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Financing Local Development through Intergovernmental Transfers
The Case of Korea

Introduction

The issue of financing local development through intergovernmental transfers contains several preconditions which must be resolved before getting into the further discussions of the schemes and institutional arrangements of intergovernmental transfers. First theoretical question is to whether intergovernmental transfers as an instrument of fiscal decentralization promote the local economic development or not. Another question is on the utility of intergovernmental transfers in both equalization and economic growth. These two questions would be examined in the following.

Economic Growth vs. Intergovernmental Transfers Debate

Do intergovernmental transfers boost local economic development? To be more fundamental, does fiscal decentralization indeed impact directly on economic growth? In theory, fiscal decentralization may be conducive to economic growth. If few public goods entail nationwide externalities, sub-national governments[1] are likely to be more efficient in the production and delivery of public goods. (Oates, 1972) Another assertion is that decision-making on expenditures at lower levels of government is more responsive to diversified local preferences and needs and, therefore, more conducive to allocation efficiency. (Tiebout, 1956; Oates, 1972)

Having been aspired by the well-established and widely-recognized assertions of these "Tiebout Hypothesis" and "Oats' Decentralization Theorem", more empirical researches have been searching for a direct relationship between fiscal decentralization and economic growth, and showed a positive correlation between them. Among them is the normative discussion of fiscal decentralization on economic growth in the allocation of resources, horizontal fiscal imbalances, and economic stabilization by

[1] In this paper, the term "sub-national governments" covers all sorts of governments below the national level, and is used with "local governments" interchangeably.

Martinez-Vazquez and McNab (2003), along with Fukasaku and de mello (1998), Treisman (2000), Lee (2003), and Lim (2008). Still, other researches indicate that traditionally the theory and practice of fiscal decentralization has given little attention to the objective of economic growth.(prud'homme,1995;Tanzi, 1996; Ter- Minassian, 2000) Therefore the question of whether fiscal decentralization has contributed to economic growth is open to debate.

Interestingly enough, this question was tested in China, where many researchers may presume a positive relationship, being witnessed by her rapid economic growth with fiscal decentralization. But empirical studies have shown two opposite results too. Some argue that fiscal decentralization has been fundamental to China's economic success (Lin and Liu, 2000), while others still assert that fiscal decentralization fragmented the national market, and hence negatively affected economic growth. (Zhang and Zou, 1998) Korea is not expected to be exceptional as will be seen later.

Equalization vs. Economic Efficiency Debate

Intergovernmental transfers are the dominant instruments of fiscal equalization among various levels and types of governments in most countries, regardless of their governing systems of federalism or unitary, and centralized or decentralized fiscal systems. Fiscal equalization among different governing bodies horizontally and vertically is of great importance for reducing fiscal disparities across jurisdictions and levels of localities. Therefore intergovernmental transfers have intrinsically more equalizing characteristics than economic efficiency characteristics. This of course does not mean that intergovernmental transfers support economic efficiency assumption through releasing or expanding local financial resources indirectly.

Assumptions Adopted

As discussed so far, arguments about 1) relationship between fiscal decentralization and economic growth, and 2) equalization and economic efficiency are still on-going issues among researchers, and need to be further examined. However, the study here does not intend to inquire those arguments, instead assumes both assumptions of 1) positive relationship between fiscal decentralization and economic growth, and 2) economic efficiency over equalization. For the purpose of study, therefore, the following discussion will be based on these assumptions in Korea.■

Intergovernmental transfer system in Korea

In Korea like in any other countries, intergovernmental transfers are the dominant source of revenues of local governments. Fiscal decentralization in Korea started to change dramatically after the introduction of local autonomy system in 1991. With the remnants of a strong centralization tradition derived from long history of dynasty governance, the fiscal decentralization system design has been evolved uniquely in Korea. Therefore, a brief description of contextual factors should help better understanding in the following.

1. Korean Revenue Structure in General

Currently in Korea, 48,747 thousand people reside, and the current market price GDP arrives at 1,024,067 billion won. The integrated central government budget reaches at 257,536 billion won which is 25.1% of GDP. Out of that budget, the tax revenue occupies 222,482,918 million won which is 86%. Tax Burden Ratio to GDP goes to 21.6% in 2009. Korean government mobilizes the national resources of 196,871,278 million won from Internal Taxes(72.0%), Customs Duties(5.1%), Transportation-Energy-Environment Taxes(5.7%), Educational Tax(2.2%), Comprehensive Real Estate Tax (0.8%), and Non-Tax Revenues (14.3%) for the Fiscal Year 2009.

