adjustment and free trade throughout the difficult times of adjustment after the oil crisis.

Effect of MITI's Industrial Policy

52. The effectiveness of MITI's industrial policy cannot be adequately evaluated without considering its purpose and the manner in which it was formulated and implemented. The goal of MITI's postwar industrial policy, as pointed out earlier, was to upgrade Japan's industrial structure through compositional changes in the manufacturing sector and through the restructuring of industrial organization within each industry. The first step it took in this direction was to protect Japan from foreign competition and to promote incentives for priority industries. These measures offered support and guarantees to private investors.

53. Since investment decisions are made on the assumption that certain supply-side and demand-side conditions will prevail over a period of ten to fifteen years, private firms face the risk of uncertain future developments in financial, labor, and product markets. Market prices, no doubt important and effective signals in adjusting demand and supply in the short run, play a more limited role in investment decisions on the technique and scale of production as well as the choice of product. MITI's protective and promotional policy measures served to reduce those risks on the supply side, while macroeconomic plans and industrial programs did so on the demand side. Moreover, the incentive measures affected the cost-benefit calculations of investment projects directly by increasing net cash flow (tax exemptions and accelerated

depreciation allowances) and by reducing the discount rate (low cost financing).

54. This last point has great bearing on the choice of industry and technology in strengthening the economy. As stated earlier, MITI's two criteria for dynamic industries were high income elasticity and high rate of technical progress. To promote investment in dynamic industries and technologies, MITI found it helpful to modify relative factor prices so that they would reflect factor endowments in some future period.

55. Furthermore, MITI had to deal with the question of appropriate scale in the choice of technology. The market cannot sustain perfect (atomistic) competition in the presence of scale economies. If resources are to be efficiently allocated under the condition of decreasing long-run average cost, production units have to be large enough to enjoy economies of scale. This consideration and the excessive competition among smaller than optimal scale producers in the free market prompted MITI to intervene in the decisions of private investors. It tried to realize scale economies, as pointed out earlier, by introducing controls on technology imports, by coordinating joint or staggered investment plans through administrative guidance, and by arranging mergers--measures that were not entirely successful. In addition, MITI had to recommend production cuts or depression cartels to deal with the excess supply arising from the fierce competition among producers.

56. MITI's protection and promotion of priority industries were, however, partly responsible for this competition, since private enterprises (which were strongly motivated to invest and innovate because of the rapid growth already achieved) took macroeconomic plans and industrial programs as minimum targets in their investment plans. In some cases, MITI's guideline of basing production quota or capacity expansion quota on existing levels of capacity

induced companies to invest in new equipment while keeping old equipment. In insuring against cutthroat competition, the production cuts and depression cartels administered by MITI to maintain market order must also have contributed to more aggressive investment behavior.

MITI's Policy for Infant Industries

57. The first point to note is that in postwar Japan infant industry protection across the board was a rule rather than an exception, even though it seemed to run counter to the doctrine of free trade. This phenomenon was a product of Japan's bottom-up approach to policy formulation. That is, under Japan's system, each section in MITI is responsible for designing policy measures for the industry under its charge. Thus, nurturing measures were applied to almost all the industries under MITI's jurisdiction, albeit with differing scope and intensity according to the relative importance attached to individual industries. There was no overall design specifying the industries to be nurtured, except that in the early 1960s industry performances and the general principle of shifting industrial structure toward heavy and chemical industries led to the establishment of theoretical criteria for the choice of industry (income elasticity and technical progress).

58. Since Japan discouraged the direct involvement of either state enterprises or foreign companies, how was it possible, then, for it to nurture infant industries successfully across the board? The answer again lies in the dynamism and aggressiveness of private enterprises in various industrial fields, and in the basic purpose of MITI's industrial policy, which was to provide incentives to private investment. Another important factor was that Japan had maintained an undervalued exchange rate of 360 yen to the U.S. dollar. When the rate was initially set, Japan's international balance of payments position was precarious. Before long, however, potential for excess

exports developed with the normalization of the world economy and the successful deployment of Japan's increasingly large network of foreign branches. Also, Japan prudently did not absorb the excess by accumulating foreign exchange reserves; rather, it absorbed the reserves through continued domestic expansion. The rapid growth in export thus rebounded, creating a boom in domestic investment, which in turn created a boom in export by decreasing unit costs. Thus investment and exports became caught up in a "virtuous" circle.

59. Both of the preceding factors also account for the second distinctive features of Japan's infant industry policy in the postwar period--that is, its somewhat limited duration. Of course, other factors were involved as well. Many economists would argue that, in fact, MITI stuck to its protectionist stance too long and thereby unduly delayed liberalization of Japan's economy. The postponement of liberalization seems justifiable, however, in view of the circumstances. For one thing, it was generally understood that a protective policy would be necessary to promote industrial maturing and thereby strengthen Japan's position on the international market. The promotional measures designed to strengthen the supply side also served to increase dynamic competition among private enterprises, and thus forestalled the inefficiency and stagnation that might otherwise have developed under the protection from international competition.

60. Another, perhaps more important, reason for strengthening Japan's competitiveness can be found in its great dependence on the import of essential raw materials and fuels. The ever-present sense of urgency underlying Japan's emphasis on export promotion is well summarized in the expression "export or perish." It was therefore deemed absolutely necessary to develop the heavy and chemical industries into export industries if the

economy was to attain sustained growth. Industrial policy, then, not only offered support for raising the efficiency of production, but it also provided a general incentive for exportation. Modernization and reorganization of small-scale industries were particularly important in this connection.

61. The desire to join the ranks of advanced countries and, what is probably more important, the pressures exerted by Western countries led Japan to accept the principle of liberalization at the beginning of the 1960s. An import liberalization program was drawn up for the period 1960-63. In 1963 Japan moved to the Article 11 status in the General Agreement on Tariffs and Trade, and in 1964 it moved to Article 8 status in the International Monetary Fund. When Japan joined the Organisation for Economic Co-operation and Development in 1964, it committed itself to capital liberalization, which it initiated in 1967.

62. Since MITI, along with its client industries, had been skeptical about the preparedness of Japanese industries, it tried to postpone decontrol of imports or foreign investment for what were considered its vulnerable sectors. Detailed studies of the effects of liberalization were carried out and timetables for liberalization were prepared for various industries. Subsequently, programs were formulated to strengthen competitiveness through investment and innovation. In this way, MITI wisely made the targeted removal of protection serve as an effective policy instrument to stimulate improvements in efficiency. The cost of prematurely exposing infant industry to uncontrolled competition would have had far more serious repercussions than its postponement of liberalization.

IV. Concluding Remarks: Lessons from Japan's Experience

63. The rapid economic growth in postwar Japan was an across-the-board and cumulative process of industrial development. Industrial policy played a crucial supportive role in this process by presenting visions and providing protective and promotional measures to infant industries. Macroeconomic policies also provided favorable conditions for economic growth by combining easy money (low interest rate) and tight fiscal (balanced budget) policies. The Ministry of Finance saw to it that social overhead capital would be available to meet the needs of industrial development by according priority to these needs in its annual budget and in the allocation of public funds under the Fiscal Investment and Loan Plan. During the period of high growth in the 1950s and 1960s, government revenue continued to record automatic increases, so that the financing of priority projects was easily incorporated in the budgeting practice of incrementalism.

64. Underlying the successful development of Japan's postwar economy was the level of technical and managerial development that had already been achieved over the eighty-year period since the time of the Meiji Restoration. The postwar economic reforms broadened the basis of growth by eliminating the control on industry by zaibatsu groups (through the dissolution of zaibatsu groups and the breaking up of monopolies), and by improving the economic conditions of workers and farmers (through the authorization of labor unions and land reform). A huge backlog of advanced technologies were available to be imported and applied in a wide range of industries. Thus, both the supply-side and demand-side conditions for dynamic competition were present at the start of the postwar period. Industrial and

macroeconomic policies added further impetus to private investment and now and then also applied restraints on it.

65. Various types of parallel growth occurred during the postwar period. The virtuous circle involving export and investment has already been mentioned. In most cases, the initial impetus to investment came from rapidly expanding domestic markets, which grew in parallel with export demand. As for the organizational structure of the industrial sector, there developed a mutually reinforcing pattern of growth between large-scale and small-scale enterprises, many of which had subcontracting arrangements. Parallel growth between large-scale assemblers and small-scale manufacturers of parts and components, for example, was evident in a broad range of machinery industries as well as in textile industries, where large-scale producers of intermediate goods organized small-scale industries for final labor-intensive processes.

