

Preparation of the Budget in Korea

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A. The Fiscal Year

While almost all governments accept a year as the logical time-unit for the budget, there is no general agreement as to the opening date of the fiscal year:

- (a) January 1—December 31
Korea, Argentine, Belgium, France, Netherlands, Switzerland, U.S.S.R.
- (b) March 1—February 29
Turkey
- (c) April 1—March 31
Britain, Canada, Japan, India, Pakistan, West Germany
- (d) July 1—June 30
Philippines, Italy, Norway, Sweden
- (e) October 1—September 30
U.S.A., Burma, Ceylon⁽¹⁾

In 1948, the government of the Republic of Korea found no reason to discard the Japanese fiscal year of April 1 to March 31. When the Finance Law promulgated in 1951, no change was made in the fiscal year.⁽²⁾ In January 1954, the Finance Law was amended to adopt a new fiscal year, which coincided with the American fiscal year.⁽³⁾ Since Korea was receiving a large sum of aid from the United States, it was allegedly necessary to synchronize the fiscal year with that of the United States for reasonably accurate revenue estimating. In June 1956, the Finance Law was again amended and the fiscal year was changed to coincide with the calendar year.⁽⁴⁾ Due to these frequent changes in the fiscal year, as will be seen from Table I, the fiscal year 1956 does not exist in the Korean history of public finance.

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(1) United Nations, *Government Accounting and Budget Execution* (New York: United Nations, 1952), p. 42; and A.E. Buck, *Financing Canadian Government* (Chicago: Public Administration Service, 1949), pp. 125-126.

(2) Article 2, Finance Law of 1951.

(3) January 23, 1954, Law No. 305.

(4) June 27, 1956, Law No. 387.

Table I. Fiscal Year of the Korean Government

Fiscal Year	Period of Fiscal Year
1949	April 1, 1949—March 31, 1950 (12 mos.)
1950	April 1, 1950—March 31, 1951 (12 mos.)
1951	April 1, 1951—March 31, 1952 (12 mos.)
1952	April 1, 1952—March 31, 1953 (12 mos.)
1953	April 1, 1953—March 31, 1954 (12 mos.)
1954	April 1, 1954—June 30, 1955 (15 mos.)
1955	July 1, 1955—Dec. 31, 1956 (18 mos.)
1956	January 1, 1957—Dec. 31, 1957 (12 mos.)
⋮	
1981	January 1, 1981—Dec. 31, 1981 (12 mos.)

B. Preparation of the Budget: The Ministry Stage

Verne B. Lewis presents the following as four principal steps in the preparation of annual estimates:

1. The bureaus prepare the bureau estimates.
2. The Departmental officials review the bureau estimates and prepare the departmental estimates.
3. The Bureau of the Budget and the President examine the estimates from departments for the determination of the President's estimates.
4. The Congress authorizes the budget.⁽⁵⁾

These four steps are applicable to the budgetary process in Korea. Among these four steps, however, the fourth step is beyond the scope of this paper and will be discussed in a future paper. The first and second steps will be examined in this section, while the third step will be taken up in the following section. Although budgeting in a sense is a continuous process

without specific beginning and ending points, it is largely encompassed within an annual cycle. In the spring of each year, a circular, which resembles the "Call for Estimates" in the United States⁽⁶⁾ and the "Estimate Circular" in Britain,⁽⁷⁾ is sent by the Minister of the Economic Planning Board to the head of all ministries and agencies asking them to furnish ministerial estimates for the next fiscal year.

Before the enactment of the Budget and Accounting Law in December 1961, this circular was called the *Yesan Yokooosu Chacksung Yoryung* (Instructions for Preparing Budget Request), and was issued under the authority of the Minister of Finance. Under the Budget and Accounting Law this circular is called *Yesaahn Pyunsung Jichim* (Guiding Principles for Budget Preparation). The Office of the Budget drafts the circular and submits it to the Minister of the Economic Planning Board, who in turn presents this to the cabinet meeting and to the President. The circular is then sent to the ministries and agencies.

In the fiscal year 1981, this circular drew

(5) Verne B. Lewis, "Budgetary Administration in the Department of Agriculture," in John M. Gais and Leon O. Wolcott, *Public Administration and the United States Department of Agriculture* (Chicago: Public Administration Service, 1940), pp. 416-417.

