

The Legacy of Deferred Compensation in Korea's Administrative Reforms*

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Abstract: While New Public Management is becoming an established program for improving the quality of public administration, this study redirects our attention to the merits of an older system. Some of the public administration mechanisms that were reformed with the advent of democratization and globalization are argued in this study to have worked better than their newer versions. Using the Korean example, this study demonstrates that liberal political reforms may be harmful for public management, contrary to the usual expectations about their benefits. In the Korean bureaucracy, the disruption of deferred compensation— attractive post-retirement employment as a reward for policy performance during one's tenure as a civil servant—impaired its organizational capacity, as policy autonomy dropped and corruption increased within the bureaucracy.

Keywords: Korea, bureaucracy, deferred compensation, democratization, Civil Service Reform

INTRODUCTION

Public administration researchers have recently focused on the reform programs referred to as New Public Management (NPM). To reform existing public management is assumed to be the only way to improve organizational capacity in public administration, whether the reforms aim at better governance or regulatory policy performance.

* Part of this paper was first introduced in the author's dissertation and was presented in various national conferences including the annual meetings of the American Political Science Association (2006), Midwest Political Science Association (2008), and International Studies Association (2010).

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Along with the neoliberal reforms in politics and the economy, NPM has been praised by many studies as a solution for developing or underdeveloped countries, where the performance of governments in providing public services tends to be lower than in advanced countries.

The experiences of Korea do not exactly confirm the premise of NPM. Worse, in some cases old programs prove to have been better than the new ones. Observations for the past two decades suggest that the autonomy of a few government agencies dropped and regulatory administration deteriorated. Problems including the increasing financial scandals, corruption in public services, and policy incoherence confirm the negative turn of Korea's public management. Given the world's appraisal of Korean governmental capability up to the 1980s, the appearance of such negative terms as organizational interests against national policy goals or policy indifference in the newspapers is surprising to most watchers of Korea.

What has made Korea's administrative reforms stagnate? Why isn't Korea's public management improving itself in parallel with its political liberalization, as happened in other democratizing countries? What undermined the organizational capacity of public administration in some cases?

This article argues that some of Korea's older, pre-reform public administration mechanisms worked better than their newer versions. In particular, the disruption of deferred compensation—a system of long-term rewards for policy performance in which officials are employed in private or public firms (State Owned/Invested Corporations) after retirement from government office—impaired its organizational capacity, reducing policy autonomy and increasing corruption.

Democratization in Korea, according to this interpretation, hurt the deferred compensation system in two ways. First, it decreased the absolute number of jobs offered to retiring civil servants under the public pressure for further liberalization. The pressure was realized in the economic sector with the demand for breaking the link between the government and private businesses. Bureaucrats in economic ministries were pressed to refrain from seeking *nak-ha-san* (literally translated as parachute—appointment to a public firm) or a post-retirement job in the private sector. Second, political elites who were less vulnerable to public pressure took over from the bureaucrats as the beneficiaries of the *nak-ha-san* system. Bureaucrats bore the sole burden of sacrifice as Korea's public administration adjusted to political liberalization.

As deferred compensation was disrupted and incentives for policy performance decreased as a consequence, the negative effects were obvious. The political-bureaucratic collusions for rents are a prime example. Collusion began with the reliance of bureaucrats on key political figures for deferred compensation as this benefit became harder to get. The new political elites who rose to the center of Korean politics after

democratization were swayed by the rising regionalism and in return pushed the bureaucrats to ally with the hegemonic regional powers for promotions and other benefits like post-retirement jobs. While the room for corruption was expanding in this way, the independence of government agencies from political interests was seriously reduced. Korea's successful introduction of political democracy turned to be counter-productive for the organizational capacity of the government.

