

Korea's Growth Planning and Statistical Credibility

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1. Introduction

In this paper I argue that provision of quality statistics contributed much to Korea's economic growth. Also, I argue that if the credibility of official statistics is undermined, government policies will become ineffective.

To illustrate the role of statistics in economic development, I introduce a model of the democratic planning system. In this system, six organs operate collectively to produce the nation's long-term development plans. The six organs include top political leaders, three government agencies -- the planning office, the budget office, and the statistical office -- the press, and finally the specialist group.

To point out the importance of statistical credibility, we cite the Korean experience with economic difficulties resulting from mistreatment of official statistics. At times, the government officials try not to release some sensitive information. However, Korea has experienced an economic disaster by suppressing accurate official statistics on short-term foreign debt and foreign exchange reserves.

2. Six Major Agents for Economic Planning

There are six major agents that are involved in the formulation of long term economic plans. They are top political leaders, the planning office, the budget office, the statistical office, the press, and the specialist group. Let me briefly explain the role of each group as follows :

1) Top Political Leaders

Political leadership plays the most important role in the planning process. The main actor is the national President. The President and his top aids set multiple national goals, and rank them by the order of political importance. The national goals include GNP growth, price stability, equal opportunities, equitable income distribution, employment growth, clean environment, etc.

In a democratic country, political leaders try to adopt the goals that best reflect the majority voters. At times, however, national goals may not be the best ones for the entire society. For example, if low class people demand equity rather than efficiency, then high and sustained growth cannot be expected. In this situation, political leaders face a challenge. If the national leader wants

to escape poverty, then the country may have to forego some degree of unequal income distribution for some time.

2) The Planning Office

The planning office is playing the central role and carries out a variety of important functions. It takes the responsibility to formulate and implement long-term development plans. It hires development specialists and lets them check the internal consistency of various national goals. It revises the original plan when underlying conditions change. It monitors changes in the preferences of the general public, and monitors the reception of the press. It receives statistical support from the statistical office. It receives budgetary support from the budget office. It supervises the modeling of development planning and coordinates potentially conflicting targets among other government agencies. At times, long-term development policies conflict with short-term stabilization policies. The planning office must resolve this problem.

3) The Budget Office

Budgeting is as important as planning in making the plans successful. Without budgetary support, development plans are futile. The budget office takes charge of government revenue and spending. It receives expenditure plans from all government agencies and allocates limited funds among the agencies. There is keen competition for government funds. When domestic spending exceeds domestic revenue, the gap is filled by a combination of issuing bonds, raising taxes, and borrowing from abroad.

The official name and the location of Korea's budget office have been changed a few times. When it was first established, it was under the jurisdiction of the Ministry of Rehabilitation at the bureau level. Later it went under the Ministry of Economic Planning Board and now it is under the Premier's Office.

4) The Statistical Office

Like the budget office, the statistical bureau was initially under the Ministry of Rehabilitation. Later it went under the Ministry of Economic Planning Board. Finally in 1990, it became an independent agency with a new name, the National Statistical Office. The Assistant Minister is the head of the Office. Historically, the statistical agency has been steadily expanding and this means that the role of official statistics is becoming more and more important.

5) Specialist Groups

In the formulation of long-term development plans, specialist groups play an important role. They give advice to the planning office and to long-term policy makers.

The specialist group includes experienced specialists in the fields of economics, sociology, demography, and statistics. They are invited from internationally renowned universities and world organizations. They work on a fixed term appointment and go back to their old position when their mission is accomplished. In the case of Korea, the planning agency relied not only on foreign

specialists but also on domestic specialists who had been trained overseas.

6) The Mass Media

In a democratic society, the role of the mass media is unquestionable. It closely watches the behavior of government officials and political leaders. If the national goals and policies set by the government are biased towards a small number of interest groups, the mass media points out the problem and tries to correct them.

The National goals should reflect the preferences of the majority of the population. In reality, however, that is not always the case. Even if national goals truly reflect the preferences of the majority voters, the government agents may not want to pursue them. They tend to seek their own interest, and this is referred to as the principal-agent problem. When the preliminary development plans are made, the journalists and critics check the feasibility of the plans and try to point out the adverse effects of the policies.

3. Statistical Credibility

Official statistics should carry with them authority and credibility. The sources of statistical data must be clear and correct. Otherwise people would not trust official statistics. Then they would not trust government policies.

Often statistical credibility is questioned in developing countries. Inflation, income distribution, and foreign debt are good examples. Due to difficulties in obtaining accurate data about earned income, true estimation of income and wealth distribution is almost impossible. Due to the discrepancy between reported prices and the actual prices, people tend to be suspicious about the government's monetary policy. Information of short-term external debt was regarded as a financial secret and the government tried not to release the information outside.

During the 1997 currency crisis, statistical credibility was critically questioned. The government tried to keep some sensitive statistical information as a secret. When the currency crisis started in Malaysia, Indonesia, and Thailand, the Korean government kept secret the size of its short-term foreign debt and the level of foreign reserves. The bureaucrats even bluffed foreign investors that the central bank had sufficient amounts of foreign reserves. They did it on purpose because they hoped that the foreign investors would naively trust bureaucrats' statements and that they would decide not to pull their money out of Korea.

To restore statistical credibility and to relieve the concerns of housewives, the government's statistical agencies have tried to reduce the gap between the official price index and the prices that consumers feel in the market. In this connection, the National Statistical Office (NSO) began to publish a few supplementary price indices such as the household price index (HPI) and fresh food price index (FPI). These indices began to exist from April 1998. The HPI measures the changes in the prices of 154 consumer items that directly affect the household's living cost. The FPI measures the changes in the prices of 47 fresh food items

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