Internal Taxes of 168,753,000 won derive from Income Tax (39,908,700 won, 24%), Corporation Tax (37,880,300 won, 23%), Inheritance Tax (3,757,300 won, 2.6%), VAT (47,759,000 won, 28%), Special Consumption Tax (4,415,300 won, 2.4%), Security Transaction Tax (3,259,400 won, 1.7%), Stamp Tax (633,300 won, 0.4%), and Other Internal Tax (4,170,300 won, 2.5%). These statistics show that Korean government mobilizes resources mainly from income tax, corporate tax, and VAT.

The ratio between national tax and local tax has not changed much for the last 7 years as seen in the Table 1, 79.8:20.2 in 2003, and 79.2:20.8 in 2008. Therefore, without central government willingness to reform the whole tax structure from center-focused system to local-focused system, Korean local governments are destined to depend upon the central government financially.

➢ **Table 1.**
Ratio between National Tax & Local Tax in Korea
(unit: %)

	2003	2004	2005	2006	2007	2008
National Tax	79.8	79.2	79.5	79.3	79.5	79.2
Local Tax	20.2	20.8	20.5	20.7	20.5	20.8

Source: The Ministry of Public Administration and Safety

This is also true in examining the revenue structure of localities. Roughly mere 60% of the budget can be covered by their own resources, and the rest 40% comes from outside, namely the central government. The degree of financial self-reliance for local governments in Korea is low, marking only 53.9% in 2008. Of particular note is that the highest city of Seoul Metropolitan government reaches at 85.7%, whereas the lowest locality of *Sinan-gun* and *Wando-gun* is 6.4%. Generally, upper-localities of Metropolitan regional government have better positioning in financial self-reliance than lower level grass-root level localities of urban city(*si*), rural county(*gun*), or urban district(*gu*) governments.

2. Outline of Korean Intergovernmental Transfers

When checking from the expenditure structure by functional classification, the size of intergovernmental transfer reaches at 29,047,445 million won (14.8%) of the total central government budget. Most intergovernmental transfers are delivered by the Ministry of Public Administration and Security to the localities. Out of 31,955,028 million won of total budget of Ministry of Public Administration and Security (MOPAS), local revenue sharing occupies 90% (28,767,307 million won), and the rest covers its general administration expense at 3,187,721 million won (10 %).

Total intergovernmental transfers include i) grants to local governments in general accounts and ii) grants to local government education in education special account, all of which reach at 61,602,241 million won, counting for 31.2 % of total budget, and 43.4 % of total internal taxes in FY 2009. However considering the total size of the central government budget of 257,536 billion won, the intergovernmental transfers cover only 23%.
Being included intergovernmental transfers, the size of Korean local government budget in comparison with the central government occupies 45.5% of total governmental budget in Korea as shown in the following Table 2. The historical trend shows gradual improvements from 60:40 in 2003 to 55:45 in 2008 between central government and local governments.

➢ **Table 2. Comparison of Central Government and Local Government Budget** (FY2008 in ratio)

	2003	2004	2005	2006	2007	2008
Central Government Budget	59.9	57.8	57.6	57.0	54.8	54.5
Local Government Budget	30.1	31.7	31.8	32.9	34.8	34.9
Local Government Education Budget	10.0	10.5	10.6	10.1	10.4	10.6

Source: The Ministry of Public Administration and Safety

3. Types of Intergovernmental Transfers in Korea

Intergovernmental transfers in Korea occupy 38.3% of total local government revenue as shown in Table 3. Out of 124,966 billion won of total local government revenue, the intergovernmental transfer source of 47, 819 billion won is mobilized by the national government. Two major resources are local shared tax and national subsidies at 24,129 billion won and 23,690 billion won respectively. The sizes of both sources are similar at 19.3% and 19.0% in the composition of total local revenue respectively.