An implication of this study for further debates on the effectiveness of administrative reforms is to reappraise the crucial role of culture in determining the success or failure of reforms. The best point of the old system of deferred compensation is obviously the high performance of public administration, but the unique point of the system is the hidden nature of the institutional commitment to long-term rewards. As the cultural factor of network-based commitment was essential for the success of the old system, a successful administrative reform should also consider the social and cultural backdrop to the reform. More often than not, deep-rooted cultural conditions can limit or prevent the fulfillment of institutional goals. As the empirical part of this paper describes, the Confucian type of social interactions propped up the system of deferred compensation. The effects of the institutional reforms later on, on the other hand, are less impressive than those of the old system. Analysis of the old system suggests that the reforms' relative lack of success has a lot to do with the incompatibility between the new institutional imperatives and the given social norms.

NEW PUBLIC MANAGEMENT AND PUBLIC ADMINISTRATION IN KOREA

Studies of administrative reforms in the vein of NPM investigate the reform programs from three angles that are common in social science research. The first group focuses on inputs, asking what kinds of reforms should be considered. The reforms may entail a new structure, institution, or environment for public administration. In the structural studies, the usual concern about the agent-principle relationship focuses on whether or how to seek the autonomy of an agent in charge of a certain type of task (Yesikagit & Christensen, 2009; Miller, 2005). Institutional studies explore the proper composition of institutions by testing whether a crucial institution is missing or there are any coordination problems (Ornert, 2006). External conditions of public administration are also an important component of input. Rapid social, political, or economic changes have serious effects on the performance of public agencies. Democratization studies in the field of public governance are an example (Adsera, 2003; Moran, 2001).

Studies that focus on outputs specialize in measurement. Since the effects of

administrative reforms appear in various forms, these studies focus on identifying the effects and choosing the best way to measure them. Capacity for public administration is, therefore, defined and measured in many ways, while efficiency in regulatory governance and autonomy are the leading indicators of capacity (Christensen & Gazley, 2008). In NPM studies, attention has been paid to whether or how the reform improves capacity. The effects tend to be case-dependent even if NPM in general hypothesizes a positive effect of the administrative reforms (Painter & Yee, 2011).

Finally, a few studies delve into the context or process whereby the inputs affect the outcomes. The rationale for the concern about context is found in the diverse effects of a single type of administrative reform (Rouban, 2007; Kuhlmann, 2010). Path-dependence or cultural backgrounds are representative of the contextual denominators of success or failure in the reforms.

The theoretical advancements in the NPM debates have also been applied to the case of Korea. The personnel system in Korea's public administration, for instance, has been reviewed in terms of the effects of reform in the area of political appointments or other systems for promoting high-ranking officials (Kim, 2004). Related to the systemic reforms and their effects, the unique aspects of the Korean factors were investigated together. The Open Position System adopted in 1999, for instance, had only limited success due to the lingering social preferences for seniority and networks over performance. The scheme to open the higher positions in the government to the private sector as well as internal competitors failed to recruit competent candidates from outside the government. Another attempt to revise the personnel system for high-ranking officials, made in 2002, was the Personnel Exchange System, which allowed middle managers in the civil service to take a leave of absence to experience working in a private firm. The reform was also intended to break down the monopoly over public administration by civil servants, but it was as unsuccessful as the Open Position System had been in exchanging human resources between the public and private sectors.

More disappointing in terms of the effects, however, was the reform of the payment system, where a move toward performance-based pay was tried. The plan to overhaul the seniority-based collective evaluation for compensation proved a complete failure when it was revealed that most awardees for better performance later returned the money to the bureau to be redistributed equally to everybody (Park & Joo, 2010).

While the NPM studies explore the effects of reform in the narrow time span of two decades or so, political economy studies look at public administration from the wider perspective of Korea's economic development. These studies fill in elements missing from the NPM studies by highlighting the background of the reforms—that is, explaining why the Korean public administration needed a reform from its previous performance throughout the most period of economic growth. First, some scholars

focused on corruption. Constraints to rent seeking, though efficient in the past, were lifted during Korea's economic transition. Politicians and private businesses played into the hand of rent, but bureaucrats in economic ministries could also jump on the bandwagon using many discretionary regulatory tools. David Kang referred to this increasing corruption as "crony capitalism." Close ties between the state and business, according to his view, are conducive to rent seeking, even if they can be controlled in exceptional cases. But once the mechanism to prevent excessive exploitation broke, as it did in Korea during the 1990s, the structural path of cronyism immediately resumed (Kang, 2002).

