

PRIVATIZATION IN KOREAN LOCAL AUTHORITIES

by

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1. Introduction

Many countries are wrestling with the problem of how to change their governmental systems to enhance development and modernization.

Common to every political system is a bureaucracy and a system of local government, and these are the institutions that are most involved.

This view is frequently advocated in discussions of development strategies for Korea and is used to justify structural change. There have been a number of experiments, as well, in Western industrial nations to create greater decentralization in local governments. Korea is a prime example of a country that has experienced remarkable economic growth without widespread sharing of its benefits among the rural populace and without decentralization of power to local government.

Indeed, as national development accelerated, inequalities worsened, political and human rights were suppressed, and power within the public bureaucracy and in the center-periphery relations was strongly centralized.

The result is that, by any measure, few countries are as centralized as Korea.

2. Decentralization Effort.

Korea experienced a local autonomy from 1952 to 1961. After 1961, the Korean government was overthrown by military power. Thus, the local autonomy system vanished. Since that time, especially since the 1980's most people want local autonomy system restored to redistribute local functions.

By mid-1988, Korean citizens were expressing growing unhappiness with stringent state control of local affairs, and were calling for local solutions to local problems.

Regardless of the present standstill, and despite uncertainty about self-governance, the issue of democratizing local politics and governments is widely held as critically important for the political development of Korea. Many believe that the nation should adopt and carry out a far-reaching reform to revitalize local communities, and that the establishment of autonomous local governments is the key to political development and democratization of the country. It is widely argued that for a democracy to survive, it must be firmly planted at the grassroots level.

Koreans are now much more knowledgeable and understanding of local self-government than in former years. A recent survey found that in the places where local autonomy is practiced, over 40 percent of respondents favor direct election of local government officials and legislators.

1) Hierarchical Structures and the Alternative Approaches.

The current multi-hierarchical system of local government with three or four local levels has posed some administrative problems. Each local government with its own traditions, culture, and needs, and thus should create local institutions and establish its functions in response to the demands of its own citizens who have situations and goals different in many ways from those of the central government.

The current system of local government has failed to coordinate harmoniously with the residents, mainly due to the lack of contact between the county government and the residents.

The current system has created over-lapping functions for the county government. It has operated as an intermediary between the town and township governments when they needed to refer to the provincial government. This practice reduced the township governments to secondary roles, because preparation of unnecessary reports for higher levels became a major portion of their duties rather than functioning as self-governing units.

Such unnecessary problems could be lessened, if not eliminated, by reorganizing the system into a two-tier local governments system with the province as the large local government unit and the county as the small local government unit.

Furthermore, the problems which could arise from distance as a result of the rearrangement can be prevented by instituting county branch offices where necessary.

2) Functional Relationships between Central and Local Governments.

The local governments would exercise, in partnership with the central government, such essential powers as law-making, organizing the administrative structures, policy-making, levying taxes, planning for development, carrying out personnel administration, and developing cultural and welfare activities. The common matters of managing in partnership are increasing. To name a few, integrated regional development planning and development programs for the outskirts of cities and suburban undeveloped areas are excellent programs for partnership efforts between the central and local governments. Thus, the new concept of local administration should be interpreted in this context.

Furthermore, initiatives of referendums should also be popularly practiced at the local level. They are methods of direct democracy which would advance the citizens' relationship with the government. The initiative is a type of direct legislation by which voters may enact laws or constitutional amendments without action by the legislature. The referendum is also a type of direct legislation similar to the initiative. However, a new development in its use is the prevention of unpopular statutes enacted by the legislature from going into effect⁽¹⁾.

3. Historical view of the Local Government System

The Local Government Act was enacted on July 4, 1949 as Law Number 32 in accordance with the provisions of the Constitution of the Republic of Korea.