➢ Table 3.
Local Government Revenue by Source (2008)

Source	Amount (billion won)	Ratio
Total	**124,966**	**100.0**
Own Source	77,147	61.7
Local Tax	43,550	34.8
Non-Tax	30,100	24.2
Local Debt	3,497	2.7
Dependent Source	47,819	*38.3*
Local Shared Tax	24,129	19.3
National Subsidies	23,690	19.0

Source: The Ministry of Public Administration and Safety

As the major dependent source, the intergovernmental transfers consist of two major categories: i) Local Shared Tax and ii) National Subsidies (Grants). Local Shared Tax is an unconditional grant, whereas National Subsidies are conditional grants. Local Shared Tax is divided into four specific types: i) General Local Sharing, ii) Special Local Shared Tax, iii) Decentralization Shared Tax, and iv) Real Estate Shared Tax. National Subsidies include i) National Administration Delegation Grants, ii) National Project Grants, iii) National-Initiative Project Grants, and iv) Balanced National Development Special Account Grants[2]. The following Diagram 1 outlines the whole system of intergovernmental transfers in Korea.

[2] Many researchers in Korea insist that *Balanced National Development Special Account Grants* is different from the national subsidies, thus classifies it a separate type. However, in the sense that this grant is conditional national funds to selective localities distributed by the central government, and do not show much difference with other grants, thereby it should be included in the national subsidies. This particular grant is managed not by MOPAS, but by *The Presidential Committee on Balanced National Development* based on the Special Law.

➢ Diagram 1 . Intergovernmental Transfer System in Korea

- Korean Intergovernmental Transfers
  - Local Shared Tax
    - General Local Shared Tax
    - Special Local Shared Tax
    - Decentralization Shared Tax
    - Real Estate Shared Tax
  - National Subsidies
    - National Affairs Delegation Grants
    - Local-Initiated Grants
    - National-Encouraged Project Grants
    - Balanced National Development Special Account Grants

Local Shared Tax

Local Shared Tax is required by *the Local Shared Tax Law* to share a certain percentage in specified tax. The legal requirement is 19.24 % of domestic tax in the ways of General Local Shared Tax, Special Local Shared Tax, Decentralization Shared Tax, and Real Estate Shared Tax.

(a) General Local Shared Tax

The biggest size of local shared tax is the general local shared tax covering 96% of local shared tax. It does not ear-mark the specific expenditure, thus unconditional sharing fund. This tax goes to localities in order to cover the differences between the standard service expense needed and the standard revenue collected of each locality. It is the independent local-self revenue and is given away comprehensively without specification of the usage.

(b) Special Local Shared Tax

This tax covers only 4% of the local shared tax and temporarily goes to locality in order to respond to local needs of pending projects or disaster relief project upon the request of locality. It is specially allocated when general local shared tax should not cover the expense due to the unexpected disaster or public projects that exclude in the receiving general local shared tax. It is project-based sharing tax with strict screening test of feasibility by the related ministry in the central government. Although it is considered to be a general expense of locality and is independent from the central government legally, still it is practiced for specified local project with certain degree of limitation and condition in reality.

(c) Decentralization Shared Tax

This tax covers 0.94 % of the local shared tax for 5 years only from 2005 until 2009 in order to promote decentralization policy as supplementary instrument to general local shared tax. It was introduced during the Participatory Government of Rho Mu Hyun which was regarded as the decentralization-focused regime. It is the independent resource of locality as much as the general local shared tax. This tax will be included into general local shared tax from 2010.

(d) Real Estate Shared Tax

Real estate shared tax is introduced in 2005 to equalize the regional imbalance due to the introduction of the comprehensive real estate tax[3] by region. Although it is classified into local shared tax legally, practically it is operated as national subsidies. It is regarded as an instrument of decentralization policy.

National Subsidies

National subsidies are the grants given to localities for implementing central government's policies or delegated affairs in all or part of the expenses needed. This fund should be defined clearly in the scope of fund usage, thus be conditional. The size of national subsidies is similar to that of local shared tax, 24,957,700 million won and 25,779,696 million won respectively. Being compared to total local tax revenue size of 43,550 billion won, these two intergovernmental transfers are critical amount of money to localities in Korea. In 2008, the numbers of projects initiated by various central ministries counts 977 projects. There are four different types to execute national subsidies system in Korea: *National Affairs Delegation Grants, Local-Initiated Project Grants, National-Encouraged Project Grants, and Balanced National Development Special Account Grants.*

(a) National Affairs Delegation Grants

This fund is provided for localities to implement national affairs. Local government plays a merely national government ministry's regional branch offices role at the expense of national government. In fact, this fund should not be called intergovernmental transfers in the sense that central ministries should have accomplished their jobs, operating their regional offices, and instead they are contracting-out with localities to pay the fees.