The other group of studies focused on bureaucratic networks. Economic bureaucrats belong to dense policy networks as well as working individually to execute policy. Various networks have been formed through policy interaction and personnel transfer for decades, and have affected each economic policy through layers of connections and coordination. This thick web of networks restricted economic bureaucrats' choices of policies against their organizational interests or policy clients.

Differently put, network interests were embedded in every bureaucratic choice of policy. When the economic structure needed to be completely overhauled to be competitive in the global economy, the networks began to work as powerful interest groups to protect their own interests and ensure that they would benefit from the reform or at least minimize their losses. In this model, bureaucrats, incumbent or retired (and rehired in positions outside government), formed strong institutional obstacles to full deregulation, which resulted in selective deregulation only in areas of minimal bureaucratic cost. Jennifer Amyx (2006) developed this logic in her explanation of Japan's drag on financial reform.

The two groups share two characteristics. First, corruption and networks both highlighted the negative effects of bureaucracy in globalization. Benefits of bureaucratic intervention, even when they existed, were much smaller than its cost. It is not merely that these models were developed to account for troubled East Asian economies during the 1990s. They presupposed that bureaucracy was a structural obstacle to economic performance under the other given conditions of East Asian economies. It was a sharp turn from the traditional understanding of the developmental state where bureaucracy was a structural support for rapid growth. We can hardly expect a theoretical continuum from such opposite standpoints. Second, they have only limited coverage of empirical cases. Democratization and human networks were set as preconditions by the two theories, which narrowed their focus to formerly authoritarian countries and homogeneous societies (in terms of elite behavior) respectively.

This study overcomes the disadvantages of the disjunction between political economic studies and NPM studies through a retrospective interpretation of the old

public administration. The old system is evaluated as individually selfish but collectively virtuous with the help of the culturally embedded system of deferred compensation. If the construction of the system in an early stage of economic development was a positive reform for government performance, its deterioration later prohibits any administrative reform thereafter from achieving its supposed goals. Since the negative turn of public administration during the 1990s was driven by the external factor of democratization, only a framework that combines political economy and public administration can provide a full description of Korea's experiences.

DEFERRED COMPENSATION AND THE CAPACITY OF PUBLIC ADMINISTRATION

Among many aspects of public administration, this study focuses on the compensation system. The high capacity of the Korean public administration throughout the period of rapid economic growth, praised in the name of Weberian bureaucracy, was contingent on the construction of a good compensation system. The downturn in capacity has a lot to do with trouble in the compensation system. The analytical redirection of Korea's public administration rejects sociopolitical interpretations, as other studies do (Evans, 1995). Social supports for performance (in the sense that they had existed before the economic takeoff), such as meritocratic (merit-based) recruitment and lifetime employment, held constant during the 1990s, yet the seemingly corporate-minded and professional bureaucracy disappeared during the same period and thereby lowered the capacity of public administration seriously. Instead, deferred compensation—post-retirement job opportunities for retiring economic bureaucrats—is proposed as the determinant of the capacity.

The interpretation of the performance of Korea's public administration as motivated by material compensations first assumes a rational bureaucracy. Korean bureaucrats are as rational, and thus motivated by material incentives, as those in any other country. Compensation for performance, however, is hidden from outsiders behind the formal institutions of personnel management. In outsiders' eyes, Korean civil servants are simply "corporate-coherent" in the ideal type of Weberian bureaucracy.¹ The actual process, on the other hand, worked as follows for decades: Korean bureaucrats were

1. Scholars defined the ideal type of bureaucracy suggested by Max Weber in various ways. In this study, I selected two key factors relevant to East Asian political economies as most leading studies in the field adopted. They are professionalism based on a tenured career and public-mindedness preserved by rule observations and job descriptions (Evans, 1995: 34-5).