66. The contribution of small-scale manufacturers of parts and components to the overall development of the machinery and electronics industries is well documented. Here, again, the prewar heritage of technical and managerial expertise on the part of small manufacturers must be emphasized. At the time, however, a series of MITI-sponsored programs for the modernization and reorganization of small-scale industries were instrumental in increasing productivity and improving quality control. The machinery industries constitute the fastest growing branches of manufacturing in the 1950s and 1960s. Because of their relatively high labor intensity, they generated rapid growth in the demand for labor. Nonetheless, disparities were present in the productivity and wages of large-scale and small-scale industries during the early phases of postwar growth. Because of the ensuing technological development in small-scale industries, however, the dual structure of Japan's industrial sector eventually disappeared.

67. The protection and promotion of infant industries in postwar Japan not only helped to turn import-substituting industries into export industries, but were also instrumental in building a broadly based industrial structure within the unified and modernized national economy. These achievements stand out in sharp contrast to the disappointing experiences of many other developing countries on the road to industrialization after World War II. Is Japan's success transferable? To answer this question we have to discuss some untold parts of the success story.

68. Japan's prewar heritage of accumulated production experience is not the only factor at the base of its economic success. Japan's heritage of strong institutional and group traditions also greatly affected the efficacy of policy formulation and implementation. Governmental leadership, for example, had spearheaded industrial development from the time of the early Meiji. The comprehensive system of control and regulation of industries established prior to and during World War II further strengthened the government's power over all aspects of industrial activities. The smooth interaction of government and business is a result of long-established traditions that also provided a solid organizational basis for Japan's successful bottom-up approach to the formulation and implementation of industrial policy.

69. These traditions influenced the behavior of the private sector as well. Trade associations, for example, had been mobilized in the past for the allocation of production quotas and for the collection and compilation of industry-related information and statistics. This method of collaboration among private businesses under governmental supervision was carried over to the postwar period almost intact. If Japan's bottom-up approach is to be adopted by other nations, then they will first have to strengthen their

administrative infrastructure in terms of collecting information and establishing close ties between business and government.

70. The question of whether one country's experience in managing development can be transferred to another is difficult to answer in general terms. At least, some basic considerations can be pointed out in evaluating the transferability of the Japanese experience:

- Periods of rapid industrial growth tend to produce increasing disparities in income between industry and agriculture and, within given industries, between the modern (large-scale) sector and the traditional (small-scale) sector. In the case of postwar Japan, the government took corrective measures to prevent actual income disparities from becoming too great by supporting the price of rice to maintain farm income and by providing various forms of assistance to small business. In developing economies, the problems associated with a "dual structure" seem to be more prevalent in the early stages of development. In many circumstances, it would be wrong to equate economic development with the promotion of heavy and chemical industries.

- Japan, with a population of 100 million and with household income equitably distributed, had a large and rapidly growing domestic market after the war. It was large enough to accommodate oligopolists with technically efficient scale and was growing rapidly enough to keep those oligopolists in competition, rather than collusion, with each other. The dynamism of private industries under protection seems to have been greatly enhanced under the competitive oligopolistic structure, which combined economies of scale and competitive incentives. Developing economies that lack a domestic market of sufficient size will have to face a tradeoff between scale economies and competitive industrial structure.

● Macroeconomic stability was never a serious problem during the period of high growth in postwar Japan. Although the growth of investment caused recurrent balance of payments difficulties, contractory financial policies were adopted on such occasions, and the temporary slowdown in investment quickly produced improvements in external balance. Inflation was never a serious problem, either. The long-term effects of investment (that is, improved productivity and increased growth of output) helped to stabilize the process of capital accumulation by improving the balance of payments position (through import substitution and export expansion), and by realizing price stability (through reduced production costs and expanded supply capacities). Investment activities thus eliminated macroeconomic constraints on further economic growth, which rapidly became self-reinforcing.

71. Whenever developing countries find themselves up against serious macroeconomic problems in the form of accelerating inflation or the accumulation of external debt, they will have to face the difficult task of stabilizing the economy without damaging its growth potential. In countries more susceptible to macroeconomic disturbance than Japan, demand management may require greater attention.

Korea's Experience in Managing Development
through Planning, Policymaking, and Budgeting

Kwang Suk Kim

Abstract

This paper presents Korea's experience in managing development through planning, policymaking and budgeting over the past two decades. First, the characteristics of the planning organizations, including the Economic Planning Board, the Office and Planning and Management under each ministry, and Ad Hoc Committees, and their evolution over time are first dealt with. Second, the process of plan formulation was discussed by specifying the respective roles of each planning organization, and of foreign and domestic exports. Third, the Korean system of annual planning, which serves as a device for effective implementation of a medium-term plan, and its evolution over time are examined. Fourth, the government budgetary process and the role of budgeting in plan implementation are discussed. Fifth, the formulation and implementation of the short-term economic management policy, which may or may not be tied in with the implementation of a medium-term plan, is discussed. Sixth, the Korean system of performance monitoring and evaluation is examined, placing emphasis on the current system. Finally, lessons that emerge from the Korean experience are presented for other developing countries as well as for Korea's future development.

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I. Introduction

1. The Republic of Korea (hereafter, simply Korea) has developed at an extraordinarily rapid rate since adopting its First Five-Year Plan in 1961. This economic success is widely believed to be the result of outstanding government management that used development planning as its tool, along with sensible policies and budgets. Like many other market-oriented developing countries, Korea turned to development planning after World War II in the hope of accelerating the growth and structural transformation of its economy. Although its initial attempts to formulate a medium-term development plan during the reconstruction period (1953-60) following the Korean War were unsuccessful, things changed thereafter. 1/ From 1962 to 1966 it implemented the First Plan and since then has completed three additional plans, the last being the Fourth Five-Year Plan of 1976-81. It is currently implementing its Fifth Five-Year Economic Plan (1982-86).

2. Actual development, at least in macroeconomic terms, in general exceeded original targets up to the time of the Third Plan (1972-76). During the latter part of the Fourth Plan (1976-81), economic performance did not meet plan targets for the first time, mainly because of the effects of the second world oil crisis and the domestic political instability that followed President Park Chung Hee's assassination. Before the late 1970s, however, Korea experienced rapid growth and structural change for nearly two decades.

3. To what extent the performance of management, as against the plans themselves, influenced Korea's economic development of the 1960s and 1970s has not yet been determined. Although a number of studies have already examined Korea's development experience, most have primarily reviewed the evolution of its proposals for development and evaluated the resulting achievements. Few

studies have investigated the contribution of management to Korea's development. Thus, this paper takes up the question of management's effectiveness by analyzing development planning, policymaking, and budgeting procedures in Korea over the period 1960-80. As well, some lessons are identified that may help to guide Korea and other countries in their future development efforts. The discussion is based both on personal observations and on those of former development managers in Korea.

II. Agencies Responsible for Planning

4. The first point to make is that Korea (population 38.1 million in 1980) is run by a highly centralized government. Although the country is divided into four special cities (Seoul, Pusan, Taegue, and Inchon) and nine provinces for the purpose of local administration, the heads of all levels of local government are directly appointed by the central government. Local autonomy was briefly in effect during the late 1950s and early 1960s, but it was abolished by the military government in 1961 and has been avoided since then. As a result, Korea's local governments have been no more than agents empowered to carry out the decisions of the central government.

5. As is often the case in developing countries with a presidential system, the executive branch has been the dominant power of the three (executive, legislative, and judiciary) branches of the central government. The executive branch is composed of the prime minister and twenty functional ministries supporting the presidency. 2/ Within this group, development planning is handled by the Economic Planning Board (EPB), which is actually a super ministry in the sense that its minister is concurrently a deputy prime minister.

Economic Planning Board

6. The EPB was organized in 1961 to supersede the Ministry of Construction (which had previously adopted the main functions of the former Ministry of Reconstruction), and to absorb the Bureau of Budget from the Ministry of Finance and the Bureau of Statistics from the Ministry of Home Affairs. Thus, in the beginning, the EPB was responsible for government budgeting and statistical functions in addition to the development planning and foreign cooperation activities that had been administered by the former Ministry of Reconstruction. Since that time, its functions have expanded significantly. At present the EPB is also responsible for price policy, fair trade administration, investment project appraisal, and monitoring and evaluation of performance, in addition to the initial functions of development planning, budgeting, and statistical work. The functions of foreign cooperation and investment promotion, however, have been transferred to the Ministry of Finance. Since the minister of EPB is a deputy prime minister and has budgetary control over the ministries, the board is considered to have appropriate institutional power to carry out its function of economic planning and policy coordination.

Bureau of Economic Planning

7. Within the EPB, the actual responsibility for development planning activities falls on the Bureau of Economic Planning. It is headed by a director-general and consists of seven divisions: Overall Planning, Industrial Planning, Investment Planning, Social Development Planning, Foreign Cooperation Planning, Financial Planning, and Economic Analysis. Although the internal organization of this bureau has been adjusted somewhat since its establishment in 1961, its basic functions seem to have undergone little substantial change.