[3] *Comprehensive Real Estate Tax* was introduced in 2005 to stabilize real estate market nation-wide.

(b) Local-Initiated Project Grants

This subsidy is delivered for localities to fund their own local projects which have a nationally spill-over effect over regions. The size of fund is decided by the degree of the responsibility between locality and national government. To get this fund, each locality must submit project proposal first to national committee of local-initiated project grant and must persuade the utility of the project.

(c) National-Encouraged Project Grants

This fund is delivered to local government for the central ministry to recognize the necessity of the projects in specific region, and the central ministry encourages local government to start. It is a locally initiated, but centrally encouraged and funded project financing instrument of intergovernmental transfers.

(d) Balanced National Development Special Account Grants

Being introduced in 2005 as one of the policy measures for decentralization policy, the balanced national development special account grant aims at balancing regional development. The balanced national development special account[4] integrated various balanced local development project financing instruments by the ministries into one account in order to promote decentralization policy more effectively and efficiently.■

Intergovernmental transfers for Local Development

The issue of the positive relations between the local economic development and intergovernmental transfers is tricky in Korea in the sense that the limitations in the small space size and the numbers of localities might discourage the competition among regions as asserted in 'Tiebout Hypothesis'. Some critics insist that rather a strong unitary fiscal system can better boost the local economy due to the handy size of the space, homogeneity of the people, and strong centralization tradition and culture of the history. The rationale of the intergovernmental transfers lies more on the fiscal equalization among regions to promote democracy than on the pursuit of economic efficiency and effectiveness. In this regard, it is often insisted that Korea has experienced a rapid economic growth not through fiscal decentralization but through strong fiscal centralization. This experience has become a strong empirical evidence for supporting fiscal centralization to economic development. Therefore, it is important to raise again the question of the utility of the fiscal decentralization and local economic development debate in Korea, on which further discussion will be based.

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[4] *The Balanced National Development Special Account* covers around 100 local projects at 7,622 billion won budget. It consists of three major accounts of i) regional development project account (5,557 billion won), ii) local innovative project account (1,690 billion won), and iii) Jeju Special Autonomy Province Account (375 billion won).

Intergovernmental Transfers vs. Local Economic Growth Debate

It is difficult to prove a positive relationship between fiscal decentralization and local economic development in Korea. However, as stated earlier, still some researchers assume the hypothesis of positive relationship between the two factors and found empirical evidence. Some examples are studies by Kim, Chung, and Rho(1991), Moon and Chung(2001), and Lim(2008). However, Choi and Chung (2001) insist that unlike the expectation of positive relations, these two factors do not show positive relationship, because *de facto* fiscal decentralization has not been accomplished in Korea for the last 20 years of local autonomy introduction since 1991. Of particular note is that the most recent empirical study between the fiscal decentralization and economic growth in Korea by Lim(2008) showed a positive relation at local level, but not at national level. He utilized 5 years panel data during the period of 2002 and 2006 for 16 upper-level local governments. Thus in this paper it is assumed that along with local tax system reform, efforts to improve intergovernmental transfer system can boost the local economy.

Implementing Strategies of Intergovernmental Transfers for Local Economic Development

Theoretically the types of intergovernmental transfers make differences in effects of equalization or economic efficiency. In order to boost local economic development, the types of intergovernmental transfers should focus more on the economic efficiency than equalization. For example, the tax/revenue sharing transfers are utilized for equalization, whereas grants are intrinsically appropriated for economic efficiency, i.e., local economic development derived from the investment characteristics of the grants. Tax/revenue sharing transfers with no or little conditions may be misused for political purposes such as local political events and election campaign-related projects to bring about moral hazards, instead of investing local economic development projects. If this is the case, the strict control and evaluation schemes must be elaborated and institutionalized into the intergovernmental transfer mechanism. (Lim, 2008) To keep this principle in mind, the following discussion proposes the policy implementation strategies for boosting local economy through intergovernmental transfers in Korea.

1) Restructuring Local Tax System along with Intergovernmental Transfer System

Local tax system in Korea should be restructured in such a way to promote fiscal decentralization. The local autonomy governance system in Korea, introduced in 1991, is only considering political aspect leaving fiscal aspect behind for the last 20 years. Without a solid fiscal self-reliant base, the local autonomy system itself may undermine the genuine autonomous local governance sustainability, thus bringing about the central government-controlled heteronymous local field branch office.