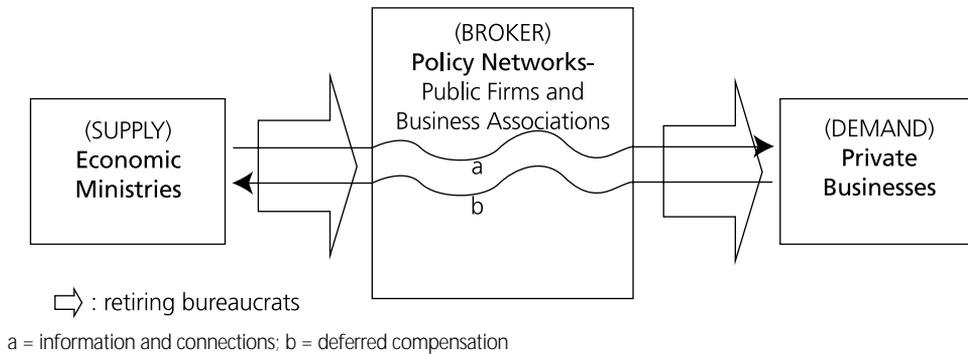
undercompensated for their work in the government, but as they retired they sought second careers in public or private firms that paid much better than their government jobs. Over time, this pattern became thoroughly institutionalized. The prospect of later compensation in the private sector enabled bureaucrats to endure the austerity of their government careers and provided a compelling incentive for excellence in bureaucratic performance.²

A simple market analogy is helpful to understand this mechanism. It turns on the supply, demand, and brokerage of retiring economic bureaucrats. The three players are economic ministries, private firms, and public firms (bureaucratic “old boys” in the sense that they were former colleagues of the incumbent bureaucrats). The government supplies candidates for reemployment in the market whenever it needs to discharge staff from the promotion pyramid. Economic ministries make the best use of the reemployment market as a solution to their promotion bottleneck, although in a few cases it is used for rewarding retiring top officials with lucrative private jobs.

On the other side, private businesses covet the information and government connections bureaucrats bring with them when they retire, so they constitute the major source of demand. Public firms still function as brokers in this system, standing as they do between the government and private firms. The Law of Public Service Ethics facilitates such brokerage by restricting retiring bureaucrats, and top officials in particular, from moving directly to private firms in their policy specialty and jurisdiction (Hankyoreh Shinmun, December 14, 2001, and April 24, 2001). Top bureaucrats, in deference to this law, conventionally take a position as the head of a public firm first, and then transfer to a private firm if and when a position becomes available. Various industrial and business associations, whose top managerial positions have customarily been taken by retiring top government officials, can also function as brokers of a sort. They work together to deliver retiring bureaucrats to private firms after employing the new retirees for a while (figure 1).

Under the triangular relationship structure of the deferred compensation system, individual recruitments are largely removed from the hands of job candidates or employers, falling instead to job brokers. While going through the brokering process, the terms of the trade between employers and employees (for example, information and connections for post-retirement jobs, represented as curved lines in figure 1) blur significantly because the brokers are far less interested in the specific needs of either side than they are in showing their muscle in the trade. As a result, rents that otherwise would have been created by a direct deal between economic ministries and private

2. A prime example of this practice is Japan's amakudari system. See, for instance, Calder (1989) and Schaefer (1995).

Figure 1. Deferred Compensation under the Old System

firms transform themselves into “goodwill” assistance on the part of private businesses to increase the compensation of government officials.