(6) Jesse Burkhead, *Government Budgeting* (New York: John Wiley, 1956), p. 91.

(7) Sir Herbert Brittain, *The British Budgetary System* (London: George Allen & Unwin, 1959), p. 118.

attention to government policy and gave a variety of instructions about the basis on which ministerial estimates should be prepared. This circular was also accompanied by the *Yesan Pyunsung Kiwon* (Standards for Preparing Budget Estimates), which was designed to help agency budget officers in filling out the forms, and which contained suggestions on how to use the forms and how to prepare the necessary justifications in order to facilitate review by the Office of the Budget. The major sections of this volume were devoted to unit costs on which the ministerial estimates were required to be based.

The detailed methods of preparing the estimates varied from ministry to ministry, but the basic steps were the same. Upon receipt of the circular mentioned above, the ministerial budget officer sent out to each bureau and field service within the ministry a memorandum asking them to submit bureau estimates, together with a letter indicating the broad policy framework laid down by the Minister in connection with ministerial estimates. The memorandum and letter were sent in the name of the Minister.

Usually bureau estimates originated in the sections. They were then reviewed and analyzed by the "bureau budget officer" in the light of the policy expressed by the bureau chief, and submitted to the staff meetings of the bureau, consisting of the bureau chief and section chiefs in the bureau. Finally, bureau estimates, revenues as well as expenditures, were prepared by the "bureau budget officer" for submission to the Minister or Vice Minister. Throughout this process, the bureau chief kept close contact with the Minister or Vice Minister.

All the bureau estimates were then analyzed and summaries were prepared by the ministerial budget officer for presentation to an informal committee, composed of the Vice Minister, bureau chiefs, Coordinator for Planning and Management and the ministerial budget officer. When they were approved by the committee and the Minister, the ministerial budget officer began the task of preparing the estimates in the forms required for presentation to the Office of the the Budget. After the military revolution of 1961, the Coordinator for Planning and Managements⁽⁸⁾ in each ministry played a role in the ministry budget-making. The importance of his role in this process varied from ministry to ministry.

C. Preparation of the Budget: The Budget Office Stage

Under the Budget and Accounting Law, all the ministries and agencies were required to submit their estimates by May 31 to the Minister of the Economic Planning Board.⁽⁹⁾

Upon their receipt in the Office of the Budget, the ministerial estimates were analyzed and summaries were prepared by the Office officials. At the same time the Office of the Budget obtained preliminary revenue estimates from several sources. On the basis of this information the Minister of the Economic Planning Board made up his mind as to the wisest course and then laid the situation before the President. The President after hearing his recommendations reached decisions on the tentative requirements. The decisions reached by the President were communicated to the Office of the Budget, which

(8) On August 25, 1961 Law No. 698 was promulgated, which established an Office of Planning and Coordination under the Prime Minister and Office of Coordinators for Planning and Management in the ministries. For background, see Lloyd M. Short, "Government Economic Planning in the Republic of Korea," *International Review of Administrative Sciences*, No. 4, Vol. XXVIII (1962), pp. 441-448.

(9) Paragraph II, Article 20, Budget and Accounting Law.

Table II. Ministerial Estimates and Reductions Made in the Budget Bureau, Fiscal Year 1959

(in million Hwan)

Ministries and Agencies	Estimates requested by Ministries	Reductions made in the Bureau of the Budget	Estimates sent by the Government to Nat'l Assembly
Office of President	50	+1	51
Office of Vice Pres.	38	9	89
House of Councillors	—	+218	218
House of Represent.	2,957	416	2,541
Court	12,644	10,750	1,894
Board of Audit	382	115	267
State Council	845	350	495
Ministry of Foreign Aff.	5,366	3,788	1,578
Ministry of Home Aff.	83,622	58,142	25,480
Ministry of Finance	24,857	6,167	18,690
Ministry of Justice	30,692	24,859	5,834
Ministry of Education	17,386	11,824	5,562
Ministry of Reconstruct.	260	121	140
Ministry of Agr. & For.	35,968	28,116	7,851
Ministry of Ind. & Comm.	14,712	9,050	5,662
Office of Marine Aff.	18,202	14,137	4,066
Ministry of Heal. & Soc. Aff.	46,125	33,280	12,845
Office of Public Inform.	4,066	2,161	1,904
Central Election Board	31	13	18
Office of Atomic Energy	2,906	2,206	700
Constitutional Court	4	3	1
Court of Impeachment	—	+2	2
Contingent Fund	—	+173	173
Subsidies to Local Gov't (Min. of Home Aff.)	21,231	3,259	20,972
Subsidies to Local Gov't (Min. of Ed.)	72,594	21,212	51,382
Ministry of Nat'l Def.	169,374	28,786	140,588
TOTAL	567,313	258,371	308,942