Office of Planning and Management

8. The EPB is a central planning organization, but it cannot prepare and implement a development plan without the collaboration of the functional ministries. Each ministry participates in planning through its Office of Planning and Management, which is a higher level organization than the bureaus that report directly to the minister. Among its other administrative duties, this office handles both development planning and budgeting for its ministry. It is also responsible for monitoring performance and evaluating the ministry's projects and policy measures. In a sense, the role of this office in each ministry is similar to that of the EPB in the central government. The EPB and each ministry's office of Planning and Management, then, are the permanent organizations responsible for development planning in Korea. They issue the guidelines to be used in formulating a development plan. The actual preparation of a development plan, however, is handled by the many ad hoc committees organized to support the regular activities of these organizations.

Ad hoc Committees

9. When the First Five-Year Plan was hurriedly prepared by Korea's military government in 1961, no formal working committees had been organized. During the formulation of the Second Plan, a number of industry committees were organized to help prepare sectoral plans. These committees consisted of competent ministry officials, the employees of development banks and other financial institutions, private industry experts, and EPB staff. Similar ad hoc groups drafted sectoral plans for the third phase of development. From that time, the number of work groups steadily increased, from fourteen for the Third Plan to twenty-seven for the Fifth Plan. 3/ Each group was usually chaired by a high-ranking official from the appropriate

ministry and consisted of staff from that ministry, EPB staff (as a secretariat), and selected experts and specialists from many nongovernmental organizations, including various industrial associations, financial institutions, research institutes, and universities.

10. Since the time of the Second Plan, these committees or work groups have come under the direction of two or more higher level ad hoc committees. That is, the higher level committees review and approve the guidelines for plan formulation prepared by the EPB, as well as the draft plan and policy directions prepared by the work groups. The first two such committees, formed for the Second Plan, were called the Economic Plan Consultation Committee and the Combined Meeting for Formulation of the Second Plan. Three such committees worked on the Third Plan: the Plan Working Committee, Plan Coordination Committee, and Plan Deliberation Committee. The Plan Working Committee was made up of the vice-minister of the EPB as chairman, vice-ministers of all other ministries, directors of semi-independent government agencies (such as the Office of National Tax and the Office of Forestry), and experts and representatives from selected nongovernmental organizations. The Plan Coordination Committee, which was chaired by the deputy prime minister, consisted of all ministers from economic ministries, renowned economists, and foreign planning advisers; the Plan Deliberation Committee, chaired by the prime minister, consisted mainly of ministers, a representative from the political party in power, and heads or representatives of selected nongovernmental organizations, including financial institutions, business associations, the press, major universities, and research institutes.

11. For the Fourth Plan, the ad hoc committee had the same members as the Plan Working Committee for the Third Plan, but the group was renamed the Plan Coordination Committee. In this way, the committee that was similar to the

Plan Coordination Committee for the Third Plan was eliminated. The Plan Deliberation Committee, by contrast, has remained unchanged since the Third Plan and is the supreme committee for the deliberation and final approval of a plan. In some respects, it acts merely as a rubber stamp, placing its approval on the final guidelines and the development plan, since any disagreements are supposed to have already been ironed out through discussion in the Plan Coordination Committee.

III. Plan Formulation

12. The hastily prepared First Five-Year Plan (1962-66) was actually a revision of the Five-year Economic Plan that had been prepared earlier but not finalized by the deposed Democratic party government. When the Chang Myon government was preparing this plan, it invited Charles Wolf, Jr., of the Rand Corporation to act as foreign consultant. The plan subsequently adopted by the military government, however, was completed without much help from foreign experts. Staff of the U.S. Agency for International Development (USAID) stationed in Korea were not consulted, for example, because diplomatic relations with the United States had significantly deteriorated immediately following the military coup in Korea. Since the time that the Second Plan was prepared, the process of formulation has gradually become institutionalized, but foreign consultants are invited to assist in the early stages.

Stages of Planning

13. The formulation of a five-year plan generally takes about twenty-six months. This time period includes six months for the initial preparation and six months for writing up and publishing the final plan. Obviously, then, the

preparation of a new development plan has to begin at least twenty-six months ahead of the starting period of the plan.

14. First Stage: Draft Guidelines. During the first stage of preparation, the main work is done by EPB's Bureau of Economic Planning (BEP). First, it reviews the existing bodies designated for plan formulation. At the same time, it surveys external economic prospects and alternative macroeconomic projections for the new plan period. As a result of this review, one or more new presidential decrees may be issued concerning the organization of ad hoc committees and work groups. In line with the new decrees, various ad hoc committees and work groups are then organized through the formal appointment of ex-officio and other nongovernmental members to each committee and work group.

15. Next, the EPB prepares a draft of guidelines for formulation of a new plan, which are based on its analysis and preliminary projections of the economy. These guidelines usually include: a survey of external economic conditions and emerging issues for the Korean economy; preliminary fundamental goals of the new plan; preliminary macroeconomic targets (or indicators) and main policy directions; and the statistical basis for and time schedule of plan formulation. While the EPB is preparing these guidelines, the Planning Ministry examines some alternative goals, targets, and policy directions for the plan with the help of foreign and domestic consultants. ^{4/} Before the Fifth Plan, the draft guidelines were prepared almost entirely within the EPB. During the formulation of the Fifth Plan, however, and before the plan guidelines were completed, the EPB and the Korea Development Institute (KDI) jointly held a series of public conferences to present and discuss the likely issues and alternative targets and policy directions of the plan. Many experts and representatives of both government and nongovernment organizations were invited to present their opinions at these meetings.

16. In any case, when a draft of the guidelines is completed by the EPB, it is submitted first to the Vice-Ministerial Committee of Plan Coordination and then to the Ministerial Committee of Plan Deliberation for final approval. This process has been in place since the time of the Fourth Plan. The proposed guidelines are usually discussed at length by the coordination committee, which often makes some modifications after the committee hearing. The modified guidelines are then usually accepted by the Plan Deliberation Committee without further comment or suggestions for change. The approved guidelines are reported to the formal cabinet meeting and then to the president before being sent out to the various ministries.

17. Second Stage: Sectoral Plans. After the EPB transmits the plan guidelines to all government ministries and semi-independent agencies, the ad hoc industry committees or work groups begin work on the sectoral plans. 5/ At this stage, some members of each work group tour selected foreign countries to obtain details of planning experiences there. The preparation of sectoral or ministry plans has changed significantly since the Third Plan was formulated. Before then, each industry committee assisting in the preparation of industrial sector plans was chaired by a member of the EPB's planning staff; thus, ministry officials and other members of each committee seemed merely to be supporting the EPB's planning effort. Since then, each work group has been headed by the assistant minister (or the director-general in some exceptional cases) of the ministry concerned, so that the group is now actually responsible for developing the ministry or sectoral plan. The change in attitude of most ministry officials toward the planning effort suggests that significant decentralization of planning has taken place in Korea since the Third Plan was formulated.

18. Each work group since then has prepared a sectoral or ministry plan on the basis of the EPB's guidelines for plan formulation. Whereas the guidelines provide only preliminary macroeconomic indicators (including the major industry growth rates and the magnitude of available investment resources), the sectoral plans prepared by the work groups usually outline investment programs far exceeding the available resources. The EPB therefore prepares an alternative program of investment requirements based on an input-output planning model and distributes it to the various work groups, which are encouraged to develop a more reasonable investment program.

19. Third Stage: Planning Coordination. When the Third Plan was formulated, each work group's draft plan was submitted to the Plan Working Committee for review and adjustment. At the time of the Fourth Plan, the EPB's Planning Bureau was responsible for coordinating all plan proposals of the work groups in the course of plan consolidation. It seemed easier for the EPB to take on this task since it had already provided each work group with detailed planning guidelines. Nevertheless, considerable discussion took place between the EPB and the relevant ministry staff at this stage of the Fourth Plan. At the time of the Fifth Plan, each work group's proposal was presented at a public conference held at the KDI in order to solicit comments from experts and other interested groups. Afterward, the EPB coordinated and adjusted the ministry proposals on the basis of these comments. 6/

20. By coordinating the work groups and adjusting the sectoral plans, the EPB is able to consolidate these plans into a national development plan. That draft is then submitted to the Plan Coordination Committee for review and approval. It can be revised if the committee finds it necessary, but no significant revision has yet been made to the draft plan as a result of discussion at the Plan Coordination Committee. This stage of planning ends with the committee's approval.