In practice, bureaucratic elites have been systematically transferred to public and private firms since Korea's economic takeoff, transforming themselves into business elites.³ The transfer of economic bureaucrats was even more institutionalized. Two statistical data substantiate this institutionalization. First, the amount of transfer was massive. Governmental officials who sought second careers, including military officers (mostly generals) who temporarily took government positions before moving into business firms, numbered as many as 955 for the period of 1960-2000. That number covers only high managerial positions in the firms, that is, managing directors and above. The number significantly increases if lower-level managers are included. Second, economic bureaucrats were best positioned to exploit the opportunities provided by elite transfer. Major economic agencies—the Economic Planning Board, Ministry of Finance, Ministry of Commerce and Industry, and Ministry of Construction—provided almost 50 percent of the total cases of reemployment, although economic bureaucrats comprised less than a quarter of the total civil service (table 1).⁴

3. Insofar as top bureaucrats are concerned, this point constitutes a striking difference between the Korean system and its Japanese counterpart. In Japan, retiring bureaucrats could choose one of three post-retirement careers: politics (*seikai tensin*), private firms (*amakudari*), and public firms (*yokosubery*). Sometimes they could go to private firms via public firms, often called *wataridori*. In Korea, the *wataridori*-style two-step moves were institutionalized and practiced up until the whole deferred system was destabilized toward the end of the 1990s. For the Japanese case, see Colignon and Usui (2003, pp. 7-14).
4. Journalists coined the term MOFIA, a combination of MOFE (revised in 1995 from the MOF by adding Economy at the end) and Mafia, to express the enormous and monopolistic power of the economic ministries.

Table 1. Deferred Compensation in number, 1960-2000

	Economic Planning Board	Ministry of Finance	Ministry of Commerce and Industry	Ministry of Construction	Economic ministries total	Government total
1960s	10 (7)	22 (16)	11 (8)	4 (3)	47 (34)	138 (100)
1970s	22 (11)	45 (23)	34 (17)	6 (3)	107 (54)	198 (100)
1980s	35 (13)	49 (18)	38 (14)	19 (7)	137 (50)	274 (100)
1990s	46 (13)	56 (16)	45 (13)	21 (6)	168 (49)	345 (100)
Total	109 (11)	172 (18)	128 (13)	50 (5)	459 (48)	955 (100)

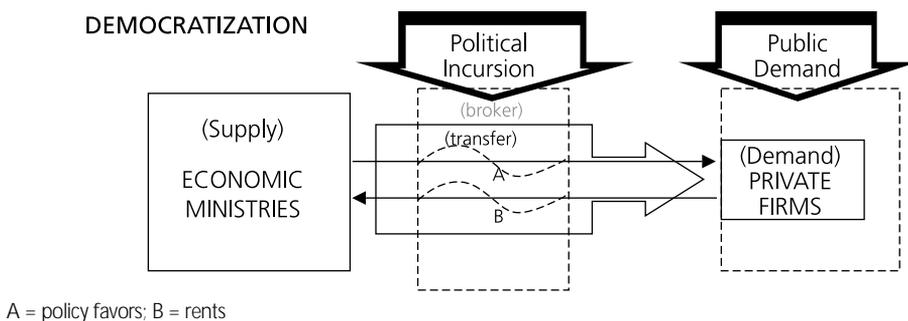
Source: Calculated from data from *Who's Who*, various issues, published by *Yunhap News*, *Joong-ang Ilbo*, and *Chosun Ilbo*.

Numbers in parentheses represent the percentage of the government total.

Democratization wipes out the brokers from the reemployment market by demolishing the bureaucratic policy networks. This occurs in two ways. First, democratization increases opportunities for the promotion from within the firm, filling up positions in public firms that might otherwise have been taken by retiring bureaucrats. High public demand for change under rapid democratization translates to economic decentralization, which includes breaking the practice of *nak-ha-san*. Second, democratization changes the composition of managers in public firms. While military generals and economic bureaucrats were primary candidates before, political liberalization expels the military from the market and instead brings political elites in. The new system is described in figure 2.