Source: Bureau of the Budget, Ministry of Finance

set budget ceilings for each of the ministries and agencies. These ceilings were then reported to the budget examiners in the Office of the Budget.

On the basis of these ceilings and other standards set by the Office, the budget examiners

began reviewing the ministerial estimates. In contrast to the review process in the U.S. Office of the Management and Budget, no hearings were held in the Korean Office of the Budget.⁽¹⁰⁾

Instead of hearings, numerous conferences took place between the budget examiners in the

(10) We may find the same phenomenon in the British Treasury: "Review is conducted, not as in the United States at hearings before which departments appear, but within the divisions, which consult with departments as they find it necessary." (Samuel H. Beer, *Treasury Control*, second edition, London: Oxford University Press, 1957. p. 33)

Office of the Budget and officials of the various ministries with a view to getting reductions by mutual agreement.

Pressures from influential members of the National Assembly, from the operating ministries, and from outside groups were at work in this stage.

Up to the fiscal year 1959, the government ministries and agencies requested appropriations in amounts that were consciously set far beyond any expectation of achievement. (See Table II). And the Bureau of the Budget lacked personnel with detailed knowledge of departmental requirements to evaluate adequately the reasonableness and priority of request. Under these circumstances, it was inevitable that requests for appropriations would be cut. But the nature and extent of cutting involved substantial elements of arbitrary judgment.

From Table II, which shows the estimates requested by the ministries and agencies, the reductions made in the Bureau of the Budget, and the estimates sent by the government to the National Assembly in the fiscal year 1959, we may draw several conclusions.

1. In the first place, the amounts requested by operating ministries and agencies were enormous. It is a universal practice that the operating departments and agencies request more than they expect to receive. They do not have a safe margin which may be lost in the later reduction of estimates.⁽¹¹⁾ However, there is, at the same time an influence working against this tendency:

Here there is an interesting "professional" influence at work tending to hold down the estimates. This is the desire on the part of the departmental budget officer to submit estimates

which will be regarded as professionally competent by the budget expert in the central fiscal agency. Excessive, unwarranted, "out-of-line," padded, or ill-considered estimates will not be so regarded, and the departmental budget officer does not wish to be placed in the position of trying to defend them before his peers in the budget bureau.⁽¹²⁾

In the Korean government, the ministerial budget officer lacked this professional influence, or he was too weak to stand up against pressure from line officers and his superiors.

2. Due to these irresponsible requests on the part of operating ministries and agencies, the reductions made in the Bureau of the Budget were substantial and even drastic. For example, out of 30,692 million hwan requested by the Ministry of Justice, only 5,834 million hwan was approved by the Bureau of the Budget. In the case of the Ministry of Foreign Affairs, 5,316 million hwan was requested and 1,578 million hwan was approved. It was inevitable to use the "meat-ax" technique rather than the "scalpel" under these circumstances.

3. This gave a wide latitude to the budget examiner within the ceiling set by the Bureau. Not all details could be brought to the personal attention of the Section Chief. Fewer still reached the Budget Director, and even fewer were considered by the Minister or Vice Minister of the Economic Planning Board. As a practical matter, the budget examiner, with some consultation with officials from the ministries, had to make most of the decisions which emerged in the budget document as budget recommendations.

Several measures have since been taken to remedy these defects in the budget review.

(11) Leonard D. White, *Introduction to the Study of Public Administration*, fourth edition (New York: Macmillan, 1955), p. 243.

(12) Leonard D. White, *Introduction to the Study of Public Administration*, third edition (New York: Macmillan, 1948), p. 263.