21. Fourth Stage: Finalization. At this stage, the EPB updates the figures of the macroeconomic plan on the basis of the newly released national income account estimates by the Bank of Korea. Then the main features of the plan are formally submitted to a meeting of the cabinet and finally to the president for his approval and promulgation. The Planning Bureau now has to complete the writing of a formal plan for publication.

Role of Foreign and Domestic Experts

22. As mentioned earlier, the First Five-Year Plan was formulated by Korean bureaucrats and economists without significant help from foreign experts. The Second Plan, meanwhile, was prepared by the EPB in close collaboration with the USAID mission and other foreign advisory groups stationed in Korea (both the Nathan Advisory Group supported by USAID and the West German planning adviser had offices in the EPB building). USAID/Korea provided further assistance through its economic staff and also invited short-term planning consultants from abroad to participate. Since the EPB did not have many experienced planners at this time, the foreign advisers were involved in almost all important aspects of plan formulation. Thus, the Second Plan was actually a joint product of both the Korean government and the foreign advisers.

23. Fewer foreign advisers participated in formulating the Third Plan. Although a number of renowned foreign economists provided short-term advisory services, only one foreign planning adviser (Larry Westphal) to the EPB was stationed in Korea. The former assisted with plan strategies, while the latter helped with modeling tasks. At the same time, the EPB hired three domestic planning consultants (including Mahn Je Kim) to help with the Third Plan.

24. Since the Fourth Plan, no foreign adviser has been stationed in Korea, although a number have been short-term consultants. Instead, the Korea Development Institute (established in 1971) has provided domestic consultants on many important aspects of planning. Many short-term foreign consultants supported by the United Nations Development Programme (UNDP) Technical Assistance Fund have advised EPB on selected, narrow topics. 7/ The use of foreign expertise has obviously declined since the formulation of the Second Plan, whereas the use of domestic expertise has been on the increase. In other words, an import substitution of planning advisory services has gradually taken place in Korea, particularly since the establishment of the KDI. At the same time, the planning process has not only been gradually decentralized, but it has also involved wider participation by people in both government and nongovernment circles.

IV. Plan Implementation--Role of Annual Planning

25. A five-year plan generally consolidates all programs to be implemented during the entire plan period. The implementation of the plan year by year, however, necessitates the preparation of an annual plan. The role of the government budget in plan implementation is probably better known than the role of annual planning. As Albert Waterston (1965, page 203) has pointed out,

an annual plan is much broader in scope than a conventional administrative budget, which is almost always limited to the domestic funds required for general government activities ... An annual plan is mostly concerned in broad outline with objectives, priorities for the use of resources and expected outputs from proposed inputs of physical, human and financial resources.

26. Korea did not have a system of annual planning during the First Plan. That plan had to be totally revised midway in order to comply with the severe international criticism that it had set overambitious targets. There was, however, no formal annual plan to facilitate the implementation of the revised plan. The actual performance of the economy slightly exceeded the main targets of the ambitious original plan. This performance was therefore not really the result of implementing the revised plan.

Overall Resource Budget

27. A formal system of annual planning was introduced in Korea beginning with the Second Five-Year Plan. The annual plan, which was known as the Overall Resource Budget (ORB), was prepared to facilitate the yearly implementation of the Second Plan. The ORB was to review and evaluate the plan performance in the preceding years. It was then to revise, if necessary, major policy directions and the list of projects to be implemented, as well as macroeconomic forecasts for the year in view of changing economic conditions. The annual plan was not only supposed to provide guidelines for formulating an annual government budget, but it was also expected to reflect government policy regarding private sector economic activities.

28. The ORB system was slightly modified during the Third Plan so that it would both facilitate yearly implementation of the large plan and be an aid in the preparation of an overall rolling plan. In other words, the ORB became a means of updating various projections and of revising plan targets and policy directions for the entire plan period. Beginning in 1978, however, the name of the annual plan was changed from the ORB to the Economic Management Plan to reflect the true nature of the annual plan in Korea.

29. The original title, ORB, implied that the annual plan was intended to cover the allocation of all available resources, including private

investments, since it had the characteristics of a comprehensive plan. With the Third Plan, planning began to emphasize policy rather than allocation, so that it was no longer necessary for the annual plan to include a comprehensive list of investment programs to be implemented during the year. ORB was therefore not really an appropriate title for the annual plan after the Second Plan period. The name was not changed, however, until the Fourth Plan period.

Economic Management Plan (EMP)

30. The successor to ORB presents economic projections and policy guidelines that are applicable for at least two years. It does not provide a detailed list of projects to be undertaken by the private sector, but it does include details of the government's budget as well as all public investment outlays.

31. The EMP for a plan year is normally issued after it has been finalized in January, but its preparation starts early in the preceding year. The first step is to work out the macroeconomic indicators for the coming year. That task is undertaken by the EPB's Bureau of Economic Planning with the technical help of the KDI. It is usually completed by June or July at the latest and submitted to the Economic Ministers Consultation Meeting 8/ for review. After the indicators are accepted at this meeting, they are sent out to all ministers, including the Ministry of Finance, which use the figures in preparing their management plan and budget estimates. Since guidelines for formulation of the new year's budget (which have already been submitted to the ministries by EPB's Bureau of Budget) do not contain detailed macroeconomic projections, this bureau, too, has to use the macroindicators in estimating the feasible levels of total government investment and loan programs for the coming year. Thus, a large part of the new year's budget is based on the macroindicators prepared for the EMP.

32. The new year's budget is usually approved by the National Assembly by December 1 of the preceding year. The Ministry of Finance is also required to prepare and finalize a new year's foreign exchange demand and supply program by this date. The EPB Planning Bureau consolidates the finalized budget and foreign exchange program in its formulation of the EMP. The Planning Bureau also consults with various ministries in December to coordinate sectoral programs and policies for the coming year. During the formulation of the EMP, important EMP proposals are often reported to the economic staff of the Blue House (office of the president) for review. The EPB has to complete the EMP by early January and submit it to the Economic Ministers Consultation Meeting for approval. Once approved, it is reported to the president through a regular cabinet meeting. Then it is published and distributed to all government ministries and offices for implementation.

33. Although the EMP is formally issued in the first quarter of the year, it may be revised by the EPB during the year, if necessary. The macroeconomic indicators of the EMP for the second half of the year are often revised on the basis of the economic performance in the first half. This revision can easily be reviewed by the Economic Ministers Consultation Meeting, which is held about twice a week.

34. Annual planning procedures in Korea seem to have changed little since annual planning was first adopted in 1967, except the name of the annual plan has changed from ORB to EMP. The system has apparently helped to keep the annual government budget and other major programs in line with the goals of each five-year plan. However, since Korea's annual plan is prepared by the Planning Bureau without much collaboration of the ministries, it lacks the details of sectoral programs that are to be undertaken by the private sector without government support. It resembles a forecast more than a formal plan

since it can be readily revised in the course of a year. Nevertheless, annual planning has been an effective means of disseminating government plans and policies that are regularly updated in the light of changing economic conditions. In addition, the consolidation of the government's annual budget and its other programs into the framework of the annual plan has provided the ministries and the general public with a single source of information on all major government policies and programs.

V. Plan Implementation--Role of Budgeting

35. The role of the budget in plan implementation cannot be understood without some idea of budget size and development expenditures. In other words, implementation greatly depends on the resources that are mobilized and allocated through the budget.

36. Overall, the role of the government in Korea's economy has been expanding since the early 1960s (Table 1). At that time, total government expenditures, including local government expenditures, were unusually high relative of GNP, then declined to 16.3 percent of GNP in 1966, and thereafter rose steadily until they reached 22 percent by 1980. The national tax burden has also increased from slightly more than 10 percent of GNP in the early 1960s to 17.4 percent by 1980. In that same period, roughly 23-30 percent of government expenditures have been allocated for government investment and loans (which accounted for nearly 30 percent of gross domestic fixed investment, if the unusual years of 1962 and 1980 are excluded.) These figures, along with the other indicators appearing in Table 1, all point to the relative importance of the government sector in Korea.

Table 1 Selected Indicators of the Role of Government in Korean's Economy
(percent)

	1962	1966	1971	1976	1980
Total government expenditures (including local government and special accounts)/GNP	20.6 <u>a/</u>	16.3 <u>b/</u>	18.3	20.7	22.0
National tax burden/GNP	10.6	10.7	15.0	17.4	17.4
Government investment and loans/ total government expenditures	22.6	127.1	29.1	29.7	27.4
Government investment and loans/ gross domestic fixed investment	55.9	29.8	28.7	27.1	19.8
Investment of government and government enterprises/gross domestic investment	19.3 <u>c/</u>	22.0	23.3	19.5	17.7 <u>d/</u>
Total public investment (including government-invested enterprise/gross domestic investment	40.9 <u>c/</u>	32.6	40.0	36.7	36.3 <u>d/</u>
Savings of government and government enterprises/gross domestic savings	27.4 <u>c/</u>	25.5	22.6	24.2	18.7 <u>d/</u>
Total public savings (including government-invested enterprises)/gross domestic savings	31.6 <u>c/</u>	30.6	24.2	28.5	22.7 <u>d/</u>

a/ Figures for 1960.

b/ Figures for 1965.

c/ Figures for 1963.

d/ Figures for 1979.