The ratio between national tax and local tax is 79.5:20.5(166 trillion won: 43 trillion won out of total tax revenue of 209 trillion won), whereas the ratio between national budget and local budget is 54.5:45.5 in 2008. What these statistics means is that simply 20% difference in revenue and expenditure for localities must come from the central government's pocket. In other words, Korean local governments provide more public services than central government with less tax. Accordingly the difference should be covered with intergovernmental transfers, which put localities into dependent position upon central government. Therefore, the tax system restructuring between national tax and local tax must first be accomplished. Shifting some of national taxes to local taxes is one way such as some portion (for example 10%) of VAT transferring to local tax, and new local taxes may be introduced such as *local consumption tax* and *local income tax*. (Lim, 2008: Lee, 2009) Tax autonomy and thus fiscal autonomy of localities can boost local economy by their independent decision to prioritize local development projects. With these new local tax measures introduced, locality will be able to rely less on the intergovernmental transfer resources in accordance with central government's guideline.

2) Grants-centered Intergovernmental Transfers System

Tax/revenue sharing transfers are unconditional local funds once given to localities. There exist the inescapable temptations for each local government to spend those funds for political purposes rather than for local economic growth, since the local government chief executive officer is elective and easy to be yielded by the temptation of re-election. However specifically designed grants are not fragile to the fund mismanagement under the strict condition. This leads to the recommendation of specific grants rather than general tax sharing tools of intergovernmental transfers system for local economic development so that the local chief should not override the decision or direction given by national government. Out of 47 trillion won intergovernmental transfers, 24 trillion won, 50%, is from local shared tax, and 24 trillion won, 50%, comes from the grants in 2008. This 50-50 ratio should be restructured to 40-60 ratio structure toward grants to boost local economy. Another alternative is to switch special local shared tax to specific block grants so as to promote the small and specific local projects. (Lim, 2008)

3) Capital-focused Grants System

Currently, the intergovernmental transfer system in Korea is based on the fund conditionality, not on the fund characteristics. This leads to the difficulty to evaluate fund performance and responsibility as to whether funds are spent for capital investment or operating expense. For longer term perspective, the intergovernmental transfer must be classified by investment effects, dividing into operating expense transfer account and capital investment account. However, if it is too radical, then current system of tax sharing and grants may be subdivided into i) operating expense tax sharing, ii) capital tax sharing, iii) operating expense grants, and iv) capital grants. If and when this new classification system is introduced, the capital investment purpose tax sharing and grants will be invested only for local economic development, and as a result, each locality will meet higher responsibility standard and bringing in better performance in local region.

4) Restructuring Balanced National Development Special Account Grants

The Balanced National Development Special Account Grant has been criticized as a typical "*pork-barreling funds*"[5] since its inception in 2005. Despite its genuine goal of balanced national development project financing instrument, it has been distributed by influential political and administrative individuals, not by the objective and scientific analyses of feasibility among regions. Therefore this grant should be completely restructured, if not removed.

5) Combining Local Education Shared Tax with General Local Shared Tax

Currently in Korea, the local education service is governed by the Local Education Authority, whereby the local educational shared tax is provided. The local education authority is the only local autonomous government body in functional local entity other than general local government. Since the provision of local education service is one of the local government's responsibilities with other services like park and recreation, water and sewage, transportation, and the like, it needs to be treated equally. Therefore, in the long run, the consolidation of local education sharing tax and general local shared tax will be needed, while, for the time being, the close cooperative efforts and creative schemes are necessary. (Lim, 2008)

6) Proactive Local Borrowings

To maximize intergovernmental funds for local economic development, local matching to the national transfer funds would be necessary. Usually the intergovernmental grants to local governments, unless they are required local matching, will tend to be used inefficiently. Sometimes local officials lazily consider them as "free of nobody's money", and accordingly trying to spend them all, or even waste them away for the next year re-appropriation. In

[5] *Pork-barreling* is spending government money on a local project in order to win the votes of the people who live in that area.

this case, the local bond[6] issuance is the useful policy instrument to support local project implementation. Considering the fact that issuing local bond is strictly restricted in capital investment project by law, local bond would become a useful tool for local economic development. Besides the fund from local bond could have the multiplier effect over the region so that the indirect economic effect also would contribute to the local region. The Korean government reformed a new local bond policy of total amount limitation screening system from individual project screening system to expand locality's autonomy and responsibility in 2005. This reform guideline has been expected to trigger the local bond issuing efforts so as to boost local economy. However, the Korean culture reluctant to be on debt would interrupt local government to expand the size of local bond avoiding from local resistance. Local government administrators are required to persuade local residents and stakeholders for the benefit of local bond effect to the local economy, informing that most of the local governments in Korea currently maintain the healthy balanced budget and safety with around 3% debt ratio in total local budget, which is low figures compared to those in other countries.