Table III. Ministerial Estimates and Reductions Made in the Office of the Budget
Fiscal Year 1981 (in billion Won)

	Estimates requested by Ministries	Estimates sent by the Government to Nat'l Assembly	Reductions made in the Office of the Budget
National Defense expenditures	2,972.6	2,698.9	273.7
Current expenditures	4,192.9	3,085.5	1,107.4
Non-current expenditures	5,256.2	2,066.7	3,189.5
Total	12,421.7	7,851.1	4,570.6

Source: Office of the Budget, Economic Planning Board.

1. In the first place, for the preparation of the 1960 budget, a circular called *Yesan Yokooosu Chacksun*; *Yoryung* was sent out by the Bureau of the Budget to operating ministries and agencies. In this circular no budget ceiling was set, but it gave instructions about the basis on which ministerial estimates should be prepared. Under the Budget and Accounting Law of 1961, this circular is now called *Yesanahn Pyunsung Jichim*.

2. The Budget Standard Section, which is now called the Budget Management Section, was created in April 1962, and under the leadership of this Section, the *Yesan Pyunsung Kijoon* (Standards for Preparing Budget Estimates) was prepared and distributed to spending agencies. As a result of these remedies, the amounts requested by operating ministries have recently become more reasonable, and the reductions made in the Office of the Budget have correspondingly become less drastic. The amounts requested by the operating ministries and agencies for the General Account budget and the reductions made in the Office of the Budget in the fiscal year 1981 were as follows:

D. Submission of the Budget

The revised estimates were summarized in the various ways for submission to the cabinet

meeting and the President. When these were approved by the President, the budget was prepared in the form requested for presentation to the legislature. A draft of the budget speech of the President was also prepared by the Office of the Budget.

At the same time, drafts of the budget documents were referred to a review committee, composed of experienced budget examiners, to insure accuracy of the budget documents. They were then submitted to the Budget Director for his approval. When clearance was completed the documents were sent to the printer.

The Budget as presented to the National Assembly consists of the following five parts:

1. General provisions.
2. Annual expenditure and revenue budget which includes both the General and Special Accounts.
3. Requests for multiple-year authorizations.
4. Requests for legislative carry-overs.
5. Requests for contract authorizations.⁽¹³⁾

In addition to *the Budget*, the *Justifications*, the *Summary of the Budget*, which includes various summary accounts of expenditures and revenues and other information, and other supporting data are also presented to the National Assembly.

The budget is not treated as a law or a series of laws in Korea.⁽¹⁴⁾ Therefore, there is no such

(13) Article 24, Budget and Accounting Law.

(14) This is also true in Finland, Norway and Japan (The Lord Champion and D.W.S. Lidderdate,

thing as appropriation acts in the Korean budget system.

In recent years, the budget was customarily submitted to the National Assembly in the first weeks of October, thus allowing the Assembly about three months for consideration of the budget. The Constitutions of 1972 and 1980 require the government to submit the budget at least 90 days before the beginning of the fiscal year.⁽¹⁵⁾

E. Characteristic Feature of Budget Preparation

1. The Office of the Budget has been, and still is, a very powerful central budget office.⁽¹⁶⁾ When the old Bureau of the Budget was located in the Ministry of Finance (1955--1961), the Minister of Finance was very influential in the cabinet. He did not occupy anything like the commanding position of the British Chancellor of the Exchequer as regards the formulation

of the budget, not to mention the German Minister of Finance under the Weimar Republic and the Nazi regime.⁽¹⁷⁾ But, in addition to the budget function, he exercised powers in the assessment and collection of government taxes, in the issuances of public loans, and in the control of money and banking.

The Economic Planning Board, to which the Bureau of the Budget was transferred in July 1961, was given a "status somewhat above that of the Ministries in the central government organization structure."⁽¹⁸⁾ The Minister of the Economic Planning Board is the Vice Prime Minister. The Korean National Assembly only occasionally undertakes any substantial alteration of the budget estimates submitted by the government. And this has enhanced the power of the Office of the Budget.⁽¹⁹⁾

2. The hearing process is not utilized by the Office of the Budget in the preparation of the budget. The purposes of budget hearings are well pointed out by Shadoan:

European Parliamentary Procedure: A Comparative Handbook, London: George Allen & Unwin, 1953, pp. 29-30. And Kazuyuki Kawano, *Yesan Seido*, fifth edition, Tokyo: Gakyo Shoin, pp. 28-31).