The upshot of the systemic change driven by democratization is an overall destabilization of deferred compensation—both a quantitative decrease and a qualitative deterioration. The pie (absolute number of post-retirement jobs) shrinks due to public pressure for economic decentralization. Political interference in policy networks is even more

Figure 2. Deferred Compensation after Democratization



detrimental. Career politicians after democratization are more like “new kids on the block” and less associated with bureaucrats than the withdrawing military generals. The resultant heterogeneity within policy networks increases uncertainty in job brokerage by bureaucratic “old boys” for the newly retiring bureaucrats. The expectation of a gloomy financial future leads to the institutional degeneration of the entire bureaucracy. In a sharp contrast to policy efficiency and autonomy supported by a stable system of deferred compensation, policy indifference and corruption (as a means of self-help) bloomed with the disruption of the reemployment market. Lack of policy coordination and poor monitoring are only some of the examples.

The negative effects were obvious in the quantity and quality of deferred compensation. When Korea's political regime went through rapid liberalization, the increasing public pressure for economic decentralization (breakup of Korea's elite-dominated political economy) curtailed the absolute size of elite transfer. NGOs and other social activist groups blamed economic ministries for facilitating economic monopoly in Korea, which was in turn perceived to be enabled through cooperation by ex-bureaucrats working in public or private firms.

Both absolute and relative downsizing occurred during the 1990s (table 2). First, post-retirement jobs became more competitive, as seen in the decreasing ratio of reemployment among retirees from 26 percent to 20 percent. Second, the age of retirement steadily rose from 40 to 55 through the four decades, meaning that compensations from second careers shrank as bureaucratic retirees were left with fewer years in which to earn high (private-sector) salaries. In addition, the chance to obtain a private job, either immediately after government service or after years of service in a public firm, dropped from 83-87 percent in previous decades to 68 percent in the 1990s. This also harmed retiring bureaucrats, given that salaries are generally higher at private firms than at public firms.

Table 2. Deferred Compensation before and after Democratization

	Post-retirement jobs (A)	Retirees (B)	Reemployment ratio (A/B)	Retirement age	Probability of post-retirement employment
1960s	47	284	17%	40.3	0.87
1970s	107	509	21%	46.6	0.87
1980s	137	533	26%	52.0	0.83
1990s	168	820	20%	54.9	0.68

Source: *Yunhap News, Who's Who*, various issues, Korea Institute of Public Administration, *Statistics*, various parts. This table is based on the same data set as table 1. The numbers of retirees were calculated based on the acceptance of High Civil Service Exam for the 10 years when these retiring bureaucrats first entered the government. The entry years, in turn, were traced using the retirement ages and the median age of all exam passers during these years.

The effects of the decreasing compensation were evident in the evaluations of government capacity by the media and even by top political leaders. Such pejorative terms as policy indifference (*bok-ji-bu-dong*) and organizational self-interest (*bu-chuh-e-gi-ju-eh*) described the Korean bureaucrats who had been widely praised only years earlier by international observers. The cases of nonperforming public administration were countless, regardless of the field of regulation or policy oversight.

LINGERING CONCERN ABOUT DEFERRED COMPENSATION AND LIMITED SUCCESS IN THE LATER ADMINISTRATIVE REFORMS

The downsizing of deferred compensation and the decreasing motivation for policy performance as a consequence have diminished the capacity of Korea's public administration in the new millennium. Administrative reforms to improve government performance ever since have been similarly stagnated, as the civil servants were more interested in their future compensation than in the benefits from other kinds of institutional reforms. Several facts regarding post-retirement activities during these days are suggestive of the continuing but deteriorated practice of personnel transfers from the government to private firms.

The keen interest of civil servants, economic bureaucrats in particular, in post-retirement careers is perennial. The stories about the organizational supports for reemployment within the Financial Supervisory Service (FSS) are a good example. The Congressional Hearing Reports of 2008 indicate that as many as 32 middle- or high-level directors (second level and higher) sought post-retirement jobs in the private sector. The mere number of the transfers, however, is less impressive than the way civil servants manipulated their positions a year or less before they retired. Of the 32 reemployed FSS members, 26 (81.2 percent) are reported to have moved to bureaus that were promising for reemployment, such as human resources, consumer protection, and inspection support, immediately before they retired. The report also says that 10 of them actually served less than three months before they took a job in private business (*Joongang Ilbo*, October 13, 2008). An official report from the Ministry of Public Administration and Security gives a smaller number of transfers, 19, but confirms that economic ministries like the FSS (19) and the Ministry of Knowledge and Economy (MKE) (7) have a much larger presence in the reemployment market than the National Intelligence Service (8), Ministry of National Defense (6), or Supreme Prosecutors' Office (5) (*Yonhap News*, October 2, 2008).