Sources: Il SaKong, "The Role of Government in Economic Development," Korea Development Review (Spring 1981), pp. 2-23 (in Korean). Chongkee Park, "National Budget and public Finance," Korean Development Review (Autumn 1981) (in Korean).

37. The classification of budgetary accounts has changed somewhat since the early 1960s. The central government now maintains a general account and eighteen special accounts. Of these, the general account has been the most important in Korea. It covered about 90 percent of all central government budget expenditures on a net basis in 1981, excluding the special accounts of government enterprises. The general account also finances most development expenditures in Korea (Economic Planning Board 1981). Since development expenditures by local government have been almost negligible, the general account of the central government is the main source of funds for the implementation of Korea's five-year plans. This discussion therefore focuses on the formulation of the budget for this account and the disbursement of the funds it contains.

Preparing the Budget

38. Budgetary administration in Korea is handled by the EPB, which is also responsible for development planning. The Bureau of Budget (BOB) under the EPB is responsible for budgetmaking in Korea. The budgetary cycle begins at the end of February each year, when the ministries submit new project proposals as well as the existing major programs for the fiscal year to the EPB. The BOB then evaluates the feasibility of these proposals. At the same time, the EPB must prepare its guidelines for the formulation of the new year's budget and transmit them to the heads of all ministries and independent agencies of the central government by the end of March (that is, after they have been approved by the cabinet meeting and finally by the president). Along with the budget guidelines, the EPB has to provide the ministries with the format for budget estimates, the classification methods for revenue and expenditure budgets, and the other basic information required to formulate the budget, including the standard pay scale for government employees, the unit prices of major expenditure items, and so on.

39. The ministries and independent agencies of the central government start working on the budget as soon as they receive the EPB's budget guidelines. They have about two months to prepare their budget estimates and must submit them to the EPB at least by the end of May.

40. Between early June and late August, the BOB evaluates and adjusts the budget estimates submitted by the ministries. By early September, the EPB has to finalize its own proposals for the new year's budget and have them approved by the deputy prime minister. During September, the EPB reports its overall budget proposals with the political party in power. Then the executive branch's proposal is reviewed by the cabinet meeting and approved by the president. The executive branch proposal has to be submitted to the National Assembly at least by October 2, that is, ninety days before the beginning of a new fiscal year (the same as the calendar year in Korea). The National Assembly has a period of two months in which to deliberate on the budget estimates. (Since 1981, the budget estimates have been directly submitted to the Ways and Means Committee of the National Assembly without prior deliberation by each standing committee.) The national assembly has to pass the new year's budget by December 1.

41. When the budget is finally approved by the National Assembly, the ministries have to submit their requests for budget allotments by program to the EPB; they must also submit both their monthly revenue collection program and monthly budgetary payment program to the Ministry of Finance (MOF). On the basis of these programs, the MOF then prepares a consolidated monthly government financing program for EPB. In turn, EPB prepares a quarterly program of budget allotments and submits it to the cabinet together with the monthly financing program. When these two programs are finally approved by the president, the EPB makes a quarterly budget allotment for the ministries,

while the MOF notifies the ministries of the monthly ceiling of each ministry's payments. These budgetary and financial allotments are usually completed by early January, so that the ministries may start to make budgetary obligations and payments from that time.

42. This brief outline indicates that a critical step in the budgetary process in Korea is the BOB's evaluation of the budget estimates submitted by the ministries. Since the sum of the ministries' budget estimates usually far exceeds the total budget determined by the EPB, the BOB's budget evaluation calls for cutting the budget estimates. According to an EPB source (Byong-Il Kim 1981), the BOB's evaluation is divided into four categories: defense expenditures, current administrative expenses, current program expenses, and development expenditures. The criteria of budgetary evaluation vary within each category. In the case of the development expenditures, the EPB bases its evaluation on the assessment it made of the project proposals submitted earlier by the ministries (see paragraph 38). It attempts to analyze the economic feasibility study of each new project, and reexamines the annual expenditure programs for existing projects. In the BOB's evaluation, of course, the projects specified in the five-year plan are given some priority, but not without prior evaluation. In the case of large projects, the BOB uses the results of project appraisals conducted by the Bureau of Economic Planning and, more recently, by the Bureau of Investment Appraisal.

Structure of the Budget.

43. In its budget, Korea allocates funds both to programs and projects and to line items (categorized by object-class). The budget is structured in the following order: agency, chapter, section, item, subitem, and object-class. "Agency" refers to each ministry or independent agency. "Chapter" usually indicates function, while "section" refers to the character of the

expenditure or the program. An "item" denotes the interagency organization or the project. A "subitem" represents a subproject. Finally, the "object-class" represents the type of expenditures: personal expenses, the purchases of goods and services, current transfers, capital outlays, loans and equity subscription, repayment of borrowings, intragovernment transfer, other expenses, and contingency funds. Any diversion of budget expenditures above the level of item cannot be authorized without the prior approval of the National Assembly. Ministries can, however, divert funds between subitems and between object-classes within the limits set by the EPB or with the prior approval of the EPB minister.

44. For development expenditures related to the implementation of a five-year plan, the budget is organized around development programs (section) and projects (items). The Korean government attempted to adopt a system of program and performance budgeting in the first half of the 1960s, but this system was not pursued after the mid-1960s. Development budgets have been organized by program and project since that time. Under this system, five-year plan projects can easily be matched to budget categories.

45. At the time of the Second Plan, the Korean government made a serious effort to ensure that its planned projects received necessary support. Since then, however, no separate work of this nature has been done because the emphasis in development planning has shifted from comprehensive planning to policy planning. Plan documents, therefore, need not list all the projects to be implemented during a plan period, nor do they have to specify the project expenditure by year. Consequently, plan projects are not automatically included in the annual budget.

46. Nonetheless, it is generally believed that most development projects requiring government financing have been taken into account in annual budgets,

at least until the late 1970s. First, the ministries suggesting the projects obviously are eager to carry them out and will include them in the ministry budget estimates. Although a ministry's budget estimates may be cut and some projects eliminated during BOB's evaluation, the BOB usually gives some priority to development projects. Second, up to the late 1970s the level of fiscal resources available for annual development budgets was generally much greater than envisioned in the five-year plans, the reason being that the economy had grown more rapidly than anticipated. With increased resources for its development expenditures, the government not only found it relatively easy to accommodate most of the plan projects in the budget, but it could even undertake many additional projects that were not included in the original plan.

47. Beginning in 1980, however, the situation changed as economic performance could no longer meet the original targets of the five-year plan. Today, plan projects do not automatically receive budget support, but a new device has evolved to provide plan projects with the necessary budget support: medium-term fiscal planning, which was adopted for use with Korea's Fifth Plan (1982-86). Its purpose is to improve the single-year budgeting system by preparing a medium-term plan for mobilizing and allocating government resources. Even without such planning, the government was able to accommodate most plan projects in the annual budget, and practically no projects that were economically and technically feasible were dropped from the budget. Furthermore, almost no such projects have had to be suspended in the middle of implementation because funds were not available to complete the projects, as has often happened in other developing countries. There are two reasons for this. First, as already mentioned, the Korean government could easily accommodate the planned projects because resources had increased.

Second, the government gave priority in budgetary allocation to ongoing projects. Despite its somewhat rigid approach to budgeting, the government has continuously paid close attention to the completion of projects already underway.

48. The first medium-term fiscal plan was prepared early in 1982 on the basis of the ministries' Fifth Plan project proposals. It called for more realistic estimates of government expenditures than levels projected in the Fifth Plan. Under this new system, the fiscal plan is to be a rolling plan during the Fifth Plan period. In other words, it will be revised by May of each year in accordance with Korea's recent economic performance and the new outlook for fiscal revenues. Thus, it will serve as a basis for the detailed annual budgets of the next year, and thereby ensure that projects envisioned in the Fifth Plan receive due budgetary provision. 9/

VI. Formulation and Implementation of Short-term Economic Management Policy

49. The change from comprehensive planning to policy planning in Korea came about because the government found it could not plan and at the same time directly allocate all national resources in a market-oriented economy. The government's present approach to development planning is important for the private sector mainly in the sense that it discloses the future direction of government policy on the allocation of resources and the consequent economic outlook. Of greater concern to the private sector has been the government's short-term economic management policy, which may or may not be tied in with the implementation of a medium-term plan. In either case, a short-term policy can directly influence decisionmaking in the business sector.