(15) Article 89, Constitution of 1972 and Article 90, Constitution of 1980.

(16) On June 29, 1979 the Bureau of the Budget was redesignated the Office of the Budget, and incumbent Budget Director was promoted from Grade II to Grade I.

(17) Under the Weimar Republic, the Minister of Finance had the veto power in all financial matters, and his veto could only be overruled by a majority vote of the entire Cabinet including Chancellor. Therefore when the Finance Minister and the Chancellor were in agreement they were supreme in all financial matters. Under the Nazi regime, the Minister of Finance became more powerful. He prepared the budget after approving or disapproving the requests of the governmental agencies, and merely promulgated it without presenting it to the Cabinet or the Reichstag for discussion. (Frederick F. Blachly and M.E. Oatman, *The Government and Administration of Germany*, Baltimore: Johns Hopkins Press, 1928, p. 226; and James K. Pollock, *Government of Greater Germany*, second edition, New York: Van Nostrand, 1940, p. 114).

(18) Lloyd M. Short, "Government Economic Planning in the Republic of Korea," *International Review of Administrative Sciences*, No. 4, Vol. XXVIII (1962), p. 443.

(19) According to Caulcott, the lack of Parliamentary scrutiny of the budget in Britain has enhanced the power of the Treasury, whereas the much greater operating power of the U.S. Congress leaves the U.S. Office of Management and Budget in a somewhat less dominant position. (T.H. Caulcott, "The Control of Public Expenditure," *Public Administration*, Autumn, 1962, pp. 287-288).

Perhaps the most important object is to give the agency an opportunity to present its total program, past, present, and planned, to participants and to defend the recommendations in the light of this program. Although this view can be and is written into agency requests to the budget office, the face-to-face exchange of views and discussion of problems with all participants are likely to contribute to subsequent decision making. In addition, as the discussions commonly occur near the end of the budget review process, the agency may have altered its request in the light of more current information or as a result of conferences with the budget examiner.⁽²⁰⁾

This writer believes that budget hearings would improve the budget review process in Korea.

3. The weakest link in the present budgetary structure of the Korean government is the ministerial and agency budget offices. Yet, budget preparation is initiated by the ministries and agencies, and in all later stages of the budget cycle, the ministries and agencies have to play imprudent roles.

4. Another characteristic feature of the Korean system is that the executive is authorized to revise the budget estimates of the judicial and legislative branches of the government, whereas the President has no power to alter these estimates in the United States.⁽²¹⁾ It is,

however, required by law to give the Speaker of the National Assembly and the Chief Justice opportunities to defend their estimates before the cabinet meeting⁽²²⁾ The executive also is required to submit their statements of explanation, together with the revised estimates, to the National Assembly.⁽²³⁾

5. As noted in a previous paper,⁽²⁴⁾ the Budget and Accounting Law for Government Invested Corporation was enacted in August 1962 to control public enterprise which takes the forms of the joint stock company and the public corporation. Under this law, these enterprises are required to submit "business-type" budget estimates to the Minister concerned for his review, and he in turn transmits the revised estimates to the Office of the Budget. The Office reviews these estimates and prepares the budget of public enterprise for presentation to the cabinet meeting and the President. This budget is not submitted to the National Assembly.

This extension of budgetary review to public enterprise activities enables the government to utilize "these enterprises more fully and completely as instrumentalities for development." As Burkhead suggested, the pricing practices of the Korean Electric Power Company, for example, has been changed to encourage surplus accumulation which can be used for future developmental purposes.⁽²⁵⁾

(20) Arlene T. Shadoan, *Preparation, Review, and Execution of the State Operation Budget* (Lexington, Kentucky: Bureau of Business Research, College of Commerce, University of Kentucky, 1963), p. 37.

(21) John D. Millett, *Government and Public Administration* (New York: McGraw-Hill, 1959), p. 351.

(22) Article 22, Budget and Accounting Law.

(23) Article 29, Budget and Accounting Law.

(24) Foon Yu, "Legal Basis of the Budget in Korea," *Korean Journal of Public Administration*, No. 1, Vol. XVII (1979), pp. 145-151.

(25) Burkhead, *op. cit.*, p. 475.