Among the most promising employers for retiring bureaucrats in recent years have

been private law firms. In the five years ending May 18, 2011, they hired 85 government retirees. Former economic bureaucrats took the lion's share of the jobs, 53 or 62 percent. The Fair Trade Commission had the highest number with 19 reemployments, followed by the FSS, the National Tax Service, and the Korea Customs Service (Citizens' Coalition for Economic Justice, 2011).

There was a surge of transfers from the government to private law firms immediately before a revision of the Law of Public Service Ethics went into effect. The revision is taken by most bureaucrats to have negative implications for their futures, because it increases the required wait after retirement before moving to a private firm in the same policy area from two to five years and widens the range of ranks required to report their personal assets from the second to fourth level and above. It is not surprising from the standpoint of deferred compensation that civil servants, regardless of rank, rushed for honorary retirement to avoid these legal restrictions. The Financial Supervisory Service lost 28 members within a month immediately before the new law went into effect (*Seoul Daily*, October 28, 2011).

Complaints about the law were reported as early as 2008, when it was first enacted in Congress. A director of a bureau in the Ministry of Strategy and Finance said, "It would be much better to retire now than later.... Is it really a good policy to lower the morale of civil servants like this?" In response, a bureau manager of the Ministry of Public Administration and Safety, which initiated the proposal, defended it by saying:

Other countries like Japan, Germany and France do not allow seeking a post-retirement job in private firms at all.... We need to build people's trust in public services by adopting the advanced systems even if civil servants have to sacrifice their interests somewhat. (*Hankyoreh*, September 2, 2008)

The use of words like "morale" and "sacrifice" unintentionally admits that the system of deferred compensation has provided significant incentives for job performance while in the government, and that to lose those opportunities would be a big sacrifice for civil servants.

On the other hand, the ways that the post-retirement job transfers have been modified indicate that the benefits are neither as attractive to individual bureaucrats nor as positive for the public interest as before. Since the political elites became greater beneficiaries of the *nak-ha-san* system than bureaucrats through Korea's democratization in the 1990s, the dependence of civil servants on political leadership to increase their chance of a post-government job has continued or deepened. Similar stories have repeatedly appeared in media reports about new hires for the positions of directors and inspectors in public firms whenever the time for renewal (mostly seasonal) approached. High-

ranking government officials compete among themselves and lobby for the positions to politicians of influence, while competing with political elites like lawmakers and their aides at the same time. Some post-retirement jobs were reserved exclusively for bureaucrats in the past, as described in the previous section, but the monopoly was broken as early as in the 1990s. Hence the competition for the limited jobs for bureaucrats is becoming harsher.

For instance, almost all Korean newspapers published stories about *nak-ha-san* in February 2011 when up to 135 managerial positions in public firms were expected to open soon. The candidates, the newspapers predicted, would include former lawmakers, retiring bureaucrats, and the participants in the presidential election campaign. The papers also frequently pointed out that the MKE was under the heaviest external pressure to take care of somebody for a certain position, since the ministry holds the most public or subsidiary firms under its jurisdiction of all the government agencies. More importantly, the reports agreed that the authority for making the final decisions was held by Yong-jun Park, the MKE vice minister appointed by the president. He was merely a political appointee without a professional job specialty, but was more influential than any professional bureaucrats within the ministry insofar as personnel matters were concerned. The power shift was made during Korea's democratization, as previously mentioned. As a result, even MKE members needed Park's permission to have a chance for a position in a public firm in which the ministry controlled the management. It was a matter of course that MKE candidates had to compete for Park's approval with the candidates from other government agencies and also the members of political parties (*Donga Ilbo*, February 2, 2011).