7) Deregulations in Local Transfer Fund Management

Intergovernmental transfers have various kinds of restrictions inevitably in rules and regulations for funding decisions of local government due to the nature of the fund transferred from upper level government. For example, even the general shared tax fund must meet certain administrative conditions highlighted by the donor. When it comes to specified grants, it is even stricter than the general purpose shared tax in fund distribution decision making process as to the qualification of fund receiver, the size of fund allotted, the degree of local economic contribution, etc. Not only in the process of receiving transfers from national government, but of distributing funds to private sector as well, there exist much regulations and red tapes. Deregulating these administrative procedures will greatly enhance the effectiveness of transfer fund. Ad hoc fund and open-ended fund system may become other alternatives for local government to lessen strong control of national government over local transfers so as to promote local economic growth.

8) Effective Monitoring Mechanism in Local Transfers Distribution

The management of local government transfer fund is critical to make improve the local economic condition once received from the national government. To maintain a transparent distributional

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[6] The Ministry of Public Administration and Safety showed the total local debt reaches at 29 trillion won for 246 local governments, which is the 3.7% out of 794 trillion won total assets by the end of 2006. This debt ratio is far less than those in the private sector or in other countries.(lim:22)

process and to allocate the given funds efficiently and effectively may be accomplished through objective and rational monitoring mechanisms. Grants can be more easily monitored by their specific guidelines than the general local shared fund by general guidelines. For this reason, a particular attention should be paid to the general purpose funds. A systemic and scientific monitoring scheme needs to be established for successful operation of intergovernmental transfer to check if any grants are properly dispersed as planned. Also is the effective monitoring system for private fund users of the funds as to the appropriate use of funds to contribute local economy.

9) Quality Assurance Evaluation System

Both national government and local governments should equip with efficient and effective evaluation system in fund management. The short-term and long-term effect measurement must be developed to confirm the goals and objectives of intergovernmental transfers. Considering economic development projects produce their economic effects in longer perspective, the more elaborated evaluation strategies and techniques for long-term effect must be prepared. Quality assurance mechanism for each fund is the precondition for securing high quality intergovernmental transfer system. Particularly the specific grants must be evaluated by the scrutinized and sophisticated measurements to bring about local economic impact on the region.■

Conclusions

The issue of intergovernmental transfers in Korea is complicated and sensitive in the question of "*who gets how much from whom*". There is no question about the local government which receives the general shared tax decided by formula, but when it comes to the grants, there raises up a controversial debate of political winners and losers. On the question of how much, there is no argument when decided by formula, but by political and economic criteria, there exit always controversies. In the decisions of "*from whom*" is also sensitive matter. The major source of intergovernmental transfer mobilization is the citizens of the capital or big urban cities, but the big chunk of their tax money goes to local regions which require a central government's responsibility to ensure localities' efficient and transparent fund management.

The major objective of intergovernmental transfers for equalization vertically and horizontally should be to protect or guarantee basic local services. Any local residents should not be neglected in national minimum public service provision as a result of locality's low fiscal capacity. Not only the equalization effect, but local economic growth is equally important as well. However, there exist controversies over the relationship between fiscal decentralization by intergovernmental transfers and local economic development, and this study assumed a positive relationship between the two. Based on that assumption, there suggest several strategies to boost local economy. One survey shows that 79.4% of Korean local officials are dissatisfied with the current intergovernmental transfer system (Seo, 2008). It implies that the current system should be reformed as soon as possible. The newly established Lee Myung Bak Administration seems to maintain a kind of policies to enhance the efficiency of local finance, without substantially restructuring the whole local finance system as was done by the previous government. In a sense, one can easily view the current government's position on fiscal decentralization is much weaker and inconsistent compared with the previous Rho Mu Hyun administration. (Lim, 2008).

One final comment is that in order to boost local economy through intergovernmental transfers in Korea, the fundamental spirit of the system should be put more its emphasis on the economic efficiency than in the equalization among regions, thus introduce more sophisticated measures of grants than general tax/revenue sharing.[7]■

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