50. Short-term government policy may apply to aggregate demand management, taxes, exchange rates, interest rates, preferential credit, farm prices, industrial promotion and other such matters. Some of these policies may involve discretionary execution by the government, while others may not.

51. Short-term economic policy is normally initiated or designed by the officials of the ministry concerned. For instance, short-term proposals that have to do with aggregate demand management, taxation, exchange rates, and interest rates are normally prepared by the Ministry of Finance in consultation with the central bank and other related ministries. Farm price policy is, of course, the responsibility of the Ministry of Agriculture and Fisheries. These policy proposals have to be reviewed by and coordinated with the related government agencies. Before the president's final approval is received, therefore, the proposals have to be approved at the Economic Ministers Meeting.

52. This group is composed of the ten economic ministers and the deputy prime minister (DPM) as chairman. 10/ The Economic Vice-Ministers Meeting, which consists of the ten vice-ministers from the economic ministries, is subordinate to the Economic Ministers Meeting. The Economic Ministers Meeting, which began with the establishment of the EPB and the deputy prime ministership, has become the formal institution for deliberation on any ministry proposal to enact economic laws and presidential decrees or to amend existing laws and decrees. Such proposals first have to be approved at the Economic Vice-Ministers Meeting. In general, all concerned ministries have already agreed upon them and they merely require the formal approval of the ministers. As a result, few controversial proposals or policy issues are likely to reach this formal Economic Ministers Meeting.

53. Various important policy proposals that require coordination among the concerned ministries are usually submitted to the Economic Ministers Consultation Meeting for discussion. This meeting has the same membership as the Economic Ministers Meeting, but its function is slightly different. Officially, the consultation meeting originated in 1977 (when Duck Woo Nam was deputy prime minister), but some people suggest that a similar institution existed earlier under a different name. The consultation meeting is an informal meeting of the economic ministers to discuss policy proposals or issues for intragovernment coordination, whereas the Economic Ministers Meeting is a formal institution to satisfy legal requirements for final approval of the economic proposals that have already been agreed upon by the concerned ministries. The number of controversial policy proposals has increased in recent years owing to economic development and the increasing complexity of economic issues; and so, the Economic Ministers Consultation Meeting has been held more often (usually twice a week) than the formal Economic Ministers Meeting (usually once a week).

54. Most short-term economic management policies have to be submitted to the Economic Ministers Consultation Meeting since they usually require considerable intergovernment coordination. The proposals submitted to the consultation meeting do not require prior approval by the Economic Vice-Ministers Meeting. The consultation meeting apparently makes it possible for the deputy prime minister (or the minister of the EPB) to coordinate major economic policies and to discourage policy proposals inconsistent with a medium-term plan or the annual plan for economic management, since the deputy prime minister is chairman and the EPB staff serve as the secretariat for the meeting. 11/ In the meeting, the representatives of the Prime Minister's

Office, the Blue House, the Bank of Korea, and the Korea Development Bank usually participate as observers.

55. There is no doubt that the Economic Ministers Consultation Meeting plays an important role in coordinating major economic policies through an informal and free discussion of the policy issues involved. Normally, a policy proposal prepared by a ministry is not open to the public for discussion. It is generally referred to related ministries and independent agencies for comments before it is finalized as a ministry proposal. Full agreement of the related agencies is difficult to obtain at this stage, however, because of the competitive attitudes of bureaucrats in each ministry. Most tend to argue for the position that best reflects their ministry's interests. For this reason, important economic policy proposals are usually submitted to the consultation meeting for discussion and coordination by the ministers concerned.

56. This procedure is the standard way that economic policy is formed in Korea. Sometimes emergency economic measures have to be taken, as they were by the Park regime during the 1970s and by a more recent government on June 28 and July 3, 1982. 12/ In these cases, the policy proposals are not necessarily prepared by the ministry officials concerned but may be prepared by a small number of elite officials who have access to the top decisionmaker and wish to promote certain ideas. If the group succeeds in persuading the top policymaker that a certain policy should be adopted, proposals are worked out quickly (usually secretly) and are then directly reported to the president without going through the normal channel of the Economic Ministers Consultation Meeting. If the president accepts the proposals, the decisions are sent to the appropriate ministry for a formal process of cabinet approval, announcement, and implementation.

57. Thus, some highly important policy decisions may be made by a small number of bureaucrats without much discussion or policy debate by the related government ministries. Even in normal circumstances, where policies are discussed at the Economic Ministers Consultation Meeting, the policymaking process really involves a relatively small number of government officials. Although a ministry might have a special committee for the deliberation of certain policy issues and a few private experts might participate in such committees, the committee is believed to function as a rubber stamp that merely approves whatever is proposed by the ministry. Korea's economic policymaking, it can be said, appears to involve only a small number of government officials and may produce many quick policy decisions.

58. Once those decisions are made, however, they are strongly implemented to achieve the desired objectives. Jones and Sakong (1980, p. 79) state that "Koreans are even better at implementation than at planning," and they suggest that this ability essentially stems from the governmental system, which can be characterized as a Myrdalian "hard" state. A "hard" state is one in which policies are regularly implemented, whereas a "soft" state is one which policies are often not implemented. ^{13/} According to Jones and Sakong (1980, pp. 79-140) Myrdalian "hardness" is determined by two factors: the ability to enforce obligations on people via compulsion, and the ability to direct administrative discretion toward desirable ends. The Korean government's success at implementation, a characteristic of the "hard state," is attributable in part to the state's Confucian cultural background and in part to the nature of authoritarian rule in Korea. In any case, there is no question that the Korean government has the ability and willingness to carry out its policy decisions.

59. Problems may arise, however, when economic policies that have been decided in a hurry by a small number of government officials are not consistent with plan objectives or conflict with economic efficiency. In order to accommodate this kind of situation, therefore, the Korean government has tried to be flexible by reversing direction once a conflict becomes evident. Even then, the government has been criticized both for its quick policymaking and quick change of policies. In 1981, the government handled nearly 1,000 cases of either enactments or amendments of laws and regulations, and about 10 percent of those were revised more than twice in the same year. Many laws and regulations have been amended because a ministry has not been able to take into account all possible related cases, because it was concerned only with the solution of immediate problems, or because other ministries did not cooperate fully. 14/

60. In implementing economic policies, the government has relied not only on field manipulation or other nondiscretionary forms of intervention, but it has also used command when necessary. 15/ In particular, its power to control the credit market has been used for discretionary intervention into decisionmaking by the business sector in connection with the implementation of economic policies. In Korea, practically all the large banks have been partly owned and controlled by the government, while all foreign loans have been subject to government approval and guarantee. Thus the government's discretionary interventions in the business sector have been effective because noncompliance with government policy could reduce or cut off the primary sources of external finance. The government's approach has been especially effective among business firms that have relied heavily on external support for their capital requirements.

61. The Korean government's reliance on both discretionary and nondiscretionary forms of intervention is not considered the bright side of its policy implementation. It indicates, however, the government's willingness to implement effectively its policy decisions by all means available.

VII. Performance Monitoring and Evaluation

Previous System, 1962-81

62. Korea first introduced a formal system of monitoring and evaluating performance in 1962, in connection with its adoption of a basic management planning system similar to that used by the Korean military forces. All central government agencies were required to prepare an annual basic management plan and to submit it to the Office of Planning Coordination (which was in the Prime Minister's Office) for coordination and consolidation before the annual budget estimates were made for a new fiscal year. Then the central government agencies were to prepare their annual budget estimates on the basis of the adjusted management plan. These agencies were required, however, to prepare and submit to the Office of Planning Coordination a revised annual plan of management consistent with the budget approved by the National Assembly. When the revised plan was coordinated and finally approved by the prime minister's office, the implementation of that plan by each government agency became the subject of performance monitoring and evaluation by the agency itself and the Office of Planning Coordination. 16/

63. Performance monitoring and evaluation were to be carried out for all projects and programs specified in the annual management plan, including the economic development projects of the Five-Year Plan. Each central government

agency was first required to monitor and evaluate the status of implementation of its projects in quarterly reports to the Office of Planning Coordination. This office was to conduct an overall evaluation of the reports by soliciting the opinion of experts in the Economic Performance Evaluation Group (which was made up of university professors). The Office of Planning Coordination conducted a quarterly analysis and evaluation of management plan implementation and reported the results to the president in a quarterly meeting held for this purpose. If the evaluation required agencies to take corrective measures, the Prime Minister's Office sent out the proper instructions to each agency.