The local Government Act was based on a comprehensive delegation of authorities which applied the same rule to all the self-governing communities, irrespective of their characteristics or size. The total number of administrative bodies was composed of: one Special City, 9 provinces (d o), 19 cities, 134 counties (k u n), 75 towns (e u p s), and 144 townships (m y o n). Since that time the Local Government Act has been revised or amended six times. These frequent amendments were made not due to the needs of the local inhabitants but rather according to the various political purposes of the parties in power of the central government.

Thus, local self-government was used as a policy instrument to strengthen the centralization of the government rather than to decentralize the power.

The local Government Act established a hierarchical structure of local government including Seoul Special City, the provinces, the cities, the towns, and the townships. The executive and legislative bodies were organized by different procedures.

The legislative bodies were elected directly by the citizens, while the executive positions such as the mayors of the special cities and the governors of the provinces were appointed by the President. Under this law, in 1952, 1956, and 1960, there were three elections of local assemblies over a nine-year period.

Since the May 1916 military revolution, however, all the elections of the legislative bodies of the self governing communities were stopped and those bodies went out of existence. Nevertheless the chiefs of those bodies have continued to be appointed by the central government, and they carry out the functions of the defunct bodies. The law has changed into a hierarchical system of local public administration under the Ministry of Home Affairs. If we look at the current hierarchical system of local public administration and its areas of jurisdiction as of 1983, we see that besides the Special City of Seoul, the three direct-jurisdiction cities and the nine provinces, there were 64 areas considered cities which had populations of more than 50,000: there were 139 counties, 187 towns, and 1,266 townships. If we look at the structure of the local public administration system shown in Figure 1, we see that there are three or four levels in the hierarchical system involving the different kinds of cities and the provinces. All of the kinds of cities have districts, and the counties have towns and townships. Among these bodies, the provinces, cities, and counties are local self-governing communities, while the sub-districts, towns, and townships are not.

4. Development of Privatization

Before describing the present situation in Korea, the development of privatization should be traced. Privatization is now common to all advanced countries both at national and local levels. In Korea, also, it has so expanded as to make our country one of the most advanced countries in terms of scale and extent.

And it has been gaining ground as the most effective and money saving way of managing local government.

The privatization of local government services took place last, at the end of 1970s'.

During this period, Ministry of Home Affairs, conducted its first experiment, for example, collection of waste, catering in schools, calculation of salaries and taxation, as well as the administration of local public facilities such as day nurseries.

Waste disposal facilities etc., created through the privatization of local authority services in this period, may be said to have been a means of coping with a situation of manpower shortage and technological innovation. Local authorities in this period seemed to change the method of managing their affairs and improving services by contracting out those activities that could well be carried out by the private sector and which did not necessarily need to be carried out by themselves.

In this period, also, there were many employees, especially those working in the cleaning services, who left to seek more favorable jobs, and local authorities could easily contract-out all or part of these services by not filling vacancies. There were also a considerable number of conflicts between local authorities and unions around the problems arising from the decrease of personnel and privatization. But the move towards privatization never abated, even in times of high economic growth: rather, it has become firmly established and has been at the core of administrative reforms aimed at small, money saving government.

5. Necessity in Privatization of Urban Public Service

A) Significance of Privatization

The word "Privatization" here does not simply mean privatization of any public organization, but adds the meaning of extending participation by all related private sectors which share the function of public sectors. Therefore, privatization is not the fundamental method of expanding city finances, but is the effort to accomplish efficient distribution of resources by supplying public services in more efficient manner with limited city finances or funding. Generally, private sectors pursue profit, economy and efficiency, thus being more competitive than public sectors.

If this pursuit of profit and competitiveness are to help city administration, then the meaning of privatization will be sensible and beneficial enough.

However, one should note that equity as well as efficiency are factors that must be secured in privatization. If supplying public services through privatization brings insatisfactory results, such as diminishing basic needs of citizens as well as welfare services, and distortion income distribution rather than cutting down expenses, then it would run counter to the spirit of introduction of privatization. Therefore, privatization should be expanded with careful and serious feasibility studies of application (to all public sectors and urban public services) while considering the factors previously mentioned.