A serious cost of the increased political power over personnel decisions in public firms is the policy dependence of government agencies on political interests. In consideration of their future careers, economic bureaucrats have to listen to what political leaders want in either regulatory or budget policies. In that regard, the policy autonomy of government agencies is seriously impaired, as is the capacity of public administration insofar as the capacity has to do with autonomy. The political domination of the personnel administration of civil servants is, therefore, counterproductive to public administration because it prioritizes compensation issues over other policy concerns.

Finally, the temptation to corruption, or technically rent-seeking, driven by the declining opportunities for reemployment by private firms, often nullified the efforts to improve government capability through administrative reforms. The studies on Korean administrative reforms from the NPM viewpoint have confirmed that the reforms were not very successful. The relevance of deferred compensation to the administrative reforms was found in the efforts of individual bureaucrats to marginalize the public goals of the reforms in the face of their private goals of securing post-

retirement lives.

For instance, the Open Position System, the administrative reform that sought to ensure that the most qualified people would be found for the highest positions in government agencies, failed when it was abused to enable the rehiring of ex-bureaucrats. Job descriptions were often tailored to fit a member of the inner circle. Unless the retiring bureaucrats were able to expect sufficient compensation from an outside source, their desire for compensation resulted in their collusion to seek internal compensation through, for example, rehiring by the government. Other reforms, such as the launch of the Personnel Exchange System, similarly fell victim to the search for better compensation by civil servants. Instead of using the time to learn from private experiences for better policy execution, as the reform originally intended, participants in the program used the opportunity more for building connections with the private firms to which they were assigned, to give them a better chance for a potential job in the future.

In the same vein, the involvement of a director in the Financial Service Commission (FSC) in the recent scandal about savings banks can be interpreted from the viewpoint of shrinking deferred compensation and the resulting corruption (*Maeil Kyungje*, July 12, 2012). His acceptance of money in return for dropping a savings bank from the bankruptcy list, if it turns out to be true, is most likely to be the tip of an iceberg of tacit trades between the FSC and financial intermediaries surrounding policy favors and reemployment. If the established system of deferred compensation declines, all the incentives to work for public goals decline with it, resulting in self-reliance in the search for further compensation other than government salaries.

The concern is durable enough to survive any institutional reconstruction intended to better serve public administration. In this case, the establishment of the FSC in 2008 confirms this expectation in that it was built to increase the efficiency of financial monitoring by combining the mission of the FSS with the financial planning of the old Ministry of Finance and Economy, but the concerns about future jobs diminished the original institutional goals. No matter what reforms are developed to improve the capacity of public administration, individual civil servants' interest in compensation will put a brake on the effort unless the past system of deferred compensation is revived. In sum, government incapacity due to insufficient compensation and resulting corruption can only be improved through reforms of the personnel and payment systems.

CONCLUSION

The Korean government has launched various efforts to reform public management ever since the political and economic reforms of the 1990s. The results, however, have

not been as successful as many New Public Management scholars expected. This study raises the possibility that the unsatisfactory outcomes are due to the unexpected changes made in public administration with the advent of Korea's democratization. Among others, the overhaul of the hidden compensation system for bureaucrats has been the most detrimental. Once it changed the attitudes of Korean bureaucrats, the administrative reforms that followed have had only limited effects in improving public management in Korea.

A new payment system, for example performance-based compensation, may be a good alternative, but it is not easy to achieve. As interpreted in this paper, the old system of deferred compensation reflected the Korean culture's consideration of government jobs as a service to society regardless of their compensation. A performance-based system would call for a revision of attitudes toward public service to consider it more like private employment, in which payments are made depending on the performance or qualifications of individual workers. A comprehensive pay raise to bring government salaries more in line with private-sector salaries may be another solution to the complaint about compensation in general. But there would still be a need for a mechanism to boost competition for job performance within an agency or department—unless the salary gap between the ranks is wide enough to attract such an internal competition as witnessed in Korea under the deferred compensation system.

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