64. The system just described was completely changed in 1981, when the Office of Planning Coordination was abolished and a new bureau was created in the EPB to undertake the function of performance monitoring and evaluation. At the same time, a new system of monitoring and evaluation was instituted to replace the annual basic management planning system, which was experiencing a number of problems. It is widely agreed that these problems were due mainly to inconsistencies and conflicts with the budgeting process. ^{17/} Since the Office of Planning Coordination lacked power over budgetary allocations, it simply collected the management plans of all government agencies without much serious effort at coordinating and adjusting them. Moreover, the office could do nothing to adjust social and economic development projects, which had to be handled by the EPB's Bureau of Economic Planning. Many of the central government agencies prepared annual budget estimates without even sticking to their management plans. As a result, the management plans of ministries often had to be substantially revised after their budgets had been approved. The main reason for this problem was that an independent organization separate from the EPB had the job of management planning, while the EPB did the

economic planning and budgeting. In the new set-up, the EPB carries out all three related functions--economic planning, budgeting, and performance evaluation. The new EPB bureau responsible for these tasks is called the Bureau of Evaluation and Analysis, and it has almost forty staff members.

The New System

65. In the new system, all central government agencies (including the Seoul city government) are required to prepare work implementation schedules for all important policy measures and government-financed projects to be carried out in a year. Schedules are completed early in the year after the budget has been approved. The EPB first sends its guidelines for the formulation of the major work implementation schedules to all government agencies by the end of January in the year of implementation. Each agency then prepares and submits its main work implementation schedules to the EPB by February 20. Upon receiving the schedules of all agencies, the EPB consolidates them and will use them as the basis for monitoring and evaluating performance.

66. EPB also sends guidelines on performance monitoring and evaluation to all government agencies by the end of February. Each agency is to monitor and make a quarterly evaluation of the performance of its major works or projects on the basis of these guidelines and is to submit the results to the EPB. According to EPB's guidelines for 1982, each agency should reclassify its major work programs by unit project or unit measure and specify the quarterly schedule of implementation for each unit project. In 1982, 1,120 unit projects were selected from all work programs of the central government's agencies for the preparation of major work implementation schedules.

67. Of this total, the government selected 301 projects for monthly performance monitoring and evaluation on the basis of their importance. The

government also selected 40 major unit projects to receive special emphasis in performance monitoring and evaluation. These projects were selected because of the problems involved in implementation and the significant impact of such projects on the national economy. Apart from these special projects, all other projects are monitored and evaluated by the appropriate ministry, which must submit the results to the EPB. The EPB, in turn, is expected to consolidate the results so they can be reported to the president; it is also expected to recommend necessary corrective measures on problem projects. For the special projects, however, the EPB has to engage in performance monitoring and evaluation directly with the help of the ministries involved.

68. According to the EPB guidelines for 1982, performance monitoring consists of three steps: monitoring the progress of implementation, including the status of budget executions; comparing the progress of implementation with the schedule of project implementation for the year and the overall project schedule; and analyzing problems causing a delay in implementation. For performance evaluation, each government agency is asked to specify the objective or target and the expected result of each project, including indirect objectives and results if possible, in the major work implementation schedules. The actual evaluation consists of: analyzing and evaluating the economic efficiency of implementation in the light of the use of scarce resources, including budgetary funds, manpower, and time; comparing the actual result of each project with the planned or expected result; and determining whether the implementation of each project is in balance with other related projects in terms of timing and order of implementation. Finally, corrective measures or other suggestions arising from the performance evaluation are to be presented.

69. Each agency is to submit the results of its performance monitoring and evaluation to the EPB every month for projects requiring monthly evaluation, and every quarter for other projects. For special projects, the EPB sends out the results of its own performance evaluation to the agencies concerned. Using the results of both their own performance evaluation and that of the EPB, the government agencies are supposed to take whatever measures are necessary to correct any problems. (The EPB can instruct the agencies concerned to take action if nothing has yet been done by them.) The EPB must also take into account the results of performance evaluation in the allocation of the current year's budget or in the formulation of next year's budget. In addition, the EPB is responsible for consolidating the results of the performance evaluation (including the recommended corrective measures for projects with problems) and for reporting these results to the cabinet twice a year for final deliberation and approval.

70. Korea's formal system of monitoring and evaluation is supplemented by direct presidential monitoring of major projects. During President Park's rule, in particular, the Blue House directly monitored the implementation of some large projects to which the president paid a great deal of attention. The Blue House could, of course, obtain necessary information from the ministries concerned or directly from the agencies implementing the projects. Any problem arising in these large projects could be immediately resolved by the president, whose decision would not be disputed by the agencies concerned. This kind of direct performance monitoring has been on the decline under President Chun Doo Hwan. Nonetheless, it remains the most effective means of project implementation in Korea at present.

71. With the transfer of performance monitoring and evaluation to the EPB, Korea's system has improved significantly. Since the EPB has at its

disposal the strong instruments of economic planning and budgeting, it can monitor and evaluate performance more effectively than the former Office of Planning Coordination under the prime minister. The EPB's adoption of this function is expected to bring about some improvement in planning and budgeting as well, since the results of performance evaluation can provide useful feedback for these processes. Although the system is still new, it is an excellent device for assuring the effective implementation of government plans and policies in the Korean context. 18/

VIII. Lessons and Concluding Remarks

72. Korea's experience in development planning, policymaking, and budgeting over the past two decades points up some important lessons that may help to improve future development planning, both within and outside Korea.

- Korea's planning organization, the EPB, may be a useful model of an effective planning agency for many developing countries. This institution is unique in that it is responsible for development planning as well as for budgeting and performance evaluation. In addition, since the minister of EPB is concurrently the deputy prime minister, he can preside over the Economic Ministers Meeting and thereby ensure effective coordination of economic plans and policies. Any developing country that wishes to concentrate its efforts on achieving rapid economic development will require an effective planning organization similar to this one.

- Korea's system of annual planning, combined with its budgeting procedures, may also be of interest to other developing countries. Korea is able, for example, to revise or update plan targets and to reevaluate policy directions once every year in response to changing external environments and

internal conditions. This annual planning system has been effective because it is backed by budgetary control. The link between the development plan or annual plan and the annual budget has recently been strengthened by the adoption of the medium-term fiscal planning system by the Bureau of Budget. This step will further ensure successful implementation of the development plan.

- Koreans are said to excel at implementation rather than planning and policymaking. This ability seems rooted partly in Korea's historical and cultural traditions and partly in its existing institutions, including the system of performance monitoring and evaluation. Although the historical and cultural factors are not transferable to other developing countries, Korea's system of implementation provides an important lesson for them: that is, a good plan produces nothing unless it is effectively implemented.

- Korea's system has one weakness that other developing countries should avoid in their policymaking: it lacks a consensus-building procedure. Important policy decisions are often made by a small number of bureaucrats or government officials without much public debate or the participation of civilian experts. Decisionmaking is therefore rapid but seldom based on public support. This characteristic, combined with the tradition of efficient implementation, sometimes creates problems that call for the reversal of policy decisions. Although Korea's system is flexible in the sense that decisions can be readily reversed, regular reversals can lead to economic and political instability. For Korea, it will be important to widen public participation and introduce a system of consensus building in its economic policymaking.

73. Korea's past economic success has been related in large part to the system of economic management discussed in this paper. Another important

ingredient has been the political leadership's strong commitment to economic growth. Since Korea's government is highly centralized, it could not have brought about economic success without the top policymaker's commitment to this goal. The system is currently facing a new test now that development objectives have been expanded. In the past, the political leadership was committed simply to maximizing economic growth and did not pay much attention to price stability, an equitable distribution of growth benefits, political stability, and so on. Now it is committed to attaining more diverse objectives. The question arises whether Korea's present system of economic management can continue to achieve economic success under such a multidimensional commitment. If it can, despite a smaller political commitment to growth, the system will have proved its true worth.