B) Necessity of privatization - It's merits and demerits

Privatization of public services arises from the belief that private economic sectors are much more efficient and economical. According to Suches, primary intention of privatization can be achieved by transferring public services to private sectors, preventing citizens repulsion of high taxes and imposing burdens to individual end-users with introduction of user-pay principle.

These points can be logically explained with the following three theories. The first theory, benefit principle, is that the user or beneficiary of services in question should pay proportionately for the convenience received.

The second theory, profit incentives, is such that private sectors can achieve curtailment of expenditure and rationalization of management through profit maximization, since it affects the very existence of the organization, while public sectors such as government institutions do not have a motivation of profit-making. The third theory, economy of scale, is that small-scale service decreases costs and large-scale service might increase expenses. In this regard, private sectors, where economy on a scale can be studied and applied, can provide services more efficiently.

After all, one could see that strength of privatization lies on efficiency, not on equity. Therefore, for the introduction of privatization, it is required that weak points on equity side should be made up while ensuring efficiency. Also, it is necessary to thoroughly examine all factors that can promote efficiency and hinder equity. Generally anticipated merits and such demerits are compared in the following table.

Privatization - It's Merits & Demerits.

Merits	Demerits
· Efficient management of urban administration through competition	· Irregularities of Corruption
· Securing Specialization	· Too much bent on profit-making
· Flexible Management of Programs	· Possible scarcity or absence of a specialized Private sector
· Fast Services for Citizens' needs	· Contract Administration of supervision Expenses
· Economization in spending public funds	· Risk of Contractors, non-performance
· Economy of Scale	· Difficulty of Preserving the nature of the services.
· Cost - effective	· Weakening Government's counter-reaction in case of emergencies
· Non - Monopoly	· Difficulty faced when a private organization becomes bankrupt or has a labour strike
· Possible reduction of government Functional bodies	

6. Method and Basis of Privatization

A) Method

Based upon what has been discussed, the method of privatization can be explored as follows:

a. Services directly supplied by private sectors

In this case, all urban public services are produced and supplied by private sectors.

However, Government's indirect control is called upon since the services are not pure private goods. That is, price and quality of the services should be regulated. In this regard, the supply and delivery system of the services should be more strongly controlled than production of the services. This method could face with some problem. The first restriction lies on the system side. That is, it would be more difficult for private sectors to prepare all sorts of variables for the production than for public sectors to.

For example, private sectors could face things restricted by law and problems of capital funding. The second problem lies in how to locate the goods that private sectors could properly supply at a right time with responsibility and with a positive bottom figure. The problem here is, on the contrary, that privatization which should help a city to cope with financial difficulties might become a system that relies on the individual citizen's pocket.

B) Consignment of the Services to Private Sectors

In this case, all or some of the services provided by government, public corporations or organizations can be consigned to private sectors, or a management systems similar to private sectors could be adapted. For example, garbage collection and various inspection works could be consigned to a private sector, improving quality of the services and reducing expenses involved. In this case, a private sector is involved in production of the services, while a public sector takes care of supply and delivery of the services, as well as collection of any expenses incurred.

However, these problems of illegitimacy, irrationality and establishment of consignment basis when making an agreement or contract with a private sector.

C) Joint production and supply of the service

This is the production and supply method by the third sector. Developed countries commonly adapt and use this method primarily in the fields of transportation and communication services for the reason that user-pay principle can be easily applied in these fields, since the services involved can be extended to limited zones through regional networks. However, in practical application of this method, it is

difficult to attain autonomy of management and to clarify where responsibility lies.

Because is the capital accumulation rather than the nature of the services. For example, toll goods can be considered to be an appropriate public service that can be privatized first.

Second, the services which have low installation and capital cost are the ones that can be easily privatized. It would be fair and efficient for a public sector to be involved in the construction of base urban establishments such as highways or public facilities. Though there are ways for a private sector to participate in this kind of investment sector, we should first consider low-cost and simple services in order to achieve step-by-step extension of the services to private sectors.