Notes

- 1/ See Cole and Nam (1969) and Jones and Sakong (1980) for description of the attempts to formulate a development plan in Korea during the 1950s.
- 2/ In addition to these ministries, the Seoul city government is treated as a central government ministry in the sense that it is not subject to any supervision by the Ministry of Home Affairs but is under the direct control of the prime minister's office, whereas all the other local governments, including such special cities as Pusan, Taegue, and Inchon, are subject to the direct supervision of the Home Ministry.
- 3/ The fourteen work groups for the Third Plan were actually called "working subcommittees," which is a vice-ministerial committee for review and coordination of plan and policy directions. The basic function and organization of these working subcommittees were not much different from those of the latter-day work groups.
- 4/ With the Fourth Plan, the Korea Development Institute began issuing a discussion paper to facilitate the EPB's review and examination of alternative goals, targets, and policy directions for the plan before it prepares the guidelines.
- 5/ The term "sectoral plan" is used to indicate the plan for a particular economic aspect or sector. It does not necessarily mean an industrial sector plan, but could also indicate a macroeconomic plan, a population plan, an external sector plan, a fiscal plan, and so on.
- 6/ At the time of the Fourth Plan, the main parts of the sector plans approved by the Plan Deliberation Committee were presented at the public conferences held at KDI mainly to disseminate the plan goals, targets, and policy direction. Plan dissemination was replaced by the KDI conference before the finalization of the Fifth Plan.
- 7/ Foreign consultants financed by UNDP funds and their work assignments have been selected by the Korean government in collaboration with the World Bank. This collaboration has not only facilitated Bank review of Korean plans, but has also enhanced the international reputation of Korean planning.
- 8/ See Section VI for the organization and function of the Economic Ministers Consultation Meeting, which is different from the Economic Ministers Meeting.
- 9/ Bong Kun-Kange (1982) points out that more than 90 percent of the economic and social development projects of the Fifth Plan could be included in the approved budget for 1982, since the fiscal plan is consistent with the Fifth Plan.

- 10/ Included are the ministers of the EPB (concurrently deputy prime minister), Finance, Commerce and Industry, Agriculture and Fisheries, Health and Social Affairs, Labor Construction, Transportation, Communications, and Energy and Resources.
- 11/ Many EPB officials suggest that the deputy prime minister's capacity to coordinate ministerial policies through consultation really depends on his personal character and whether he enjoys the confidence of the president, although his knowledge of economics, as well as the understanding of related policy issues, may be of some help.
- 12/ The measure taken on June 28 drastically reduced the interest rates of financial institutions, while that announced on July 3 was introduced to enforce the system of identifying financial asset holders' real names. The National Assembly has, however, postponed the latter system to 1986.
- 13/ See Myrdal 1968, pp. 895-900. Myrdal indeed used the term "strong state" as an antonym of "soft state."
- 14 Chungang Ilbo (daily newspaper), July 20, 1982.
- 15/ Jones and Sakong (1980) (p. 83) explain that "field manipulation either expands the perceived opportunity set (field manipulation), or alters expected payoffs from particular courses of action (parameter manipulation)," whereas "command reduces the feasible opportunity set, assuming there is sufficient compulsion to make it operable."
- 16/ In 1970, a Planning Coordination Committee was set up at the Prime Minister's Office to deliberate on matters related to the coordination and implementation of the annual management plan. The committee was abolished in 1981, together with the Office of Planning Coordination.
- 17/ For instance, see EPB, The Current Status and Direction of the Performance Evaluation and Analysis System, August 1982 (Processed, in Korean).
- 18/ Fiscal settlements and general auditing can be considered part of the performance evaluation system. These are not discussed in this section, since its main objective is to check the misuse of government funds in an accounting sense rather than to monitor and evaluate the performance of any project.

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Defines the elements that constitute shelter; discusses the difficulties encountered in developing shelter programs for the poor; estimates orders of magnitude of shelter needs for the next twenty years; and proposes a strategy for meeting those needs.

September 1980. 39 pages. English, French, and Spanish.

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Examines the Bank's past role in improving water supply and waste disposal facilities in developing countries and draws conclusions for the future.

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Poverty and the Development of Human Resources: Regional Perspective

Willem Bussink, David Davies,
Roger Crawe, Basil Kavalsky,
and Guy P. Pfeffermann

World Bank Staff Working Paper No. 406. July 1980. iii + 197 pages (including 7 tables, 2 appendixes, references, footnotes).

Stock No. WP-0406. \$5.00.

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Paul Isenman and others

Since economic growth alone has not reduced absolute poverty, it has been necessary to consider other strategies. The strategy examined in this study — human development — epitomizes the idea that poor people should be helped to help themselves.

Four chapters provide an overview of alternative strategies; a detailed look at health, education, nutrition, and fertility; lessons from existing programs; and an examination of broader issues in planning.

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LC 82-2153. ISBN 0-19-520389-5, \$7.95 paperback.

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Reforming the New Economic Mechanism in Hungary Bela Balassa

Evaluates the reform measures taken in 1980 and 1981 (price setting, the exchange rate and protection, wage determination and personal incomes, investment decisions, and the organizational structure) that aim at the further development of the Hungarian New Economic Mechanism, introduced on January 1, 1968.

World Bank Staff Working Paper No. 534. 1982. 56 pages.

ISBN 0-8213-0048-2. \$3.00.

NEW

Social Infrastructure and Services in Zimbabwe Rashid Faruqee

The black majority government of Zimbabwe, coming to power after a long struggle for independence, has announced its strong commitment to social services to benefit the vast majority of the population. This paper looks at issues related to education, health, housing, and other important sectors and reviews specific plans and resource requirements to help improve the standard of living of the population.

World Bank Staff Working Paper No. 495. October 1981. 111 pages (including bibliography, map).

Stock No. WP-0495. \$5.00.

Structural Change and Development Policy

Hollis Chenery

A retrospective look at Chenery's thought and writing over the past two decades and an extension of his work in *Redistribution with Growth and Patterns of Development*. Develops a set of techniques for analyzing structural changes and applies them to some major problems of developing countries today.

Oxford University Press, 1979; 2nd paperback printing, 1982. 544 pages (including references, index).

LC 79-18026. ISBN 0-19-520094-2, \$34.50 hardcover; ISBN 0-19-520095-0, \$12.95 paperback.

French: Changement des structures et politique de développement. *Economica*, 1981.

ISBN 2-7178-0404-8, 80 francs.

Spanish: Cambio estructural y política de desarrollo. *Editorial Tecnos*, 1980.

ISBN 84-309-0845-5, 1,000 pesetas.

Tourism—Passport to Development? Perspectives on the Social and Cultural Effects of Tourism in Developing Countries Emanuel de Kadt, editor

The first serious effort at dealing with the effects of tourism development in a broad sense, concentrating on social and cultural questions.

A joint World Bank—Unesco study. Oxford University Press, 1979. 378 pages (including maps, index).

LC 79-18116. ISBN 0-19-520149-3, \$24.95 hardcover; ISBN 0-19-520150-7, \$9.95 paperback.

French: Le tourisme—passport pour le développement: regards sur les effets socioculturels du tourisme dans les pays en voie de développement. *Economica*, 1980.

49 francs.

NEW

Tribal Peoples and Economic Development: Human Ecologic Considerations Robert Goodland

At the current time, approximately 200 million tribal people live in all regions of the world and number among the poorest of the poor. This paper describes the problems associated with the development process as it affects tribal peoples; it outlines the requisites for meeting the human ecologic needs of tribal peoples; and presents general principles that are designed to assist the Banks staff and project designers in incorporating appropriate procedures to ensure the survival of tribal peoples and to assist with their development.

May 1982, vii + 111 pages (including 7 annexes, bibliography).

ISBN 0-8213-0010-5. \$5.00.

The Tropics and Economic Development: A Provocative Inquiry into the Poverty of Nations

Andrew M. Kamarck

Examines major characteristics of the tropical climates that are significant to economic development.

The Johns Hopkins University Press, 1976; 2nd printing, 1979. 128 pages (including maps, bibliography, index).

LC 76-17242. ISBN 0-8018-1891-5, \$11.00 (£7.75) hardcover; ISBN 0-8018-1903-2, \$5.00 (£3.50) paperback.

French: Les tropiques et le développement économique: un regard sans complaisance sur la pauvreté des nations. *Economica*, 1978.

ISBN 2-7178-0110-3, 25 francs.

Spanish: Los trópicos y desarrollo económico: reflexiones sobre la pobreza de las naciones. *Editorial Tecnos*, 1978. ISBN 84-309-0740-8, 350 pesetas.

Twenty-five Years of Economic Development, 1950 to 1975 David Morawetz

A broad assessment of development efforts shows that, although the developing countries have been

remarkably successful in achieving growth, the distribution of its benefits among and within countries has been less satisfactory.

The Johns Hopkins University Press, 1977; 3rd printing, 1981. 136 pages (including statistical appendix, references).

LC 77-17243. ISBN 0-8018-2134-7, \$16.50 (£8.00) hardcover; ISBN 0-8018-2092-8, \$7.95 (£3.75) paperback.

French: Vingt-cinq années de développement économique: 1950 à 1975. Economica, 1978.

ISBN 2-7178-0038-7, 26 francs.

Spanish: Veinticinco años de desarrollo económico: 1950 a 1975. Editorial Tecnos, 1978.

ISBN 84-309-0792-0, 350 pesetas.

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