Third, it would be appropriate to choose those services that could be easily administered and operated with low supply cost and removal cost of benefits. Even though the services are quite proper to privatize in nature, it would be hard to do when the cost of supplying them is expensive and removal of service benefit is difficult. In my opinion, privatizable services should be profitable in some degree, considering the profit-maximization objective of private sectors.

Fourth, it is advisable not to privatize the basic need services. Though this matter should be decided based on the needs of citizens who reside in urban areas, it is desirable for a public sector to supply social welfare services and urban basic services with a budget of internal revenue.

Also, there rarely exists management incentives in this kind of organization.

Consequently, it is difficult to secure good employees. Therefore, in order for this system to work smoothly, the appointment of capable employees, establishment of clear-cut lines of responsibility, and elimination of over-intervention by a public sector should be realized and attained prior to adapting this method.

However, there are things that are really needed to be given prior consideration.

That is, both private and public sectors should realize that the fundamental objective is to supply the services economically and efficiently. Accordingly, private sectors should have a strong motivation to voluntarily participate in supplying the services, and public sectors should decisively transform to become a backup structure, helping private sectors to improve their participation and effort.

D) Basis of Privatization

With overall studys of the subject so for, the following basis of privatization can be considered and presented. First, we need to have appropriate application strategies in privatization, which should comply with the nature of services. It is no doubt that most public services have been privatized based on special characteristics of the goods and services. However, it is also no exaggeration to say that more privatization has been made based on convenience.

Since the backing of privatization theory lies on the basic of New Rightism, American New Federalism and British Thatcherism, it is inclined to reduce welfare needs of citizens and also is inclined to fall into individual compensation on the ground of response-to-benefit principle.

Therefore, we most find a method whereby basic services are to be produced and supplied by a private sector while their expenses are to be paid by a public sector.

Fifth, participation by non-profit corporations, voluntary service organizations and individual citizens should be systemized and revitalized to extend their role and function. Among many urban public services, the services related to income redistribution not only take a big portion of government service but also require continuous investment where its result is long-term and not easily recognized.

Therefore, it is encouraging for non-profit corporations and voluntary organizations to participate in these particular services. In developing countries like ours, if we could encourage eiderly people and unemployed women to participate in various welfare services which call for many hands, it would serve a double purpose of efficient utilization of idle manpower and of quality improvement of the services. Adequate government support and backup should be calld for in order to revitalize these activities.

7. Conclusion

In this paper, I have examined the adequate fields in which privatization, which is planned to cope with critical urban finances, can be applied. This subject has been studied, clarifying the nature of urban public goods and services.

I have suggested various methods of supplying the services. Among them, the possibility of service production by a private sector has been examined and related problems are pulled out. Also I have suggested the basis of privatization when planning and applying it. We must find out whether public services produced by local self-governing bodies are supplied to public in a proper manner. Also we must study again whether the involvement of private sectors raised by revitalization of local economy and expansion of autonomy will cut down urban administrations, expenses and bring functional reduction of government bodies.

Needless to say, it will not be easy to decide concretely how to produce the public services and which public services to choose to supply.

This is because a general decision basis has not been established and each urban government is in a different state. Therefore, integrated considerations should be given in decision making. They are considerations in urban structure, financial position degree of citizens participation, social and economic conditions, and so forth. Therefore, the study in this paper is limited only in employing various supply methods and application basis of public services through privatization, developing them with a standardized and theoretical approach rather than with experience and actual proof.

I realize the fact that primary goal of privatization can not be achieved with a mere transfer of the supply body from a public sector to a private sector, especially under the condition that can not induce a private sector to a private sector. I would like to reemphasize that participation awareness by citizens must be enhanced and epoch-making reform of the public sector's cognizance must be accomplished before anything else.

- The End -

⁽¹⁾ The initiative and referendum as instruments of direct legislation are commonly found together. However, they are separate instruments and one may be used independently from the other.